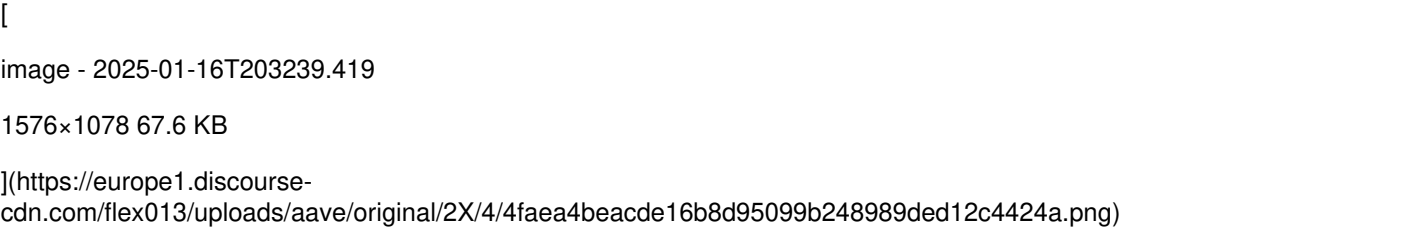


# Overview

Chaos Labs recommends a reduction in the supply and borrow caps for sUSD on Aave’s Optimism instance following recent price volatility.

## Motivation

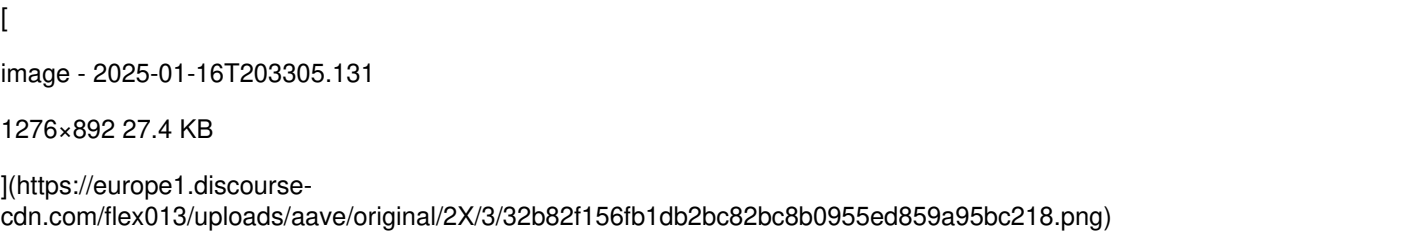
Over the past 60 days, sUSD has experienced price fluctuations, deviating from its \$1 peg to \$0.96. Concurrently, the available DEX liquidity for sUSD significantly declined.



Currently, sUSD’s liquidity has decreased to approximately \$1 million within a 10% price impact threshold on a swap to a volatile asset like WETH. This drop in liquidity heightens the risk to Aave’s protocol safety.



Additionally, we have observed an increase in demand for sUSD borrows against stablecoin collateral over the same period. This behavior indicates market participants using Aave to perform shorting strategies, increasing the risks in an already constrained liquidity environment.



To mitigate potential risks and maintain protocol safety while Chaos Labs continues its evaluation of the market, we recommend setting the supply cap to 10M and borrow cap for sUSD to 1. This adjustment will effectively deter new borrows in the market while minimizing asset utilization as collateral until further analysis is complete surrounding the future of the underlying asset.

## Specification

- Asset
- Deployment
- Current Supply Cap
- Rec. Supply Cap
- Current Borrow Cap
- Rec. Borrow Cap
- sUSD

Optimism

22,000,000

10,000,000

10,000,000

1

## Next Steps

We will move forward and implement these updates via the Risk Steward process.

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