Uniswap governance should start incentivizing liquidity on its Arbitrum and Optimism deployments to kickstart adoption of Ethereum Layer-2.

If you are not familiar with this proposal and its motivation please read the original temperature check proposal here or scroll to the bottom where I re-posted it.

For the consensus check I want to address some of the most urgent questions that came up in the governance forum and on Twitter.

This proposal strives to achieve two goals:

I. Kickstart L2 adoption by incentivizing users to bridge and shift their activity to L2's

II. Offering deep liquidity for key pairs on L2

1. How to execute liquidity mining on Uniswap V3 in a fair manner

Uniswap V3 is incredibly powerful but most liquidity mining programs that run on top of it don't score well on achieving a key goal of liquidity mining: distributing token ownership in a fair manner to a wide user base.

Consider the Ribbon liquidity mining program pictured below: a single whale provides millions of dollars of liquidity around the spot price on one tick and rakes in all the liquidity mining rewards

. This whale has enough funds to pay the gas costs for re-balancing the position every minute and so he stays always closest to the spot price. The closer LP's range is to the spot price, the more rewards they get.

Even Ribbon founder Julian Koh stated publicly that the liquidity mining experiment was a failure in this regard and the only reason they hadn't stopped it was that the proposal was irreversible.

[

1600×653 66.5 KB

](https://global.discourse-cdn.com/business6/uploads/uniswap1/original/2X/d/d9811a4c81bf19cf90a268115d349b362d62315c.jpeg)

The goal of this proposal is to make participation in the liquidity mining program as easy as possible, without users having to constantly re-balance their positions and to distribute $UNI token ownership to as many users as possible. In other words, to give users who weren't able to participate in earlier liquidity mining schemes on Ethereum mainnet a chance to do it on L2. We should not only optimize for liquidity but also fairness.

To achieve this I suggest modifying the Uni staker contracts to allow for fixed liquidity ranges. Instead of favouring whales who re-balance every minute around the tick, everyone within the prescribed range earns their pro-rata share of $UNI rewards.

For $ETH for example, the range could be $1000/$ETH to $10,000/ETH. We would still get much better liquidity than in Uniswap V2, users wouldn't need to actively manage their liquidity and professional LP's would still have the option to actively re-balance their positions to earn more swap fees vs. the "passive" LP's. We would get the best of both worlds!

I considered suggesting third-party liquidity provision tools like Visor or Gelato but the overwhelming feedback I got was that:

- Uniswap wouldn't want to incentivize liquidity on a third-party tool/protocol
- Third-parties introduce risks/vulnerabilities
- Which pairs to incentivize liquidity for and what ranges to choose

To avoid any controversy and tribalism I suggest we keep the proposal as simple and exclude governance tokens of popular DeFi tokens on L2 (e.g SNX on optimism, GMX on arbitrum etc.). Instead, we can stick with the same pairs as the initial liquidity mining program:

ETH/USDT (0.30%) <> $1000/ETH - $10,000/$ETH

ETH/USDC (0.30%) <> $1000/ETH - $10,000/$ETH

ETH/DAI (0.30%) <> $1000/ETH - $10,000/$ETH

WBTC/ETH (0.30%) <> 0.045/ETH - 0.15/ETH

Optional

USDC- DAI (0.01% fee tier) <> 0.9999 <> 1.0001 (very successful on L1)

Swap out ETH/USDT for LUSD or sUSD to strengthen decentralized stablecoins

1. How much $UNI to allocate and for how long should the rewards run

I suggest a liquidity mining period of 3 months - long enough to make it worthwhile for users to bridge to L2's and short enough to adjust in case of major changes in the crypto landscape changes (e.g incorporate zk-Rollups in next LM program).

To calculate rewards and APR we should target a specific level of liquidity in the pools. One suggestion would be to target similar liquidity for each pair than on Ethereum mainnet. Liquidity parity between L2 and L1!

Formula: TargetPoolSize * TargetAPR * RewardYears / UniPrice

For example, for USDC the target pool size would be($250m * 0.10 * 0.25)/ $20 = 321,500 $UNI

ETH/USDC = 321,500 $UNI

ETH/DAI = = 43,750

ETH/USDT = 68,750

ETH/WBTC = 150,000 $UNI

DAI/USDC = 200,000 $UNI

*2 to have this liquidity on both networks

SUM = 1,567,000 $UNI

1. How to execute the proposal

Since the Uniswap governance is on Ethereum mainnet and not on Layer-2 we need to figure out how to execute the proposal.

After consulting with [@t11s] I suggest two options:

1. Setup a one time spell that transfers UNI to a contract with only one purpose on L2 (i.e send funds to the liquidity mining distributor)
2. set-up a multisig of prominent delegates on each L2 that receives the UNI and seeds the liquidity mining distributor

[

1600×727 151 KB

](https://global.discourse-cdn.com/business6/uploads/uniswap1/original/2X/4/486e8cdb23d36ed1b3d482f25ae8352e0f5ad709.png)

I hope this proposal satisfies the Uniswap community. I am looking forward to receiving your feedback and kickstart Layer-2 adoption!

Link to temperature check governance forum post:[Temperature Check - Should Uniswap incentivize Liquidity on Optimism and Arbitrum?]

Link to snapshot poll: [https://snapshot.org/#/uniswap/proposal/0xc1aec11c9ac5698920072a5de807284a56becbadfb7bef68b2618ad00e61547c]

Uniswap governance should start incentivizing liquidity on its Arbitrum and Optimism deployments to kickstart adoption of Ethereum Layer-2 and prove that its decision to bet on Optimistic Rollups was the right one.

[

1200×810 144 KB

](https://global.discourse-cdn.com/business6/uploads/uniswap1/original/2X/0/072bb2be1b38c398c666007d0c7f762fdf47f568.jpeg)

It's unfortunately a fact that the Ethereum mainnet has become unusable for normal users. As a result, many of the crypto newcomers trying DeFi for the first time are not being on-boarded on Ethereum anymore but on EVM chains like Fantom, Avalanche or other L1's altogether such as Solana.

The adoption of Layer-2 networks thus far has been promising but too slow considering the competitive landscape.

Three main blockers exist:

1. Missing Incentives

Networks like Avalanche, Celo and Near are spending hundreds of millions of dollars to attract developers and users. Without a token, rollups can't revert to the same strategy. On the other hand, a lot of the Ethereum native DeFi protocols sit on billion dollar treasuries that are waiting to be deployed for productive purposes.

1. Missing fiat on-ramps

Without direct on-ramps onto Layer-2 networks users face high barriers before they can enjoy the benefits of these networks. These users have no other choice but to withdraw from a CEX to Ethereum to then bridge up from Ethereum to the promised land of Layer-2. On a day where fees on Ethereum mainnet are high, a user starting with $200 easily loses half of their portfolio.

1. Slow application migration to Layer-2's

Perhaps the most surprising is how slow some protocols are to deploy on Layer-2's. This can partly be attributed to composability effects, where applications relying on other protocols to exist need to wait on their partner protocol to deploy first (e.g Ribbon → Opyn, DeFi Saver → Aave etc.). But to a large extent applications seem to take their time because the growth statistics (volumes, tvl, unique users etc.) are simply not compelling enough.

This is a typical chicken-egg problem where every party involved stands still until the other moves. Users are waiting for subsidies and more applications to use, centralized exchanges and application developers on the other hand are waiting to see user adoption first to justify the integration efforts.

[

800×450 345 KB

](https://global.discourse-cdn.com/business6/uploads/uniswap1/original/2X/c/c08adff333ad77bde7ae083f8a457d23a61af66f.png)

Uniswap is in a unique position to kickstart growth by launching a liquidity mining campaign on Layer-2. For one, it sits on a $11 billion dollar treasury (!!) that is currently being underutilized. Secondly, as one of the most essential money legos in the DeFi ecosystem the move would have a strong signalling power and trigger more applications to follow suit and invest resources into deploying on Layer-2. Third, the resulting liquidity and yields would set into motion a large-scale migration of users which in return has spillover effects on other factors (CEX on-ramps, devs deploying etc.) .

Per Uniswap governance guidelines this forum post is merely a temperature check. Details such as the amount of rewards or the length of the liquidity mining program are better left for the Consensus check. In order to move to the next stage, this proposal needs a majority yes with a min. threshold of 25k $UNI on Snapshot.