

[ARFC] Proposal to Remove USDS from sUSDe Liquid E-Mode in Aave Prime Instance

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Date:

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Summary

This proposal recommends the removal of USDS from the sUSDe Liquid E-Mode in the Aave Prime instance.

Motivation:

The sUSDe Liquid E-Mode was introduced to enhance capital efficiency for users by allowing higher loan-to-value (LTV) ratios when using sUSDe as collateral to borrow stablecoins like USDS. See proposal for more context.

[\[ARFC\] Onboard and Enable sUSDe liquid E-Mode on Aave v3 Mainnet and Lido Instance](#)[Governance

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[ARFC] Onboard and enable sUSDe liquid E- mode on main Instance Mainnet and Lido InstanceAuthor: ACI (Aave Chan Initiative) Date: 2024-11-06

ARFC updated 2024-11-08 with latest Risk Parameters provided by Risk Service Providers.

Summary This proposal aims to enable sUSDe liquid E-Mode on Aave v3 Mainnet for the Main and Lido instances. By implementing this change, we seek to enhance capital efficiency for borrowers using sUSDe as collateral, particularly for borrowing other stablecoins. Th...

However, recent market observations have indicated increased borrow rates and potential liquidity mismatches involving USDS within this E-Mode. To address these concerns, this proposal suggests temporarily removing USDS from the sUSDe Liquid E-Mode in the Aave Prime instance.

The primary motivations for this proposal are:

1. Risk Mitigation:

The inclusion of USDS in the sUSDe Liquid E-Mode has led to elevated borrow rates and potential liquidity mismatches.

1. Collateral Isolation:

Until a wrapper is available to isolate USDS collateral in the Prime instance, USDS remains the primary exposure. Removing it from the sUSDe Liquid E-Mode will help manage associated risks more effectively.

1. User Impact:

This change will not negatively impact existing user positions but will prevent the establishment of new ones involving USDS in the sUSDe Liquid E-Mode, thereby safeguarding current users while mitigating potential future risks.

Specification

The proposed changes are as follows:

• Asset Removal:

Exclude USDS from the sUSDe Liquid E-Mode in the Aave Prime instance.

• Parameter Adjustments:

Update the E-Mode configuration to reflect the removal of USDS, ensuring alignment with the protocol's risk management framework.

• Liquidation buffer improvement:

echoing concerns from [@LlamaRisk](#) and other service providers, sUSDe emode on both Prime & Core instances are set to

increase their buffer for liquidations.

- Increase Liquidation Bonus from 3 to 4% on e-modes on Core and Prime instances.
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Current ARFC will be reviewed by Risk Service Providers and their feedback will be included in the current ARFC.

Disclaimer

This proposal is directly powered by ACI (Aave Chan Initiative). ACI did not received compensation for creation of this proposal.

Next Steps

1. If consensus is reached on this ARFC, publish a Snapshot vote.
2. If Snapshot vote is positive, publish an AIP vote for final confirmation and enforcement of the proposal.

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