This post covers proposed protocol parameter changes by BA Labs as a member of the Stability Advisory Council. Final changes are pending approval by the responsible Stability Facilitators.

As previously mentioned in [MIP104 Stability Scope Language Out-of-Schedule Language Change](), the crypto market is currently experiencing relatively high volatility and high rates. As a prudent response, Maker governance has the ability to utilize article "3.3: Dai Savings Rate and Base Rate Changes in Demand Shocks" in the Stability Scope. The article allows for non-standard parameter changes that, once any volatility or risks have subsided, can be reverted back to their ordinary values. As such, BA Labs is proposing to the Stability Facilitator to enact MIP104 article 3.3 by proposing a temporary change that should prepare the Maker Protocol for a potential excessive Dai demand shock caused by further market volatility and bullish sentiment.

Given the current market conditions, [@BA-Labs]() is proposing protocol parameter changes as part of a predefined accelerated governance process in the language of the Atlas. The fundamentals backing DAI remain solid, and this accelerated governance proposal is crafted in order to avoid potential short-term liquidity crunches.

Liquid stablecoin reserves and reserves deployed to RWAs are more than sufficient to sustain the increasing pressure generated by the potential bullish market sentiment. The issue lies in the liquidity crunch inherent in the exposure towards stablecoins deployed through RWAs.

Because of the mentioned reasoning, this is a temporary solution to the out of ordinary instance of increased demand shock, and once market dynamics settle down, all processes and parameter setting will return to regular cadence.

In light of the current dynamics impacting the Maker ecosystem, it is important to communicate the dual pressures influencing DAI's landscape: a contraction in DAI demand paired with increased generation and selling activities by borrowers of the lending engines. For the sake of transparency towards the Maker community, we wish to clarify the factors prompting the implementation of this strategy:

- The Peg Stability Module (PSM) reserves have diminished to below $320 million.

- While there is approximately $1.1 billion in Real-World Assets (RWA) available for redemption, daily redemptions are capped due to the nature of RWA vehicles and might take a longer period of time to redeem relative to the pressure on the on-chain stablecoin reserves.

- The on-chain Dai holder analysis can suggest that some users responsible for recent outflows already sold the majority or large amount of their holdings, and thus the sell pressure could likely subside, but user behavior can change at any point in time.

The proposed parameter changes included in the screenshot below can be directly included in an executive vote by the Stability Scope Responsible Facilitator.

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Proposed Protocol Parameter Changes

- DSR

- Increase the DSR by 10 percentage points, from 5.00% to 15.00%

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- ETH-A

- Increase the Stability Fee (SF) by 8.84 percentage points, from 6.41% to 15.25%

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- ETH-B

- Increase the Stability Fee (SF) by 8.84 percentage points, from 6.91% to 15.75%

- Increase the Stability Fee (SF) by 8.84 percentage points, from 6.91% to 15.75%

- ETH-C

- Increase the Stability Fee (SF) by 8.84 percentage points, from 6.16% to 15.00%

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- WSTETH-A

- Increase the Stability Fee (SF) by 9.60 percentage points, from 6.65% to 16.25%

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- WSTETH-B

- Increase the Stability Fee (SF) by 9.60 percentage points, from 6.40% to 16.00%

- Increase the Stability Fee (SF) by 9.60 percentage points, from 6.40% to 16.00%

- WBTC-A

- Increase the Stability Fee (SF) by 10.07 percentage points, from 6.68% to 16.75%

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- WBTC-B

- Increase the Stability Fee (SF) for 10.07 percentage points, from 7.18% to 17.25%

- Increase the Stability Fee (SF) for 10.07 percentage points, from 7.18% to 17.25%

- WBTC-C

- Increase the Stability Fee (SF) by 10.07 percentage points, from 6.43% to 16.50%

- Increase the Stability Fee (SF) by 10.07 percentage points, from 6.43% to 16.50%

- Spark

- Increase the Spark DAI Effective Borrow APY by 9.3 percentage points, from 6.7% to 16%

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- Governance Security Module Delay

- Reduce the GSM Delay by 32 hours, from 48 hours to 16 hours

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- PSM-USDC-A DC-IAM ttl Change

- Decrease the ttl by 12 hours, from 24 hours to 12 hours

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Background

Over the past week, DAI total supply has dropped from approximately 5 billion to 4.38 billion. This is due to a few different factors, mainly caused by (i) volatile crypto market conditions and rates increasing considerably and (ii) users minting and selling DAI for other assets.

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Source: Makerburn

PSM reserves have dropped to circa 320 million. MakerDAO has approximately 1.1 billion USDC in RWA vehicles (e.g. BlockTower Andromeda, Monetalis Clydesdale), meaning that like always, DAI is over-collateralized. However, due to the nature of the RWA vehicles, the redemption is currently capped in relation to crypto collateral. This has potential to create a temporary liquidity crunch and requires some swift actions and parameter changes. For such market instances, the MakerDAO Atlas language has predefined processes which are being enacted.

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Source: [PSM + GUNI USDC Maker Endgame](#)

Reasoning for Specific Changes

Dai Savings Rate (DSR) Increase

The DSR is an additional lever MakerDAO can utilize the DSR to make holding DAI more attractive, which in turn increases DAI demand, and ultimately alleviates the downward pressure of the DAI price. The proposed DSR rate change will temporarily supersede the current Enhanced Dai Savings Rate (EDSR) and its multipliers.

PSM-USDC-A DC-IAM ttl Change

We want to allow for a greater potential throughput of stablecoin reserves inflow into the PSM.

Maker Core Vault Type Stability Fee Increases

Given the aforementioned situation, it is in the interest of MakerDAO to set competitive market rates that would increase the protocol's stability. This is in line with other major lending protocols, as 7-day averages have consistently risen during the last month throughout all major lending protocols, while MakerDAO's have remained relatively low. Additionally, an increase to the stability fees will ensure the financial sustainability of the DSR increase and further secure the protocol.

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Source: [AAVE USDT 7-day average APY](#)

The current market conditions make it necessary for Maker to take some medium-term mitigation steps to sustain these historically-high protocol rates. BA Labs, along with other ecosystem actors, will develop and propose a plan to do so while accounting for the protocol's stability.

Governance Security Module (GSM) Delay

Setting the GSM delay to 16h was chosen as a compromise solution between being able to react quickly after assessing the proposed changes, and to mitigate any potential malicious spells. Our objective is to assess the new parameter changes and take rapid action if any additional parameter reconfigurations are required.