TL;DR

[The team formerly known as Crimson Cluster](#) is announcing the launch of Phoenix Labs, an R&D company building the Spark Protocol.

Phoenix Labs is focused on vertically integrating existing products into Maker and sharing the value creation with developers.

Spark Protocol

is a front-end for interacting with DAI. At launch, the first offering will be Spark Lend (SL)

, a lending market focused on the most liquid, decentralized, and highest market cap assets. Currently planned future releases will include resilient oracles and fixed rates.

1. Our Purpose

A rising tide lifts all boats.

Maker was one of the first DeFi protocols to build and establish itself in the space…

Back in 2015/7, Maker had to overcome a lot of challenges. Nothing had been built before so not only did the early team build a stablecoin protocol but also had to build an oracle protocol (now Chronicle Labs), a DEX protocol (now Oasis.app), voting contracts, multicall and a plethora of awesome open source tooling. Maker developed a culture of building in-house out of necessity in response to a lack of a mature ecosystem.

Since then the ecosystem has grown and flourished; great and innovative models have been brought into existence from DEXs, lending, oracles, streaming, abstractions, structured product, and more.

The Endgame Plan will bring significant structural changes to both Maker Protocol and MakerDAO that will ensure we continue to scale while ensuring maximum resilience.

That's why we decided to create Phoenix Labs to support this new phase of growth and innovation by looking outwards and challenging our culture of building in-house because only together can we achieve greatness. We want to bring new decentralized products to Maker and start building for the future Creator subDAOs.

Phoenix Labs will accelerate Maker development time by integrating solutions developed by the top DeFi developers in the ecosystem, bringing innovative ways to interact with the Maker Protocol.

2. Phoenix Labs

Phoenix Labs is a research and development company created to introduce new decentralized products into the Maker Ecosystem. Our mission is to help MakerDAO grow and innovate in the decentralized realm.

MakerDAO will own every product that Phoenix Labs creates; therefore, they will inherit Maker's already well-established governance system. Maker Governance will administer all smart contracts with polls to adjust system parameters and add new collateral.

Once the Creator subDAO model is established, Spark Protocol can be transitioned to one of them.

Our values

- Value Sharing:

Phoenix Labs is committed to building a healthy and sustainable developer ecosystem through value sharing models such as retroactive payment for public goods.

- Plug and Play Model:

Phoenix Labs plans to make all code open, owned by MakerDAO, and available for use by other teams under a revenue share agreement using the "Plug and Play" model of the Endgame proposal. It is one of our goals to provide a core toolbox that other subDAOs or Ecosystem Actors to build upon.

- Continuous Innovation

: Phoenix Labs wants to help Maker consolidate its position as the DeFi leading platform by integrating new and exciting solutions including everything Endgame will bring.

- DAI-centric

: Everything Phoenix Labs will build will have DAI as the centerpiece.

The Founding team

Sam - Technical, [@hexonaut](#)

Nadia - Operations, [@Nadia](#)

Tadeo - Dev. Relations, [@tadeo](#)

3. Spark Protocol

Phoenix Labs' first solution is the Spark Protocol. This protocol will amplify the features of MakerDAO by enabling a liquidity market for supplying and borrowing scalable crypto assets with variable and fixed rates, supporting EtherDAI, and implementing the first resilient oracles to improve Maker's strength.

Spark Protocol will evolve over time, adding new features to the front end by integrating Maker's products as they are available and the most innovative DeFi solutions in the space. The first product is Spark Lend

, a lending market with a front end that will integrate Maker's D3M and the PSM. After launching Spark Lend, Phoenix Labs aims to continue delivering new products and features. The ones included in the 2023 roadmap are Spark Fixed Rates, Resilient Oracles, cross-chain support, Maker teleport support, and bootstrapping of EtherDAI.

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Roadmap

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Spark Lend (SL)

Spark Lend (SL)'s D3M is the main differentiator from existing lending protocols. Maker has the cheapest credit in DeFi because there is no requirement for third-party liquidity providers. Because of this, SL will launch by allowing anyone to borrow DAI at the Dai Savings Rate (DSR), as stated in the [Stability and Liquidity Scope Framework](#). This will be the best rate available in DeFi combined with all the killer features such as cross-margin, short positions, high leverage, and many more.

Spark Lend will focus on scalable types of collateral that are highly liquid. SL will not compete with markets that offer "tail assets". By focusing on highly liquid, decentralized assets with large market caps, SL will aim to be the most secure platform in all of DeFi.

SL will support the following markets on launch:

- DAI

- ETH [E-Mode Enabled]

- Lido wstETH [E-Mode Enabled]

- WBTC

- Savings DAI (DSR-locked DAI) [Collateral Only]

By including a tokenized Savings DAI and providing easy access to the 1:1 USDC PSM swap, users will be able to enter and exit the DSR from a single UI. Simple additions like this will help provide retail users access to the Dai Savings Rate from USDC. Something that currently does not exist in any UI.

Screenshots:

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Spark Fixed Rates (SFR)

A critical piece that needs to be added to DeFi is fixed rates that work in a capital-efficient way. Spark Protocol plans to partner with fixed rate protocols such as Deco, Sense Finance and Element Finance to deliver this feature by the second half of 2023. These protocols have already done all the heavy lifting - Phoenix Labs will simply plug Spark Protocol into them.

Two protocols Phoenix Labs are currently evaluating are:

Element Finance's Hyperdrive offers fixed rates as part of a variable/fixed market with no preset expiration dates and no fragmented liquidity between terms. You can read more details in Element's blog.

Sense Protocol, a permissionless fixed-income protocol that enables fixed rates and future yield trading atop existing yield-bearing assets. With Space, a capital-efficient fixed-rate AMM, and Rolling Liquidity Vaults (RLVs), Sense offers flexible infrastructure for offering fixed rates for Spark Lend users. You can read more about their protocol here.

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SFR

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Spark Protocol can onboard the PT token associated with either protocol with an e-mode attached to the DAI/sDAI markets to allow high leverage (~20x). This enables speculators/arbitrageurs to create a liquid market price on interest rates in a capital-efficient way. Phoenix Labs expects initial versions of this to roll out in Q2/Q3 2023.

The above two are built for Spark Protocol, but Phoenix Labs will also evaluate using Deco's Fixed Rate product when it becomes available for Maker Core.

Bootstrap EtherDAI

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EtherDAI

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EtherDAI has been approved as part of the Endgame plan. The above diagram illustrates a way to deploy EtherDAI using only the basic Maker contracts and using Spark Lend for the liquidity market. EtherDAI to ETH can be thought of in the exact same way as DAI to USD. There is a 1:1 pegged version called EtherDAI (DAI) and a yield-bearing version called sEtherDAI (sDAI). The PSMs for EtherDAI are other derivatives (possibly yield-bearing) or the underlying asset of ETH. This is similar to how the original MCD has PSMs for USDC and USD derivatives (some yield-bearing such as GUSD/MIP65/etc).

Most of the complexity of the Multi-Collateral DAI (MCD) system comes from Global Settlement and Vaults/Liquidations. Although both of these systems are important for long-term security, Maker can deploy a stripped-down version much quicker and upgrade to the full version afterward. This will help us to capture market share in the rapidly growing Liquid Staking Derivatives (LSD) market.

Besides minor changes, deploying this version of EtherDAI will only require existing contracts so that Maker can move on this quickly. Now that staked ETH withdrawals are being activated Phoenix Labs feel this is the right time to move on LSDs.

To assist with building demand, Maker can also provide a subsidy (MKR or DAI) to the EtherDAI market via built-in liquidity mining support.

Oracle Improvement Research

Spark Protocol is investigating improvements to existing oracle designs with redundant feeds ofChronicle (prev. Maker Oracles) and Chainlink. With redundant oracle networks as sources, Spark Protocol can withstand one of the networks being completely compromised and still operate. Spark Protocol will launch with Chainlink oracles with plans to upgrade later in the year.

To achieve this, Spark Protocol is exploring adding several circuit-breakers to each feed. Circuit-breakers such as comparing to DEX prices, signed prices and flash crashes.

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Cross-Chain Support

Phoenix Labs is committed to expanding the DAI ecosystem cross-chain. Spark Protocol will be deployed on L2s and side chains to meet user demand. First-class integration of Maker Teleport will enable users to interact with the front end in a way that abstracts the underlying blockchain.

4. Technical Details

You can find all the technical details in the proposedD3M MIP. This will cover things such as debt ceilings, rates, etc on the Maker side.

Spark Lend builds upon Aave V3

In exchange for all the hard work done at AaveDAO, Spark Protocol will send 10% of the profits earned on the DAI market for the next two years. A proposal to share the profit has been created on the Aave forum -Pending approval from Aave Governance-.

5. Financial Details

Revenue generation

At the start Spark Protocol will generate revenue via its borrowing and lending market mainly

through variable-rate loans. At a later stage fixed rate loans and other adjacent revenue streams will be added.

As a result, the main factors driving protocol revenue at the beginning include:

- Variety of pools offered
- TVL - driven by general price levels through market cycles and overall market demand
- Utilization rates
- Interest rate curves

Scenario Analysis

The following scenario analysis shall provide rough guidance to what adoption and corresponding profits Spark Protocol could achieve once properly ratified and funded with initial start up capital. General assumptions used are outlined below.

Offered markets:

- DAI
- ETH [E-Mode Enabled]
- Lido wstETH [E-Mode Enabled]
- WBTC
- Savings DAI (DSR-locked DAI) [Collateral Only]

Base Case

- TVL: mid, TVLs of markets reach 50% of current relevant Secondary Market levels
- Utilization rates: mid, below optimal levels

Bear Case / protocol start

- TVL: low, only reaching initial debt ceiling for DAI market and small TVL for other relevant pools
- Utilization rates: low, far below optimal levels

Bull Case / fully operational

- TVL: high, reaching levels of previous bull market
- Utilization rates: high, at optimal levels

Based on these scenarios Spark Protocol could generate annual protocol profits (after funding costs) as per below while simultaneously generating high returns for MakerDAO as the sole supplier of DAI on the protocol.

Spark Protocol profit

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SPP

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Revenue MakerDAO

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RevMD

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