Simple Summary

To guide best practices to the Community, we provide this standard framework for assessing market risk when listing new assets as well as enabling those assets as collateral. Related to this asset listing framework, a Snapshot vote will be published to establish community consensus on whether:

1. New assets are not required to be listed with an initial LTV of 0%, or

2. New assets are required to be listed with an initial LTV of 0%.

Motivation

Since Gauntlet began its partnership with the Aave protocol, we have received requests from the Community to analyze asset listings. Community members, developers, and other stakeholders often asked us questions like, "how much liquidity should this asset have before being listed? What should the asset's initial parameters be? How do we protect the protocol from insolvency?"

Gauntlet's framework focuses specifically on market risk and how Gauntlet will support the asset listing process in Aave. Our framework can be found [here](#). This will work in conjunction with [Aave's existing asset listing framework](#).

Listing assets is essential to the growth of the protocol. As new assets in DeFi proliferate and older assets fall out of favor, Aave must list and delist assets to maintain its usefulness as a protocol. Gauntlet will conduct these risk assessments prior to new assets being listed, given 2 weeks of notice and strong community buy-in.

Notably, we recommend that LTV and Liquidation Threshold be set to 0% on the initial listing.

In other words, assets will not be allowed to be used as collateral upon their initial listing.

Historically, the community has listed assets with non-zero LTV and Liquidation Threshold. Because there are risks in doing so, we will publish a Snapshot vote to help the community align on best practices moving forward.

Specification

Community input is valuable because requiring that assets are listed with an initial LTV of 0% imposes important trade-offs:

1. Not requiring assets to be listed with an initial LTV of 0% can potentially allow the asset to have more utility (depending on the asset) from the onset of listing. Thus, the protocol may be earning revenue at the onset of the listing (driven by increased borrows). However, when assets are enabled as collateral from the initial listing, the protocol immediately faces the technical and market risks inherent in adding another risk vector to the protocol. The protocol is only as strong as its weakest link.

2. Requiring assets to be listed with an initial LTV of 0% can protect the protocol from unforeseen mechanism, smart contract, and other technical risks. In addition, setting an initial LTV of 0% allows the protocol to observe how supply and borrow usage as well as liquidity conditions evolve following the asset listing. This data enables more robust risk analysis and fine-tuning of LTV and Liquidation Threshold parameters following the initial asset listing. The tradeoff is that until an asset is enabled as collateral, usage may be limited (depending on the asset), and thus, the protocol faces an opportunity cost of revenue. We view this as a minuscule opportunity cost (e.g., a few weeks of revenue attributable to the asset) relative to the risks. Assets can be turned on as collateral, but being turned off as collateral is a more difficult process with increased user friction.

Option 1 above should not be interpreted as suggesting that all assets should be enabled as collateral. It simply allows for the possibility that assets can be listed with an initial non-zero LTV should the community deem the asset a collateral asset.

Should the community favor Option 2, assets should be listed with an initial LTV of 0%, and a separate proposal must be proposed by the community at some point after the initial listing to enable the asset as collateral. At that point in time, given strong community buy-in, Gauntlet will conduct market risk analysis to recommend LTV and Liquidation Threshold parameters.

Next Steps

- A Snapshot vote will be published on 8/16 with the options being the following:

- Not all assets are required to be listed with an initial LTV of 0%.

- All assets are required to be listed with an initial LTV of 0%. After 2-3 weeks of operation as a non-collateral asset, the community can propose turning it on as collateral. At that point, Gauntlet will make parameter recommendations as per our Notion document below.

- Not all assets are required to be listed with an initial LTV of 0%.

- All assets are required to be listed with an initial LTV of 0%. After 2-3 weeks of operation as a non-collateral asset, the community can propose turning it on as collateral. At that point, Gauntlet will make parameter recommendations as per our Notion document below.

Quick Links

[Gauntlet Asset Listing Framework for Market Risk](#)

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