Title

: [ARFC] Offboard DAI from V3 eMode

Author

: [@mcsquared](#) Allez Labs

Date

: 2024-05-10

Summary

Remove DAI from Aave V3 stablecoin eMode.

Motivation

The Aave DAO has [voted](#) to reduce the LTV and LT of DAI across all active markets iteratively in a response to [governance unpredictability](#) and the perceived risks [MakerDAO has undertaken](#) with DAI's collateral. The current plan as we understand it is to offboard DAI as a collateral asset. As such this temp check gauges the DAOs appetite to keep DAI on as an eMode asset on the V3 Arbitrum, Avalanche, Optimism, and Polygon markets, or to remove it.

Specification

Remove DAI from stablecoin eMode across all markets where it is active.

Market

Asset

Current eMode Category

Proposed eMode Category

Arbitrum

DAI

1 (stablecoins)

0 (no eMode)

Avalanche

DAI

1 (stablecoins)

0 (no eMode)

Optimism

DAI

1 (stablecoins)

0 (no eMode)

Polygon

DAI

1 (stablecoins)

0 (no eMode)

Analysis

Currently DAI is listed as a stablecoin eMode asset on all V3 markets which have stablecoin eMode enabled - Arbitrum, Optimism, Polygon, Avalanche. Its use is moderate as both an eMode collateral asset and as eMode debt, representing less

than 1% of value supplied and borrowed on V3 Arbitrum, Avalanche, and Optimism and less than 2% on Polygon V3 Markets.

Despite this relatively small scale, stablecoin eMode poses a significant risk vector for the protocol. Historical events, such as the sharp, non-correlated price volatility witnessed during the Silicon Valley Bank (SVB) collapse in March 2023, have led to insolvencies within the protocol. Infact, the majority of the bad debt on V3, amounting to approximately $360,000, arose from the USDC depegging event, primarily from eMode positions.

While currently, the risk of insolvencies is low, keeping DAI as an eMode asset will continue to allow high leverage DAI positions on the protocol. As there is concern with high LT/LTVs on non-eMode positions, we believe it is most consistent to remove DAI from eMode to control risk.

Market	Asset	Supplied	Borrowed	eMode Collateral*	eMode Borrowed*	Annualized revenue est from DAI eMode debt*	Collateral available for liquidated
Arbitrum	DAI	10.9m	9.0m	20k	272k	$7.0k	9k
Avalanche	DAI	4.4m	3.6m	121k	173k	$4.5k	57k
Optimism	DAI	4.3m	3.5m	100k	40k	$1.3k	

60k

Polygon

DAI

18.0m

14.0m

807k

2.0m

$56.0k

205k

*eMode usage numbers here are found by looking at positions that have eMode enabled, are supplying an eMode asset, and have an active eMode borrow. In short, these are the positions which are using eMode. Annualized revenue estimated with current RF and average 30 day (variable) borrow rates. As of May 9th.

Impact of DAI eMode removal

Removing DAI from eMode will materially impact the health factor of many eMode accounts due to the relatively large discrepancy between the eMode LT and non-eMode LT (95% to 77%). In the above table, we see estimated liquidations may reach $330k if implemented today. However, in the past, active borrowers (as many eMode stablecoin users are) have responded to governance changes that may impact their position, and we anticipate many would close or change their positions in anticipation of any eMode governance changes.

Market

DAI eMode LT

DAI LT (post V3 AIP 87)

Arbitrum

95%

77%

Avalanche

95%

77%

Optimism

95%

77%

Polygon

95%

77%

Notable impacted accounts:

User

DAI as eMode Collateral

Market

[0x6244](#)

270k

Polygon V3

[0x5b8e](#)

122k

Polygon V3

[0x0fe2](#)

92k

Polygon V3

Alternative

:

Alternatively to removing DAI from eMode the DAO can consider decreasing the stablecoin eMode category LT/LTV. While this would mitigate some of the risk of a DAI depeg, this would remove the competitiveness of Aave V3's eMode category as a whole. We do not recommend this.

Recommendation

:

At this time, we recommend removing DAI from eMode despite it only representing a modest portion of total DAI borrowed from and used as collateral in the protocol. We suggest pausing any further DAI LT reductions on markets with stablecoin eMode since this further increases potential liquidations from such an eMode change. Since this process cannot be done in phases like previous large LT reductions, we recommend communicating through relevant channels the impact such a change will have, and monitoring potential liquidations, while only proposing an AIP for this change once the value liquidated is deemed minimized.

Disclaimers

None

Next Steps

- Gather community feedback
- Snapshot

Copyright

: Copyright and related rights waived via CC0.