

## Summary of Discussions on Euler Discord and LobsterDAO (3–4 November 2025)

### 1. Context

In early November 2025, Keyring Network's USDC vault on Euler reached full utilization amid stress across DeFi lending markets. The situation escalated as concerns emerged about Elixir's deUSD exposure to Stream Finance's xUSD, revealing complex interdependencies between protocols on Avalanche.

Keyring's representative (flipdazed) engaged the community through Euler's Discord to clarify risk exposure, later mirrored by a wider discussion in LobsterDAO chats. These exchanges provide a real-time case study of cross-protocol credit contagion in DeFi.

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### 2. Key Points from Euler Discord

#### a. Immediate Observations

- Non-Keyring vaults reached 100% utilization; Keyring's vault hovered at 95%, then also filled completely.
- Flipdazed reassured users that Keyring had no direct exposure to xUSD, only indirect exposure via deUSD (Elixir).
- Keyring's rate cap at 15% APR avoided the high-volatility "firesale" dynamics seen in vaults with 500% APY.

#### b. Investigation Findings

- Community researcher Saul (YAM) identified Stream Finance as the primary borrower of deUSD-related positions through on-chain evidence.
- Elixir's lending loop: USDC → xUSD → deUSD/sdeUSD → Keyring vault, implying circular TVL inflation.
- Flipdazed verified:
  - Stream is the main borrower.
  - Elixir claims 1:1 redemption rights on xUSD.
  - The unstake period for sdeUSD remains 7 days, not 90.

#### c. Risk Interpretation

- Stream's position was viewed as self-referential risk, but paradoxically stabilizing: defaulting would depeg its own asset.
- Keyring's stance: pause new deposits, monitor borrowers, and communicate transparently.
- Proposal: isolate the sdeUSD vault and socialise a side-pocket to protect small LPs.

#### d. Technical Takeaways

- Euler vaults treat LPs as senior tranches, borrowers as junior.
- The issue transformed what should be overcollateralized lending into credit exposure.

- Consensus: avoid rate spikes and let Elixir and Stream unwind orderly.

### 3. Key Points from LobsterDAO Discussions

#### a. Kingdom Chat

- Flipdazed reiterated exposure as reputational rather than financial.
- He analyzed lender risk, borrower profiles, and vault parameter adjustments.
- Personal alignment: "I have my kids' school fees and my mum's pension in this vault."
- Estimated near 100% recovery but warned of weeks of legal delay pending Elixir-Stream settlement.
- Criticized restaking schemes for unpriced credit insurance exposure ("cheap CDS in disguise").

#### b. Main Chat

- Participants acknowledged the circular leverage: Elixir funding Stream, Stream minting xUSD, and looping back.
- Some called Stream partially insolvent (missing ~\$93M), though Elixir's contractual seniority offered partial protection.
- Broader systemic discussion:
- DeFi = Prime Brokerage Layer: protocols lending to hedge-fund-like borrowers.
- Hardcoded \$1 oracles mask true NAV risk.
- Calls for real-time proof-of-reserves and Basel-like DeFi risk standards.
- Flipdazed introduced Keyring's forthcoming "DeFi Liquidation Risk Framework" paper proposing standardized credit risk disclosure.

### 4. Combined Analysis

Aspect	Description	Risk Implication
<b>Primary Exposure</b>	\$6M USDC lent via Elixir to Stream	Credit + operational risk
<b>Collateral Type</b>	sdeUSD (deUSD derivative backed by xUSD)	Self-referential; weak integrity
<b>Vault State</b>	100% utilization	Liquidity freeze risk
<b>Mitigation Plan</b>	Freeze vault, isolate exposure, socialized side-pocket	Fairness & containment
<b>Expected Outcome</b>	Majority recovery after legal process	Time delay, not total loss
<b>Industry Lesson</b>	Need for standardized credit-risk oracles and CDS-like coverage	Structural reform required

## 5. Conclusions

- Keyring's financial exposure appears limited, but systemic risk from circular RWA-style loops is evident.
  - The event highlighted the illusion of stable collateral in credit-linked DeFi systems.
  - Keyring's response prioritized transparency, orderliness, and governance-led containment rather than reactive liquidation.
  - Across both communities, the consensus formed that DeFi urgently needs formalized risk frameworks, dynamic oracles, and credit insurance primitives.
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## 6. References

- Euler Discord Chat (3–4 November 2025)
- LobsterDAO Kingdom & Main Chats (4 November 2025)
- On-chain data: Snowtrace & DeBank (Stream, Elixir contracts)
- Stream & Elixir public communications (X/Twitter)