Summary

A proposal to:

- Increase ZK's supply and borrow caps on the ZkSync Main instance.

- Increase USDC's supply and borrow caps on the ZkSync Main instance.

- Increase WETH's supply and borrow caps on the ZkSync Main instance.

All increases are backed by Chaos Labs' risk simulations, which consider user behavior, on-chain liquidity, and price impact, ensuring that the higher cap does not introduce additional risk to the platform.

ZK (ZkSync-Main)

ZK has reached 100% of its supply cap, while its borrow cap is 40% utilized.

[

image - 2025-01-09T094928.039

1658×176 21 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/e/e7a9a9f56f6f0a8ff80c87a167d1e8f08bfb2e35.png)

[

image - 2025-01-09T094930.424

1644×552 27 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/d/dc424a84479330b6f144dfc4248e99fe4c638638.png)

Supply Distribution

The supply distribution of ZK is not concentrated, with the largest supplier accounting for just over 10% of the total supply.

[

image - 2025-01-09T094933.104

1620×670 42.9 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/7/71d4f74480b539822728cc970c839d79ef38e483.png)

All but two of the top positions have no borrowing activity, presenting limited liquidation risk at this time. The asset is also in Isolation Mode, further reducing risk associated with increasing supply caps. We will separately propose an adjustment to the asset's debt ceiling.

Borrow Distribution

ZK is borrowed against a variety of liquid collateral assets. None of these positions pose a risk to the protocol at this time.

[

image - 2025-01-09T094935.414

1638×678 45.2 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/7/7fb077d47ba8d70aff97739620ea01fa31bee8f2.png)

Liquidity

ZK-USDC's DEX liquidity has improved significantly since the beginning of ZK Ignite and is sufficient to support cap increases.

[

image - 2025-01-09T094938.016

1200×800 85.1 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/b/b034b782008332bccefe1f47fa433e9b5487faec.png)

Recommendation

Given user behavior and improving DEX liquidity, we recommend doubling the supply and borrow caps.

USDC (ZkSync-Main)

USDC's supply cap is fully utilized at 100%, with its borrow cap utilization reaching 94%.

[

Screenshot 2025-01-09 at 9.19.58 AM

2498×436 40.8 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/2/20136f23347d1345517fbf499f338d32b08a0f2c.png)

[

Screenshot 2025-01-09 at 9.20.52 AM

2500×868 135 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/d/df0f1b5a5d32f4938aa8e11e3ac3344ae08471b6.png)

Supply Distribution

The supply distribution of USDC presents limited risks. The top supplier accounts for 30% of the total distribution, indicating some concentration risk. However, as this user is borrowing USDC against USDT and USDC, the liquidation risk remains minimal at this time.

[

Screenshot 2025-01-09 at 9.22.29 AM

2496×1056 163 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/d/d22d11d762768f87e89e88e5b5f178700449812a.png)

The remaining top suppliers are either borrowing correlated assets or have no borrowing activities, significantly reducing the risk of liquidation.

The largest borrowed asset against USDC is USDC itself, accounting for approximately 90% of the total borrowed asset distribution, which reduces the likelihood of large liquidation events.

[

Screenshot 2025-01-09 at 9.26.47 AM

2496×1090 141 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/7/7a9f131584b33e1bcf88583515d619ef31fc77bf.png)

Borrow Distribution

The borrow distribution of USDC presents limited liquidation risk. The top borrower accounts for around 32% of the total distribution, indicating some concentration risk. However, since this user is borrowing USDC against USDC and USDT, the liquidation risk is largely reduced.

[

Screenshot 2025-01-09 at 9.28.50 AM

2498×1054 167 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/4/46bcda34d7b9765b1b34659f5f32597d90aaada8.png)

The remaining top borrowers are either borrowing USDC against USDC itself or maintaining a high health score, further reducing the liquidation risk.

Liquidity

As shown below, USDC's liquidity paired with USDT has experienced fluctuations recently, but there is no indication of a consistent decline.

[

image - 2025-01-09T094954.154

1200×800 90.4 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/b/b71a6388fe871bca13fee3935e9319f7b22ea911.png)

Although the liquidity is relatively small compared to the total supply, our analysis of top supplier behavior indicates that this does not present any significant concerns.

Recommendation

Given user distribution and on-chain liquidity, we recommend doubling the supply cap and borrow caps.

WETH(ZkSync)

WETH's supply cap on ZkSync has reached 99% utilization, and its borrow cap is fully utilized as well.

[

Screenshot 2025-01-09 at 8.56.58 AM

2498×466 40.7 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/2/232d3e85603390321621f36400315aa060ac31d44.png)

[

Screenshot 2025-01-09 at 8.57.25 AM

2496×862 118 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/a/a6ffa56344375b9c15aeef5996edce64bb7cf64e.png)

Supply Distribution

The top supplier accounts for around 28% of the total supply, which presents a certain level of concentration risk. However, since this user is borrowing WETH against WETH and wstETH, it does not pose a significant liquidation risk.

The other top suppliers are either looping WETH or maintaining a high health score, which mitigates the liquidation risk.

[

Screenshot 2025-01-09 at 8.59.29 AM

2492×1056 165 KB

](https://europe1.discourse-cdn.com/flex013/uploads/aave/original/2X/3/3d82373de18c253c05bcabc668736690786cacd1.png)

WETH is the largest borrowed asset against itself, comprising 66% of the total borrowed asset distribution.

[

Screenshot 2025-01-09 at 9.02.52 AM

2498×1096 167 KB

](https://europe1.discourse-
cdn.com/flex013/uploads/aave/original/2X/4/47e6e38ef1657791e936cc70fabe3803781dce4e.png)

Borrow Distribution

The top borrowers of WETH are all borrowing against WETH or wstETH, presenting a low risk of liquidation.

[

Screenshot 2025-01-09 at 9.05.38 AM

2500×1062 159 KB

](https://europe1.discourse-
cdn.com/flex013/uploads/aave/original/2X/c/caa043280a44423553f7375a3620faf9e9d09739.png)

The top borrower accounts for approximately 56% of the total borrow volume, which presents a concentration risk. However, since this user is borrowing WETH against WETH and wstETH, the liquidation risk is significantly reduced.

Liquidity

WETH liquidity has improved, enabling a 200 WETH sell with less than 3% slippage. Although this liquidity is limited relative to the total supply, the low liquidation risk observed due to user behavior mitigates any major concerns.

[

image - 2025-01-09T095013.044

1200×800 94 KB

](https://europe1.discourse-
cdn.com/flex013/uploads/aave/original/2X/c/c6e672713aac31376d298733dd00dbe1e29fcca4.png)

Recommendation

Given user behavior and anticipated supply and borrow demand, we recommend doubling both caps.

Specification

Chain

Instance

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

ZkSync

Main

ZK

144,000,000

288,000,000

10,000,000

20,000,000

ZkSync

Main

WETH

3,400

6,800

1,800

3,600

ZkSync

Main

USDC

4,000,000

8,000,000

3,600,000

7,200,000

Next Steps

We will move forward and implement these updates via the Risk Steward process.

Disclaimer

Chaos Labs has not been compensated by any third party for publishing this ARFC.

Copyright