

Title: [ARFC] Updating weETH Risk Parameters

Author: MarcZeller - ACI

Date: 2024-04-18

Summary

This proposal aims to update the risk parameters and interest rate strategy of the weETH asset on the Ethereum pool to boost Aave DAO revenue and encourage collateral adoption.

Motivation

The successful onboarding of EtherFI into Aave has demonstrated significant demand for weETH usage as both collateral and a borrowing asset, with both initial supply caps reached in minutes and second cap increases filled under similar conditions. To accommodate this demand and facilitate protocol growth, this proposal suggests increasing the supply cap of weETH on the Ethereum pool and the borrow cap at 25% of the new supply cap amount. This proposal also aims at changing the interestRate Strategy to place the optimal ratio at 25% of liquidity.

Expanding borrow capacity will result in a higher collateral yield, which in turn creates a positive flywheel effect on supply and demand. By maintaining the borrow cap at an optimal ratio (25%) of the supply cap, we can balance risk, available liquidity, and LP yield effectively.

We also propose to increase weETH RF to 20% to contribute to Aave DAO revenue.

Specification

Chain

Asset

Current Supply Cap

Recommended New Supply Cap

Current Borrow Cap

Recommended New Borrow Cap

Ethereum

weETH

16,000

84,000

800

21,000

Chain

Asset

Current Optimal ratio

Recommended optimal ratio

Current reserve factor

Recommended New reserve factor

Ethereum

weETH

45%

25%

15%

20%

Next Steps

1. Gather consensus from the community and risk service providers.
2. Escalate to ARFC Snapshot vote stage.
3. If the Snapshot vote outcome is YAE, escalate to AIP stage for formal implementation.

Disclaimer

This proposal has been created independently by the ACI without external compensation or incentives.

Copyright

Copyright and related rights waived via [CC0](https://creativecommons.org/licenses/by/4.0/)