

## Simple Summary

Gauntlet's risk simulation platform has identified an opportunity to reduce liquidation bonuses on three (3) Aave V2 ETH assets without adding outsized market risk. However, given the community's preference towards V3 ETH migration, we will not move forward with a proposal to change these parameters. Should the community prefer otherwise, we would value feedback in this forum thread.

Additionally, we provide user position analysis below.

## Abstract

These parameter updates are a continuation of Gauntlet's regular parameter recommendations. Our simulation engine has ingested the latest market data (outlined below) to recalibrate parameters for the Aave protocol. The community has aligned on a [Risk Off Framework](#) regarding lowering liquidation thresholds.

## Motivation

This set of parameter updates seeks to maintain the overall risk tolerance of the protocol while making risk trade-offs between specific assets.

Gauntlet's parameter recommendations are driven by an optimization function that balances 3 core metrics: insolvencies, liquidations, and borrow usage. 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). Gauntlet's 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. The individual collateral pages on the [Gauntlet Risk Dashboard](#) cover other key statistics and outputs from our simulations that can help with understanding interesting inputs and results related to our simulations.

For more details, please see [Gauntlet's Parameter Recommendation Methodology](#) and [Gauntlet's Model Methodology](#).

## Supporting Data on Aave V2 ETH

Top 30 borrowers' aggregate positions & borrow usages

Top 30 borrowers' entire supply

Top 30 borrowers' entire borrows

## Aave V2 Parameter Changes Specification

Gauntlet's simulation engine will continue to adjust risk parameters to maintain protocol market risk at safe levels while optimizing for capital efficiency.

As stated in the Simple Summary, we will not move forward with these parameter changes. The below aims to provide transparency to the community on the risk simulation results.

Parameter

Current Value

Recommended Value

CRV Liquidation Bonus

8.0%

7.5%

USDC Liquidation Bonus

4.5%

3.7%

STETH Liquidation Bonus

7.0%

6.3%

## Risk Dashboard

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

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.

## Aave V2 Dashboard

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