[

1600×800 138 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/5/6/5625dbac3680fa1af3d1b8bf6c55e50d10ee2436.png)

Introduction

On March 8, 2024, @BA-Labs posted Accelerated Proposal: Rate System, GSM Delay, PSM-USDC-A ttl Changes as part of a predefined accelerated governance process in the language of the Atlas.

In this post, we aim to:

1. Revisit the reason for the proposal
2. Review the broader impacts of the parameter changes
3. Share future plans regarding Maker protocol parameter changes and Stability Scope language edits

Reason for the Proposal

In the period leading up to the Accelerated Proposal on March 8, 2024, market sentiment had turned increasingly bullish. As a result, crypto prices and leverage demand increased rapidly. In addition, external rates in the DeFi ecosystem had increased, making Spark and Maker relatively cheap lending protocols for larger volumes.

Looking at DeFi rates at the time of the proposal, we see that 7-day borrow rates on major lending markets had been rising steadily throughout the previous month. The largest pools by TVL on 8 March showcased borrow rates in the range of 13.23% to 36.36%, with an average 7-day borrow rate of 19.13% and a TVL-Weighted borrow rate of 16.81%. This was substantially above the fixed Spark DAI borrow rate of 6.70% and the core vaults' stability fees ranging between 6.16% and 7.18%. This, in turn, led to users shorting DAI through a carry trade whereby they minted cheap DAI, sold it for other assets, and deposited assets into other high yielding opportunities in the space.

[

1000×572 61.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/d/d/dd826b995866368e39a124b75e651061d504f9e3.png)

Source: Tokenlogic & Block Analitica

[

1600×745 151 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/f/a/faef21544950ae2fd78326cc2bae3ee0e44c2ec9.jpeg)

Source: Tokenlogic

By looking at CeFi rates, we witnessed a bullish situation where, on 8 March, the average 8-hour funding rate was equal to 0.0523% for ETHUSDT and 0.0548% for BTCUSDT futures on Binance, corresponding to annualized funding rates of roughly 57% for ETH and 60% for BTC.

[

1600×988 195 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/1/1/11b54ddc031ca18d3ea98cbd80199e65ccd4dbc1.png)

[

1600×988 168 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/c/7/c7269a1bdd5755293109e9ab351d8455f68a226e.png)

Source: Velo

The DeFi and CeFi rate environments at the time made it necessary for Maker to adapt to market conditions in order to avoid a potential depeg scenario that would have undermined the trust in the Maker Ecosystem.

The situation became more urgent between Feb 29 - March 8, after multiple PulseX related wallets sold over 630M DAI in a short period of time. Some of the wallets also deposited DAI into the DSR, and soon thereafter continued selling, which explains the sudden increase and subsequent reduction in DSR utilization at the end of February and beginning of March. Some of these wallets had held DAI for several years, making it hard to predict the sudden DAI outflow and size.

[

Chart

1200×742 59.8 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/d/5/d51b32510929d08f5a7a48d313857bd0936e1c64.png)

Source: Makerburn

Liquid stablecoin reserves and reserves deployed to RWAs were more than sufficient to sustain the increased pressure on DAI generated by the bullish market sentiment. However, the sudden DAI outflow, coupled with the limited redemption rates of RWA vehicles at the time, led to the risk of a liquidity crunch that needed to be addressed. @BA-Labs therefore posted an accelerated proposal on March 8, with the following parameter changes:

[

1600×1166 244 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/7/2/728e73a4f21ccf86a4172430285af5e04e1732bc.png)

Source: Accelerated Proposal: Rate System, GSM Delay, PSM-USDC-A ttl Changes

The changes were intended to:

1. SF increase:

Increase cost of crypto collateral leverage

1. Increased DSR to 15%:

Incentivize higher DSR utilization

1. Reduce PSM-USDC-A ttl

:

Allow for a greater potential throughput of stablecoin reserves inflow into the PSM

1. Reduce GSM Delay:

Be able to assess the new parameters and take rapid action if any additional parameter configurations were needed

Impact Analysis

Exposure Over Time

The chart below shows the change in DAI supply from March 4 until the time of writing (March 20). From the time of the proposal (March 8) until the time of writing, total DAI supply has increased by 240 million, from approximately 4.48 billion to 4.72 billion. Note that in the chart below, Coinbase Custody is categorized as RWA. If we instead look at USDC reserves (including PSM, GUNI, and Coinbase Custody), the exposure currently stands at a healthy 27%.

[

Chart

1200×742 36.2 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/c/2/c209f19ca2baa857b7893351d2ddb1b9a9788317.png)

Source: Makerburn

DAI from Stablecoins

Following the parameter proposal, the USDC PSM filled up from approximately 361M on March 8, to 771M on March 13. The downtrend on March 13-14 can be explained by a transfer of 417M into the Coinbase Custody solution after the fact that the JAT3 threshold sum of 500M in the USDC PSM and GUNI vaults had been breached. A similar transfer was once again triggered on March 18.

[

Chart

1200×742 34.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/6/0/608e3ca1f9f8353039a5858453e48ca3fcc666a5.png)

Source: Makerburn

PSM Large flows analysis

In the 8 March - 18 March period, 802 unique wallets interacted with the PSM. The net cumulative effect is overall positive, corresponding to a PSM increase of ~48M. Nevertheless, this effect is achieved by some specific users skewing the distribution, which can be seen by looking at the wallet-specific net flows. In this case, we can see that the majority of wallets (~95%) maintained an almost neutral position, with net flow ~0M.

[

876×547 16.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/4/b/4b01494d30570245550cbf108ea708ddc4a2ffda.png)

Source: BA Labs

The specific wallets skewing the distributions were identified through Arkham Intelligence and correspond to the following:

[

1600×540 167 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/7/4/7406db63bd82edc0669e79d47edea407b7160fff.png)

Source: Arkham Intelligence

DAI from RWA

The chart below includes (i) Monetalis Clydesdale, (ii) BlockTower Andromeda, and (iii) Coinbase Custody, the three largest RWA solutions in MakerDAO, representing approximately 85.6% of Dai debt from RWA at the time of writing.

[

Chart

1014×742 40.8 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/f/6/f6a96fa0c3b37833422793a4b32441472c1f1b41.png)

Source: Makerburn

The sudden increase in Coinbase Custody on March 13 and 18 can once again be explained by theJAT3 Trustee standing instructions, that state that, if the USDC PSM + GUNI USDC Pools make up less than 300m in aggregate, USDC should be withdrawn from Coinbase Custody so that the protocol sum increases to 400M USDC. If, instead, the PSM + GUNI USDC Pools make up over 500m in aggregate, USDC can be deposited into Coinbase Custody so that the protocol sum decreases to 400m USDC.

[

1028×804 67.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/f/b/fbc2bb6c87aa626d7953dc7f579f3c275a105985.png)

Source: Maker Endgame PSM + GUNI USDC

The main issue that needs to be addressed in future Stability Scope language edits are the redemption rate limitations in RWA vehicles. These positions take longer to redeem. This should be taken into consideration when researching and developing sections 6: AllocatorDAO Effective Junior Capital and 7: AllocationDAO Collateral and Market Requirements.

Note that new requirements have been proposed in Governance changes to prepare for Launch Season After the change, the target stablecoin exposure will be 25% (PSM, GUNI and Coinbase Custody). Maker will rebalance back to 25% if the exposure falls below 20%. RWA exposure will only be added if the stablecoin exposure goes above 30%.

DAI from Crypto Collateral

From March 7 until March 20, ETH-B, ETH-C, and WSTETH-B Vault Types lost 31.45 million, 26.48 million, and 14.01 million Dai debt respectively. However, Dai debt exposure from the remaining Vault Types has increased, counteracting crypto collateral exposure losses. The total exposure change (excluding Spark) from March 7 to March 20 was approximately a 33.98 million increase in Dai debt, from 1.287 billion to 1.321 billion.

[

Chart

1200×742 26.3 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/b/5/b52490ab2893f161d7405cc90fb15e19190163a4.png)

Source: Makerburn

ETH-B

The decrease in Dai debt exposure from the ETH-B Vault Type was mainly due to a user unwinding 33.2 million a day prior to when the accelerated proposal took place (March 7). This indicates that the unwinding was not necessarily linked to the Stability Fee hike.

[

1600×1331 157 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/8/7/872356cd5b188724ef94597b7636d275b479645e.jpeg)

Source: Maker Risk Dashboard

ETH-C

For ETH-C, on the other hand, most unwindings and withdrawals took place after the parameter changes had been executed on-chain.

[

1600×673 86.4 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/c/1/c164811e80b7bdb1dd899b6163650acb6cef3df3.png)

Source: Maker Risk Dashboard

Observed ETH-C user behavior included (i) maintaining positions with higher collateralization ratio, (ii) withdrawing ETH and staking, and/or (iii) closing positions to hold ETH.

WSTETH-B

Similarly to ETH-C, DAI withdrawals and unwindings from the WSTETH-B Vault Type took place around the time when the parameter changes were executed on-chain.

[

1600×669 93 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/1/7/175e11f2cde3f0591de96fb0d60746982b3e38bd.png)

Source: Maker Risk Dashboard

User changes included (i) refinancing part of their position in Aave (small fraction), (ii) selling/unstaking for ETH, or (iii) withdrawing to hold stETH.

Spark DAI Market

[

Chart

1188×734 42.2 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/9/c/9ccda30d213b8ff230a7dd1044c5199cb79c9674.png)

Source: Spark Risk Dashboard

Borrows in the Spark DAI market have decreased by circa 320M, from 1.26B on March 8, to 0.94B on March 20. Borrowers who unwinded were mostly collateralizing their loans with wstETH, WBTC, and WETH. User actions following withdrawals included (i) unstaking stETH for ETH to hold/deposit to CEXs, (ii) refinancing part of their position on Aave (small fraction), or (iii) keeping withdrawn assets in their wallets.

DSR Changes

Following the increase in the DSR from 5% to 15%, DSR utilization increased by approximately 240M (1.40B in total) until the time of writing, achieving 29.67% utilization.

[

Chart

1200×742 32.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/5/5/55dfe08999394221527f8723835629e17c1c9c06.png)

Source: Makerburn

DSR Large Flows Analysis

In the 8 March - 18 March period, 58 unique proxies have interacted with the DSR. The net cumulative effect is positive, corresponding to a DSR increase of ~260M. Nevertheless, this neutrality is achieved by users supplying more and others withdrawing more, which can be seen by looking at the wallet-specific net flows. In this case, we can see that the majority of proxies (~90%) maintained an almost neutral position, with a net flow ~0M.

[

867×547 13.9 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/7/c/7cea7de227a355ea0a6697cea97f3687657341e7.png)

Source: BA Labs own work

Comparative Analysis

Given the rate landscape on 19 March, we can assess the current state of Stability Fees in the competitive environment and understand whether they need additional adjustments.

DeFi rates have slightly dropped during the last 10 days, with 7-day Average Borrow Rates across major markets ranging between 15% and 22%. In order to understand the true underlying situation, it is important to take into account the effect that supply rates have on borrowing rates. Namely, Aave and Compound provide a yield on collateral pledged into their pools, which ranges between 0.06% and 2%. This corresponds to a slightly lower Effective Borrow Rate. With a supposed 150% Collateralization Ratio on ETH supplied to borrow stablecoins, we can get an approximation of what the Effective Rate is. We then weight the Borrow Rates with the TVL of the markets, in order to gain a better approximation of what is the Average Borrow Rate of the overall stablecoin market. This results in a 7-Day Average Borrow Rate of 16.81% and a 7-Day

Effective Borrow Rate of 14.33%.

At the same time, funding rates on major centralized exchanges for ETH Perpetuals have collapsed to align with the broader market landscape. Annualized Funding Rates range between 8.21% and 32.98% across Binance, Bybit, OKx and Deribit. We take these values and weight them by their Open Interest, in order to get weighted funding rates. This corresponds to an Average OI Weighted Funding Rate of 17.52%.

[

1600×343 112 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/1/1/11843dc01d55d432ed75397dcebc93dbcfbda772.png)

Sources: Blockanalitica, Tokenlogic and Velo

We will consider the three calculated rates as benchmarks, namely:

1. TVL Weighted 7-Day Effective Borrow Rate
2. TVL Weighted 7-Day Average Borrow Rate
3. OI Weighted Annualized Funding Rate

These are then used to calculate the Differences (Δ_n) and assess the feasibility of stability fees. We can see that for many vault types, current Stability Fees are more expensive than the Market Effective Borrow Rate. This is why we believe that the stability fees are not in line with current market conditions and should be lowered slightly. This is the rationale behind the new proposed Stability Fees, which will range between 13% and 14.75% for different vault types, with the Spark Effective Borrow APY equal to 14% and the Dai Savings Rate (DSR) equal to 13%.

[

1576×548 78.7 KB

](//makerdao-forum-backup.s3.dualstack.us-east-1.amazonaws.com/original/3X/b/a/ba09a01915f0b4b79ba70e62a8fe222c9829905f.png)

Conclusion

The current high rate environment suggests that Stability Fees may need to stay higher for longer in order to adjust to market changes and to accommodate more stablecoin exposure in the short to medium term.

On the other hand, the current high rates in DeFi are most likely not sustainable over the longer term since (i) demand for leverage may subside as the price of cryptoassets fall, and/or (ii) the current rate disparity between DeFi protocols and other CeFi alternatives may converge as market actors find ways to bridge the disjoint rate environments.

Furthermore, the recent rate hikes in Maker have likely helped precipitate a sizable Spark DAI market outflow. However, it should be noted that, while we have seen some refinancing from Spark to other lending protocols, the recent market sell-off has led to less TVL in general in DeFi.

Exposure from crypto collateral (Native and Non-Native Vault Types) in Maker remains elevated in spite of the recent Stability Fee hikes. However, even though Maker Core Vault Type positions appear to be more inelastic compared to the Spark DAI market, additional vault users may unwind and/or withdraw their positions if Stability Fees are not lowered to reflect recent market changes.

Taking this into account, before returning to normal governance cadence and Core Stability Parameters update frequencies, @BA-Labs will soon propose new parameter changes in accordance with article 3.3 in the Stability Scope. In a separate forum post, we will propose a decrease in Stability Fees, Spark DAI Effective Borrow APY, and the DSR.

Future Plans

The implementation and outcome of the March 8 accelerated proposal has provided us with information and data that can be used to improve parameter change proposals in the future. @BA-Labs plans to propose a few changes regarding:

1. Determining Stability Fees
2. The Maker Governance Process
3. The GSM Delay
4. Stability Scope Language Edits

Determining Stability Fees

With the current volatile market conditions and high rate environment, we are of the opinion that MakerDAO needs to be even more attentive to external market rates. @BA-Labs regularly assesses market conditions and external rates, and reports significant changes through our research product "Market Conditions and Competition Analysis".

However, following the introduction of the Stability Scope, rate changes are bound by the Scope rules and formulas. Since the Stability Scope is still in its early stages, additional language changes are still planned for inclusion. Before the Stability Scope is sufficiently developed, this may result in additional scenarios where the discrepancy between external market rates and internal Stability Scope formulas diverge to unsustainable levels, requiring accelerated proposals and out-of-schedule executive votes.

@BA-Labs therefore plans to propose a new iteration of the Exposure Based Model for determining Stability Fees. In the new iteration, we plan on applying a new spread which will account for external market rates as well as the total crypto collateral percentage exposure in the portfolio backing DAI. More information on this will be provided on the Maker forum at a later point in time.

The Maker Governance Process

In order to make the governance process less disruptive and more predictable in the current volatile market environment, we believe that certain changes need to be made to the governance cycle. We believe that once Maker returns to normal governance procedures, governance cycles will need to be made shorter. This will allow Maker to respond faster to sudden volatile market changes and minimize potentially disruptive accelerated proposals and out-of-schedule executive votes.

The GSM Delay

The GSM (Governance Security Module) Pause Delay parameter sets the minimum amount of time after an executive vote has passed before changes will come into effect in the Maker Protocol. Prior to the Accelerated Proposal on March 8, 2024, the GSM Delay was 48 hours. As a result of the accelerated proposal on March 8, this value was changed to 16 hours.

The current GSM Delay parameter value is intended to be temporary, and is in our opinion too low in normal circumstances. However, in order for MakerDAO to be able to react faster in the current market environment, a case can be made that a value lower than 48 hours may be beneficial. @BA-Labs plans on proposing a new GSM Delay value at a later point in time.

Stability Scope Language Edits

Defined Directives for Accelerated Rate Change Proposals

At the time of writing, the Stability Scope lacks certain guidelines and directives as to what should be done in times when fast governance decisions need to be made. As a member of the Stability Scope Advisory Council, @BA-Labs plan on proposing more concrete instructions in case similar proposals are needed in the future.

AllocatorDAO Regulatory Framework

The need for an AllocatorDAO regulatory framework will grow stronger as we approach the official launch of SubDAOs. As a member of Stability Advisory Council, BA Labs, together with the Stability Facilitators and other stakeholder in Maker, are working on defining clear language for AllocatorDAO Junior Capital requirements, capitalization requirements, and DAI deployment requirements.