Simple Summary

A proposal to adjust thirteen (13) total risk parameters, including Loan-to-Value, Liquidation Threshold, and Liquidation Bonus, across six (6) Aave V3 Ethereum assets.

Motivation

Chaos Labs' Parameter Recommendation Platform runs hundreds of thousands of agent-based off-chain and on-chain simulations to examine how different Aave V3 risk parameters configurations would behave under adverse market conditions - and find the optimal values to maximize protocol borrow usage while minimizing losses from liquidations and bad debt.

Please find more information on the parameter recommendation methodology here.

Note: As a general guideline, we limit the proposed changes by ±3% for all parameters as a high/low bound for a given proposal. This ensures more controlled changes and allows us to analyze their effect on user behavior before recommending further amendments to the parameters if the optimal configuration is outside this range.

You can also view the simulation results and breakdown for the different assets by clicking on them on this page.

The output of our simulations reveals an opportunity to increase LTVs, LTs, and LP for WBTC, WSTETH, LINK, AAVE, DAI, and USDC on V3 Ethereum, resulting in improved capital efficiency of the system, with a negligible effect on the projected VaR (95th percentile of the protocol losses that will be accrued due to bad debt from under-collateralized accounts over 24 hours) and EVaR (Extreme VaR, the 99th percentile of the protocol losses that will be accrued due to bad debt from under-collateralized accounts over 24 hours)

In addition, for DAI and wstETH, we recommend adjusting the LTV, as the current spread between the LTV to LT for these assets, which were originally set for the conservative V3 Ethereum launch, is unjustifiably large. The new spread will be similar to those of USDC and WETH, respectively.

Simulating all changes jointly yields a projected borrow increase of ~$3.8M, with no increase in VaR and Extreme VaR compared to simulations with the current parameters.

Liquidity Analysis:

Based on our analysis, we have determined that there is adequate on-chain liquidity to support any significant liquidations with the updated parameters.

Positions Analysis

We have not identified any outsized positions that are actively affecting our recommendations.

Top Borrowers

[

Untitled - 2023-07-27T114350.902

2528×1108 162 KB

](https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/d/d7b86c3b14723275ea6edac2ef9eef594b803df3.png)

Top Suppliers

[

Untitled - 2023-07-27T114353.446

2522×1096 159 KB

](https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/f/fde83b7758cf8f478807f348aff82ed14acff5be.png)

Specification

Asset

Parameter

	Current	Recommended	Change
WBTC Liquidation Threshold	78%	79%	+1%
WBTC Loan-to-Value	73%	74%	+1%
WBTC Liquidation Penalty	5%	6%	+1%
WSTETH Liquidation Threshold	80%	81%	+1%
WSTETH Loan-to-Value	69%	78.5%	+9.5%
LINK Liquidation Threshold	68%	71%	+3%
LINK Loan-to-Value	53%	56%	

+3%

AAVE

Liquidation Threshold

73%

75%

+2%

AAVE

Loan-to-Value

66%

68%

+2%

DAI

Liquidation Threshold

80%

81%

+1%

DAI

Loan-to-Value

77%

79%

+2%

USDC

Liquidation Threshold

80%

82%

+2%

USDC

Loan-to-Value

77%

80%

+3%

Next Steps

1. Following community feedback, submit the ARFC for a snapshot vote for final approval.

2. If consensus is reached, submit an Aave Improvement Proposal (AIP) to implement the proposed updates.

Disclaimer

Copyright

Copyright and related rights waived via