Proposal: Add support for FXS (Frax Share)

Updated to fit the ARC template

Add FXS as an asset on Aave

I'm a Frax community member helping with integrations.

References

- Project: https://frax.finance
- Whitepaper: Introduction - Frax ¤ Finance
- Twitter: https://twitter.com/fraxfinance 1
- Codebase: frax.finance · GitHub
- Documentation: https://docs.frax.finance/
- App: https://app.frax.finance/
- Audit: https://certik-public-assets.s3.amazonaws.com/REP-Frax-06-11-20.pdf
- FXS token contract: $7.76 | Frax Share (FXS) Token Tracker | Etherscan
- Telegram: Telegram: Contact @fraxfinance
- Discord: https://discord.gg/eKXUxaKJXT

Summary

FXS is the governance token of the Frax stablecoin protocol. FXS currently has a $110 million market capitalization on approximately $20 million of daily volume. The FXS token currently governs over $300 million of value within the Frax protocol. FXS is not currently listed as an asset on any decentralized money market protocols. The Frax community has expressed demand to leverage against FXS and lend / borrow FRAX, making Aave the ideal market for both assets. Frax is already integrating with Aave and is currently the 4th largest aUSDC holder and growing, demonstrating a strong synergy between the communities.

v2 of the Frax protocol was recently announced and introduces a lending module that can be built directly onto Aave. This would enable the Frax protocol to supply large amounts of FRAX to Aave on demand. The first step towards this integration is the addition of FRAX and FXS as assets on Aave.

Overview

FRAX is a fractionally algorithmic stablecoin with a dynamic collateral ratio that adjusts based on the market demand for FRAX. Currently, each FRAX is collateralized by approximately $0.87 USDC and $0.13 of the Frax governance token, FXS. When the price of FRAX is at or above $1.00, the protocol gradually lowers the collateralization ratio of USDC to FXS. When the price of FRAX is below $1.00, the protocol gradually increases the ratio. FRAX can always be minted or redeemed by the protocol for $1.00 of assets, which counterbalances significant price deviations from the $1.00 target. Frax emphasizes a highly autonomous approach with no active management of the price stability function. FXS is integral to the functioning of the Frax system, both as a volatility sink and stabilizing token within the protocol. FXS holders participate in the governance of the protocol.

The Frax community recently approved the investment of system collateral, currently approximately $96m USDC, into yield bearing USDC. Accordingly, the protocol began supplying USDC to Aave to earn a return on this collateral. Frax already has over 15,000,000 aUSDC and will continue increasing deposits on Aave, demonstrating a strong synergy between the Frax and Aave communities. Frax is currently the #4 largest holder of aUSDC.

Continued growth of the Frax protocol and system collateral could lead to Frax becoming one of the larger suppliers of USDC to Aave.

Positioning within Aave Ecosystem

The Frax community is very active and looking for venues to lend and borrow FXS. Aave should enjoy increased revenue from the lending and borrowing of FXS, as well as additional USDC deposits as the Frax collateral pool grows. While Frax is often lumped together with "algorithmic stablecoin" protocols, a closer analysis shows that the Frax protocol is in fact stable and capital efficient.

Frax recently announced v2 of the Frax protocol. v2 introduces algorithmic market operations controllers (AMOs). AMOs are autonomous contracts that build on the base Frax protocol without disrupting it's operation. The team has proposed incorporating lending AMOs directly into decentralized lending markets. The lending AMO could be built directly on Aave to supply large amounts of FRAX from the protocol to Aave. This would effectively create a FRAX dispenser on Aave, somewhat analogous to the Fed discount window, where borrowers could borrow directly from the FRAX protocol via Aave. A direct integration with Aave will also make supplying FRAX more attractive to other market participants because there is a guarantee of FRAX liquidity directly from the protocol, avoiding the pitfalls of high utilization rates on money markets. This integration could drive significant TVL and fees to Aave.

A direct integration with Frax via a lending AMO contract will offer Aave users the ability to effectively mint and redeem stablecoins on demand via Aave. From a borrower's perspective, direct protocol integration should keep the supply relatively steady, which should keep borrowing costs low and predictable. This would make FRAX an ideal stablecoin to borrow. To realize this integration, FXS and FRAX need to first be added as collateral on Aave.

Project History

The project launched in December 2020. The project is currently using snapshot voting for governance. The project has deployed Compound Governor Alpha; it is fully functional but awaiting the minimal threshold of FXS to be emitted. There is a 48 hour timelock for governance.

Frax underwent a significant expansion and contraction withing the first 2 months of launch, providing a stress test for the protocol. In a three week period, the supply of FRAX increased over 5x, from approximately 25m to 134m. The supply of FRAX then contracted by approximately 33%. FRAX maintained a tight band around $1.00 throughout the cycle, and as expected FXS experience high levels of volatility during this time. The team has subsequently released updates to the protocol to smooth volatility during expansions and contractions, most importantly the updated PID controller for the protocol. V2 of the protocol also includes an interest rate module, intended to dampen FXS volatility during periods of contraction.

FXS Usage and Emission

Within the Frax protocol, FXS absorbs volatility to keep the price of FRAX at $1.00. When FRAX is minted, FXS is burned in proportion to the collateral ratio. For example, at the current collateral ratio of 87%, $0.13 of FXS is burned for every FRAX that is minted. When FRAX is burned and removed from circulation, and equivalent amount of FXS is minted. Since launch, a net of approximately 450k FXS have been burned.

The entire genesis supply of FXS will be emitted over the next 37 months. 60% of the supply is being distributed to the community via liquidity mining. During the first year, at least 50% of the supply will be emitted. The exact supply emission depends on the collateral ratio of the protocol. Further information can be found in the documentation linked above.

There are no admin controls on FXS.

Market, Social and Contract Data

FXS has a market capitalization of approximately $108m. The 24 hour trading volume is approximately $20m. FXS has approximately $50m of liquidity across Uniswap and Sushiswap trading pairs. FXS is also listed on Binance, which can account for up to 50% of total daily volume. The 24 hour trading volume is approximately $20m.

Frax's telegram is the main social channel with 5,600+ members. The contracts were deployed December 16 2020. There have been 74k transfers and currently 2,591 holders.

Security Considerations

Frax has undergone extensive code reviews and an audit by Certik (linked above). Frax is in the process of undergoing additional audits. The protocol currently has approximately $300m TVL.

I appreciate you taking the time to review. Please let me know if you have any questions or concerns.

Vote

- Add FXS
- Don't add FXS

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voters