

Summary

This proposal suggests adding DPI to the Ethereum V3 Liquidity Pool and freezing DPI on the Ethereum V2 Liquidity Pool.

Motivation

Overview

DPI is an index token redeemable for a basket of ERC-20s. Due to an extremely low market cap and trading volumes, combined with centralization considerations, we recommend listing it in Isolation Mode on Aave V3 on Ethereum and freezing DPI on Aave V2.

Market Cap and Trading Volume

Through 2021 DPI held a market cap between \$100M and \$200M with daily trading volumes in the \$Ms. However, throughout 2022 the market cap has decreased drastically, staying between \$10M-\$30M for the past three months, with daily trading volume rarely crossing the \$200K mark. On top of the low market cap and low trading volume, there is also implied centralization risk of DPI compared with the direct holding of the basket of underlying assets.

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Liquidation Threshold

Analyzing DPI price volatility over the past year, we see that over the past year, we observed daily annualized volatility of 80% and 30-day annualized volatility of 83%. Considering this volatility, we support an initial LT of 70%.

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We recommend listing DPI as borrowable under reasonable limits of supply and borrow caps, as we do not observe a significant risk to the protocol by allowing to borrow DPI, as long as it is bound by a well-defined cap.

Debt Ceiling

Following Chaos Labs' Isolation Mode Methodology, which we will publish shortly, we recommend an initial debt ceiling of \$2.5M. Under the methodology for Isolation Mode, we consider two levels of probabilities for extreme price drops - Medium-High and High. We estimate DPI probability for an extreme price drop as Medium-High. Given this debt ceiling, we do not identify a profitable attack vector under the current liquidity levels.

Supply and Borrow Cap

Following Chaos Labs' approach to initial supply caps, as introduced with the [Metis deployment recommendations](#), we propose setting the Supply Cap at 25% of the circulating supply to 75K. Given the redemption of DPI to underlying assets, we consider DEX liquidity to be secondary in this case. Accordingly, we recommend a borrow cap of 40K DPI.

Cross Collateral Considerations

Moving assets from AAVE V2 to AAVE V3 Isolation Mode comes with a limitation of disabling cross-collateralization, which is available on V2 but not on Isolation Mode. However, given the arguments above we believe DPI should be listed in isolation mode.

While cross-collateralization will not be available, we have looked into the composition of assets supplied by accounts that supply DPI to Aave V2. As can be seen below, the vast majority of assets supplied by accounts that supply DPI to Aave V2 are already listed on Aave V3. This will ensure that those accounts can supply the same tokens on V3 with the only limitation of the Isolation Mode, as stated above.

Specification

Ticker: DPI

Contract Address: [0x1494CA1F11D487c2bBe4543E90080AeBa4BA3C2b](#)

Based on the above, we recommend listing DPI on Ethereum V3 in Isolation Mode with the following parameters:

Risk Parameter

Value

Isolation Mode

YES

Enable Borrow

YES

Enable Collateral

YES

Loan To Value

65.00%

Liquidation Threshold

70.00%

Liquidation Bonus

7.50%

Reserve Factor

20.00%

Liquidation Protocol Fee

10.00%

Borrow Cap

40,000

Supply Cap

75,000

Debt Ceiling

\$2,500,000

Variable Base

0.00%

Variable Slope1

7.00%

Variable Slope2

300.00%

Uoptimal

50%

Together with listing DPI on Aave V3 DPI will be set to freeze on Aave V2 on Ethereum.