

# MIP104: The Decentralized Collateral Scope Framework

## Preamble

MIP#: 104 Title: The Decentralized Collateral Scope Framework Author(s): @rune Contributors: Tags: endgame, scope-framework Type: General Status: Accepted Date Proposed: 2023-02-06 Date Ratified: 2023-03-27 Dependencies: Replaces: Forum URL: <https://forum.makerdao.com/t/mip104-the-decentralized-collateral-scope-framework/19685> Ratification Poll URL: <https://vote.makerdao.com/polling/Qmbndmkr#vote-breakdown>

## Sentence Summary

The Decentralized Collateral Scope Framework provides the core principles, rules and regulation regarding Decentralized Collateral in the Endgame.

## Paragraph Summary

MIP104 establishes the Decentralized Collateral Scope Framework. This includes both decentralized collateral offered directly in Maker Core Vaults, as well as lines of credit to other entities that are collateralized only by decentralized assets. All rules for Decentralized Collateral for the DAO are contained in this framework, including the procedures of the Decentralized Collateral Scope Framework Advisory Council.

## Component Summary

MIP104c1: Preamble

Contains the Preamble to the Decentralized Collateral Scope Framework.

MIP104c2: Scope Framework Articles

Contains the Scope Framework Articles for the Decentralized Collateral Scope Framework.

MIP104c3: Decentralized Collateral Facilitators

Contains details on the Decentralized Collateral Facilitators for the Decentralized Collateral Scope Framework.

MIP104c4: Scope Framework Articles Modification Subproposal Process

Contains details of how the Decentralized Collateral Scope Framework can be amended.

## Motivation

The Decentralized Collateral Scope Framework is necessary to define the Scope as per the Maker Constitution.

## Specification

### MIP104c1: Preamble

The Decentralized Collateral Scope defines the principles and processes for all activity related to Decentralized Collateral Management. This includes both decentralized collateral offered directly in Maker Core Vaults, as well as lines of credit to other entities that are collateralized only by decentralized assets. The Decentralized Collateral Scope Framework is constrained by the elements of MIP101: The Maker Constitution article 10.2: Constitutional Boundaries of the Decentralized Collateral Scope Framework

and tied to Benchmark Yields defined in MIP103: The Stability and Liquidity Scope Framework

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### MIP104c2: Scope Framework Articles

#### 1: The Decentralized Collateral Advisory Council

##### 1.1: The Decentralized Collateral Advisory Council definition

The Decentralized Collateral Advisory Council is a group of Ecosystem Actors that have been approved by Maker Governance to carry out advisory work related to improving the content of the Decentralized Collateral Scope Framework.

## 1.2: Decentralized Collateral Advisory Council membership management

Members of the Advisory Council are directly approved by Maker Governance through a governance poll, and must fulfill specific criteria.

- 1.2.1:

The Decentralized Collateral Facilitators must ensure that potential Advisory Council Members can apply to be approved by Maker Governance, using an open process with clear instructions.

- 1.2.2:

During the early stages of the Pregame Launch, Decentralized Collateral Advisory Council Members can also be Decentralized Collateral Facilitators and can also use Advisory Council project funds to perform other tasks related to the Decentralized Collateral Scope.

- 1.2.3:

The Decentralized Collateral Facilitators must periodically, when it is relevant, review the Advisory Council Applications, and if they find applications that are suitable, bring them to a vote through an MKR governance poll. Approved Advisory Council Members are added to 10.2.3.1

- 1.2.4:

The Decentralized Collateral Facilitators may, if they deem it necessary, hold a vote to remove an Advisory Council Member. If an Advisory Council Member has not done any paid work for the Scope for at least 1 year, then the Decentralized Collateral Facilitators can choose to remove them at will, if they deem it necessary.

- 1.2.5:

The current approved Advisory Council Members are recorded in 1.2.5.1A

- 1.2.5.1A:

□□□

Current list of Advisory Council Members:

Advisory Council Member

ETH Address

BA Labs

0xDfe08A40054685E205Ed527014899d1EDe49B892

□□□

- 1.2.5.1A:

## 1.3: Decentralized Collateral Advisory Council projects and funding

The Advisory Council is paid on a project basis to do specific work that improves all or specific parts of the Scope Framework.

- 1.3.1:

Each Quarter, if they deem it necessary, the Decentralized Collateral Facilitators must solicit proposals and find one or more suitable Advisory Council Members to perform a project that will result in output that can be used to improve the Scope Framework. This work output will be presented to the CVC Subcommittee Meetings as the starting point for the CVC Scope Framework Position Documents. As many CVCs as possible should be supported this way, prioritized by the Decentralized Collateral Facilitators.

- 1.3.2:

In case an ambiguous, uncertain or challenging situation arises related to the Scope Framework, the Decentralized Collateral Facilitators may approach one or more Advisory Council Members to perform a reactive project that aims to specify the language of the Scope Framework to take into account the specific situation. The Decentralized Collateral

Facilitators can then directly propose the change to the Scope Framework in a weekly governance poll, quickly resolving the challenge.

- 1.3.3:

The Advisory Council may not produce work output that is directly compatible with the formatting of the Scope Framework. In this case the Decentralized Collateral Facilitators must either transcribe it themselves, or hire an Ecosystem Actor to perform the transcription. This role does not require pre approval by Maker Governance.

- 1.3.4:

The Decentralized Collateral Facilitators may also produce advisory input on the content of the Scope Framework themselves, as long as it is focused on improving process and governance content. They are prohibited from providing unilateral input on expert subject matter content.

- 1.3.5:

The Decentralized Collateral Facilitators have a budget available to pay for Advisory Council Projects per quarter. All spending must be limited to only what is deemed necessary and with a high probability of producing clearly measurable value, and this must transparently be accounted for in a forum post at least a week before any transaction occurs. \* 1.3.5.1:

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Advisory Council project budget:

Maximum Monthly Amount (DAI)

Maximum Monthly Amount (MKR)

Implementation

Start Date

Notes

207,000

N/A

DssVest

2023-03-01 (Backdated)

N/A

73,000

15

DssVest

2023-04-01

For Data Related Expenses

□□□

- 1.3.5.1:

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Advisory Council project budget:

Maximum Monthly Amount (DAI)

Maximum Monthly Amount (MKR)

Implementation

Start Date

Notes

207,000

N/A

DssVest

2023-03-01 (Backdated)

N/A

73,000

15

DssVest

2023-04-01

For Data Related Expenses

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## **2: The Implementation of the Decentralized Collateral Scope Framework through Software**

The Decentralized Collateral Facilitators must in collaboration with the CVC Subcommittees, periodically review possibilities of integrating DAO toolkit innovation into the processes and content of the Scope Framework.

## **3: Ordinary Core Vault Type management**

### **3.1: Risk parameters of Core Vaults**

The Decentralized Collateral Facilitators can propose risk parameter changes to Core Vaults that help increase the income of the protocol and mitigate risk of loss. The Risk parameters must be within the boundaries defined in the subelements of this section. Changes to the Stability Fee and Liquidation Ratio parameters cannot be proposed unless it is based on explicit instructions provided in the Scope Framework, or it is due to a solvency or liquidity emergency. Instead, the Scope Framework must first be changed in order to define the process for making further changes to the Stability and Liquidation Ratio.

- 3.1.1:

All Core Vaults must have a Stability Fee at least equivalent to the Yield Collateral Benchmark Yield defined in MIP103: The Stability and Liquidity Scope Framework 3.3.5.1

. The Decentralized Collateral Facilitators must use the weekly governance cycle to submit executive votes that increases the Stability Fee of Core Vaults that are below the minimum Stability Fee. \* 3.1.1.1:

The Decentralized Collateral Facilitators can trigger a Governance Poll to designate a Core Vault Type as exempt from the Yield Collateral Benchmark Yield requirement. If the Governance Poll succeeds, no further governance polls are required to attempt to increase the Stability Fee of the exempted Core Vault Type.

- 3.1.1.1:

The Decentralized Collateral Facilitators can trigger a Governance Poll to designate a Core Vault Type as exempt from the Yield Collateral Benchmark Yield requirement. If the Governance Poll succeeds, no further governance polls are required to attempt to increase the Stability Fee of the exempted Core Vault Type.

### **3.2: Minimum net surplus requirements for Ordinary Core Vaults**

Core Vault Types which do not contain Strategic Collateral Asset Types as defined in Article 4, or Transitory Collateral Asset Types as defined in Article 5, must generate an amount of net surplus after direct related expenses (maintenance, oracle and other) combined across all Vault Types including same Collateral Type, that is equivalent to at least 10% of the average net surplus of the 4 largest Core Vault Types containing Strategic Collateral Assets measured by debt exposure. The absolute minimum net surplus generation permitted for a specific Ordinary Core Vault Type is 100,000 Dai per year.

- 3.2.0:

Example: WBTC is a Centralized Transitory Collateral Asset Type which is included in WBTC-A, WBTC-B, WBTC-C Vault Types, and must generate 10% of surplus in aggregate relative to the average surplus generation of ETH-A, ETH-B, ETH-C and WSTETH-A. (In current state on Feb 23th the requirement is 235k Dai)

- 3.2.1:

If an Ordinary Collateral Type is not generating the necessary minimum net surplus for longer than 180 days, or if a specific

Ordinary Core Vault Type fails to meet the requirement of the absolute minimum net surplus generation for longer than 180 days, it must enter the offboarding process. The offboarding process consists of two phases.

- 3.2.1.1:

In the first phase, the Decentralized Collateral Facilitators must initiate an on-chain governance process to increase Stability Fees of the respective Vault Types to the level at which the conditions in 3.2 are met. If this increase would make the Stability Fee of the Core Vault Type become more than 5 times as high as the highest Stability Fee of any other Core Vault Type, the Core Vault Type is instead immediately offboarded according to 3.2.1.2

. An Ordinary Collateral Type or specific Ordinary Vault Type can be in the first offboarding phase for a maximum of 60 days. The Responsible Facilitator has the ability to reduce the specified duration of the first phase or entirely skip it, and must make a public forum post to notify when this ability is used.

- 3.2.1.2:

Once the 60 day maximum period passes (or the modified time period defined by the Decentralized Collateral Facilitators passes), or if it was not possible to raise the Stability Fee of the Core Vault Type, the Core Vault Type enters the second phase, which follows the process defined in the MIP62: Collateral Offboarding Process.

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- 3.2.1.2:

Once the 60 day maximum period passes (or the modified time period defined by the Decentralized Collateral Facilitators passes), or if it was not possible to raise the Stability Fee of the Core Vault Type, the Core Vault Type enters the second phase, which follows the process defined in the MIP62: Collateral Offboarding Process.

## 4: Strategic Collateral Asset Types

### 4.1: Strategic Collateral Asset Types

Core Vaults containing Strategic Collateral Asset Types are not subject to the requirements of 3.2

- 4.1.1

Strategic Collateral Asset Types are specified in 4.1.1.1A

and can be changed based on a Governance Poll by MKR holders initiated by the Decentralized Collateral Facilitators. \*  
4.1.1.1A:

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The list of Strategic Collateral Asset Types is:

- ETH
- STETH
- RETH

□□□

- ETH
- STETH
- RETH

□□□

- 4.1.1.1A:

□□□

The list of Strategic Collateral Asset Types is:

- ETH
- STETH
- RETH

□□□

- ETH
- STETH
- RETH

□□□

#### 4.2: Loss-making Strategic Collateral

In case a Strategic Collateral Asset Type is causing net losses to the protocol after maintenance, oracle and other expenses are accounted for, the Decentralized Collateral Facilitators must periodically make a Governance Poll for MKR holders to remove the Strategic Collateral Asset Type from the list in 4.1.1.1A

. The frequency of the removal Governance Polls should be based on the strategic importance of the Collateral Asset Type.

## 5: Transitory Collateral Asset Types

### 5.1: Transitory Collateral Asset Types Definitions

Collateral Asset Types in Transition (i.e. Transitory Collateral Asset Types) are either (i) assets that have a high potential to be transitioned to SubDAOs once SubDAOs are established and functioning (i.e. SubDAO Transitory Collateral Asset Types) or (ii) Collateral Asset Types that are deemed too centralized to be included in the Decentralized Collateral Scope Framework, and hence will instead likely be further defined in future iterations of MIP105: The Real-World Asset Collateral Scope Framework (i.e. Centralized Transitory Collateral Asset Types). Once an asset is either (i) defined as part of MIP105: The Real-World Asset Collateral Scope Framework, or (ii) transitioned into a SubDAO, its definition and presence in Article 5 in the Decentralized Collateral Scope Framework immediately becomes null and void and the Responsible Facilitator must remove it from 5.2.1.1 and 5.3.1.1.

### 5.2: SubDAO Transitory Collateral Asset Types

SubDAO Transitory Collateral Asset Types are not subject to the requirements of 3.2.

- 5.2.1:

SubDAO Transitory Collateral Asset Types are specified in 5.2.1.1A

and can be changed based on a Governance Poll by MKR holders initiated by the Responsible Facilitator. \* 5.2.1.1A:

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The list of SubDAO Transitory Collateral Asset Types is:

GNO

□□□

- 5.2.1.1A:

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The list of SubDAO Transitory Collateral Asset Types is:

GNO

□□□

### 5.3: Centralized Transitory Collateral Asset Types

Centralized Transitory Collateral Asset Types are not subject to the Benchmark Yield requirements of 3.2. However, the net surplus requirement still applies.

- 5.3.1:

Centralized Transitory Collateral Asset Types are specified in the soft element 5.3.1.1A

and can be changed based on a Governance Poll by MKR holders initiated by the Responsible Facilitator.

- 5.3.1.1A:

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The list of Centralized Transitory Collateral Asset Types is:

WBTC

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### 6: Decentralized Collateral Direct Deposit Module management

#### 6.1: Decentralized Collateral Direct Deposit Modules (DDM) minimum yield

Decentralized Collateral DDMs must provide a yield at least equivalent to the Yield Collateral Benchmark Yield defined in MIP103: The Stability and Liquidity Scope Framework 3.3.2

, and must earn the protocol a net surplus of at least 1 million Dai per year after maintenance, oracle and other expenses.

#### 6.2: Decentralized Collateral Direct Deposit Module minimum net surplus

Decentralized Collateral DDMs must provide the Maker Protocol a net surplus at least equivalent to the minimum requirement defined in 3.2

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#### 6.3: SubDAO Decentralized Lending Module subsidy

SubDAO Decentralized Lending Modules can be subsidized with Decentralized Collateral DDMs in order to ensure an active market with a minimum level of users exists. Such Decentralized Collateral DDMs can have up to 200 million Debt Ceiling at the Subsidized rate. The subsidized rate is equivalent to the benchmark return of very low risk collateral as defined in MIP103: The Stability and Liquidity Scope 3.2.3

. During the Pregame this section can be applied to lending protocols that are under the control of Maker Governance, are regulated by the Ecosystem Scope, and are being incubated for adoption by a future SubDAO as a part of an Incubated Ecosystem Actor.

- 6.3.1:

If the SubDAO Decentralized Lending Module supports WBTC as collateral, it must ensure that borrowers using WBTC as collateral pay at least the full Yield Collateral Benchmark Yield, and that Maker is paid a yield equivalent to the Yield Collateral Benchmark Yield. The WBTC borrows do not count towards the 200 million subsidy limit.

- 6.3.2:

If the Decentralized Lending Module supports any centralized asset other than WBTC, it is not eligible for the SubDAO Decentralized Lending Module subsidy.

### 7: Decentralized Fixed Rates Module management

#### 7.1: Decentralized Fixed Rates Module management

The Decentralized Fixed Rates Module must be developed and managed through this article.

#### MIP104c3: Decentralized Collateral Facilitators

The Decentralized Collateral Facilitators of the Decentralized Collateral Scope Framework are defined in MIP113c2.6.1.2.1A.

## **MIP104c4: Scope Framework Articles modification Sub Proposal process**

During the pregame the Scope Framework articles can be modified through the Monthly Governance Cycle using a MIP102c2 subproposal.