



SHARIYAH  
REVIEW BUREAU

# SHARIA ANALYSIS

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***Terra***

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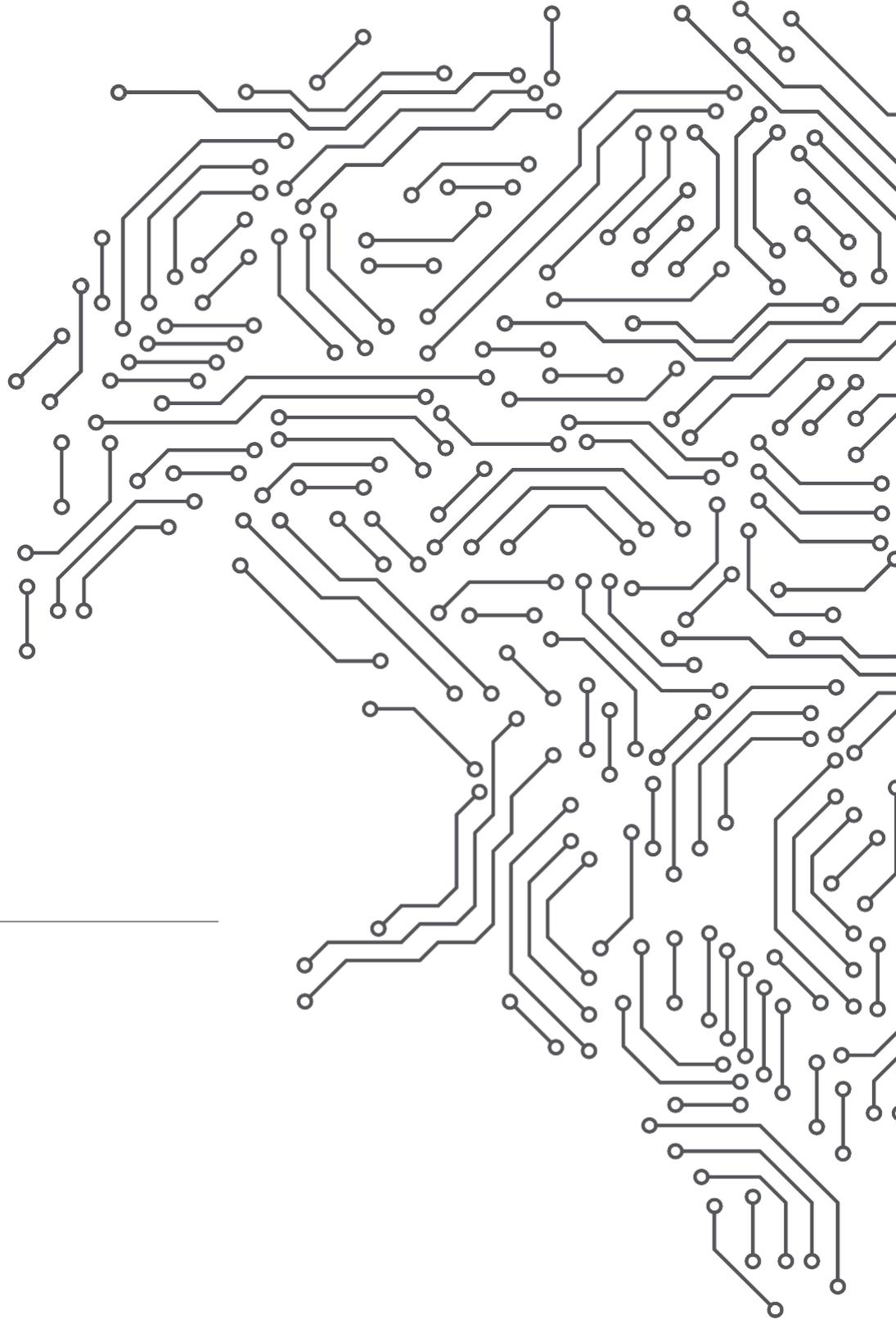


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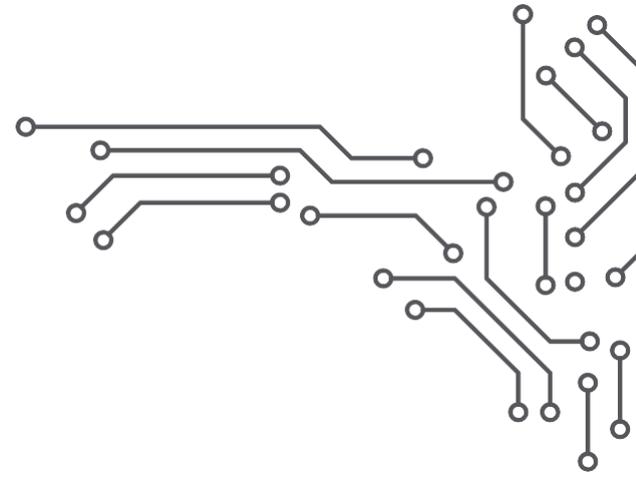


## INTRODUCTION

Terra is a blockchain that lets users create stablecoins pegged to fiat currencies. These coins primarily use the network's seigniorage mechanism. The network was founded by Do Kwon and Daniel Shim of Terraform labs in 2018.

Terra was born with the support of the Terra Alliance, 15 large e-commerce companies in Asia that collectively process 25 billion USD in annualized transaction volume and 45 million users. The vision of the project is that with the adoption and user engagement of a massive payment network, it will be able to, for the first time, bootstrap a blockchain payment network to the scale it deserves and facilitate far more powerful products and use cases through its infrastructure.

Terra's ultimate goal is to disrupt traditional banking via the mass adoption of stablecoin cryptocurrencies and DeFi infrastructure. Plenty of ground has already been gained in this respect with Terra-powered CHAI, a payments app used by 25 million South Koreans.



Ticker	Luna
Consensus mechanism	Tendermint Delegated PoS
Network type	Open source, Decentralized & Permissioned blockchain
Maximum Supply of Tokens	One Billion tokens
Platform Function	Stablecoin creation
Token Function	Fees and powering Dapp building
Use cases	Fees and powering Dapps building

## TERRA PLATFORM

Terra is a blockchain network built using Cosmos SDK specializing in stablecoin creation. Rather than use fiat or over-collateralized crypto as reserves, each Terra stablecoin is convertible into the network's native token, LUNA.

Terra provides smart contract capability for the creation of a wide range of different stablecoin types.

The project has proved popular in the Asian markets for e-commerce and has a large userbase in South Korea, where its headquarters is based. For example, taxi users in Mongolia can pay some drivers in the stablecoin Terra MNT pegged to the Mongolian tugrik. Tokens minted on the platform are known as Terra currencies and exist alongside the network's native token for governance and utility LUNA. Terra and LUNA have a complementary relationship.

Stablecoins on the Terra network use a different method to collateralize, as opposed to fiat-backed stablecoins and crypto-backed stablecoins. Collateralized stablecoins typically allow the holder to exchange their stablecoin for an equivalent amount of fiat or some amount of crypto.

Terra's stablecoins, however, use algorithmic methods to control their supply. Each stablecoin is, in effect, backed up and exchangeable for the governance and utility token LUNA. Terra acts as a counterparty for anyone looking to swap their stablecoin for LUNA and vice versa, which affects the two tokens' supplies.

## TERRA TOKEN AND UTILITY

Luna is Terra's native token for governance and utility. It is used to stabilise the price of the protocol's stablecoins. Terra and LUNA have an interdependent relationship.

LUNA has different functions on Terra platform:

- It is a utility token that is used to mine Terra transactions through staking.
- It is a way to participate in Terra platform's governance system.
- It is a token to stake in the Delegated-Proof-of-Stake (DPoS) consensus mechanism behind validators processing network transactions.
- It is a volatility absorber for the price of stablecoins minted on Terra.
- It ensures the price stability of Terra stablecoins.

LUNA holders can submit and vote on governance proposals, allowing it to function as a governance token. A governance token means that holders have voting rights on what takes place with the project.

LUNA is Terra's cryptocurrency that plays four different roles on the platform:

- A method to pay transaction fees in its gas system (utility token).
- A way to take part in the platform's governance system. By staking your LUNA tokens, you can create and vote on proposals with changes regarding the Terra protocol.
- A volatility absorber for the price of stablecoins minted on Terra.
- A token to stake in the DPoS consensus mechanism behind validators processing network transactions.

LUNA has a maximum target supply of one billion tokens. If the network exceeds one billion LUNA, Terra will burn LUNA until its supply returns to the equilibrium level.

## CONSENSUS MECHANISM

Terra blockchain was built using Cosmos SDK, making Tendermint DPoS a natural choice. The consensus mechanism is part of the Cosmos technology suite and is an environmentally friendly alternative to Proof of Work. As of October 2021, Terra uses a group of up to 130 validators to process transactions. Users (or delegators) stake their tokens behind a validator. In turn, the validator secures the network by processing transactions similar to the work of a miner on Bitcoin. A delegator will stake their LUNA tokens behind a validator they believe will effectively and honestly process network transactions. Each validator can also set a custom percentage of the rewards they will distribute to their delegators.

Validators must also lock up a set amount of LUNA for at least 21 days. This process is known as bonding.

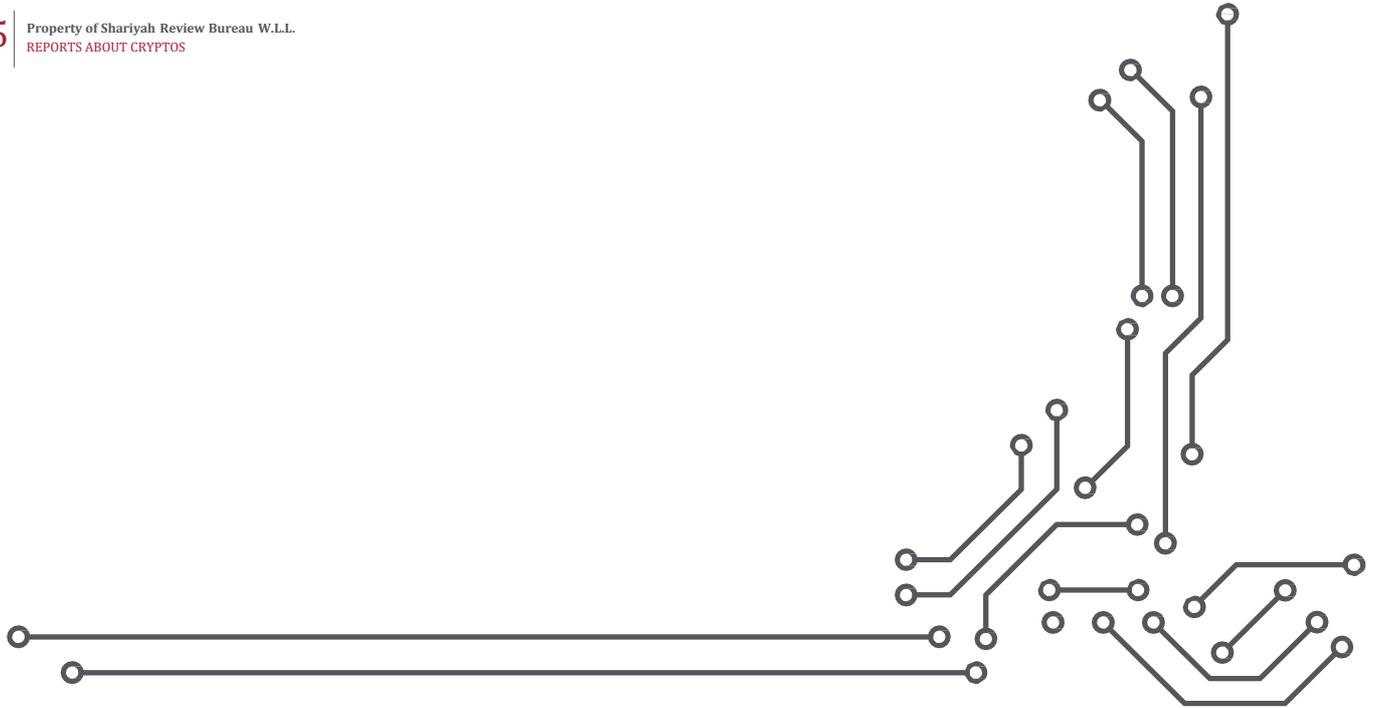
Delegators also experience a 21-day lockup period and risk losing their stake if the validator is a bad actor.

For example, the validator may process double-spent transactions or include false ones. In this case, the validator can have their rewards slashed or even lose their initial stake (bond). "Terra taxes" on transactions and airdrops provide the rewards given to delegators and validators. Each delegator's share will depend on the amount they stake and the validator's commission rate.

## TERRA STATION

The Terra Station is the official Terra crypto wallet and dashboard that allows LUNA holders to access their funds, stake, and participate in governance. It's available as both an app for mobile devices and as a browser extension.

1. The Terra Station dashboard displays a range of on-chain data, including transaction volume, staking returns, and the number of active accounts.
2. Terra Station's wallet is non-custodial, meaning that only you have access to your private keys.
3. The governance portal allows you to create new proposals and take them to the voting stage by depositing 512 LUNA. Other users may deposit the 512 LUNA for you instead if you don't have the funds. When a new proposal is created, other LUNA holders can stake their tokens to cast their votes.
4. The staking tokens section lets you delegate, check your rewards, bond LUNA as a validator, and take part in every stage of the DPoS consensus mechanism.



## SHARIAH OPINION

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Terra is a blockchain that lets users create stablecoin pegged to fiat currencies. Terra provides smart contract capability for the creation of a wide range of different stablecoin types. LUNA – Terra’s native crypto-asset – provides several utilities such as payment, voting and other utilities. Since it has multiple use cases with some of them clearly Shariah compliant, the LUNA token can be acceptable. The usage of the token in a Shariah compliant manner will rest with the end user.

### RESOURCES

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Website: <https://www.terra.money>

Official documents: <https://docs.terra.money/>

Secondary sources:

<https://academy.binance.com/en/articles/what-is-terra-luna>

<https://messari.io/asset/terra/profile>

<https://www.gemini.com/cryptopedia/terra-luna-coin-fiat-stablecoin#section-the-terra-luna-crypto-payment-solution-and-asian-ecommerce>

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Our combination of international and local market knowledge and multi-disciplinary perspective of Sharia give us an edge in the professional Sharia Advisory and Sharia Audit services industry in the GCC. The scope and value of our services, and the help they offer in building a thriving economy, keeps us excited.

The future of Sharia Advisory and Audit is exciting and we are very lucky to be a part of this business!

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