

Project Name:

Velodrome Finance

Author name and contact info:

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

Yes

L2 Recipient Address:

0xb074ec6c37659525EEf2Fb44478077901F878012

Grant category:

Governance

Is this proposal applicable to a specific committee?

DeFi

Project Description

Velodrome is a foundational piece of public infrastructure bootstrapped by Optimism Foundation. We're a public good DEX that combines the best of Curve, Convex, and Univ2 into a single AMM designed to serve as the premiere ecosystem-native liquidity layer, reducing friction and lowering costs for new and existing protocols operating on the network.

- 100% ecosystem owned and operated as the protocol has no outside investors or funding
- 100% of its revenue goes to lockers (mostly protocols) and remains in the ecosystem
- Lowest transaction fees of any DEX at .02% for both stable and volatile swaps
- Optimism-native and exclusive, aligning its incentives entirely with the good of the ecosystem
- A full-time team focused entirely on building and scaling both Optimism and Velodrome
- Incentivizes projects to lock long term investment into the Optimism ecosystem
- Serves as the primary liquidity and trading hub for over 30 ecosystem projects

This proposal has the support of:

- Abracadabra
- Alchemix
- Angle Protocol
- Beefy Finance
- Byte Masons
- dForce
- Hop Protocol
- Inverse Finance
- Liquidity Protocol
- QiDAO
- Optimism Prime
- Overnight Finance
- Revest Finance

- Sonne Finance
- Synthetix Ambassadors
- Synthetix Treasury Council
- Tarot Finance
- Yearn Finance
- (more coming)

Project Links

- Website: <https://app.velodrome.finance/>
- Twitter: [@VelodromeFi](https://twitter.com/VelodromeFi)
- Discord: <https://discord.gg/Velodrome>
- Docs: <https://docs.velodrome.finance/>

Core Team Members

- Alex [@wagmiAlexander](https://twitter.com/wagmiAlexander)
- GuyWithKeyboard [@Sumguy1234](https://twitter.com/Sumguy1234)
- Jack [@jackanorak](https://twitter.com/jackanorak)
- Stas [@Stas0x](https://twitter.com/Stas0x)
- Tao [@taowatts](https://twitter.com/taowatts)
- Zoomer [@ZoomerAnon](https://twitter.com/ZoomerAnon)

Previous Projects

The Velodrome Team has a diverse and multi-year background in both finance and technology. The team founded and operated [veDAO](#) in the Fantom ecosystem attracting over 2 billion in TVL at its peak and have consulted on ve tokenomics matters for Redacted Cartel and Boba Network. Our veteran development team consists of individuals who have contributed to projects such as:

- veDAO
- [gmStudios](#)
- [able.com](#)
- [raidguild.org](#)
- [defisafety.com](#)
- [metokens.com](#)
- [valorem.xyz](#)
- [aavegotchi.com](#)
- [bywassies.com](#)
- [metastreet.xyz](#)
- [cielo.finance](#)

Open source projects we contributed to (PRs):

- multicall.py (OP support, performance optimizations)
- Dune Spellbook (pricing data)
- Rainbowkit (Gnosis Safe connector)

- Rabby Wallet (hardware wallet support)
- smatcontracts/Simple Optimism Node
- alchemy-web3.js (RPC retries support)

Our own open source projects:

- API written from scratch (backwards compatible with Solidly forks)
- Discord bots for trades, bribes and deposits
- Sugar project (easiest way to build on top of Velodrome)
- Protocol documentation

Our repository changes from Solidly:

- Solidly dApp fork: ~497 commits, 120 files changed, 4768 insertions(+), 6690 deletions(-)
- Solidly contracts fork: ~414 commits, 45 files changed, 3660 insertions(+), 1483 deletions(-)

Ecosystem Value Proposition

Relevant Usage Metrics

- [Velodrome Overview](#)
- [Velodrome Users and Activity](#)
- [Velodrome Trading Fees & Projected Voting APRs](#)
- [Velodrome Voting Data](#)
- [Velodrome Reward Data](#)
- [Optimism Bridge Statistics](#)
- [Optimism Usage Trends](#)

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Competitors, peers, or similar projects:

Curve, Beethoven, Uniswap, Zipswap

Is/will this project be open sourced?

Contracts and API are fully open source

Optimism native?

Yes, and exclusive.

Date of deployment on Optimism:

Deployed 6/2/2022

What is the problem statement this proposal hopes to solve for the Optimism ecosystem?

The Optimism ecosystem needs to grow substantially in the midst of significant headwinds from both competing ecosystems and macroeconomic forces. A strong secondary economic engine that creates access to deep ecosystem liquidity is a dependency for growth; indeed, the Optimism Foundation has identified the lack of such an engine as one of Optimism's greatest growth impediments. New projects need resources to quickly and efficiently bootstrap initial liquidity, while existing ones need to sustain and grow their liquidity at minimal cost.

How does your proposal offer a value proposition solving the above problem?

Put simply, our unique public good Optimism-native protocol design makes it simple for protocols to bootstrap and build liquidity faster and with fewer resources, returning 100% of the value generated created back to them.

Optimism incentives on Velodrome are essentially a 2x-3x multiplier of liquidity incentives - including grants - for the ecosystem at large, making it easier for protocols to onboard onto Optimism and cheaper for them to operate, resulting in lower burn rates for \$OP and project's native tokens as compared to direct LP incentives. On Velodrome, protocols create revenue-positive liquidity programs that will sustain them and the ecosystem at large for years to come.

Why will this solution be a source of growth for the Optimism ecosystem?

Velodrome is already demonstrating our ability to drive significant ecosystem growth. We are doing this by not only helping to attract and onboard new projects to Optimism, but also by lowering the operational costs associated with maintaining liquidity for existing protocols. By reducing costs ecosystem-wide, we are allowing protocols to reinvest in themselves and helping to ensure their sustainability through adverse economic conditions.

And because the economic activity that Velodrome generates occurs exclusively on Optimism, it drives significant sequencer revenue, supporting the broader vision of self-sustaining retroactive public good funding. Since launch Velodrome has generated over 2.5M transactions, averaging 25K daily in the last 90 days (~15% of all transactions on Optimism), and has distributed over \$6M in \$VELO liquidity incentives, approximately at \$300K per week, to support the high level of trading activity.

What makes Velodrome different than other AMMs on Optimism?

Velodrome is a next generation Optimism native AMM that combines some of the best mechanisms from Curve, Convex, and UniV2 into a single cohesive experience. Velodrome's status as an Optimism exclusive public good aligns its incentives entirely with those of the ecosystem. It also ensures that all the economic activity generated by the protocol (emissions, governance, bribes, fees, LPs) stays on Optimism, supporting sequencer revenue and the broader Optimism flywheel.

Velodrome has the lowest fees on Optimism (0.02%) and supports the efficient swapping of both stable and volatile pairs, consistently attracting high volume per \$ of TVL and TVL per LP incentives. We are the only AMM on Optimism that supports native governance and bribing, with no need to bridge capital or assets to main-net to participate. Additionally, 100% of the revenue generated by the protocol is returned to \$veVELO lockers (primarily partner protocols) on Optimism rather than being redirected to mainnet stakers. Enabling protocols the ability to maintain deep liquidity at very competitive rates.

Essentially, Velodrome operates as an extension of Optimism itself, augmenting the economic engine of \$OP incentives with \$VELO as well as the business development / onboarding arms of the Foundation. Rapidly accelerating ecosystem growth and sustainability.

Previous Grant History

Has your project previously applied for an OP grant?

We received a 3,000,000 \$OP grant from the Optimism Foundation Partner Fund in July. Existing incentives are likely to be exhausted in next 4-8 weeks in alignment with the distribution timeline encouraged by the Foundation.

This grant had three primary objectives:

1. Lowering barriers to entry with locking incentives
2. Boosting ecosystem efficiency with bribe matching
3. Building deep liquidity on key ecosystem pairs

The results of this program so far have been overwhelming:

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- A consistent top 3 protocol by TVL, volume, transactions, and users
- \$6M+ VELO liquidity incentives distributed into the ecosystem (2-3x OP grant)

- 30 [new protocols](#) onboarded and supported with liquidity growth in ecosystem
- 30-70% reduction in liquidity incentive costs per \$ TVL for ecosystem partners
- \$5M+ liquidity of OP token pairs, creating \$1B in volume
- \$1M+ in protocol revenue returned to veVELO lockers (primarily protocols)
- \$10M+ value locked as veVELO (70% of total) locked into the Optimism for ~3.5ys
- \$250k veVELO airdrop for OP Team, \$2M veVELO airdrop to ecosystem partners
- Highly engaged community of 8,400+ Discord members, 44K Twitter followers

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Since receiving the grant, Velodrome has exploded in almost every metric:

- TVL:

400%+ increase, from \$14M to \$80M+ (as high as \$150M)

- Weekly Fees:

500%+ increase, from \$3.3K to \$20K

- Cumulative Volume:

700%+ increase, from \$270M to \$2.2BN+

- Average Daily Volume:

150%+ increase, from \$2.2M to \$4.5M+

- VELO Holders:

100%+ increase, from 6.6K to 12.7K

- VELO Supply Locked

: 70%+ increase, from 219M to 373M+ VELO

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In summary, the ~3M OP incentives have returned a massive ROI in the form of:

- \$80M+ in TVL
- \$6M+ in direct liquidity incentives
- \$10M in value locked into the ecosystem
- \$15M in market cap value living exclusively on the Optimism ecosystem

New Grant Request

This grant request is focused on extending the duration of the existing incentives whose effectiveness has been demonstrated for the next 6 months in order to maintain the pace and velocity of ecosystem growth it is helping to drive.

During this period, Velodrome will also continue to exclusively develop its roadmap for Optimism, focused on a v2 deployment with a number of upgrades:

- [Velodrome Relay](#)
- Concentrated liquidity pool types (UniV3 style)
- Improved veNFT experiences with Quixotic
- Delegateable OP in LP positions
- Improved retail oriented UX, e.g.:
- Custodial wallets integration
- Wallet top-ups
- LP zappers
- DeFi educational content
- Custodial wallets integration
- Wallet top-ups
- LP zappers
- DeFi educational content

While previous grants to protocols of our size (measured by on-chain metrics TVL, volume, transactions) imply a much larger grant, we've chosen a lower number with the goal of preserving Governance Funds for other use-cases and even more motion timing.

Number of OP Tokens Requested:

4,000,000 OP

- 98% less than average OP granted per \$ in TVL
- 80% less than median OP granted per \$ in TVL
- 98% less than average OP granted per \$ in Volume
- 65% less than median OP granted per \$ in Volume
- 98% less than average OP granted per transaction
- 86% less than the median OP granted per transaction
- 91% less than the average OP granted per user
- 51% less than the median OP granted per user

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Received

OP tokens through the Foundation Partner Fund?

Not since original grant detailed above and no new grants are in progress.

How much will your project match in co-incentives?

Over the next 6 months, Velodrome will distribute ~257M VELO in emissions to liquidity pools. Based on historical results, 85%-90% of these emissions will be directed to pools incentivized through this program: a value of \$6.5M at current VELO prices. This not only represents over 1.6x the grant request size but also equals over half of all \$OP incentives projected to be distributed via governance over the same period.

Likewise, due to the design of our incentive programs, participating protocols are required to provide their matches, which further increases the multiplier effect on the grant.

- For every one dollar in lock bonuses, protocols must lock an average of \$4 for 4 years
- For every one dollar in bribe boost, protocols must provide \$2 - \$9 in bribe value

In short, we will not only be 2-3x the the incentives with our own emissions, but also be requiring each partner to provide a 2x-9x match to access the incentives as well.

How will the OP tokens be distributed?

Lowering Barriers to Entry with Locking Incentives - 37.5% [1.5M OP]

To onboard new protocols to the Optimism ecosystem during uncertain times and in the face of competing incentives, we must ensure that they are able to bootstrap their liquidity in the most cost-effective method possible. At the same time, these incentives should be paired with mechanisms that require protocols to meaningfully invest in the ecosystem for the long term and thus discourage mercenary and exploitative behaviors.

Incentivizing the acquisition and locking of veVELO is an ideal strategy in this regard, as it requires a multi-year lock of capital in the ecosystem to receive the lock bonus and access Velodrome's voting and revenue generation capabilities. It is to our knowledge the only currently running incentive program that requires the locking of capital in the Optimism ecosystem. Incentivizing locking lowers the underlying costs of building an initial veVELO position ([by an average of ~25%](#)) while simultaneously giving any protocol the power to direct emissions and attract liquidity for the long term.

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Overall, the number of tokens per 10k VELO have roughly decreased in the last several epochs due to increased locking, and yet the %rebate has increased due to token price movements. The overall effect has been to increase the per-OP efficiency of this bonus.

Token locking also supports the health of the ecosystem by

- a) reducing the floating supply of VELO, thereby buffering LP incentive returns denominated in VELO;
- b) aligning incentives between the token holder base and the overall ecosystem, as veVELO holders have a shared interest in the long-term success of Velodrome and Optimism;
- c) strengthening ties between participating ecosystem protocols, as they not only see aligned incentives but also collaborate as partners and are connected by Velodrome's external-facing team.

Rewarding lockers with OP tokens will not only increase the health of the Velodrome economy but also give more governance power to the deeply invested, long-term supporters Optimism is looking to attract.

Since the beginning of the lock bonus on July 7, we've generally seen more VELO locked than emitted, with lock rates at 60% - 70% at an average of 3.7+ years.

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- Quantity:

1.5M OP

- Delivery:

40K OP incentives per week over 6 months, distributed to veVELO lockers proportionally to new veVELO balance per week, exclusively for transaction locking liquid VELO (no lock extensions or rebases).

- KPIs:

- Exceeding and maintaining 70% VELO total supply locked
- Doubling share of OP protocols locking VELO among those with native tokens
- Attracting additional new protocols to the ecosystem that meaningfully improve layer-wide economic activity
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- Doubling share of OP protocols locking VELO among those with native tokens
- Attracting additional new protocols to the ecosystem that meaningfully improve layer-wide economic activity

Boosting Ecosystem Efficiency with Bribe Matching - 37.5% [1.5M OP]

As protocols like Curve and Convex have demonstrated, bribe-for-emission models are far more capital efficient than direct incentives in the attraction of liquidity, and Velodrome remains the only AMM in the Optimism ecosystem that supports native bribing.

It's no surprise, then, that bribing for emissions has been massively popular on Velodrome for both new and existing protocols, allowing them to draw significant liquidity at roughly 1/3 the cost of doing so with direct LP incentives.

To date, we have been matching partner bribes at a 25% - 75% rate, lowering the underlying cost basis of bribing and facilitating the migration of incentives from Mainnet and other networks.

This program has been an unalloyed success, with cumulative bribes, total bribed pools, and number of protocols bribing rising almost monotonically since inception. After kicking off the bribe economy, Velodrome's incentive program has shifted to mostly supporting partner liquidity. Partner bribe matches are growing weekly as more protocols migrate to Optimism and are expected to make up the majority of Velodrome's OP incentives in the coming months. Over time, partner bribes have taken over the majority of bribe value, greatly reducing reliance on Velodrome incentives.

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We see this behavior persisting and want to keep the bribe economy afloat while encouraging more of this activity. Through the bribe matching program, Velodrome will continue to support partner onboarding and enable the bribe economy to take life of its own.

Extending this program for 6 months will be crucial to strengthen our partners' liquidity depth and give them enough time to evaluate the results of their incentive programs. The expectation is that we can foster enough new building on Optimism to draw the kind of activity and ensuing liquidity demand that will fully kick off broad exploitation of the Velodrome economy.

- Quantity:

1.5M OP

- Delivery:

40K OP per week for 6-8 months.

- KPIs:
- Increasing the total numbers of protocols bribing
- Increasing number of total pools bribed
- Increasing the total value bribed in \$ / ETH terms
- Increasing the total numbers of protocols bribing

- Increasing number of total pools bribed
- Increasing the total value bribed in \$ / ETH terms

Building Deep Liquidity on Key Ecosystem Pairs - 25% [1M OP]

For Optimism (and Velodrome) to succeed, they need to attract far more liquidity on core token pairs from Mainnet Ethereum and ensure that core ecosystem pairs that support the broader Optimism flywheel such as \$OP and \$VELO remain deeply liquid on chain. This is essential not only to support the onboarding of capital to the ecosystem, but supporting the broader economy.

Generally speaking, these pools need to be deep enough to support the lowest fee and slippage trades for the large transactions types that tend to make up a disproportionate share of volume on Mainnet and allow easy entry/exit for those looking to engage with the ecosystem. Establishing this pool depth will create a virtuous cycle of capital migration, as the resulting economic activity will make Optimism the ideal venue for both trading and LPing DEXs across the network.

We thus believe it is essential to continue supporting Velodrome emissions for key public good pools that benefit the ecosystem collectively. So far, these pools have been massively successful, attracting >\$30m in liquidity and generating \$1B+ in volume since launch. Because the Optimism Foundation is legally unable to bribe these pools directly, Velodrome will commit to bribing and boosting the votes of these key pairs to ensure they will attract the votes/emissions to build deep liquidity at no additional cost to the ecosystem protocols that depend on them.

Key pairs include:

Pair

Current Liquidity

24H Volume (Oct 13)

30-Day Avg Volume

OP - USDC

\$4M

\$850K

\$1.6M

WETH - USDC

\$3M

\$700K

\$1.3M

sUSD - USDC

\$17M

\$240K

\$323K

wstETH - WETH

\$12M

\$220K

\$123K

sETH - WETH

\$8M

\$140K

\$131K

MAI - USDC

\$7.1M

\$340K

\$302K

LUSD - USDC

\$3.8M

\$18K

\$62K

OP - WETH

\$500K

\$85K

\$183K

- Quantity:

1M OP

- Delivery:

30k OP per week for 6-8 months.

- KPIs:
- Increasing TVL for ecosystem pairs
- High number of transactions
- Low slippage for high volume trades
- Increasing TVL for ecosystem pairs
- High number of transactions
- Low slippage for high volume trades

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

The purpose of the Governance Fund is “to incentivize sustainable growth of projects and communities in the Optimism ecosystem.” This growth is intended to bring to the “city of Optimism” a broad base of projects, capital, and users that can create a self-sustaining economy, driving exponential growth for all. Much like the Optimism sequencer itself, our success as a public good depends entirely on the health of that broader economy; this utility is designed to be entirely permissionless and sustainable once an economy of a sufficient size exists to support it.

To put this another way, incentives will never completely disappear from Velodrome as emissions are designed to run in perpetuity, following a sustainable and predictable schedule (see our [docs](#) for details). When combined with incentives generated in perpetuity by Optimism’s retroactive public goods funding, we expect a virtuous cycle that will maintain Velodrome’s status as the premiere base liquidity layer for the ecosystem for years to come. We have strong conviction that Optimism will eventually catch up to the level of activity we see on Mainnet today, attracting billions in annual trading volume. At 10% of Mainnet’s current volume, Velodrome’s fees would yield a 30% return per year for veVELO holders at current value.

The incentive program proposed above extends Velodrome’s built ability to stimulate the broader economy while the natural tailwinds of Optimism’s growth continue to accelerate. Once OP incentives end, protocols, organizations, and retail players alike will hold long-term veVELO positions, which will allow them to further direct VELO liquidity incentives while sharing in the upside of Velodrome’s and Optimism’s success. Moreover, the fact of being able to sustain

those APRs, along with the continued presence and building of these partners, would amplify any future liquidity mining rewards they choose to implement.

More broadly, we’re not just targeting users or capital: we’re targeting projects.

Doing so allows us to avoid some of the pitfalls of simple liquidity mining in that development work and network connections derived from that are inherently stickier than capital drawn in by high APRs. Once partners work with us, they tend to want to continue to do so, and creating a scene of

builders organically is in our view one of the primary ways that Optimism will be able to sustain its growth, shore up the value and quality of its governance, and successfully deliver on its ideals.

In a time when there is frankly a diminished user base crypto-wide, it is of primary importance that Optimism use the current moment to direct its resources toward facilitating infrastructural development, setting up the conditions for the ecosystem to thrive when end users do

return.

Update

Based on feedback from key delegates and Optimism governance participants, we propose staging the delivery of the grant to allow for evaluation of its effectiveness. Details as follows:

- Maintain grant amount as outlined above, but deliver only half of the funds up front.
- Deliver a full report on efficacy at the 2.5 month mark, to be submitted directly to governance
- Upon delivery of the report, open a 2 week window where anyone in governance can raise a proposal that, upon two delegate approvals, can proceed direct to snapshot to suspend further grant payments
- If none are submitted, funding continues

If successful, a similar staged model could also serve for future large grant requests.