MIP40c3: APPENDIX A

Fee Proposal Calculation

MakerDAO will set the premium over its current stability fee rate and Deco shall receive 15% as a revenue share of the fixed-rate CLAIM-FEE token sales. The objective is to first set a floor to cover the Core Unit operating costs and second to incentivize performance in growth and improvement of the protocol by increasing fixed-rate revenue for Maker. Maker would receive a credit for the annual budget costs.

Revenue Share Analysis

Average Rate

The following table illustrates typical rate volatility in a crypto bull-bear cycle:

Table 1. Crypto rates across an 18-month cycle

Duration	Rate
1 year	5%
3 months	2.5%
3 months	2%
Average Rate	**2.6%**

Current Debt Model

Currently the total debt from collateral types is approximately 1.9 Billion Dai. We anticipate a fixed-rate coverage of about 30%, which means our estimated total addressable market would be approximately 600 Million Dai. Please note that no fixed-rate revenue is considered from PSM.

Estimated Revenue Share

A 15% revenue share with utilizing the numbers above would net Deco 2.25M Dai annually before deduction for operating costs. This does not cut into existing Maker stability fee revenue if the fixed-rate premium is increased by 15% for CLAIM-FEE token sales. This revenue model is at the lower end of our projections. The plan is to increase the total fixed-rate debt number by bringing in additional users who previously may have gone to other fixed-rate lending protocols and increasing the revenue share number in the process. The expectation is that this will permit Maker to be more aggressive in setting rates and increasing its stability fee revenue from those who want to hedge the stability fee rate. Debt migration to other protocols will be minimized by bringing early signals regarding market conditions to Maker, including a rate dataset generated from CLAIM-FEE sales.

Deco Transaction Support Fee Model

Deco operates on a performance-based fee structure. When Maker uses Deco to fix a stability fee on a vault for a term, Deco receives a 15% transaction fee on the total stability fee collected. Deco does not collect from stability fees when it is not used. If a vault returns to a variable floating rate after expiration of a CLAIM-FEE token, Deco will not receive any compensation. *This business model is built upon the expectation that the fixed rate premium should be at least 15% higher than the current stability fee for Maker to profit.* We expect that this condition will be met. Fixed rates are often higher in the free market. For example, the proposed Nexo Institutional Vault MIP promises a total fixed rate fee of 2.5%, with a fixed rate premium of 1%. This fixed rate premium of 1% is 66.7% higher than the current floating rate stability fee of 1.5%. Maker currently has roughly 1.9B Dai outstanding accruing stability fees. Assuming a 30% capture of the market for fixed rates, one can assume a current market of 600MM Dai for fixed-rate

vaults. Table 2 below highlights the revenue model utilizing current Eth-A stability fees for a one-year TVL.

Table 2. Example of a Deco Scenario

TVL	Origination Fixed Rate Premium	Stability Fee Eth-A	Fixed Rate Stability Fee	Deco Fee	MKR Revenue	MKR Stability Fee	MKR Fixed Rate Premium	Deco Revenue
600M	**1.0%**	**1.5%**	**2.5%**	**15%**	**15M**	**9.M**	**6.M**	**2.25M**

In Table 2, the TVL for fixed rates is set at 600M. The Fixed-Rate premium is set at 1%, annually, meaning the vault owner will pay an additional 1% in exchange for rate volatility protection. The stability fee for Eth-A is currently set at 1.5%. Deco will receive 15% of the stability fee in exchange for enabling the transaction. On the revenue side, Maker receives 9M Dai covering the current floating rate stability fee, and it also receives 6M Dai collected from the fixed rate premium, which is enabled by Deco. The total Maker revenue is 15M. Deco receives a 15% share of the 15M Dai fee collected, which totals 2.25M Dai for Deco. Maker profits by receiving 3.75M Dai above the standard stability fee. This is revenue which would not have been otherwise collected.

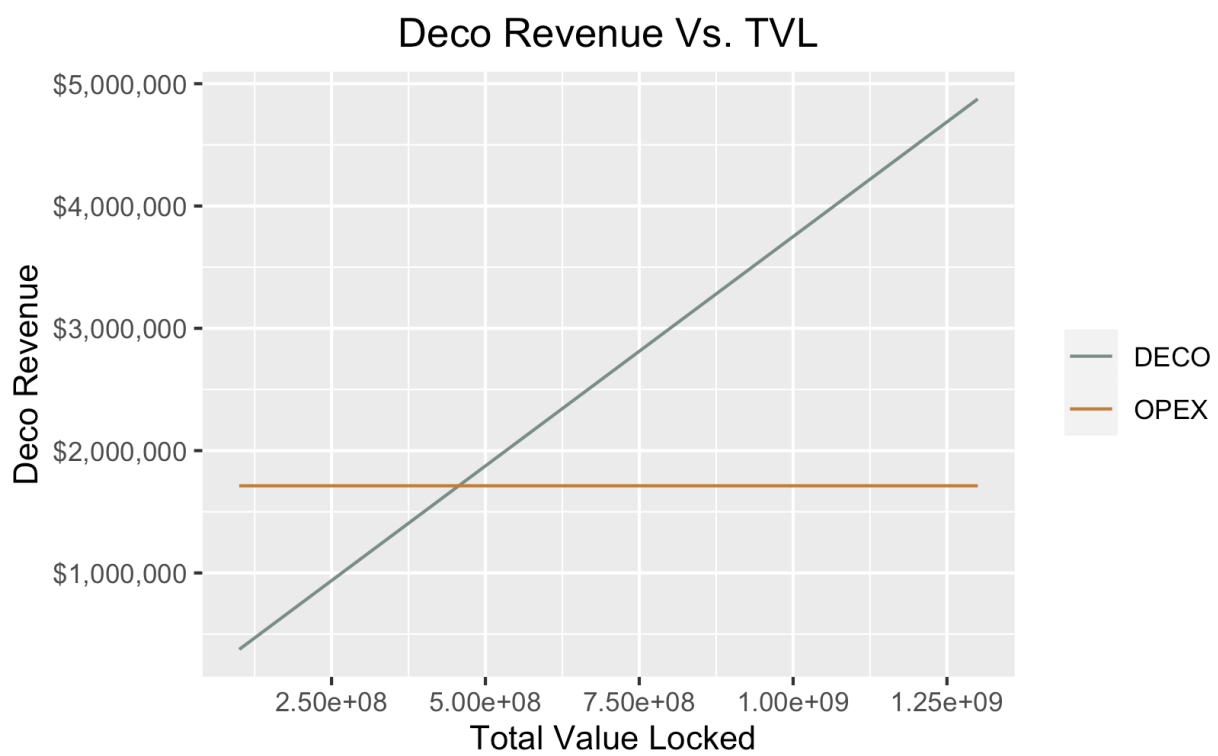

Figure 1. Deco revenue as a function of TVL relative to the fixed floor operating cost.

The graph above, demonstrates that the fixed operating floor budget and Deco revenue reach the break-even point at ~457,000,000 TVL, assuming an average 2.5% Fixed Rate Stability Fee and Deco Fee of 15%.