

In preparation for the implementation of [EDSR](#), Phoenix Labs proposes several changes to the Spark Protocol lending market, specifically modifications to the DAI and ETH market parameters.

The purpose of these updates will allow Spark to offer a better user experience in the context of a higher DSR.

## Proposed Changes

1. Set Spark D3M Debt Ceiling

to 200m

Increase the current debt ceiling to 200 million DAI to allow new users to onboard into Spark given the discrepancy between Spark DAI borrow rate and the DSR rate that will be increased due to the EDSR.

1. Set new DAI market interest strategy

The DAI market interest rate will track the ETH-C stability fee instead of the DSR rate (`pot.dsr()`)

) to keep in line with [MIP103: The Stability and Liquidity Scope Framework](#).

1. Set DAI market Loan To Value

to 0.01% and Liquidation Threshold

to 0.01%

This will effectively remove DAI as a collateral type, ensuring that there won't be a situation where the market is at 100% utilization and liquidations on the short positions need to be done. This is particularly important because the sDAI market is frozen, meaning that the only way to short is through the DAI market. Keep in mind that since DAI has active suppliers, LTV can't be set to zero, this means that `usageAsCollateralEnabled`

will still be true

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Nobody is currently shorting with DAI as collateral, so this will not cause any liquidations.

1. Set WETH market `reserveFactor`

to 5%

This will reduce the protocol fee taken on the ETH market giving suppliers a larger APY.

1. Set WETH market `variableRateSlope1`

to 3%

This sets the optimal borrow rate at 4%, based on the `**variableRateSlope1`

`** change` and `baseVariableRate`

being at 1%. This change will ensure a more healthy utilization near the kink to improve supplier return and incentivize more deposits.

## Polls

Recommend two polls:

1. Debt Ceiling Raise.
2. ETH Market Changes + DAI Market LTV/LT to 0.01%

Due to language in the eDSR post, the DAI interest rate strategy change will become necessary if that passes in another poll.

## Implementation

Phoenix Labs has already prepared the proxy spell and will update with the deployed address soon. The relevant facilitator has been informed of this update and will provide their feedback shortly.

Thank you for your cooperation as we work towards enhancing the system.

