Simple Summary

A proposal to adjust one (1) total risk parameters, including Liquidation Bonus, across one (1) Aave V3 AVAX assets.

- Decrease WBTC.e Liquidation Bonus from 106.25% to 105.9%.

Given that these changes above are relatively minor, we will not move forward with these changes in order to reduce governance overhead, unless the community voices otherwise. However, we did want to publish this post so that the community has transparency into the results of our simulation engine.

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.

Supporting Data on Aave V3 AVAX

Top 30 non-recursive and partially-recursive aggregate positions

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image

3442×1302 399 KB

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Top 30 non-recursive and partially-recursive borrowers' entire supply

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image

3440×1294 307 KB

](https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/b/bf3726f5b326bc51926bd70e49e3bf3ddac612b8.png)

Top 30 non-recursive and partially-recursive borrowers' entire borrows

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Top WBTC.e non-recursive supplies and collateralization ratios:

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image

3450×1296 282 KB

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Aave V3 AVAX Parameter Changes Specification

Gauntlet's simulation engine is continuously adjusting risk parameters to strike an optimal balance between maintaining market risk for the protocol and enhancing capital efficiency for users of the Aave V3 AVAX protocol.

Our models have recently indicated that it's possible to lower the liquidation bonus for WBTC.e without elevating the protocol's exposure to market risk.

Parameter

Current Value

Recommended Value

WBTC.e Liquidation Bonus

106.25%

105.9%

As stated in the Simple Summary, we will not move forward with these parameter changes. The below aims to provide transparency to the community on the risk simulation results.

Risk Dashboard

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

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.

Next Steps

- As stated in the Simple Summary, we will not move forward with these parameter changes in order to reduce governance overhead, unless the community voices otherwise.

Quick Links

Risk Dashboard

Gauntlet Parameter Recommendation Methodology

Gauntlet Model Methodology

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.