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Simple Summary

This proposal follows the approval of TEMP CHECKs from I to V by starting the SM Upgrade with single assets diversification by including wETH / GHO & the Aave/wETH migration on volatile LPs category.

Context

Earlier this year, 6 TEMP CHECKs were published on the following topics:

- [Part I: Migrate AAVE/WETH v1 to AAVE/wstETH v2](#)

- [Part II: Assets diversity, SM Categories & Slashing updates](#)

- [Part III: Enable smBPT gauges](#)

- [Part IV: Incentives Management Upgrade](#)

- [Part V: veTokens Management framework](#)

- [Part VI: Future considerations](#)

This proposal is coming late after the votes approved for two reasons:

- AIP-42 impacts (more info [here](#)) which required to update the strategy

- GHO peg situation for which incentivizing Balancer pools with GHO-depegged & unbalanced pools would be counterproductive to the efforts initiated by the [Committee](#) proposals.

The initial goal was to bundle part I to IV after GHO repeg, but with recent events happening such as vlAURA acquisition & auraBAL allocation, this proposal will only focus on implementing the SM strategy on single assets & the Aave/wETH migration topics.

Once GHO is repegged, another proposal will be published to focus on the stable LPs category.

Motivation

Each topic linked to the previous TEMP CHECKs approved on the SM strategy will be addressed in this post, but only on single assets & volatile LPs categories.

TEMP CHECK Part I: Migrate AAVE/WETH v1 to AAVE/wstETH v2

The first step of the strategy is to migrate the current StkABPT 80AAVE-20WETH on Balancer V1 to 80AAVE-20wstETH on Balancer V2. This update should be handled by BGD if they agree.

TEMP CHECK Part II: Assets diversity, SM Categories & Slashing updates

While the proposed categories proposed remains unchanged:

- Single Assets: APR depends on LM - 30% slashing - Rewards in LM

- Volatile LPs: APR target from 8 to 12% - 45% slashing - Bribes while efficient

- Stable LPs: APR target from 16 to 20% - 60% slashing - Bribes while efficient

However, this proposal will only focus on the first two categories (Single Assets & Volatile LPs) while Stable LPs will be added later on another proposal.

Acknowledging the [discussion to raise the SM slashing proposed by Xenophon Labs](#), I believe it's safer to start with the above slashing and potentially increase over time for non Aave assets, however I firmly believe that the slashing % on stkAAVE shouldn't be increased, but actually decreased in time for the reasons explained on the post's comments.

Single Assets Proposed - 30% Slashing

StkAAVE

- Est. max TVL: 75% of current TVL

- Reward budget: From 385 to 250 AAVE/day

WETH

- Est. max TVL: 30K wETH ($61M)

- Reward budget: From 0 to 50 AAVE/day

GHO

- Est. max TVL: $12,5M

- Reward budget: From 0 to 25 AAVE/day

Volatile LPs Proposed - 45% Slashing

80AAVE-20wstETH Balancer V2

- Est. max TVL: 75% of current StkABPT TVL

- Reward budget: From 385 to 95 AAVE/day

Rationale to focus on WETH over wstETH in single assets & proposing GHO:

- stWETH was proposed before the part I results including it in the Aave LP was approved. Moving the proposal to WETH seems safer for single assets.

- GHO was suggested during internal feedback as well as in the[TokenBrice blog](#) as an extra solution to help about GHO peg & create utility.

Rationale to remove GHO/wETH 80/20 from volatile LPs:

- Incentivizing GHO pools on Balancer atm would be counterproductive to the current committee efforts to repeg.

- This pool received very little traction during its bootstrapping phase so I'm proposing to remove it in order to save incentives.

TEMP CHECK Part III: Enable smBPT gauge

This concept was approved by [Aave](#) & [Balancer](#) so it remains unchanged in this ARFC.

As a reminder, In practice this will require a wrapper contract in the SM, minting smBPTs for BPTs. The SM contracts would then deposit in gauges only accepting smBPT.

This eliminates the possibility for non SM users to deposit into Aura Finance or Balancer's gauge directly (diluting the SM budget) and avoid the slashing plus cool down risk. Considering that the SM would mint the smBPT internally, it would be the only contract available to stake on this gauge. Once deposited, the SM contract would receive "aurasmBPT-gauge" and mint "StkaurasmBPT-gauge" distributed to the initial BPT depositors.

It will also require specific proposals on Balancer for each gauges if the strategy is approved. More info & parallel to classic gauges can be found [here](#).

TEMP CHECK Part IV: Incentives Management Upgrade

This part focuses on reshaping how AAVE emissions are distributed to improve Aave's economics and the SM cover cost without exceeding the current budget (initially 1100 AAVE / day on LM, but recently reduced to 770 AAVE/day with a 90-day emission cycle).

Goals:

- Redistribute the current 385 AAVE / day to AAVE single asset staking between stkAAVE, wETH & potentially GHO.

- Update the distribution method for rewards on the volatile LPs category by focusing on votes incentives & use the vlAURA gauge power & BAL earned with auraBAL staking to reduce the amount of AAVE spent as long as it's profitable.

The single assets rewards distribution would remain unchanged with AAVE LM distribution for stakers.

If the LP strategy becomes inefficient over time, either because of token prices, external governance impacts, or even if the amount of votes bribed isn't reached on a period, fallback options should be available:

- Paladin Quest v2 enables automatic rebalancing of the unspent votes incentives. which are deposited as liquidity mining on the underlying gauge.

- AAVE tokens saved per period should be put aside to build an extra fallback budget

The vote incentives mechanism is flexible enough for Aave to pivot from AAVE to GHO rewards over time on LP categories and can natively support multi rewards (unlike the single assets category current reward manager, which would need to be updated when the [GHO Splitter](#) is implemented).

Aave DAO gauge power

This section aims to clarify the gauge power & positions in the Aura Ecosystem:

The Aave DAO recently acquired 845K AURA that are locked as vlAURA on the committee multisig. Additionally, the 157K BPT initially destined for veBAL were used to mint auraBAL deposited in auraBAL classic staking.

auraBAL earnings are to be used to increase Aave voting power by creating an additional $18K bribe budget.

- AURA rewards will be locked & replaced by AAVE.

- BAL & USDC rewards are to be swapped weekly for AAVE by the committee & used as votes incentives for the following reasons:

Using only one assets as rewards will remove complexity to bribe with multi assets

Both assets are very liquid so the selling pressure is not important for these amounts

This will create a very small buying pressure on the AAVE token

This table evaluates the total AAVE budget needed per round for the 80AAVE-20wstETH LP & proposes to split bribes ⅔ on vlAURA & ⅓ on veBAL.

The fact of using auraBAL yield, vlAURA voting power & part of the SM budget will increase the overall emission power of the Aave DAO (only 405/770 would be spent per day with the following estimations)

Breakdown of the budgets & estimated emissions for vlAURA & veBAL Quests

vlAURA bribed:

veBAL bribed:

In addition to the emission generated from bribes, the committee can also vote using the vlAURA holdings & exclude itself from the Quests creation using the blacklist feature, enabling to attract more votes for the same expenses.

80AAVE-20wstETH strategy

As mentioned earlier, Quest V2 was recently released with new features such as:

- Ranged Quests: Enable to define a min & max price for votes incentives

- Multi Quests on same gauge: Ability to create vlAURA & veBAL Quests separated to leverage the difference in emission power

- Bribes to LM, recycled or claimed: Option reallocate unspent rewards on a Quest

- Cross chain Quests availability

In addition to existing features in v1 already (Fixed Quests, Multi-Layers, Custom duration & Whitelist/Blacklist targeting). More infos on Quest v2 can be found [here](#).

This strategy aims to create two Quests: The first one bribing vlAURA (which blacklists the committee multisig) & one bribing veBAL.

Overview of budget & expected emissions

Ranged Quests Parameters

The following calculations estimates that 75% of the current StkABPT TVL will migrate to 80AAVE-20wstETH, reducing from $120M to $90M. It also targets the range APR voted on the TEMP CHECK for volatile LPs: 8% to 12% APR.

Using the budget mentioned on the table above, here's an estimation with min, average & max amount of votes bribed:

SM current vs proposed strategy overview

Current SM emissions

Proposed SM emissions (until Stable LP category is added)

Both StkAAVE & StkABPT TVL are expected to drop at least by 25%, however this is mostly compensated by GHO & wETH deposits, so the total SM cover is not reduced a lot but it is slightly more diversified.

Once GHO will be repegged, another ARFC will be submitted to propose stable LPs categories & update the emissions budget (which might need to be increased back) & associated distribution.

Recap Metrics Updates

Any AAVE unspent until then should be accumulated as a reserve for stable LPs incentives once live.

TEMP CHECK Part V: Strategic Assets Management

The liquidity committee is already live & currently focused on GHO repeg operations. Once done, the next focus will be to build a strong liquidity around the peg.

Additionally, the StrategicAssetManager supporting veBAL & vlAURA (needs to be updated to support vlLIQ & vlCVX).

In the meantime, the liquidity committee locked the vlAURA & staked auraBAL on the multisig to avoid lost time. vlAURA position will be transferred to the SAM contract once unlocked.

This proposal aims to increase the committee scope by adding the SM incentives management, which includes:

- Periodically receive AAVE from the ER (SM budget) on the committee multisig to create volatile LP Quests & deposit Single assets LM rewards

- Claim auraBAL staking rewards & swap BAL/USDC to AAVE

- Periodically transfer & lock AURA for vlAURA on the SAM contract once moved

- Create vlAURA ranged quest every round with AAVE rewards

- Create veBAL ranged quest every week/round with AAVE rewards

- Vote on the smBPT gauge with vlAURA holdings every round

Technical Implementation

While the single assets can be added quickly, the smBPT strategy might require more time for an audit necessary to ensure the new strategy & associated contracts are safe. Assuming that [@bgdlabs](#) will handle all technical implementations, can you confirm please ?.

An overview of the infra proposed can be found[here](#).

Next steps

If this ARFC is approved:

- Deploy the wrapper contract which mints smBPTs (BGD if they agree)

- Enable new assets to be added in the single assets category (BGD if they agree)

- Escalate this proposal to an AIP including AAVE transfer to the LC

- Publish the smBPT gauge proposal on Balancer

- Start the rewards allocation & strategy (LC)

Disclaimer

This proposal was worked under Llama scope until the end of their contract, and was continued by myself afterwards as an Aave community & LC member. The author is also a delegate in the Paladin DAO governance.

Outside of Llama, who was a service provider for the Aave DAO until the end of September, the author didn't receive any compensation for the creation of this proposal.

Should the Aave DAO implement these SM upgrades ?

- YAE

- NAY

- ABSTAIN

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voters