Title: [ARFC] Add YFI to Ethereum v3

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Dated: 2023-02-18

Summary

This proposal presents Aave the opportunity to onboard YFI to the Ethereum v3 Liquidity Pool.

Abstract

Yearn is a decentralised suite of products helping individuals, DAOs, and other protocols earn yield on their digital assets. YFI was originally listed on Aave v1 and included on Aave v2 when it was launched in late 2020.

Any YFI nominated revenue could be converted to veYFI, if Aave chooses, and be used to participate in Yearn Finance's tokenomics. The staked aToken being developed by @AaveLabs enables Yearn's vaults to be integrated as collateral and the veYFI holding could be used to boost rewards if Aave elects to do so.

This ARFC is a joint effort with ACI and 3SE to allow a selection of v2 listed assets to be onboarded on V3 via the governance process. Subject to a favourable Snapshot vote, @Llamaxyz will submit an AIP for voting.

Motivation

Yearn Finance is the market leader for yield aggregation with $471m in TVL across four deployments and is ranked 22nd on the Defi Llama TVL dashboard. There is a little over $6m of deposits in the frozen YFI reserve on Aave v2 Ethereum. YFI is not currently listed on either the USDC or ETH Compound v3 liquidity market.

With the deployment of the staked aToken, there is the potential to integrate Yearn's vaults as collateral. This is not likely to be realised in the short term. However, it is possible and something for the Aave community to consider at a later date.

The risk parameters provided within are the same as those provided by Gauntlet within the initial forum post discussing which assets to onboard to Ethereum v3.

The interest rate provided in the proposal mirrors the v2 deployment with exception of the parameters specific to stable interest rates. The stable rates proposed are the somewhat generic listing rates as stable borrowing is disabled. However, if stable borrowing was enabled, the suggested parameters are suitable and don't create any undesirable dynamics between stable and variable rates.

We note that this proposal is to be reviewed by Gauntlet, with feedback incorporated, prior to progressing to Snapshot.

Specification

Ticker: YFI

Contract Address: 0x0bc529c00c6401aef6d220be8c6ea1667f6ad93e

Risk Parameter

Value

Isolation Mode

YES

Enable Borrow

YES

Enable Collateral

YES

Loan To Value

50.00%

Liquidation Threshold

65.00%

Liquidation Bonus

10.77%

Reserve Factor

20.00%

Liquidation Protocol Fee

10.00%

Borrow Cap

10k

Supply Cap

200

Debt Ceiling

16,187k

Variable Base

0.00%

Variable Slope1

7.00%

Variable Slope2

300.00%

Uoptimal

45.00%

Stable Borrowing

Disabled

Stable Slope1

7.00%

Stable Slope2

300.00%

Base Stable Rate Offset

3.00%

Stable Rate Excess Offset

5.00%

Optimal Stable To Total Debt Ratio

20.00%

Note: Stable borrowing is disabled, however parameters are provided in case stable borrowing is enabled at a later date without amending any parameters.

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