Summary

AIP-306 to onboard sDAI also increased WETH Uopt from 80% to 90%. After analysis, Gauntlet recommends returning WETH Uopt to 80%. Currently, there may be insufficient WETH to facilitate liquidations during increased volatility - this proposal aims to double the available WETH for liquidations should utilization for WETH be at Uopt = kink.

Recommendations

We present two options for the community, option 1 to lower Uopt to 80%, option 2 to lower Uopt to 85%. We include how the borrow APR will change under the current slope 1 parameterization, as well as our proposal to lower slope 1 to 3.3% here -

Option

New Uopt

Current Utilization

New Borrow APR (slope 1 = 3.8%)

New Borrow APR (proposed slope 1 = 3.3%)

1

0.8

0.83

0.1580

0.1530

2

0.85

0.83

0.0371

0.0322

Analysis

Comparison of the riskiest WETH collateralized positions with the riskiest USDC collateralized positions - another asset with 90% Uopt - shows there can be excess risk involved with setting WETH Uopt to 90%.

The below chart shows the top 10% riskiest WETH positions have LTV >= 0.68 (~$55m), compared to LTV >= 0.6 for the top 10% riskiest USDC positions (~$27m).

For the above riskiest positions, WETH also collateralizes more uncorrelated borrows (stablecoins, ~86%) relative to USDC (WETH/WSTETH/etc, ~50%). Uncorrelated borrows increases the chances of liquidation.

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image

3784×1564 400 KB

](https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/2/271a8cffe86a5cea5764a5f2cd0b51c78d73c820.png)

As a result, compared to USDC, 90% Uopt for WETH increases the chances that the available capacity for liquidations will be consumed during a significant market move, at which point WETH utilization may be 100%, preventing additional liquidations.

The above shows that WETH moves can be milder (riskiest positions have higher LTV) and eat up available liquidation capacity faster (borrows are less correlated) compared to USDC.

Next steps

Welcome community feedback and aim to put up snapshot with the above two options on 2023-09-11.