Deciding what pools to incentivize has been a topic that we are yet to make much progress on. With rewards stopping in mid-November we really do need to find a way to move things forward or risk having liquidity exit Uniswap at a rate of knots.

This proposal outlines a simple methodology for determining pools to incentivise and the % allocation of UNI rewards to each pool.

Background

The goal of UNI rewards is to incentivize liquidity in a way that improves the user experience while rewarding those that contribute to this. This has worked phenomenally well for the current ETH-DAI, ETH-USDC, ETH-USDT and ETH-WBTC pairs where Uniswap is now the best place to go

to trade spot on any of these markets with the lowest slippage.

I have seen a lot of forum posts looking to rush liquidity for tokens like YFI, SNX and so on, but it's not clear at all that the market wants enormous liquidity for these tokens (things are fine as they are). These posts are generally based on subjectivity and governance will continue to be fractured if we can't standardize this process and instead refer to our own bags to decide what should be rewarded.

So instead, I am proposing that we use a simple methodology to calculate what tokens should make the cut. If we can agree on a simple methodology, then future decision making is made ultra simple with minimal waste of resources.

Methodology

Selecting Pairs

Any Ethereum base currency (token) that has a 30 day average 24h volume greater than $100,000,000 is included in the reward pools.

Allocating Weights

% allocated = (base_currency_vol / base_currency_pools) / total_base_currency_vol)

Example

Let's assume that the following base tokens have all surpassed $100M daily volumes (on average) over the last 30 days: ETH, LINK, AAVE, UNI:

- ETH: $11,614,439,420
- LINK: $1,139,988,413
- UNI: $208,735,841
- AAVE: $118,905,190

Retaining the existing reward pools we end up with:

- ETH-DAI
- ETH-USDC
- ETH-USDT
- ETH-WBTC
- LINK-ETH
- AAVE-ETH
- UNI-ETH

Using the formula we described above:

% allocated = (base_currency_vol / base_currency_pools) / total_base_currency_vol)

This would give the following allocations:

- ETH-DAI: 22.19%

- ETH-USDC: 22.19%
- ETH-USDT: 22.19%
- ETH-WBTC: 22.19%
- LINK-ETH: 8.71%
- UNI-ETH: 1.59%
- AAVE-ETH: 0.91%

This is just an example. However it would be hugely beneficial if we can reach consensus on a formula that can be applied to future incentives.

There are some questions that need answering though:

- How do we include non-ETH pairs?
- Should we include non-ETH pairs?
- How do we determine the total UNI to be rewarded?
- How often should volume snapshots be taken and the pools be reviewed?

Looking forward to reading the discussion.