

Simple Summary

A proposal to adjust one (1) total risk parameter - Supply Cap - across one (1) Aave V3 Optimism asset.

This should reduce risk in the protocol, though it could limit the growth of AAVE token deposits on Optimism.

Abstract

There is currently not a supply cap for the AAVE asset on Aave's v3 deployment on Optimism. We are going to set this quickly and provide a deeper analysis of all of the current supply caps next week. We believe these could be more conservative, but setting a supply cap for AAVE sooner rather than later will reduce the chance of new positions creating a dangerous spike in VaR.

Beyond this, the cap greatly reduces the viability of market downturn and price manipulation attacks involving the AAVE token.

Motivation

Any market without supply caps could experience an outsize risk by someone opening a very large position quickly. Maintaining supply caps that ensure that one user cannot subject the protocol to outsize risk is a key part of risk management for Aave v3 markets.

Gauntlet's parameter recommendations are driven by an optimization function that balances 3 core metrics: insolvencies, liquidations, and borrow usage. This change was driven by analysis focusing on insolvency, as estimated by our simulations. 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). 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 Optimism

Top 10 borrowers' aggregate positions

Top 10 borrowers' entire supply

Top 10 borrowers' entire borrows

Aave V3 Optimism Parameter Changes Specification

Parameter

Current Value

Recommended Value

Current AAVE Supply

AAVE Supply Cap

None

100,000

87,980

Why would we limit the AAVE supply?

There's limited AAVE liquidity on [Optimism on Uniswap](#), with \$121k AAVE/ETH being the largest AAVE pool. The current AAVE supply on Optimism Aave v3 is \$4.7M, so a liquidator will not be able to arbitrage a large AAVE position solely on Optimism DEXs. However, the liquidation bonus at 10% is high enough that we anticipate liquidators should be willing to hold or bridge AAVE. As the markets on Optimism grow, AAVE will rely more and more on the asset bridge and available cross-chain liquidity. This is why we mentioned that all of these caps could be more conservative, and look forward to sharing more info there next week. If the Aave community wants to take a conservative stance on risk, we should consider lowering these across the board.

Next Steps

- Initiate Snapshot vote immediately since the community has recently weighed in on changes of this nature.
- Targeting an AIP on [2023-01-02]

Quick Links

[Analytics Dashboard](#)

[Risk Dashboard](#)

[Aave Arc Risk Dashboard](#)

[Gauntlet Parameter Recommendation Methodology](#)

[Gauntlet Model Methodology](#)

Notes

These parameter updates are a continuation of Gauntlet's regular parameter recommendations. Our simulation engine has ingested the latest market data to recalibrate parameters for the Aave protocol. The community has aligned on a [Risk Off Framework](#) regarding lowering liquidation thresholds.

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