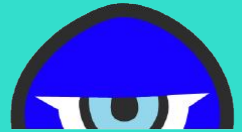


# Current and Future Directions in Liquidity Mining for Lending and Exchange AMMs



**Kyle  
Kistner**

Co-founder at bZx



**Liquidity2020**

# What is **liquidity mining?**

The distribution of protocol equity to liquidity providers as a mechanism to attract more liquidity providers.

First pioneered by Synthetix

Popularized by Compound

Quickly followed by many others

# Notable Liquidity Mining Programs

## Lending

### Compound

*Long & Unvested, Lending*

### bZx

*Medium & Vested,  
Lending*

### CREAM

*Medium & Vested,  
Lending*

## AMMs

### Balancer

*Long & Unvested, AMM*

### Uniswap

*Long & Retrospective, AMM*

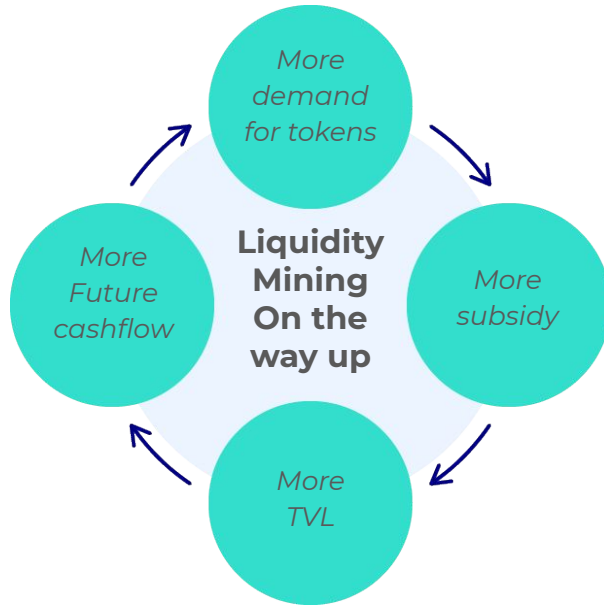
### CreamSwap + creamY

*Short & Unvested Lending, AMMs*

### Curve

*Long & Retrospective + Vested, AMM*

# Pumpamentals 101



Credit: @Hasufl

# The Network Effects Of TVL

## AMMs

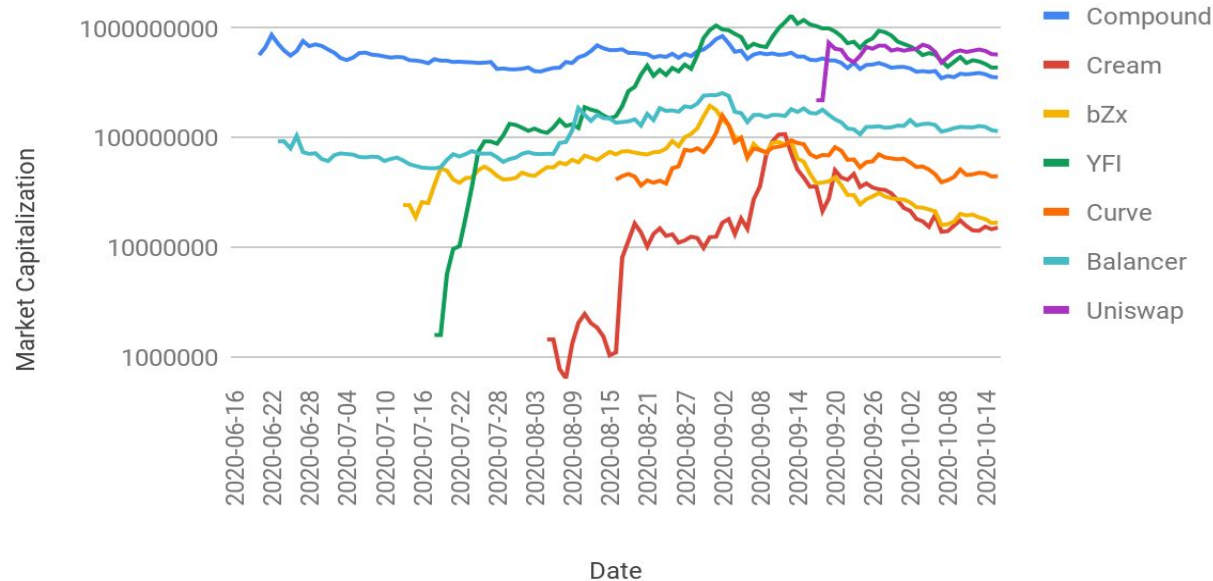
- *Builds liquidity, lowering price slippage*
- *Enables AMM to bootstrap initial liquidity*
- *More liquidity attracts more traders*
- *More traders attracts more liquidity*
- *Virtuous cycle*
- *Improves price and performance for everyone*

## Lending

- *Builds lending liquidity*
- *Expands functionality up to a point*
- *Allows larger borrows and refinances*
- *Interest rate slippage not permanent and is often quickly corrected*
- *Improves usability almost only whales*

# Tokenomics and Price

Yield Farming Tokens, June 1st - Oct 16th



# Does Vesting Matter To Token Price?

- *Many speculated that unvested farming rewards would cause the tokens of Compound, Balancer, Curve and others to continuously bleed.*
- *Macro factors appear to dominate inflationary pressures over medium time spans for most programs. Exceptions exist, e..g, Curve.*
- *Price action of farming tokens that were unvested are very similar to performance of farming tokens that were vested.*
- *Trade-offs: vesting tokens attract less initial liquidity, but delay negative impacts on price action*
- *Counter trade-off: attracting more liquidity may attract more cash flows, offsetting the negative impact of inflation on price action.*

# Different Types of **Vesting**

Typical Vesting		Vs		Tokenized Vesting	
Completely illiquid without legal instruments	Has virtually no impact on token price			Immediately liquid via AMMs	Fungible to those with time horizon equal to vesting period



# Liquidity Mining as ICO

- *Despite having similar TVL as AAVE, Compound generates significantly more revenue.*
- *Liquidity mining drives cash flows through miners paying protocol fees*
- *Tokens are being sold in exchange for protocol fees*
- *The ICO behind the curtain*

# Our approach

- *Vested tokens*
- *Borrowers only*
- *Attracted liquidity but a low amount relative to competitors*
- *Led to borrowing rates so high that they pushed away organic activity*
- *Distortion of borrowing rates continues to be a problem, not only for our approach but also for other lending protocols*

# Questioning Assumptions

- *Why haven't the TVLs of DeFi protocols dropped in proportion to the price?*
- *creamY still at 8mm TVL despite briefly introducing liquidity mining rewards and withdrawing them briefly afterwards.*
- *bZx experienced only a small decrease in TVL after cutting farming rewards in half.*
- *The market is efficient, should anticipate that temporary increases in TVL don't necessarily imply more future cash flows.*
- *Liquidity Mining likely operates primarily as a marketing device, exposing users to the product and training them to use it.*

# Future Directions

- *Liquidity mining could start seeing shifts towards shorter distribution times as the limitations become more clear.*
- *Vertically integrated liquidity mining*
  - *CREAM did the first instance of this by offering CREAM to creamY and CreamSwap LPs.*
  - *Could see permutations of this with different tokenomics.*
  - *Wide range of possibilities if multiple tokens are leveraged.*
  -
- *Vesting*
  - *Has an uncertain future*
- *Cash flows*
  - *Will become a critical part of relieving the selling pressure associated with large token emissions.*



MARGIN TRADING & LENDING



BORROWING WITH ANY WALLET

---

Be sure to follow the updates:



@bZxHQ