Risk Parameter Updates for 3 Compound V2 Assets

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- Proposer: `0x683a4F9915D6216f73d6Df50151725036bD26C02`
- Start Block: 16535887 (2/1/2023, 1:54:47 PM ET)
- End Block: 16555597 (2/4/2023, 8:04:23 AM ET)
- Targets: `0x3d9819210A31b4961b30EF54bE2aeD79B9c9Cd3B` ; `0x3d9819210A31b4961b30EF54bE2aeD79B9c9Cd3B` ; `0x3d9819210A31b4961b30EF54bE2aeD79B9c9Cd3B`

Forum Post

Forum post is present here: Forum Post

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Proposal Text

> # *Risk Parameter Updates for 3 Compound V2 Assets*
>
> ## *Simple Summary*
>
> *A proposal to adjust three (3) risk parameters (collateral factor & borrow cap) across three (3) Compound V2 assets.*
>
> *The community has aligned on a risk off framework.*
>
> ## *Background*
>
> *Gauntlet's simulation engine has ingested the latest market and liquidity data. These recommendations are Gauntlet's regular parameter recommendations as part of Dynamic Risk Parameters.*
>
> *Full proposal and forum discussion*
>
> ## *Motivation and Specification*
>
> *This set of parameter updates seeks to maintain the overall risk tolerance of the protocol while making risk trade-offs between specific assets.*
>
> *Our parameter recommendations are driven by an optimization function that balances 3 core metrics: insolvencies, liquidations, and borrow usage. Our parameter recommendations seek to optimize for this objective function. For more details, please see Gauntlet's Parameter Recommendation Methodology and Gauntlet's Model Methodology.*

Parameter	Current Value	Recommended Value
BAT Collateral Factor	62%	60%
COMP Collateral Factor	62%	60%
YFI Borrow Cap	20	30

Dashboard

Gauntlet has launched the Compound Risk Dashboard. The community should use the Dashboard to understand better the updated parameter suggestions and general market risk in Compound.

*Value at Risk represents the 95th percentile **insolvency value** that occurs from simulations we run over a range of volatilities to approximate a tail event.*

*Liquidations at Risk represents the 95th percentile **liquidation volume** that occurs from simulations we run over a range of volatilities to approximate a tail event.*

These parameter changes decrease borrow usage by 5 basis points, decrease VaR by 15.3%, and decrease LaR by $0.96M.

Value At Risk

Value at Risk conveys the capital potentially at risk due to insolvencies when markets are under duress (i.e. high volatility). The below metric is the 95th percentile insolvency value that occurs from simulations we run over a range of volatilities to approximate a tail event. While we aim to keep this number low, it may increase after Gauntlet Recommendations when there is an opportunity to increase Capital Efficiency (as measured by Borrow Usage). **Note that VaR is sensitive to model inputs and can change day to day.** This is due to changes in volatility, user borrow positions, asset correlation structure, and the nature of the statistic (being a long tail approximation). See this post for more detail on the metric.

Liquidations At Risk

Liquidations at Risk conveys the amount of capital potentially at risk for liquidation when markets are under duress (i.e. high volatility). This metric (similar to VaR) is the 95th percentile liquidation volume that occurs from simulations we run over a range of volatilities to approximate a tail event. We note that while liquidations can affect borrower UX, **healthy liquidations are a critical part of a capitally efficient protocol.** The below numbers may seem large, however, this is meant to capture a 'catastrophic' tail scenario where many liquidations must occur in order to ensure the ongoing operation of the protocol. See this post for more detail on the metric.

Borrow Usage

This metric provides information about how aggressively suppliers of collateral borrow against their supply. This is a measure of capital efficiency and gives a sense of how borrows behave relative to supply. More details on the computation of this metric can be found here. All else being equal, we seek to maximize Borrow Usage

Specification

The proposal uses the `Configurator` *contract to update the asset parameters listed above using the* `_setCollateralFactor` *and* `_setMarketBorrowCaps` *methods.*

By approving this proposal, you agree that any services provided by Gauntlet shall be governed by the terms of service available at gauntlet.network/tos.

Checks

Checks Compound Proposal Details ✅ Passed

Info:

1- Set MarketBorrowCaps of cYFI via Comptroller from 30 to 30 (It remains the same) .

2- ⚠️ Set cBAT collateral factor from 45% to 60% (It's getting **increased** by **15%**)

3- 🛑 Set cCOMP collateral factor from 25% to 60% (It's getting **increased** by **35%**)