

DISCUSSION OF "PHANTOM LIQUIDITY IN  
DECENTRALIZED LENDING" BY ANDREAS  
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# SUMMARY

- How DeFi lending protocol to bootstrap liquidity?
  - equity incentives: protocol token
- How effective this way of bootstrap liquidity?
  - Before and after at pool and protocol (cross pool) level
  - Reduce utilization by 3.7p.p. and 2p.p. on Compound and Aave (hence the effect on the size of liquidity pools is sticky?)
  - Depositors forfeit \$602M in interest
  - Borrowers saved \$649M.
  - Net positive effect of \$47M (7% of LM)
  - 25% of TVL is phantom

# REWARDS

- Aave: \$193M (85% StableCoin).
- Compound: \$453M (83% StableCoin).
- Are rewards given heterogeneously for borrowing versus lending? For stablecoins or for volatile coins?
- Fact: Most DeFi borrowings are StableCoins and deposits are in volatile coins.
- is it intuitive for platform to give more reward to stable coin deposits (rather than borrowing)? Similar for borrowing of volatile coins (instead of deposits)?
- If there are any asymmetric rewards, maybe the authors can design a cross-pool treatment analysis?
- Some detailed description of the rewards will be helpful rather than a dummy variable in or out of reward phase

## PHANTOM, FLEETING OR STICKY LIQUIDITY

- Because of haircut (20-25% for stablecoins), flash mint brings additional liquidity (net of borrowing from deposits) which is not phantom, but might be flighty.
- In addition to utilisation ratio, borrowing cost and deposit rates, maybe the variable of interest should be the stickiness of bootstrapped liquidity?
- Who are the liquidity providers that stay on after yields aggregators are out?
- More phantom liquidity, more sticky liquidity or the other way round?
- Instead of conducting before and after a reward increase analysis and before and after a reward decrease analysis separately, is it possible to analyse liquidity provision before the start of LM activities (increase and decrease) and after the unwinding of LM? It is difficult to assess the stickiness with two separate event studies.

## SOME QUESTIONS

- 54% of addresses lose, Max gain: \$38M, Max loss: \$18M
  - Why the dispersion since the reward is common knowledge?  
What are the risks?
- borrow rate = deposit rate + reserve
  - can we calculate the NPV of protocol token give the interest rate spread and volume for each pool? to see if that is correlate with the price of protocol token and hence evaluating profitability of flash mint strategy?

# CONCLUSION

- Very interesting findings
- More results on the stickiness of liquidity supply
- Very important question for all financial intermediaries including DeFi: finding stable liquidity supply