

aip: TBA

title: ARC: Avalanche Market - AVAX Risk Parameters Update

status: WIP

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## Simple Summary

We propose adjusting two (2) AVAX risk parameters on the Aave Avalanche Market: LTV and Liquidation Threshold.

## Abstract

This proposal updates two AVAX risk parameters on the Aave Avalanche Market to align with the [Moderate risk level](#) chosen by the Aave community. Index Coop has compiled the following analysis for Gauntlet and the broader Aave community to review.

## Motivation

Updating the AVAX parameters seeks to maintain the overall risk tolerance of the protocol while making risk trade-offs between specific assets.

## Specification

The criteria for assessing market risk, as determined by the market size and changes in fluctuation in demand, is presented by the Aave community [here](#). In line with the criteria, analysis of the AVAX token on Avalanche network is presented below (data as of Jan. 23, 2021):

AVAX Avalanch Market Risk (Coingecko Data)

Holders:

1.8 m

A

B+

Transactions (C-chain)

79 m

B+

Mkt Cap

\$15 bn

A+

Avg. Volume 1m

\$860 m

B+

Avg. Volume 3m

\$1.14 bn

B+

Norm. Volatility

6.21%

B-

The AVAX token risk score compiled by Index Coop is B+.

Holders are estimated by the cumulative address count.

Market Cap is calculated using circulating supply.

The Norm. volatility parameter is the average of the t=30 days and t=90 days as shown in the below table.

AVAX Volatility Data (Coingecko Data)

Time

S.D. of daily log returns

t=7 days

6.21%

t=30 days

5.54%

t= 90 days

6.88%

t= 180 days

7.80%

t= 365 days

8.81%

Based upon the volatility data share above, Index Coop suggests changing the Liquidation Threshold and Loan to Value parameters as shown below:

Parameter

Current Value

Recommended Value

AVAX Loan to Value

50%

60%

AVAX Liquidation Threshold

65%

70%

## Implementation

We are actively seeking feedback on how to implement this proposal. At this point in time an AIP vote could signal community intent/desire to change the requirements with the changes to be made by the guardians of the Aave Avalanche Market or via the AIP if a permissionless process is in place by that point in time.

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