

Project Name:

Tarot

Author Name:

[@TigrisOfGaul](#)

Number of OP Tokens Requested:

540,000

L2 Recipient Address:

0x63D5554b748598C191aB0cBd0E0e1C638FFEBEe6

I understand that I will be required to provide additional KYC information to the Optimism Foundation to receive this grant:

Yes.

Voting Cycle:

Voting Cycle 7

Grant Category:

Phase 1 (Governance Fund) / DeFi

Is this proposal applicable to a specific committee?:

This proposal may fall under the remit of various DeFi committees.

Project Description, Optimism Alignment, and Ecosystem Value Proposition:

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Tarot Lending Pools

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Tarot is a decentralized lending protocol where users can participate as lenders or borrowers in isolated lending pools. Lenders can supply tokens to earn single-sided passive yield without impermanent loss, while borrowers can leverage their LP tokens as collateral to borrow tokens supplied by lenders. Tarot is also a popular LP auto-compounder with some of the lowest reinvest fees in all of DeFi (1%).

With a complete suite of liquidity solutions and yield opportunities, Tarot encourages liquidity provision on DEXs, particularly for long-tail assets, by offering traditional LP auto-compounding and transferring risk and reward among lenders and borrowers.

Since launching in May 2022, Tarot has become one of the top protocols to single stake OP and earn yield on Optimism

. Tarot has several OP-based lending pools, with Supply APRs of up to ~30% for single-sided OP lending with no impermanent loss, and leveraged LP APRs (5x) for OP-based pairs exceeding 200-250%. These pools offer long-term OP holders a source of sustainable yields without selling, ultimately driven by the trading fees and DEX rewards earned by LPs. Supply APRs for ETH and stablecoin lending on Tarot regularly exceed 5-10%.

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DefiLlama Top Yields on Optimism

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Tarot consistently delivers the highest single-exposure yields on Optimism: [Yield Rankings - DefiLlama](#)

Tarot is proud to be part of the OP ecosystem. Beyond the many technical merits of the OP ecosystem for an advanced DeFi protocol like Tarot, we believe the core tenets of Tarot DAO are fully aligned with the Optimistic Vision.

Relevant Usage Metrics:

Currently on Optimism: ~\$2.75M TVL

Total TVL on all chains: ~\$17M TVL with ~\$7M in borrowing activity

Transactions on Optimism: 30,000+ account transactions (e.g. borrow, repay, leverage, deleverage, etc.) via router contracts since launch, as well as ~7,000+ vault transactions per week.

Open Sourced?:

Yes. Tarot is open sourced.

Optimism Native?:

No. Tarot launched on Fantom in June 2021 and on Optimism in May 2022.

Date of Deployment on Optimism:

Tarot has been live on Optimism since May 6, 2022.

Has your project previously applied for an OP grant?:

Yes. Our proposal has incorporated significant changes in response to committee and delegate feedback.

In particular, this proposal now focuses exclusively on targeted incentives for borrowing activity and lending in Tarot, for OP-based and other Optimism pairs.

The distribution period for OP token incentives has been reduced to 24 weeks.

The allocation of OP tokens to the core team for initial OP-TAROT liquidity has been removed entirely.

The requested OP token amount has been reduced from 600,000 OP to 540,000 OP.

Previous grant proposal: [\[REVIEW\] \[GF: Phase 1 Proposal\] Tarot](#)

Did the project apply for or receive OP tokens through the Foundation Partner Fund?:

No.

How much will your project match in co-incentives?:

3,000,000 TAROT has been allocated towards matching co-incentives, following the adoption of TIP-018: Tarot Co-Incentivization on Optimism

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This TAROT allocation is flexible and can be used to incentivize any pair. Furthermore, this allocation is broad in scope, and is not limited to DEX liquidity incentives. One such use of this allocation is via Tarot's own single-token TAROT farming rewards mechanism, which tracks and rewards borrowing activity in the protocol.

TAROT co-incentives, in the form of liquidity bribes and other DEX liquidity incentives, will be combined with OP token incentives to reward borrowing activity and lending, which benefits the entire Optimism ecosystem and the DeFi space as a whole. Additionally, pools may be co-incentivized by partner protocols such as Velodrome and Beethoven X.

Proposal for Token Distribution:

OP token incentives will be used to incentivize borrowing activity and lending in Tarot on Optimism.

How will the OP tokens be distributed?:

540,000 OP is allocated to an incentives program that rewards users (i.e. suppliers, borrowers, and leveraged yield farmers) who actively participate in lending pools. 45,000 OP will be distributed per 2-week epoch over a total of 24 weeks.

Borrow and supply incentives are categorized as follows:

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Tarot OP Incentives Distribution

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cdn.com/business7/uploads/bc41dd/original/2X/e/e6d3c5c663b85f2aa065a80a8ecf0cf6d015b157.jpeg)

Borrow incentives for OP-based pairs and other Optimism pairs (60%):

- 30% → OP-based pairs (e.g. ETH-OP, OP-TAROT, OP-USDC)
- 30% → Other Optimism pairs (e.g. BTC-ETH, ETH-USDC, TAROT-USDC)

Supply incentives for supplying OP, ETH, and USDC (40%):

- 20% → Lending OP
- 10% → Lending ETH
- 10% → Lending USDC

OP token incentives will be distributed at a fixed rate of 22,500 OP per week, with the distribution as follows:

- 6,750 OP / week → Borrow incentives for OP-based pairs
- 6,750 OP / week → Borrow incentives for other Optimism pairs
- 4,500 OP / week → Supply incentives for lending OP
- 2,250 OP / week → Supply incentives for lending ETH
- 2,250 OP / week → Supply incentives for lending USDC

Eligible pairs for borrow incentives shall be comprised of at least one

of the following tokens, and no single pair shall be allocated more than 10% of the total allocation:

- OP
- ETH
- USDC

Additionally, only

the following TAROT-based pairs are eligible for borrow incentives:

- OP-TAROT
- TAROT-USDC

Tarot supports a wide variety of lending pools and long-tail assets. This structure for borrow incentives helps to ensure the flexibility to allocate OP token rewards to high volume pairs, while providing reassurance that the incentives will be widely distributed to best serve the Optimism ecosystem.

Over what period of time will the tokens be distributed?:

OP token incentives will be distributed over 24 weeks (~5.6 months).

Please list the milestones/KPIs you expect to achieve for each initiative, considering how each relates to incentivizing sustainable usage and liquidity on Optimism. Please keep in mind that progress towards these milestones/KPIs should be trackable.:

Our early liquidity incentivization program with Velodrome has already yielded strong results with unprecedented capital efficiency. Since launching incentives in August, over 7,000,000 TAROT has been bridged to Optimism and over \$560,000 in TAROT-USDC liquidity has been provided on Velodrome. This includes a significant amount of protocol-owned liquidity (POL) bridged over to Optimism following the adoption of TIP-019: Velodrome Liquidity

Milestones will be structured around sustainable liquidity for OP-based and Optimism pairs, as well as increased lending and borrowing activity in Tarot's lending pools:

If we assume \$20,000 in cumulative weekly incentives across all incentivized pools (which includes OP incentives), over a 24-week period, and a long-term target of 20-40% APR for volatile pairs, we would expect ~\$2.6M to ~\$5.25M of liquidity depth.

Liquidity for supply positions is expected to be even more impactful in terms of total value locked (TVL), with long-term

target APRs of 5-15% for lending OP, ETH, and USDC.

All borrowing/lending activity in Tarot is eminently trackable, and can be monitored (e.g., via DeFiLlama, Dune Analytics, and within the Tarot UI).

How will this distribution incentivize usage and liquidity on Optimism?:

In practice, the increase of borrowing activity in Tarot's lending pools creates a flywheel effect and, in response to higher pool APRs, lenders are incentivized to supply additional tokens, thus increasing TVL and liquidity across the ecosystem. Borrow incentives combined with supply incentives will create even more pronounced increases in usage and liquidity on Optimism.

Furthermore, the allocation of OP token incentives to lending OP will bolster what is already one of the top yield opportunities for single-staking OP on the Optimism network.

This distribution helps Tarot to continue to offer competitive yields, generated by supply and demand for loans in isolated lending pools, to users on Optimism, and will facilitate the creation and expansion of additional lending pools with attractive leveraged APRs.

Why will incentivized users and liquidity on Optimism remain after incentives dry up?:

On Fantom, Tarot lending pools have continued to see strong demand and competitive yields, in the form of single-sided lending, auto-compounding LP, and borrowing and leveraged yield farming, even following the sunset of the Tarot Farming Rewards program.

Tarot will continue to attract users and liquidity to the OP ecosystem from other chains, and further development of future products and yield opportunities on Optimism will continue, even after the conclusion of OP token incentives.

Project Links:

- Website: tarot.to
- Twitter: [@TarotFinance](https://twitter.com/TarotFinance)
- Discord: [Tarot](https://discord.com/invite/tarot)