

Purpose

This ARC requests the AAVE community to unfreeze the Ampleforth lending/borrowing pool on the AAVE platform.

Ampleforth is a protocol that powers a new type of cryptocurrency: AMPL. AMPL utilizes a unique rebasing mechanism to adjust its supply. The supply of AMPL is increased or decreased periodically (daily) based on the price of AMPL relative to a target price. If the price of AMPL is below the target price, the supply of AMPL is decreased, which is referred to as a “negative rebase.” If the price of AMPL is above the target price, the supply of AMPL is increased, which is referred to as a “positive rebase.” The rebasing mechanism aims to maintain a target price of AMPL (CPI-adjusted 2019 US dollar) over time by adjusting its supply in response to changes in demand without a hard peg.

Rationale

- Due to rebasing mechanics, Ampleforth is not used as collateral on the AAVE platform and cannot expose the platform to the recent attack risk (or other unknown ones). In other words, the AAVE team does not need to implement any additional safeguards or monitor the Ampleforth borrowing pool for liquidity risk, which would be required if Ampleforth is as collateral.
- The AAVE platform has previously generated significant fees through Ampleforth lending and borrowing, with Ampleforth accounting for approximately 30% of AAVE’s revenue for a couple of weeks during positive rebase cycles with only a fraction of the liquidity of the other top revenue generators. These positive rebase cycles are triggered when the demand for Ampleforth increases, leading to price appreciation and a corresponding increase in the supply of Ampleforth. During these periods, the Ampleforth pool has typically been close to 100% utilized, and lending rates have been close to 87,000% APY. The generated fees can, in the future, be used to make the platform whole and safeguard against other attacks or hacks.

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](<https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/4/4a2f2255ec7c8d65d6a9f7142abf4c2e6ac14bfe.jpeg>)

- The recently launched SPOT, a decentralized inflation-resistant token, may drive further demand for Ampleforth, as minting SPOT requires buying AMPL (overview: [SPOT Protocol Overview on Vimeo](#)). This increased demand for Ampleforth could lead to additional positive rebase cycles, further driving utilization of the Ampleforth pool on AAVE.
- In addition to generating fees, the Ampleforth lending/borrowing pool on AAVE will likely increase user activity on the platform due to the unique nature of the Ampleforth protocol and the potential for high returns during positive rebase cycles.
- AAVE V3 protocol enables parameters to limit risk. AMPL already has risk parameters baked into the protocol with the sigmoid function, so even if AMPL token price is manipulated to \$10000, the max rebase will only be ~10%. This makes the token price manipulation resistant by design. It also should be noted that currently, Ampleforth rebase mechanics, internally, rely on three distinct oracles: one from the Ampleforth team, one from Chainlink and one from Tellor (<https://www.ampleforth.org/dashboard/oracles>).
- Ampleforth can only function on V2 pools, so AAVE’s potential disincentive to keep certain assets frozen on the platform to encourage migration to V3 pools does not apply in this case.

Request

Ampleforth community would like to request a vote to unfreeze the Ampleforth lending/borrowing pool on the AAVE platform. The unfreezing of the Ampleforth pool can generate significant fees for AAVE, increase user activity on the platform, and provide a unique opportunity for users to lend and borrow a novel type of asset (one that undergoes periodic supply adjustments through the rebasing mechanism) without additional risks to the AAVE platform itself.