Hello everyone!

This proposition is an overview of the main questions actually discussed on the governance forums and a potential solution.

Topics covered :

- Generated fees from the protocol
- Treasury
- Use and distribution of Ecosystem Reserve
- Aligned interests between Stakers, Liquidity Providers and the protocol
- Migration dead line
- Positive impacts on $AAVE token, and rewards overview

I) Generated fees from the protocol :

Regarding previous discussions and after some research, fees will be collected in several possibility with V2 coming soon. The main interest is the protocol to grow, and we need more liquidity for that.

This wouldn't make sense to setup an origination fees on the liquidity deposited, and if we want to maintain traction to the Aave ecosystem, the origination fees on the borrowed liquidity could be very low as well, somewhere between 0.005% and 0.01%. Yes, it's very low, but this is not where Aavengers will earn the most, and this avoids cutting users.

Liquidators, on the other side, are making money out of pretty much nothing, considering they are using Aave liquidity with flash loans, so they just need to pay the fees. The idea is not to cut the liquidators profits as they are essentials to a healthy protocol, but we could raise the fees from 0.09% to 0.1% of the borrowed amount.

Another way to earn fees could be a small % of the profits earned by liquidators, considering they are doing it using Aave. The fee could be between 0.5% less than 1% of profit.

As Aave offers a choice between stable and variable borrowing rate, we could add 0.1% fees when someone switch from one to another.

With V2, users will be able to change the collateral used, or to payback a loan with collateral, and fees on this could also be 0.1% or even more, as this is an innovation only available on Aave.

We may also add a fee when someone open a delegation credit line, and there Is probably more with all markets already there or potentially coming soon (UniV2, Token Set, Realt, Centrifuge, Aavegotchi, Jarvis and probably more)

The % of fees are only examples, and some people more experimented might tell us the proper rate for each interaction. Maybe @MarcZeller ?

How to use the fees?

As mentioned in previous discussions, this would be a good point to make a treasury for the protocol (maybe 1M $). Instead of using ecosystem reserve, we could use the generated fees to swap it into stablecoins until this the treasury reach amount defined.

Once we get full treasury, all the collected fees could be used to buy AAVE or Staked AAVE on the market and distributed to stakers.

II) Treasury :

The idea of the treasury is to get a DAO growing fund in addition to the ecosystem reserve. The first fees generated will start generate interests with a farming strategy allowing the DAO to compound interests earned in order to fill the treasury faster.

The treasury could have several use cases:

- Incentivize Devs building up on top of Aave
- Incentivize Non Devs community members
- Additional Safety in case of short fall event
- Additional Incentive for stakers
- Create a DAO farming fund with credit delegation
- Others possibilities …

As the funds will rise every time with compounding, the interest could be spent like this:

- 50% of interests used to buy AAVE and send it to stakers
- 50% compounded to raise treasury and interests to stakers

III) Use and distribution of the ecosystem reserve :

The ecosystem will not last forever, and so, we're betting on the fact that revenues that come from the protocol fees will earn more than incentive once ER is done. So, in order to play safe, this reserve should last a couple years.

This is a new potential decreasing distribution of the Ecosystem Reserve over 4 years, considering both SM and staking would start in November but it could be later.

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image

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](https://europe1.discourse-cdn.com/business20/uploads/aave/original/1X/874b216cc3a1db52118510c76a2d8c72204ade2b.png)

As mentioned in a previous comment, stakers should earn more $AAVE, because they keep the SM running and a safe protocol.

Moreover, liquidity providers earn $BAL + fees from the pool + the LP % in the estimation above. This should be more than enough to prevent any impermanent loss, which should already be low because of the 80% AAVE/20% ETH Ratio.

According to other projects with liquidity mining, there is between 0.005% and 0.02% of the supply allocated every week for LP, which is less than the rate for year 1 as (500*7)/16M* 100 = 0.021%

If we incentivize more, this could bring farmers, so potential price dump.

However, you can see there is a third use for ER (Bonus compound earned AAVE into SM) explained in the next point.

There are also 498000 $AAVE remaining, I know finding how to spend money is not the hardest part, but here is some ideas:

- Airdrop for every address that used AAVE before migration and migrated Lend
- Airdrop to stakers
- Credit delegation if we get Staked AAVE market to use it as collateral
- Reward the community
- Additional safety in case of short fall event
- Burn

IV) Aligned interests between Stakers, Liquidity Providers and the protocol :

The more AAVE there is in the safety module the better, and as@stani mentioned it several times, we need to keep the incentive aligned with stakers and LP, while keep protecting the protocol.

The main issue to incentivize LP is the risk of them selling rewards, which could create a down pressure on the $AAVE token. However we can't make them stake the rewards, but we can incentivize the ones who does.

This where the bonus for compounding $AAVE interests into the SM come in: In the simulation above, the bonus for the LP is the same than the bonus for compounding. This bonus is shared equally between stakers and LP (50/50).

Which means, LP's could decide to earn more by staking the LP rewards, and so become stakers. Stakers could also earn more by choosing the compounding option, everybody wins.

I believe we could add a function "compounding" for the stakers, and they would earn the bonus every week or month if the function still activated at the end, maybe even an "Auto compounding" function that claim and stake automatically? It could maybe do the same for LP if the rewards for LP are claimable into Aave, and otherwise a system with snapshot could work.

Maybe @Emilio can tell us if this seems technically possible?

If yes, it might motivate people to stake a lot more, which would increase safety for the protocol and increase rewards for everyone.

V) Migration dead line :

At the time of writing, there is 69% of lend migrated, so there is approximately 403M Lend left to migrate.

- Left in exchange : Around 30M
- Tokens in LP : Around 25M
- aLend waiting for swap : Around 156M

It's reasonable to consider these will migrate before end of year. If so, there would be around 192M tokens left, that's 14.75% of the total supply, also, 1.75% was burned, so more like 13% left.

According to the big amount of addresses with no movement and a fixed amount that seems to be ICO participations and most of those are probably lost.

Considering all of this, I think it's reasonable to set up a dead line by end of year, which leaves still 2.5 months for the 13% latecomer to wake up and migrate, if the funds are retrievable.

VI) Positive impacts on $AAVE token and rewards overview :

In order to be able to protect the protocol, we need to increase the scarcity, and a good price action this goes by:

- Keeping the ER to incentivize Stakers and LP instead of using it to fill the treasury
- Create a bonus to incite people to stake rewards instead of selling
- Using the fees to buy $AAVE on the markets without forcing people to pay fees with $AAVE
- Reduce incentives over the years for both LP and stakers
- Use the Staked Aave as collateral to generate more funds for the DAO without selling ER
- Set up a migration dead line to reduce the supply

Rewards overview:

Stakers could earn:

- $AAVE staking rewards (5x more than now distributed year 1)
- Fees (in $AAVE?)
- Bonus from compounding (in $AAVE)
- Interest from treasury (in $AAVE or stablecoins?)
- Yield from DAO farming funds (in Stablecoins?)

LP could earn:

- $AAVE rewards
- $BAL rewards
- Fees from the Balancer pool
- Bonus from compounding (in $AAVE) – (If so, this add all the stakers earning above

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Thank you everyone for taking time to review this proposal, really looking forward to the opinion of the Aave community on every topics, and I can't wait to see the finale AIP dealing with all of this!

Proposal co-written with @EmmanuelD