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Summary

This proposal addresses the bad debt incurred by the Aave protocol on the Harmony network due to the Horizon Bridge exploit in June 2022. It proposes a solution to remove the bad debt and compensate AAVE holders by creating a fund and allowing token exchange.

Motivation

To gauge community sentiment regarding a proposal to offer a resolution for those affected by the June 2022 Horizon Bridge hack.

- Context:

In June 2022, the Horizon Bridge hack resulted in the exploit of Harmony's ERC Bridge, leading to a loss of approximately \$100 million. This hack caused an excessive printing of assets like 1USDC and 1USDT, devaluing them significantly. Opportunists exploited this by buying these devalued assets at a discount and depositing them into Aave. Despite the devaluation, Aave maintained a 1:1 price ratio for these assets post-hack, allowing users to borrow ONE and drain it completely from the protocol. As of today, 55.42M ONE has been drained from Aave V3 Harmony, bringing the market to a standstill. So we would ask Harmony to add a fund of 5,542,000 ONE and Aave to add 5,542,000 ONE.

- Impact:

Aave currently holds bad debt of approximately \$751K due to this exploit. The lack of immediate action by Aave to adjust pricing variables after the hack exacerbated the issue.

Specification

This proposal suggests bad debt removal approach

- Bad Debt Removal:

Create a fund 10% (5,542,000 ONE) from Harmony Recovery ONE and 10% (5,542,000 ONE) from AAVE treasury. * Use this fund so that affected Aave users of Harmony's Horizon Bridge Hack can withdraw their deposited tokens in exchange for 20% of their original deposit value.

- Implementation

: Aave DAO governance will vote on this proposal. If approved, a smart contract will be deployed to facilitate the token exchange and fund creation.

Disclaimer

This proposal is not without risk and does not guarantee a complete resolution of the bad debt issue. The Aave community is encouraged to carefully consider the potential benefits and drawbacks before voting.

Next Steps

- Get community feedback on TEMP CHECK
- Snapshot vote

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