

# Simple Summary

A proposal to adjust three (3) total risk parameters including LTV, Liquidation Threshold, and Liquidation Bonus across two (2) Aave V2 assets.

## Abstract

This proposal is a batch update of risk parameters to align with the [Moderate risk level](#) chosen by the Aave community. These parameter updates are a continuation of Gauntlet's regular parameter recommendations.

## 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](#).

## Specification

The past two weeks saw slight decreases in volatility. However, there were also decreases in liquidity and trading volume. Our simulations show that increasing borrow parameters across a wide array of assets could introduce significantly more risk in the short term. The below recommendations drive increases in capital efficiency while maintaining risk at safe levels.

Parameter

Current Value

Recommended Value

DPI Liquidation Bonus

8.5%

7.5%

FEI Loan To Value

60%

65%

FEI Liquidation Threshold

70%

75%

See below volatility and exchange volume data from 02/10 to 02/24. These are useful metrics to build intuition but are not the only inputs our simulations take into account to make parameter recommendations.

Symbol

02-24 Volatility

02-10 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

DPI

0.767483446

0.952875317

-0.185391871

4.8907976

FEI

0.05450812

0.072266895

-0.017758775

-41.5184138

## Risk Dashboard

The community should use Gauntlet's [Risk Dashboard](#) to better understand 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.

## Next Steps

- Initiate a Snapshot immediately since the community has already weighed in on changes of this nature recently.
- Targeting an AIP on 2022-03-01