

Simple Summary

A proposal to adjust nine (9) total risk parameters, including LTV, Liquidation Threshold, and Liquidation Bonus across five (5) 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](#).

Top BAL non-recursive supplies and collateralization ratios:

Top DAI non-recursive supplies and collateralization ratios:

Top STETH non-recursive supplies and collateralization ratios:

Top SUSHI non-recursive supplies and collateralization ratios:

Top YFI non-recursive supplies and collateralization ratios:

Specification

Our recent [market downturn report](#) showed that many collaterals are resilient to insolvencies, as our simulation models have predicted. Gauntlet's simulation engine will continue to adjust risk parameters to drive increases in capital efficiency while maintaining protocol risk at safe levels.

Parameter

Current Value

Recommended Value

BAL Loan To Value

65%

62%

BAL Liquidation Bonus

8.0%

7.0%

DAI Liquidation Threshold

80%

85%

XSUSHI Loan To Value

50%

47%

XSUSHI Liquidation Bonus

8.5%

8.0%

STETH Loan To Value

73%

76%

STETH Liquidation Threshold

75%

77%

YFI Loan To Value

50%

46%

YFI Liquidation Threshold

65%

68%

See below volatility and exchange volume data from 04/21 to 05/05. These are valuable metrics to build intuition but are not the only inputs our simulations take into account to make parameter recommendations.

Symbol

05-05 Volatility

04-21 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

BAL

1.374689319

1.333801477

0.040887842

-8.7901232

DAI

0.035902492

0.032761272

0.00314122

-56.4788983

STETH

0.481220972

0.552304598

-0.071083626

-9.96196045

XSUSHI

1.024205987

1.069879138

-0.045673151

-31.5974984

YFI

0.721911068

0.781947914

-0.060036846

6.1062831

Risk Dashboard

The community should use Gauntlet's [Risk Dashboard](#) to understand better 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 recently weighed in on changes of this nature.
- Targeting an AIP on 2022-05-10