

title: ARC - Strategic Partnership with Balancer

status: Proposed

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Simple Summary

Acquire 300,000 BAL tokens via a combination of performing a BAL for AAVE token swap and via deploying a Bonding Curve contract. The BAL tokens are to be deployed to earn yield and used to direct incentives to new aToken Boosted Pools when Balancer's new tokenomics system is launched, [1].

Abstract

Perform a token swap with Balancer by exchanging 14,666.67 AAVE from the Economic Reserve for 200,000 BAL token. Exchange rate \$AAVE \$150 and \$BAL \$11. Deploy a Bonding Curve to acquire an additional 100,000 BAL tokens on market at the chainlink oracle price +50 bps, for a cost \$1,105,500 with BAL at \$11. This is in addition to the existing 1,604 BAL in the Reserve Factor.

Aave will become one of eight token holders with 300,000 BAL tokens. All 300,000 BAL tokens are to be deposited into the Balancer V2 BAL:ETH (80:20) pool and participate in Balancer's revised tokenomics come 28th March. This is equivalent to approximately 3.80% of the BAL:ETH pool at the time of writing.

Initially, the veBAL will be used to vote BAL rewards to pools which support aTokens that create TVL for Aave and/or AAVE liquidity pools.

Motivation

Aave and Balance have a long history of working together. The AAVE : ETH (80/20) Balancer V1 pool BPT is accepted within the Aave Safe Module and the newly created Balancer Boosted Pools drive TVL to Aave markets, [2].

When the AAVE : ETH (80/20) Balancer V1 pool is moved to Balancer V2 and integrated into Aave's Safety Module, the veBAL tokens can be used to vote BAL rewards to the newly created AAVE : ETH (80/20) Balancer V2 pool.

In addition, the veBAL can be used to vote BAL rewards to Balancer Boosted Pools which utilise Aave markets in the background to create yield for passively held liquidity, [3]. There are likely to be many more Balancer Boosted Pools that utilise aTokens in the future and the veBAL votes can be used to help bootstrap these pools by directing BAL rewards to those pools. Using veBAL to vote for BAL rewards to pools that strengthen Aave is a strategic advantage of deploying the BAL tokens into the BAL:ETH pool.

By exchanging AAVE for BAL, the tokenswap reflects the ongoing collaboration and shared vision through governance in each other's community. The token exchange, plus additional acquisition, is significant enough for Aave to become a Top 30 holder of BAL tokens, based on etherscan BAL holder rankings, [4]. Balancer will become a Top 80 AAVE holder, [5]. Each community will have influence in the other's governance process, enabling them to best represent their interests and to collaborate.

Aave will likely be one of the first movers in the upcoming BAL wars and will gain a strategic advantage to bootstrap new Balancer Boosted Pools which lead to tokens being deposited in Aave markets to earn yield. This has the benefit of creating TVL and Revenue for Aave.

The initial sizing to acquire 200,000 BAL was something that was reached via discussions with the Balancer community and happens to be the same size as the recent Tribe DAO and Balancer token swap, [6]. The additional 100,000 BAL purchase is something that could be extended in the future.

The initial cost from the Economic Reserve is 14,666.67 AAVE and \$1,105,500 from the Reserve Factor with BAL at \$11. This places Aave inside the Top 30 BAL holders which is an important consideration. If an additional 75,000 BAL was acquired then Aave would become a Top 20 holder and this includes three community wallets, one Polygon bridge pool and the main BAL liquidity pool. So really it would be more like the Top 15 holders if another 75,000 BAL was acquired.

The initial sizing was also determined by the ability to influence how the BAL emissions are to be distributed. If all BPT from the BAL : ETH pool are converted to veBAL, Aave will receive 3.8% of the 14,500 BAL emission schedule which is equivalent to 551 BAL weekly, or \$6,061/week at \$11/BAL or \$315,172/year. This is approximately 9.5% ROI in Year 1 based on 3.8% of the veBAL supply. This is direct yield for supply BAL : ETH liquidity. Other deployments from the Reserve Factor will also earn BAL rewards over time, [7].

With 3.8% of veBAL supply, Aave will determine where 3,085 of the 81,200 BAL tokens are to be distributed each week via the Ethereum mainnet pool gauge. This is equivalent to 5% APR on a \$35.30M pool without any compounding or other yield sources like swap fees or yield from Aave markets. This is sufficient to support bootstrapping new liquidity pools that support growing TVL for the Aave community. Given the size of the Aave community investment in the Balancer community, it is reasonable to think that Liquidity Mining Committee may also be voting to allocate a portion of there 14,500 weekly BAL emission to support Balancer Boosted Pools which drive TVL to Aave markets.

Implementation

The token swap is to be performed by both Balancer and Aave by depositing tokens into a contract like how Tribe DAO swapped TRIBE for INDEX, [8].

A Bonding Curve deployment utilising Chainlink's BAL/USD oracle feed with a 50 bps incentive for arbitrage trades to acquire BAL on market and deposit into the contract. Aave will provide USDC to fund the Bonding Curve contract. An example of this type of transaction occurred when Tribe purchased \$10M of DPI on market, [9].

The 50 bps fee is to provide an economic incentive for arbitrage traders to attain BAL on market and deposit BAL into the contract profitably by more than offsetting gas costs. This mechanism enables everyone within defi to participate and essentially crowdsources the BAL tokens on Aave's behalf. Once the BAL has been received it will be transferred to the Reserve Factor from there it will be deployed into the BAL : ETH pool on Balancer V2 and then into the veBAL contract.

References:

- [1] [Introducing veBAL tokenomics - Proposals - Balancer](#)
- [2] [Pool management - Balancer](#)
- [3] [Balancer](#)
- [4] [\\$17.88 | Balancer \(BAL\) Token Tracker | Etherscan](#)
- [5] [\\$186.55 | Aave Token \(AAVE\) Token Tracker | Etherscan](#)
- [6] [FIP 33: Swap between Balancer DAO and Fei DAO - Proposals - Tribe](#)
- [7] [ARC - Consolidate Aave V1, V2 & AMM Reserve Factors, Purchase CVX and Deploy to Earn Yield](#)
- [8] <https://github.com/fei-protocol/fei-protocol-core/blob/develop/contracts/utis/OtcEscrow.sol>
- [9] [BondingCurve | Address 0xbf5721c5e1c370f6f1a3e21b3972e0ace93a1e84 | Etherscan](#)

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Amendments:

Change Token Swap Terms:

- From “exchanging 14,666.67 AAVE from the Economic Reserve for 200,000 BAL token. Exchange rate \$AAVE \$150 and \$BAL \$11.” to “200,000 BAL from the Ecosystem Fund would be exchanged for the equivalent USD value of AAVE in equal proportions from DAO Treasury, using the 90-day moving average price when the votes pass on both sides.”

Providing Liquidity for veBAL:

- Aave is to provide ETH when depositing BAL as to prevent significant negative price impact that could occur adding all that BAL as single sided liquidity in the 80/20. At the time of writing Aave holds around \$336K in [V1](#) and \$258K in [V2](#) Reserve Factors which is more than enough to meet the 80/20 BAL/ETH requirements.