



# DAI Federal Reserve

A fractional reserve system on DAI for Market Makers  
to increase liquidity and stability of the DAI pairs

# DAI Federal Reserve

DAI has proved it self as a stable coin of a new generation with increasing volume and more and more users using DAI.

We propose a logical addition to the DAI ecosystem.

Enabling Market Markers in the MakerDAO ecosystem and increasing liquidity, by using DAI for the a fractional reserve system for credit leverage for market makers.

# Market Makers

*Provide liquidity*

*Maintain price stability*

*Lower spreads*


**These aspects are vital for cryptocurrency markets,  
especially when**

**1) volatility is high**

**2) volume is spread through many  
exchanges**



**Dai Markets**

Pair: All Category: 

#	Source	Pair	Volume (24h)	Price	Volume (%)
1	Fatbtc	BTC/DAI	\$10,578,468	\$0.977720	42.81%
2	Fatbtc	ETH/DAI	\$9,064,900	\$0.997179	14.48%
3	OasysDEX	ETH/DAI	\$1,274,995	\$1.00	5.16%
4	HiBTC	ETH/DAI	\$1,266,415	\$1.00	5.12%
5	Ethfinex	DAI/ETH	\$964,863	\$0.999331	4.08%
6	Fatbtc	EOS/DAI	\$989,434	\$1.01	3.96%
7	Bitinka	LTC/DAI	\$852,901	\$0.967513	3.45%
8	Bitinka	EOS/DAI	\$722,891	\$0.994822	2.88%
9	Ethfinex	DAI/USD	\$688,293	\$1.02	2.78%
10	Sistemkoin	DAI/TRY	\$458,083	\$0.985001	1.85%
11	Sistemkoin	DAI/BTC	\$360,409	\$0.975439	1.46%
12	HiBTC	BTC/DAI	\$367,776	\$1.00	1.46%
13	Bitinka	BCH/DAI	\$349,373	\$0.986277	1.41%
14	Kyber Network	DAI/ETH	\$269,385	\$1.00	1.09%
15	Fatbtc	DOGE/DAI	\$261,234	\$1.07	1.06%

# Fractional Reserve

**Fractional reserve is used massively in the fiat world and creates massive liquidity, we implement it for the players that need it the most - market makers.**

**The crypto market lacks instruments and tools for traders and market makers for trading and hedging. We propose to increase DAI usage and secure it's trading pairs by providing market makers with leverage to trade.**

# Technical Implementation

- 1. Market Maker entity created as a solidity contract.**
- 2. Credit line payment channel created for Market Makers that allow credit coverage deposit without emission of DAI tokens with 10-20x leverage. Tokens can be then traded on the platform with strict rules over set Market Makers.**

**Additionally rules implemented in smart contracts to omit risks.**

- 1) Market maker is not allowed to withdraw and/ use the funds for operations other than trades.**
- 2) Market maker is allowed to utilize the algorithms with positive expected value.**

# How does it work?

**To generate USD.X (DAI) a Market maker deposits 5 DAI into the smart contract, smart contract generates and debits the market maker's account with 100 USD.X (DAI). Therefore, the spread is 20X. such spread represents the loan provided to Market maker The required level of spread will change from time to time and will depend on the current market state.**

**To regulate the system, each credit provided to Market maker (represented by spread) is charged with an interest accrued on such credit. The funds received from such interests are used to cover the losses of the system.**

**Set rules for MM estimate break-even or profit for MM, in the extreme case of a default of one of the market makers, an insurance fund is created, which is replenished with a commission for using the loan.**

# Conclusion

**DAI Federal Reserve enables a useful tool for Market Makers to increase their presence on the DAI Markets.**

**This will bring liquidity, spread and price stability for the DAI ecosystem as well as a possibility to loan DAI and earn interest for the public.**

**We think it will be a great step towards market stability and implementation of advanced financial instruments, enabling the future of DAI used in derivatives such as futures, perpetual swaps and others.**

**For scalability we can enable the same functions for Centralized Exchanges.**