Simple Summary

A proposal to adjust three (3) total risk parameters, including Liquidation Bonus across three (3) Aave V2 Ethereum assets.

However, given the community's preference towards V3 ETH migration, we will not move forward with a proposal to change these parameters.

Should the community prefer otherwise, we would value feedback in this forum thread.

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 V2 ETH

Top 30 non-recursive and partially-recursive aggregate positions

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

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

Top CRV non-recursive supplies and collateralization ratios:

Top STETH non-recursive supplies and collateralization ratios:

Top USDC non-recursive supplies and collateralization ratios:

Market Price Changes from 2023-02-08 to 2023-02-22

Aave V2 ETH 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.

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.

Parameter

Current Value

Recommended Value

CRV Liquidation Bonus

8.0%

7.3%

STETH Liquidation Bonus

7.0%

6.3%

USDC Liquidation Bonus

4.5%

3.7%

Risk Dashboard

The community should use Gauntlet's Aave V2 Risk Dashboard to understand better 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.

Aave V2 ETH Dashboard

Quick Links

Analytics Dashboard

Risk Dashboard

Gauntlet Parameter Recommendation Methodology

Gauntlet Model Methodology

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