

Summary

Chaos Labs proposes to renew our engagement with the Aave DAO, providing our full suite of risk management products and services, covering all of Aave, including V2, V3, and GHO, across all current and future deployments.

Our current annual engagement is set to end on November 7th, 2023.

Background

In November 2022, Chaos formally joined the Aave DAO as a service provider specializing in risk management and parameter optimization. This partnership began with our original [engagement to cover V3 markets](#), followed by an [extension to cover V2 markets formally](#), with an additional [engagement amendment](#) approved by the community in August 2023 to adjust the scope and compensation for the remainder of the original term.

During this time, we have consistently demonstrated our unwavering dedication to the DAO, covering all aspects of the protocol across all deployments and providing the community with proactive risk parameter recommendations alongside reactive analyses and risk-mitigating strategies in light of significant market events. Chaos has initiated over 60 ARFCs and supported nearly 100 additional proposals and community discussions, including parameter optimization, onboarding of new assets and new deployments, deprecation of V2 and migration to V3, GHO launch, and community support during major market events.

During our engagement, the protocol incurred minimal bad debt while facing major market events, namely the USDC depeg in early March 2023.

A full overview of Chaos Labs' activities through the past year can be found in our monthly community updates here. [Chaos Labs - Monthly Community Update](#) [Governance

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May 2023

Overview This update highlights the past month's activities and proposals and shares our planned work.

Highlights

We launched the [Chaos Labs Asset Listing Portal](#), a tool built into the Chaos Labs Parameter Recommendation Platform to support the onboarding of new assets to the Aave protocol. The Asset Listing Portal is designed to help streamline community decision-making by presenting key metrics about the considered assets, such as volatility, exchange liquidity, market cap, on-c...

Highlighted previous work and resources

Products:

- [Aave Risk Monitoring and Alerting Platform](#)
- [Chaos Labs Asset Protection Tool](#)
- [Parameter Recommendations Platform](#)
- [GHO Risk Monitoring Dashboard](#)

Methodologies:

- [Chaos Labs' Research](#)
- [Chaos Labs - LSD Methodology Update](#)

Analyses and Proposals:

- Market Events:
- USDC Depeg - [USDC Depeg - War Room Summary, Evaluation of the stablecoin e-Mode category](#)
- MAI Depeg - [Chaos Labs - MAI Depeg Update, ****\[ARFC\] Chaos Labs Risk Parameter Updates - MAI on Aave V3 - 2023.7.23](#)
- Vyper Exploit - [Post Vyper Exploit - CRV Market Update and Recommendations](#)

- [Chaos Labs Market Alert - High Price Volatility and Liquidations - 08/17/2023](#)
- USDC Depeg - [USDC Depeg - War Room Summary, Evaluation of the stablecoin e-Mode category](#)
- MAI Depeg - [Chaos Labs - MAI Depeg Update, ****\[ARFC\] Chaos Labs Risk Parameter Updates - MAI on Aave V3 - 2023.7.23](#)
- Vyper Exploit - [Post Vyper Exploit - CRV Market Update and Recommendations](#)
- [Chaos Labs Market Alert - High Price Volatility and Liquidations - 08/17/2023](#)
- V2 → V3 Migration and V2 Deprecation
- [Community plan for Ethereum V2 to V3 migration, Chaos Labs V2 to V3 Migration Next Steps](#)
- Aave V2 Deprecation Plan - [\[ARFC\] Chaos Labs - Incremental Reserve Factor Updates - Aave V2 Ethereum \[ARFC\] Chaos Labs Risk Parameter Updates - Aave V2 Ethereum - 2023.6.23, \[ARFC\] Chaos Labs Risk Parameter Updates - Aave V2 Ethereum - 2023.08.09](#)
- [Community plan for Ethereum V2 to V3 migration, Chaos Labs V2 to V3 Migration Next Steps](#)
- Aave V2 Deprecation Plan - [\[ARFC\] Chaos Labs - Incremental Reserve Factor Updates - Aave V2 Ethereum \[ARFC\] Chaos Labs Risk Parameter Updates - Aave V2 Ethereum - 2023.6.23, \[ARFC\] Chaos Labs Risk Parameter Updates - Aave V2 Ethereum - 2023.08.09](#)
- CRV Deprecation
- [Chaos Labs - CRV V2 Ethereum Deprecation Plan](#)
- LT Reductions - [\[ARC\] - Risk Parameter Updates for Aave v2 Ethereum - LTs and LTVs for Long Tail Assets \(2022.12.04\), \[ARFC\] - Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.06.15 \[ARFC\] - Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.07.10, \[ARFC\] CRV Aave V2 Ethereum - LT Reduction - 09.19.2023](#)
- [Chaos Labs - CRV V2 Ethereum Deprecation Plan](#)
- LT Reductions - [\[ARC\] - Risk Parameter Updates for Aave v2 Ethereum - LTs and LTVs for Long Tail Assets \(2022.12.04\), \[ARFC\] - Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.06.15 \[ARFC\] - Chaos Labs Risk Parameter Updates - CRV Aave V2 Ethereum - 2023.07.10, \[ARFC\] CRV Aave V2 Ethereum - LT Reduction - 09.19.2023](#)
- GHO -

[GHO genesis parameters](#), [GHO Stability Module](#), [GHO Stability Module Update](#), [GHO Borrow Rate](#)

- New Deployments
- [Initial Parameter Recommendations for Aave V3 Ethereum Launch](#) [Metis](#), [BNB](#), [Base](#), [GNO](#), [zkEVM](#)

Proposal

Chaos Labs offers our comprehensive risk management and optimization platform for Aave, covering the entire spectrum of Aave, including V2, V3, and GHO, across all current and future deployments.

Our strategies aim to secure protocol assets against market volatility, black swan events, liquidity attacks, and market manipulation. Our methodologies are rooted in an integrative approach, offering protocol robustness and protecting funds from market risks through dynamic risk parameter recommendations. We provide a holistic approach encompassing software and services to mitigate risks in volatile markets, countering economic attacks on the protocol and ensuring the secure preservation of user funds.

Scope

Risk Parameter Optimization

Deploying our custom 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. Chaos Labs will thoroughly analyze the ecosystem and build custom agent-based simulations. These simulations leverage protocol dynamics and on-chain behaviors to pressure test and optimize the protocol, identifying potential vulnerabilities and opportunities for improvement. Thorough system analysis yields a

comprehensive understanding of the factors that impact protocol health and stability, enabling us to make data-driven optimization and risk management recommendations.

Coverage includes support for all Aave risk parameters, including Liquidation Thresholds, LTV, Liquidation Bonus, Supply and Borrow Caps, Debt Ceilings, and Interest Rate Curves.

Parameter Recommendation Platform

The Chaos Labs Parameter Recommendation Portal is designed to provide the Aave community with a comprehensive understanding of the simulation outputs and underlying data to optimize risk parameter settings. By providing a clear and intuitive interface that highlights the impact of different parameter settings on risk and return, we can foster a more informed and engaged community, facilitating ongoing collaboration and knowledge sharing.

In addition to presenting the data outputs from the Chaos Simulation Engine, the Parameter Recommendation Portal offers users unparalleled access to the underlying simulation mechanics and implications, providing users with a comprehensive understanding of the simulations and their results.

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. Users can drill into specific scenarios in which the protocol could be negatively impacted and receive alerts concerning significant changes to on-chain activities that could pose a risk or detriment to the protocol's health.

As part of our commitment to delivering a world-class risk management solution for the DeFi ecosystem, we constantly iterate and improve on the platform with additional features and enhancements. The Aave community will continue to gain access to the newest feature additions and enhancements continuously, allowing users to stay ahead of the curve and make informed decisions while optimizing their overall portfolio performance.

Deprecation of V2 and Migration to V3

Chaos Labs has spearheaded several community initiatives to deprecate the V2 markets and facilitate the transition to V3, as outlined in the 'Background' section.

As we progress with the deprecation plan and migration efforts, we are committed to continue allocating resources and offering the community recommendations for proactively adjusting V2 parameters. This includes updates to Liquidation Thresholds, Reserve Factors and enhancing the capital efficiency of V3 markets to ensure a seamless migration of positions from V2.

Given the extended nature of the transition to V3, it remains imperative to uphold proactive risk management for V2 during this transitional phase.

Protocol Growth

Chaos Labs will provide integral support to the protocol growth initiatives through detailed market risk assessments and parameter recommendations for new asset listings and deployments.

As we onboard new assets and deployments, the Chaos team will seamlessly integrate them into our systems to facilitate continuous monitoring and parameter optimization. We uphold the same high standard for all assets and deployments, ensuring consistency and excellence across the board. Our goal is to provide unwavering support for the protocol's expansion and sustainability.

GHO

Following the initial launch of GHO, Chaos Labs is committed to the continued growth and safety of the stablecoin and will provide ongoing support, including:

- Parameter Optimization
- we will conduct data-driven research and simulations to recommend optimizations for GHO-specific parameters, including Borrow rate, stkAAVE discount rate, bucket capacities, GSM, 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 -

We 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.

- Facilitator's Risk Framework, Recommendations, and Monitoring
- we 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

Chaos Team Support

As part of our services, we assign a dedicated protocol manager supported by our world-class team of researchers and data scientists to lead all risk-related communications and inquiries with the Aave community.

Our team support typically covers two main areas: ongoing management and incident response. In the event of any incidents or issues, our team will be on hand to provide timely and effective incident response, minimizing the potential impact on the protocol and its users.

Ongoing and Proactive Risk Management

This includes detailed analyses of new asset onboarding, assessing the potential risks and benefits of launching in new markets and providing a thorough understanding of parameter recommendations, including qualitative data and position analysis.

Incident Response

This includes supporting various events, including liquidity changes, asset depegs, price volatilities, etc. Our team provides ongoing support in these events, including market monitoring and alerting, ad-hoc risk analysis, and recommendations on risk-mitigating actions.

Our team of experts brings a wealth of experience in risk management and data analysis, enabling us to provide the insights and recommendations necessary to navigate even the most challenging market conditions. By working closely with the community, we can provide the support and guidance necessary to promote Aave's long-term success and sustainability.

Communications:

- Our team will share our recommendations and analyses through dedicated governance forum discussions, maintaining transparency and facilitating effective communication with the community.
- We commit to providing a monthly update post, highlighting completed work and outlining our future areas of focus.
- We are consistently available for community calls and regularly schedule check-up calls with Aave delegates. These calls primarily focus on addressing risk-related inquiries, offering insights into existing proposals, and gathering general feedback.

Terms

- 12-month engagement, November 13th 2023-November 13th, 2024
- \$1.6M, streamed linearly throughout the engagement.
- Given community preference, we suggest the full amount to be paid in GHO but are open to any composition of stables/Aave tokens.
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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 1,600,000 aUSDC or GHO for a 12-month duration.

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 November 1st, 2023.
2. If consensus is reached, submit an Aave Improvement Proposal (AIP) on November 8th, 2023.

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