

Simple Summary

A proposal to adjust eleven (11) total risk parameters across seven (7) Aave V2 assets including LTV, Liquidation Threshold, and Liquidation Bonus.

Abstract

This proposal is a batch update of risk parameters to align with the [Moderate risk level](#) chosen by the Aave community. These parameter updates are a continuation of Gauntlet's regular parameter recommendations.

Motivation

This set of parameter updates seeks to maintain the overall risk tolerance of the protocol while making risk trade-offs between specific assets. As a heads up, Gauntlet will publish a blog post soon on our parameter recommendation methodology to provide more context to the community

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. Our agent-based simulations use a wide array of varied input data that changes on a daily basis (including but not limited to, asset volatility, asset correlation, asset collateral usage, DEX / CEX liquidity, trading volume, expected market impact of trades, and liquidator behavior). Our simulations tease out complex relationships between these inputs that cannot be simply expressed as heuristics. As such, the input metrics we show below can help understand why some of the param recs have been made, but should not be taken as the only reason for recommendation. Our individual collateral pages on the [dashboard](#) cover other key statistics and outputs from our simulations that can help with understanding other interesting inputs and outputs related to our simulations. For more information, please refer to our [Aave market risk assessment](#) where we provide a tactical understanding of our model architecture.

Specification

These past two weeks saw slight decreases in volatility and increases in liquidity and trading volume, which our simulations picked up on. In addition, our recent [market downturn report](#) showed that many collaterals are resilient to insolvencies, as our simulation models have predicted. We will continue to adjust risk parameters to drive increases in capital efficiency while maintaining protocol risk at safe levels.

Parameter

Current Value

Recommended Value

CRV Loan To Value

45%

55%

CRV Liquidation Threshold

60%

65%

FEI Loan To Value

50%

60%

FEI Liquidation Threshold

60%

70%

LINK Liquidation Bonus

7.5%

6.5%

MKR Liquidation Bonus

8.0%

7.5%

SNX Loan To Value

40%

45%

SNX Liquidation Threshold

60%

65%

xSUSHI Loan To Value

45%

50%

xSUSHI Liquidation Threshold

60%

65%

UNI Liquidation Bonus

8.0%

7.5%

See below volatility and exchange volume data from 01/18 to 02/09. These are useful metrics to build intuition but are not the only inputs our simulations take into account in our parameter recommendations off of.

Symbol

02-09 Volatility

01-18 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

CRV

1.586428486

1.611794518

-0.025366032

-48.2544541

FEI

0.076148592

0.054860766

0.021287826

-65.5712964

LINK

1.322292723

1.293466069

0.028826654

-38.7660331

MKR

1.136936786

0.972006147

0.164930639

209.0123383

SNX

1.251241404

1.323555377

-0.072313973

97.3261162

SUSHI

1.373581906

1.637707787

-0.264125881

-30.8229681

UNI

1.256113579

1.19104143

0.065072149

20.3782517

Risk Dashboard

The community should use Gauntlet's [Risk Dashboard](#) to better understand the updated parameter suggestions and general market risk in Aave V2.

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.

Next Steps

- Initiate a Snapshot immediately since the community has already weighed in on changes of this nature recently.
- Targeting an AIP on 2022-02-15