

Summary

This proposal seeks community approval for the DAO to implement a new aToken primitive called “Staked aTokens” that would allow the Aave Protocol to participate in Vote-Escrowed economies. This new primitive would allow for the use of Liquidity Provider (“LP”) tokens from ve-based protocols, like Balancer or Curve, as collateral while participating in those protocols’ ecosystems. LP tokens are locked at their corresponding vaults (e.g., gauges) producing increased rewards that are distributed to suppliers to the Aave Protocol.

Under this proposal, users could use their LP positions as collateral while earning a variety of rewards with a maximized rate (also known as “boost” and referred to as increased rewards throughout this proposal). This brings a new wave of strategies like leveraged LP positions which can increase user rewards greater than the 2.5x limit and tap into the stability of listed stablecoins.

If approved, the Aave DAO Treasury could generate revenue from staking rewards. Further, this would also allow the Aave DAO Treasury to participate in the veToken economy and attract additional users.

The purpose of this ARC is to garner community feedback on the above recommended implementation and to start discussions around the listing of a set of Balancer Pool Token (“BPT”) assets.

Introduction

The Vote-Escrowed Token (“veToken”) model created by the Curve Finance team is a demonstrated way to build long-lasting user-ship (and thus, liquidity) within a protocol. Lately, many DAOs, such as the Balancer Protocol DAO, have adopted the veToken model standard, allowing their LP assets to be staked into Liquidity Gauges to receive rewards which can be enhanced through the locking of their governance token (BAL).

Once staked into the liquidity gauge, users can claim rewards for providing liquidity to the protocol, but their liquidity remains idle and cannot be used as collateral without the user losing their increased rewards.

An Aave Protocol integration with the veModel ecosystem unlocks a new use case for liquidity providers, allowing liquidity positions to be used as collateral in the Aave Protocol whilst participating in the original protocol’s ecosystem and continuing to receive their original staking rewards. This would serve LPs who would then benefit from far greater capital efficiency.

The first proposed integration is with the Balancer Protocol, where the Balancer DAO adopted the veModel with the launch of veBAL. To be effective, one of the Aave Protocols contracts must be allowlisted in the Balancer Protocol. This action requires approval by the BalancerDAO.

Further, there is a decision to be made on where this new collateral type would be listed. We encourage the community to discuss this further and would welcome input from community contributors, as there are numerous community-driven options, including bringing this to the regular V3 market using the relevant security measures such as isolation mode, or launching a new V3 AMM Market.

We are interested to hear from other DAO communities about additional proposed integrations with other veToken economies, such as the Curve Protocol.

How it works

To support Balancer LP assets as collateral and to be able to increase the rewards of suppliers, a smart contract named BalancerVeRouter would be in charge of the integration with the VotingEscrow smart contract, allowing Aave Governance to turn the BAL/WETH 80/20 BPT into veBAL, stake BPT assets from suppliers, participate in the gauge weight voting, and claim Balancer Protocol revenue directly within the Aave DAO Treasury.

The BalancerVeRouter contract must be allowlisted by the Balancer community through a proposal that passes via Snapshot in the BalancerDAO. The BalancerVeRouter contract is generic and supports other Ve-like contracts.

The Balancer LP assets supplied to the Aave Protocol will be staked at the Liquidity gauges by the BalancerVeRouter contract, allowing users to claim increased rewards.

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Picture 1

1384×375 133 KB

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Distribution of rewards

The protocol distributes to users the rewards generated by staking the LP assets, depending on the weight and the duration of the supply. A protocol fee could be activated to send a portion of the staking rewards to the Aave DAO Treasury.

Below is a sequence diagram of how claims are rewarded:

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Picture 1

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Aave Governance can boost Aave suppliers

The Aave DAO Treasury already holds a sizable amount of BAL tokens that can be paired with WETH and locked in the B-80BAL-20WETH pool from the BalancerVeRouter contract to enhance the Balancer rewards. These rewards are proportionally distributed to all the BPT suppliers inside the Aave Protocol.

Below is a simple diagram explaining the role of the Aave DAO as it relates to the BalancerVeRouter contract:

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Picture 1

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Risk

Because of the interoperability and integration of different protocols, Staked ATokens have greater smart contract risk than common AToken implementations. Therefore, listing Staked ATokens in a different, isolated market can serve as an additional safeguard.

- Layers of smart contract risk:
- Staked AToken introduces additional logic to manage rewards and user staked positions. The rewards logic is based on the battle-tested code of Aave Rewards contracts.
- The risk of Balancer and Curve smart contracts is low because they have been live in use for a sustained period of time and their smart contracts are immutable.
- Staked AToken introduces additional logic to manage rewards and user staked positions. The rewards logic is based on the battle-tested code of Aave Rewards contracts.
- The risk of Balancer and Curve smart contracts is low because they have been live in use for a sustained period of time and their smart contracts are immutable.
- Admin risk. The BalancerVeRouter, which is immutable and one of the core contracts, has admin capabilities, where the admin is proposed to be the Aave Governance short executor. Actions that can perform the Aave Governance as admin include the following:
 - Aave Governance can register ATokens into the Rewards System;
 - Aave Governance can perform an emergency rescue of all assets in the system;
 - Aave Governance can lock veToken assets into Balancer gauges to earn increased rewards;
 - Aave Governance is the manager of all rewards;
 - Aave Governance can delegate the voting power of the locked veToken to an address; and
 - Aave Governance can delegate the boosting power to an address.
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- Aave Governance can delegate the voting power of the locked veToken to an address; and

- Aave Governance can delegate the boosting power to an address.

It is important to note that following broad approval of this ARC, the implementation of the necessary contracts for implementation will be reviewed by two security audit firms to minimize risk.

Conclusion

This ARC is focused on getting community feedback on a new AToken primitive named “Staked ATokens” as part of the Aave Protocol and stimulating discussion around the listing of Balancer LP assets.

Ultimately, this could have a wide array of benefits for the Aave DAO and users of the Aave Protocol. For example, the Aave DAO could gain a new source of revenue whilst becoming part of the governance of Balancer, a closely aligned protocol. At the same time, users of the Aave Protocol would be able to use LP tokens as collateral and earn increased rewards.

Next Steps

This proposal intends to start a discussion around the above implementation. Following a period of discussion, it will go to Snapshot to signal broad approval for the proposal.

If approval is granted by the DAO, the following steps will be taken to implement necessary changes:

1. Proposal in BalancerDAO to present the built implementation and ask to be allowlisted.
2. Proposal in AaveDAO for listing an initial set of BPT assets based on community discussion.
3. Proposal in AaveDAO to deploy treasury BAL and ETH and provide an initial reward boost to Aave BPT suppliers.

If the community were to show a desire to list the mentioned collateral type on a V3 AMM on Ethereum then this would add an extra step, which would involve launching the V3 AMM.

We are excited to hear the community’s thoughts on this proposal and believe that it will enhance the Aave Protocol.