title: [ARFC] Polygon v3 Supply Cap Update 2023.05.21

shortDescription: Increase SupplyCap stMATIC on Polygon v3 from 30M units to 40M units.

author: @Llamaxyz - @TokenLogic

dated: 2023-05-21

Summary

This publication proposes increasing the stMATIC Supply Cap on Polygon from 30.0M to 40M units.

Abstract

This AIP implements risk parameter changes to stMATIC Polgyon v3.

The utilisation of the stMATIC reserve has reached 99.95% and this publication proposes increasing the SupplyCap by a further 33.33% to 40M units.

Motivation

Over the previous months, Llama has been working with various communities to craft favourable conditions on Aave v3 Polygon to facilitate the creation of several yield aggregation products. These products are now active with otheres through audit and soon to be deployed.

With conservative Supply Caps being implemented and filled within minutes, or hours, communities who have built products on Aave v3 are experiencing great frustration. After investing time, resources and incurring audit costs, these communities are unable to promote their products to prospective users prior the newly implemented Supply Caps being filled. Some communities have coordinated large distribution network agreements in anticipation of offering users yield derived from Aave v3.

For these integrations to be successful, the Supply Caps need to be increased such that a wide array of prospective users can enter into these automated strategies. Currently, the Supply Caps are filling so fast Aave DAO can not even proactively implement upgrades through governance to maintain spare deposit capacity. At the root of the issue are the small incremental Supply Cap increases, these are being filled within minutes, or hours (34 hours previous stMATIC increase). These small windows of time, where users can deposits LSTs into Aave Protocol, are not conducive to creating an environment that encourages teams to build on Aave.

The previous stMATIC Supply Cap increase was 5M units and the cap was filled within 34 hours. Other cap increases have been filled in as little as 3 minutes ([wstETH on Arbitrum](#)). The growth in TVL and the resulting revenue is good for Aave DAO. However, the risk exposure must be considered and it is the authors opinion that Aave DAO should consider implementing a larger increase this time. The last two stMATIC Supply Cap increases have not led to meaningful stable coin debt which is the primary risk concern.

Something the DAO should also consider is that teams are distributing assets on Aave v3 Polygon to promote users entering the yield maximising strategy. It has led to Aave v3's TVL overtaking v2 on Polygon and increased LST adoption. If Aave DAO seeks to encourage teams to continual distribute rewards on Aave v3, then creating a supportive environment through larger Supply Cap increases is something that should be considered.

This publications seeks to increase the Supply Cap of stMATIC by 33.3%, or 10M units. This is twice the previous increase and represents 72.5% of the supply on Polygon and 33.4% of the total supply on Ethereum. This represents a pivot from the more conservative approach to risk and it recognises that liquidators could migrate stMATIC, or wMATIC, to Ethereum and redeem it for MATIC before swapping to stable coins. This type of liquidation is not atomic, nor quick and it requires the liquidator to take on price exposure over the duration of the process. However, it is wMATIC to stable coin liquidity on Polygon that is the limiting factor as stMATIC to wMATIC swaps incur low price impact on Polygon.

The author welcomes input from risk providers and feedback from the community towards the potential to implement a larger Supply Cap increase that pushes towards the 75% maximum, acknowledging there are some stable coin debt positions. If the community prefers for a more conservative 5M unit increase, same as previous proposal, the author will not hesitate to implement this whilst the discussion is ongoing.

Specification

The following risk parameters changes are presented:

Polygon

Ticker: stMATIC

Contract: [0x3a58a54c066fdc0f2d55fc9c89f0415c92ebf3c4

](https://polygonscan.com/address/0x3a58a54c066fdc0f2d55fc9c89f0415c92ebf3c4)

Parameter

Current Value

Proposed Value

SupplyCap

30,000,000M units

40,000,000 units

Copyright