

Summary

A proposal to adjust risk parameters for WBTC.e on Avalanche deployments, to limit further exposure and promote user migration to BTC.b:

- V2
- Freeze asset
- Reduce Liquidation Threshold and LTV
- Freeze asset
- Reduce Liquidation Threshold and LTV
- V3
- Freeze asset
- Reduce Liquidation Threshold and LTV
- Freeze asset
- Reduce Liquidation Threshold and LTV

Motivation

As the Avalanche network is transitioning away from WBTC.e, we are observing an ongoing decrease in WBTC.e liquidity on-chain, with approximately 30% of the liquidity diminishing over the past few months. At this time, the total circulating supply on Avalanche is 1,731 WBTC.e. A considerable portion, nearly 67%, of the circulating supply is concentrated on Aave Avalanche V2 and V3, with ~496 and ~664 tokens, respectively.

Time series of total WBTC.e circulating supply on Avalanche

Time series of WBTC.e-USDC price impact on Avalanche, showing a trend of decreasing DEX liquidity

Given the persistence of this trend, we suggest reducing exposure on Aave and proactively modifying risk parameters for the asset. This strategy aims to:

1. Avert a potential scenario where there is inadequate liquidity to facilitate liquidations in Aave deployments.
2. Motivate new and existing users on Aave to transition to BTC.b, which has a stronger liquidity profile on Avalanche.

Limit New Supply

Freeze the WBTC.e reserves on V2 and V3 Avalanche.

Reduce Capital Efficiency

Additionally, as a precautionary measure and to further reduce exposure to the asset, we recommend reducing LTs and LTV, without impacting current holders:

- V3 - reduce LT to 70 % and LTV to 0.
- V2 - reduce LT to 70% and LTV to 0.
- at this time, this will lead to 6 accounts totaling \$15 to be liquidated.
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Usage Analysis

Currently, about 31% of the WBTC.e supply serves as collateral, primarily utilized for borrowing stablecoins, WETH, and WAVAX. A detailed breakdown of borrowing distribution is highlighted below.

In addition, in both Avalanche deployments, we haven't detected any risky positions, nor is there a significant concentration of funds in individual wallets.

V3

V2

[

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Specification

V3 Avalanche

Asset

Parameter

Current

Recommendations

WBTC.e

Liquidation Threshold

75%

70%

WBTC.e

LTV

70%

0%

WBTC.e

Freeze Reserve

NO

YES

V2 Avalanche

Asset

Parameter

Current

Recommendations

WBTC.e

Liquidation Threshold

75%

70%

WBTC.e

LTV

60%

0%

WBTC.e

Freeze Reserve

NO

YES

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.

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