

Simple Summary

Gauntlet's risk simulation platform has identified an opportunity to modify liquidation bonus on one (1) Aave V3 AVAX asset and two (2) Aave V3 Optimism assets without adding outsized market risk.

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](#).

Avalanche Recs

Supporting Data on Aave V3 AVAX

Top 30 borrowers' aggregate positions

Top 30 borrowers' entire supply

Top 30 borrowers' entire borrows

Top WAVAX non-recursive supplies and collateralization ratios:

Market Price Changes from 2023-01-31 to 2023-02-14

Aave V3 AVAX Parameter Changes Specification

Gauntlet's simulation engine will continue to adjust risk parameters to maintain protocol market risk at reasonable levels while optimizing for capital efficiency. Our simulations show that the protocol can lower the liquidation bonus for WAVAX on Avalanche Aave v3 without incurring significant additional risk to the protocol.

Parameter

Current Value

Recommended Value

WAVAX Liquidation Bonus

10.0%

9.2%

Aave V3 AVAX Risk Dashboard

The community should use Gauntlet's [Aave V3 AVAX 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 V3 AVAX Dashboard

Supporting Data on Aave V3 Optimism

Top 30 borrowers' aggregate positions

Top 30 borrowers' entire supply

Top 30 borrowers' entire borrows

Optimism Recs

Aave V3 Optimism Parameter Changes Specification

Gauntlet's simulation engine will continue to adjust risk parameters to maintain protocol market risk at reasonable levels while optimizing for capital efficiency. Our simulations show that we can improve the balance of risk and capital efficiency by lowering the liquidation bonus for WBTC and raising the liquidation bonus for sUSD on Optimism Aave v3.

Parameter

Current Value

Recommended Value

WBTC Liquidation Bonus

10.0%

9.4%

sUSD Liquidation Bonus

5.0%

5.4%

Aave V3 Optimism Risk Dashboard

The community should use Gauntlet's [Aave V3 Optimism Risk Dashboard](#) to understand better the updated parameter suggestions and general market risk in Aave V3 Optimism.

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 V3 Optimism Dashboard

Next Steps:

- Targeting Snapshot vote for V3 AVAX Recs on Tuesday, 2/21/2023 (there is no on-chain vote for V3 AVAX).
- Immediately initiate Snapshot vote for V3 OP Recs given the community has aligned on similar proposals. Should the Snapshot vote pass, initiate AIP.

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.