Title: [TEMP CHECK] Further Aave v1 deprecation strategy

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Summary

Approve further steps of Aave v1 off-boarding, to reduce operational overhead on deprecated Aave instances.

Motivation

The Aave protocol v1 was released in January 2020 and eventually superseded by Aave protocol v2 in December on the same year.

While Aave v1 has been [deprecated for a long time](#), some liquidity is still stuck on the [protocol](#). Even if this instance is not covered by the Aave Safety Module, being part of Aave, it still is monitored and evaluated whenever development and/or security decisions are made.

This creates meaningful overhead for all involved development & security teams, which directly adds cost to the Aave DAO. Additionally, the architecture of Aave v1 is quite different to Aave v2 & v3, making it the most ad-hoc instance of Aave.

For the previous reasons, we think the community should evaluate approving extra off-boarding steps.

Specification

To achieve a complete off-boarding of Aave v1, the following needs to be completed:

- All debt has to be settled, in order to allow liquidity providers on v1 to withdraw.

- All assets have to be withdrawn.

To minimise the impact on users we propose a phased approach, where each phase could last in the order of 1-3 weeks.

Phase 1

In a first phase we recommend to upgrade the liquidation mechanism on the protocol in the following ways:

- It should no longer be possible to receive aTokens for liquidations (as the goal is to remove liquidity, not transfer it from user to user).

- It should be possible to liquidate healthy (collateralised) positions with a fixed liquidationBonus (e.g. 1%). This value should be small to not hurt borrowers, while still being big enough to incentivise liquidations. If this Temp Check is successful, we will confirm the number with risk providers., but 1% at the current moment would make the liquidation profitable for approximately 85% of the positions to liquidate.

- It should be possible to liquidate a entire position at once (currently on Aave v1 only 50% of a position can be liquidated).

- Interest rates should be lowered to the minimum, as the previously described always-enabled dynamics remove any need of utilisation dynamics.

- Remove flash loan fee, as there should not be extra incentives for liquidity providers.

Phase 2

In a second phase we recommend increasing the fixed liquidationBonus to a higher percentage.

The exact number must be chosen based on current market conditions to minimise user impact, but allow economical liquidations.

Phase 3

Once the big majority of debt is repaid, we recommend to introduce a forced withdrawal mechanism. With forced withdrawals anybody could withdraw on behalf of any liquidity provider on Aave v1, with the funds received by the holder of

the aToken.

It is important to clarify that further technical aspects on this should be analysed before executing this step, for example smart contracts receiving funds without triggering a withdrawal.

After all the Phases are finished, additional ad-hoc steps can be executed, like Rescue Mission for locked funds.

Next Steps

First, we will create a Temp Check Snapshot, following the governance framework and standards of the community for a proposal like this one.

If approved, we will proceed with an ARFC, with the final steps including feedback from risk service providers, and precise technical decisions.

Finally, AIPs will be created for the different phases.

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