

AIP: TBD

Title: ARC - Add DPI as Collateral on the Aave Arc Market

Status: Proposal

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Summary

This proposal aims to begin the onboarding process for listing DeFi Pulse Index (DPI) as collateral on the Aave ARC market.

Abstract

DPI is the market leading DeFi themed indices product that presents investors with an opportunity to gain exposure to some of the largest DeFi names. The DPI token, an ERC20, is readily traded and has strong on-chain liquidity. DPI is currently supported by several large institutional investors making it readily accessible to large investors.

This proposal presents an opportunity for the Aave community to begin the onboarding process in working towards an Aave ARC listing. This will enable Aave to offer direct exposure to defi without needing to list several tokens and as we have seen from the Aave V2 Ethereum market listing there has been significant large investor demand for DPI.

Motivation

On the 21st August 2021, Aave was the first major lending protocol to integrate an index product into its platform. The value of the DPI deposited into the Aave V2 Ethereum market quickly grew to over \$60M. Furthermore, most of this \$60M was supplied by a handful of addresses, which shows there is market appetite amongst investors to deposit indices like DPI on protocols like Aave ARC.

DPI is the market benchmark for DeFi and is becoming the investor grade standard for DeFi. Adding DPI would dramatically increase support to help make DeFi more readily accessible to more traditional investors via the KYC approved Aave ARC platform. Having already found strong support within the retail segment of the market with over [15,600](#) holders. Index Coop believes listing DPI on Aave ARC as collateral with risk parameters in line with Aave V2 Ethereum market will be an ideal listing choice, offering exposure to many leading DeFi protocols through a single asset listing. Furthermore, being a basket of tokens, the volatility characteristics make DPI ideal for use as collateral.

Rational

DPI is a basket of 13 popular DeFi tokens available on Ethereum. The methodology behind DPI is from Scalara (formally Pulse, Inc), a subsidiary of DeFi Pulse. The criteria for token selection can be found [here](#). DPI is the most popular DeFi index product with ~\$100m AUM and over 15,600 holders.

DPI is built on top of Set Protocol and managed by Index Coop. Index Coop is a decentralized and autonomous asset manager governed, maintained, and upgraded by INDEX token holders.

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

DPI would make an excellent fit for collateral in the Aave ecosystem because it allows for a large pool of dormant capital (>\$100m in non incentivized DPI AUM) to find a productive use. Additionally:

- Significant Borrow Demand: There is significant desire from whales to lend out the DeFi Pulse index and to use the DPI as collateral to borrow stablecoins for farming, going leveraged long/short, and implementing structured products (e.g. carry trade).
- Low Volatility: Because indices are a basket of tokens, they represent less volatility than the component assets by themselves
- Efficient Sector Representation: Adding an index as collateral also gives exposure to all the component tokens while only having to add in a single token, thus saving gas in Aave's system
- Liquidity via Primary and Secondary Markets: Minting and redeeming represent the primary market of the indices, but many users can buy and sell indices on the secondary markets - mostly Uniswap. The price on the secondary markets

are kept at Net Asset Value (the market value of all the underlying components) through a network of market makers that redeem the tokens when price is below NAV and vice versa.

Additionally IndexCoop DAO is voting on a liquidity mining campaign to draw TVL to the Arc Market and give institutions a taste of the power of token incentives.

DPI for Institutions

IndexCoop, the DAO issuer of DPI, has relationships with Fireblocks (a whitelister for the Aave ARC Market) as well as BitGo and Coinbase Custody to provide institutional custodial options, as well as deep liquidity through partnerships with market maker, and ARC market participant Wintermute.

Listing DPI will allow institutions to gain access to direct DeFi exposure without Aave ARC needing to list many tokens.

Specification

DeFi Pulse Index (DPI) should be whitelisted for use on the Aave Arc Market. The address of the token on the Ethereum Main Network is 0x1494CA1F11D487c2bBe4543E90080AeBa4BA3C2b

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