

# Simple Summary

A proposal to adjust seven (7) total risk parameters across five (5) Aave V2 assets including LTV, Liquidation Threshold, and Liquidation Bonus. In addition, we propose freezing the KNCL reserve.

As a side note, Gauntlet is also analyzing potential interest rate parameter updates for AMPL.

## Abstract

This proposal is a batch update of risk parameters to align with the the [Moderate risk level](#) chosen by the Aave community. These parameter updates are a continuation of Gauntlet's regular parameter recommendations, the latest being [AIP-43: Risk Parameter Updates 2021-10-21](#).

## Motivation

This set of parameter updates seeks to maintain the overall risk tolerance of the protocol while making risk trade-offs between specific assets. For more detail on Gauntlet's first two months of recommendations and their impact, please see [Q2 Dynamic Risk Parameters](#) and the [Monthly Risk Report](#).

## Specification

This past week had significant updates in market conditions as well as drastic changes within the Aave protocol. Volatility drops and increases in trading volume and liquidity for most assets were observed. At the same time, there were significant withdrawals from stablecoins reserves. These transactions should not lead to less protocol safety, but these transient changes are important to consider within the context of ecosystem structure.

Parameter

Current Value

Recommended Value

ENJ Liquidation Bonus

10.0%

7.5%

REN Loan To Value

55%

60%

REN Liquidation Threshold

60%

65%

SNX Loan To Value

30%

40%

SNX Liquidation Threshold

55%

60%

SUSHI Liquidation Bonus

10.0%

8.5%

ZRX Loan To Value

60%

65%

See below volatility and exchange volume data from 10/21 to 11/04 that were important drivers for the updated parameter recommendations.

Symbol

11-04 Volatility

10-21 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

ENJ

1.13420106

1.099162375

0.035038685

4.707755052

REN

1.101234165

1.530519396

-0.429285231

0.073368269

SNX

0.77106532

1.070499773

-0.299434453

1.189819991

SUSHI

0.973681039

1.284012632

-0.310331593

0.641782118

ZRX

0.8480448

1.067526026

-0.219481226

6.053287908

Freezing KNCL

The KyberDAO approved the proposal to [migrate KNC token contract](#) to a new implementation on 4/20, which enables Kyber governance to upgrade KNC efficiently. As of 11/2, 177M of KNC have migrated to the new [Kyber Network Crystal \(KNC\)](#) and 74M of KNC are still in the old [KNC Legacy \(KNCL\) contract](#). There is currently 916K KNCL supply and 229k total borrowed on Aave.

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.

## AMPL Interest Rate

We observe that AMPL has experienced positive rebases in the past [two weeks](#). As a result, the AMPL market is consistently showing a high utilization rate due to rational borrower behavior. In addition, normal AMPL lenders cannot get the upside of positive rebases (via holding AMPL in a wallet), and they also cannot withdraw their liquidity. The current interest rate is not high enough to offset the potential lender loss under a high utilization rate scenario.

Gauntlet is modelling updates to the interest rate curve to be better aligned with the rebasing returns, and will return to the Community with our findings soon.

## Risk Dashboard

The community should use Gauntlet's [Risk Dashboard](#) to better understand the updated parameter suggestions and general market risk in Aave V2.

## Next Steps

- Initiate a Snapshot immediately since the community has already weighed in on changes of this nature recently.
- Targeting an AIP on 2021-11-08