Title: [ARFC] Stablecoin Harmonization and Asset Parameters Optimization

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Simple Summary

This ARFC proposes focusing stablecoin collateral usage on USDT and USDC while setting LTV to zero for less-trafficked stablecoins and long-tail assets. The objective is to minimize risk for the protocol, optimize revenue generation, and align with market demand trends.

Motivation

Aave's revenue primarily comes from wETH borrowing and stablecoins borrowing. Years of User behavior data in DeFi indicates a low demand for fluctuating assets as collateral except in use-case-specific scenarios (LST/LRT loops for Weth, RPL borrow to deploy mini pools). Based on @ChaosLabs data, only 2.4%, 3.7%, and 5.8% of supplied DAI, USDT, and USDC on Ethereum are being utilized as collateral. We can also note that market demand for alternative stablecoins is less sensitive to borrow rates compared to blue-chip stablecoins like USDT and USDC.

The DAO governance has been lenient in onboarding some collaterals, such as KNC, which currently attracts nearly zero traction (currently used to generate 0.79$ of borrow volume) and generates minimal revenue. Additionally, the asymmetric risk presented by stablecoins, such as during the CRV event (collateral was USDC with very high LT and low LB), highlights the need for optimization considering Risk/reward.

Specification

Proposed Adjustments:

The ACI proposes the following strategy shift:

1. Focus on USDT and USDC as primary stablecoin collaterals.

2. Set LTV to zero for alternative stablecoins and long tail assets.

3. Enable a 3%/week LT reduction for these stablecoins assets, providing ample time for users to react and keep them as passive yield sources or borrowable assets that represent 99% of current user demand and most of protocol revenue.

4. Propose the following adjusted standardized ReserveFactor categories for Aave assets:

Collateral Type

Reserve Factor %

wETH

15%

USDC/USDT

10%

Alternative stablecoins & long tail assets

20%

DAI

25%

1. Fade out as collateral the following stablecoins:

2. FRAX

3. LUSD

4. EURS

5. agEUR

6. JEUR

7. MAI

8. freeze (if not already), then slowly offboard the following alternative stablecoins and long-tail assets that failed to gain traction by gradually increasing RF to 99.9%, decreasing LT by 3% per week then applying incremental interestRateStrategies incentivizing users to switch to others collaterals or borrowed asset as the DAO implemented for BUSD and TUSD on Aave V2:

Collateral Type	Network
EURS	All pools
agEUR	All pools
JEUR	All pools
MAI	All pools
KNC	Ethereum
STG	Ethereum
BAL	All pools
FXS	Ethereum
UNI	Ethereum
WBTC.e	Avalanche

Next Steps

1. Community feedback and gather consensus on the proposed adjustments.

2. Proceed to ARFC snapshot stage for formal community sentiment check.

3. If successful, escalate to AIP stage.

Disclaimer

This proposal is made independently by the ACI.

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