

[ARFC] onboard dlcBTC to Aave v3 on Ethereum

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Simple Summary:

The current proposal aims to onboard dlcBTC to Aave v3 on the Ethereum pool.

Motivation/Background:

dlcBTC is a decentralized wrapped Bitcoin on Ethereum, enabling Bitcoin holders to participate in DeFi protocols while retaining full ownership of their assets. It leverages Discreet Log Contracts (DLCs) for secure cross-chain transactions, ensuring trustless and decentralized asset management. dlcBTC uses a federated set of merchants who lock BTC with themselves to mint dlcBTC, similar to USDC's model.

Unlike other bridges, dlcBTC merchants "self-wrap" Bitcoin, meaning funds are never sent to an external address, reducing the risk of theft or loss. dlcBTC has a Chainlink proof of reserve feed: [dlcBTC PoR | Chainlink](#).

Benefits of listing that token:

Listing dlcBTC will enable Bitcoin holders to use their assets as collateral within Aave, increasing liquidity and user engagement on the platform. It will attract a broader user base from the Bitcoin community and enhance the diversity of collateral options within Aave. Additionally, it supports DeFi platforms such as Nektar and Swaap, which can generate yield using dlcBTC.

Market Impact:

Including dlcBTC will positively impact Aave's liquidity and user adoption, as Bitcoin is the largest digital asset by market cap. dlcBTC's secure and decentralized nature will contribute to the platform's growth and stability, providing additional security for users and increasing the overall market size of Aave. wBTC has been a huge success, but its use of a single custodian is a known source of counterparty risk. By decentralizing the merchant set, dlcBTC makes it less likely for an adverse event to happen.

Chain to be deployed/listed:

Ethereum.

Proof of Liquidity (POL) and Deposit Commitments:

To incentivize the use of dlcBTC within the Aave ecosystem, we propose to include a points-based rewards program tied to a future \$DLC token. The program includes:

- Holding dlcBTC:

Earn 1X points for simply holding dlcBTC.

- Using dlcBTC as Collateral:

Receive 5X points for using dlcBTC as collateral across DeFi platforms.

- Special Aave Incentives:
 - Earn 6X points when dlcBTC is used as collateral within Aave.
 - Earn 8X points when dlcBTC is used to borrow GHO on Aave.
 - Earn 6X points when dlcBTC is used as collateral within Aave.
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This rewards program is already established for our Curve pool, demonstrating its effectiveness in boosting engagement and liquidity.

Additionally, onboarding large merchants, some with over 10,000 BTC, which will significantly boost the Total Value Locked

(TVL) in the ecosystem.

Risk Parameters:

Risk Parameters will be provided by Service Risk Providers and those will be updated in the current ARFC accordingly.

Useful Links:

Overview:

- [Building a better wrapped bitcoin for DeFi - Blockworks](#)
- [How DLCs Can Enable Defi Deposits and Fulfill Bitcoin's Promise – Op-Ed Bitcoin News](#)
- [OKX Ventures Announces Investment in DLC.Link, the First Native Bitcoin DeFi Protocol](#)

Technical Docs:

- [Lightpaper & Audit Reports | DLC.Link Docs](#) (dlcBTC Whitepaper)
- <https://adiabat.github.io/dlc.pdf> (Original DLC Whitepaper, 2018)
- <https://docs.dlc.link/> (Developer Docs)

Socials:

- Twitter: [x.com](#)
- Telegram community: [Telegram: Contact @dlclink](#)

Disclaimer:

This proposal is powered by Skywards. ACI is not directly affiliated with DLC.Link team and did not receive compensation for creation this proposal.

Next Steps:

1. Publication of a standard ARFC, collect community & service providers feedback before escalating proposal to ARFC snapshot stage.
2. If the ARFC snapshot outcome is YAE, publish an AIP vote for final confirmation and enforcement of the proposal.

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