Simple Summary

A proposal to adjust five (5) total risk parameters, including Liquidation Threshold, Loan To Value, and Liquidation Bonus, across two (2) 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. Our simulation engine has ingested the latest market data (outlined below) to recalibrate parameters for the Aave protocol. The community has aligned on a [Risk Off Framework] regarding lowering liquidation thresholds.

These parameter updates also represent Gauntlet's bi-weekly recommendations for the Aave Arc market.

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.

Supporting Data on Aave V2

Top 30 borrowers' aggregate positions & borrow usages

Top 30 borrowers' entire supply

Top 30 borrowers' entire borrows

Top STETH non-recursive supplies and collateralization ratios:

Top WBTC non-recursive supplies and collateralization ratios:

Aave V2 Parameter Changes Specification

Gauntlet's simulation engine will continue to adjust risk parameters to maintain protocol market risk at safe levels while optimizing for capital efficiency.

Parameter

Current Value

Recommended Value

STETH Liquidation Threshold

81%

83%

STETH Loan To Value

69%

72%

STETH Liquidation Bonus

7.5%

7%

WBTC Liquidation Threshold

80%

82%

WBTC Loan To Value

70%

72%

We have ingested the most recent Aave and market data, including user positions, prices, volatility, and liquidity for all assets, including stETH, WETH, and WBTC. We then ran simulations to stress test the protocol in times of high volatility.

As shown in the dashboard screenshot below, our simulations show that Aave can increase capital efficiency while decreasing the risk of bad debt using these parameterization recommendations.

Aave Arc (Fireblocks) Parameter Changes Specification

We recommend no change to Aave Arc protocol parameterization at this time. All borrowing in the Arc lending market is recursive (namely, USDC), and thus, our models indicate no risk of insolvencies (from market risk).

Risk Dashboard

The community should use Gauntlet's Aave V2 Risk Dashboard to understand better the updated parameter suggestions and general market risk in Aave V2. Gauntlet has also launched the Aave Arc Risk Dashboard.

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.

Aave V2 Dashboard

Next Steps

- Initiate a Snapshot immediately since the community has recently weighed in on changes of this nature.
- Targeting an AIP on 2022-10-11

Quick Links

Analytics Dashboard

Risk Dashboard

Aave Arc Risk Dashboard

Gauntlet Parameter Recommendation Methodology

Gauntlet Model Methodology

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