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TL;DR: (summary)

We would like to put up for consideration a software upgrade proposal to dYdX Chain Protocol v5.0.0

(release date TBA). This upgrade introduces new features including Isolated Markets, Batch Orders, and Liquidity Vaults, Risk and Safety Improvements, performance enhancements, and the Slinky price oracle provided by Skip.

Introduction:

Hello dYdX Community,

We are excited to highlight the dYdX Protocol v5.0.0, which includes Isolated Markets, Batch Orders, Liquidity Vaults, Risk and Safety Improvements, performance enhancements, and the Slinky price oracle provided by Skip. Note, the implementation of the v5.0.0 software is subject to a software upgrade governance proposal.

Specification:

Detailed information on the v5.0.0 features can be found in the [pre-release notes](#).

Key updates include:

- Isolated Markets
- Allows for market-specific risk isolation, enhancing security and flexibility. Isolated markets are markets that have segregated pools of collateral and their own insurance fund. Each isolated market, then, has its own individual risk properties. This enables the protocol to more safely support a much greater range of market types. Traders will have the ability to confine collateral to a specific position, and manually adjust their collateral for that given position. This enables users to control and understand their collateral management more intuitively. Read more [here](#).
- Batch order cancellation
- Enables users to cancel multiple short term orders (max 100) simultaneously, improving efficiency.
- Protocol-enshrined LP Vault
- The dYdX Chain open-source software v5.0.0 includes phase 1 of LP vaults, which will be available for testing purposes only. The end-state should involve the creation of LP vaults that aim to have zero net exposure on each market, and LP vaults should deterministically adjust their quoting strategies to attempt to get back to neutral positioning (zero open interest). Vault strategies should be fully defined on-chain, and have governance-controllable parameters, which can be used to adjust certain variables of the strategy. Read more [here](#).
- Oracle price through vote Extension/Slinky integratio

n - Slinky is a key component of [Permissionless Markets](#). Slinky is an enshrined oracle built for the highest-performance DeFi. It leverages chain security to provide guaranteed per-block price updates with millisecond refresh rates. For more info on Slinky and Skip please visit:

1. Skip - [Website

](https://skip.money/)

1. Slinky - [Docs

](https://docs.skip.money/slinky/overview/)

- Skip - [Website

](https://skip.money/)

- Slinky - [Docs

](https://docs.skip.money/slinky/overview/)

- Signature Verification Parallelization
- Improves processing speed by allowing parallel signature verification.
- Soft Open Interest Cap
- Introduces a soft cap on open interest to manage market risk effectively. This is done by scaling up the Initial Margin Fraction (IMF) after the open interest exceeds a configurable cap.
- Full Node Streaming
- Allows the full node to stream data directly to subscribers via GRPC without needing to go through indexer Websocket.
- Order Rate Limits
- Rate Limits for short term orders and cancels are combined to allow for burst placing of orders. Previously, rate limits were set to be 200 short term place orders over 1 block and 200 short term cancel orders over 1 block. Place and cancel order rates are now combined and moved to a 5-block window.

Next Steps:

dYdX Operations subDAO highly recommends all validators to run the Slinky sidecar before the upgrade!

- Slinky sidecar setup instructions: [dYdX | Skip Protocol Docs](#)
- Setting up required API keys: [Setting up Additional RPCs within Slinky | Skip Protocol Docs](#)

NOTE

: [@Validators](#) it is highly recommended that you update Slinky to v0.4.6 or newer!

The dYdX Operations subDAO currently cannot recommend a date for the mainnet upgrade proposal until validators, representing 66% of the voting power, run the Slinky sidecar and share metrics with us, allowing the engineering team to evaluate its correct operation.

We'll follow up with a timeline recommendation in the comments under this DRC.

Resources:

- For a comprehensive overview of the dYdX Chain Protocol v 5.0 software upgrade, visit the [Github release page](#).
- Learn more about submitting governance proposals: [Submitting a Proposal](#)

Your active participation is key to the governance and continuous improvement of the dYdX platform. We look forward to your feedback and to advancing the dYdX Protocol together.

dYdX Operations SubDAO