

# [ARC] Risk Parameter Updates for Ethereum Aave v2 Market

author: [@MarcZeller](#) [@MatthewGraham](#) [@Llamaxyz](#)

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## Simple Summary

In response to Tribe DAO's proposal to enter a terminal state, this ARC proposes disabling Deposits, disabling Borrowing and route 100% of the interest paid by FEI borrowers to the Reserve Factor.

## Abstract

Tribe DAO is dissolving the DAO's assets and TRIBE governance token. As a result, FEI will become backed 1:1 with DAI and redeemable 1FEI:1DAI. With Tribe DAO transitioning into a terminal state, the FEI stablecoin will overtime be redeemed for DAI.

As FEI is redeemed for DAI, over time FEI's circulating supply and liquidity will also fall away. Without sufficient liquidity, liquidations can not be performed efficiently which creates a risk for the Ethereum Aave v2 market.

In response to recent events, this ARC proposes disabling Deposits, disabling Borrowing and route 100% of the interest paid by borrowers to the Reserve Factor. A separate forum post will emerge that recommends all aFEI be redeemed for FEI and swapped for DAI via the contracts deployed by Tribe DAO.

This proposal is to disable lending and borrowing of FEI whilst enabling existing debt to be repaid and collateral to be withdrawn.

## Motivation

With the emergence of news that Tribe DAO intends to dissolve FEI and the Protocol Controlled Value (PCV) backing the stablecoin, there is a need to amend the FEI lending market in preparation of the risks to emerge with transition Tribe DAO to a terminal state.

The details around how Tribe DAO will transition from current state to terminal state can be found [here](#).

As FEI will be redeemed for DAI, the stablecoin will suffer diminishing liquidity and diminishing supply. This renders the FEI stablecoin not suitable as a supported asset on Aave markets.

## Specification

The recommendation is to disabling Deposits, disabling Borrowing and route 100% of the interest paid by borrowers to the Reserve Factor.

Risk Parameters:

Freeze the FEI market which will:

Borrowing Enabled → Disable

Lending Enabled → Disable

Also,

Reserve Factor 20% → 100%

## Next Steps

The next step for this ARC is after a period of discussion of at least 5 days to publish a governance snapshot vote at the earliest 24th August 2022

, with YAE / NAY / ABSTAIN options and in the case of YAE majority publish an AIP to modify FEI risk parameters as outlined above at the earliest possible date 29th August 2022

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