

title:

[TEMP CHECK] Update Balancer ecosystem holdings

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Simple Summary:

Explain AIP-42 proposal & gauge the community thoughts to update the strategic assets from veBAL to an alternative solution increasing the emission power considering current metrics.

Background:

In March 2022, Llama proposed a strategic partnership with Balancer [Part I](#) & [Part II](#)). The DAO used the BAL to buy B-80BAL-20WETH LP tokens, that would be locked for veBAL. This position was meant to be used for its emission power, enabling rewards redirection on AAVE & GHO gauges.

This estimated veBAL position & market metrics at the time were taken into account for the [SM upgrade proposals](#) (which includes migrating the current LPs to Balancer V2, implement new categories & slashing parameters, define the smbPT gauges, updates incentives management, create a strategic asset management framework, and further considerations.)

Considering that veBAL was likely to be needed before the SM upgrade implementation, Llama introduced the [StrategicAssetsManager contract](#), creating a base framework to manage assets from Governance or with a committee. The TEMP check vote ended mid July, and the contract was submitted to BGD for review after.

From Llama's side, the code supporting veBAL position is already implemented via the StrategicAssetManager contract and can be deployed pending community feedback. However, an external proposal from Aura drastically impacted the veBAL strategy early August.

Motivation:

On July 28th, [a proposal \(AIP-42\) was submitted](#) on the Aura governance forum, with the goal of improving \$AURA distribution efficiency especially on L2s and alignment of parties receiving Aura rewards.

While there are benefits for Aura and vAURA holders, this proposal also directly impacts veBAL holders in several ways, which is why the Aave DAO should be aware of it.

The proposal (approved on August 6th) considerably impacts the \$AURA emissions by reducing the base distribution by 60%, which is compensated by \$AURA distributed from the treasury, but only to vAURA voters according to their voting weight on gauges.

As a reminder, there are min & max APR on Balancer, depending on veBAL holdings/boost acquired, while Aura is using its share of the veBAL supply to boost LPs & add AURA rewards in return of a fee on BAL rewards, making it more efficient for most LPs to deposit.

For this reason, the value of incentives generated per 1\$ of bribes can take into account BAL + AURA emissions, which was equivalent before AIP-42 (i.e you'd get the same emission power by farming on Aura & voting with veBAL or

with vAURA)

Post AIP-42 this changes, because:

- veBAL emission power is limited to BAL + base Aura rewards (reduced by 60%)
- vAURA emission power is increased with BAL + base AURA + additional AURA rewards from Treasury

Aura will keep boosting LPs with its veBAL share, and should keep a higher APR than Balancer for depositors.

Considering that emissions changes took effect on August 24th on Aura, it's still early to draw conclusions and it might take time for the market to react & adapt. While some changes can already be observed, it might take at least 1-2 extra rounds (2-4 weeks) for the market to normalize.

Potential impacts of AIP-42 related to Aave utilization:

- veBAL emission power reduced:

As only vAURA can redirect extra rewards from the treasury, 1 veBAL will have less emission power than the equivalent vote in vAURA.

- veBAL holders migration to vAURA:

Assuming that veBAL holders are considering to switch to vIAURA, it could have several sub impacts:

- veBAL holders choosing to let their position decay to exit (increased BAL emission per veBAL: temporary if ppl then migrate to auraBAL or another wrapper effectively relocking veBAL, but not if assets are sold for AURA and locked.)
- If veBAL holders sell their BPT for AURA on market, the AURA price would increase because of the limited liquidity. It could also impact BAL price and B-80BAL-20WETH liquidity.
- If the veBAL accumulation by Aura protocol is not following this potential migration, it would lead to a dilution of the veBAL underlying vote per vIAURA (a small decrease was already visible over the past days, to 0,1566 veBAL/vIAURA currently)
- veBAL/vIAURA bribe cost update by the market:

Some changes are already visible on bribe marketplaces, but we should expect more updates to happen in the coming weeks: Since veBAL has less emission power, the bribe cost should also decrease. On the other side, since the overall AURA emission is lower, so the bribe cost also seem to decrease, but the value / veBAL vote should increase, creating a decorrelation in the pricing depending on which asset is bribed. Another aspect to take in consideration post AIP-42 is the proportion of vIAURA votes / total votes bribed.

Before Aura proposal, the emissions were equivalent, but now, whether the split is 20% veBAL 80% vIAURA or the opposite considerably changes the results, so it's most likely to see vIAURA bribed first.

Pros of switching to vIAURA:

- Max emission power on DAO owned strategic assets
- 4 months lock (compared to veBAL lock time is 1 year)
- No decay on vIAURA, meaning no need to relock weekly
- Voting are calculated in round (2 weeks) so less votes to cast

Cons of switching to vIAURA:

- AURA liquidity is small so it can be an issue if Aave DAO wants to acquire AURA on market but OTC deals can be considered
- Risk of efficiency reduction if the Aura protocol BAL accumulation doesn't follow the vIAURA supply increase.
- No veBoost on vIAURA (but Aura deposits are boosted with their veBAL share)

vIAURA allows for more agile management. Considering that Aave DAO voted to lock veBAL but didn't lock it yet, it makes sense to consider an update of the strategic assets allocation.

Other Considerations:

- Long-standing strategic relationship between Aave and Balancer
- Cost of selling B-80BAL-20WETH BPT
- Cost of acquiring vIAURA via OTC deals
- Understanding any potential security and ecosystem risks involved
- Dev resources to add vIAURA support to current StrategicAssetManager
- Review time by BGD of the vIAURA implementation

Specifications:

This TEMP CHECK presents the Aave governance with the opportunity to consider an update of the Balancer ecosystem holdings (B-80BAL-20WETH) for an alternative solution. This would mean dedicating part (or all) of the current B-80BAL-20WETH holdings to acquiring vIAURA in order to retain the max emission capacity of the voting power held by the DAO.

If this proposal is approved, ARFCs will be published:

- To add vIAURA support to the StrategicAssetManager contract (Llama)
- To share options considered for AURA tokens acquisition (TokenLogic)

Disclaimer:

Currently contributing to TokenLogic & Llama as a strategist, I participated in the Llama proposals mentioned above and am currently working on SM strategy, as well as on the GH0 liquidity strategy with TokenLogic.

The analysis can be useful for both purposes above but is published on my own initiative, so this proposal is not requesting compensation from any third party. This TEMP CHECK has been prepared to facilitate understanding & community discussion.

Next Steps:

TEMP CHECK: Gather community feedback and sentiment towards the proposal of updating Balancer ecosystem holdings for a more efficient solution with the following voting options:

- Yes, update the strategy
- No, use veBAL as initially voted
- Abstain

ARFCs: If the TEMP CHECK Snapshot indicates positive sentiment, proceed to the ARFC stage for further discussion, analysis and finalization of the proposal.

AIP: If the ARFC stage Snapshot is successful, submit the proposal as an AIP for voting and on-chain governance approval.