

Simple Summary

Gauntlet will cancel [AIP-74](#). The risk parameter changes proposed in AIP-74 will not be implemented at this point. In addition, Gauntlet proposes freezing UST on Aave v2, increasing liquidation threshold on stETH, and decreasing loan-to-value (LTV) on stETH.

Abstract

Several days ago, Gauntlet published AIP-74 to adjust 9 total risk parameters across 5 Aave V2 assets. Voting is scheduled to finish around 8 PM Eastern Time on Friday, May 13th. The full list of parameter updates can be found in the [forum](#).

Gauntlet's simulation platform monitors market risk for Aave V2 on a daily basis. Due to recent market turmoil and current volatility, Gauntlet will cancel AIP-74 and not implement the parameter changes initially proposed in this AIP.

Due to market conditions around UST and related oracle unreliability, Gauntlet proposes freezing UST.

Due to current uncertainty around the stETH peg, Gauntlet proposes increasing stETH liquidation threshold to 81% and decreasing stETH LTV to 69%. Currently, stETH liquidation threshold is 75% and stETH LTV is 73%.

Specification

Gauntlet recommended AIP-74 parameter changes on May 5th (roughly 1 week ago). Market conditions are now significantly different from when AIP-74 parameter changes were initially recommended. Several of these parameter changes increase capital efficiency, such as increasing DAI liquidation threshold, stETH LTV, and stETH liquidation threshold. Given current volatility and market uncertainty, it would not be prudent to implement these capital efficiency improvements as they can add insolvency risk in complex ways during this period of stress. Gauntlet is actively monitoring risk and will re-evaluate risk parameters once the market is more stable.

Due to uncertainty around the stETH peg, Gauntlet proposes increasing stETH liquidation threshold. This will allow borrowers using stETH as collateral with more buffer in case stETH continues to depeg, and thus decrease the chances of liquidation cascades that lead to insolvency on the Aave platform. stETH LTV will also be decreased, so new positions will not be able to take on riskier positions using stETH as collateral. Our analysis indicates that an 81% liquidation threshold for stETH should allow for the protocol to withstand an additional 10% depeg from stETH and ETH price. Gauntlet's simulations of the Aave protocol indicated that a decrease in LTV to between 66-69% and an increase in liquidation threshold to 81-82% could significantly decrease liquidation volume as well as total insolvencies while minimally decreasing capital efficiency.

Our simulations also considered larger increases in stETH's liquidation threshold, but these changes had a diminishing impact on liquidation and insolvency decreases in our models. Drastic changes to liquidation threshold can also lead to a negative user experience should protocol parameters be reversed to a more optimal state after the market returns to normal. However, a decrease in LTV only impacts a user's ability to borrow more assets and not deposit or repay debts, and thus won't affect user experience as heavily.

Canceling AIP-74 does not require a governance vote (we will explain how we did this in a subsequent post, though we would note making this easier would be a significant UX improvement for the protocol). As for freezing UST and changing stETH parameters, Gauntlet will publish an on-chain vote on Saturday, May 14th.

Next Steps

- Gauntlet will cancel AIP-74.
- Targeting an AIP to freeze UST, increase stETH liquidation threshold, and decrease stETH LTV by May 14th at 5PM Pacific Time.