

Simple Summary

A proposal to adjust four (4) total risk parameters, including Loan-to-Value and Liquidation Threshold, across two (2) Aave V3 Ethereum assets.

Motivation

Aave V3 Ethereum was launched successfully on January 27th, 2023, with a conservative configuration for the initial assets, as [recommended](#) by Chaos Labs.

[Chaos Labs - Aave V3 Ethereum \(Initial Parameters\)](#)

we believe that the best approach will be to launch AAVE V3 on Ethereum with conservative LT parameters and incrementally increase them over time rather than deploy with the current LT and LTV parameters.

Following the successful launch and after analyzing the initial supply and borrow distribution and general usage across the deployment, we propose incrementally increasing the LTs and LTVs for USDC and DAI with the following goals:

1. Provide a sustainable set of parameters that are better optimized for risk-reward in the long term.
2. Serve as a catalyst to promote migration of funds from V2 to V3, as capital efficiency under the current parameter settings is significantly inferior to V2.

Note: As a general guideline, we limit our proposed changes by $\pm 3\%$ for all parameters as a high/low bound for a given proposal. This ensures more controlled changes and allows us to analyze their effect on user behavior before recommending further amendments to the parameters if the optimal configuration is outside this range.

It is important to note that V3 Ethereum still needs to be integrated into our parameter recommendation platform, and therefore the recommendations provided here are not simulation-based. However, from running our simulations on similar assets on Arbitrum and Avalanche and considering the differences between the deployments, we conclude that the provided parameters are still conservative and can be further increased toward an optimized state in future iterations.

Liquidity and Position Analysis:

USDC

USDC is mainly used as collateral for blue chip, high liquidity assets, most of which are WETH (\$9M borrowed against USDC collateral) and recursive USDC borrowing. It is currently possible to liquidate USDC to cover all open USDC-WETH positions with very low slippage.

Source: [Chaos Risk Dashboard](#)

Source: [1inch](#)

DAI

DAI is mainly used as collateral for blue chip, high liquidity assets, most of which are WETH (\$340K borrowed against DAI collateral) and USDC (\$240K borrowed against DAI collateral). It is currently possible to liquidate DAI to cover all open DAI-WETH positions and DAI-USDC with very low slippage.

Source: [Chaos Risk Dashboard](#)

Source: [1inch](#)

Recommendations:

Asset

Parameter

Current

Recommended

Change

USDC

Liquidation Threshold

76%
79%
+3%
USDC
Loan-to-Value
74%
77%
+3%
DAI
Liquidation Threshold
77%
80%
+3%
DAI
Loan-to-Value
64%
67%
+3%

Next Steps

We invite a community discussion around the proposed parameter updates and will follow up with a Snapshot vote in 5 days, barring community objection.