

Hello Aave community

We from Index Coop would like to ask for your support in listing DPI as a collateral asset.

References

- [Defi Pulse Index](#)
- <https://www.pulse.inc/>
- <https://docs.indexcoop.com/>
- [GitHub - SetProtocol/set-protocol-v2: Set Protocol V2](#)
- [Set: DeFiPulse Index | Address 0x1494ca1f11d487c2bbe4543e90080aeba4ba3c2b | Etherscan](#)
- <https://data.chain.link/dpi-usd>
- [Set Protocol Audit - OpenZeppelin blog](#)
- <https://gov.indexcoop.com/>

[Proposal: Add support for Set Protocol Market including DPI](#) [New Market

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Proposal: Add Support for Set Protocol Markets This is a proposal to add support for a new Set Protocol market that will enable the use of SetTokens as collateral and currency, expanding the surface area of markets that Aave is able to support - a key feature available with Aave 2.0. We imagine the first asset supported by the Set market to be the DeFi Pulse Index (DPI) and others to be subsequently added. Set Protocol and Index Coop Summary Set is an Ethereum-based protocol that enables the wo...

What is the link between the author of the AIP and the Asset?

I go by Lemonade Alpha and I am a core contributor for Index Coop.

Provide a brief high-level overview of the project and the token

DeFi Pulse Index is a basket of 13 popular DeFi tokens available on Ethereum. The methodologist behind DPI is Pulse, Inc, creators of DeFi Pulse. The criteria for token selection can be found [here](#). DPI is the most popular DeFi index product with ~\$130m AUM.

DPI is built on top of Set Protocol and managed by Index Coop. Index Coop is a decentralized and autonomous asset manager governed, maintained, and upgraded by INDEX token holders.

Explain positioning of token in the AAVE ecosystem. Why would it be a good borrow or collateral asset?

DPI would make an excellent fit for collateral in the Aave ecosystem because it allows for a large pool of dormant capital (>\$100m in unincentivized DPI AUM) to find a productive use. Additionally:

- **Significant Borrow Demand:** There is significant desire from whales to lend out the DeFi Pulse index and to use the DPI as collateral to borrow stablecoins for farming, going leveraged long/short, and implementing structured products (e.g. carry trade).
- **Low Volatility:** Because indices are a basket of tokens, they represent less volatility than the component assets by themselves
- **Efficient Sector Representation:** Adding an index as collateral also gives exposure to all the component tokens while only having to add in a single token, thus saving gas in Aave's system
- **Liquidity via Primary and Secondary Markets:** Minting and redeeming represent the primary market of the indices, but many users can buy and sell indices on the secondary markets - mostly Uniswap. The price on the secondary markets are kept at Net Asset Value (the market value of all the underlying components) through a network of market makers that redeem the tokens when price is below NAV and vice versa.

How is the asset currently used?

Currently, DPI is available for collateral in CREAM and can be used to provide liquidity on Uniswap (eligible for INDEX rewards).

Emission schedule

DPI is minted and redeemed by arbitrageurs who are reacting to fluctuations in demand. DPI may also be minted for the

purpose of investment and likewise redeemed for the purpose of divestment via an exchange-issue process.

Market data (Market Cap, 24h Volume, Volatility, Exchanges, Maturity)

Mkt Cap: \$125,692,235

24 hr Volume: \$12,944,962

[CoinGecko](#)

[DeFi Pulse Index Price: DPI Live Price Chart & News | CoinGecko](#)

Track the latest DeFi Pulse Index price, market cap, trading volume, news and more with CoinGecko's live DPI price chart and popular cryptocurrency price tracker.

Social channels data (Size of communities, activity on Github)

[Twitter](#): 13.7k

[Discord](#)

Contracts date of deployments, number of transactions, number of holders for tokens

- 9, Sept 2020
- 96,997 Transfers
- 11,473

[Ethereum \(ETH\) Blockchain Explorer](#)

[DefiPulse Index \(DPI\) Token Tracker | Etherscan](#)

DefiPulse Index (DPI) Token Tracker on Etherscan shows the price of the Token \$92.7514, total supply 217,674.225205846094014293, number of holders 15,655 and updated information of the token. The token tracker page also shows the analytics and...

Security Considerations

Smart Contract Risk

Set's V2 contracts have had upwards of \$200M locked and have been live for 6 months.

V2 Smart Contract Audits:

- [OpenZeppelin](#) [September 2020]

Counterparty Risk

DPI is the first index product released by Set Protocol and has been functioning securely since its launch in September. Anyone can permissionlessly issue the DPI token by depositing the underlying component tokens and can redeem the DPI token for the underlying components.

Only the Index Cooperative is able to make decisions regarding the index composition and the rebalancing process. Governance over the Index Cooperative is decentralized with the community making critical system decisions.

In the current version of V2, rebalances do not have any lockup times so that does not pose a risk.

Market Risk

DPI is backed by the component ERC20 assets leading to exposure to the market risks of the underlying tokens. Because DPI is a basket of tokens, the volatility of the DPI is significantly less than each individual token as seen in this graph below:

[

image

2258×422 177 KB

](https://europe1.discourse-

Set Market Risk Parameter Considerations

DPI price will be derived from the prices of the underlying components. Rebalancing happens once a month where weights and the underlying assets can change and as a result, oracles must be available for the assets that are added.

The liquidation process can happen in two ways. Liquidators need to liquidate on Aave and then either sell DPI on the Uniswap market or redeem the underlying assets and then sell them.

The Concourse team has an open source version of an [arbitrage bot](#) that mints and redeems automatically. It is possible to build a liquidation bot that does the mint/redeem and liquidate function on Aave in 1 transaction.

Proposed Interest Rate Model

We derived the variables of the interest rate model based on the rates DPI's component assets have on the main Aave market. Slight adjustments were made to reflect the lower volatility of DPI due to it being a basket product and the Set market being a segregated market.

Utilization Optimal

Base

Slope 1

Slope 2

50%

0%

7%

200%

Proposed DPI Risk Parameters

DPI risk parameter values were also derived from referencing the values for DPI's component assets. Adjustments were made for lower volatility of the DPI, multiple liquidation models (Uniswap and redeeming), and segregated markets were taken into consideration.

LTV

Security Margin

Liquidation Threshold

Liquidation Bonus

50%

5%

60%

10%