Wombat Bribe Market 2.0

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Abstract. The paper describes the purpose and motivation behind re-developing the bribe market to be more effective for all parties involved. The current bribe market designs sacrifice sustainability with the allure of attracting liquidity; Wombat's Bribe Market 2.0 solves this and enables actual capital efficiency while rewarding users in a gamified manner.

1 Traditional Bribe Markets

Thanks to Andre Cronje, traditional Bribe markets were brought into the market to direct rewards for liquidity pools in exchange for an incentive provided by third parties looking to increase their attractiveness for the public to provide liquidity into their pools. As liquidity and slippage for stablecoins are the pinnacle in relating how strong or trustworthy it is, having the deepest liquidity or listing it on a reputable platform becomes imperative in the success of stablecoins, arguably the most important cryptocurrency.

1.1 Function of Bribes

Vote-escrowed protocols like Wombat emit governance tokens for liquidity incentives to attract depositors. In Wombat's case, vote-escrowed (veWOM) holders can direct these emissions to the liquidity pool of their choice or, most typically, the liquidity pair they invested in or their protocol. However, this becomes a problem for new protocols that want to bootstrap their liquidity because it becomes expensive for them to collect veWOM as time progresses compared to earlier entrants. These entrant barriers are especially true for leading DeFi protocols, where the cost to list a stablecoin and create a liquidity pool is high. However, thanks to aggregators, this makes the process more palpable but still out of the range for many up-and-coming protocols looking to expand their DeFi reach.

1.2 Bribes Can Be Better

The primary function of bribes is simple: they attract liquidity, so users who swap their tokens are affected by slippage the least. No slippage implies the ability to swap one US-dollar stablecoin for another can be near 1-1. Bribes

have been doing this well, incentivizing users to provide liquidity to build trust. Of course, listing on a significant protocol has merits, such as brand power and efficient algorithms, but contest that more is needed or is no longer as important as it once was.

1.3   Improvements of Bribes

Most AMMs rely on the invariant curve, and even CLAMMs benefit significantly from the range for where the current equilibrium or bin is. For traditional V2-style AMMs, the sweet spot is in the center range of the curve. For CLAMMs, they are more concentrated. However, when it is out of range, it is essential for them also to balance back eventually. The need to be in equilibrium is an unspoken reality and defining structure of AMM; eventually, protocols need users, bots, or arbitrageurs to balance the pool to be optimal. This lack of incentivized balancing is the glaring flaw of the current bribe markets.

2   Wombat Bribe Market 2.0

2.1   Gamified Approach

Wombat takes the traditional bribe market and adds a layer of incentivization for the user because providing liquidity is no longer the core of the bribe markets. In the chase for capital efficiency and optimal state, Bribe Market 2.0 is here to ensure capital efficiency by incentivizing users to swap and rebalance the pools to reach their most optimal state.

2.2   Decay Function Dictating the Points System (Wom-Pets Points)

$$y = wx^{0.75}p \tag{1}$$

Where:

- w is the WomPets factor

- x is the USD value amount

- p is the point factor used to scale the points received

Note that these factors can change depending on the governance vote.

Protocol users can obtain two types of points:

1. Action: These actions reward the user with instant points.

2. Accumulation: These actions reward the user with an accumulation of points, meaning the longer the user holds these actions, the more points get generated. They will be calculated on a daily basis, given linearly by the second.

Action rewards are notable for two types of Swaps:

1. Swaps that do not improve the coverage ratio (for more information on coverage ratio, feel free to read our previous whitepapers)

2. Swaps that improve the coverage ratio, which is for balancing our pools, are rewarded with more points

Five types of requirements give accumulation Rewards, which are given based on the amount and time:

1. veWOM

2. Liquidity provision

3. WOM derivatives holding

4. WOM ecosystem liquidity provision

5. WomPets NFT

2.3   Use of WPP

GameFi is undoubtedly the crypto sector that the public can easily understand and adopt. For this reason, the points will go towards the games that users can play to win the protocol-generated revenue of Wombat Exchange.

3   Creation of a Proper Flywheel

At the time of writing, approximately 90 percent of Wombat Exchange's volume (Over 3 billion US cumulative volume) are from automated aggregators who choose Wombat Exchange's swap route due to the algorithms' capital efficiency and the unique protocol design of single-sided liquidity provisioning. However, even with this immense flow, there are still biases, and like any AMM, the pools are not always in perfect equilibrium. With Bribe Markets 2.0, incentivizing users to balance the pools on top of an already capital and gas-efficient algorithm will help Wombat's swap routes get chosen more often and efficiently, leading to more swap fees for the liquidity providers and a healthier Wombat ecosystem overall.