

2024-12-18 Update for [@ChaosLabs](#) risk parameters and including third-party migration incentives.

Title:

[ARFC] Adjust Risk Parameters for Aave V2 and V3 on Polygon

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Summary

This proposal seeks community feedback on adjusting risk parameters for Aave V2 and V3 instances on the Polygon network. The adjustments are in response to an upcoming proposal that will significantly impact the risk profiles of bridged assets within the Polygon network.

Motivation

Polygon governance is currently evaluating [a proposal](#) that would redefine the risk profile of bridged assets on the Polygon network. This change could have substantial implications for the risk profiles of Aave V2 and V3 deployments on Polygon PoS.

Historically, bridge vulnerabilities have caused the largest losses in the DeFi ecosystem, including:

1. [Ronin](#) - \$624M
2. [BNB "Bridge"](#) - \$586M
3. [Wormhole](#) - \$326M
4. [Nomad](#) - \$190M
5. [Multichain](#) - \$126M
6. [Harmony](#) - \$100M

The Aave ecosystem has experienced both indirect and direct impacts from bridge vulnerabilities, notably the Multichain and Harmony bridge hacks. Additionally, depositing user funds into unsafe protocols has historically resulted in significant losses. For example, the Angle Protocol deposited EURA funds into Euler a week before its hack, which caused EURA to lose its peg temporarily, impacting Aave users.

This ARFC aims to mitigate potential losses for Aave users by:

1. Soliciting immediate feedback from risk service providers ([@ChaosLabs](#) and [@LlamaRisk](#)) to determine appropriate adjustments to risk parameters.
2. Engaging [@TokenLogic](#) to design a user position migration initiative, leveraging Merit (rewards for closing positions on Polygon and reopening equivalent positions on other networks).
3. Inviting L2 networks interested in attracting Aave Polygon users to participate in Merit co-incentive programs.

Sonic team announced a 20m\$ incentives plan for their [TEMP CHECK](#) with 10% allocated for migration incentives.

1. Seeking feedback from [@bgdlabs](#) to migrate Aave Governance V3 voting infrastructure to a more secure L2 network.
2. Requesting support from [@AaveLabs](#) to develop front-end migration tools and provide Merit support for a seamless user experience.

Specification

The following recommendations are proposed to mitigate risk and incentivize migration from the Polygon network:

[@ChaosLabs](#) recommend the following risk parameters change:

Deployment

Asset

Current LTV

Proposed LTV

Current RF

Proposed RF

Polygon V3

DAI

63%

0%

25%

-

Polygon V3

USDC.e

75%

0%

50%

-

Polygon V3

USDT

75%

0%

10%

25%

Polygon V2

USDC.e

75%

0%

99.9%

-

Polygon V2

DAI

63%

0%

99.9%

-

1. Remove support for Aave V3 Polygon in the Safety Module and cancel the umbrella deployment on Polygon.
2. Migrate Aave Governance V3 voting infrastructure to another L2 network.

Next Steps

1. Collect feedback from the community, service providers, and third-party L2 networks on this proposal.
2. If consensus is reached, escalate the ARFC to the Snapshot stage for preliminary approval.
3. If the Snapshot outcome is positive, escalate to the AIP stage for final community approval and execution.

Disclaimer

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