

# Simple Summary

Gauntlet recommends no parameter change for the Aave V2 ETH and Aave Arc Fireblocks market this week.

## 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. 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.

These parameter updates also represent Gauntlet's bi-weekly recommendations for the Aave Arc market.

## 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

Top 30 borrowers' aggregate positions & borrow usages on 11/3

Top 30 borrowers' entire supply on 11/3

Top 30 borrowers' entire borrows on 11/3

Price changes of key assets since 2022-10-20

Time series of Value at Risk (VaR) since 2022-10-20

VaR has decreased over the past 6 days. We have noticed that CRV appears in VaR occasionally, which is due to the user with address 0x7a16ff8270133f063aab6c9977183d9e72835428

, who accounts for 81% of the total CRV supply on Aave v2. The user's details are shown below:

User supply breakdown on 11/3

Relevant collateral factors on 11/3

User borrowing power breakdown on 11/3

User borrows breakdown on 11/3

User borrow usage on 11/3

Below is a time series of borrow usage for this user, with the purple bars corresponding to dates when the user actively updated the tokens in their position. From this, we can get a sense of the user's "intended" borrow usage.

User borrow usage time series since 2022-10-20

We can see this user is elastic and intends for their borrow usage to be right around 48%, and only poses Black Thursday insolvency risk due to the large amount of collateral able to be liquidated. Note that CRV price would have to crash 52% for this user to become liquidatable, given its current position.

We will continue to ingest data on this position and may update Liquidation Threshold and/or Liquidation Bonus should VaR become meaningfully higher.

## Aave V2 Parameter Changes Specification

We recommend no change to Aave V2 ETH protocol parameterization at this time.

## Aave Arc (Fireblocks) Parameter Changes Specification

We recommend no change to Aave Arc protocol parameterization at this time.

## 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

## Next Steps

- Given that Gauntlet is proposing no parameter changes, no governance proposal will be created for this forum post.

## Quick Links

[Analytics Dashboard](#)

[Risk Dashboard](#)

[Aave Arc Risk Dashboard](#)

[Gauntlet Parameter Recommendation Methodology](#)

[Gauntlet Model Methodology](#)

Gauntlet launched an insolvency refund for Aave that contains a portion of our payment stream that can be clawed back in the event of insolvencies due to market risk. Since our last recommendation, there have been no new insolvencies in Aave. Gauntlet's Insolvency Refund vault is still live and can be seen here [0x7667095Caa12b79fCa489ff6E2198Ca01fDAe057](#)

By approving this proposal, you agree that any services provided by Gauntlet shall be governed by the terms of service available at [gauntlet.network/tos](#).