

# Risk Parameter Updates for 5 Collateral Assets

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- ID: 107
- Proposer: [0x683a4F9915D6216f73d6Df50151725036bD26C02](#)
- Start Block: 14838824 (5/24/2022, 8:45:05 PM ET)
- End Block: 14858534 (5/28/2022, 1:46:12 AM ET)
- Targets: [0x3d9819210A31b4961b30EF54bE2aed79B9c9Cd3B](#) ;  
[0x3d9819210A31b4961b30EF54bE2aed79B9c9Cd3B](#) ;  
[0x3d9819210A31b4961b30EF54bE2aed79B9c9Cd3B](#) ;  
[0x3d9819210A31b4961b30EF54bE2aed79B9c9Cd3B](#)

## Forum Post

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## Proposal Text

### ***Risk Parameter Updates for 5 Collateral Assets***

#### ***Simple Summary***

A proposal to adjust five (5) parameters for five (5) Compound assets.

#### ***Background***

Gauntlet's simulation engine has ingested the latest market and liquidity data following the recent market crash. This proposal is a batch update of risk parameters to align with the [Moderate risk level](#) chosen by the Compound community. These parameter updates are the eleventh of 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
USDC Collateral Factor	80%	82.5%
DAI Collateral Factor	80%	82.5%
MKR Collateral Factor	70%	73%
LINK Collateral Factor	75%	77%
YFI Collateral Factor	70%	73%

## 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 increase borrow usage by 28 basis points with no change in Value at Risk or Liquidations at Risk.

Our recent [market downturn report](#) showed that many collaterals are resilient to insolvencies, as our simulation models have predicted.

Since the recent market crash, user positions are generally more highly collateralized, partly due to previously lowly collateralized positions having been liquidated during the crash. Many top whale suppliers repaid some of their borrows during the crash, thus avoiding liquidations. As a result, Gauntlet's simulations reflect that Compound can prudently increase collateral factors post-crash.

Note that we are proposing increasing collateral factors for the stablecoins USDC and DAI. Recursive borrowing has decreased in the past month for both assets. The partially recursive positions have a substantial amount of other collateral assets locked, thus leading to a low chance of insolvency in those positions, as our simulation results reflect.

## 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 capital 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



## Checks

### Checks Compound Proposal Details ✔ Passed

Info:

- 1- Set [cDAI](#) collateral factor from 83.5% to 82.5% (It's getting **decreased** by 1%)
- 2- ● Set [cLINK](#) collateral factor from 44% to 77% (It's getting **increased** by 33%)
- 3- ● Set [cMKR](#) collateral factor from 38% to 73% (It's getting **increased** by 35%)
- 4- Set [cUSDC](#) collateral factor from 85.5% to 82.5% (It's getting **decreased** by 3%)

5- ● Set [cYFI](#) collateral factor from 40% to 73% (It's getting **increased** by **33%**)