

Following the successful [snapshot](#) vote Considered Finance is escalating this proposal to an on-chain vote.

Summary

This DIP proposes increasing the maximum funding rate bound on the protocol from 0.75% to 4%.

Description

The major consequence of excessive funding rate spikes is the inability of traders to safely access maximum leverage. For this reason this proposal focuses on setting the parameter in a way that always allows this for a reasonable period of time without being liquidated.

This proposal allows a maximally leveraged position paying the maximum funding rate 4 hours before consuming enough margin to get liquidated.

The markets with the risk parameters most aggressively set are currently the ETH and BTC markets with `maintenanceMarginRatio`

= 0.03 and `initialMarginRatio`

= 0.05. These imply a 4% maximum funding rate.

Motivation

There have been a number of historical instances where the maximum funding rate has been insufficient to incentivize convergence between a perpetual market and its underlying index.

This has led to interventions such as increased `initialMarginFraction`

and use of 'close-only' mode which hamper trader user experience.

The increase simultaneously caps the funding rate at an acceptable level so traders don't suffer from temporary dislocations that naturally converge while allowing the room for quick action in extreme cases.

Allowing the funding rate more room to incentivize behavior that would converge markets to their underlying indices will lessen the cases of markets significantly depegging and requiring other interventions.

Specification

Update the `max_funding_rate`

field in the [general config](#) of the smart contract. Increasing the maximum funding rate to 4% requires changing this field value from '1120' to '5970'.

The change to the funding rate is only a change of a number and doesn't require testing on StarkWare's end.

References

[Proposed Implementation](#)

[Original Forum Discussion](#)

[Paper](#)

[Snapshot](#)