

title: ARC: Extend the Safety Module Protection

Update

status: WIP

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Simple Summary

This ARC proposes to extend the Safety Module (SM) protection to V2 markets as the smart contracts have been extensively battle tested.

Abstract

The Safety Module is a \$700m risk mitigation pool holding that protects Aave users. It's a unique mechanism within DeFi, that pushes borrowing capacity while providing security for users. At the moment the SM only covers the Aave V2 Ethereum market. As a result, not all users across the V2 markets share the same level of risk protection.

As new markets hold more risk at launch, they are initially excluded from the SM protection. Today, most of the V2 markets have been extensively battle tested and have been generating collections for the Aave DAO, they seem fit for SM protection.

Motivation

The SM is one of the largest risk mitigation pools of DeFi. This pool was designed to protect Aave users from potential deficits in an Aave Market. As new markets hold additional risk, these are not initially protected by the SM. However, once a market has been live and battle tested for a few months, the risks are significantly lower. Furthermore, the listed assets are currently similar across markets and follow the same rigorous listing process, with an assessment based on the [Aave Risk Framework](#).

Overall, these markets are smaller than the Ethereum V2 Market, holding combined supplied and borrowed assets of just half of the Ethereum V2 market. This implies that, in case of a shortfall event in an Aave market, the shortfall would likely be smaller on those markets than on the Ethereum V2 market. Overall by covering different markets the SM would benefit from diversification of risks, as these are not additive but rather follow the law of large numbers.

Extending the SM coverage to other V2 markets reduces the risk for liquidity providers (lps) on these markets. By reducing the risk for lps, it is expected to lead to further growth of the market's TVL overtime. Through standardising the application of the SM across the markets, lps are treated more equally across the markets.

The Safety Module protection needs to take into account the additional risks of these markets. In the case of Aave markets on other chains, the SM will only protect in cases where the Aave smart contracts experience a failure, and not failures caused by the chains themselves (Polygon/Avax). With regards to the Aave Arc Market, Safety Module protection is contingent upon acceptance of the Aave DAO's stated risk parameters, should the whitelisters of the Arc market reject a DAO approved Risk Parameter update, the market will lose coverage until it is brought back in compliance with the DAOs stated tolerance.

These markets have become core components of the Aave ecosystem. In particular, the Polygon and Avalanche markets have opened the Aave Protocol to new users for which Ethereum transaction costs are prohibitive. Today, most users prefer these markets with over 1m addresses having used Aave V2 Protocol on Polygon, while just about 100k on Ethereum V2. These markets also represent a large share of the protocol revenue bringing in half of the ecosystem collections, in a shorter time period.

Specification

The table below shows the Aave V2 markets, assets listed and ecosystem collections for the Aave DAO.

Market

Assets

Supplied

Borrowed

Ecosystem Collections

Inception

Aave V2 Ethereum

Reviewed by Gauntlet

\$14.6B

\$5.2B

\$29m

3/12/2020

Aave V2 Polygon

V2 Ethereum Assets + MATIC + GHST

\$1.6B

\$408m

\$10.8m

12/04/2021

Aave V2 Avalanche

V2 Ethereum Assets + AVAX

\$5.4B

\$2.4B

\$5.5m

20/09/2021

Aave Arc

Some V2 Ethereum Assets

\$43m

\$22m

\$15k

01/01/2022

Voting

FOR Polygon: DO extend the coverage to Aave V2 Polygon

AGAINST Polygon: DO NOT change the existing arrangement

FOR Avalanche: DO extend the coverage to Aave V2 Avalanche

AGAINST Avalanche: DO NOT change the existing arrangement

FOR Arc: DO extend the coverage to Aave V2 Arc

AGAINST Arc: DO NOT change the existing arrangement

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