ARC: Aave and Harmony Joint Recovery Plan

Summary

The hack on the Harmony blockchain led to a significant loss of funds for many users on AAVE. This recovery plan aims to rectify this issue through the implementation of a decaying oracle mechanism, the establishment of a joint recovery fund by Aave and Harmony, and the equitable split of any remaining "bad debt."

Note: This plan is a combination of ideas, originally initiated on this thread:ARC: Harmony Recovery - #177 by mbarret3. BGD, a service provider engaged by the Aave DAO, came up with the decaying oracle mechanism. Recovery One, a Harmony recovery burn partner helped facilitate 14 community proposals to formulate this recovery plan.

Solution

Recovery Fund

The core part of the solution is the creation of a recovery fund. This fund is designated for reimbursing the affected users who lost funds due to the hack.

Harmony and Aave are proposed to each contribute 10% of the total necessary reimbursement funds. This means if the total loss was, for example, $10M, Harmony would contribute $1M and Aave would contribute another $1M.

Part of Aave's contribution would come from writing off the depreciated assets it currently holds in its Harmony DAO treasury, which is approximately 2m aONE and 700 aLINK tokens. The rest of the contribution from both parties would likely come from their own reserves or other funding sources.

This recovery fund would allow the affected users to immediately recoup 20% of their pre-hack balance, providing some immediate relief and a base for further recovery efforts.

Decaying Oracle Mechanism

The second part of the proposal involves the introduction of a decaying oracle mechanism. BGD, a service provider engaged by the Aave DAO proposed this mechanism. This mechanism encourages the early liquidation of depegged assets at progressively diminishing values.

This works by slowly reducing the "official" value of these depegged assets over time, incentivizing users to liquidate these assets earlier rather than later. This, in turn, helps remove these depegged assets from the system more quickly, freeing up more capital and helping the system return to normal faster.

The implementation of the decaying oracle will start at a recovery rate of 20%. This means that the value of the assets will start at 20% of their pre-hack value and decrease from there.

Handling of Remaining Bad Debt

The proposal anticipates that not all bad debt will be removed through the above measures. In the event of remaining bad debt, this debt would be split equally between Harmony and Aave.

This is a recognition of the fact that while efforts will be made to encourage maximum participation in the recovery efforts, 100% participation may not be achievable, and some debts may remain unliquidated.

Timeline

The recovery process is estimated to take about four years. However, this timeline is not fixed and can be adjusted based on market conditions and the progress of the recovery efforts.

Review

This proposal presents a multi-faceted approach to resolving the complex issue of the hacking incident, involving immediate relief through the recovery fund, accelerated recovery through the decaying oracle mechanism, and a plan for handling any remaining bad debt. All of these measures are proposed with the goal of restoring user confidence and system stability.

Rationale

This joint recovery plan provides a comprehensive approach to address the severe impact of the hack. It ensures that the affected users are compensated and that there is a systematic reduction of depegged assets. This plan is crucial to restore user confidence in both the Aave protocol and the Harmony blockchain. Enhancing our security protocols and improving user education about DeFi risks are also proposed for the future sustainability of the platform.

Next Steps

Snapshot Poll

Use the [Aave Snapshot](#) to gauge community sentiment and preferences.

AIP

Prepare the [Aave Improvement Proposal (AIP)](#) based on the rough consensus gathered via snapshot and prepare the necessary payloads.

Governance Vote

Submit the AIP to the protocol for a governance vote.