Simple Summary

Three distinct levels from which the community can select a preferred risk tolerance for Aave V2.

Abstract

From a market risk perspective, the goal for Gauntlet's simulations is to standardize Value-at-Risk (VaR) across all assets. Matching risk tolerance to a normalized expected yield throughout Aave V2 ensures no subset of assets adds disproportionate risk to the Safety Module.

Following asset onboarding, empirical data on user behaviour (e.g., average health factors) and changes in market conditions (e.g., expected slippage) improve our simulation precision. Improved precision allows for higher confidence in model outputs—particulary for aggressive recommendations.

Gauging risk appetite is something Gauntlet will do quarterly to ensure our risk parameter recommendations track the preference of the Aave community.

Motivation

The existing risk framework has been instrumental in facilitating onboarding new assets. As expected and observed, liquidity risk, volatility risk, and market capitalization frequently change for all assets on Aave. Updating LTV and Liquidation thresholds to remain in lockstep with the market is key to improving the target metrics outlined in Gauntlet's Dynamic Risk Parameters proposal.

Specification

Current LTV/Liq_Threshold

Conservative LTV

Moderate LTV

Aggressive LTV

Conservative Liq_Threshold

Moderate Liq_Threshold

Aggressive Liq_Threshold

USDC (80%, 85%)

80

82.5

85

85

85

87.5

DAI (75%, 80%)

75

75

80

80

80

82.5

TUSD (75%, 80%)

75

80

80

80

82.5

82.5

WBTC (70%, 75%)

65

70

75

70

75

80

WETH (80%, 82.5%)

80

80

82.5

82.5

85

85

REN (55%, 60%)

45

55

55

55

60

65

BAT (70%, 75%)

70

70

75

75

75

80

YFI (40%, 55%)

45

45

55

60

60

65

DPI (60%, 70%)

55

60

60

65

70

75

LINK (70%, 75%)

65

70

70

70

75

80

BAL (55%, 60%)

55

65

70

65

70

75

MKR (60%, 65%)

60

65

70

65

70

70

ZRX (60%, 65%)

60

60

65

65

70

70

UNI (60%, 65%)

50

60

65

60

70

70

KNC (60%, 65%)

60

60

65

65

70

70

CRV (40%, 55%)

30

40

45

45

55

60

XSUSHI (25%, 45%)

30

35

45

50

60

60

ENJ (55%, 60%)

40

50

55

55

60

65

AAVE (50%, 65%)

55

60

65

70

70

75

SNX (15%, 40%)

15

20

25

40

45

55

Key Model Inputs & Notes

Asset

Volatility

USDC

0.014

DAI

0.017

TUSD

0.031

WBTC

0.72

WETH

0.994

REN

1.05

BAT

1.08

YFI

1.11

DPI

1.12

LINK

1.16

BAL

1.17

MKR

1.255

ZRX

1.311

UNI

1.331

KNC

1.357

CRV

1.4

XSUSHI

1.51

ENJ

1.612

AAVE

1.72

SNX

1.86

- WBTC

: Downside slippage values for WBTC have become smaller. This means liquidators see less slippage on trades and more liquidity. Additionally, a tight liquidation buffer will suffice given the lower market volatility.

- YFI

: Both slippage values and volatility have improved for YFI. The liquidation buffer shrinks between conservative and aggressive parameters due to marginal increase of liquidations observed during simulation. Doing so provides users an option to be more aggressive with starting positions should they choose.

- LINK

: Given market liquidity and LINK supplier’s borrow positions, the aggressive setting will only include an increase in liquidation threshold.

- xSUSHI

: Recent liquidation analysis on empirical data, lacking previously, provides higher confidence that insolvency events can be mitigated.

- SNX

: The major concern with for SNX is that there is very high volatility and high slippage. The aggressive setting requires a larger delta between LTV and liquidation threshold to compensate for the additional risk.

Asset

Slippage Intensity Sell

Slippage Power Sell

WBTC

-0.134

0.52

YFI

-1.003

1.008

LINK

-5.648

1.14

XSUSHI

-0.864

1.049

SNX

-17.007

1.477

Next Steps

- Due to minimal feedback and conversation on Gauntlet's ARC for Liquidation Bonus Updates we will plan to post a Snapshot on 2021-08-31. Should debate ensue we will delete the poll, respond to questions, and make clarifications as long as needed.
- AIP creation the first weekday following the completion of a successful Snapshot vote. The current target is 2021-09-07.