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The Collapse of Terra Triggered a Regulatory Review of the Entire Stablecoin

Original:

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The recent collapse of [Terra](#) Luna has put the stablecoin under regulatory scrutiny. The crash was shocking. It was a run on a bank, lined with codes, not on the sidewalk outside the branch. This collapse is the kind of risk in the fast-growing cryptocurrency market that regulators have been warning. It has also brought renewed attention to the role of the stablecoin in an increasingly unpredictable space.

Stablecoin should provide a safe way for [cryptocurrency](#) users and investors to trade and exit in fluctuating cryptocurrency. But the collapse of ust and Luna reinforced the view that the design of some stability coins posed serious risks. Although Terra's investors are the most directly hurt, its collapse may have short-term and long-term ripple effects on cryptocurrency and other aspects, especially when skeptical legislators and regulators investigate losses.

What is Terra (LUNA)?

Terra is a blockchain protocol that uses a stablecoin linked to legal currency to support a global payment system with stable price. According to its white paper, Terra combines the price stability and wide adoption of fiat currency with the anti censorship of bitcoin (BTC), and provides fast and affordable settlement.

Terra's development began in January 2018 and its main network was officially launched in April 2019. As of September 2021, it offers stablecoins linked to a basket of currencies such as the US dollar, the Korean won, the Mongolian Tugrik and the International Monetary Fund's special drawing right - and it intends to launch more options.

Terra's native token Luna is used to stabilize the price of the stablecoin of the agreement. Luna holders can also submit governance proposals and vote to make them have the function of governance tokens.



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The Reason Behind the Collapse

The value of some stablecoins comes from the full support of reserves – if investors decide they want to exit, the stablecoin foundation should theoretically have enough cash to repay all investors at one time. On the other hand, ust is an algorithmic stablecoin, which relies on code, continuous market activity and pure faith to maintain its peg to the US dollar. In theory, the linkage of ust is also supported by its connection with Terra’s base currency Luna’s algorithm.

In the past six months, investors have been buying UST, mainly because they make a profit from a lending platform called anchor, which provides a 20% return to anyone who buys ust and lends it to the agreement. When the opportunity was announced, many critics immediately compared it to a Ponzi scheme, saying Terra could not mathematically give all investors such a high return.

Terra team members even admit that this is true, but compare this ratio to marketing spending to improve visibility, just as Uber and LYFT provided heavily discounted ride services at the beginning of their establishment. This led to the depreciation of the US dollar. This was followed by a bank run, and investors earning interest through anchor scrambled to flee before it was too late.

The UK Will Regulate the Stablecoin

In view of the sharp fall, the UK Treasury has announced a regulatory plan for the stablecoin. The UK Treasury Secretary recently said: “legislation to regulate the stablecoin used as a means of payment will be part of the financial services and markets bill announced in the Queen’s speech.”



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The US Treasury Secretary Reacted to the Collapse of Terra

US Treasury Secretary Janet Yellen also called for the regulation of the stablecoin in the recent tragic defeat of terraUSD decoupling, which triggered the collapse of Terra Luna. Although she stressed that the stablecoin did not pose a threat to financial stability, she insisted that in this wave of speculation, new regulation was a top priority.

South Korea Joins the Regulatory Army

After Terra Luna's fiasco in ust decoupling, South Korea also said it intended to study the regulation of a stablecoin. According to local media reports, South Korean financial regulators are conducting an urgent investigation into cryptocurrency to speed up the adoption of the "Basic Law on digital assets". Cryptocurrency experienced a 3300% surge over the weekend and was almost wiped out in the past week. At present, according to coinmarketcap, the transaction price of the token is \$0.0001673, down 19.96% in the past 24 hours.