

## Background

On June 8th, 2023, Circle [officially launched](#) Native USDC on Arbitrum, signaling the start of a migration from Bridged USDC (USDC.e) to Native USDC. This transition marks a significant step for the Arbitrum ecosystem, as USDC offers unique benefits such as CCTP support and direct issuance from Circle, which are not available with USDC.e.

In response to Circle's announcement, The Arbitrum Foundation partnered with Gauntlet on risk monitoring and providing protocol recommendations to facilitate this migration. The engagement then transitioned into grant analysis, helping with this process by identifying protocols that would be best suited to receive grants.

## Selection Principles

The approach to selecting protocols for grants was grounded in data-driven analysis, aiming to minimize bias. The criteria were as follows:

### 1. Targeting High USDC.e Holdings

: Priority was given to DeFi protocols holding significant amounts of USDC.e.

### 1. Visibility and Influence

: Protocols with high Total Value Locked (TVL) were considered due to their broader influence and visibility within the ecosystem ideally leading to broader awareness.

### 1. Receptiveness to Grants

: Protocols unable to increase USDC deposits with the assistance of grants were excluded from consideration.

## Methodology

Based on the selection principles mentioned above, Gauntlet landed on the following methodology for identifying protocols that should receive grants:

1. Identify protocols with the largest TVLs (including borrows) on Arbitrum, filtering to those with greater than \$30M TVL.
2. Of those protocols, the 4 protocols with the largest USDC.e TVL were selected, with the following caveats:
3. Bridges, due to their direct competition with Circle's CCTP.
4. Single-asset protocols, as they require a complete TVL migration not suitable for incremental grants.
5. Protocols with specific TVL ratios, where grants are not a primary factor influencing user behavior.
6. Bridges, due to their direct competition with Circle's CCTP.
7. Single-asset protocols, as they require a complete TVL migration not suitable for incremental grants.
8. Protocols with specific TVL ratios, where grants are not a primary factor influencing user behavior.

## Protocols Chosen

Based on the methodology above, we've identified the following 4 protocols, identified with an asterisk (\*), as the best potential recipients for grants.

Name

Category

TVL (in \$m)

USDC.e (in \$m)

Largest USDC.e Pool TVL

USDC.e Pool Name

Eligible

Reason

1

GMX

Derivatives

\$532.31

\$36.50

No

Target TVL Ratios. Opted for alternative migration process

2

Aave\*

Lending

\$401.86

\$25.97

Yes

3

Radiant\*

Lending

\$361.56

\$41.42

Yes

4

Uniswap\*

Dexes

\$259.77

\$57.87

\$29.56

ETH/USDC (0.05%)

Yes

5

Balancer

Dexes

\$130.24

\$2.90

\$4.94

USDC/DAI/USDT/USDC.e

No

Not enough USDC.e

6

Camelot\*

Dexes

\$117.45

\$9.57

\$11.47

GRAIL/USDC.e

Yes

7

Pendle

Yield

\$107.02

\$3.86

No

Not enough USDC.e

8

Silo Finance

Lending

\$88.17

\$28.39

Yes

Would require protocol changes

9

Compound

Lending

\$74.00

\$2.67

No

Not enough USDC.e

10

Magpie Ecosystem

Yield

\$60.09

\$0.36

No

Not enough USDC.e

11

Solv Protocol

\$53.76

\$0

No

Not enough USDC.e

12

Synapse

Cross Chain

\$53.55

\$3.52

No

Bridge

13

Stargate

Cross Chain

\$53.52

\$46.49

No

Bridge

14

Lodestar Finance

Lending

\$48.65

\$5.22

No

Not enough USDC.e

15

MUX Protocol

Derivatives

\$46.71

\$10.82

No

Target TVL Ratios

16

Aura

Yield

\$46.28

\$0

No

Not enough USDC.e

17

Sushi

\$43.75

\$0.84

No

Not enough USDC.e

18

Hyperliquid

Derivatives

\$41.67

\$40.90

Maybe

Only holds one token

19

Curve

Dexes

\$40.59

\$11.51

\$17.05

USDC.e/USDT

Maybe

USDC not listed; no USDC pools

20

Gamma

Liquidity manager

\$39.21

\$2.98

No

Not enough USDC.e

21

Vertex

Derivatives

\$37.96

\$9.86

No

Only holds one token

22

Trader Joe

Dexes

\$34.53

\$3.35

No

Not enough USDC.e

23

Abracadabra

CDP

\$32.09

\$0

No

Not enough USDC.e

(Data as of 12/14/2023)

## Grant Allocation Strategy

To minimize any bias in actually deciding grant amounts, it was determined that the best course of action is to distribute grants based on the 30D average combined TVL of USDC + USDC.e in each protocol as of 12/31/23, then allocate a \$2M worth of ARB grant budget across those averages.

The resulting grant amounts can be seen below:

Protocol

Trailing 30D USDC.e

Trailing 30D USDC

ARB Allocation

ARB Amount

Aave

\$26,492,500

\$42,252,706

38.3%

\$766,914

Uniswap

\$34,248,910

\$16,523,092

28.3%

\$566,407

Radiant

\$38,580,449

\$0

21.5%

\$430,399

Camelot

\$9,503,214

\$11,676,543

11.8%

\$236,279

## Protocol Specific Strategies

The objective for each protocol is to increase the USDC TVL via distribution of ARB rewards to USDC suppliers. All grant programs will persist for 3 months to balance the following objectives:

- Maintain a conservative initial % APY boost to pools targeted for rewards
- Allow enough time for TVL to stabilize with the goal of attracting long-term liquidity
- Daily reward distribution should be sufficiently large to change user behavior

The details on how grants would be distributed throughout each protocol is detailed below.

### Aave

We recommend distributing rewards on the Aave v3 USDC lending pool. This will encourage users to supply USDC, increasing the amount of USDC available to borrow, and increasing the utility of USDC on Arbitrum.

### Uniswap

We begin with the top 5 USDC and USDC.e pools on Uniswap, respectively, sorted by TVL in decreasing order.

Top USDC.e Pools:

[

USDCe\_pools

2000×579 88 KB

](<https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/f/f8853b3ca06000b07aade2b89ec60ea8834dbbd1.jpeg>)

Top USDC Pools:

[

USDC\_pools

2000×585 86.3 KB

](<https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/5/50335b3784cc68acc7e7ccf0bb8df975c7201e49.jpeg>)

(Snapshots as of 1/19/24)

Given that almost all of the USDC.e TVL on Uniswap is in the WETH-USDC.e pools (0.05% and 0.3% fee), we recommend targeting rewards on the WETH-USDC (0.05%) pool

in order to attract WETH liquidity to the USDC pool.

### Radiant

We recommend distributing rewards on the USDC lending pool.

## Camelot

We begin with the top 10 USDC and USDC.e pools on Camelot sorted by TVL in decreasing order.

[

Camelot

2000×1369 211 KB

](https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/c/c10afdf4cf6ce3b480054671f6c76f534fcd0241.jpeg)

(Snapshot as of 1/18/24)

For these 10 pools, we apply the following logic to determine our recommendation for each pool:

- We ignore the USDC-USDC.e pool because rewards this pool could be counter-productive and increase USDC.e deposits
- For a USDC.e pool, if there is no matching USDC pool
- If the USDC.e pool is a protocol pool (provides liquidity for a protocol token), we recommend launching a matching USDC pool and facilitating the migration of their liquidity
- If the USDC.e pool is not a protocol pool, we recommend launching a matching USDC pool and adding the matching USDC pool to the list of pools to target for rewards
- If the USDC.e pool is a protocol pool (provides liquidity for a protocol token), we recommend launching a matching USDC pool and facilitating the migration of their liquidity
- If the USDC.e pool is not a protocol pool, we recommend launching a matching USDC pool and adding the matching USDC pool to the list of pools to target for rewards
- For a USDC pool
- If the USDC pool is a protocol pool, we recommend not adding additional rewards, since it is unlikely that users will contribute significant liquidity to these pools
- Otherwise, if the USDC pool is not a protocol pool, we recommend adding rewards allocated based on TVL

Pool

TVL

24H Volume

Is Protocol Pool

Recommendation

GRAIL-USDC.e

\$11.98M

\$71.6k

Yes

Launch GRAIL/USDC and facilitate migration of liquidity

WINR-USDC.e

\$6.25M

\$231.3k

Yes

Launch WINR/USDC and facilitate migration of liquidity

USDC-ETH



\$3.97M

\$10.63M

No

Set up reward distribution

stEUR-USDC

\$3.47M

\$145.9k

No

Set up reward distribution

FCTR-USDC

\$2.47M

\$3.4k

Yes

No action

ARB-USDC

\$1.92M

\$2.44M

No

Set up reward distribution

USDT-USDC.e

\$1.65M

\$2.74M

No

Set up reward distribution

USDC-MIM

\$1.29M

\$165.6k

No

Set up reward distribution

GMBL-USDC

\$1.19M

\$5.9k

Yes

No action

- If the USDC pool is a protocol pool, we recommend not adding additional rewards, since it is unlikely that users will contribute significant liquidity to these pools
- Otherwise, if the USDC pool is not a protocol pool, we recommend adding rewards allocated based on TVL

With that logic in mind, we select the following liquidity pools to distribute rewards on: USDC-ETH, stEUR-USDC, ARB-

USDC, USDT-USDC and USDC-MIM.

## **Next Steps**

The Arbitrum Foundation is already in contact with the protocols that have been designated to receive grants, and Gauntlet has provided input on an optimal grant rollout timeline. Grants will not be sent all at once, but instead will be staggered across the protocols over time. Starting shortly, grants will become available for a few of the designated protocols based on the above analysis, and details will be communicated by both Gauntlet and The Arbitrum Foundation.