Simple Summary

This proposal seeks to lower the impact_notional

for the Long Tail, Safety, Isolated, and FX tiers from 2,500 to 1,000 to enhance funding rate stability in less liquid markets on dYdX.

Abstract

Through governance, the dYdX community can adjust several key funding rate parameters, including the funding rate clamp factor, premium vote clamp factor, minimum votes per premium sample, and liquidity tier settings, which determine risk parameters for grouped markets. The funding rate's primary purpose is to keep the price of each perpetual market trading close to its Oracle Price.

Currently, less liquid long-tail markets on dYdX experience significant funding rate oscillations due to fluctuating liquidity. These fluctuations occur because markets frequently flip between meeting and not meeting the required liquidity threshold to calculate a stable funding rate. As a result, funding rates can swing between 0% and excessively high values, creating unpredictability for traders.

The impact_notional

parameter is crucial for determining the impact bid/ask prices used in funding rate calculations. Its recommended value is typically 500 USDC divided by the initial margin fraction. To improve funding dynamics and mitigate extreme fluctuations in less liquid markets, this proposal suggests reducing the impact_notional

from 2,500 to 1,000 for the Long Tail, Safety, Isolated, and FX tiers.

Motivation & Rationale

Lowering the impact_notional

threshold will:

1. Smooth Funding Rates: By reducing the liquidity requirement for funding rate calculations, smaller markets with limited liquidity can still calculate funding rates without extreme oscillations. This adjustment will prevent funding rates from jumping erratically between 0% and very high values.

2. Improve User Experience: A smoother funding rate ensures a more predictable trading cost for users, encouraging participation in less liquid markets. Traders won't face unexpected funding fees caused by temporary liquidity fluctuations.

3. Support Market Growth: Stabilizing funding rates could make less liquid markets more attractive, potentially boosting activity and liquidity over time.

Example

: In the current setup, a Long-Tail market with liquidity below 2,500 USDC might fail to calculate funding rates consistently, leading to sharp fluctuations. By lowering the threshold to 1,000 USDC, funding rates can adjust more smoothly, creating a stable environment for trading.

Specification

We propose to change the impact_notional

values of the following liquidity tiers:

1. Long Tail

2. Current impact_notional

: 2500000000 (or 2,500)

- Proposed impact_notional

: 1000000000 (or 1,000)

1. Current impact_notional

: 2500000000 (or 2,500)

   1. Proposed impact_notional

: 1000000000 (or 1,000)

   1. Safety

   2. Current impact_notional

: 2500000000 (or 2,500)

   - Proposed impact_notional

: 1000000000 (or 1,000)

   1. Current impact_notional

: 2500000000 (or 2,500)

   1. Proposed impact_notional

: 1000000000 (or 1,000)

   1. Isolated

   2. Current impact_notional

: 2500000000 (or 2,500)

   - Proposed impact_notional

: 1000000000 (or 1,000)

   1. Current impact_notional

: 2500000000 (or 2,500)

   1. Proposed impact_notional

: 1000000000 (or 1,000)

   1. FX

   2. Current impact_notional

: 2500000000 (or 2,500)

   - Proposed impact_notional

: 1000000000 (or 1,000)

   1. Current impact_notional

: 2500000000 (or 2,500)

   1. Proposed impact_notional

: 1000000000 (or 1,000)

These changes will ensure that funding rates in these tiers remain stable, even when liquidity dips below the current 2,500 USDC threshold.

Next Steps

In the absence of strong dissent, we are planning to submit the proposal on January 24, 2025.

About Us

Crypto Learning Club | dYdX Validator is a Japan-based validator actively sharing information about dYdX on[YouTube]() and

[Twitter](#). We are happy if you follow us.