Introduction

This post covers BA Labs' fourth parameter changes proposal as members of the Stability Advisory Council. Final changes are pending approval by the responsible Stability Facilitators.

For further context, refer to BA Labs' previous Stability Scope Parameter Changes proposals below.

- Decentralized Collateral Scope Parameter Changes #1 - April 2023
- Stability Scope Parameter Changes #2 & Non-Scope Defined Parameter Changes - May 2023
- Stability Scope Parameter Changes #3 - June 2023

With this post, BA Labs proposes (i) updated Stability Scope parameters and (ii) CRVV1ETHSTETH-A offboarding parameters.

Summary Recommended Stability Scope Parameter Changes

The following proposed parameter changes can be directly included in an executive vote by the Stability Scope Responsible Facilitator.

(The numbers below are an estimate and final calculations will be provided to the Spell crafting team once the final Base Rate is determined based on the predetermined formulas and methodology).

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Source: Stability Scope Parameter Changes #4

Yield Benchmark Parameter Changes

- Increase the Yield Collateral Yield Benchmark

by 0.11% from 5.44% to 5.55%.

- Increase the Stability Collateral Yield Benchmark

by 0.34% from 1.60% to 1.94%.

Base Rate

- Increase the Base Rate

by 0.14% from 3.79% to 3.93%.

Dai Savings Rate (DSR)

- Increase the Dai Savings Rate (DSR)

by 0.14% from 3.19% to 3.33%.

- Note that while Enhanced Dai Savings Rate (EDSR) is in effect, it dictates the Effective DSR set in the protocol. DSR is still used to determine various other parameters, including the EDSR, Native Vaults Stability Fee and Spark Lend Ethereum mainnet DAI market borrow rate effectively.

Enhanced Dai Savings Rate

- Current DSR utilization is at 21.33% (EDSR Tier 2, with 1.75 multiplier)
- Reduce the Effective Dai Savings Rate (DSR) configured in the protocol by 2.18% from 8% to 5.82%.

Stability Fee

- Increase the ETH-A

Stability Fee (SF) by 0.14% from 3.44% to 3.58%.

- Increase the ETH-B

Stability Fee (SF) by 0.14% from 3.94% to 4.08%.

- Increase the ETH-C

Stability Fee (SF) by 0.14% from 3.19% to 3.33%.

- Increase the WSTETH-A

Stability Fee (SF) by 0.14% from 3.44% to 3.58%.

- Increase the WSTETH-B

Stability Fee (SF) by 0.14% from 3.19% to 3.33%.

- Increase the RETH-A

Stability Fee (SF) by 0.14% from 3.44% to 3.58%.

- Increase the WBTC-A

Stability Fee (SF) by 0.11% from 5.69% to 5.80%.

- Increase the WBTC-B

Stability Fee (SF) by 0.11% from 6.19% to 6.30%.

- Increase the WBTC-C

Stability Fee (SF) by 0.11% from 5.44% to 5.55%.

Debt Ceiling Instant Access Module (DC-IAM) changes

- Increase WSTETH-A

DC-IAM LINE by 250M from 500M to 750M.

- Increase WSTETH-B

DC-IAM LINE by 500M from 500M to 1B.

- Increase RETH-A

DC-IAM LINE by 25M from 50M to 75M.

CRVV1ETHSTETH-A offboarding parameters finalization

- Set Liquidation Penalty (chop) to 0%.
- Set Flat Kick Incentive (tip) to 0.
- Set Proportional Kick Incentive (chip) to 0.
- Set Liquidation Ratio to 10,000%.

Stability Scope Bounded Mutable Alignment Artifact Changes

Assuming that the aforementioned changes are implemented, we also propose to incorporate these figures into the MIP104: Stability Scope Bounded Mutable Alignment Artifact as follows:

(The numbers below are an estimate and final calculations will be provided to the Spell crafting team once the final Base Rate is determined based on the predetermined formulas and methodology).

3.1.1A: The Base Rate is: 3.93%

3.2.1A: The Dai Savings Rate is: 3.33%

14.1.1.1A: The Stability Collateral Benchmark Yield is: 1.94%

14.1.2.1A: The Yield Collateral Benchmark Yield is: 5.55%

Additionally, once the CRVV1ETHSTETH-A vault type is successfully offboarded, we propose to remove 14.3.7 from the MIP104: Stability Scope Bounded Mutable Alignment Artifact, and altering 14.3.14 to the following language (removing mention of CRVV1ETHSTETH-A);

WBTC-A, WBTC-B and WBTC-C are defined in 14.3 only for the purpose of Stability Fee consistency and are otherwise not considered Native Vault Engine collateral and should be offboarded according to 14.3.15.

Analysis

Yield Collateral Yield Benchmark

As stated in article 14.1.2 in the Stability Scope, the Yield Collateral Yield Benchmark is approximately based on the 3-month US Government Treasury Bill. The 3-month US Government Treasury Bill rate is at the time of writing 5.55%.

BA Labs recommends the Stability Facilitators to increase the Yield Collateral Yield Benchmark by 0.11%, from 5.44% to 5.55%.

Stability Collateral Yield Benchmark

According to article 14.1.1 in the Stability Scope, the Stability Collateral Yield Benchmark is approximately based on the average yield earned on all Cash Stablecoins. At the time of writing, Cash Stablecoins listed in article 7.2.1.3.1A include:

- USDC - Exposure to USDC in centralized custody solutions is capped at 500 million USDC.
- GUSD - Exposure to GUSD is capped at 100 million GUSD and exposure to GUSD requires that a marketing reward of at least 2% is available.

It is worth noting that Gemini recently proposed an updated marketing incentive for GUSD, with a retroactive starting date of July 1, 2023. The tier structure works as follows:

1. If the GUSD PSM has between 0 - 150 million GUSD in it, 2.8% of the total amount of GUSD is applied as marketing incentive.
2. If the GUSD PSM has more than 150 million GUSD in it, a 3% marketing incentive is applied on the additional GUSD (over 150 million) in the GUSD PSM.

At the time of writing, the GUSD PSM exposure is 299,486,832. This means that the average GUSD yield is approximately 2.90%.

As calculated in the screenshot below, the Stability Collateral Yield Benchmark is at the time of writing 1.94%

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BA Labs recommends the Stability Facilitator to increase the Stability Collateral Benchmark Yield from 1.60% to 1.94%.

Base Rate Changes

Taking into account the changes in the Yield Collateral Yield Benchmark and the Stability Collateral Yield Benchmark, the new Base Rate should be 3.93%

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BA Labs recommends the Stability Facilitator to increase the Base Rate from 3.79% to 3.93%.

Dai Savings Rate (DSR)

With the Base Rate at 3.93%, the updated DSR should be 3.93% - 0.60% = 3.33%

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Enhanced Dai Savings Rate (EDSR)

Recent GOV12.1.2 edit to the MIP104: Stability Scope introduced the concept of Enhanced Dai Savings Rate (EDSR), ratified with an on-chain governance poll and therefore included in the MIP104 language under article 3.2.2.

The addition to the language dictates that DSR should be enhanced according to DSR utilization Tiers and corresponding multipliers. Currently the DSR utilization rate is at 21.33%, meaning the state is in Tier 2 with a multiplier of 1.75, which sets the EDSR at 5.82%, according to current DSR. Therefore, the Effective DSR should remain reduced from current 8% to 5.82% at 8% until the utilization increases above 35% for at least 24h and the state enters EDSR Tier 3.

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Native Vault Engine Collateral Parameters

At the time of writing, the collateral types listed in the screenshot below are deemed Native Vault Engine Collateral in the Stability Scope, and are bound by the following Stability Fee (SF) requirements:

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BA Labs recommends the Stability Facilitator to perform the following parameter changes to Native Vault Engine Collateral:

Stability Fee (SF) changes:

- ETH-A: Increase SF from 3.44% to 3.58%.
- ETH-B: Increase SF from 3.94% to 4.08%.
- ETH-C: Increase SF from 3.19% to 3.33%.
- WSTETH-A: Increase SF from 3.44% to 3.58%.
- WSTETH-B: Increase SF from 3.19% to 3.33%.
- RETH-A: Increase SF from 3.44% to 3.58%.

Non-Native Vault Engine Collateral Parameters

The screenshot below shows the updated Stability Fee (SF) values for Non-Native Vault Engine Collateral.

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BA Labs recommends the Stability Facilitator to perform the following parameter changes to Non-Native Vault Engine Collateral:

- WBTC-A: Increase SF from 5.69% to 5.80%.
- WBTC-B: Increase SF from 6.19% to 6.30%.
- WBTC-C: Increase SF from 5.44% to 5.55%.

Native Vault Engine Collateral DC-IAM Parameters

According to the 14.3.11 Stability Scope, the Debt Ceiling Limit for all Vault Types except RETH-A have to be substantially large to not be reached in the near future. In the recent past, there has be an increased demand for stETH and rETH collateral types;

- WSTETH-A is currently at 410.31M out of maximum 500M.

- WSTETH-B is currently at 491.64M out of maximum 500M.
- RETH-A is currently at 31.59M out of maximum 50M.

The RETH-A has seen some increased demand since the EDSR activation, and according to the Stability Scope the maximum debt ceiling is defined at 100M. Current on-chain liquidity is sufficient to safely increase the debt ceiling as seen below.

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The risk exposure towards the stETH and rETH is effectively mitigated by the DC-IAM parameters, which determine maximum allowed increase of debt per time period, defined by DC-IAM GAP

and DC-IAM TTL

. These two parameters are not recommended to change in this proposal.

BA Labs recommends the Stability Facilitator to perform the following parameter changes to Native Vault Engine Collateral:

- WSTETH-A: Increase the DC-IAM LINE from 500M to 750M.
- WSTETH-B: Increase the DC-IAM LINE from 500M to 1B.
- RETH-A: Increase the DC-IAM LINE from 50M to 75M.

CRVV1ETHSTETH-A Offboarding Parameters

In Stability Scope Parameter Changes #3, it was mentioned that CRVV1ETHSTETH-A no longer fulfilled the total debt requirement of 20 million Dai set out in article 14.3.12 of the Stability Scope. As part of this requirement, to protect the protocol from unnecessary complexity, the Responsible Facilitators of the Stability Scope must offboard such collateral types. Last month, BA Labs, in preparation for an offboarding, proposed to decrease the debt ceiling of CRVV1ETHSTETH-A to 0. As illustrated in the chart below, CRVV1ETHSTETH-A still does not fulfill the debt requirement of 20 million Dai.

At the time of writing, CRVV1ETHSTETH-A consists of 3 vaults totaling 163.15k DAI debt. Open positions can be seenhere.

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Chart

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If the Stability Facilitators considers it appropriate to complete the CRVV1ETHSTETH-A offboarding in the next governance cycle, BA Labs proposes the following offboarding parameters:

- Set Liquidation Penalty (chop) to 0%.
- Set Flat Kick Incentive (tip) to 0.
- Set Proportional Kick Incentive (chip) to 0.
- Set Liquidation Ratio to 10,000%.

The proposed offboarding parameters are designed to minimize costs to users and the protocol. Tip and chip are set to zero as there is no urgency and the discount should be a sufficient incentive for liquidations to be processed. The liquidation ratio is sufficiently high to liquidate all positions, accounting for potential price increase of the collateral assets before the changes are executed on-chain.

The offboarding process will be conducted according toMIP62.