

What Happened:

In June 2022, a hack on the Horizon Bridge resulted in an exploit on Harmony's ERC Bridge, leading to a total loss of approximately \$100,000,000. This hack causing an excessive printing of 1Assets like 1USDC and 1USDT, which subsequently decreased their value and led to a devaluation. Opportunists capitalized on this situation by purchasing the depeg assets at a discounted rate and depositing them into AAVE. Despite the devaluation after the hack, AAVE maintained a 1:1 price ratio for these assets post-hack. This allowed these opportunists to deposit their depeg assets and borrow ONE from AAVE and drained out ONE from AAVE completely.

Problem in AAVE:

At present, 55.19M ONE has been drained off from AAVE V3 Harmony and the market has been brought to a complete freeze. The ONE reserves in AAVE, which were completely borrowed, held a value of about \$1.1M at the time of the hack. However, these assets are now worth only \$500K.

Proposed Solution:

Remove AAVE bad debt by creating a 10% (\$50K) together with AAVE also add 10% (\$50K) payment of the fund to remove the debt by allowing AAVE holders to exchange for ONE.

Reasoning:

When Harmony was hacked however AAVE didn't move quick enough to protect their protocol in pricing variable after the hack.

Assumption:

This proposal may not entirely eliminate the bad debt, but it will make a beneficial solution to reduce bad debt and provide compensation to AAVE holders.