



CRYPTO PRAGMATIST PRO

All views are solely my opinions. This is written exclusively for informational purposes. It is not an inducement to invest nor is it advice to follow any particular investment strategy. Data points are taken from various online sources that may or may not be accurate as of publication.

Name	Frax Finance
Market Cap	\$616,926,483
Price	\$6.18
Executive Summary	<p>Frax Finance is a partially algorithmic-stablecoin protocol available on a wide variety of EVM chains. The \$FRAX stablecoin is the 4th largest stablecoin with ~1.2 billion total supply on the market.</p> <p>The Frax ecosystem has a variety of mechanisms built to help defend the \$1 peg and maintain a deep liquidity system and high number of network participants. Frax aims to bring the first and only highly capital efficient stablecoin to crypto markets.</p> <p>Recently, Frax has launched its own AMM, borrowing/lending market, and liquid \$ETH staking derivative.</p>
Problem Solved	<p>There are currently two main solutions in the crypto stablecoin market: 1) Overcollateralized 2) Completely Algorithmic.</p> <p>The problems arising from these solutions are vast:</p> <ul style="list-style-type: none"> • Algorithmic stablecoins are susceptible to collapse (UST) • Overcollateralization is inefficient (ETH collateral on Maker) <p>Frax aims to take the middle ground in these two solutions, and provides a market based determination for the algorithmic level of its stablecoin. Users dictate the demand and desire for how much collateral should be required to mint a stablecoin.</p>
Tokens	<p>\$FRAX is the protocol's stablecoin, which can be minted or redeemed based on current market pricing.</p> <p>\$FXS, or Frax Shares, is the utility and governance token of the protocol, and it accrues value as demand for \$FRAX increases. Users can mint \$FRAX by supplying proportionate amounts (determined by the protocol) of collateral and burning \$FXS. Upon redemption, users receive the proportionate collateral and \$FXS back.</p>

	<p>\$FPI is the U.S CPI linked stablecoin that increases in value tandem with the increases in inflation.</p> <p>\$FPIS is similar to \$FXS for \$FRAX, in that users are able to mint and redeem \$FPI with the appropriate amount of \$FPIS.</p>
Terminology	<p>Collateral Ratio: This is the amount of collateral users need to deposit in order to be able to mint \$FRAX. This will fluctuate based on market demand for the algorithmic level of the stablecoin, usually an inverse of market volatility and skepticism.</p> <p>AMO: Algorithmic market operations are the new implementation of the stability module described above (fluctuating collateral ratio). These are various implementations in DeFi protocols that help backstop the peg and increase liquidity directly. We will be covering these in depth in the report.</p>
Founders	<p>Sam Kazemian Stephen Moore Jason Huan Travis Moore</p>
Backing/Funding	<p>DragonFly Capital, Electric Capital, Robot Ventures, Balaji Srinivasan, Crypto.com and a whole lot more here</p>
Risks	<p>One of the biggest threats to the stablecoin industry can be seen in its fragmented dominance. \$USDT, \$UDSC, and \$BUSD are all the most popular and available stablecoins on the market.</p> <p>But these all pose systemic risks, as they are majority backed by short-term U.S treasuries held by those companies. Blacklists and liquidity crunches in the case of mass redemption could cause a major unwinding of these stables.</p>
Competitors	<p>In expanding to the lending markets with Fraxlend, there is a lot of competition already grounded in the space. Euler and Aave are two market leaders offering solutions similar to Fraxlend.</p> <p>Stablecoin issuer, Maker, is also already the largest decentralized stablecoin producer. Frax offers a completely different product (partially collateralized vs. overcollateralized</p>

	<p>stables), and is working on the development of a full suite of DeFi products that we believe will help separate it from Maker.</p> <p>There <i>are</i> competing capital efficient stablecoin protocols such as Liquity, but these address a different market than Frax.</p>
Documentation	https://docs.frax.finance/
Code Repository	Github
Site	Governance Website
Social Media	Twitter Telegram

Paper

Intro

While this has been disputed recently, Bitcoins original thesis was to be used as a decentralized and secure medium of exchange. As we have seen, \$BTC is one of the last things that people would want to make transactions with: the value can move up to 10% on a volatile day. Even if someone believes the price will go up in the long run, in order to realize the value at the date of a transaction there would need to have a hedge in place. This is simply too much work to become the new global currency.

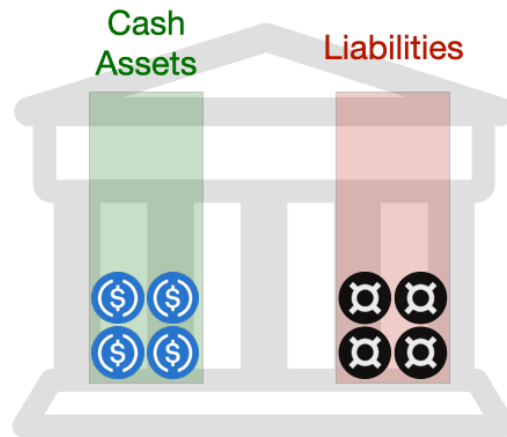
And in a time where [central banks are fighting with themselves](#) on whether to enact monetary tightening or easy money policies, we see the king \$USD holding firm in its place as the global reserve currency.

And now, with the proliferation of cryptocurrency as a legitimate value for global transactions, there is a large question to answer in **what the stable currency king will be in the world computer.**

The Protocol

As initially described in the summary for the protocol, Frax v1 implemented a simple stability mechanism by adjusting the collateral ratio (CR) for outstanding \$FRAX stablecoins. If the \$FRAX value were to drop below \$1, displaying a lack of confidence in the system and peg of the stablecoin, the protocol would “step-up” the CR by .25 until it reached a sufficient peg.

This can obviously be done in reverse: decreasing the CR in times where \$FRAX is trading above \$1. This fluctuation of CR is counterbalanced with Frax Shares tokens (\$FXS), where the remaining amount of backing for \$FRAX either mints/burns \$FXS. This can be visualized by the graphic below, created by [Haseeb Qureshi](#):



[Source](#)

This base stability mechanism is important, and still is the backbone for the underlying stable price of \$FRAX. Where Sam and other developers really stepped Frax into a new league was with the Automatic Market Operation Controllers, or AMOs for short.

AMOs

AMOs might be a little opaque when first reading about them:



Sam Kazemian (α, α) ✓ @samkazemian · Apr 7, 2021

...

In [\\$FRAX](#) v2 we introduced the concept of algorithmic market operations (AMOs) which allows the protocol to do anything with new [\\$FRAX](#) and collateral as long as the market doesn't respond by pricing FRAX at \$.99. That's the market responding and saying "don't do that any more."

💬 2

↻ 3

♥ 33



Sam Kazemian (α, α) ✓ @samkazemian · Apr 7, 2021

...

AMOs are the Turing-complete and final state of "protocol controlled value." We can literally do anything with AMOs like mint [\\$FRAX](#) into [@CreamdotFinance](#) [@compoundfinance](#) [@AaveAave](#) for cheaper rates than any other stablecoin. We can provide [\\$FEI](#)-like liquidity to ourselves too.

💬 1

↻ 3

♥ 28



[Source](#)

But really, they are simply ways for the protocol to use its treasury as a productive asset, rather than have it sit idle. These operations are usually a form of lending or liquidity providing on the most robust DeFi blue-chips such as [Curve](#) and [Yearn](#).

The reason they can become a bit complicated is because the assets being used are highly valued in terms of maintaining the \$FRAX peg. The idle \$USDC in the treasury and newly minted \$FRAX on the market are large determinants of where the peg is today and where the CR might be going.

The AMOs have 4 laws and focuses in their operations:

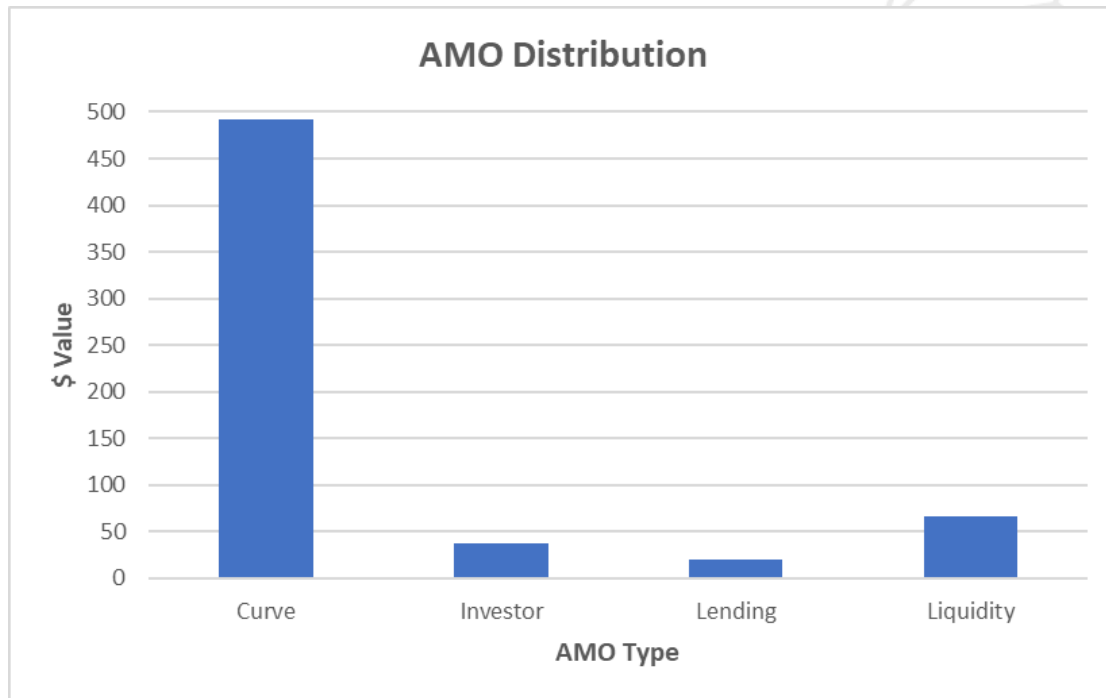
1. **De-collateralize** - lowering the CR when $\$FRAX > \1
2. **Market operations** - maintain operations when peg is at \$1
3. **Re-collateralize** - increase CR when $\$FRAX < \1
4. **FXS1559** - burn mechanism for \$FXS with fees, extra collateral, and unbacked \$FRAX

Thus, the “automatic” part of AMO restricts *any* of these activities from doing something in a way that would break the peg of \$FRAX off of \$1. For example, one of the AMOs is to provide deep liquidity on the 3crv-FRAX metapool on Curve Finance. If there were to be a situation where, in order to maintain a robust and balanced pool, the AMO had to mint and supply a lot of \$FRAX, at a certain point those operations would have to stop as they would put downward pressure on the \$FRAX peg.

On the topic of the Curve AMO, this is by far where the most of the Frax capital is going. As an algorithmic stablecoin, it is pretty self explanatory why this should be the case. The benefits for this AMO are:

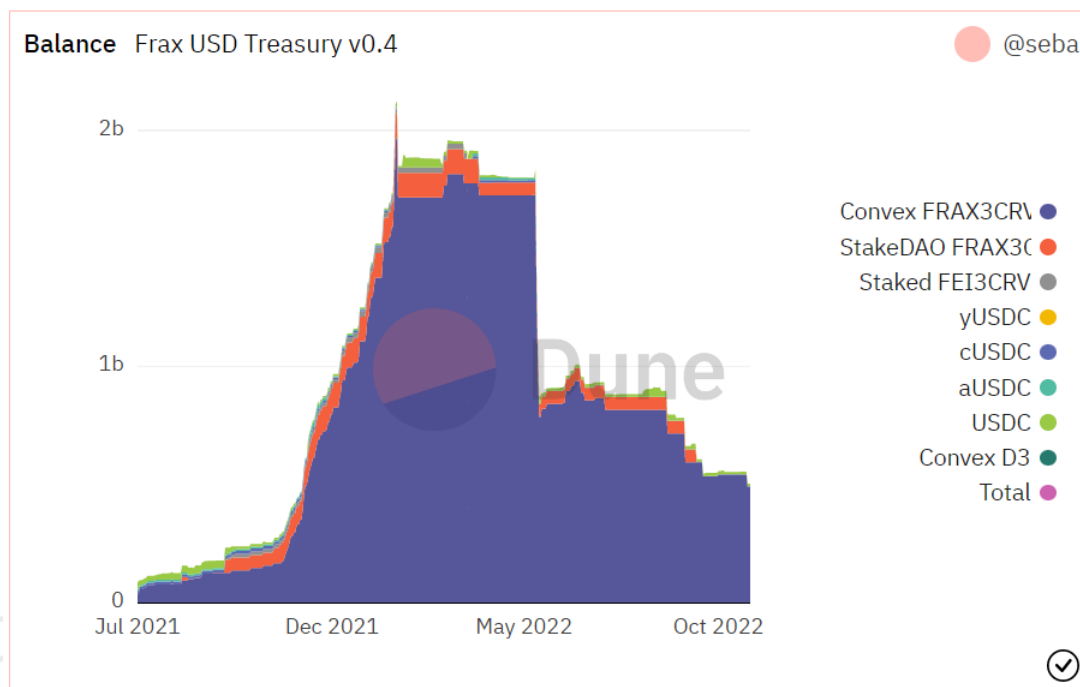
- Maximizing liquidity between FRAX-3pool tokens
- Tighten the peg to \$1
- Accumulate fees and LP rewards
- Grow earnings by utilizing Convex to deposit LP tokens

Below is a chart that shows the distribution of treasury money in various AMOs:

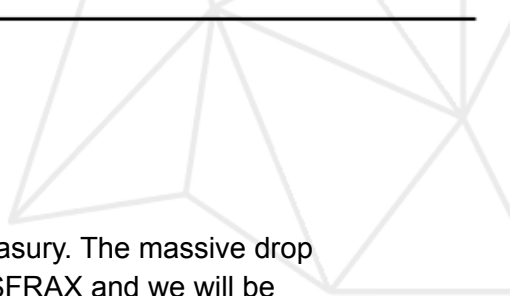



Data from [Frax Finance](#)

This has been the case since the launch of Frax v2 AMOs (March 2021, [read announcement here](#)), and will likely continue into the foreseeable future. The majority of these Curve LP tokens are actually deposited into Convex—[we wrote about \\$CVX](#) back in June—to earn extra rewards.



[Dune Analytics](#)



Clearly, the Convex \$FRAX-\$3crv LPs make up the large majority of treasury. The massive drop on the chart is from the Luna/UST collapse, which had a big impact on \$FRAX and we will be diving into in a bit more detail later on.

Fraxswap

Fraxswap is the first on-chain time-weighted AMM, launched back in the frothy times of April 2022. The jumble of words we just listed essentially means that whales and DAOs, or people with a crap load of money, can move into different positions without having massive price impacts.

This was initially launched for Frax itself as they wanted to create a more efficient way to enact the monetary policies, or burning/minting of \$FXS and \$FRAX with the AMO profits. [But Sam had ideas](#) for other protocols and DAOs to be able to utilize the benefits of this:

Ideal Fraxswap use cases by other protocols, stablecoin issuers, & DAOs include:

- 1.) Accumulation of a treasury asset (such as stablecoins) over time by slowly selling governance tokens.
- 2.) Buying back governance tokens slowly over time with DAO revenues & reserves.
- 3.) Acquire another protocol's governance tokens slowly over time with the DAO's own governance tokens (similar to a corporate acquisition/merger but in a permissionless manner).
- 4.) Defending "risk free value" (RFV) for treasury based DAOs such as Olympus, Temple, and various projects where the backing of the governance token is socially or programmatically guaranteed.

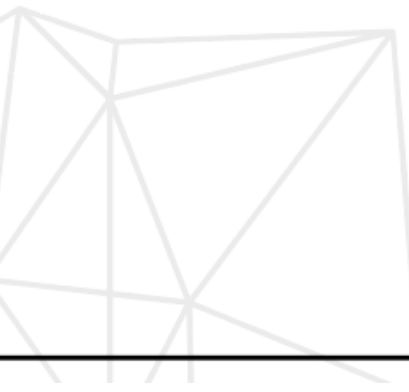
Frax Docs

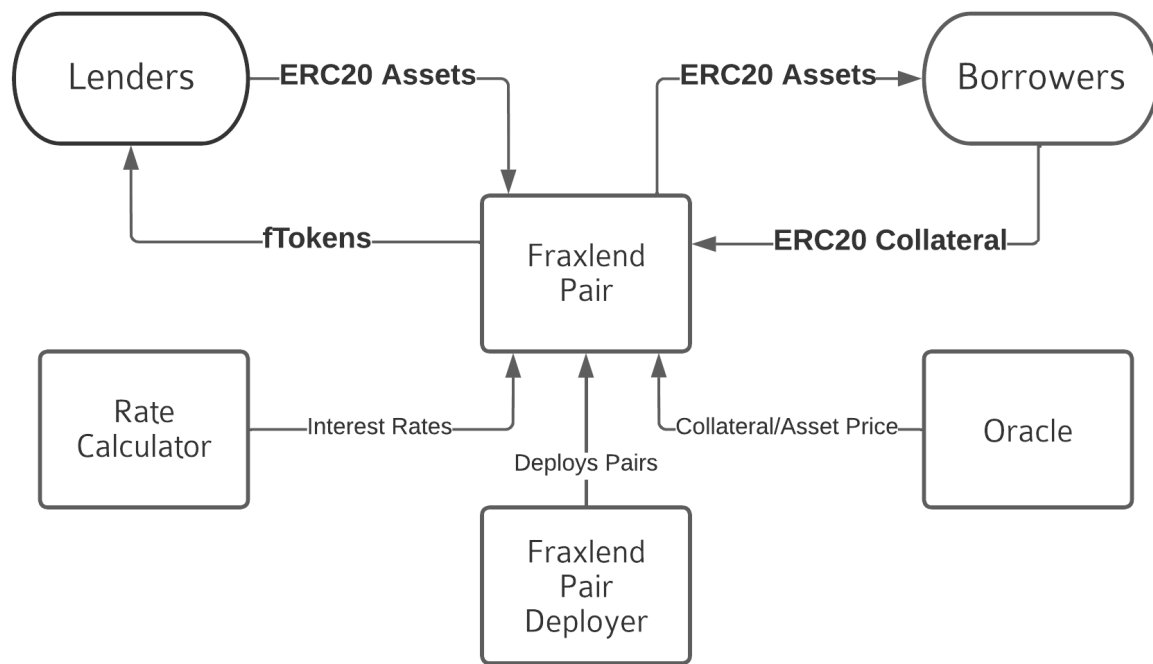
The issue, clearly, is that the DAOs would need a lot of protocol owned liquidity to be able to set up a deep enough pool of tokens to swap in and out of, *and have it be worth the cost of that capital*. This is a resounding yes from Frax itself, but the demand might be smaller than initially expected.

Still, though, this is just another tool in the Frax arsenal that could be a driver for protocol growth and revenue into the future.

FraxLend

Fraxlend is another vertical within Frax that serves as the isolated lending protocol. It follows the traditional lending structure that you see in DeFi, with a yield bearing "fToken" for lenders/depositors into the pools:





Frax Docs

Fraxlend is a permissionless lending market, meaning anyone can create a new market as long as the token has a Chainlink price oracle available. We covered this in the Euler report last month, but isolated lending markets are simply in place to help prevent the spread of bad debt throughout the rest of the protocol.

The collateral and asset value, derived from the Chainlink oracle, are important when evaluating the health of a given position and seeing if it is eligible for liquidation. But the other side of the lending market is the rate which borrowers pay and lenders earn.

This can be derived in one of two ways on Fraxlend

- 1. Time-weighted variable rate**
- 2. Linear rate**

These both behave as a function of the utilization rate—how much assets are being borrowed currently over how many assets are available for a given pool. They are similar in the fact that it is an ever increasing rate as utilization approaches 100%, with the difference being the TWVR increases exponentially at roughly 85%.

Where we see Fraxlend developing their competitive edge in the market is by offering something similar to Euler and creating different tiers for different tokens based on a number of factors (maybe up to a DAO vote). In doing this, not only is the risk of bad debt mitigated, but

big money would be more confident in utilizing the markets available on the protocol if there were defined boundaries for given asset tiers.

FPI/FPIS

We've saved this one for last of the protocol explainer because simply, we don't see much use in this feature in *terms of growing the Frax protocol*. On its own, there are some interesting things to look at, but within the function of the protocol we don't see this adding much value.

\$FPI is a "Frax Price Index" token, with an initial value of \$1 and has increased in tandem with the U.S consumer price index. As we know, inflation has been running hot for about 8 months now, maintaining a consistent 6-8% YoY increase on CPI prints. And as we know *even better*, this 6-8% yield on \$FPI cannot come from thin air, and must be sourced sustainably from somewhere.

The process is quite simple: deposit \$FRAX, which will mint \$FPI for you, and then Frax uses the \$FRAX you deposited in the same AMO strategies described above to earn the yield. This is great when the AMOs are profitable and can yield > inflation, but what about when the opposite is true?

That's where \$FPIS steps in as a backstop. If we hit a time where inflation continues to run hot, but on-chain activity *really* dries up, \$FPIS is minted and sold off to cover the yield required to meet the \$FPI inflation-pegged mandate. Here's a summation from another source:



Average Joe's Crypto
@AvgJoesCrypto

...

Lately, there's been a lot of talk about [\\$FPI](#) & [\\$FPIS](#).

If you've been wondering what they're about, I got you covered.

Here's a thread going over:

- What they are
- How they work
- And what it means for you



8:12 AM · Apr 14, 2022 · Twitter for iPhone

173 Retweets 42 Quote Tweets 528 Likes

[AvgJoes](#)

We said that this doesn't do much to help grow the Frax protocol, and that is simply because there (at least for now) is not much demand for a product like this, and the supply of ~65M, or 5% of \$FRAX, reflects that. While this is obviously innovative and a cool mechanism to offer users, it came at a time when an "inflation-pegged stablecoin" would break headlines and get all the attention.

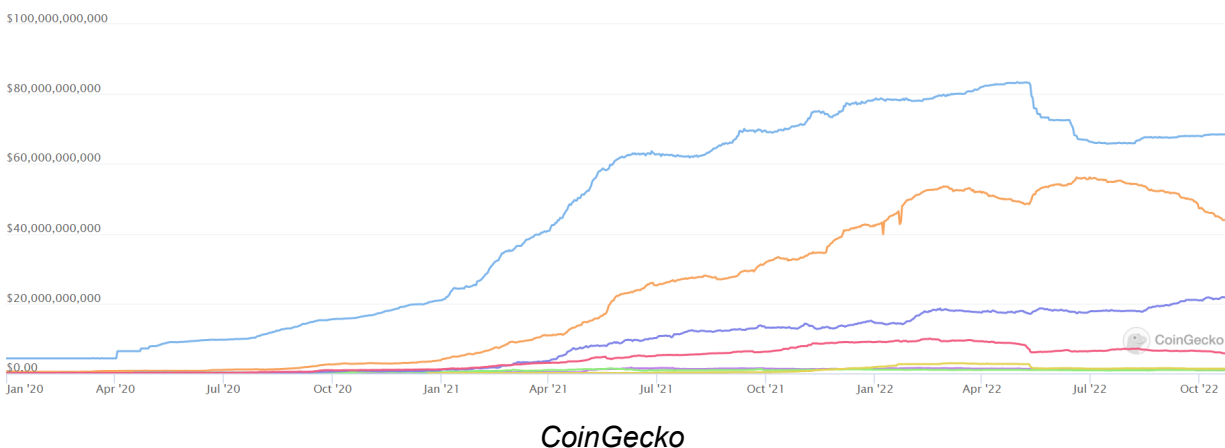
In summary, though:

- \$FPI long inflation
- \$FPIS short inflation **or** short the Frax AMO yield strategies






The Thesis

By creating an algorithmic stablecoin with market-determined demand, \$FRAX is attempting to move past a complete 1:1 backing with USD denominated stables.

The market of stablecoins is vast: it is where whales and institutions alike find a safe space when moving between positions. Since the beginning of 2020 till now, the stablecoin market has hit a rough 26x increase over previous levels:



Leading the way in this increase has been USD cash and treasury backed \$USDT, \$USDC, and \$BUSD. \$DAI and \$FRAX, by comparison, are really just a sliver of the total stablecoin pie, and this has remained constant through the significant centralization worries and \$UST collapse experienced through 2022.

#	Coin	Price	24h Volume	Exchanges	Market Capitalization ▾
☆ 1	 Tether USDT	\$1.00	\$66,755,959,506	392	\$68,527,822,499
☆ 2	 USD Coin USDC	\$1.00	\$4,816,791,718	362	\$43,978,301,924
☆ 3	 Binance USD BUSD	\$1.00	\$10,569,118,984	137	\$21,424,740,602
☆ 4	 Dai DAI	\$0.999722	\$416,817,252	221	\$5,783,246,482
☆ 5	 Frax FRAX	\$0.997058	\$11,779,264	37	\$1,212,686,692

CoinGecko

Even though the market share may be low compared to the stablecoin leaders, Frax undoubtedly is the most robust decentralized stablecoin on the market today. Even in the absurdly volatile times of 2022, in the wake of the Luna crash and protocol exploits, \$FRAX has been able to defend its peg strongly and ensure the health of the protocol.



[Frax Dashboard](#)

In the long run, this will be one of the key factors that is able to set \$FRAX apart from future competitors. Being able to remain in such a tight range with \$1 is critical to building the necessary trust and belief in the system to make sure the stablecoin can become the standard

in DeFi. Additionally, the market gets to decide the desirable CR in the long run, which helps build rapport with market participants.

The Token

\$FXS, the value accrual token for Frax, has had some interesting price action since the start of the bear market this year:



After the narrative for \$FXS and \$FRAX exploded in early 2022, we've pretty much returned to the early 2021 bull market levels. The fair value of this protocol and token can be more accurately estimated compared to others due to the transparency of revenue metrics, which we'll get into in the below section. But, *just* by looking at the historical chart, **these are about as good of levels as you can ask for for \$FXS accumulation.**

Governance is actually a really big part of the Frax ecosystem, and we have seen some important discussions play out [in the forums](#) over this year. As with most DAO governance, voting requires staking \$FXS into the vote-escrowed \$veFXS.

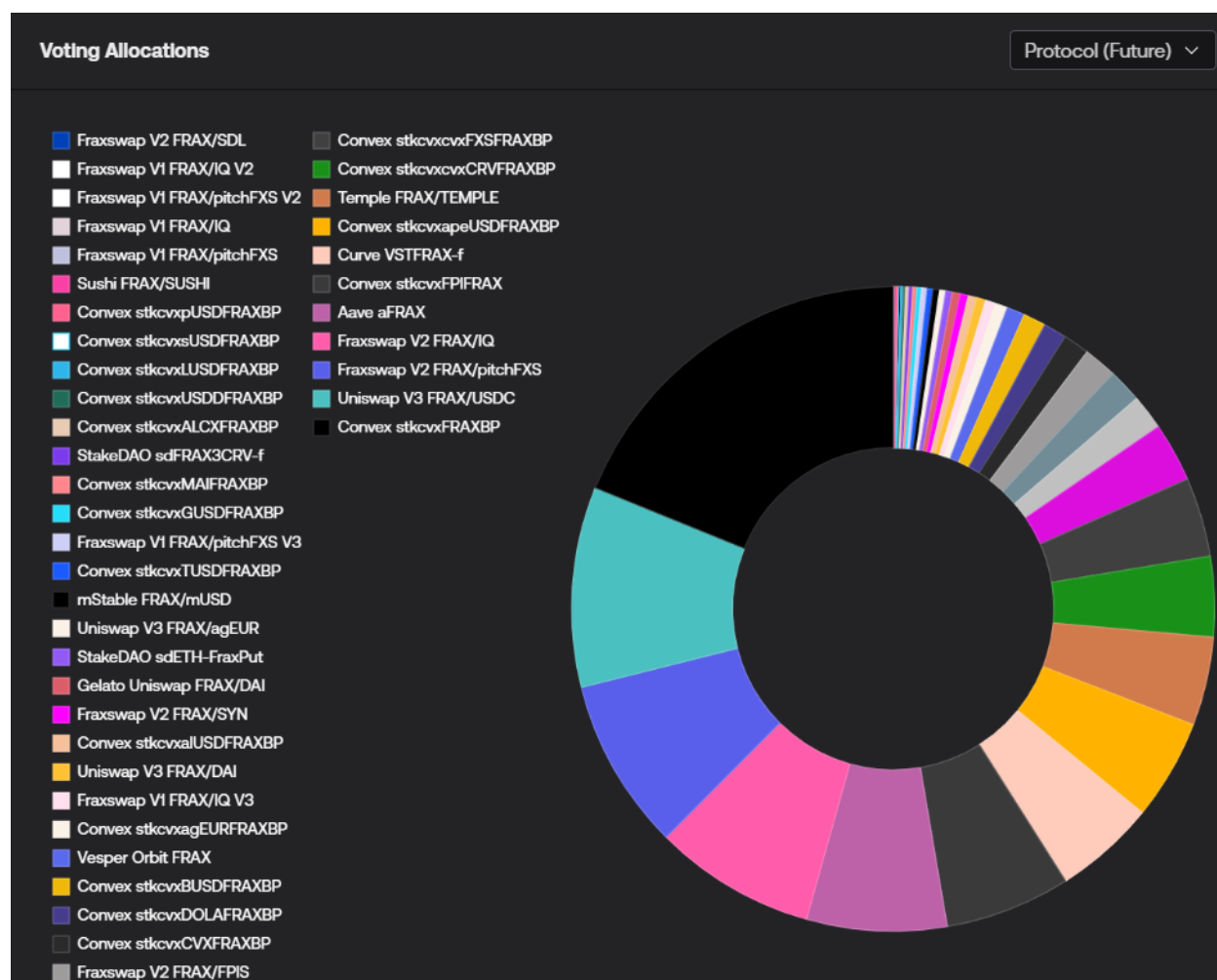
\$veFXS follows the same vesting pattern as Curve:

- 1 \$FXS token locked for 4 years generates 4 \$veFXS tokens
- Amount of \$veFXS decreases linearly as the unlocking date approaches

Users can relock their \$veFXS whenever to reset/increase their \$veFXS balance. And just like Curve, \$veFXS is useful for voting on governance proposals as well as \$FXS gauges, which

simply dictate where the supply of \$FXS will be distributed. Voters are incentivized to continue to lock up their received \$veFXS in order to not dilute their vote over time. This is exactly the same as Curve, which if you need a refresher, here is a [great thread](#).

Below is the distribution of gauge rewards that is updated every single week:



[Frax Gauge Dashboard](#)

There are some mixed feelings about ve-tokenomics in crypto, with thought leader [Hasu being openly critical of it](#). That is not to say that it generates no value for a protocol like Frax, which we think it does, especially in alignment with the Curve and Convex ecosystem. But don't be surprised in the future if this escrowed system changes and \$FXS distributions are approached differently by the development team.

Revenue Generation

Buying \$FXS is not only a long bet on \$FRAX demand and growth as a stablecoin, but also the revenue generating abilities of the protocol AMOs. In order for \$FXS to capture the upside of

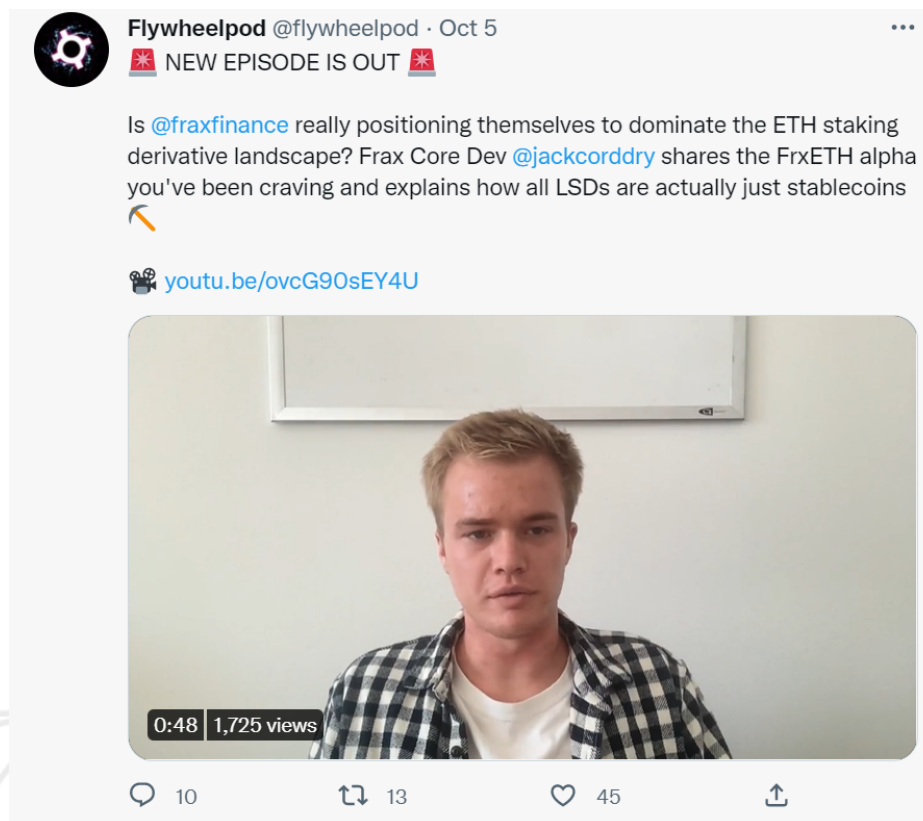
\$FRAX growth, there needs to be ample opportunities for *stable-denominated yield* which turns into burning of \$FXS.

Another small revenue generating portion for the protocol is their \$frxETH staking derivative, which is 100% collateralized with deposited \$ETH. They also have a \$sfrxETH which is the constantly accruing version of \$frxETH. Recently, Sam and the core development team [launched a proposal](#) that would give 90% of rewards to the \$sfrxETH token holders, and retain the rest in the protocol as follows:

- 8% to be distributed to \$FXS holders (presumably through burning)
- 2% held in a backdrop fund to protect against future insolvency/losses exclusive to \$frxETH

This is great for the Frax ecosystem growth as a whole, but after forecasting out potential revenue from this, it doesn't add much value to the token ([we estimated \\$12m on a 4 year horizon](#)). However, this is just, *yet again*, another tool in the arsenal of Frax.

Additionally, as team dev Jack Corddry said, this offering is right in the wheelhouse of Frax. \$ETH staking derivatives behave more along the lines of a stablecoin than anything else due to the goal to trade on parity with \$ETH. Frax is able to easily bolster deep liquidity offerings with this due to gauge directing via Convex and Curve.



Everything you need to know about FrxETH with Core Dev Jack Corddry - Flywheelpod E...

Important to consider is that currently there is only one Frax ran validator for the ~2,000 \$ETH within the system, which *will* change in the future and have an impact on reward distribution. Nonetheless, as this product was just launched earlier this month, we're excited to see it have the potential to continue to grow into something important for the Ethereum and Frax ecosystems alike.

Broad Look at Revenues

At the beginning of the year, the Frax treasury was earning [~500k in daily revenue](#) (\$180M annualized), which had it at just a 3.8 P/S at that present day market cap.

Daily figures are not the best to look at given trading volumes (which derive a portion of its earned fees) can be so volatile. Looking at the data provided by the website dashboard, we can look at the revenues over this past month, which have consisted of a crab market and low volume compared to historical numbers.





Despite this low level of volume, Frax has been able to generate a solid amount of revenue, clocking in at roughly \$10M MoM, or \$120M annualized.



[Frax Dashboard](#)

Sam also mentioned that the yearly historical revenue as of June 10th 2022 was \$80m, which is objectively great for a protocol of this size. Let's take a closer look at the distribution of this revenue.

As we said, the majority of protocol revenue comes from its Curve AMOs, which ultimately end up being Convex farming rewards. Here is a list of the largest Convex pools, and **three of them** contain \$FRAX.

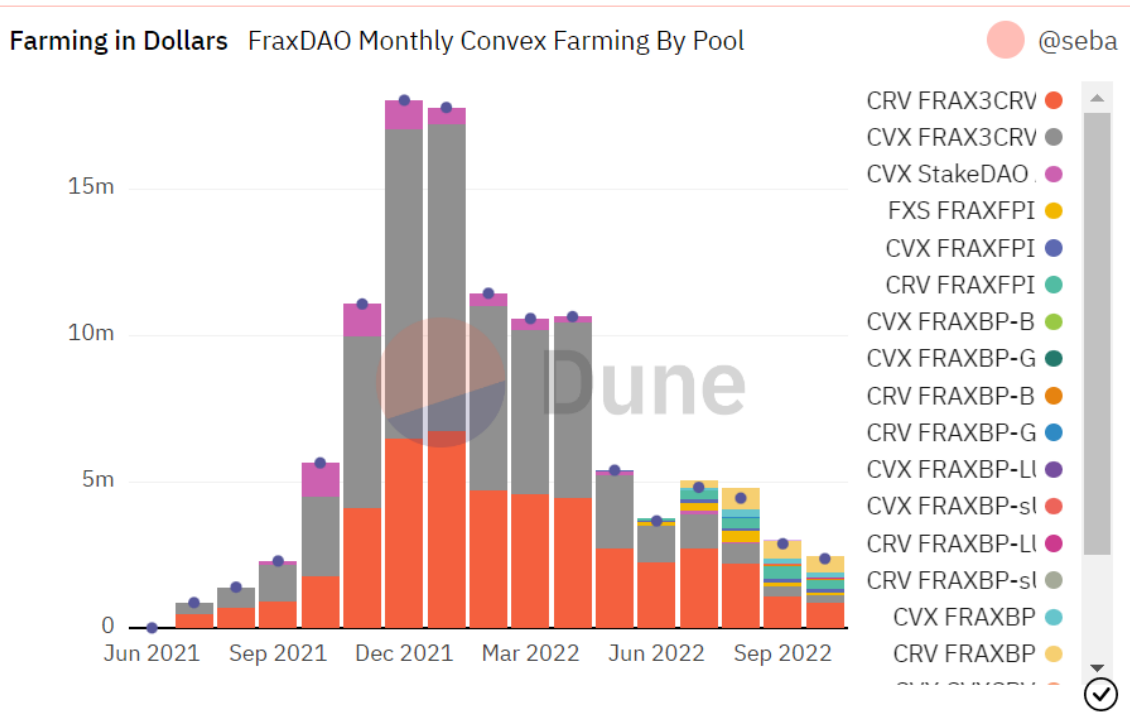
Pool Name	Claimable	vAPR	My Deposits	TVL ▾
 steth ETH+stETH	\$0	2.97% (proj. 5.16%) ⓘ veCRV boost: 2.33x	0 stethCrv = \$0	\$1,128.3m
 fraxusdc FRAX+USDC	\$0	3.68% (proj. 3.21%) ⓘ veCRV boost: 1.84x	0 fraxusdcCrv = \$0	\$582.2m
 frax FRAX+3Crv	\$0	2.93% (proj. 3.07%) ⓘ veCRV boost: 1.79x	0 fraxCrv = \$0	\$567.3m
 fpifrax FRAX+FPI	\$0	2.78% (proj. 2.58%) ⓘ veCRV boost: 1.84x	0 fpifraxCrv = \$0	\$206m

[Convexfinance](#)

We've gone over how these rewards accrue to holders of \$CVX or \$vICVX, and Curve LP depistors, but all that is really critical to remember is that rewards come in the form of \$CVX and \$CRV.

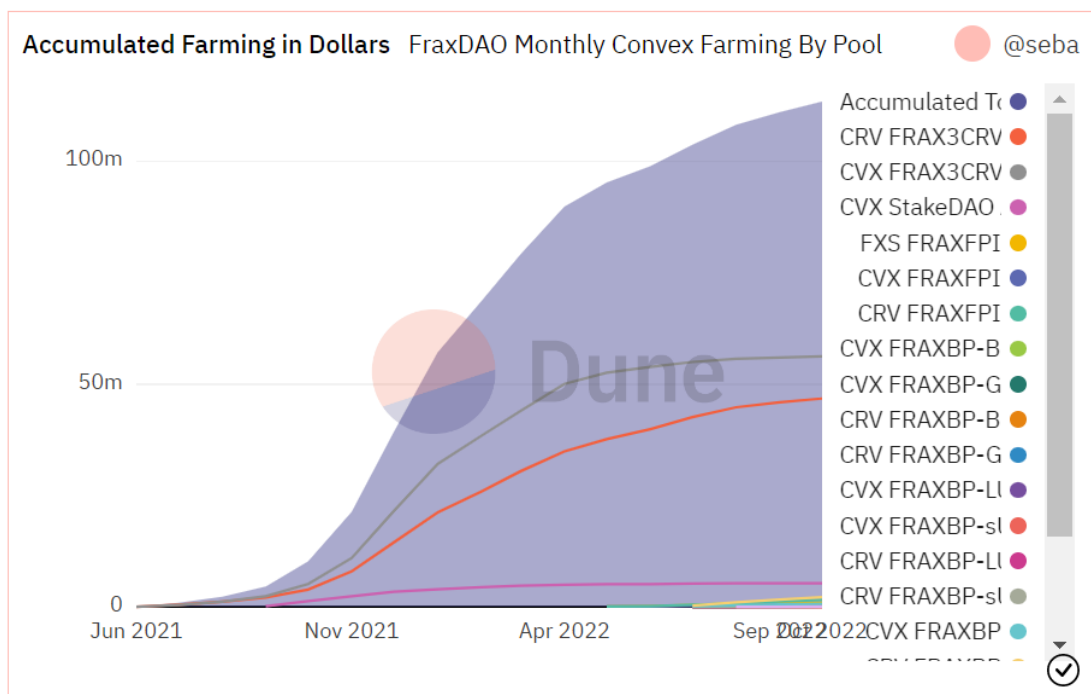
The effect of this is that **protocol revenues are highly dependent on \$CVX and \$CRV price**. While Frax often sells the rewards as earned, and thus won't carry significant unrealized losses on its balance sheet, it is nonetheless a factor to be wary of. For what it's worth, those two protocols are strong blue-chips in the DeFi space and are not an unreasonable spot for the protocol to place a consolidated bet (and, it pretty much has to to bolster deep liquidity for \$FRAX).

For some data and pictorial context, we'll have to defer to the goat [Dune Wizard Seba](#) who has all the queries on Frax we could ask for. Here shows the monthly farming of Convex, distinguished by the pool. Roughly 73% of *Convex Farming revenue* comes in the form of \$CRV from the three pools that we listed above:



Dune Analytics

And here is the running total of revenue earned from Convex farming, eclipsing \$111M since inception:

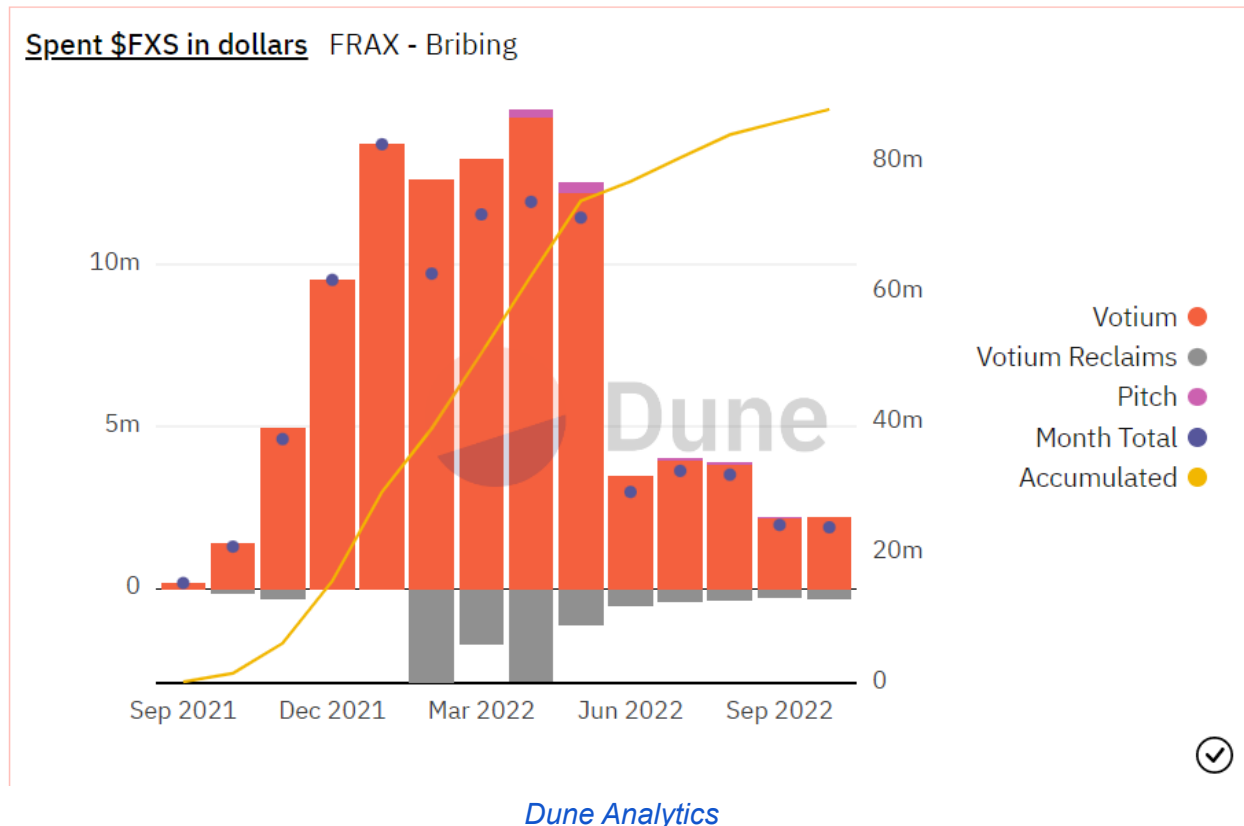


Dune Analytics

Bribing (Expenses)

Obtaining this revenue isn't free. Frax has been a consistent and steady leader in terms of Convex bribes paid, which help direct the \$CRV emissions towards their desired pools. These bribes are paid in \$FXS, and Seba has yet another helpful dashboard looking at the amount of bribes paid to earn the rewards.

While the revenue figures are attractive, getting the necessary \$CRV emissions is costly. The accumulated amount spent on bribes has recently hit \$80M:



This puts (when exclusively looking at bribing) margins at 33%, which is **a very solid figure**. Remember, these profitable operations *only help to increase* both the use case and price of \$FXS by enabling deeper liquidity across DeFi and buying back and burning \$FXS.

Given that the Curve/Convex AMO is clearly the most profitable and useful, it makes sense why the protocol allocates the majority of its economic resources towards it.

Tokenomics

\$FXS token distribution scores very high in terms of equitability and further dilution. It is a clean 65%-35% split between a community fund and founders, advisers, and early contributors. The sub-categories are as follows:

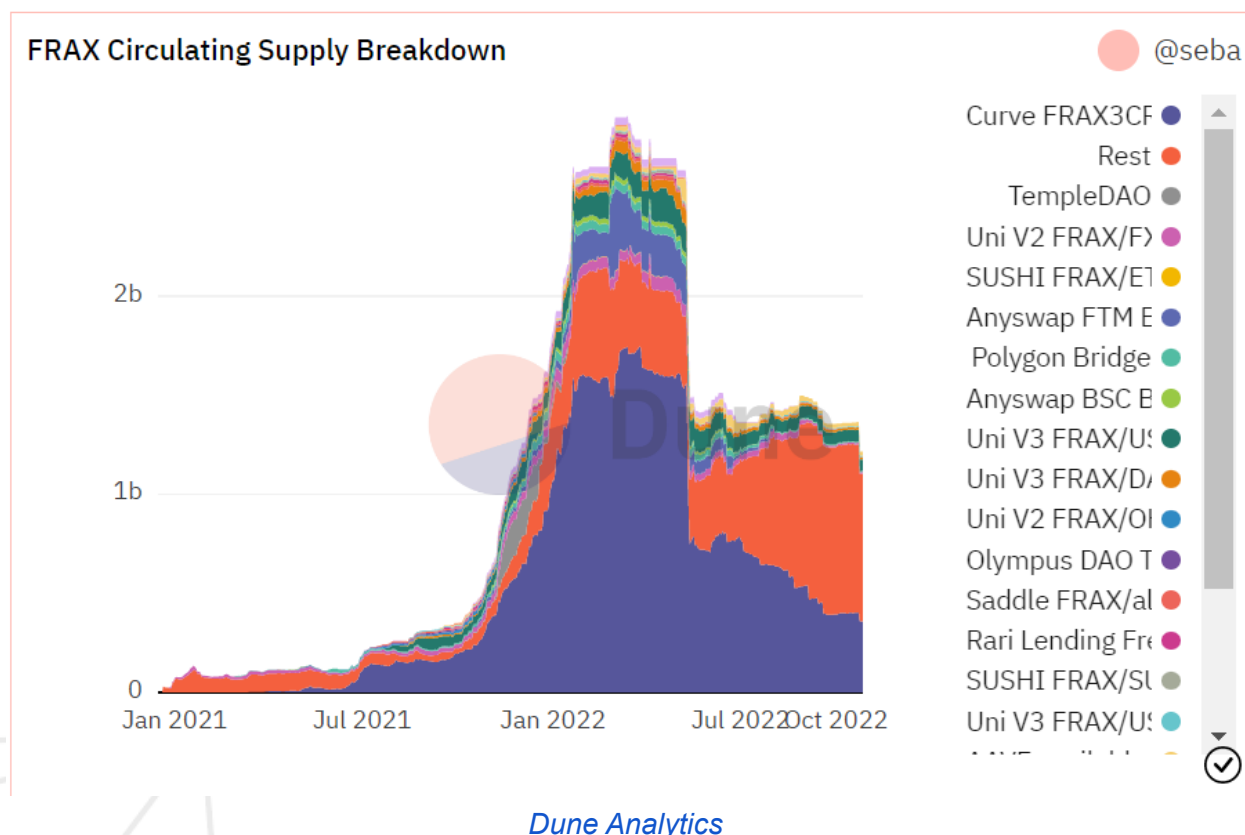
Total Initial Supply: 100,000,000 FXS			
Team and Investors	35%	Community	65%
Liquidty Programs / Farming	60%	Team / Founders	20%
Treasury / Grants / Partnerships	5%	Strategic Advisors	3%
		Private Investors	12%

Both the team and private investor allocations are completely vested, so there is no ultimate unlock/dump period to worry about.

Risks

As a partially-algorithmic stablecoin, there is some level of “faith” backing the currency. The downside of this was seen in action with the \$LUNA backed stablecoin \$UST, depegging and commencing a swift death spiral back in early May of 2022. This was obviously impactful on Frax. Aside from the abandonment of the 4pool plans on Curve (UST-USDC-USDT-FRAX stablecoin pool), faith behind the algorithmic stables completely evaporated.

This hiccup in the entire crypto industry can be clearly seen in \$FRAX total supply on the market as much more than a small blip on the chart:




Another situation was the Fei/Rari fuse pool exploit, which Frax was a ~\$12M creditor to in one of its lending AMOs. After a ton of controversy, and a notable comment from Sam, the DAO decided to ultimately make all victims whole.



Sam Kazemian (🌱, 🌱) 
@samkazemian

...

I can't stand to not speak up about this [@feiprotocol](#) situation. Please read this  for one of the most egregious "DAO/DeFi" situations I've ever seen. There's CeFi drama stuff, but this is a new low for DeFi.

2:32 AM · Aug 20, 2022 · Twitter Web App

1,031 Retweets 280 Quote Tweets 3,438 Likes

[Twitter](#)

While this ended up being not a big deal in the grand scheme of Frax, the precedent is important: Frax has protocol operations (lending and AMOs) that generally put funds at risk. While these are exogenous risks and simply cannot be predicted, it is important that there is some level of mitigation to ensure that exposure to a single protocol isn't enough to completely upend operations.

Bullish Devs

Even though price has seemingly been down only since the start of the Luna crash and all ensuing mayhem, Sam and the team have remained composed and confident in their protocol. This is a refreshing breath of clean air, as we see too often that leading founders and developing teams of notable DeFi protocols become arrogant and bring general disdain to anyone in disagreement with their way of building.

Our satisfaction with Sam's composure and confidence in the system can be exhibited by the decision to buy \$FXS back in early June. Many of us remember this time very well due to the sinking feeling and realization that the bull market was over—\$ETH wicked down to \$880! But Sam decided this was the time to [enact a buyback of \\$FXS to the tune of \\$20M](#). In the team's eyes, \$FXS was a token that was not only grossly undervalued by market selling conditions, but also presented a competitive upside to other options out there. Here is the [governance proposal](#) for the matter that brings some useful and interesting context into the discussion, specifically Seba making the case for why Frax *shouldn't* be initiating the buyback.



Conclusion

Frax is simply an easy project to be bullish on. The product makes sense, the team ships hard as any competitor out there, Sam is level headed and effective in his public conversation, and the protocol token checks all of the boxes for what we look for.

With this being said, there are some very high exogenous risks as just recently stated above. The stablecoin market is largely dominated by \$USDC and \$USDT, and \$FRAX backing is overwhelmingly in \$USDC. Regulation can play a big factor in this, especially given that we know that Circle has played on the same side as U.S lawmakers.

Additionally, competition will continue to emerge. In relation to these other protocols, Frax will have the benefit of the Lindy effect, especially with Terra out of the game. By continuing to build a robust ecosystem that brings any and all participants its way, the future looks bright for Frax.

