

Title: [ARFC] Enhancing Aave DAO's Liquidity Incentive Strategy on Balancer

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Summary

This publication proposes Aave DAO to:

- Mint auraBAL using existing B-80BAL-20WETH holdings and stake it on Aura Finance's Classic Staking Pool;
- Buy 400,000 USDC worth of AURA OTM; and
- Swap \$200,000 worth of AAVE for AURA and 200,000 USDC for AURA in an OTC deal with AURA DAO.

Background

[AIP-42](#) resulted in a significant reduction in baseline AURA minted per BPT, while distributing additional AURA from the DAO treasury pro-rata to pool LPs based on their vIAURA gauge weight. This has effectively led to a decorrelation between veBAL's and vIAURA's emission power, with the latter becoming a more efficient liquidity incentive asset.

[@Dydimoon](#) pro-actively addressed this change by laying out a thoughtful analysis and proposing [two options](#) for updating Aave DAO's Balancer ecosystem holdings.

We've expressed our [concerns](#) around both options, primarily because:

- Balancer is historically deeply rooted in the mechanics of the Aave protocol and is a strategic partner of Aave DAO, and Option 1 would dump BAL; and
- Aave DAO should avoid depleting its reserves of stablecoins to secure a sustainable runway, and Option 2 would require a significant investment in stables.

We then suggested a scenario to optimise the underlying objective while guaranteeing a positive outcome for every stakeholder, which, after some productive debate, evolved into [Option 3](#).

Motivation

Despite receiving significant community support for this option, the overall proposal [did not reach quorum](#).

This is an essential topic for the long-term strategic positioning of the Aave DAO; therefore, we are re-engaging the community towards reaching a consensus around Option 3.

Specification

The Aave DAO treasury currently holds 157,169 B-80BAL-20WETH and 443,674 AURA. To optimise Aave DAO's voting incentives and maximise its emission power, we propose to:

1. Mint auraBAL using existing B-80BAL-20WETH holdings and stake it on Aura Finance's Classic Staking Pool.

Aura Finance's classic staking pool currently yields 17.46% APR: 9.61% in BAL and 7.85% in AURA. The rewards resulting from minting 157,169 auraBAL can be used to bribe vIAURA holders, generating a weekly budget of \$4,907.87 that can bribe 701,124.38 vIAURA per week at current market prices.

It also increases Aura's veBAL capture share, enhancing Aave's vIAURA emission power by 1.15%.

2. Buy 400,000 USDC worth of AURA OTM

We recommend using [CowSwap's TWAP](#) for the execution, dividing the purchase into ten transactions of equal amounts, each with a 1-hour duration. This reduces the price impact to 2.02% at current liquidity levels.

3. Swap \$200,000 worth of AAVE for AURA and 200,000 USDC for AURA in an

OTC deal with AURA DAO.

This action can be achieved by transferring 2,965.35 AAVE from the ecosystem reserve and 200,000 USDC from the collector to a token swap contract with properties similar to the one used for the [CRV OTC deal](#).

We'd be exchanging 2,965.35 AAVE and 200,000 USDC for 477,088.51 AURA with the AURA DAO. The TWAP prices for AURA and AAVE were calculated for the period from September 29th to October 6th and can be found [here](#).

Projected Emission Power

The acquired assets will be staked and locked into Aura Finance, generating the following emission power:

- \$17,713.16

in weekly emissions derived from 1,392,955.28 vAURA holdings;

- \$8,915.97

in weekly emissions by minting 157,169.86 auraBAL staked on the AuraBAL classic pool and using the rewards to bribe vAURA holders in incentive markets; which

- Leads to a total of \$26,629.73

in weekly emission power.

Details on emission power calculations and TWAP for AAVE and AURA can be found below:

docs.google.com

[

](https://docs.google.com/spreadsheets/d/1_oogFs9V-fZQkxj-dBpO8YCLLHEI2YneFHeCtzL501s/edit?usp=sharing)

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Emission Power

Token,Price,Aura emissions calculation AURA,0.83,Baseline calculator,3.14 BAL,3.22,rewardsMultiplier,0.40
AuraBAL,9.30,Emissions from treasury per week,90,000.00 AAVE,68.63 Aave DAO Holdings Asset,Origin,Value
(\$),Purchasing...

Disclaimer

karpatkey is an active contributor in both Balancer and Aura's ecosystems, the former as [official Treasury Managers](#) of the BalancerDAO, and the latter through GnosisDAO's holdings ([Mainnet](#) & [Gnosis Chain](#)) in AURA (\$1,882,810), auraBAL (\$19,115.38), veBAL (\$869,233) and stkauraBAL (\$3,444,056).

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