Simple Summary

A proposal to adjust six (6) total risk parameters including LTV, Liquidation Threshold, and Liquidation Bonus across three (3) Aave V2 assets. In addition, Gauntlet recommends freezing legacy KNC.

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.

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.

Top DAI non-recursive supplies and collateralization ratios:

Top USDC non-recursive supplies and collateralization ratios:

Top LINK non-recursive supplies and collateralization ratios:

Specification

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

DAI Loan To Value

75%

77%

LINK Liquidation Bonus

6.5%

6.3%

LINK Liquidation Threshold

75%

78%

USDC Loan To Value

82.5%

85.5%

USDC Liquidation Bonus

4.0%

4.5%

USDC Liquidation Threshold

85%

86%

See below volatility and exchange volume data from 03/17 to 03/31. These are useful metrics to build intuition but are not the only inputs our simulations take into account to make parameter recommendations.

Symbol

03-31 Volatility

03-17 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

DAI

0.180079852

0.18048045

-0.000400598

2.9325893

LINK

0.77471859

1.054943327

-0.280224737

26.950699

USDC

0.029199586

0.031859885

-0.002660299

3.1429237

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.

Freezing Legacy KNC

The KyberDAO approved the proposal to [migrate KNC token contract](#) to a new implementation on 4/20/2021, which enables Kyber governance to upgrade KNC efficiently. As of 3/28/2022, roughly 195M of KNC have migrated to the new [Kyber Network Crystal (KNC)](#) and 57M of KNC are still in the old [KNC Legacy (KNCL) contract](#). There are currently $2.9M KNCL supplied and $900K total borrowed on Aave v2.

Considering that exchanges (e.g. Kraken, Crypto.com) have stopped supporting KNCL deposit and trading, the liquidity of KNCL has also been reduced. We propose freezing KNCL to speed up the KNC migration as well as eliminating the risk of keeping a less liquid deprecated asset on the platform.

Next Steps

- Initiate a Snapshot immediately since the community has already weighed in on changes of this nature recently.

- Targeting an AIP on 2022-04-05