

Simple Summary

A proposal to reduce Liquidation Thresholds on Aave V2 Ethereum.

Motivation

Following the [v2 deprecation framework](#), Chaos Labs and Gauntlet advise implementing the subsequent parameter changes to the frozen assets on Aave v2 Ethereum and Polygon

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. We will publicly communicate the planned amendments and list of affected accounts leading to the on-chain execution.

Specification

Chaos and Gauntlet align on following recommendations, choosing the higher value between Gauntlet's aggressive and Chaos's moderate approach for each asset:

Aave v2 Ethereum

Asset
Current LT
Recommended LT
CRV
18%
14%
ENS
24%
0.05%
LINK
74%
72%
MKR
18%
14%
UNI
20%
14%
ZRX
12%
8%
Value liquidated
Accounts liquidated
Total
\$67,480

Next Steps

We will move forward with the [direct-to-AIP framework](#) and publish an AIP to implement the proposed updates.

Disclaimer

Chaos Labs and Gauntlet have not been compensated by any third party for publishing this ARFC.

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Appendix

Gauntlet Analysis

Following the [deprecation schedule](#), we recommend the following conservative and aggressive parameter changes to frozen assets on Aave v2 Ethereum. The conservative recommendations aim to limit the maximum amount liquidated per asset to \$10,000, and the aggressive recommendations aim to limit the maximum amount liquidated per asset to \$25,000.

Out of 25 frozen assets, there are already 19 assets (1INCH, AMPL, BAL, BAT, BUSD, CVX, DPI, ENJ, FEI, FIL, KNC, MANA, RAI, REN, SNX, SUSHI, UST, YFI, ENSJ) with $LT \leq 0.01$.

Conservative:

Under these recommendations, each asset will see less than \$10,000 of its collateral liquidated. In total, this will affect 35 accounts, leading to a cumulative liquidation of \$14,349.64 in collateral value.

Asset

Current LT

Rec LT

Value Liquidated (\$)

Accounts Liquidated

Cur HF

New HF

Needed HF

CRV

0.18

0.15

10.65

1

13.3983

13.3933

1.08

ENS

0.24
0.01
6851.32
19
1.46909
1.41373
1.07
MKR
0.18
0.15
1930.84
3
1.62945
1.60637
1.07
UNI
0.2
0.16
5444.94
10
2.01938
2.01432
1.07
ZRX
0.12
0.07
111.89
2
1.96471
1.66306
1.28

Aggressive:

Under these recommendations, each asset will see less than \$25,000 of its collateral liquidated. In total, this will affect 50 accounts, leading to a cumulative liquidation of \$84,074.33 in collateral value.

Asset
Current LT
Rec LT
Value Liquidated (\$)

Accounts Liquidated

Cur HF

New HF

Needed HF

CRV

0.18

0.12

23331.8

3

13.3983

13.3884

1.08

ENS

0.24

0.01

6851.32

19

1.46909

1.41373

1.07

LINK

0.74

0.72

15237.5

6

2.00195

1.97962

1.07

MKR

0.18

0.12

21999.8

7

1.62945

1.5833

1.07

UNI

0.2
0.14
16542
13
2.01938
2.01179
1.07
ZRX
0.12
0.07
111.89
2
1.96471
1.66306
1.28

Chaos Labs Analysis

Moderate (recommended)

The moderate recommendations below suggest an LT configuration that optimizes reductions without significantly increasing the number of accounts eligible for liquidation. The proposed values are set at a margin of ~2-4% from the closest LT figure, which would trigger more substantial liquidations.

Asset
Current LT
Chaos Rec LT
Value Liquidated (\$)
Accounts Liquidated
CRV
18%
14%
23.44K
3
ENS
24%
0.05%
6.88K
19
LINK
74%
68%

28.37K

17

MKR

18%

14%

12.36K

14

UNI

20%

0.05%

31.01K

27

ZRX

12%

8%

102

1

Value liquidated

Accounts liquidated

Total

\$112K

75

Aggressive

The aggressive recommendations below suggest an LT configuration that limits the current value liquidated per asset at \$150K. These recommendations also ensure the depreciation of MKR.

Asset

Current LT

Chaos Rec LT

Value Liquidated (\$)

Accounts Liquidated

CRV

18%

10%

151K

4

ENS

24%

0.05%

6.88K

19

LINK

74%

64%

47.15K

24

MKR

18%

0.05%

107.64K

14

UNI

20%

0.05%

31.01K

27

ZRX

12%

8%

102

1

Value liquidated

Accounts liquidated

Total

\$349K

92