TEMP CHECK - Add support for fUSDC on Ethereum v3 Pool

References:

Project: https://fluxfinance.com/

Whitepaper: https://docs.fluxfinance.com/

Github: https://github.com/flux-finance

Documentation: https://docs.fluxfinance.com/

Dune: https://dune.com/steakhouse/ondo-finance

fUSDC: https://etherscan.io/token/0x465a5a630482f3abd6d3b84b39b29b07214d19e5

Oracle: we have a custom Oracle audited and ready to be deployed that uses the fUSDC/USDC Flux exchange rate and piggybacks to the USDC chainlink oracle.

Governance forum: https://forum.fluxfinance.com/

Governance votes: https://www.tally.xyz/gov/ondo-dao

Twitter: https://twitter.com/FluxDeFi

Discord: http://discord.fluxfinance.com/

Summary:

This ARFC presents the community with the opportunity to add fUSDC to the Ethereum v3 Liquidity Pool.

Motivation

Flux Finance is a fork of Compound V2, with minor changes to support permissioned tokens, such as Ondo Finance's Short-Term U.S. Government Bond Fund (OUSG), alongside permissionless tokens, such as USDC. USDC lenders receive the corresponding fUSDC, representing their right to reclaim the underlying USDC plus accrued interest, and which can be freely transferred. Positions are collateralized by OUSG, which is invested into Blackrock's SHV ETF (with a small portion of USD and USDC for liquidity purposes). Read more on OUSG here.

fUSDC is a new financial primitive with arguably the best risk-adjusted yield

available in DeFi.

Isolated mode

Adding support for fUSDC on Ethereum V3 in isolated mode

would allow fUSDC holders to borrow stablecoins on Aave and leverage their fUSDC position, boosting the stablecoin utilization rate on Aave, while attracting new stablecoin deposits thanks to boosted supply rates.

For example, as the fUSDC yield oscillates around 4% APR, borrowing USDC on Aave should be profitable up to 90% utilization rate.

USDC IR model on Aave eth V3. A 90% utilization rate would align Aave borrow and Flux supply APR.

Oracles:

A custom Oracle audited and ready to be deployed leveraging the fUSDC/USDC Flux exchange rate and piggybacks to the USDC chainlink oracle.

fUSDC is not a traded token and therefore does not have or need a chainlink oracle based on trade volumes.

Specification

What is the link between the author of the AIP and the Asset?

The ACI is an independent service provider to the Aave DAO, while Ondo finance provided support & Data for the creation of this TEMP check, the ACI is not linked nor paid by Ondo to publish this AIP

Provide a brief high-level overview of the project and the token?

Flux Finance is a fork of Compound V2, with minor changes to support permissioned tokens such as Ondo Finance's Short-Term U.S. Government Bond Fund (OUSG), alongside permissionless tokens, such as USDC. USDC lenders receive the corresponding fUSDC, representing their right to reclaim the underlying USDC plus accrued interest, and which can be freely transferred. Positions are collateralized by OUSG, which is invested into Blackrock's SHV ETF (with a small portion of USD and USDC for liquidity purposes). Read more on OUSG here.

fUSDC is a new financial primitive with arguably the best risk-adjusted yield

available in DeFi.

fUSDC Token Ethereum Address: 0x465a5a630482f3abD6d3b84B39B29b07214d19e5

1. Explain positioning of the token in the AAVE ecosystem. Why would it be a good borrow or collateral asset?

Isolated mode

Adding support for fUSDC on Ethereum V3 in isolated mode

would allow fUSDC holders to borrow stablecoins on Aave and leverage their fUSDC position, boosting the stablecoin utilization rate on Aave, while attracting new stablecoin deposits thanks to boosted supply rates.

For example, as the fUSDC yield oscillates around 4% APR, borrowing USDC on Aave should be profitable up to 90% utilization rate.

Avoid using fUSDC as a borrowable asset

fUSDC can be exposed to price manipulation (up-only via donation). As this can put borrowers under liquidation risk in case of price manipulation, fUSDC should not be added as a borrowable asset.

The recent issue with 0vix and vGHST asset is a prime example of this potential vector of risk.

Provide a brief history of the project and the different components: DAO (is it live?), products (are they live?). How did it overcome some of the challenges it faced?

Flux is governed by the Ondo DAO, which went live on January 12th 2023. Its first Flux markets got initialized on February 3rd 2023.

Flux offers yield opportunities to stablecoin lenders (USDC, DAI, USDT, FRAX), while allowing OUSG investors to borrow stablecoins against their underlying tokenized US Treasuries.

How is fUSDC currently used?

Holding fUSDC allows users to earn a yield on their USDC.

fUSDC can also be used as a RToken collateral, launched by theReserve Protocol

https://twitter.com/FluxDeFi/status/1643350249207889920?s=20

Emission schedule

There is no emission schedule. fUSDC is minted or burned based on deposits or withdrawals of USDC.

Token (& Protocol) permissions (minting) and upgradability. Is there a multisig? What can it do? Who are the signers?

The Flux Lending Market and fUSDC contracts are owned by the Ondo DAO. The Ondo DAO is gated behind a 3 day voting period and 1 day time lock.

Similar to Compound, Flux has upgradeable comptroller and fToken (cToken) contracts.

- Flux's Comptroller Contract: 0x95Af143a021DF745bc78e845b54591C53a8B3A51

https://etherscan.io/address/0x95Af143a021DF745bc78e845b54591C53a8B3A51

- Flux's fUSDC Contract: 0x465a5a630482f3abD6d3b84B39B29b07214d19e5

https://etherscan.io/address/0x465a5a630482f3abD6d3b84B39B29b07214d19e5

For the Comptroller, the Ondo DAO controls all admin actions, including initializing markets, setting collateral factors, setting

the close factor, setting the price oracle, setting borrow caps, and all pause actions below. A 3/n multisig (0x118919e891D0205A7492650AD32E727617FA9452

) controlled by the Flux team acts as the pauseGuardian

, which can pause transfers, liquidations, mints, and borrows.

For fUSDC, the Ondo DAO controls all admin actions, including setting the interest rate model, comptroller, reserve factor, and KYC registry. The KYC registry is controlled by the Ondo 3/n team multisig and gates which users can be permissioned security token holders and permissioned borrowers.

Currently, the InterestRateModel and Oracle contracts are controlled by the Flux team's 3/n multisig. The Oracle contract allows a 3/n multisig to set the underlying asset's hardcoded price or Chainlink price feed. The InterestRateModel contract sets the interest rate curve for the markets. Post an upcoming vote (week of April 24, 2023), both of these non-upgradeable contracts will be controlled by the Ondo DAO.

Market data (Market Cap, 24h Volume, Volatility, Exchanges, Maturity)

- Market capitalisation: $7,091,198

Decentralized exchange liquidity pools

Curve

- fUSDC/fDAI (50/50) - 0x5105a9E847965421a8C81cA33Ea682948694A6F4

Social channels data (Size of communities, activity on Github)

- Discord: 22,304 members
- Twitter: 3283 followers
- Github: 4 followers

Contracts date of deployments, number of transactions, number of holders for tokens

- Date of Deployment: 3rd February 2023 (after the vote ended)
- Number of transactions: 802
- Number of token holders: 400

Risk Management

fUSDC is collateralized by OUSG, which is invested into Blackrock's SHV ETF (with a small portion of USD and USDC for liquidity purposes). The underlying assets in the SHV ETF have a very low risk profile, and the ETF itself is highly liquid.

To mitigate risk, we suggest implementing the following risk parameters for fUSDC:

- Loan to Value (LTV): 75%
- Liquidation Threshold: 80%
- Liquidation Bonus: 5%
- Reserve Factor: 10%
- Interest Rate Strategy: Similar to USDC

Conclusion

Adding support for fUSDC on Ethereum v3 in isolated mode has the potential to attract new stablecoin deposits, increase stablecoin utilization rates on Aave, and provide additional opportunities for users to leverage their fUSDC positions.

Next Steps

1. Gather community feedback: Engage with the Aave community to collect feedback and address any concerns or suggestions.

2. Publish a temperature check snapshot vote: Conduct a preliminary snapshot vote to gauge community sentiment on the proposal.
3. Escalate to ARFC stage: If the temperature check is favorable, move the proposal to the Aave Request for Comments (ARFC) stage for further discussion and refinement.
4. Gather feedback from risk service providers: Consult with risk assessment teams like Gauntlet and Chaos Labs to evaluate the potential risks and benefits of adding fUSDC as collateral.
5. Escalate to ARFC snapshot vote: If the risk assessment is positive and community feedback is supportive, proceed to an official ARFC snapshot vote.
6. Escalate to AIP stage: If the ARFC snapshot vote passes, move the proposal to the Aave Improvement Proposal (AIP) stage for final approval and implementation.

Copyright