

Title: [ARFC] Aave v3 on Ethereum - Create eMode Categories

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Short Description: Deploy Aave v3 with a Stablecoin Correlated and Ethereum Correlated eMode Category.

Dated: 2022-12-11

Simple Summary

This publication proposes the community to deploy Aave v3 on Ethereum with two initial eMode Categories.

Abstract

Aave v3 is currently deployed on Polygon, Avalanche, Arbitrum and Optimism networks all with eModes. In this proposal, [@llamaxyz](#) proposes, the Ethereum v3 deployment should include the following eModes Categories:

- Stablecoin Correlated (DAI, USDC, USDT, FRAX, LUSD, BUSD, sUSD, TUSD)
- Ethereum Correlated (wstETH & ETH)

Similar to all existing the deployments, the Stablecoin eMode will have LTV 97%, LT 97.5% and LP 1%. The Ethereum eMode will have LTV 92.5% LT 95% and LP 1% which is the same as the Polygon Matic

Category and the Avalanche AVAX Correlated

Category.

Motivation

In the coming weeks Aave v3 will be ready for deployment Ethereum. Unlike other deployments, there is more in depth discussion relating to the initial parameters. Which assets to be listed on Aave v3 has been somewhat discussed and voted on. This proposal is a continuation of the initial parameter discussion with a focus on the creation of eMode Categories.

When Aave v3 was deployed on Polygon, Avalanche, Optimism and Arbitrum, each Liquidity Pool contained at least a Stablecoin eMode Category. Since the original deployment, a MATIC category was created on Polygon and an AVAX category was created on Avalanche. The trigger for creating such categories was the ability to recursive leverage yield derived from staking the native token. With many communities building yield generating products reliant on the recursive loop for yield, the introduction of the Ethereum Correlated eMode provides an incentive for communities to migrate products across to v3. Aave v3 eModes enable a lot more leverage due to the higher LTV and LT thresholds. With favourable liquidity conditions, these strategies can offer significantly higher yield than Aave v2.

Creating eModes on Aave v3 helps encourage products built on Aave v2 to migrate to v3. The eModes also encourage borrowing demand which can lead to higher utilisation of Reserves, which in turn leads to higher Revenue to the DAO. The limiting factor is liquidity. The new Aave Linear Pools on Balancer v2 will funnel liquidity into Aave v3 Reserve. The yield on deposits will flow to Liquidity Providers, hopefully exceeding the yield offered by other Decentralised Exchanges and attracts more deposits. The eModes are expected to create the utility that helps attract liquidity.

In time the DAO can consider the creation of other eModes, such as a Defi <> ETH correlated category or even BTC <> ETH correlated eModes. These eModes would encourage other communities to build yield products on Aave v3. They can even be used to create automated buy-back strategies for governance tokens. As these eModes are included cross asset pairing and have not been deployed on any Aave v3 deployment to date, we suggest considering these eModes as an upgrade post launch.

Specification

Upon deployment of the Aave v3 Liquidity Pool on Ethereum, the following eMode Categories are to be created:

1. Stablecoin Correlated
2. Ethereum Correlated

This follows the naming convention of the Avalanche v3 deployment.

The characteristics of each eMode Category is shown below:

eMode: Stablecoin Category

Includes Assets: DAI, USDC, USDT, FRAX, LUSD, BUSD, sUSD and TUSD

Parameter

Polygon (%)

Avalanche (%)

Optimism (%)

Arbitrum (%)

Ethereum (%)

Loan To Value Ratio

97.0

97.0

97.0

97.0

97.0

Liquidation Threshold

97.5

97.5

97.5

97.5

97.5

Liquidation Penalty

1.0

1.0

1.0

1.0

1.0

eMode: Ethereum Correlated

Includes Assets: wstETH & ETH

Parameter

Polygon MATIC (%)

Avalanche AVAX (%)

Ethereum ETH (%)

Loan To Value Ratio

92.5

92.5

92.5

Liquidation Threshold

95.0

95.0

95.0

Liquidation Penalty

1.0

1.0

1.0

Next Steps

We welcome community feedback on the proposed specification above in the comment section below. The Liquidation Penalty set at 1% on Ethereum could be adjusted higher to reflect the relative gas cost of the network. If the community has thoughts around this particular aspect, that would be greatly appreciated.

After some discussion, Llama will then follow up with a Snapshot. If the Snapshot meets the short execution requirements, the eMode Categories as detailed above are to be implemented upon deployment of Aave v3 on Ethereum.

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