TL;DR

The halting of mint/burn functions of renTokens has disturbed the offer/demand dynamics for renFIL on Aave v2 Ethereum.

Given that liquidity of renFIL will reduced to 0, we recommend lowering to the minimum the parameters of the interest rate strategy, to not accumulate extra growth of renFIL on the borrowing side.

Context

As explained in this post, given its previous acquisition by Alameda, the Ren team decided to settle all the ren tokens of their network (renBTC, renFIL, etc), in order to make a clean slate and transition to a Ren v2 protocol.

In practice, this means that first, minting of renTokens has been disabled (e.g. native FIL → renFIL on Ethereum), and second, burning will be disabled in the upcoming days (e.g. renFIL → native FIL).

When fundamental levers of asset creation/redeem for listings on Aave get affected, the dynamics of offer/demands get affected too, and so this should be taken into consideration for the configuration of the interest rate strategy.

How this affects Aave?

The only renToken listed in some way on Aave is renFIL: only as deposit/borrow asset (not collateral) on Aave v2 Ethereum.

Initially, the impact on Aave should have not been noticeable: borrowers should be interested in releasing their collateral by first repaying their borrowings of renFIL; depositors should be interested in withdrawing their renFIL deposits, in order to burn them to FIL back.

But the situation has evolved slightly differently, creating a new scenario for the protocol.

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renFIL on Aave v2 Ethereum

Currently, there is ~21'410 arenFIL supply (claims on renFIL deposits) and approximately the same variable debt borrowings, given the 100% utilization.

A total of 17 addresses are holding arenFIL and 31 have a variable debt of renFIL.

In order for renFIL to "settle" on Aave v2 Ethereum, the following should happen:

1. Borrowers acquire (if they don't have already) renFIL.

2. Borrowers repay their renFIL borrowings.

3. Depositors withdraw the now available renFIL.

But right now, that flow is blocked, because there is no liquidity of renFIL on DEXes

. So the only possible scenario for a "closure" is for borrowers to acquire renFIL tokens OTC, or if they choose to not do it (or refill their collateral), their position will be liquidated by the renFIL remaining holders.

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top10renfil

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Current top 10 holders of renFIL, potential liquidators

What to do?

Given the upcoming halting of renFIL burning to FIL (no complete certainty on when exactly will happen), it is highly probable that the renFIL liquidity on Ethereum will become non-existent, not allowing neither borrowers to find liquidity to repay, nor liquidators to liquidate.

In a scenario like that, from our perspective, keeping the variable debt borrowings growing at 100% utilization doesn't give any value, as that growth is just virtual: no more renFIL will be minted. A further step will need to be discussed by the community once the liquidity and final closure of renFIL itself are clear.

Because of the previous reasons, and given that could be important to act quickly, we will create an on-chain governance proposal to reduce to the minimum the interest rate strategy parameters of renFIL.