

# Simple Summary

A proposal to adjust nine (9) total risk parameters across seven (7) Aave V2 assets including LTV, Liquidation Threshold, and Liquidation Bonus. In addition, we propose freezing the KNCL reserve.

## 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.

## Specification

The recent market downturn on the weekend of December 4th led to the most liquidations on both centralized exchanges and in liquidity protocols in the recent past. Most liquidations on the Aave protocol happened between 4:30 and 5:45 UTC when the price of ETH dropped nearly 13%. Below is a graph of liquidation by collateral and repay asset.

Although volatility for assets is slightly higher, the abundance of liquidity and active market participants is a positive sign for the health of Aave! For example, the total value of CRV (curve dao token) liquidated was large compared to the total collateral used on Aave. Lower LTV, lower liquidation threshold, and higher liquidation bonus protect the protocol from insolvencies. However, multiple liquidations of over 400,000 USD occurred in quick succession. This shows ample liquidity for liquidators even in times of high network congestion. These market events provide important data points for measuring tail risk.

For reference, previous analysis of liquidations on Aave from May 2021 can be found here: [Aave Protocol Liquidation Retrospective: May 2021 | by Watson Fu | Gauntlet | Medium](#)

Although some assets currently have higher volatility, our analysis shows that it is safe to increase borrowing parameters and decrease liquidation bonus values. Our simulations study price drops and network congestion more extreme than was seen last week, and slippage and liquidity considerations have improved.

Parameter

Current Value

Recommended Value

BAT Loan To Value

70%

75%

CRV Liquidation Bonus

10.0%

8.5%

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%

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.

## 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 2021-12-20