

# Simple Summary

A proposal to reduce the Liquidation Threshold (LT) and Loan-To-Value (LTV) and increase Liquidation Bonus (LB) and Reserve Factors (RF) for eleven (11) frozen collateral assets on Aave V2 Ethereum.

## Motivation

In line with our ongoing commitment to reduce the potential risks associated with V2 markets, we suggest a phased reduction of the frozen

V2 markets, comprising low-to-medium cap assets with limited liquidity. The following proposal is the first step to reduce capital efficiency across V2 collateral assets, which will be followed up with more detailed plans for additional parameter updates for these assets.

## LT Reductions

Implementing a gradual decrease in LTs effectively diminishes the borrowing power for the existing markets. This proposal offers the community two alternatives - a “moderate” and an “aggressive” approach for the preliminary LT reduction.

- Aggressive (Chaos Recommendation) - This option suggests a LT configuration that optimizes reductions without significantly increasing the number of accounts eligible for liquidation. The proposed values are set at a margin of 8% from the closest LT figure which would trigger more substantial liquidations, as can be seen in the supporting graphs [here](#).
- Moderate - If the community leans towards a more tempered approach of slowly reducing the Liquidation Thresholds, we propose limiting the LT decrease to a maximum of 10%. Hence, we define the “Moderate” option as the minimum between 10% or the value suggested by the aggressive approach.
- “Aggressive”

Asset

Current LT

Rec LT

Value Liquidated

Accounts Liquidated

BAL

70%

55%

\$60

5

BAT

70%

52%

\$610

6

CVX

45%

40%

0

1

DPI

70%	
42%	
0	
0	
ENJ	
67%	
60%	
\$300	
4	
KNC	
70%	
1%	
\$1,790	
7	
MANA	
75%	
62%	
\$500	
5	
REN	
60%	
40%	
\$1,800	
6	
xSUSHI	
65%	
60%	
0	
0	
YFI	
65%	
55%	
\$500	
2	
ZRX	
65%	
45%	

\$500

5

- “Moderate”

Asset

Current LT

Rec LT

Value Liquidated

Accounts Liquidated

BAL

70%

60%

0

2

BAT

70%

60%

\$200

3

CVX

45%

40%

0

1

DPI

70%

60%

0

0

ENJ

67%

60%

\$300

4

KNC

70%

60%

\$210

1

MANA

75%

65%

\$400

4

REN

60%

50%

\$300

4

xSUSHI

65%

60%

0

0

YFI

65%

55%

\$500

2

ZRX

65%

55%

0

0

In the tables below, we share data to quantify the effect of the recommended reductions on protocol users:

Value liquidated

Accounts liquidated

moderate

\$1,970

20

aggressive

\$4,900

34

As Liquidation Threshold reductions may lead to user accounts being eligible for liquidations upon their approval, we want to clarify the full implications to the community at each step. Chaos Labs will publicly communicate the planned amendments and list of affected accounts leading to the on-chain execution.

Reduce LTV to zero

Lowering the Loan-to-Value (LTV) ratio to zero can potentially curb borrowing by less sophisticated users. It's important to note that due to V2's design, users can bypass the LTV limit to borrow up to the LT value.

RF Increase

Progressively increasing the reserve factors diminishes the interest rate for providing these assets and lowers the suppliers' incentive to supply the assets. In this proposal, we suggest an initial hike of 10% for all inactive assets.

LB Increase

We recommend increasing the LB for all proposed assets (excluding BAL and CVX) to 10% to better incentivize liquidations and accommodate for low liquidity for the given assets.

Specification

Asset	
Cur LT	
Rec LT*	
Current LTV	
Rec LTV	
Current RF	
Rec RF	
Current LB	
Rec LB	
BAL	
70%	
55%	
65%	
0	
20%	
30%	
8%	
8%	
BAT	
70%	
52%	
65%	
0	
20%	
30%	
7.5%	
10%	
CVX	

45%  
40%  
35%  
0  
20%  
30%  
8.5%  
8.5%  
DPI  
70%  
42%  
65%  
0  
20%  
30%  
7.5%  
10%  
ENJ  
67%  
60%  
60%  
0  
20%  
30%  
6%  
10%  
KNC  
70%  
1%  
60%  
0  
20%  
30%  
10%  
10%  
MANA  
75%

62%  
61.5%  
0  
35%  
45%  
7.5%  
10%  
REN  
60%  
40%  
55%  
0  
20%  
30%  
7.5%  
10%  
xSUSHI  
65%  
60%  
50%  
0  
35%  
45%  
8.5%  
10%  
YFI  
65%  
55%  
50%  
0  
20%  
30%  
7.5%  
10%  
ZRX  
65%  
45%

55%

0

20%

30%

7.5%

10%

\*Recommended LT values will be finalized after the Snapshot between the aggressive and moderate options

## Next Steps

1. Following community feedback, submit the ARFC for a snapshot vote for final approval.
2. If consensus is reached, submit an Aave Improvement Proposal (AIP) to implement the proposed updates.

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