

# Simple Summary

A proposal to adjust nine (9) total risk parameters, including LTV, Liquidation Threshold, and Liquidation Bonus across three (3) Aave V2 assets.

In addition, this ARC proposes adjusting two (2) total risk parameters, including LTV and Liquidation Threshold, across one (1) Aave Arc (Fireblocks) asset.

## 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. Following the recent market crash, our simulation engine has ingested the latest market data (outlined below) to recalibrate parameters for the Aave protocol. Please note that this set of parameter changes will be lowering liquidation threshold for LINK and WETH.

These parameter updates also represent Gauntlet's first set of parameter updates 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 LINK non-recursive supplies and collateralization ratios:

Top WBTC non-recursive supplies and collateralization ratios:

Top WETH non-recursive supplies and collateralization ratios:

## Aave V2 Parameter Changes 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

LINK Loan To Value

70%

67%

LINK Liquidation Bonus

6.3%

5.0%

LINK Liquidation Threshold

78%

75%

WBTC Loan To Value

70%

69%

WBTC Liquidation Bonus

6.5%

5.0%

WBTC Liquidation Threshold

75%

76%

WETH Loan To Value

82.5%

81%

WETH Liquidation Bonus

5.0%

4.0%

WETH Liquidation Threshold

85%

83%

See below volatility and exchange volume data from 05/13 to 05/26. These are valuable metrics to build intuition but are not the only inputs our simulations take into account to make parameter recommendations.

Symbol

05-26 Volatility

05-13 Volatility

Volatility Change

Weekly Average Daily Volume Change (%)

LINK

1.560317105

1.407103695

0.15321341

-67.2106437

WBTC

0.855923268

0.823403106

0.032520162

-64.0842057

WETH

0.90963415

0.832421096

0.077213054

-69.59337

## Aave Arc (Fireblocks) Parameter Changes Specification

Our simulation platform indicates that increasing the capital efficiency of USDC collateral does not meaningfully increase the risk of insolvencies. Note that, on our dashboard, the Value at Risk (VaR) metric for Aave Arc is currently \$0. This low risk of insolvencies is reflective of the fact that the majority of borrowing on the platform is collateralized by the same asset as the assets being borrowed. As lending market usage grows, our platform will continue to ingest up-to-date data, re-run risk simulations, and make future parameter change recommendations.

Parameter

Current Value

Recommended Value

USDC Loan To Value

85.5%

87.5%

USDC Liquidation Threshold

88%

90%

## 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 2022-05-31

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