Simple Summary

A proposal to reduce Liquidation Threshold (LT) and Loan-To-Value (LTV), for CRV on Aave V2 Ethereum.

Motivation

Following our recommendations to decrease Aave's exposure to CRV on V2 Ethereum here, we propose a series of LT and LTV reductions. The first reduction in this cycle of LT updates was executed on July 3rd, 2023. Since the initial post proposing to reduce the LTs for CRV, we've observed over 12M CRV withdrawn from V2 Ethereum.

Given the current conditions and protocol usage, we propose 2 options for the community to vote on:

1. "Aggressive" (Chaos recommended) - 6% reduction. This option suggests an LT configuration that optimizes the reduction without significantly increasing the number of accounts eligible for liquidation. The proposed values are set at a margin of 8% from the closest LT figure, which would trigger more substantial liquidations, as can be seen in the supporting graphs here.

2. "Moderate" - 3% reduction. This option is aligned with the previous reduction and the Risk-Off Framework previously approved by the community, with a reduction of up to 3% in any given AIP.

In the table below, we share data to quantify and visualize the effect of the recommended reductions on protocol users.

Option	Liquidation Threshold	Accounts Liquidated	Liquidation Value
Moderate	52	3	$46
Aggressive	49	5	$116

As Liquidation Threshold reductions may lead to user accounts being eligible for liquidations upon their approval, we want to clarify the full implications to the community at each step. Chaos Labs will publicly communicate the planned amendments and list of affected accounts leading to the on-chain execution.

Specification

Asset	Parameter	Current Value	Recommendation	Change
CRV	LT	55	49	-6%

CRV

LTV

49

43

-6%

Recommended LT and LTV values will be finalized after the Snapshot between the "aggressive" and "moderate" options

Next Steps

1. Following community feedback, submit the ARFC for a snapshot vote for final approval.

2. If consensus is reached, submit an Aave Improvement Proposal (AIP) to implement the proposed updates.

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