Simple Summary

A proposal to:

(1) Reduce the Liquidation Threshold (LT) and Loan-To-Value (LTV) for sixteen (16) frozen collateral assets on Aave V2 Ethereum.

(2) Increase Reserve Factors for all collateral assets on Aave V2 Ethereum.

Motivation

In line with our ongoing commitment to reducing the potential risks associated with V2 markets and promoting migration to V3, we suggest a phased wind-down of the frozen

V2 markets. The following proposal is part of a series of proposals to reduce capital efficiency across V2 collateral assets.

The previous iteration of proposals:

- [ARFC] Chaos Labs Risk Parameter Updates - Aave V2 Ethereum - 2023.6.23
- [ARFC] Chaos Labs - Incremental Reserve Factor Updates - Aave V2 Ethereum

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 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 8% from the closest LT figure, which would trigger more substantial liquidations.

- 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% and the value suggested by the aggressive approach.

• "Aggressive"

Asset

Current LT

Rec LT

Value Liquidated ($)

Accounts Liquidated

BAL

55%

35%

1,580

5

BAT

52%

38%

750

3

CVX

40%

34%

250

3

DPI

42%

22%

80

2

ENJ

60%

54%

500

4

MANA

62%

54%

1,500

4

REN

40%

32%

1,160

3

xSUSHI

60%

53%

0

0

YFI

55%

52%

0

0

ZRX

45%

39%

0

0

LINK

83%

78%

2,440

10

1INCH

50%

40%

56

1

UNI

77%

57%

500

9

SNX

59%

39%

650

10

MKR

64%

44%

140

5

ENS

57%

50%

45

2

• "Moderate"

Asset

Current LT

Rec LT

Value Liquidated ($)

Accounts Liquidated

BAL

55%

45%

1,120

3

BAT

52%

42%

80

2

CVX

40%

34%

250

3

DPI

42%

32%

0

0

ENJ

60%

54%

500

4

MANA

62%

54%

1,500

4

REN

40%

32%

1,160

3

xSUSHI

60%

53%

0	0	YFI	55%
52%	0	0	ZRX
45%	39%	0	0
LINK	83%	78%	2,440
10	1INCH	50%	40%
56	1	UNI	77%
67%	290	6	SNX
59%	49%	85	3
MKR	64%	54%	16
2			

0

0

YFI

55%

52%

0

0

ZRX

45%

39%

0

0

LINK

83%

78%

2,440

10

1INCH

50%

40%

56

1

UNI

77%

67%

290

6

SNX

59%

49%

85

3

MKR

64%

54%

16

2

ENS

57%

50%

45

2

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

Value liquidated

Accounts liquidated

Aggressive

$10,100

58

Moderate

$8,580

43

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.

LTV Decrease

For assets where the LTV is not 0, we recommend maintaining the same buffer as the current configuration.

RF Increase

In line with our V2 to V3 migration plan, we propose another iteration of RF increases on Aave V2 Ethereum. By progressively increasing the reserve factors, the interest rate for supplying these assets on V2 will be increasingly less attractive, thus encouraging suppliers to transition positions to V3. In this proposal, we suggest an increase of 5% for all V2 collateral assets.

Specification

Frozen Assets:

Asset

Cur LT

Rec LT

Current LTV

Rec LTV

Current RF

Rec RF

BAL

55%

35%

0

0

30%

35%

BAT

52%

40%

0

0

30%

35%

CVX

40%

35%

0

0

30%

35%

DPI

42%

No Change

0

0

30%

35%

ENJ

60%

52%

0

0

30%

35%

MANA

62%

54%

0

0

45%

50%

REN

40%

32%

0

0

30%

35%

xSUSHI

60%

57%

0

0

45%

50%

YFI

55%

50%

0

0

30%

35%

ZRX

45%

42%

0

0

30%

35%

LINK

83%

No Change

70%

No Change

25%

30%

1INCH

50%

40%

40%

30%

25%

30%

UNI

77%

70%

65%

58%

25%

30%

SNX

59%

49%

46%

36%

40%

45%

MKR

64%

50%

59%

45%

25%

30%

ENS

57%

52%

47%

42%

25%

30%

Unfrozen Assets

Asset

Current RF

Recommended RF

FRAX

25%

30%

GUSD

15%

20%

LUSD

15%

20%

sUSD

25%

30%

USDC

15%

20%

USDP

15%

20%

USDT

15%

20%

CRV

25%

30%

WBTC

25%

30%

ETH

20%

25%

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.

Disclaimer

Chaos Labs has not been compensated by any third party for publishing this ARFC.

Copyright