

Project Name:

Frax Finance ([Frax Finance App](#))

Author Name:

Metalface (Frax community member)

Number of OP tokens requested:

1,000,000

L2 Recipient Address:

0x0dF840dCbf1229262A4125C1fc559bd338eC9491 (Frax Optimism MSig)

Relevant Usage Metrics:

Frax has ~\$1.6b TVL and is currently scaling up on Optimism with \$6.2m Optimism TVL currently deployed. The FRAX/USDC Uniswap pool is currently the largest on OP Uniswap by TVL and did approximately \$200k of daily volume the past week. In the coming weeks, Frax will scale up to \$25m of protocol controlled value on Optimism as described below.

Optimism alignment

We believe that Optimism will play a critical role in the long term success of Ethereum. Frax is committed to helping Optimism realize this vision. In the near term, Frax can assist by increasing liquidity and utility on Optimism. Frax has already deployed \$6.2m of stablecoin liquidity into the Optimism Frax-USDC Uniswap pool. Frax is in the process of deploying the Curve Frax-Basepool, which will allow for the creation and incentivization of metapools. The current TVL of Curve on Optimism is \$11m. Frax will likely double the TVL once the basepool is live.

Frax is also launching Fraxswap and Fraxlend on Optimism. Fraxswap is a native DEX that allows users to directly tap into protocol owned liquidity and offers TWAMM orders. TWAMM orders allow for order execution over time, which would be very helpful for users wanting to average in or out of a Stable/OP pair. Fraxlend will offer lending markets on volatile assets, including OP. For a gauge based incentive approach, Optimism gauges will be proposed via Frax Governance so that FXS rewards will incentivize Optimism liquidity. Finally, Frax is supplying \$15m of stablecoin liquidity to the Hop protocol, which will increase liquidity for Optimism users, including fast exits from Optimism to mainnet (not only for FRAX but other stables supported by Hop).

## Proposal for token distribution

How will the OP tokens be distributed?

Frax will bring significant stablecoin liquidity to Optimism but needs help building volatile asset liquidity (it is more difficult for Frax as a protocol to be exposed to volatile asset price fluctuations). OP will primarily be distributed via Frax's gauge system, including incentivizing lending markets on Fraxlend, etc.

How will this distribution incentivize usage and liquidity on Optimism?

All OP received will be directly used to incentivize liquidity and usage of Optimism. Similar to Balancer, Frax has found that gauge incentives are currently the most cost-effective means of incentivizing liquidity. If the effectiveness of gauge incentives decreases over time, Frax may use traditional liquidity mining if that presents the highest liquidity ROI for the OP received.

Why will the incentivized users and liquidity remain after incentives dry up?

Frax protocol owned liquidity is long term liquidity that will remain on Optimism well after the incentives finish. Total Frax PCV is currently \$1.35B with only \$6.2m currently deployed on Optimism (~0.4%). Frax PCV on Optimism will increase to \$25m in the coming weeks and will likely continue to grow with Optimism. All of this liquidity will be available for use on Optimism. By catalyzing adoption on Optimism, Frax will be incentivized to increase long term PCV on Optimism. OP incentives will kick start volatile asset pairs and lending. Frax incentivizes users to lock liquidity for up to a year and will have the same incentive structure for liquidity on Optimism. Gauges (veFXS and veCRV) on Optimism will likely outlast any OP incentives and create a long term liquidity flywheel on Optimism.

Over what period of time will the tokens be distributed?

Frax will seek to sustainably incentivize growth on Optimism. The exact period of distribution will depend on the sequence of product launches, the price of OP and the specific liquidity needs of each pool (it is preferable to target a sufficient but not excessive amount of liquidity over time versus maxing out short term liquidity that exceeds any practical use).

How much will your project match in co-incentives?

Frax will deploy \$25m of stable protocol controlled liquidity on to Optimism and keep all revenue generated from this liquidity on Optimism. This is equivalent to a significant incentive (if you assume that stables might require a 10% APR on Optimism, this is roughly equivalent to a \$2.5m incentive in the first year), with the advantage of being nearly permanent and likely to grow over time as Optimism scales. We will also advance veFXS gauges for Optimism pools, which will direct FXS incentives towards liquidity and lending on Optimism.

Frax Docs: <https://docs.frax.finance/>