

Note: Initial thoughts only, looking for more discussion/improve over time

Disclaimer:

- I'm just being extra pessimistic here, think being pessimistic is a good thing in bear market/now, there is apparent stETH insolvency risk, so we should act as quick(lower the risks) when we still have time
- Assuming the readers has basic knowledge about stETH situation/risk

Simple summary:

- Negative Supply rate: Based on stETH current ETH peg condition/price action/liquidation risks/ DEX ETH liquidity shortage, etc it introducing certain levels of risk to the Aave protocol, so it'll be better if we penalize stETH LP to share the risk, encourage/force them to solve the risks
- We will introduce negative supply rates that are "Risk added rate(Fixed)" & "Depegging added rate(variable)"
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- DEX pool incentivization: Currently there is not enough liquidity(i.e. ETH) on the market to safely liquidate stETH on Aave, so we'll use fees collated from stETH negative supply rate to use as incentivization program to incentivize/give higher yield for ETH suppliers to Curve ETH/stETH pool

Negative supply rate: (negative supply rate = Risk added rate + Depegging added rate)

- Risk added rate:
 - -X% fixed for until stETH unstake available(the rate is fixed, amount could be settled by more discussion/research)(my suggestion is -2%)
 - Will continues until ETH unstaking available, stETH will always has risks, so it would be right to charge some amount of fees to use for liquidity inventizvizaion or etc ways to mitigate risks in the future
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- Depegging added rate:
 - $(1stETH - 1ETH) * 100$ percent
 - Depegging added rate is variable rate that depends on the ETH/stETH ratio, as long as stETH values under valued than ETH, then undervalued percentage rate will be Depegging added rate amount
 - This rate is little bit high at current ratio, LPs will be unprofitable, but it's not long term, could be solved by fixing the peg ratio, will encourage LPs to fix the ratio more strongly, and will encourage LPs to stabilize the peg in the future
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- Trade offs:
 - Aave stETH LPs will be unprofitable for a while/til the the peg recovers & stETH unstakeble
 - Discoriges stETH holders to supply to Aave
 - Aave stETH LPs in order to make stETH stay on peg, they has to constantly buy more stETH on the market to make sure the stETH/ETH peg ratio stays above or equal
- Unnecessary panic:
 - By implementing negative supply rate, some LPs might withdraw stETH (because most of stETH LPs HF is high enough that ok with not supplying stETH as collateral)
- Penic swap to ETH(just possible)

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Curve ETH/stETH pool incentivization program:

- Problem & reasons:
- ETH shortage on ETH/stETH Curve pool
- stETH depegging from ETH
- Not high enough liquidity available to liquidate large amount of stETH(especially at bear market/now)
- Super simple assumption that by growing the yield amount of Curve pool, we could attract more ETH liquidity
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- Incentivization fees & yield amount:
- Aave stETH negative supply rate fees:
- Not sure the exact rate, most likely higher than 5%APY
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- Curve & Convex & Lido :
- Currently their r giving above 7% APY, we could ask them to increase their reward program for next 3 month or so
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Technical aspect, implementation:

- Looking for feedback from Aave dev team

Steps forward:

- Improve the proposal(discussion/research/more effort) & find the right negative supply rate/adjust over time
- Implement negative supply rate, and activate the Curve liquidity incentivization program
- etc more details are coming

Failure & pivot:

- It's an experimental/temporary program, so nobody knows the outcome until testing it out
- Assuming if the liquidity incentivization program not as effective as expected, then we could plan accordingly that stop liquidity incentivization program, and use the funds to advertise, etc ways to increase ETH supply on Curve stETH/ETH pool

etc