

title: [ARFC] Optimism v3 Supply Cap Update

shortDescription: Increase the Supply Cap for wstETH on Aave Optimism v3

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## Summary

This publication proposes increasing the wstETH Supply Cap on Aave Optimism v3.

## Abstract

The current utilisation of wstETH 91.75%. This publication proposes increasing the Supply Caps to enable greater deposits into Aave Optimism v3.

## Motivation

As supply of wstETH on Optimism and deposits in Aave v3 continue to grow, the Supply Cap requires continual updates to reflect market conditions.

Current utilisation is 91.75%, with a cap of 12,000 units and a wstETH supply of [35,574.52](#) units on Optimism.

Predominately, most large wstETH collateral holdings are being used to borrow wETH. However, there are a few large addresses borrowing stable coins. Using Chaos Lab's [Risk Explorer](#), assuming the price of wstETH drops by 20%, there is \$0 bad debt incurred to Aave Protocol.

The largest wstETH collateral and stable coin debt users have reasonably conservative health factor ratings. Some are also using multiple assets as collateral and are passively holding funds that could be deposited into Aave Protocol as collateral.

If such positions were liquidated the wstETH>>wETH>>USDC routing is most effective assuming liquidators are reverting back to an initial stable coin holding.

There are 5 wallets holding more than 510 aoptwstETH. However, when viewed in aggregate the larger wallets with stable coin debt have health factors around 1.45-1.50. Current liquidity exceeds that required to liquidate the largest positions.

Due to the favourable liquidity conditions, how users are interacting with Aave Protocol, this publication seeks to increase the Supply Cap by 75%. This represents 59.03% of wstETH supply on Optimism.

When LST Supply Caps have been raised on other networks, they have been filled quickly. This highlights the need for larger Supply Cap increases to reduce governance overhead, but also to support communities building on Aave. When Supply Caps are reached, products built on top of Aave are adversely affected.

With reference to the new [ARFC Aave V3 Caps update Framework](#) it is possible to ship several upgrades to gradually increasing Aave's exposure to wMATIC over time.

## Specification

The following risk parameters have been proposed by Llama.

Ticker: wstETH

Contract: `[optimism:0x1F32b1c2345538c0c6f582fCB022739c4A194Ebb`

`](https://optimistic.etherscan.io/token/0x1f32b1c2345538c0c6f582fcb022739c4a194ebb)`

Parameter

Current Value

Proposed Value

SupplyCap

12,000 units

21,000 units

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