

Simple Summary

A proposal to adjust fourteen (14) total risk parameters, including Loan-to-Value, Liquidation Threshold, and Liquidation Bonus, across six (6) Aave V3 Ethereum assets.

Motivation

Chaos Labs' Parameter Recommendation Platform runs hundreds of thousands of agent-based off-chain and on-chain simulations to examine how different Aave V3 risk parameters configurations would behave under adverse market conditions - and find the optimal values to maximize protocol borrow usage while minimizing losses from liquidations and bad debt.

Note: As a general guideline, we limit the proposed changes by $\pm 3\%$ for all parameters as a high/low bound for a given proposal. This ensures more controlled changes and allows us to analyze their effect on user behavior before recommending further amendments to the parameters if the optimal configuration is outside this range.

Please find more information on the parameter recommendation methodology [here](#).

You can also view the simulation results and breakdown for the different assets by clicking on them on this [page](#).

The output of our simulations reveals an opportunity to increase LTVs and LTs for WBTC, WETH, WSTETH, LINK, DAI and USDC on V3 Ethereum, resulting in improved capital efficiency of the system, with a negligible effect on the projected VaR (95th percentile of the protocol losses that will be accrued due to bad debt from under-collateralized accounts over 24 hours) and EVaR (Extreme VaR, the 99th percentile of the protocol losses that will be accrued due to bad debt from under-collateralized accounts over 24 hours)

Simulating all changes jointly yields a projected borrow increase of ~\$3.6M, with a negligible increase in VaR and Extreme VaR compared to simulations with the current parameters.

Liquidity Analysis:

Based on our analysis, we have determined that there is adequate on-chain liquidity to support any significant liquidations with the updated parameters.

Positions Analysis

We have not identified any outsized positions that are actively affecting our recommendations. The charts below illustrate the top borrowing accounts, excluding E-Mode.

Recommendations

Asset

Parameter

Current

Recommended

Change

WETH

Liquidation Threshold

82.5%

83%

+0.5%

WETH

Loan-to-Value

80%

80.5%

+0.5%

WBTC

Liquidation Threshold

75%

78%

+3%

WBTC

Loan-to-Value

70%

73%

+3%

WBTC

Liquidation Penalty

6.25%

5%

-1.25%

DAI

Liquidation Threshold

77%

80%

+3%

DAI

Loan-to-Value

64%

67%

+3%

USDC

Liquidation Threshold

76%

79%

+3%

USDC

Loan-to-Value

74%

77%

+3%

LINK

Liquidation Threshold

65%

68%

+3%

LINK

Loan-to-Value

50%

53%

+3%

LINK

Liquidation Penalty

7.5%

7%

-0.5%

WSTETH

Liquidation Threshold

79.5%

80%

+0.5%

WSTETH

Loan-to-Value

68.5%

69%

+0.5%