

Simple Summary

Gauntlet recommends freezing CRV collateral on Aave v2 to prevent the V2 market from continuing to add CRV and increasing concentration risk.

Our rationale for freezing CRV remains the same from the [freeze proposals](#) in November 2022, [freeze recommendations](#) and [rationale](#) in June and [recommendations](#) post Vyper Exploit in August. The main consideration is the risk profile of [0x7a16ff8270133f063aab6c9977183d9e72835428](#) as discussed below.

Motivation

What does freezing CRV on V2 do?

As outlined in the [Post Mortem on CRV](#), freezing CRV on Aave V2 prevents new CRV borrow and supply. It doesn't prevent additional borrow against CRV collateral (up to CRV LT), however, users must reduce HF of their positions if they want to borrow more against their CRV collateral.

The position's health factor has improved, why does Gauntlet still recommend freezing CRV?

The user has been unwinding (withdrawing CRV and repaying borrow) and has a higher health factor of 2.17. Most of the prior pushback on freezing CRV was that it would prevent the user from topping up more CRV collateral to maintain health factor. Now that the position is withdrawing CRV and repaying debt, there's more reason to prevent future additional CRV supply. The user unlocks 137,150.88 CRV tokens daily until Aug 2024. Hence, they still have the potential to deposit more CRV as collateral on Aave V2 if CRV was not frozen, which would add [more risk to the protocol](#).

What are scenarios that freezing CRV can help prevent?

As of Aug 9, the user has been maintaining debt positions of \$15m FRAX at 1.95 HF on Fraxlend, \$7.7m DOLA at 1.57 HF on Inverse, and a new position borrowing \$2.5m of USDT/USDC at 2.22 HF on Cream. We want to avoid the scenario where they borrow more on Aave to pay back other protocol loans, which happened last week when they borrowed more USDT on Aave to repay their less healthy FRAX loans last week. Such actions would increase CRV concentration and risk of insolvency on Aave. Freezing CRV protects the protocol against this risk and incentivizes the user to repay Aave borrow, rather than top up CRV collateral.

How has the position reacted to previous freeze proposals?

As shown in the time series borrow and supply chart in the [CRV Post Mortem](#), the user has been supplying CRV since the initial Gauntlet [proposal](#) to freeze CRV in Nov 2022, perhaps considering that there is a possibility of being unable to top up more CRV if the freeze proposal passes.

How does freezing CRV impact other CRV related parameter recommendations?

- Set CRV LTV → 0: freezing CRV strengthens this recommendation, since freeze limits borrow against CRV collateral, by preventing additional CRV collateral to be added (which increases the position's available borrowing capacity).
- Reduce CRV LT/LTV on V3 Ethereum/Polygon: no material impact. One can imagine that freeze CRV on v2 may drive CRV migration to v3.
- CRV V2 LT reduction schedule: further incentivizes repayment of debt by preventing the refill of supply.

Next Steps

Welcome community feedback and this proposal will escalate to AIP stage.

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