

Hello Aave world,

# Intro

I write to you today in hopes to initiate the discussion around Aave's revenue model. The goal of this thread is to discuss how we might set the framework for effectively:

1. Setting the fees generated by the Aave protocol (origination fee)
2. Utilizing the revenues generated by the fees (incentives for dev fund, LP rewards, etc.)

## Aave Protocol Fees

For the sake of aligning all people to the current state, here is a direct quote from the Aave documents:

Aave Referral Program:

Aave is currently kickstarting governance. Origination Fees will be decided by the Aave community and are currently "paused" with a minimal low amount. You can still register for the referral program.

- Each loan currently incurs a 0.0000001% origination fee.
- 80% of this fee is used to buy LEND tokens from the market and burn them, which reduces the monetary supply of the LEND token.
- 20% of this fee is redistributed to the referrers.
- The referrers consist of the liquidity providers ( deposit()

) and the borrow providers ( borrow()

).

- 40% of this fee goes to the liquidity providers (effectively 8% of origination fee).
- 60% of this fee goes to the borrow providers (effectively 12% of origination fee).

Source: <https://docs.aave.com/developers/integrating-aave/referral-program>

From the official documentation above, it appears this is now our role as a community to put forth our best opinions on how to set fees. If I'm not mistaken, this initial 0.0000001% origination fee was set extremely low in order to bootstrap adoption. However, with \$1.36B total locked value, as the 3rd highest DeFi protocol by value locked, and with the launch of \$Aave Token and Governance, it seems fitting to kick off discussions now.

## Pricing Strategy

The way I'd approach pricing strategy/valuations is 3-fold:

1. Cost Approach:

What is the upkeep cost / maintenance for the Aave team? Do we have an understanding of their annual budgeting? How big of a team and how many years must they exist? The result of this annual budget costing analysis should be the revenue floor.

1. Value Approach:

How do our users value our protocol? What exactly is our value proposition? I'd like to confirm my hypothesis with data, but I'd bet that most of our volume is based off users that want to keep exposure to an underlying asset and borrow stable-coins or wBTC. (personally, hoping for renBTC in the future

). Once these are borrowed, what do the users earn with them? Our fees must be low enough for the users to still be profitable after!

1. Market Approach:

This is where I'll some extra help and hope to get people's thoughts. This is where we decide how we compete. The only thing I could find for [MakerDAO was the 3.5% stability fee](#). Couldn't find fee data for Compound

. Aside from DeFi, [with TradFi, the origination fee is between 0.5% and 1%](#).

Outstanding thoughts for me here:

- If anybody has Compound fee data, please share
- How much longer do we want to bootstrap adoption with low fee?
- What can we do to further adoption of Aave?
- I'd suggest a native BTC-onramp integration where a user can take BTC, mint ERC-20 BTC, deposit that into Aave, all in one transaction

. RenJS is an SDK that enables this. You can [see Curve as an example](#))

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- What does the Aave team think?
- Don't want to step on any toes here and would like their guidance as they likely have material, non-public information
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- Finally, once we have an estimate based on these 3 approaches I outlined, we can triangulate an appropriate fee (maybe by a vote based on weighted average by vote?)

## Usage of Revenues

I'll begin this section with a comment from Stani in another thread:

[Initial discussion: AAVE reserve emission for safety and ecosystem incentives](#)

I agree with [@depressedape](#) and [@EmmanuelD](#) that there should be incentives for LPs and stakers for providing safety for LPs, DeFi is about incentives in general. It's more of a question on

1. the healthy balance between stakers and LPs
2. ensuring that there is incentive for LPs to stake their earned AAVE
3. ensure that LPs are interested in long-term sustainability for the protocol (that would be inline with the governance since short-term LPs would merely want faster gains)

I 100% agree with [@stani](#) that we must

align the incentives with a healthy balance.

## Here's my breakdown:

1. \$Aave stakers should receive a lion's share of the rewards as their collateral supports the stability and security of the protocol. Currently, they (we) receive 0% of origination fees; the 400 Aave/day was set by the community in a prior thread, will end after the set period, and does not come from fees. This must change to incentivizing maintaining a threshold of Aave staked.
2. I believe liquidity providers should receive the next largest amount. Currently, they receive 8% of origination fees.
3. I'm not sure what "Borrow providers" are. This term is outside my applicable understanding of traditional finance. Currently, they receive 12% of origination fees. If this term means "Borrower", I'd strongly recommend we don't incentivize borrowers more than stakers or depositors. I'd actually suggest this becomes 0%. The borrower is the user with the most benefit, and it should be safe to assume they'll be using their loan to make more money.
4. Last but certainly not least, we should discuss how the dev fund should be properly funded to continue the innovation that the Aave team ships

I hope this helps kick off the discussion, and I hope to hear what everybody thinks. Once we have come to a decent alignment on structure/framework, we can determine what to push forward as an official proposal. Thank you for taking the time to review my request for discussion.

## Previous discussions/important links:

1. [Initial discussion: AAVE reserve emission for safety and ecosystem incentives](#)
2. Thank you for providing me the source for Aave fees @PabloCandela