

Summary

A proposal to:

- increase the WETH supply and borrow caps on Aave V3's Scroll deployment.
- increase the wstETH supply and borrow caps on Aave V3's Scroll deployment.
- increase the RPL borrow cap on Aave V3's Ethereum deployment.
- increase the EURS borrow cap on Aave V3's Polygon deployment.
- increase the wstETH supply cap on Aave V3's Polygon deployment.
- increase the wstETH supply cap on Aave V3's Base deployment.

Motivation

WETH (Scroll)

WETH's supply and borrow caps utilization has reached 80% and 100%, respectively, following steadily increasing supply over months and a rapid increase in borrows in April.

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Supply Distribution

Supply is very well distributed, with the largest supplier accounting for just 2.5% of the total. Additionally, there is little collateral at risk until WETH's price falls significantly; USDC represents 86% of value borrowed against WETH.

Our simulations show no increase in VAR as we increase the supply cap.

Borrow Distribution

Borrowing is dominated by a single [user](#), who represents 92.5% of the total WETH borrowed.

This wallet appears to be [linked](#) to a quantitative trading fund and is actively managed, reducing the risk of liquidation. Additionally, on-chain liquidity suggests that this position could be liquidated efficiently.

Recommendation

We recommend increasing the supply and borrow caps, increasing the latter more to allow the market to reach UOptimal at full supply and borrow cap utilization.

wstETH (Scroll)

wstETH has reached its supply cap again after a recent increase, while borrows have increased in recent days.

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Supply Distribution

Unlike most LST markets, the largest users here are borrowing USDC against their wstETH rather than looping it with

WETH. The largest [supplier](#) accounts for 33% of the total supplied and maintains a health score of 2.95.

However, even with the greater than usual stablecoin borrowing, we find that there is limited collateral at risk, only exceeding \$100K in the event wstETH drops below \$2,750. While liquidity is limited, we find that 250 wstETH can be liquidated under the Liquidation Bonus price impact.

Additionally, our simulations show a limited increase in VAR if the supply cap is increased by 25%.

Recommendation

We recommend increasing the supply cap by 25% and doubling the borrow cap.

RPL (Ethereum)

RPL on Ethereum has reached 54% and 89% supply and borrow cap utilization, respectively, with steady growth in total borrowed. Note that RPL cannot be used as a collateral asset.

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Supply Distribution

The largest [supplier](#) is responsible for 60% of the total supply; they have not interacted with the RPL supplied since September 4, 2023.

Borrow Distribution

The largest [borrower](#) is responsible for 18% of total RPL borrows. Overall, RPL is primarily borrowed against ETH and ETH-correlated assets, putting these positions at risk of liquidation should RPL's price increase relative to ETH's.

Recommendation

Based on on-chain liquidity and user distribution, we recommend increasing the borrow cap.

wstETH (Polygon)

wstETH has nearly reached its supply cap again after a recent increase to its cap, while borrows remain limited.

Supply Distribution

All of the largest suppliers are either looping wstETH and ETH or do not borrow against their wstETH, putting these positions at limited risk of liquidations.

The largest supplier accounts for 15% of the total supplied, making this market very distributed.

Recommendation

As per community decision, we do not recommend increasing the supply caps above 75% of on-chain supply, which limits us to a smaller supply cap increase in this instance, given an on-chain supply of 8,120 wstETH. This leads us to recommend a 6,100 wstETH supply cap and no change in the borrow cap.

EURS (Polygon)

EURS on Polygon has reached 73% and 100% supply and borrow cap utilization, respectively.

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Supply Distribution

Supply is dominated by a single [user](#) supplying 69.3% of the total, who has borrowed 101K USDT against their EURS collateral, for a health score of 14.82 and little risk of liquidation in its current state.

The most commonly borrowed assets against EURS are stablecoins, putting these positions at limited risk of liquidation.

Borrow Distribution

Borrows of EURS are primarily against WBTC and WETH collateral. They are well distributed, with the largest representing just over 6% of the total borrowed.

Recommendation

Based on on-chain liquidity and user distribution, we recommend doubling the borrow cap.

wstETH (Base)

wstETH is approaching its supply cap, while borrows remain limited, following a surge in new deposits in recent days.

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Supply Distribution

The largest suppliers are a mix of users looping wstETH and WETH and users borrowing USDC, the two largest of which maintain health scores higher than 2.5.

The looping positions are at relatively low risk of liquidation while on-chain liquidity would likely support efficient liquidations of the users borrowing USDC; we find that a \$4.5M wstETH to WETH swap can be completed under the Liquidation Bonus.

Recommendation

Given on-chain liquidity and user distribution, we recommend increasing the supply cap.

Specification

Chain

Asset

Current Supply Cap

Recommended Supply Cap

Current Borrow Cap

Recommended Borrow Cap

Scroll

WETH

2,000

3,000

1,200

2,400

Scroll

wstETH

1,000

1,250

45

90

Polygon

EURS

4,000,000

No Change

1,500,000

3,000,000

Ethereum

RPL

840,000

No Change

316,800

500,000

Polygon

wstETH

5,800

6,100

570

No Change

Base

wstETH

4,000

6,000

400

No Change

Next Steps

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

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