Simple Summary

A proposal to reduce Liquidation Thresholds on Aave V2 Ethereum.

Motivation

Following the [deprecation schedule](), Gauntlet and Chaos recommend the following parameter changes to frozen assets on Aave v2 Ethereum. 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. We will publicly communicate the planned amendments and list of affected accounts leading to the on-chain execution.

Specification

Aave v2 Ethereum

Asset	Current LT	Rec LT
CRV	0.25	0.18
ENS	0.3	0.24
LINK	0.75	0.74
MKR	0.26	0.18
UNI	0.4	0.2
ZRX	0.18	0.12

	Value liquidated	Accounts liquidated
Total	$14K	39

Next Steps

We will move forward with the [direct-to-AIP framework]() and publish an AIP to implement the proposed updates.

Appendix

Gauntlet Analysis

Recommendations

Aave v2 Ethereum

Following the [deprecation schedule](), we recommend the following conservative and aggressive parameter changes to frozen assets on Aave v2 Ethereum. The conservative recommendations aim to limit the maximum amount liquidated per asset to $10,000, and the aggressive recommendations aim to limit the maximum amount liquidated per asset to $25,000.

Out of 25 frozen assets, there are already 18 assets (1INCH, AMPL, BAL, BAT, BUSD, CVX, DPI, ENJ, FEI, FIL, KNC, MANA, RAI, REN, SNX, SUSHI, UST, YFI]) with LT <= 0.01.

Conservative:

Under these recommendations, each asset will see less than $10,000 of its collateral liquidated. In total, this will affect 30 accounts, leading to a cumulative liquidation of $15,956.56 in collateral value.

Asset	Current LT	Rec LT	Value Liquidated ($)	Accounts Liquidated	Cur HF	New HF	Needed HF
CRV	0.25	0.15	7056.17	6	16.5453	16.5122	1.08
ENS	0.3	0.24	287.65	1	1.47165	1.45246	1.05
LINK							

0.75

0.74

38.71

1

2.00041

1.98981

1.07

MKR

0.26

0.18

4895.92

6

1.45832

1.43855

1.07

UNI

0.4

0.29

3283.49

14

1.77218

1.75737

1.07

ZRX

0.18

0.09

394.62

2

2.09883

1.60495

1.29

Aggressive:

Under these recommendations, each asset will see less than $25,000 of its collateral liquidated. In total, this will affect 43 accounts, leading to a cumulative liquidation of $32,352.87 in collateral value.

Asset

Current LT

Rec LT

Value Liquidated ($)

Accounts Liquidated

Cur HF

New HF

Needed HF

CRV

0.25

0.15

7056.17

6

16.5453

16.5122

1.08

ENS

0.3

0.24

287.65

1

1.47165

1.45246

1.05

LINK

0.75

0.74

38.71

1

2.00041

1.98981

1.07

MKR

0.26

0.18

4895.92

6

1.45832

1.43855

1.07

UNI

0.4

0.2

19679.8

27

1.77218

1.74525

1.07

ZRX

0.18

0.09

394.62

2

2.09883

1.60495

1.29

Chaos Labs Analysis

LT Reductions

Aave v2 Ethereum

Moderate (recommended)

The moderate recommendations below suggest an LT configuration that optimizes reductions without significantly increasing the number of accounts eligible for liquidation. The proposed values are set at a margin of ~2-4% from the closest LT figure, which would trigger more substantial liquidations.

Asset

Current LT

Chaos Rec LT

Value Liquidated ($)

Accounts Liquidated

CRV

25%

18%

3.37k

4

ENS

30%

25%

144

1

Asset	Current LT	Chaos Rec LT	Value Liquidated	Accounts Liquidated
LINK	75%	74%	38	2
MKR	26%	18%	2.27K	6
UNI	40%	20%	11.17K	25
ZRX	18%	12%	203	2

	Value liquidated	Accounts liquidated
Total	$14.13K	39

Aggressive

The aggressive recommendations below suggest an LT configuration that limits the current value liquidated per asset at $100K. These recommendations ensure the deprecation of ENS and UNI

Asset	Current LT	Chaos Rec LT	Value Liquidated ($)	Accounts Liquidated
CRV	30%	18%	3.37k	4

ENS

38%

0.05%

86.81K

17

LINK

80%

74%

38

2

MKR

28%

15%

35.35K

21

UNI

55%

0.05%

91.13K

55

ZRX

24%

12%

203

2

Value liquidated

Accounts liquidated

Total

$221,100

92

Disclaimer

Gauntlet and Chaos have not received any compensation from any third-party in exchange for recommending any of the actions contained in this proposal.

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