

[TEMP CHECK] Activate and Deploy GHO Safety Module on Arbitrum

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Date: 2024-05-27

Summary

This proposal aims to establish a dedicated Safety Module for GHO, Aave's native stablecoin, on Arbitrum, to enhance the security and stability of the Aave Protocol.

The GHO Safety Module (GSM) will be similar to the existing Aave Safety Module (SM), providing an additional layer of protection against shortfall events and incentivizing stakeholders through rewards by using and staking GHO on Arbitrum.

Deploying the GHO Safety Module on Arbitrum aligns with Aave's strategic goals of fostering a secure and scalable environment for its stablecoin. This proposal leverages Arbitrum's technological advantages and financial incentives, setting a solid foundation for GHO's growth and stability.

Motivation

The [GHO Safety Module](#) was created with the aim of mitigating risks using GHO's stablecoin attributes for potential shortfall events, thereby fortifying the Aave Protocol's resilience by adding a stablecoin asset, which is inherently less volatile than AAVE. This strategic move diversified the Safety Module's capacity to absorb shocks from various risk vectors in case of shortfall events.

Creating a GHO SM on Arbitrum responds to several factors:

1. Scalability and low fees
2. Strong Ecosystem and Liquidity injection

Creating a GHO Safety Module on Arbitrum will ensure support and liquidity for GHO on Arbitrum.

To provide more context, Aave DAO recently received a Long Term Incentive Pilot Program Grant of 750K ARB from Arbitrum DAO, in order to expand GHO into the Arbitrum ecosystem.

The funds would be used as follows:

- 375K ARB distributed over a 12-week period amounts to around 1% additional yield to users. While this could be higher, it will be meaningful enough to make ETH and GHO borrows sufficiently attractive to boost TVL and borrow metrics.
- 375K ARB used for GHO liquidity mining rewards. To target a sufficient size of GHO liquidity on the network, reward rates will need to be similar to mainnet. The GHO Liquidity Committee has used a mix of incentives to keep GHO at peg. We expect that a similar yield will be needed to manage the GHO peg on Arbitrum.

Together, these two uses of the grant funds should increase TVL and borrowing demand on Arbitrum. Arbitrum will be one of the most attractive networks to borrow on Aave due to the borrowing incentives. It will be the most appealing L2 to borrow and use GHO when it goes cross-chain.

Another example is the recent approval by Aave DAO of the [GHO Cross-Chain Launch strategy for the GHO](#) stablecoin, the native asset of the Aave Protocol, beginning with the initial expansion to the Arbitrum network. This expansion will utilize the Chainlink Cross-Chain Interoperability Protocol (CCIP).

Specification

1. Deployment of GHO Safety Module on Arbitrum

: * Establish the GHO SM smart contracts on Arbitrum to manage and protect GHO assets.

- Integrate Chainlink oracles for accurate and reliable price feeds.
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- Incentive Program

: * Utilize ARB incentives to bootstrap GHO liquidity and adoption on Arbitrum.

- Implement liquidity mining programs and other yield strategies to attract and retain GHO holders.
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- Merit Incentive Program

: * Stakeholders who participate in staking GHO on Arbitrum will be eligible for Merit rewards. The Merit program is designed to incentivize both borrowing and staking GHO. The rewards will enhance user participation and the overall security of the GHO ecosystem on Arbitrum.

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Useful Links:

[[ARFC] Upgrade Safety Module with StkGHO

](<https://governance.aave.com/t/arfc-upgrade-safety-module-with-stkggho/15635>)

[Aave LTIPP Council Recommended Proposal](#)

[\[Aave\] LTIPP Application](#)

Disclaimer

ACI is not presenting this TEMP CHECK on behalf of any third party and is not being compensated for creating this TEMP CHECK.

Next Steps

1. If consensus is reached on this [TEMP CHECK], escalate this proposal to the Snapshot stage.
2. If the Snapshot outcome is YAE, this proposal will be escalated to ARFC stage.
3. Publication of an ARFC to collect community & service providers feedback before escalating proposal to ARFC snapshot stage.
4. If the ARFC snapshot outcome is YAE, publish an AIP vote for final confirmation and enforcement of the proposal.

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