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## Summary

Chaos Labs proposes to expand the scope of its engagement with Aave to include proactive risk analysis and management of the v2 markets while encouraging and supporting a safe migration to the upcoming Ethereum v3 deployment.

The current engagement is focused on providing risk analyses and parameter recommendations across only v3 markets ([Discussion link](#)). With the recent volatility in the markets and attempted exploit through the CRV pool, our resources have shifted to supporting Aave v2 on Ethereum, as well, to ensure protocol stability and security.

We wanted to put this a community vote and formalize coverage and expectations around Chaos' work on this instance and support during the launch and transition towards v3 on relevant protocols.

## Background

Chaos Labs was approved as a risk partner for Aave v3 earlier last month and have begun work to launch the [Community Parameter Recommendations](#) in the coming weeks covering all relevant v3 markets across LTV, Liquidation Threshold, Liquidation Bonus, and Supply/Borrow Caps with other metrics coming shortly thereafter.

As liquidity in DeFi has dried up and volatility in non-pegged assets has increased, the risk situation for Aave v2 has become a greater concern to the community, with more surface area to be covered. It was not our intention to cover v2 during this engagement, as we were heads down and focused on v3. As the market volatility picked up, Chaos was asked (both publicly and privately) for our analysis of the state of the protocol to support and help minimize the risk of additional bad debt accrued to the protocol. Through the forum discussions around the appropriate risk response to the existing market factors, we aligned with the community that not all markets needed to be frozen, and there was a path forward with mitigated parameters, which we stepped in to propose in order to allow the community to have a voice both in the forums and via governance votes. All have passed with a significant show of support.

We are still iterating and publishing the amended parameters for v2 in line with those early proposals and have begun discussions analyzing the most appropriate path to transition usage to v3.

Through our first month as a contributor, we have coordinated with other DAO contributors to submit several risk proposals, including:

- [v3 Supply Cap Recommendations for Uncapped Assets \(Fast-track\)](#)
- [Risk Parameter Updates for Aave v2 Ethereum Liquidity Pool \(AIP 125\)](#)
- [Risk Parameter Updates for Aave v2 Ethereum - LT and LTV \(2022.12.01\)](#)
- [V3 Borrow Cap Recommendations \(Fast-track\) \(2022-12-05\)](#)
- [Risk Parameter Updates for Aave v2 Ethereum - LTs and LTVs for Long Tail Assets \(2022.12.04\)](#)

Additionally, we have published research on a number of topics to help inform community discussion:

- [v2 Liquidation Threshold impact analysis](#)
- [BTC vs. WBTC Oracle Analysis](#)
- [Chaos Labs Asset Protection Tool](#)

Aave v2 is the only instance of the protocol live on Ethereum mainnet today, while the development for v3 to launch is ongoing. Usage capabilities of Aave v2 have been curtailed significantly, first by freezing several assets and subsequently unfreezing a portion of them to allow for supplying of "risky assets" and enabling borrows for well-structured "pegged assets."

The transition to Aave v3 on mainnet will not be entirely seamless and will require the support of all contributors and community members to ensure it goes as smoothly as possible.

## Proposal

## Scope

Based on the work done to date in a short time frame and the amount of work ahead to transition from v2 to v3 on Ethereum, Chaos Labs is proposing to extend the scope of the original engagement to support parameter optimization on v2 as well as conduct relevant risk analyses during the transition planning.

Our priority with this added scope would be to methodically update parameters, protect existing user funds, and mitigate new potential risk factors on v2 while ensuring the capital efficiency of v3 is a more attractive option for new users.

This includes topics and considerations such as:

- Methodically amending asset parameters to incentivize new users to open accounts on v3
- Initiating coordination with third-party protocols building on top of v2 to assist in transition planning, communications, and timing
- Helping analyze incentive (both treasury- and parameter-managed) schemes to incite account transitions
- Continued analysis of the impact of market events and risk scenarios for the DAO

This work will be in conjunction with our existing v3 responsibilities and should not materially impact timelines for delivery during the coming months.

## Duration

: We propose this engagement to align with the 6-month anniversary of our original engagement, thus covering the remaining 5-month period. The intent is to bridge the transition from v2 to v3 during this period with a finite end date and not continue on indefinitely. If there is still material TVL on v2 at the end of this period, we will discuss the appropriate next steps and maintenance/monitoring expectations with the community.

## Compensation

: \$250k streamed linearly over the 5-month period (equating to \$50k per month).

- 30% (\$75k) payable in AAVE tokens
- 70% (\$175k) in stablecoins

## Next steps

We will continue our work on Aave v3 tooling as stated in prior posts and hope to discuss this proposed expansion with the community before moving forward with a Snapshot vote next week.