Summary

The Aave Polygon Collector contract holds around $8.6mm aTokens earned by the reserve factor. These are predominantly in the form of stablecoins USDC, USDT and DAI. Migrating these as well as smaller amounts of WETH, BAL and WMATIC to the polygon v3 market will help further bootstrap the v3 market at minimal cost.

Context

There are significant Aave Collector aToken balances on legacy Polygon v2 to the value of approx. $8.6mm. Aave collector aToken balances can be thought of as protocol owned liquidity earning interest in their respective pools. They come from reserve factor collections of interest income.

To drive further adoption of v3 markets we propose migrating the USDC, DAI, USDT, WETH, WMATIC and BAL tokens to their respective v3 market. This would help bootstrap liquidity in the most borrowed tokens on Polygon v3. The utilization rates in the v3 market will come down as the reserves increase, reducing the interest rates which should incentivize borrowing there rather than in the v2 markets.

The current state of aTokens in these Polygon v2 Aave Collector contract and the Aave v3 Treasury contract can be seen below.

Should the reserves mentioned above migrate from v2 to v3 the impact on the respective markets will be as per the tables below. All these markets are significantly larger in v2 than v3 currently. The USDC and DAI markets have higher utilization in v2 than v3 while the others have approximately the same or higher in v3.

This means that because the market sizes are smaller in v3, the APY impact of additional liquidity will be larger in v3 than v2, i.e. APYs will decrease more in v3 than they will increase in v2.

The impact of this will be to make borrowing relatively more attractive on Polygon v3 rather than v2, increasing total borrowing there rather. This will help further bootstrap this v3 market similar to permanent incentives without the cost. The three major stablecoin reserves on Polygon v3 will increase significantly (USDC 12%, DAI 71%, USDT 25%).

The benefit to Aave from this proposal is further bootstrapping of the v3 market as well as a portion continued interest earned from these aTokens over a long period of time. This is not tactical in any way and current figures have been included to help the community view potential second order impacts rather than short term APY differentials.

The protocol owned aTokens will also benefit from the additional safety of Aave v3 as an additional benefit as well as operating in the preferred market.

There is a similar difference in the size of protocol owned liquidity between the Avalanche v2 and v3 markets. We recommend starting with Polygon only in this process as Avalanche v2 utilization rates are currently significantly higher which could cause some unintended consequences should liquidity get removed suddenly.

Once these utilization rates decrease a similar process could happen in those markets too.