

Summary

Chaos Labs proposes an amendment to our current scope of work and compensation structure accordingly. Chaos Labs is currently contracted to cover V3. We propose to formally expand our scope of work to cover all of Aave, including V2 and GHO. Chaos Labs is requesting a \$400,000 increase, bringing our total annual compensation to \$1.5M.

We view this expansion of work as an all-encompassing commitment and, with this, take responsibility for all Aave lending markets and financial products for the remainder of the term. Specifically, this means that there will be no further compensation increase requests, regardless of additional deployments, features, or initiatives prioritized during this time.

Background

Chaos' initial engagement with Aave, starting in November 2022, focused exclusively on risk management and parameter recommendations across V3 markets ([Discussion link](#)). In early January, prior to the launch of V3 Ethereum, the community approved a 5-month [extension](#) of our engagement to cover V2 markets, which expired in early June 2023. Despite coverage and compensation expiring, Chaos Labs has continued to demonstrate unwavering dedication to managing V2 risk and promoting the transition to V3 while allocating significant resources.

Furthermore, we have committed extensive resources to integrate V2 markets into our product suite and put forward comprehensive analyses and proposals. Given that the transition to V3 is a protracted and ongoing commitment, it remains crucial to maintain proactive risk management for V2 in the transition phase. This necessity was underscored in the recent industry-wide deliberation surrounding the CRV market. Chaos formulated a mitigation strategy now being implemented via a series of governance proposals.

As risk contributors to the protocol, we at Chaos Labs embrace an all-encompassing perspective. We view our domain of accountability and responsibility as the entire spectrum of Aave, including V2, V3 (all deployments), and the most recent launch of GHO, as they pertain to risk, data science, parameter recommendations, analytics, and more. With this in mind, the amendment to our compensation will more accurately reflect the dedicated resources we allocate, the breadth and depth of our commitment, and the tangible value we provide to Aave.

Scope:

As outlined in the background section, the scope of our work is expansive, encompassing every element related to market risk throughout the Aave protocol. Below, we highlight the core components of our engagement:

V2+V3

- Risk Parameter Optimization
- Deploying our agent-based simulation platform, proprietary methodologies, and a distinguished team of data scientists and researchers, we provide the community with comprehensive analyses and recommendations for risk parameter settings and strategies. Our paramount goal is to optimize protocol revenue while protecting user funds and mitigating potential risk vectors.
- Risk Monitoring and Alerting
- We offer real-time monitoring and alerting services through the [Chaos Labs Risk Monitoring Platform](#). These services allow users to assess ecosystem risk and protocol health at granular levels using dashboards and data visualizations.
- Protocol Growth
- We provide integral support to the protocol growth initiatives through detailed market risk assessments and parameter recommendations for new asset listings and deployments.
- Incident Response and Ongoing Market Impact Analysis -

We maintain an active role in incident response, ready to react promptly and effectively in the event of any market anomalies or security incidents. Furthermore, we continually analyze the repercussions of market events and potential risk scenarios, empowering us to refine our strategies and bolster the resilience of the Aave protocol.

- And more

GHO

- Parameter Optimization
- Chaos Labs will conduct data-driven research and simulations to recommend optimizations for GHO-specific parameters, including Borrow rate, stkAAVE discount rate, bucket capacities, and DEX liquidity goals. Additionally, Chaos Labs will extend its current V3 Ethereum Asset Listing framework to include rigorous analysis of how new asset

types can affect GHO composition and stability.

- Ongoing Risk Management, Monitoring, and Analytics -

Chaos Labs will continue iterations on our unified risk monitoring and alerting platform for GHO, across primary markets (Aave), including all facilitators and secondary markets (centralized and decentralized exchanges). Our risk management services include economic reviews of GHO and ecosystem adoption across primary and secondary markets, peg stability, GHO backing composition, and more.

- Facilitators Risk Framework, Recommendations, and Monitoring
- Chaos Labs will create a risk framework to consider potential facilitators and their corresponding GHO credit lines and provide ongoing risk analysis for potential and existing facilitators based on this framework.
- And more

Highlighted previous work and resources

- Products:
 - [Aave Risk Monitoring and Alerting Platform](#)
 - [Chaos Labs Asset Protection Tool](#)
 - [Parameter Recommendations Platform](#)
 - [GHO Risk Monitoring Dashboard](#)
 - [Aave Risk Monitoring and Alerting Platform](#)
 - [Chaos Labs Asset Protection Tool](#)
 - [Parameter Recommendations Platform](#)
 - [GHO Risk Monitoring Dashboard](#)
- Proposals:
 - [Chaos Labs - Monthly Community Update](#) - an overview of all Chaos Labs activity can be found here.
 - [Ethereum V2 to V3 Migration](#)
 - [Chaos Labs V2 to V3 Migration Next Steps](#)
 - [Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.06.15](#)
 - [Asset and Parameter Recommendations for Aave V3 Ethereum Deployment](#)
 - [Risk Parameter Updates for MKR - Aave V2 Ethereum](#)
 - [evaluation of the stablecoin e-Mode category](#)
 - [Risk Parameter Updates - Aave V3 Ethereum](#)
 - [Risk Parameter Updates for Aave v2 Ethereum Liquidity Pool \(AIP 125\)](#)
 - [Risk Parameter Updates for Aave v2 Ethereum - LTs and LTVs for Long Tail Assets \(2022.12.04\)](#)
 - [Chaos Labs - Monthly Community Update](#) - an overview of all Chaos Labs activity can be found here.
 - [Ethereum V2 to V3 Migration](#)
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 - [Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.06.15](#)
 - [Asset and Parameter Recommendations for Aave V3 Ethereum Deployment](#)
 - [Risk Parameter Updates for MKR - Aave V2 Ethereum](#)
 - [evaluation of the stablecoin e-Mode category](#)
 - [Risk Parameter Updates - Aave V3 Ethereum](#)

- [Risk Parameter Updates for Aave v2 Ethereum Liquidity Pool \(AIP 125\)](#)
- [Risk Parameter Updates for Aave v2 Ethereum - LTs and LTVs for Long Tail Assets \(2022.12.04\)](#)
- Methodologies:
- [Chaos Labs' Research](#)
- [Chaos Labs - LSD Methodology Update](#)
- [Chaos Labs' Research](#)
- [Chaos Labs - LSD Methodology Update](#)

Terms

We request an additional \$400K for the remainder of our current engagement, bringing the total annual compensation to \$1.5M.

Specification:

If this proposal is approved, a stream of the allocated budget will be activated, with a Chaos Labs-controlled account (0xbC540e0729B732fb14afA240aA5A047aE9ba7dF0) as the recipient.

In terms of technical implementation, the AIP will call the `createStream()`

method of the `IAaveEcosystemReserveController`

interface to create a stream of 400,000 aUSDT. This stream will be scheduled to conclude on November 7th, 2023, coinciding with the termination of our original engagement.

Disclaimer:

Chaos Labs provides ongoing risk management services to several other borrowing/lending protocols, such as Benqi, Venus, Tapioca, and Tashi. These commitments do not interfere with our responsibilities concerning our association with Aave. We conscientiously provide explicit disclaimers and relevant context in any proposals that may influence clientele across the DeFi ecosystem.

This proposal was not commissioned or paid for by any third party.

Next steps

1. Following community feedback, we are targeting a Snapshot vote on August 14th.
2. If consensus is reached, submit an Aave Improvement Proposal (AIP).

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