

# Title: [ARFC] “Merit is Forever” Reward System Program Extension

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## Summary:

Following the success of Merit’s first two rounds, this ARFC proposes the long-term adoption of the Merit reward system for the DAO and allocating a 5m\$/quarter budget for the next 12 months.

## Motivation:

Merit was designed to address two main objectives:

1. Counteract the negative impact of Morpho optimizer on Aave DAO revenue by attracting Ethereum back from Morpho. Merit Round 1 resulted in approximately 165k ETH leaving Morpho and growing Aave’s market share. The Morpho product is now imbalanced (limited to a 52k ETH capacity), ensuring it will not offer additional yield on top of Aave, thus achieving its primary goal.
2. Support the GHO stablecoin peg, fostering supply growth and revenue expansion while maintaining a stablecoin base for the safety module:
3. StkGho supply increased by 45%.
4. GHO supply grew by 40%.
5. The GHO borrow rate was increased to 13.8%.
6. GHO peg remained within target rate 97% of the time.
7. GHO protocol revenue grew significantly, reaching approximately 6.5m\$/year.
8. StkGho supply increased by 45%.
9. GHO supply grew by 40%.
10. The GHO borrow rate was increased to 13.8%.
11. GHO peg remained within target rate 97% of the time.
12. GHO protocol revenue grew significantly, reaching approximately 6.5m\$/year.

Merit Round 2 involved 1367 eligible users, with Staker & Strakoor being the largest booster (over 100 users), indicating a strong user trust in the Aave protocol and willingness to participate in the Safety module for yield and discounted GHO borrowings.

Building on these positive outcomes from the first two Merit rounds, the ACI proposes extending the funding of Merit for an additional four periods (three merit rounds per period). This proposal would approve Merit’s continuation for the next 12 months.

## Operational aspects:

We propose Aave Finance incorporates Merit funding within their Treasury Management AIPs if this proposal is approved by a DAO snapshot vote. Our successful collaboration with Angle Protocol and their Merkl product will continue, with the ACI producing user-friendly applications for Merit beneficiaries and providing relevant data to the DAO.

At present, we do not propose making any changes to boosters or diluters within Merit; however, ad-hoc ARFC snapshot votes can be used by the DAO to modify these aspects of Merit at any time.

## Budget considerations:

The Aave DAO currently enjoys an excess annual net profit of 80m\$. The ACI considers allocating 20m\$/year to Merit a worthwhile investment, as it supports Aave protocol market shares and boosts DAO revenue. The expected returns, particularly with GHO, are anticipated to be noteworthy.

Should the DAO decide to discontinue Merit due to unsatisfactory returns or lower profits stemming from market conditions in the future, an ad-hoc ARFC vote can terminate Merit funding and limit budget exposure.

## Learnings from the previous rounds:

1. The wETH “spray & pray” approach has been underwhelming for most users due to the large scale of Ethereum borrowing on Aave (2B\$). Despite this, wETH Merit was a resounding success in achieving its goals through the behavior of a subset of “whales” who recognize the value of Merit based on their substantial positions.

To address this, this proposal grants flexibility to Aave Finance and the ACI to allocate a part of the wETH Merit budget towards targeting influential users.

1. The Ethereum-centric nature of the GHO Merit program generated some minor backlash due to high Ethereum network transaction fees. With the introduction of cross-chain GHO, we have an opportunity to deploy a “cross-chain” merit system in collaboration with L2 safety modules and L2 StkGHO.

To achieve this goal, this ARFC grants flexibility to Aave Finance and the ACI to allocate a portion of Merit budget to L2 markets following the deployment of cross-chain GHO.

1. Some “sleepy” liquidity will likely never claim merit airdrops. To increase program efficiency and resource allocation optimization, this proposal greenlights redistributing unclaimed funds to subsequent merit rounds if a user hasn’t claimed during six merit rounds.

As an example, unclaimed funds from Round 1 can be allocated to boost the Round 7 budget.

## Specification:

If this proposal is approved by a snapshot YAE vote, Aave finance will incorporate Merit budget within their monthly Treasury Management AIPs. Funds management will continue to be handled by the [Merit Safe wallet](#), and Angle’s Merkl contracts will still handle distribution.

## Disclaimer:

This proposal is made independently by the ACI.

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