

Summary

LlamaRisk proposes to support Aave as a risk management service provider, reinforcing the DAO's reputation for prioritizing protocol resiliency and user assurances. With a proven track record of thorough risk analysis, an unbiased approach, and an unwavering commitment to the success of our partner protocols, we have earned the trust and endorsement of those we work with.

LlamaRisk was established in 2021 as a service to Curve DAO and its LPs, providing risk transparency analyses of assets listed on Curve, including stablecoins, RWAs (Real World Assets), LSTs (Liquid Staking Tokens), and LRTs (Liquid Restaking Tokens). In 2023, we partnered with Prisma Finance to develop a comprehensive framework for assessing LST collateral risk, which we have used to produce detailed analyses for onboarding assets onto the protocol. We have since expanded our suite of risk management solutions with agent-based simulations and DeFi strategy management.

Motivation

LlamaRisk is a DeFi-native risk firm that understands the delicate balance protocols face to remain competitive in a rapidly evolving landscape without sacrificing responsible, sustainable practices.

Our core values are transparency and accountability. When armed with reliable and objective information, DAOs and their users are equipped to take action in their best interest. Therefore, our duty is to consistently demonstrate sound reasoning based on thorough analysis that our partners have come to depend on.

LlamaRisk has distinguished itself through:

- Long-form Comprehensive Risk Analysis:

Over the last two years, we have published over 70 long-form risk assessments in the public domain. Our procedures and QA/QC processes ensure we present clear, unbiased information.

- Governance & Parameterization Recommendation:

We have a longstanding history of providing consultation for our risk analyses. Our detailed reports, along with a hands-on approach, have informed critical decisions within our partner DAOs.

- Diversity of DeFi Knowledge:

Our team understands many protocol architectures, especially concerning stablecoins, liquid staking derivatives, and pegged assets generally. This knowledge comes from extensive research, development, and hands-on experience with various DeFi protocols, enabling us to anticipate and mitigate risks effectively.

- Commitment to Innovation:

At LlamaRisk, we continually evolve our methodologies and tools to stay at the forefront of DeFi research and risk management, ensuring our strategies are effective.

Specification

Recognizing the significance of a dual risk provider model, LlamaRisk's proposal is designed to complement Chaos Labs' risk services, with whom we plan to collaborate extensively.

The initial 6-month engagement, which may be extended pending DAO approval, involves the following scope:

- On-demand Risk Assessments:

LlamaRisk will deliver prompt and in-depth risk assessments for assets listed or considered to be listed on Aave with particular emphasis on the collateral types comprising the GHO stablecoin. This will involve developing a custom framework tailored specifically to the categories of relevant assets and Aave's needs, which will standardize the assessment process.

- Collaborative Engagement with Chaos Labs:

We plan to collaborate extensively with Chaos Labs, combining our expertise to provide Aave with comprehensive and nuanced risk analysis, enhancing the protocol's risk management capacity.

- Active Involvement in DAO Governance:

LlamaRisk will actively participate in Aave's DAO governance, offering informed insights and strategic recommendations on risk management practices for principal stakeholders and the community.

- Legal Regulatory Advisory and Policy Work:

We will offer specialized legal research and regulatory guidance, including a thorough analysis of evolving legal frameworks

and regulatory policies, and equip Aave with the necessary foresight to navigate the regulatory landscape of the DeFi sector effectively.

Risk vectors are diverse and cannot be fully managed by qualitative risk tools. That is why we specialize in comprehensive risk assessment of tokenized assets and DeFi protocols. Our work supports our partners in making informed decisions that mitigate potential threats and promote a culture of transparency and sustainability. Our team of experts meticulously evaluate various risk factors, including but not limited to:

- Protocol design and architecture
- Tokenomics and economic incentives
- Smart contract security
- Governance mechanisms
- Regulatory compliance

LlamaRisk leverages advanced simulation techniques, including statistical and agent-based modeling, to test and validate DeFi protocols and their collateral assets under various stress scenarios. Our simulations provide valuable insights into potential risks, allowing our partner protocols to set competitive parameters resilient to adverse market conditions.

Our DeFi strategy managers employ data analytics and risk monitoring tools that allow us to maintain high efficiency and safety standards. We support our partners with publications and dashboards that give users the information they need to interact with the protocol responsibly.

Our advisory services cater to the unique needs of DeFi projects, providing strategic guidance and support throughout their lifecycle. From ideation to implementation, our experienced advisors offer expert advice on protocol design, tokenomics, governance, and risk management strategies, ensuring optimal outcomes for our partners.

Comment

Traversing the complex regulatory landscape is crucial for DeFi protocols and projects. Our team of legal experts provides in-depth analysis and guidance to ensure compliance with applicable laws and regulations. We evaluate legal risks, assist with regulatory filings, and help clients develop robust strategies for operating within the evolving regulatory framework.

We actively engage in policy development and legislative processes related to crypto and blockchain at national, supranational, and international levels. This includes participating in specialized working groups, contributing opinions to public discussions on regulatory developments, and involvement in policymaking dialogues. We aim to ensure that DeFi stakeholders are represented and protected in the evolving regulatory landscape, facilitating informed and proactive responses to legislative changes.

Duration & Proposed Budget

We propose a flexible retainer model for our collaboration, with an initial 6-month commitment. This model is designed to ensure maximum efficiency in resource utilization, with a commitment to transparency and responsible financial management.

The budget request is \$250,000 for a 6-month engagement.

Detailed quarterly reports on our spending will be provided, with any unused funds either carried over to the next quarter or returned to the Aave DAO, as preferred.

Overall, this proposed scope is an opportunity for LlamaRisk to demonstrate its ability to make an appreciable improvement in Aave's risk management, which is a pragmatic and cost-effective onboarding strategy. It also serves as an introduction to building a working relationship with Chaos Labs and DAO stakeholders. We intend to demonstrate our value throughout a 6-month engagement and expand our suite of services as pain points are identified.

We are a flexible and agile team ready to work together to provide risk management solutions that will suit Aave's specific needs within the wider organization of service providers and stakeholders making up the DAO.

Useful Links

You can find in this section links to our work:

- [Curve Gauge Risk Substack](#) (CryptoRisk Assessments): We publicize research related to assets with Curve pools (mostly stablecoins and RWAs) with attention to risks to the Curve gauge and governance system
- [PrismaRisk Hackmd](#): We publicize comprehensive collateral risk assessments for proposed collateral assets on Prisma Finance (LSTs and LRTs)

- [LlamaRisk Hackmd](#): We publicize comprehensive collateral risk assessments for potential collateral assets for Curve crvUSD
- ArcadiaSim: [Update 1](#), [Update 2](#), [Update 3](#), [Update 4](#) & [Update 5](#)
- [Sturdy Finance crvUSD Aggregator](#): Sturdy V2 app of the aggregator managed by LlamaRisk
- [Aggregator Dune Dash](#): LlamaRisk dashboard monitoring the aggregator and underlying assets
- [Aggregator Oracle Explainer](#): Publication on Sturdy silos Oracle design
- [Response to FCA Discussion Paper DP23/4](#): Our response to the UK Financial Conduct Authority's Discussion Paper on Regulating Cryptoassets Phase 1: Stablecoins
- [DeFi Yield Optimizers](#): The legal status of DeFi yield optimizers under the EU crypto regulatory framework
- [SubDAO Legal Entity Formation](#): Llama Risk resources for DAO sub-orgs in search of suitable legal structures

Disclaimer

This proposal is powered by Skywards. The Aave Chan Initiative is not directly affiliated with LlamaRisk and did not receive compensation for creating this proposal.

Next Steps

1. If consensus is reached on this [TEMP CHECK], escalate this proposal to the Snapshot stage.
2. If the Snapshot outcome is YAE, this proposal will be escalated to ARFC stage
3. Publication of a standard ARFC, collect community & service providers' feedback before escalating the proposal to the ARFC snapshot stage
4. If the ARFC snapshot outcome is YAE, publish an AIP vote for final confirmation and enforcement of the proposal

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