Simple Summary

A proposal to adjust two (2) total risk parameters, including Liquidation Threshold and Loan-to-Value for one (1) Aave V3 Polygon asset.

The recommended changes below are 1 percentage point changes. Given the relatively low changes, we may not move forward with these parameter changes in order to reduce governance fatigue. We will keep the community posted of next steps.

Abstract

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.

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 V3 Polygon

Top 30 non-recursive and partially-recursive aggregate positions

Top 30 non-recursive and partially-recursive borrowers' entire supply

Top 30 non-recursive and partially-recursive borrowers' entire borrows

Top WBTC non-recursive supplies and collateralization ratios:

Aave V3 Polygon Parameter Changes Specification

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

Parameter

Current Value

Recommended Value

WBTC Liquidation Threshold

75%

76%

WBTC Loan-to-Value

70%

71%

Our simulations show that the LTV and Liquidation Threshold for WBTC can be safely raised to increase capital efficiency while maintaining acceptable levels of risk.

As shown in the below chart and dashboard screenshot, our simulations show that Aave can increase capital efficiency

while also decreasing the risk of bad debt.

Risk Dashboard

The community should use Gauntlet's Aave V3 Risk Dashboard to understand better the updated parameter suggestions and general market risk in Aave V3.

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 V3 Polygon Dashboard

Next Steps

- Welcome community feedback
- If we decide to move forward with these recommendations, we will initiate a Snapshot vote

Quick Links

Risk Dashboard

Gauntlet Parameter Recommendation Methodology

Gauntlet Model Methodology