Summary

A proposal to adjust ten (10) total risk parameters, including Loan-to-Value and Liquidation Threshold, across five (5) Aave V3 assets.

- GNO on Gnosis

- OP on Optimism

- ARB on Arbitrum

- stMATIC on Polygon

- MaticX on Polygon

Analysis

Increasing the liquidation threshold and LTV for assets allows Aave to enhance users' capital efficiency. However, this must be balanced with proper risk management to ensure that there is a sufficient buffer in the event of large drawdowns and/or liquidations. The analyses below were conducted utilizing our LT simulations, which showed either minimal or no increases in VaR at the recommended LT levels, while also considering user distribution and on-chain liquidity.

GNO (Gnosis)

GNO is in isolation mode with a debt ceiling of $2M, with $971K borrowed against it, split between USDC and WXDAI. The top suppliers of GNO have strong health scores of over 3, while some do not borrow against GNO.

Given the user distribution and liquidity, we recommend increasing the LT to 53% and the LTV to 48%.

OP (Optimism)

USDC and USDT are the most popular assets borrowed against OP collateral, together with DAI representing 71% of the total debt against OP. These positions are thus at risk of liquidation should OP's price fall.

However, the largest suppliers maintain relatively strong health scores and on-chain liquidity would support their liquidation.

Given these factors, we recommend increasing the LTV to 58% and the LT to 63%.

ARB (Arbitrum)

There is currently $5.64M borrowed against $28.5M ARB in this market, the majority of which is stablecoins.

Collateral at risk increases smoothly as ARB's price declines, and we find that on-chain liquidity can support efficient liquidations.

Given this, we recommend increasing the LTV to 58% and the LT to 63%.

stMATIC (Polygon)

There is $6.28M borrowed against $30.09M stMATIC in this market, with $2.4M of that borrowed in E-Mode. Non-E-Mode borrows are primarily of USDC.e.

The top suppliers maintain relatively strong health scores, with the largest borrowing just $82K against $12M stMATIC, putting this market at relatively lower risk of large scale liquidations.

Given these factors, we recommend increasing the LTV to 48% and the LT to 58%.

MaticX (Polygon)

75% of the value borrowed against MaticX is associated with MATIC-correlated assets in E-Mode, putting these positions at a relatively lower risk of liquidation. Non-E-Mode borrows are primarily of stablecoins, with USCD.e the largest.

The largest MaticX suppliers are either looping with WMATIC, borrowing a small amount of WETH, or borrowing USDC.e.

Given on-chain liquidity and user distribution, we recommend increasing the LTV to 50% and the LT to 60%.

Specification

Given these observations, we recommend making the following changes:

Chain	Asset	Current LTV	Rec. LTV	Current LT	Rec. LT
Gnosis	GNO	45%	48%	50%	53%
Optimism	OP	50%	58%	60%	63%
Arbitrum	ARB	50%	58%	60%	63%
Polygon	stMATIC	45%	48%	56%	58%
Polygon	MaticX	45%	50%	58%	60%

Next Steps

We invite a community discussion around the proposed parameter updates and, barring community objection, will follow up with a Snapshot vote in five days.

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