Hey Aave Community,

I'm an analyst on the Messari Governor team, and we recently integrated Aave governance as part of our daily coverage on Messari Governor.

As part of our analysis, we've been conducting Governor Notes, which serve as deep dives on interesting or complex governance proposals. Given the impact of the new Staked aTokens proposal, I put together a short piece exploring the potential impacts of the new collateral primitive on Balancer, Aave, and GHO.

In the spirit of public goods, Messari has unlocked the article and made it FREE

for everyone to read! Check out the complete analysis here: Governor Note: Introducing Staked aTokens . Enjoy!

Teaser

I hope you enjoy reading the full article on Messari, but if don't want to make the click, here's a quick teaser of the first part of the article:

Governor Note: Introducing Staked aTokens

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Governor Note- Introducing Staked aTokens

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Key Insights

- The Staked aTokens proposal represents a critical puzzle piece in the long-term strategies of Aave and Balancer, allowing Balancer liquidity providers (LPs) to borrow against their liquidity pool tokens as collateral.
- If approved, the proposal lays the foundation for a go-to-market strategy for GHO that avoids using Aave-native incentives. The strategy leverages Aave-held veBAL to incentivize Balancer LP collateral while using Aave's ability to control GHO borrow rates to bootstrap GHO liquidity.
- If GHO is successful, the stage would be set for Aave and Balancer to experience a significant increase in total value locked (TVL), creating a legit stablecoin contender built on capital-efficient liquidity from two DeFi giants.

Introduction

Aave and Balancer have a long-standing relationship, dating back to January 2021. Each protocol has since evolved. Aave continues to execute on its roadmap, planning to release an overcollateralized stablecoin, GHO. Balancer is doubling down on its ambition as a baseplate protocol, using vetokenomics to align liquidity provider (LP) incentives with protocol growth. Though each path is unique, the mutual benefits of Balancer integration have never been clearer.

The latest Aave proposal, Staked aTokens: A New Aave Primitive Exploring Vote-Escrow Economies, is the next step in this partnership. If approved, the proposal would lay the foundation for a cross-chain go-to-market strategy for GHO that avoids using Aave-native incentives. The strategy would leverage Aave-held veBAL to incentivize Balancer Boosted Pools while using Aave's ability to control GHO borrow rates to attract lenders and bootstrap GHO liquidity. To contextualize the proposal and its implications, we'll observe each protocol's roadmap and how it binds them closer together.

Balancer: The Liquidity Stack

Balancer competes for TVL and volume with decentralized exchange (DEX) giants Uniswap and Curve. In a move to attract liquidity and grow partnerships, Balancer introduced a vote escrow (ve) tokenomics framework. The new tokenomics allows LPs of the 80 BAL / 20 ETH pool to stake their Balancer Pool Tokens (BPT) to earn veBAL. veBAL holders can direct BAL emissions to LPs or themselves and accrue a portion of protocol revenue. While veBAL tokenomics has dramatically affected Balancer operations, the protocol is still waiting for liquidity, TVL, and volumes to catch up with Uniswap and Curve.

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While not without growing pains, in the eight months since launching veBAL, Balancer has sprouted an entire ecosystem of applications and markets on top of its base layer. The veBAL ecosystem comprises a marketplace of liquid locker providers and bribing markets. However, new use cases and composability for Balancer Pool Tokens (BPTs) are lacking. A deeper Aave integration would be the start, providing leveraged LP opportunities with the added benefit of socializing boosted yield from veBAL emissions.

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veBAL Ecosystem

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Boosted Pools are the most relevant innovation on Balancer for Aave. These pools increase capital efficiency for depositors by sending idle tokens to lending markets (currently only Aave) to accrue interest. Boosted Pools can be compared to Balancer's staBAL3-USD pool, an equal-weighted DAI/USDC/USDT pool. If there were no trading volume in the staBAL3-USD pool, it would earn zero yield. By comparison, Balancer's bb-a-USD meta pool comprises three Boosted Pools (bb-a-USDC, bb-a-USDT, and bb-a-DAI) and would still generate yield in the result of zero trading volume as over 70% of the pool's assets are yield-bearing aTokens. Boosted Pools additionally provide greater swap efficiency as they're composed of Phantom BPTs, which abstract away the costs of minting and burning LP tokens.

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bb-a-USD breakdown_ICY

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bb-a-USD is the third largest pool on Balancer with over $122 million TVL. As LPs continue to search for new ways to increase yield, boosted pools offer a unique, risk-averse solution. If only there were a way to leverage BB-A-USD positions…

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