Safe Yield?

Navigating the DeFi Minefield

By engn33r

ETH BELGRADE

Summary

1. Yearn vault design
2. Risk factors
3. Risk evaluation
4. Monitoring system

Slides available at engn33r.com

World's Fastest Intro

I'm engn33r, I read/write code

yearn

twyne

yAudit

1. Yearn Vault Design

- Vaults provide yield automation

- Pre-Vault Era:
    - Deposit assets for yield
    - Claim 2-3 different reward tokens
    - Manually sell tokens for original asset, repeat

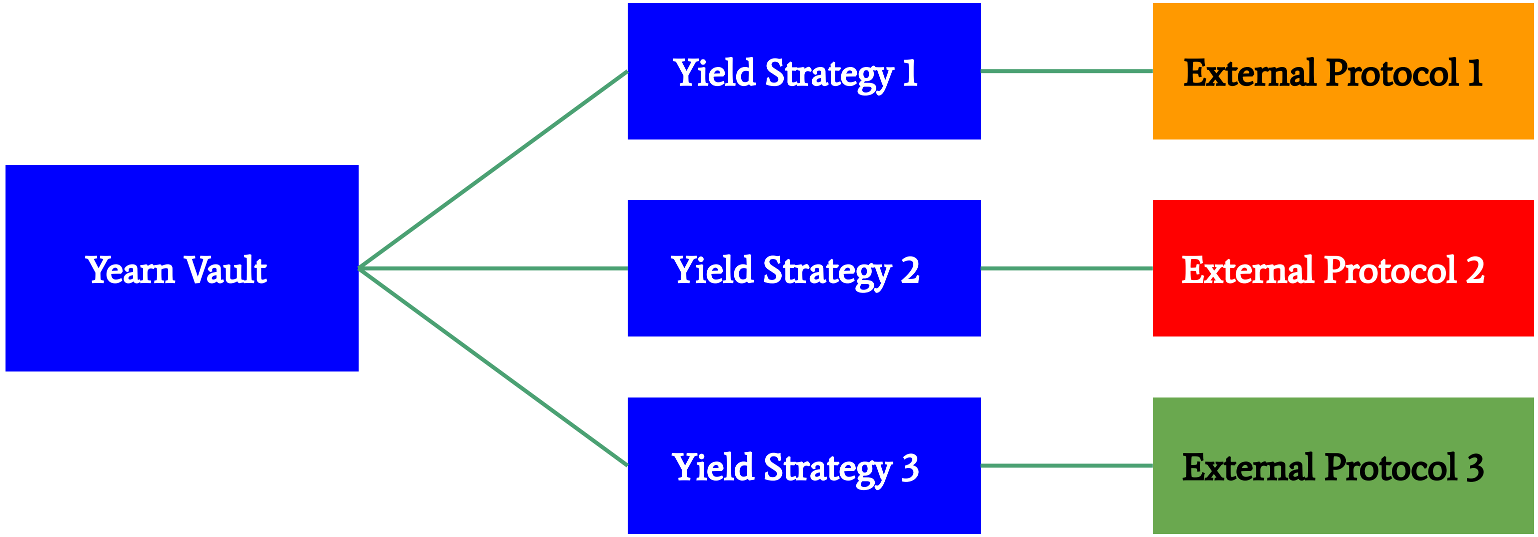
1. Yearn Vault Design

- Post-Vault Era:
  - Deposit assets
  - Do nothing & earn
  - Vault automates reward selling

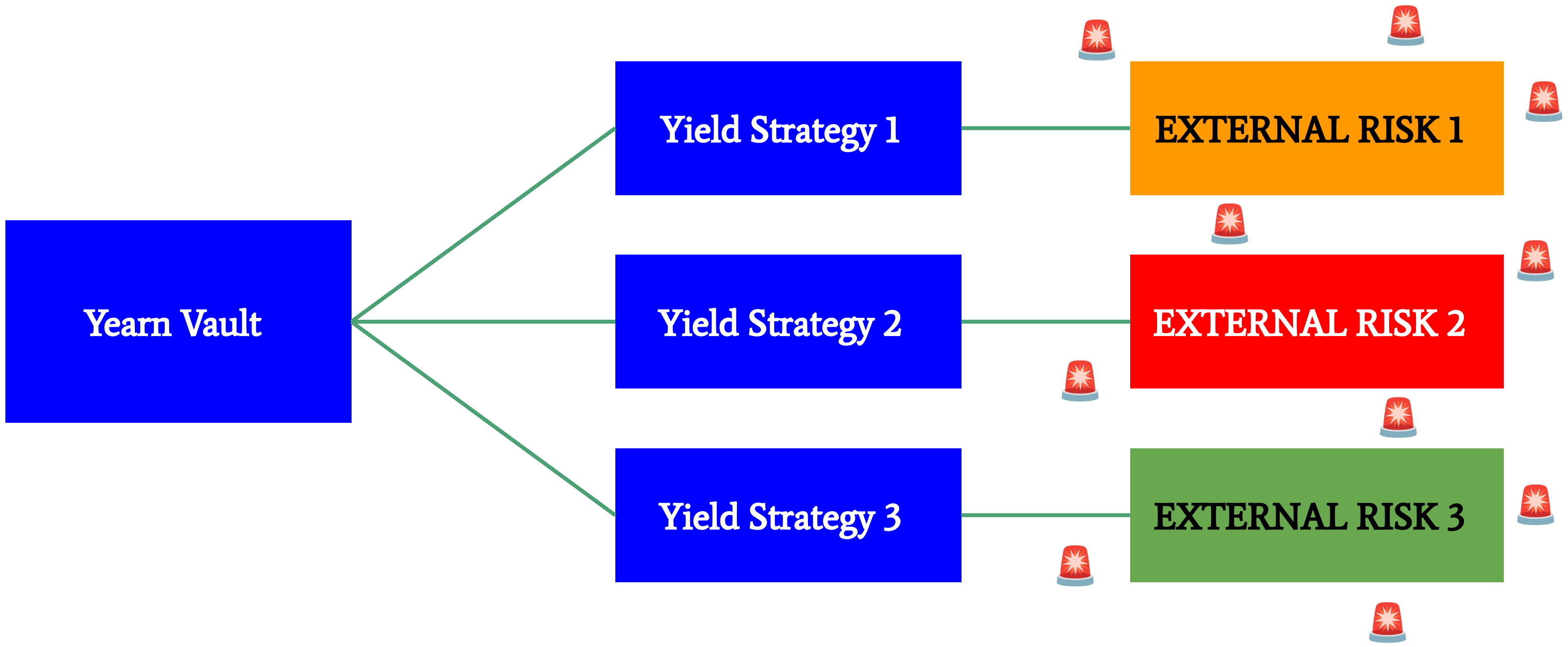
1. Yearn Vault Design

- Yearn goal:
  - Provide vaults that generate yield
  - Diversify yield sources
  - Rebalance when APYs change
  - <u>Don’t lose funds</u>

How devs see Yearn vaults



How risk and security see Yearn vaults



How risk and security see all of DeFi

What to do?


High yield
Low risk
YEARN STRATEGISTS
JAKE-CLARK.TUMBLR
imgflip.com

2. Risk Factors

2. Risk Factors

Risk Categories

Security Risk
(Internal & External)

Dependency Risk
(External Only)

2. Risk Factors

- **Disclaimer:**
  - The following risk analysis (and monitoring) is publicly available at https://curation.yearn.fi/
  - And open source: https://github.com/yearn/risk-score

2. Risk Factors

Flex

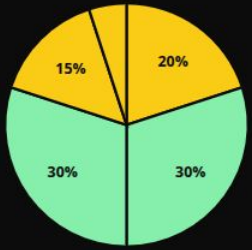
2.5

Flex yvUSD/USDC Lender position token (`ysUSDC`) / Ethereum Mainnet / June 19, 2026

View full report on GitHub →

Score Breakdown

CATEGORY	WEIGHT	SCORE
Audits & Historical	20%	3.50
Centralization & Control	30%	2.33
Funds Management	30%	1.75
Liquidity Risk	15%	3.00
Operational Risk	5%	3.00
Final Score		**2.5 / 5.0**



MEDIUM RISK

2. Risk Factors

Origin ARM

1.5

ARM-WETH-stETH / Ethereum Mainnet / Latest: August 6, 2026 / Original: May 18, 2026

View full report on GitHub → View dependency graph →

Score Breakdown

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Audits & Historical	20%	1.50
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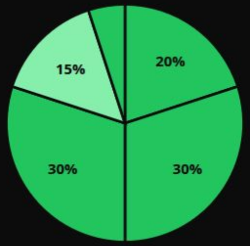


MINIMAL RISK

2. Risk Factors

- **Audits & Historical**: Security posture, code quality, past performance
- **Centralization & Control**: Governance, programmability, external dependencies
- **Funds Management**: Collateralization, provability, asset control
- **Liquidity Risk**: Exit mechanisms, market depth
- **Operational Risk**: Team, documentation, processes

2. Risk Factors

2. Risk Factors

- Exit mechanism: can you immediately withdraw at all times?

2. Risk Factors

Useful multisig security tool: https://safe.yaudit.dev/

3. Risk Evaluation

- Which protocols are safe to rely on? Compare their risks

3. Risk Evaluation

- You can’t manage what you can’t measure
- Yearn focuses on onchain yield sources

> **Neutrl**
> @Neutrl
>
> Neutrl has temporarily paused minting, redemptions, and other protocol functions following circumstances affecting protocol reserves. These measures have been taken in the interest of our users, after advice from legal counsel, to preserve an orderly process while the impact is assessed.

3. Risk Evaluation

Scoring Categories

Category	Weight	What it evaluates
Audits & Historical Track Record	20%	Security posture, code quality, past performance
Centralization & Control Risks	30%	Governance, programmability, external dependencies
Funds Management	30%	Collateralization, provability, asset control
Liquidity Risk	15%	Exit mechanisms and market depth
Operational Risk	5%	Team, documentation, and processes

Each category receives a score from 1-5 (1 = safest, 5 = highest risk), which are then weighted to produce a final risk score and tier classification.

3. Risk Evaluation

- Higher Priorities:
  - Undercollateralized loans
  - Security stance
  - External dependencies

- Lower Priorities:
  - Quality documentation
  - Market depth
  - Past performance

3. Risk Evaluation

Origin ARM

ARM-WETH-stETH / Ethereum Mainnet / Latest: August 6, 2026 / Original: May 18, 2026

Fluid Lending Protocol

fTokens (fUSDC, fUSDT, fWETH, etc.) / Ethereum Mainnet / Latest: July 22, 2026 / Original: February 12, 2026

Centrifuge JAAA

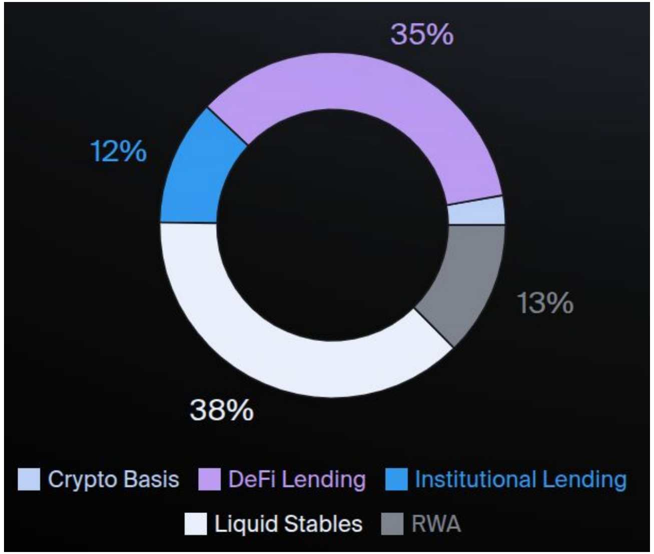
JAAA (Janus Henderson Anemoy AAA CLO Fund Token) / Ethereum / Latest: July 14, 2026 / Original: May 28, 2026

Example 1: Ethena's USDe

- Where does the yield come from?
  - Historically, delta neutral perps positions (funding rate)
  - Now, this is 2% of Ethena backing!

Source:

https://app.ethena.fi/dashboards/transparency



Example 2: Moonwell

Moonwell
@MoonwellDeFi

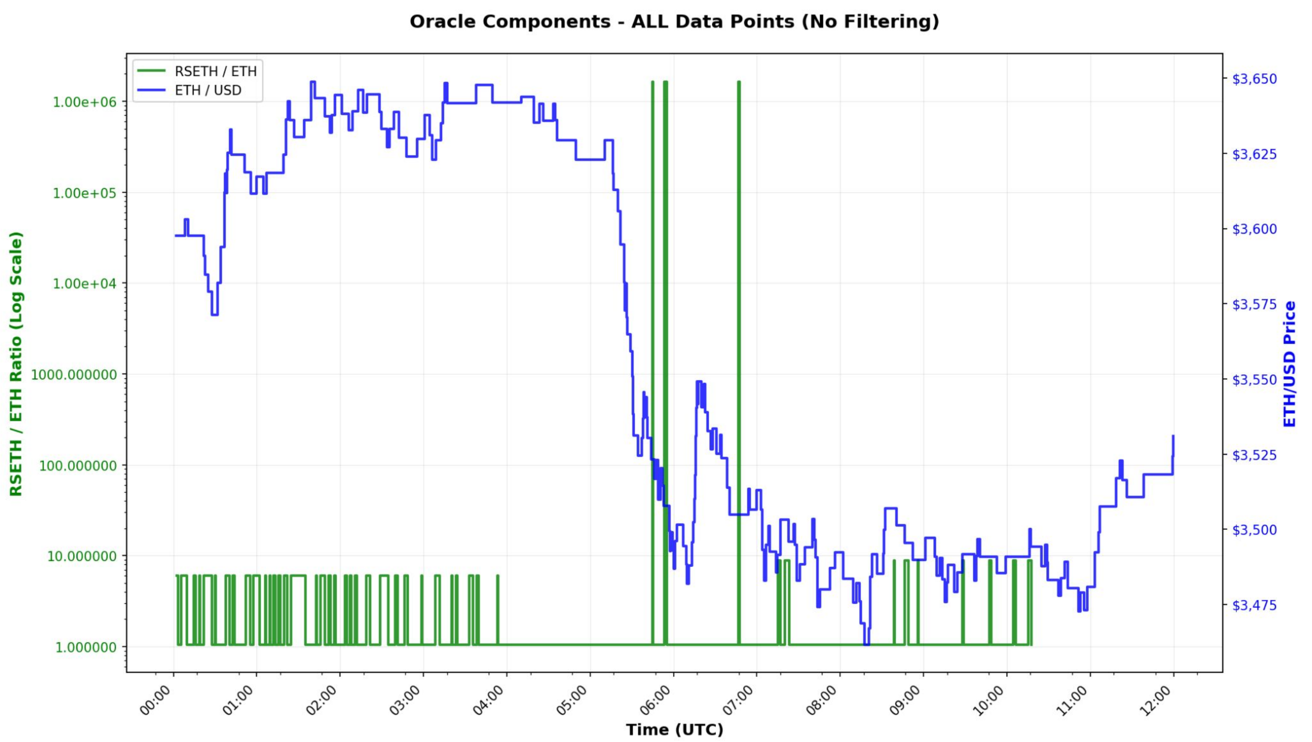
We are currently investigating a misreported price for wrsETH.

The risk manager for the wrsETH Core Market on Base and OP Mainnet has significantly reduced the supply and borrow caps in these markets.

We will share more information as it becomes available.

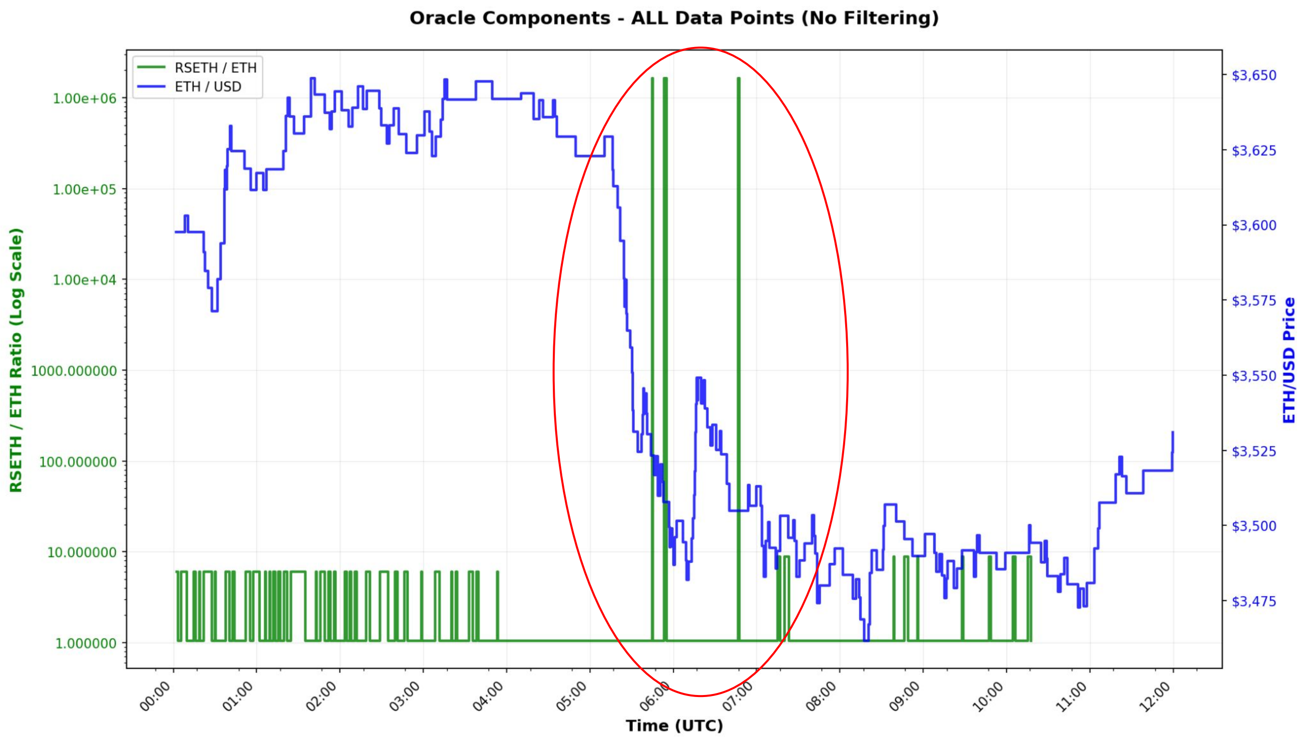
3:03 PM · Nov 4, 2025 · **54K** Views

Example 2: Moonwell



Impacted oracle: https://basescan.org/address/0x4a61db12d0cb4293d799ecdd82e5994b5746f850

Example 2: Moonwell



Impacted oracle: https://basescan.org/address/0x4a61db12d0cb4293d799ecdd82e5994b5746f850

Example 2: Moonwell

Chainlink oracle glitch costs Moonwell $1M as DeFi suffers another exploit

Example 2: Moonwell

Data

Dec Hex

answer : 1649934607354199816332700

transmitter : 0xc04a3C4aBF8995Da051140f552Cb4eB086185836

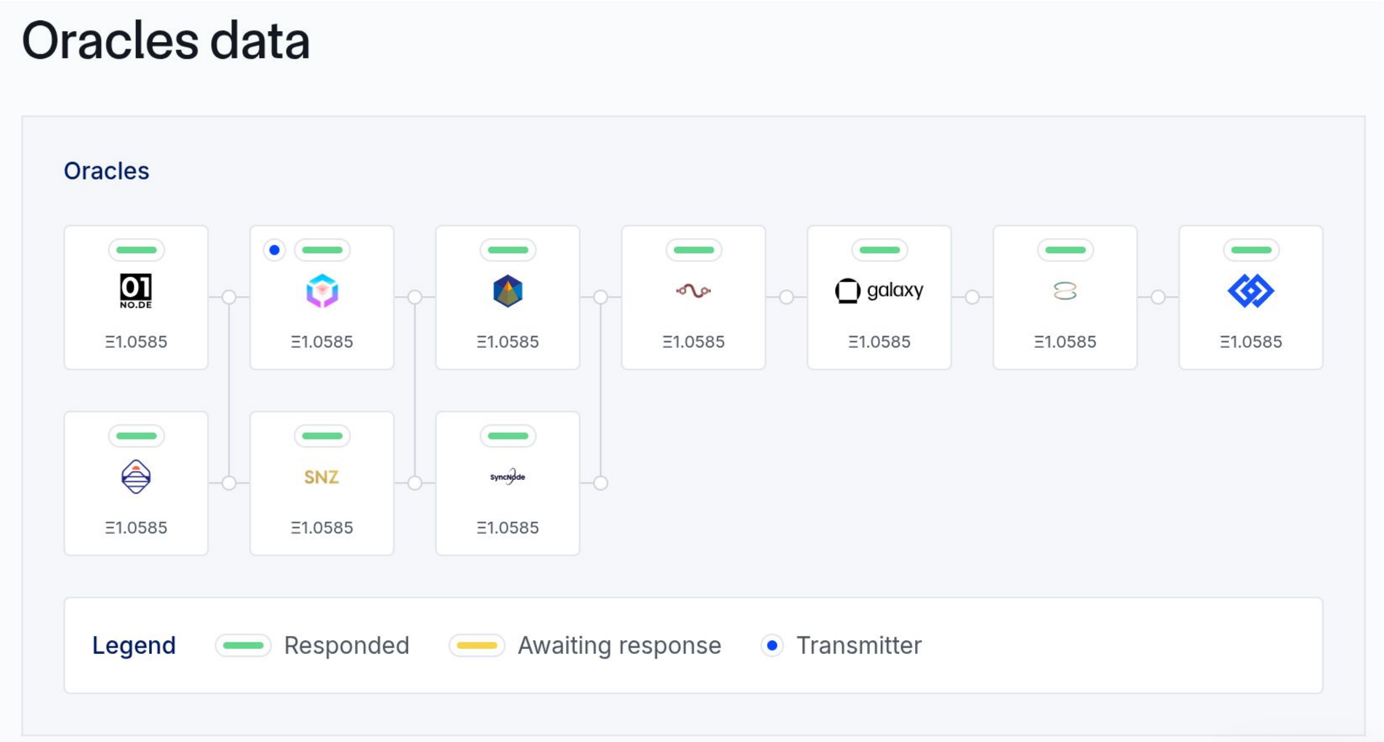
observations : 1054227129414975900
1054316022961676400
1054316022961676400
1055981600197286400
1056070493743986900
1649934607354199816332700
1649934607354199816332700
1649934609108670598643200
1649934609197564145343700
1649934609197564145343700

5 vs 5

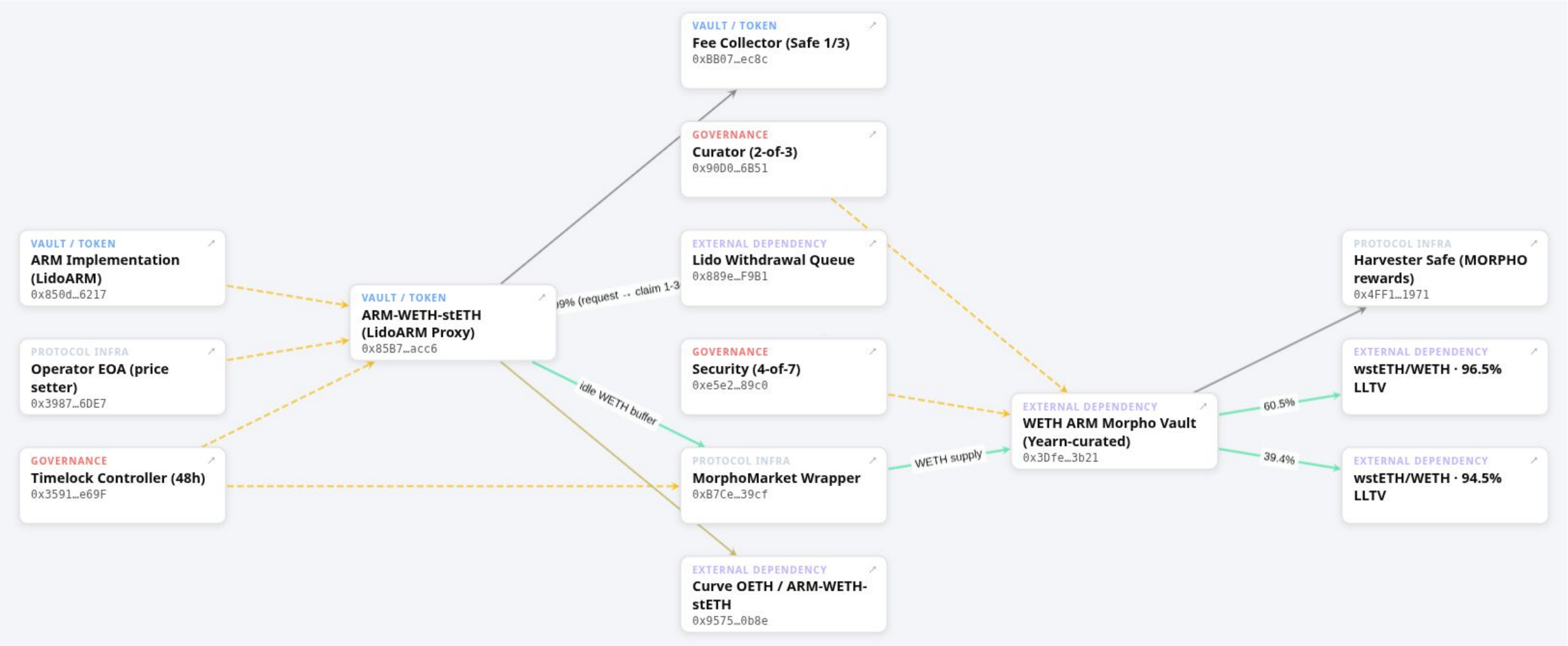
observers : 01020406070508030009

rawReportContext : 000000000000000000000FF27F6D70FBE846768EBA2B013701A88000352B403

Example 2: Moonwell



3. Risk Evaluation



3. Risk Evaluation

3. Risk Evaluation

Vaults

Earn by depositing into curated Morpho vaults.

Total Deposits $12,604,038,281

Network | USDC | Curator | Advanced | V2

Filter vaults

Network	Vault	Deposits	Liquidity	Exposure	Curator	APY
	Steakhouse Prime USDC V2	90.78M USDC $90.75M	32.52M USDC $32.51M		Steakhouse Financial	4.19%
	Gauntlet USDC Prime V2	71.99M USDC $71.96M	44.27M USDC $44.26M		Gauntlet	4.19%
	Steakhouse High Yield USDC V2	47.07M USDC $47.06M	23.90M USDC $23.89M	+14	Steakhouse Financial	5.19%
	Steakhouse Con...al Prime USDC V2	41.48M USDC $41.46M	30.96M USDC $30.94M		Steakhouse Financial	7.19%
	Wintermute USDC Select V2	37.28M USDC $37.26M	27.02M USDC $27.02M	+3	Armitage by Wintermute	5.21%
	Gauntlet USDC Frontier V2	30.28M USDC $30.27M	7.55M USDC $7.54M	+5	Gauntlet	5.18%
	Pendle Ecosystem USDC V2	26.59M USDC $26.58M	9.48M USDC $9.47M		Armitage by Wintermute	6.82%

3. Risk Evaluation

3. Risk Evaluation

3. Risk Evaluation

3. Risk Evaluation

- Open problem in DeFi today: No simple way to compare vaults
  - VaultBeat anyone?
- Closest option: https://vaults.fyi/ compares yields in a uniform way

Token	Protocol	Name	Category	Score	Holders	TVL	APY (7D)
USDS Ethereum		Savings USDS	CDP RWA	●●●	6,289	$5.81B	3.65%
USDT Ethereum		Aave v3 USDT	Lending	●●●	19,978	$1.97B	3.99%
USDe Ethereum		Ethena Staked USDe	Synthetic Basis Trading	●●●	11,924	$1.96B	3.46%
USDC Ethereum		Aave v3 USDC	Lending	●●●	23,444	$1.92B	3.88%
USDC Ethereum		Syrup USDC	Lending Credit	●●●	3,012	$1.23B	5.13%
USDT Ethereum		Spark Savings USDT	Lending	●●●	765	$1.17B	2.68%
USDS Ethereum		Sky USDS Farm	CDP	●●●	--	$1.11B	3.61%

3. Risk Evaluation

4. Monitoring System

PeckShield Inc.
@peckshield

Hi @PeapodsFinance, you may want to take a look:
etherscan.io/tx/0xff8e92260...

PeckShield Inc.
@peckshield

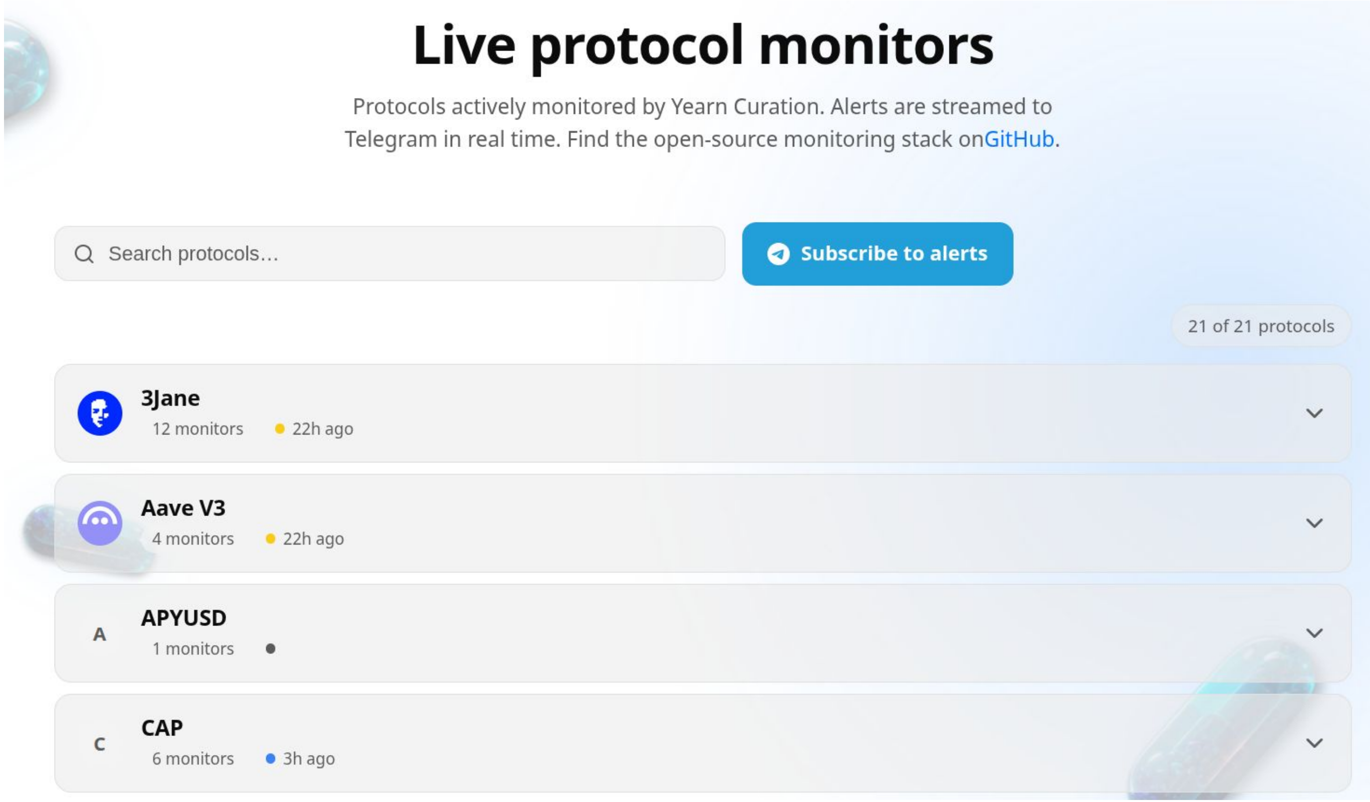
Hi @meta_pool you may want to take a look:

PeckShield Inc.
@peckshield

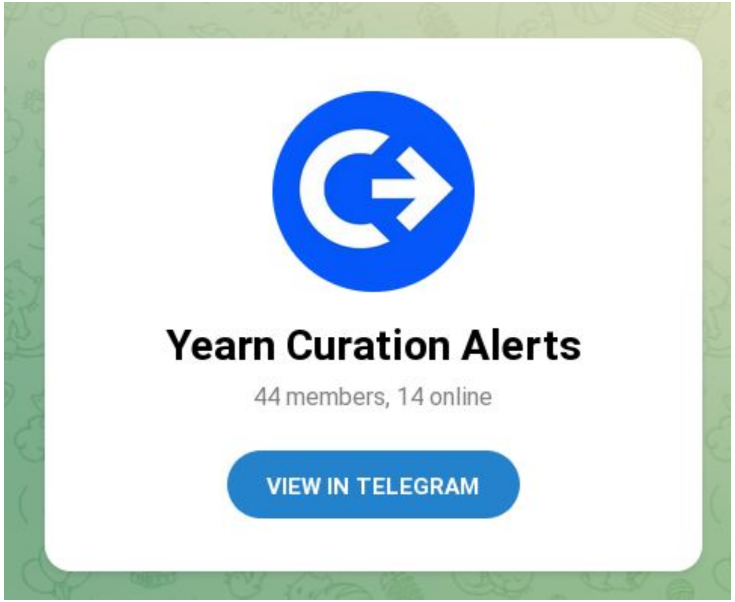
Hi @OnyxDAO, you may want to take a look

4. Monitoring System

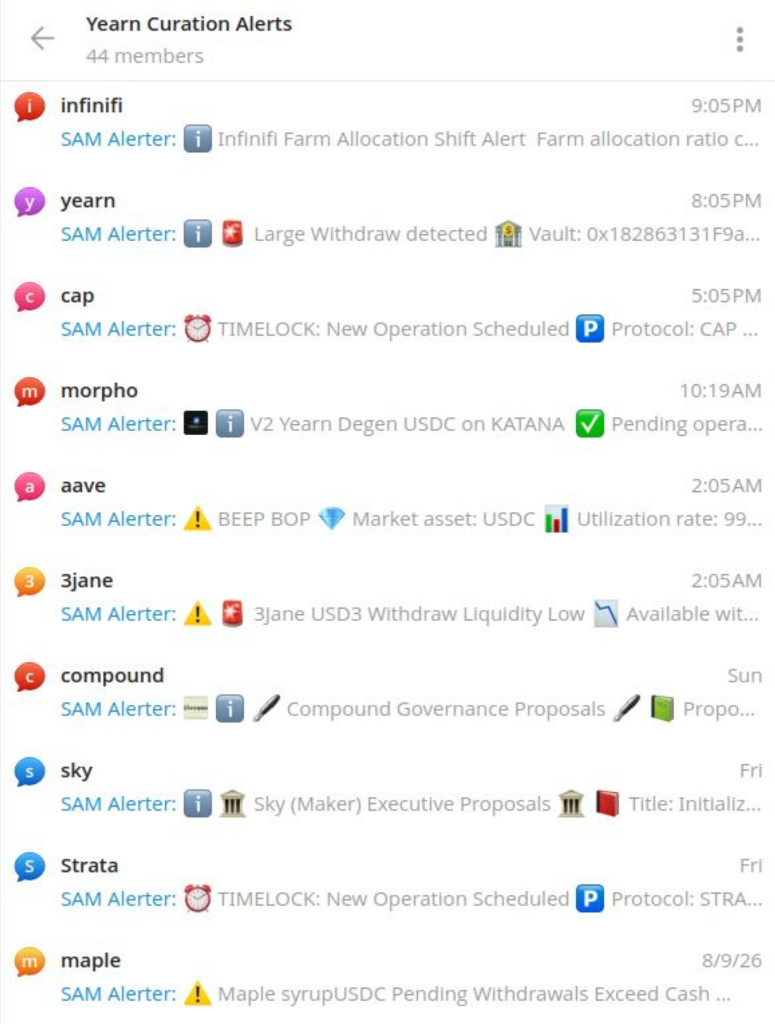
4. Monitoring System



4. Monitoring System



https://t.me/yearn_curation_alerts



4. Monitoring System

Morpho

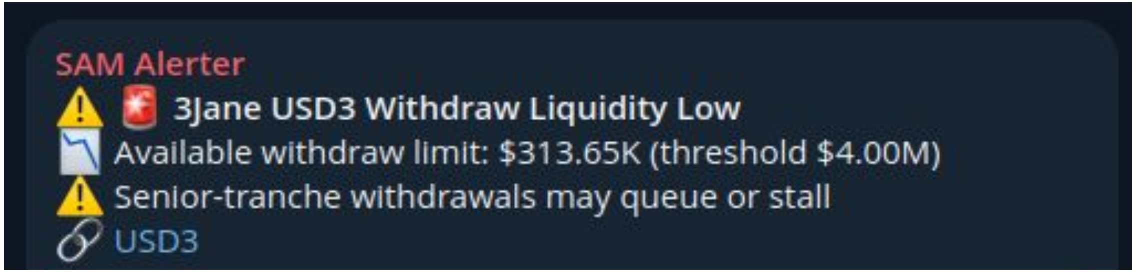
8 monitors • 2h ago

Bad Debt Ratio	Bad debt >0.5% of borrowed TVL in v1 and v2 vault markets
Market Allocation Ratios	Per-market allocation vs risk-adjusted thresholds
Vault Risk Levels	Weighted total risk score vs vault threshold
Low Liquidity	V1/V2 vault liquidity <1%; combined v1/v2 YV-collateral unwind liquidity vs collateral at risk (unwind alerts go to the internal curation chat)
V1 Governance	Pending supply caps, market removals, timelock changes, guardian changes
V2 Governance	Pending timelocked operations, owner/curator changes, sentinel/allocator/adapter changes
V2 Wrapped V1 Coverage	V2 vault wrapping a v1 vault not in config.py:VAULTS_V1_BY_CHAIN
Safe Multisig	Morpho eUSDe predeposit vault owner Safe queue

View alert history →

4. Monitoring System

- Automated response is hard, manual effort is needed



4. Monitoring System

Forbes

FORBES DIGITAL ASSETS

‘Withdraw Now’—Inside Aave’s Sudden $200M Bad Debt Crisis

Stream Finance Stablecoin Plunges 77% After Protocol's Fund Manager Loses $93 Million

Stream's collapse shows operational risk extends beyond smart contracts to fund managers and custody, an expert told Decrypt.

4. Monitoring System

yearn @yearnfi · Apr 19

Yearn Vaults and Yearn-curated markets currently have no exposure to the rsETH hack that occurred earlier today.

Yearn vaults that previously had exposure to Aave WETH markets have been fully unwound.

We continue monitoring things and will provide future updates here.

10 66 3.4K

4. Monitoring System

Emergency Procedures for Yearn Finance

TL;DR: Emergency Checklist

Docs: https://docs.yearn.fi/developers/security/EMERGENCY

4. Monitoring System

In Conclusion

- Risks need to be **identified and compared**
- **Deep diving** complex systems is necessary for good decisions
- **Standardized systems** to manage this complexity are key
- Risk assessment must be **continuous**, systems are dynamic
- **Multi-layered defenses**: monitoring is the final defensive layer

The End


ONE DOES NOT SIMPLY
DEPOSIT WITHOUT RISK ANALYSIS
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