Delphi Digital

PowerPool might capture a sizable governance stake in the top DeFi projects across the sector. With a slight change to their strategy, it could even become a governance blackhole.

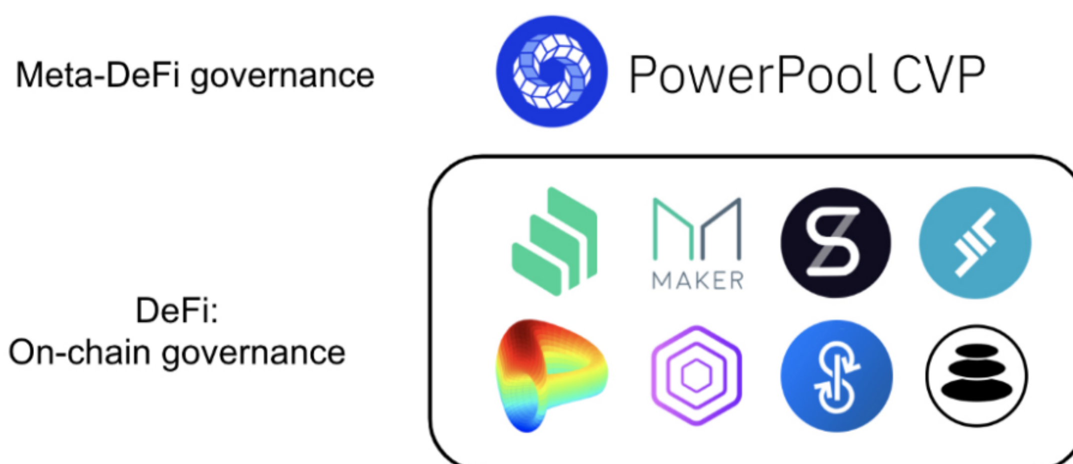
A Power Play For PowerPool

Medio Demarco · Saturday, August 29th, 2020

Disclosures: Delphi has recently taken a position in CVP. This is intended to disclose the potential conflict of interest and should not be misconstrued as a recommendation to purchase CVP. Delphi Digital did not take part in the Alpha or Beta rounds but is interested in joining the Gamma. Participating in future liquidity mining programs comes with risk, which people should evaluate based on their own risk tolerance.

How valuable is governance? In many ways, control is everything. It's the power to change strategy, alter the economics and decide who reaps the benefits. Governance is an area our team has focused on heavily recently, as evidenced by our entry into DXdao. In that situation, one appealing factor was the ability to vertically integrate the DeFi stack under one governance structure. DXdao would expand its portfolio of DeFi applications either through forking existing protocols or developing new products in-house to further differentiate its offering. There is an alternative strategy for arriving at a similar place though. You can either create a DeFi "conglomerate" by building the diverse suite of services in-house, or you can create it by capturing governance in existing protocols which already have adoption. It's the latter idea that made PowerPool's new model so fascinating to us. However, we believe there's a way to make it even better. A way to create a governance blackhole.

PowerPool is a new protocol set to launch, aiming to accumulate governance power in DeFi applications. To start, market participants deposit their governance tokens into the protocol (i.e. COMP, LEND, YFI, etc.). When held by individuals, these governance tokens give their owners little actual sway over the direction of their respective applications. When aggregated in PowerPool, however, the governance power of these tokens becomes a significant voting block. PowerPool's token, CVP, then decides how the pooled governance tokens will vote. This "meta governance" structure functions much like a political party and, in the future, PowerPool could even be thought of as a Berkshire Hathaway type entity. The ability to take a coordinated, controlling interest in the top DeFi apps across the sector is something that could be truly powerful.



Why would you add liquidity to PowerPool? Because you'll be rewarded with CVP tokens, as part of their liquidity mining program, while also earning more governance tokens via the interest that gets paid from people borrowing assets from the protocol. The voting power at any given time is the net difference between the amount of governance tokens deposited and the amount being borrowed. For example, let's say 100 COMP tokens are deposited into PowerPool, of which 25 of them get lent out. A governance vote for Compound then occurs. CVP holders decide how the 75 pooled, yet idle, COMP tokens will vote, while also earning interest on the 25 COMP being

lent. We’ve seen the frenzy that can occur when people are given the opportunity to farm a popular governance token. With PowerPool, they will have an opportunity to farm governance power across the entire sector.

This model does have a major drawback though. Namely, if and when the liquidity for those governance tokens gets pulled, PowerPool’s influence can severely diminish, if not disappear entirely. Given how fluid we’ve seen liquidity be, as people chase the hot new yield farm each week, this is a serious concern. With this in mind, we came up with a better strategy. Rather than paying out the interest earned from lending governance tokens, why not redirect it to a reserve owned by PowerPool, with the key stipulation that the assets are never sold. That way even if people pull their liquidity in the future, PowerPool has a way to maintain its influence in perpetuity, to some degree. 80% of the total CVP supply is set to be distributed during their liquidity mining program, which should generate more than enough yield to attract deposits even with no interest being paid out.

There are a number of benefits to this change. By never selling the governance tokens in its reserve, PowerPool has the potential to become a governance blackhole. It gives CVP holders a long-term stake in all of the major DeFi protocols across the sector. The reserve of governance tokens could generate yield for CVP holders from the potential future cashflows paid out by the protocols in its portfolio. It allows the benefits received from the liquidity mining program to be far stickier and long lasting. It turns a potentially negative activity (i.e. people borrowing governance tokens to go short) into a positive one by redirecting the interest towards a long-term holder. Even the token projects themselves might appreciate that part of their supply is being siphoned off into a contract where it won’t lead to selling pressure in the future. After the liquidity mining period ends, and the CVP rewards go away, PowerPool can always revert back to its current design of paying out interest to attract liquidity. Perhaps that won’t be necessary, as people realize the intrinsic value that can come from amassing governance power. For some, accumulating CVP could be a strategic imperative. High profile projects themselves may even want to deposit their own tokens into PowerPool to gain influence over their competition.

With all of that being said, there’s still a lot to be worked out and it remains to be seen if this governance experiment will be a success. Our team will be advising PowerPool on the economics and length of their liquidity mining program which is set to kick off soon. We are cautiously optimistic for what comes next.