Summary

Reduce stablecoin LTs and LTVs across all markets.

Motivation

In response to the volatility risks highlighted by the UNI incident on Compound, this proposal aims to mitigate theoretical debt asset volatility by proposing a reduction in collateral asset borrowing power for stablecoins. While the UNI debacle was attributed to inadequate dual-bounded fallback oracle logic, a property not employed by Aave, leading to mispriced UNI debt and subsequent arbitrage activities, the observed upward volatility in longer-tailed assets suggests a prevailing "risk-on" market sentiment. Therefore, we advocate for minimizing borrowing power concerning shorting these assets to prevent potential short squeezes and liquidation shortfalls. Subsequent recommendations will address borrow cap reductions for relevant long-tailed assets, which generate minimal revenue relative to the theoretical risks, especially in edge-case scenarios. Additionally, presently only 2.4%, 3.7% and 5.8% of supplied DAI, USDT and USDC on Ethereum are being utilized as collateral, indicating the generalized lack of demand (and thus revenue).

USDC, USDT and DAI (non-Avalanche/Metis, no DAI on Optimism), 80% → 78% LT

Lowering USDC, USDT and DAI LT from 80% to 78% on said chains would induce $537k worth of liquidations, with a singular DAI-collateralized WETH and MKR debt position responsible for 93% of this value. It's crucial to acknowledge the heightened market volatility at present, particularly regarding the growth of the underlying debt assets. Values have experienced significant fluctuations over the past few days. Therefore, we will allow users ample time to unwind risky positions before execution.

LUSD, sDAI and WXDAI, 80% → 78% LT

Lowering LT from 80% to 78% on all available chains would result in just one ACI-affiliated position being liquidated on Gnosis.

USDC.e (Arbitrum and Polygon) and USDbC (Base), 80% → 78% LT

USDC (86.25% → 83% LT), USDT (80% → 78% LT) and DAI (82% → 80% LT) on Avalanche

Nearly all of the $21.2k in liquidations are attributed to USDC loopers with active positions held for over a year, of whom primarily engaged in farming WAVAX borrow incentives.

USDC.e (85% → 83% LT) and DAI (83% → 80% LT) (Optimism)

Final Recommendations

Assets

LT

LTV

Total Liquidated

USDC, USDT, DAI

80% → 78%

77% → 75%

$537.4k

USDC.e, USDbC

80% → 78%

77% → 75%

$9.5k

USDC (Avalanche)

86.25% → 83%

82% → 80%

$21.2k

USDT (Avalanche)

80% → 78%

77% → 75%

0

DAI (Avalanche)

82% → 80%

75%

0

LUSD, sDAI, xDAI

80% → 78%

77% → 75%

$27.8k (ACI)

USDC.e (Optimism)

85% → 83%

80% → 78%

0

DAI (Optimism)

83% → 80%

78% → 75%

$134

$596k