

Project Name:

Tarot

Author Name:

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Number of OP tokens requested:

600,000

L2 Recipient Address:

0x63D5554b748598C191aB0cBd0E0e1C638FFEBEe6

I understand that I will be required to provide additional KYC information to the Optimism Foundation to receive this grant:

Yes

Relevant Usage Metrics:

Currently on Optimism: ~\$3M TVL, achieved with no token incentives

Total TVL on all chains: ~\$20M TVL with ~\$7.5M in borrowing activity

Transactions on Optimism: 28,700+ account transactions (e.g. borrow, repay, leverage, deleverage, etc.) via router contracts since launch, as well as ~7,200 vault transactions per week.

Grant Category:

Phase 1 (Governance Fund)

Is this proposal applicable to a specific committee?:

This proposal may fall under the remit of various DeFi committees.

Optimism alignment and ecosystem value proposition:

Tarot is a decentralized lending protocol where users can participate as lenders or borrowers in isolated lending pools. Lenders can supply tokens to earn single-sided passive yield without impermanent loss, while borrowers can leverage their LP tokens as collateral to borrow tokens supplied by lenders.

Since launching in May 2022, Tarot has become one of the top protocols to single stake OP and earn yield on Optimism

. Tarot has several OP-based lending pools, with Supply APRs of up to ~34% for single-sided OP lending with no impermanent loss, and leveraged LP APRs (5x) for OP-based pairs exceeding 200-250%. These pools offer long-term OP holders a source of sustainable yields without selling, ultimately driven by the trading fees and DEX rewards earned by LPs. Supply APRs for ETH and stablecoin lending on Tarot regularly exceed 5-10%.

Tarot is proud to be part of the OP ecosystem. Beyond the many technical merits of the OP ecosystem for an advanced DeFi protocol like Tarot, we believe the core tenets of Tarot DAO are fully aligned with the Optimistic Vision.

Open sourced?:

Yes, Tarot is open sourced.

Optimism native?:

No. Tarot launched on Fantom in June 2021 and on Optimism in May 2022.

Date of deployment on Optimism:

Tarot has been live on Optimism since May 6, 2022.

Has your project previously applied for an OP grant?:

No. Tarot has not previously applied for any OP grants.

Did the project apply for or receive OP tokens through the Foundation Partner Fund?:

No.

How much will your project match in co-incentives?:

3,000,000 TAROT has been allocated over a 12-month period towards matching co-incentives, following the adoption of TIP-018: Tarot Co-Incentivization on Optimism

. This allocation is flexible, and can be used to incentivize any

pair, not just those that are TAROT-based. Furthermore, this allocation is broad in scope, and is not limited to DEX liquidity incentives. One such use of this allocation is via Tarot's own single-token TAROT farming rewards mechanism, which tracks and rewards borrowing activity in the protocol.

OP token incentives for liquidity bribes and other liquidity incentivization mechanisms will be matched with TAROT and/or other token incentives. Additionally, the TAROT-based pools may be co-incentivized by Velodrome and Beethoven X.

Proposal for token distribution:

OP token incentives will primarily be used to drive liquidity to TAROT-based pairs on Optimism.

This includes, for example, the USDC/TAROT pool on Velodrome (co-incentivized by Velodrome) and a TAROT/ETH pool on Beethoven X (currently in discussion to co-incentivize with Beethoven X).

How will the OP tokens be distributed?

Liquidity providers (90%): 540,000 OP is allocated to liquidity bribes and incentivization mechanisms on Velodrome, Beethoven X, and/or other major DEXs on Optimism to incentivize TAROT-based liquidity (e.g., USDC/TAROT, TAROT/ETH, OP/TAROT).

Core team + initial OP-TAROT liquidity (10%): 60,000 OP is allocated to the Tarot core team in support of Tarot's growth and operations on Optimism. The OP will be paired with team-held TAROT and provided as initial liquidity on Optimism for a period of at least 12 months.

Over what period of time will the tokens be distributed for each initiative?:

This is flexible, but OP token incentives for liquidity providers are expected to be distributed over 12-16 months. Initial OP-TAROT liquidity will be held for a period of at least 12 months.

Please list the milestones/KPIs you expect to achieve for each initiative, considering how each relates to incentivizing sustainable usage and liquidity on Optimism. Please keep in mind that progress towards these milestones/KPIs should be trackable.

Our early liquidity incentivization program with Velodrome has already yielded strong results with unprecedented capital efficiency. Since launching incentives in August, over 7,000,000 TAROT has been bridged to Optimism and over \$560,000 in TAROT-USDC liquidity has been provided on Velodrome. This includes a significant amount of protocol-owned liquidity (POL) bridged over to Optimism following the adoption of TIP-019: Velodrome Liquidity

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Milestones will be structured around sustainable liquidity

for TAROT-based pairs, including OP-TAROT liquidity, as well as increased borrowing activity

in Tarot's lending pools:

If we assume \$15,000 in cumulative weekly incentives across all incentivized pools (which includes OP incentives, plus matching co-incentives in the form of TAROT, USDC, and/or other tokens), over a 12-month period, this yields ~\$780,000 in total rewards. If we propose a long-term target of 20% to 40% APR for volatile pairs, we would expect ~\$2M to ~\$3.9M of liquidity depth.

Liquidity for all TAROT-based pairs is eminently trackable, and all lending and borrowing activity in Tarot can be tracked and monitored (e.g., via DeFi Llama, Dune Analytics, and within the Tarot UI).

How will this distribution incentivize usage and liquidity on Optimism?:

By significantly increasing the available liquidity for TAROT on Optimism, Tarot will have the flexibility to offer a number of direct or targeted incentivization models on Optimism for lending pools. In practice, the increase of borrowing activity in Tarot's lending pools creates a flywheel effect

and, in response to higher pool APRs, lenders are incentivized to supply additional tokens, thus increasing TVL and liquidity across the ecosystem.

Liquidity incentivization for the TAROT-based pairs will encourage Tarot stakeholders to provide deep liquidity in the OP ecosystem. This distribution helps Tarot to continue to offer competitive yields, generated by supply and demand for loans in isolated lending pools, to users on Optimism, and will facilitate the creation and expansion of additional lending pools (e.g. USDC/TAROT) with attractive leveraged APRs.

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

On Fantom, Tarot lending pools have continued to see strong demand and competitive yields, in the form of single-sided lending, auto-compounding LP, and borrowing and leveraged yield farming, even following the sunset of the Tarot Farming Rewards program. Tarot will continue to attract users and liquidity to the OP ecosystem from other chains, and further development of future products and yield opportunities on Optimism will continue, even after the conclusion of OP token incentives.

Project Links:

- Website: [tarot.to](https://tarot.to)
- Twitter: [@TarotFinance](https://twitter.com/TarotFinance)
- Discord: [Tarot](https://discord.com/invite/tarot)