

TERM SHEET

Term Sheet — Public Draft v0.2 (non-binding)

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Non-binding; subject to facility documentation and jurisdictional legal opinions. Bracketed values are illustrative parameters, not commitments.

1. Purpose

An always-on, on-chain, overcollateralised lending facility against gold-title collateral. Its economic function is deliberate: **a holder of gold-backed collateral is never forced to sell into a thin market.** In stress, the facility stays open and visibly available, so a liquidity event becomes a collateralised borrowing wave rather than a forced-sale cascade — Bagehot's rule implemented in protocol: lend freely, against good collateral, at a penalty price.

2. Facility summary

Term	Provision
Facility type	Always-on; continuous availability; no discretionary windows and no committee vote required to open.
Borrower eligibility	KYC'd institutions (banks, dealers, corporates, fund vehicles). Published eligibility criteria; retail excluded in v1.
Collateral accepted	Gold title certificates (allocated / pool-allocated metal); conformant gold-backed tokens under the LUIN Gold Standard; LUIN standard wrapper units; wholesale pooled-gold instruments at roadmap stage.
Advance asset	**Validated Tokens** — fungible liabilities of the regulated facility issuer vehicle, redeemable against pledged collateral at maturity and convertible to cash via the dealer window at LBMA benchmark ± spread. Approved stablecoins may serve as an alternate advance asset in later versions.
Tenor	[30 / 90 / 180] days rolling; evergreen renewal absent margin breach or collateral-conformance degradation. Prepayment any time, no fee.

3. Advance rates and overcollateralisation

Collateral value = LBMA PM benchmark × fine mass, marked daily from signed oracle benchmark feeds. No intraday spot dependency in margin calls: stress marks use the worst of the last two published benchmarks.

Collateral tier	Maximum advance rate	Basis
Gold title certificates, ACTIVE conformance, ≥2 approved vault networks	**[65]%**	Direct title plus continuous reconciliation
Conformant tokens / wrapper units, ACTIVE	**[70]%**	Title plus wrapper liquidity
Collateral in DISPUTED status	Frozen at existing advances; no new advances	Automatic read of conformance status
Re-pledged collateral (depth ≥1)	**Not eligible beyond pledge depth [1]**	Protocol-enforced pledge-depth ledger

Target blended system advance rate ≤ [60]%. The facility is deliberately conservative relative to market norms because collateral quality is on-chain-verifiable — lower risk per unit of leverage is the proposition to institutional risk committees.

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4. Pricing

- **Base rate = short-rate benchmark + spread [250–400] bps**, tiered by collateral class and borrower band.
- **Stress penalty ladder:** when facility utilisation exceeds [70]% or a system-wide disputed event is active, new advances reprice automatically +[150] bps per 10% utilisation band above the trigger. The window is always open; it is never cheap in a rush.
- Fees: origination [25] bps; custody at cost; no undisclosed charges — the fee schedule is hash-committed per conformance philosophy.

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5. Pledge mechanics and legal characterisation

- **Pledge ≠ transfer.** Collateral locks to the facility contract with a first-priority lien flag; title remains with the borrower; the encumbrance is recorded on the certificate's pledge-chain ledger, whose full depth history is visible to counterparties.
- Perfection via the master legal opinion and jurisdiction packs (electronic-control analysis under an electronic trade documents regime or equivalent). Documentation mirrors established collateral-reuse terms mapped to on-chain control.
- **Rehypothecation rule:** a certificate already pledged may be re-pledged only with the upstream lienholder's recorded consent flag, and total depth is protocol-capped at [1]. The depth ledger makes the 2008 collateral-chain-of-title failure mode structurally excluded and auditable per certificate.

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6. Margin, liquidation and operation

Mechanism	Provision
Margin call	Marked advance rate > [80]% → top-up (cash, collateral or partial repay) within [2] business days.
Liquidation trigger	Advance rate > [90]% sustained past cure window; or collateral REVOKED status; or borrower default event.
Waterfall	1) Borrower partial repay; 2) **English auction to the obligated dealer panel** (sealed→open, floor at benchmark − [50] bps); 3) dealer-panel backstop purchase at the floor as last resort. Liquidations never dump into open markets.
Facility operator	Independent entity (trust company or regulated administrator), not the protocol's founding organisation. Publishes monthly utilisation and stress reports.

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7. Anti-crisis interlocks

1. **Always open** — no discretionary closure; public availability calendar removes "will the window be there?" panic dynamics.
2. **Stress pricing, not rationing** — quantity available shrinks only via eligibility and penalty price, never shutdown.
3. **Redemption floor stays honoured during facility stress** (Gold Standard E3/O3): exit-by-redemption and stay-and-borrow are both always available; holders are never trapped into a forced secondary-market sale.
4. **Depth caps and no metal rehypothecation behind tokens** keep the collateral chain provably shorter than conventional paper chains.
5. **Auction-only liquidation with dealer floor** prevents fire-sale feedback from reaching the spot market at scale.

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8. Status and consultation

The facility is under structuring with professional advisers; open items include advance-asset characterisation per jurisdiction, operator identity, dealer-panel commitments for auction backstop, benchmark redistribution licensing, and cross-default treatment when an issuer's conformance status degrades mid-loan (working proposal: advances roll against residual title with a borrower metal-redemption substitution right).

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