

## Simple Summary

Gauntlet recommends increasing WETH Reserve Factor from 15% to 20% in the v3 Ethereum market.

## Motivation

In v3 Ethereum, WETH has \$1.1 billion in borrows, primarily against WETH LSTs. With a 15% Reserve Factor and a 2.35% Borrow APR, WETH generates an annual reserve growth of \$3.87 million. With a 75% utilization rate, the WETH Supply APR stands at 1.50%. Increasing the Reserve Factor from 15% to 20% would increase annual reserve growth by 33%, adding an extra \$1.29 million yearly, assuming supplier retention. This adjustment would minimally decrease the Supply APR from 1.50% to 1.41%.

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Most WETH suppliers leverage their collateral for stablecoin borrows, showing a low sensitivity to slight drops in Supply APR due to their focus on WETH LTV/LT and higher stablecoin borrow APRs. Additionally, WETH uOptimal is 90% and current utilization is 75%, offering a large buffer if some WETH supply were to leave the protocol.

This scenario offers an excellent chance for the protocol to amplify reserve growth. Observing user response to this change could allow further Reserve Factor increases to focus on enhancing reserves for the highly-borrowed LST base assets on Ethereum and other markets.

## Specification

Chain

Asset

Current Reserve Factor

Recommended Reserve Factor

Ethereum v3

WETH

15%

20%

## Next Steps

Welcome community feedback and will put up a snapshot next week.

## Disclaimer

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