

Aero Fed Risk Assessment

The following assessment covers various dimensions of risk associated with the proposed launch of the Aero Fed on Base, including bridge risk, platform risk, asset exposure risk, Fed operations, and limitations.

Bridge Risk: DOLA is mainnet-native and all DOLAs are minted on mainnet. The introduction of cross-chain functionality introduces bridge risk. While the Aero Fed aims to provide deep DOLA liquidity on Base, reliance on a bridge to move assets between Ethereum and Base can expose the protocol to potential vulnerabilities. These risks include potential security breaches, bridge downtime, and interoperability issues. It is crucial to ensure the security and reliability of the bridge involved in the proposed deployment to mitigate these risks effectively. The Aero Fed utilizes the Base native bridge which innately comes with better security assumptions.

Platform Risk: Launching the Aero Fed introduces platform-specific risks relating to the Aerodrome ecosystem. Any vulnerabilities in the smart contracts deployed by the Aerodrome team may endanger the operation of the Fed, and could result in loss to the protocol. Rigorous smart contract audits and ongoing monitoring of the ecosystem are essential for these platforms to retain users. To address these concerns, the Aero Fed points to a “vanilla” DOLA/USDbC LP. [USDbC](#) is bridged USDC from Ethereum. As of this week (Sep 4th, 2023), Base USDC is now live, meaning [USDC](#) is now available natively on Base. As migration of liquidity will take some time, a v2 deployment of the Aero Fed will point towards a DOLA/USDC LP.

Asset Exposure Risk: The proposed Aero Fed involves exposure to various assets, including DOLA, and AERO. Fluctuations in the value of these assets could impact the overall health of the protocol. Exposure to DOLA is by design as AMM Feds play their role in maintaining DOLA peg, whereas a downturn in the value of AERO directly impacts the viability of the Fed. Operations might be reduced or halted altogether if bribe efficiency is poor or if the opportunity cost (funds better spent elsewhere) is significant. Our TWG constantly monitors the bribe economy for various ecosystems the protocol is exposed to (Curve, Velodrome, Balancer, etc) and periodically reassesses strategy based on findings.

Fed Operations and Limitations: The Aero Fed's effectiveness relies on its ability to expand and contract DOLA supply based on demand changes. While the proposed mechanism is designed to stabilize the DOLA peg, limitations may arise in cases of extreme market volatility or sudden shifts in demand patterns. The Fed's response time to these changes could impact its ability to maintain the peg efficiently. It is important to set clear expectations for the Fed's operations and limitations, especially during periods of heightened market stress.

Overall Mitigation Strategies: To address the identified risks, several mitigation strategies have already been implemented. These include:

- Audit: The Aero Fed and associated contracts are copied entirely from the latest Velo Fed (since Aerodrome is a direct fork of Velodrome). These have undergone our

rigorous smart contract review process and have also been reviewed by external auditors.

- Bridge Security: Our integration with the Base native bridge ensures the security and reliability of cross-chain transfers between Ethereum and Base.
- Monitoring and Response: Our “Inverse Watch” real-time monitoring systems provides the necessary insights that might trigger responsive actions by our Fed Chair multisig.
- Risk Parameters: The RWG multisig on Base controls max loss parameters relating to slippage incurred when expanding and contracting the Aero Fed’s supply. These have been integrated to help prevent excessive risk-taking or user error, eliminating the possibility of big slippage losses when contracting or expanding the Fed. The use of the RWG multisig also addresses and limits the damage a malicious Fed Chair actor can cause.

The proposed launch of the Aero Fed on Base presents promising opportunities for enhancing DOLA liquidity and incentivization. Thorough risk management strategies, continuous monitoring, and agile response mechanisms will be key to the success of this initiative. Should you require further analysis or specific risk quantification, please do not hesitate to reach out to the Risk Working Group for a more detailed assessment.

Disclaimer: The risk assessment provided herein is intended solely for informational purposes and does not constitute financial or investment advice. The assessment does not guarantee the outcome of the proposed initiative or the performance of the Aero Fed on Base. Readers are strongly encouraged to conduct their own thorough research, consult with qualified financial professionals, and carefully evaluate the associated risks before making any investment decisions. Inverse Finance and its affiliated parties shall not be held liable for any financial losses, damages, or consequences arising from the use of this risk assessment or the implementation of the proposed initiative.