As pointed out in the forum post describinghow the new exposure model works, this will be the first of different iterations to make the model more precise. In fact, as the model becomes increasingly more complete, different adjustments will need to be made.

This iteration will focus on the WSTETH Asset Spread curve, in order to make it more representative of market conditions. In short, we propose the KFb factor to be lowered to reflect potential user behavior after a certain cap is reached. It is important to point out that, since the second kink (Kb) has not been reached yet, this change will not have any effect on current Stability Fees and will in lower the Asset Spread at higher levels of exposure to be closer to stETH yield.

This change already incorporates the Implementation Adjustments to KFa & KFb meta-parameters for all four existing curves explained here.

Analysis

STETH is issued by Lido and is an LST of ETH that is exposed to the yield earned by validators on the Ethereum network. Yield is derived from three sources, namely transaction fees, block rewards, and slashing. The current APR on STETH is 3.7%.

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By looking at the current Asset Spread curve, we can see that after a certain exposure is reached, the Asset Spread starts to skyrocket, which would incentivize users to close their wstETH positions, since the asset spread is higher than the stETH yield, meaning that risk optimized positions would unstake ETH and use it, instead, as collateral.

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This is why it would make sense to lower the curve in order for the Asset Spread not to overflow. Considering the current stETH APY equal to 3.7% and additional operational costs related to closing the position, unstaking ETH and reopening the position, we aim at capping the max Asset Exposure for wstETH to 6.7%, which is approximately 1.8x the current stETH yield. This would result in the following curve adjustment:

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In order to achieve this, the KFb

parameter would need to be adjusted as follows:

- Decrease the WSTETH KFb

factor by 6% from 13.5% to 7.5%

Stability Scope Bounded Mutable Alignment Artifact Changes

Assuming that the aforementioned changes are implemented, we recommend to the Stability Scope Responsible Facilitator to propose a governance poll required to incorporate these figures into the MIP104: Stability Scope Bounded Mutable Alignment Artifact as follows:

14.3.1.3.1A

¤¤¤

WSTETH:

- KFb

= 7.5%

¤¤¤

Conclusion

This is the first iteration of optimizing Exposure Based Rate System Model, which will not have an immediate impact on the Stability Fee, but will rather adjust the stETH Asset Spread at higher levels exposure towards more reasonable levels. Future iteration recommendations will likely include changes of how the Spark Asset Exposure is determined.