

aip: TBA

title: ARC - Continue Liquidity Mining Program on Aave V2 Ethereum market and Introduce Liquidity Mining on Aave ARC market

status: Proposal

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Simple Summary

This ARC presents the community with the opportunity to continue offering stkAAVE incentives on Aave V2 Ethereum market for an additional 90 days from when [AIP-47](#) finishes at a further 30% reduced rate.

In addition to tapering incentives on the Aave V2 market, the ARC proposes introducing incentives on the Aave ARC market. 10% of the 30% reduction in incentives on the Aave V2 ethereum market are to be applied to incentivising AUM on the Aave ARC Ethereum market.

Abstract

Liquidity mining incentives were introduced to Aave V2 on the 26th April 2021 via [AIP-16](#), renewed by [AIP-32](#) and then incentives were reduced by 30% with the implementation of [AIP-47](#) which expires on the 20th February 2022. A summary is shown below.

- [AIP-16](#): 2,200 stkAAVE per day from 26th Apr 2021 on Aave V2 Ethereum market
- [AIP-32](#): [2,200 stkAAVE per day](#) from 24th Aug 2021 on Aave V2 Ethereum market
- [AIP-47](#): 1,540 stkAAVE per day from 22nd Nov 2021 on Aave V2 Ethereum market
- AIP-X: 1,078 stkAAVE per day from 21st Feb 2022 on Aave V2 Ethereum market
- AIP-X: 46.2 stkAAVE per day from 21st Feb 2022 on Aave V2 Ethereum market

Continuing on from AIP-47, incentives on low vol assets are to be split 1:2 in favour of borrowers over lenders. This logic will be applied to both Aave V2 and ARC markets. High vol assets will only receive lending incentives and this is skewed to favour more recently listed assets and communities that have a strategic relationship with Aave, like Balancer and Chainlink.

Motivation

This proposal continues on from AIP-47 with a further 30% tapering of incentives which was directionally communicated in the prior [ARC](#) and shall last for another proposed 90 day period. We will continue with the same rationale for how incentives are distributed across the Aave V2 Ethereum market.

The incentive APR will fall, even though TVL has reduced with market conditions so has AAVE's token price.

In addition to incentivising Aave V2 Ethereum market, I would like to present to the community an opportunity to commence distributing stkAAVE incentives on the Aave ARC market with the intention of achieving the following:

1. Grow Total Value Locked (TVL)
2. Increase liquidity
3. Attractive (low) borrow rates
4. Increase the protocol income via growing the Reserve Factor
5. Redistribute governance power towards users of the platform

Within this proposal we will present two options for the Aave ARC markets, Option 2) will reflect a Total Value Locked in Aave ARC of \$250M. This represents a 12.6x increase in TVL from what is a low base. The next iteration of liquidity mining will likely see an increased allocation to Aave ARC as we continue to encourage users to interact with the market. The initial target here is to grow Aave ARV to over \$250M within the next 90 days and then pivot as required to support continual growth of the market.

Specification

The below section outlines the proposed liquidity mining incentives to be applied from 21.02.2021 up to and including 20.05.2022.

Key changes from the previous liquidity mining campaign:

- 30% reduction in incentives to 1,078 stkAAVE per day on Aave V2 Ethereum market
- Introduction of 26.2 stkAAVE per day on Aave ARC Ethereum market
- Distribution of stkAAVE is pro rata based upon deposit dollar value

The table below shows the intend stkAAVE distribution across the Aave V2 Ethereum market asset listings. In estimating the Borrowing vAPR, a 75% utilisation of the deposited assets was assumed. This was based on the current DAI utilisation.

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Screenshot 2022-02-03 at 20.10.46

1636×1168 185 KB

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Note: TVL per token is as per the 3rd February 2022.

The table below shows the intend stkAAVE distribution across the Aave ARC market asset listings.

Option 1) Same Methodology as above allocating 10% of the reduction in Aave V2 Ethereum Market stkAAVE incentives. ie: 10% of (1,540-1,078)

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Screenshot 2022-02-03 at 20.09.41

2170×390 66.1 KB

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Option 2) Similar methodology to the above with an assumed market size of \$250M and distribution across the assets of 60% USDC, 20% ETH and 10% of both wBTC and AAVE.

Asset Value Deposited Multiplier Daily stkAAVE Incentive LM Allocation (%) LM Incentive Split (%) LM vAPR (%)

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Screenshot 2022-02-15 at 08.46.10

2166×384 67.9 KB

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Mathematics: % of value deposited x multiplier then scaled to provide LM Allocation that totals 100%[Link here.](#)

Rationale

The previous LM campaign indicated the ongoing tapering on the Aave V2 Ethereum market that is presented within this proposal. The introduction of incentives on Aave ARC reflects a desire to grow this mainnet market. Incentivising the Aave ARC market is funded from the reduction in incentives on the Aave V2 Ethereum market. The net incentive spend over the next 90 day period is reduced down from 1,540 to 1,124.2 stkAAVE per day.

Aave ARC Option 1) we show what impact allocating 10% of the savings from the reduced Aave V2 Ethereum market would look like following a similar allocation strategy to the Aave V2 Ethereum market. The mathematics assumes 75% utilisation of lending pools capital is borrowed which reflects the current utilisation of the DAI pool on the Aave V2 Ethereum market. With zero wBTC deposited in the market, and still very low capital being deposited, this approach is heavily skewed towards USDC and mis represents what is expected with time.

Aave ARC Option 2) we elected to view the incentives in line with \$250M and assumed a distribution across the pools. The distribution is an assumption and is quite different to the existing distribution on the Aave V2 Ethereum market. We can easily change these parameters and are happy to do so. The high level logic is to anticipate capital being deposited and then estimating what the vAPR from incentives would equate to. For this we assumed \$250M which is arbitrarily chosen as a nice round target, it represents over 10x growth in the market TVL.

Discussion

The previous LM proposal provides a lot of the context and rationale to how the stkAAVE incentives are distributed across the various assets on both markets. Link [here](#). Something of interest on the Aave V2 Ethereum market, large holders currently can turn a 336 bps and 344 bps profit based on the existing emission schedule across the DAI and USDC pools by recursive borrowing. (Lending vAPY, - borrowing vAPR, + Borrowing Incentives vAPR, + Lending vAPY)

With the newly proposed emission schedule this 336 bps return minus gas becomes a 289 bps and 292 bps profit before gas. Time in the pool is also a huge factor, and those already invested in this type of strategy may continue to do so. However, it would be a lot less appealing to deploy this strategy now. Tapering the incentives reduces the profitability of recursive borrowing but not sufficiently so to support unwinding the positions. The opportunity cost becomes more something to consider.

With the introduction of incentives on Aave ARC, even with around \$250M deposited 60% in USDC, the strategy would be profitable with a 75% utilisation rate. This risks assets currently deposited in the Aave V2 Ethereum market being reallocated to the Aave ARC market. If this was to occur the vAPR from incentives on the Aave V2 Ethereum market would increase. It will be interesting to see what effect this has on the value deposited in each pool. Pending how the market reacts to these proposed changes, we can always revisit this and propose an amendment to the distribution schedule across both markets.

Economics

- Aave V2 Ethereum markets daily Reserve Revenue is averaging around \$44.5K per day during late January 2022. Daily aToken interest is around \$1.9K per day.
- Liquidity Mining is estimated to cost \$168,630 per day assuming 1,124.2 stkAAVE at \$150 per token. Down from \$231,000 per day assuming 1,540 stkAAVE at \$150 per token. Note, previous LM was budgeted using a stkAAVE price of \$320.
- Ecosystem Reserve is worth around \$296.89M with an AAVE price of \$150.
- 90 days at 1,124.2 stkAAVE at \$150 per token is \$15.18M or around 5.11% of the Ecosystem Reserve.
- The Net spend is \$122K per day after taking into consideration the daily Reserve Revenue and daily liquidity mining expenses. This does not take into consideration the 550 AAVE/day Safety Module incentives
- Daily Reserve Revenue has reduced significantly during January and the chart below shows the image of the recent market conditions. Not the economics above only takes into consideration Aave V1 and V2 market revenue.

Further details on the daily Reserve Revenue and Economic Reserve valuation can be found on the [Aave Treasury Dashboard](#) created by the Llama Community. Please note, each query will need to be run separately.

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