Greetings Aave community!

The newly proposed [Phoenix Labs](#), an R&D company building the Spark Protocol upon the foundations of the Aave v3 codebase to deploy Spark Lend, a liquidity protocol centered around DAI.

We want to propose a profit-sharing program with the Aave community for the FOSS work done.

Motivation

We are ardent proponents of permissionless innovation that has enabled our space to create new and exciting solutions rapidly. However, the funding of said public goods is a problem in itself that we've seen come into less than desirable outcomes in years past.

While Business Source License creates breathing room, it does not address the value created for the community. To that extent, we want to propose a model that further rewards FOSS by proposing a profit share program to benefit Aave for the work done on Aave v3.

We are excited about the developments in this space such as Optimism's retroactive public goods funding and hope to support a new value-sharing model for the industry.

Implementation details

We propose a profit sharing of 10% of the gross profits (cost paid to DAI suppliers subtracted from the revenue generated by DAI borrows) from the DAI market in Spark Lend.

The profit share will take effect when the DAI market size reaches 100 million and will expire two years later.

- DAI market = portion of the pool with underlying asset ERC-20 DAI

- Profit = Gross Profit = Revenue - COGS

- Revenue (B) = revenue from borrows in the DAI market

- COGS (S) = Cost of Capital = amount paid to suppliers in the DAI market

- Profit share = 10%

- Minimum DAI borrows = 100 million DAI

- Duration = 2 years after reaching minimum DAI borrows

Profit share paid to Aave = 10% * (B - S)

Estimated profit share

The main factors driving protocol revenue - and resulting profit share payable to Aave - include:

- TVL

- Utilization rate

- Interest rate curve

In a bull case scenario where Spark Lend DAI market has a high TVL and utilization at optimal levels, we expect to be able to distribute over >2,000,000 DAI to Aave within a profit share period two years.

Payment Implementation

MakerDAO governance will ratify and issue payments on a quarterly basis based on the accumulated profit.

We want to present two options for the Aave community to consider. The latter splits a minority of the profit share to purchase AAVE tokens to align both organizations further.

1. Entire profit share direct payment in DAI to the Aave Treasury at address 0x464C71f6c2F760DdA6093dCB91C24c39e5d6e18c

2. Split between direct payment and purchase of AAVE

3. 8% profit share direct payment to the Aave Treasury at address 0x464C71f6c2F760DdA6093dCB91C24c39e5d6e18c

4. 2% profit share used to purchase AAVE tokens held in the Spark Protocol Treasury

5. 8% profit share direct payment to the Aave Treasury at address 0x464C71f6c2F760DdA6093dCB91C24c39e5d6e18c

6. 2% profit share used to purchase AAVE tokens held in the Spark Protocol Treasury

Snapshot vote

[Snapshot link](#)

Start: 2023-02-24 00:00:00 UTC

Duration: 1 week

We'll consider the snapshot vote valid once a quorum of 80k AAVE is reached.

We understand that there is no need for a subsequent AIP vote.

Next steps

We welcome feedback from the Aave community and would like to present the Snapshot vote in 2 weeks.

The launch of Spark Protocol is pending MakerDAO governance approval, which will be finalized at the end of March.