

Authors: [Traver, Ryan](#) - Governance Analyst | [Messari Governor](#)

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Simple Summary

This post aims to initiate a discussion surrounding the impact of the Aave Staking Module on the Aave DAO's governance.

Background

[\[Discussion\] Safety Module](#)

It is important to not forget that the SM has a core role in the Aave governance, and the numbers provided seem to support that, with an important percentage of the current AAVE rewards coming back to the ecosystem in one way or another.

We suggest analyzing from the governance point of view too because one of AAVE's main utilities is its governance power.

The recent discussion surrounding the redesign of Aave's Safety Module began with [a comment](#) from [@John_TV_Locke](#), followed by a [discussion](#) created by [@Llamaxyz](#). In response to the latter post, [@bgdlabs](#) raised awareness of the fact that any change to the Safety Module would result in a direct impact on Aave governance, where stkAAVE plays a core role.

Introduction

With recent discussions surrounding Aave's Safety Module underway, [@tnorm](#) and I have found inspiration in the feedback provided by BGD. We strongly agree with the comments surrounding the need for proper analysis and due diligence from a governance angle before considering any potential redesign. We decided it would be best to analyze the potential impacts of this implementation in an independent forum post in an effort to not distract from the valuable discussion taking place in regards to Safety Module design.

The goal of this post is to initiate productive discourse surrounding the role of the Safety Module in the Aave DAO's governance. We aim to achieve this by providing a brief analysis of the current landscape, possible alternatives, and areas to explore further. This post, by design, does not draw a definitive conclusion and is intended to act as a starting point for further community discussion.

Summary: The Safety Module's Role in Aave Governance

The Aave DAO is governed by a combination of AAVE and stkAAVE holders. Aave Stakers are incentivized to remain mission-aligned with the protocol (by risking slashing in the case of a shortfall event) and are rewarded with protocol voting power. By design, this loop incentivizes both protocol insurance and quality governance decisions.

Analyzing Stakers' Activity in Aave Governance

In its current design, AAVE emissions are distributed exclusively through the Aave staking module on Ethereum Mainnet. Therefore, all AAVE distributed through the staking module is immediately available to govern the protocol. Currently, the circulating supply of stkAAVE is 3,289,288.48, representing 23% of circulating AAVE (14M) ([Source](#)). Given that ~20% of AAVE is locked in the Safety Module, it is important to understand the impact that stkAAVE has on the DAO's governance.

Current Delegation Stats:

- stkAAVE Delegated Voting Power: is 858,230.51.
- AAVE Delegated Voting Power: 571,790.71.
- stkAAVE Delegated Proposal Power: is 1,587,067.68.
- AAVE Delegated Proposal Power: 659,094.54

(Source: [Dune - @aave_companies](#))

Current Governance Participation (On-Chain)

The chart below displays the average of all on-chain proposals' participation rates for a given month. The participation rate is defined as the sum of voting power that voted divided by the total amount of potential voting power. The highest percentage of voter turnout the DAO has seen was 20.7%, on AIP 14 ([Source](#)), with the highest average turnout hitting 5.1%. There are external factors that may play a role in the low turnout, such as the gas fees required to vote. However, it is worth noting that this is significantly lower than other on-chain DAOs, like ENS, Gitcoin, Uniswap, and Compound (who sit above 25% participation), and is even lower than less active DAOs like dYdX (5.3%).

(Source: [Messari Governor - Aave DAO Profile](#))

(Note: The 'potential votable supply' (AKA circulating supply) used is likely much less as there are many tokens in LPs, Centralized Exchanges, and Aave's Ecosystem Reserve. Emphasizing again, a more thorough analysis is needed here.

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Potential Alternatives

The [recent discussions](#) on the Safety Module consider whether or not the SM is an effective insurance fund for depositors, not if it is an effective way to reward mission-aligned agents. With that, the initial questions we should be asking are:

1. Are SM emissions optimized for rewarding mission-aligned agents? Or simply for paying for insurance?
2. If emissions are optimized sufficiently, how does that alignment change if the asset deposited into the safety module changes from AAVE to a more liquid asset?
3. What dependencies does Aave's governance module have regarding the Safety Module? (I.e., what implications will a Safety Module re-design have on Aave's governance, from a technical perspective?)

As discussed above, incentivizing Safety Module stakers to take on the slashing risk makes sense, and we will leave that mechanism debate to the other thread. However, if changes are made to the SM, it is important for the community to begin thinking of ways to minimize the impact on DAO's governance.

Some potential ideas that may be worth exploring:

- Independent Staking Module without Safety Module.
- Liquidity Rewards for Aave V3/GHO.
- Bonds for GHO PoL
- GHO safety module
- stkAAVE rewards could assist with GHO depositor retention via underlying GHO incentives for stkAAVE holders (discounted minting).
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Further Research: Areas To Expand With Deep Research

Granular Aave Voter Study

While touched on above, it would be valuable to understand the DAO's voter composition on a granular level to understand the role stkAAVE plays in governance decisions.

Governance Token Distribution

Is there an alternative method to the Safety Module that could entice voters, and perhaps have a greater RoI in terms of governance involvement? It goes without question; the Aave DAO is one of the best run, and higher signal DAOs in the space. However, it may be valuable to at least obtain a deeper understanding on alternative methods for emissions and the possible RoI they may bring in terms of governance.

Alignment of Users and Governance Participants

Are users of the protocol (depositors and borrowers) participating in governance? Do they hold AAVE tokens to be able to participate if a vote would impact their usage?