

Summary

Phoenix Labs proposes the following changes to SparkLend grouped by individual polls:

1. [Ethereum] Activate Kill Switch Security Module
2. [Ethereum] Increase WBTC supply cap max

parameter to 10k

1. [Ethereum] Increase ETH borrow cap gap

parameter to 20k

Rational

[Ethereum] Activate Kill Switch Security Module

As part of the ongoing effort to improve SparkLend security, Phoenix Labs has developed a kill switch to disable all borrowing across markets in the event of a depeg on key collateral assets.

Repo: [GitHub - marsfoundation/sparklend-kill-switch](https://github.com/marsfoundation/sparklend-kill-switch): This tool watches pegged asset oracle prices and performs a shutdown of SparkLend if they depeg below defined thresholds.

From the README:

This module registers pegged asset oracles and will trigger a lockdown mode for SparkLend if certain price thresholds are met. For example, if WBTC/BTC is observed to reach a market price of 0.95 and the threshold for this oracle is set to 0.95 then anyone can permissionlessly trigger to set SparkLend into lockdown mode which prevents new borrows on all assets.

The reasoning behind this is to limit the damage in the event of extreme market conditions. Depegging assets may be temporary, but there is no harm in an excess of caution in these situations. Users can still top up collateral and repay/withdraw in lockdown mode. This just prevents further borrowing to limit downside exposure to lenders.

After the initial trigger is done, the kill switch can triggered as many times as needed unconditionally until it is reset by the Spark Proxy under the Governance Security Module delay. MKR holders will also need to re-activate the market if it is deemed safe to do so.

Initial oracles to onboard at 0.95

threshold:

WBTC/BTC

STETH/ETH

[Ethereum] Increase WBTC supply cap max

parameter to 10k

Inclusion of the kill switch provides much stronger protection in the event WBTC loses it's backing. The market will be able to go into lockdown in nearly real-time. As such the WBTC supply cap can be increased.

[Ethereum] Increase ETH borrow cap gap

parameter to 20k

Similarly the addition of the kill switch provides stronger protection in depeg events. Users such as Instadapp ETH Lite vault routinely move around 8k ETH at a time, so increasing to 20k will provide more of a buffer for better UX.