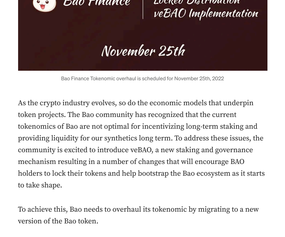
Bao Finance token migration, locked distribution, and veBAO implementation

Baowolf · Follow · 6 min read · Nov 7, 2022

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Bao Finance Tokenomic overhaul is scheduled for November 25th, 2022

As the crypto industry evolves, so do the economic models that underpin token projects. The Bao community has recognized that the current tokenomics of Bao are not optimal for incentivizing long-term staking and providing liquidity for our synthetics long term. To address these issues, the community is excited to introduce veBAO, a new staking and governance mechanism resulting in a number of changes that will encourage BAO holders to lock their tokens and help bootstrap the Bao ecosystem as it starts to take shape.

To achieve this, Bao needs to overhaul its tokenomic by migrating to a new version of the Bao token.

Finally, users will be able to start their distribution of locked Bao where the locked balance of Bao on Ethereum and Bao coupons on Gnosis chain will be merged to unite governance power from those two deployments.

Launch details

The launch of our token migrations and veBAO distribution will begin on November 25th, 2022. At that date, Bao holders and farmers will be able to :

- Swap BaoV1 for BaoV2
- Begin their locked Bao distribution
- Convert their locked Bao to veBAO

The farming on Bao Finance that has been ongoing for almost two years will end on November 19th at the Ethereum block #16002086 (https://etherscan.io/block/countdown/16002086)

Snapshot will be taken after block #16002086 to calculate the exact amount of locked BAO and Bao coupons each Bao Farmers has on both chains that will be used to start the distribution or vesting of locked BAO.

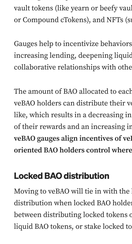
When veBAO is deployed, any current BAOv1 liquidity providers (BAOv1/ETH and BAOv1/USDC LPs) will have to move to new BAOv2 liquidity and then stake it in a veBAO gauge for BAOv2 rewards.

The LPs Bao will incentivize and seed liquidity under the new governance model are

- BAOv2/ETH UNI LP
- baoUSD/3CRV Curve LP
- bSTBL/DAI Curve LP

Why veBAO was implemented?

veBAO works by allowing holders to stake their BAO tokens and lock them for any period of up to 4 years and receive veBAO in return, in proportion to the lock length. veBAO tokens do not trade on liquid markets, nor are they transferable. Instead, they function like an account-based point system that denotes the duration of the tokens' lockdown in the protocol.



Your veBAO balance will dictate your share of:

Governance power: 1 veBAO = 1 vote and holders of veBAO will be able to vote on where to direct rewards for Bao synths liquidity. This provides an incentive for holders to stake their tokens so that they can direct rewards to pools that benefit them the most.

Boosts: Rewards for liquidity providers will be increased if they stake their BAO tokens, up to a 2.5x boost for staking BAO tokens for a maximum of 4 years. This again will provide a clear incentive for holders to lock their tokens in the veBAO system and help to boost liquidity.

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Revenue distribution: Finally, veBAO has introduced a new revenue-sharing model that more fairly distributes revenue generated by the network. This means that BAO holders who stake their tokens for longer will receive a larger share of any revenue generated, providing yet another incentive to lock BAO tokens. 100% of Revenue will be collected from all products and distributed in baoUSD to veBAO holders.

Gauges

veBAO improves how well incentives are aligned throughout the protocol. One of the tools it uses to achieve this is "gauges". Gauges are smart contracts that reward depositors with BAO tokens (and potentially other tokens) in exchange for deposits such as LP tokens (like Curve LP or Sushi LP tokens) vault tokens (like yearn or beefy vaults), lending deposits (like Aave aTokens or Compound cTokens), and NFTs (such as Uniswap v3 NFT positions).

Gauges help to incentivize behaviors that are helpful to the protocol such as increasing lending, deepening liquidity in specific pairs, and growing collaborative relationships with other projects.

The amount of BAO allocated to each gauge is called the "gauge weight". veBAO holders can distribute their voting power across gauges however they like, which results in a decreasing influence for users or pools that sell most of their rewards and an increasing influence for those that do the opposite. **veBAO gauges align incentives of veBAO holders so that the most long-term oriented BAO holders control where the BAO emissions go.**

Locked BAO distribution

Moving to veBAO will tie in with the beginning of the locked token distribution when locked BAO holders will have the opportunity to choose between distributing locked tokens over 3 years to gradually gain access to liquid BAO tokens, or stake locked tokens for 3+ years to gain veBAO.

Both options have their own benefits, and it is important to carefully consider which one is best for you.

If you decide to distribute your locked tokens over 3 years, you will be able to gradually gain access to liquid BAO tokens and have the opportunity to end your distribution early, receiving up to 5% of your tokens still to be unlocked early and giving the rest back to the project. This option may suit those who would like less of a commitment while ensuring tokens are still unlocked in a sustainable manner.

On the other hand, if you decide to stake your locked tokens, you will be able to instantly unlock your access to governance power, boosts, and revenue distribution. This option is best for those who are ready to commit to participating in the Bao ecosystem. Whichever option you choose, locked BAO holders have been an essential part of the Bao ecosystem and should carefully consider their options before making any decisions.

BAOv2 Token Migration

As part of the migration to veBAO, we will also be migrating to a new token. In order for our BAO token to be compatible with the veBAO contracts, we need to reduce the supply by a factor of 1000. To do this we will create a swap contract that burns BAO tokens and replaces them with BAOv2 tokens at a ratio of 1000:1.

A token migration also allows us to fix a number of other problems. The old unlocking mechanism, set in the very early days of the project, was too aggressive for the project to safely handle. The BAOv2 token migration means it can be changed to a more sustainable one that the community has chosen for itself.

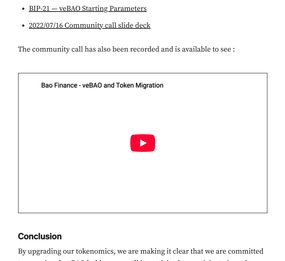
Merging BAOcx (Bao coupons on Gnosis Chain) and BAO tokens will fix governance so that BAOcx holders have the say in the project they should. We can also define properly the vested BAO the guardians should own, giving them some governance power over the project and providing a clear incentive for guardians to contribute. All Guardians will equally share the 6% of the token supply allocated to the dev fund. Their Bao tokens will all be max locked in veBAO.

I want to learn more!

We did not cover every detail in this article. To learn more about the token migration, veBAO implementation, and locked distribution, please refer to the following resources :

- BIP-14 — Token Migration & Distribution
- BIP-21 — veBAO Starting Parameters
- 2022/07/16 Community call slide deck

The community call has also been recorded and is available to see :



Conclusion

By upgrading our tokenomics, we are making it clear that we are committed to ensuring that BAO holders are well incentivized to participate in and support the ecosystem. The imminent introduction of veBAO represents a major shift in the economic philosophy of Bao finance. By aligning itself more closely with long-term holders who participate in the network, the protocol is seeking to create a more stable and secure ecosystem. We believe that this change will benefit all BAO holders, and we look forward to seeing how it unfolds in the months and years ahead.