

[LIP #4] Community rewards

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Governance voting rewards

1. Introduction of proposal

The basis of a DAO is the community. Their support, discussions and decisions set the course for the future of the DAO. An engaged community is therefore an important pillar. This proposal suggests a governance voting reward to compensate the community for its engagement and to provide an additional incentive for active participation in the Lattice governance votings.

2. Details of proposal

It is suggested that rewards be distributed for supporting the DAO through active participation in Lattice governance votes.

According to the Lattice white paper, the Vote Escrow Reward Pool, with a size of 24,000,000 \$LTX, is expected to last for at least 9 years before being replaced or funded by the treasury. Based on the size of the pool and our assumed term of 10 years, the total amount available annually is 2,400,000 \$LTX. Because we still want to maintain sufficient \$LTX for future ideas, this proposal suggests a maximum annual distribution of one million LTX tokens (1,000,000 \$LTX) for the voting system. For the scenario that the amount of \$veLTX in our ecosystem changes, this parameter may be reviewed and changed in the DAO treasury policies.

This means that after 9 years, a maximum total of nine million LTX tokens (9,000,000 \$LTX) will be distributed for active participation in Lattice governance voting, leaving at least fifteen million LTX tokens (15,000,000 \$LTX) in the Vote Escrow Reward Pool.

This proposal applies retroactively to January 1 2023.

There will be two different voting choices:

1. Accept this proposal
2. Reject this proposal

Eligibility requirements and reward distribution

In order to provide voting \$veLTX holders with the best possible payout strategy, two (2) different pools will be established for distribution:

Pool 1:	Annual distribution of rewards
Pool 2:	Quarterly distribution of rewards

The two pools represent a combination of early and late rewards distribution of the total annual distribution of 1,000,000 \$LTX. Since the DAO aims for long-term support from the community,

the pool for annual rewards is designed to be much larger than the pool for quarterly rewards. The size of the second (2nd) pool will be determined by the community in a separate proposal. For the following illustrative examples, a pool of twenty percent (20 %) is assumed.

Pool 1 - Rewards for an annual distribution (400,000 \$LTX / 800,000 \$LTX)

Voters are eligible for rewards if they participate in a certain amount of all successful proposals over one year (from 01/01 to 12/31). Here, a successful proposal means that a quorum of at least thirty-three percent (33 %) of all \$veLTX is reached. It does not matter whether the proposal is accepted or rejected.

Using the following equation, the annual \$LTX reward per \$veLTX can be calculated as a function of the voter's activity:

$$LTX = \frac{1}{2} \times \text{Annual distribution} \times \frac{\text{Personal voter's factor}}{\Sigma (\$veLTX \text{ from eligible voter})}$$

In our case, the annual distribution is 800,000 \$LTX, the personal voter's factor depends on the reward level achieved (0.5, 0.75 or 1) and the sum of \$veLTX from all eligible voters corresponds to the average of the tokens held in each voting.

There are three (3) different reward levels depending on the activity of the participants. In order to obtain the status of "eligible voter" and thus \$LTX rewards, the voter must reach at least reward level 1 of the currently running governance reward period.

In the following examples we assume that the total amount held by eligible holders during voting is 20,000,000 \$veLTX.

If at least twelve (12) successful proposals are created over the life of a governance reward period (1 year), rewards will be increased by one hundred percent (100 %) from a base of 400,000 \$LTX to 800,000 \$LTX. In the examples below, the increased \$LTX rewards are listed after the backslash ("/"). Depending on Lattice Gateway's current situation, this threshold may be reviewed and changed in the DAO treasury policies.

Reward level 1:

If the \$veLTX holder participates in at least forty percent (40 %) of the proposals in the voting, the holder will receive fifty percent (50 %) of the maximum \$LTX to be distributed according to the previously stated equation with a factor of zero point five (0.5).

Example: 0.01 / 0.02 \$LTX per \$veLTX
 If the holder owns 10,000 \$veLTX then the holder will receive 100 / 200 \$LTX in total.

Reward level 2:

With a participation of at least sixty percent (60 %), the holder will receive seventy-five percent (75 %) of the maximum \$LTX to be distributed, according to the previously mentioned equation with a factor of zero point seven five (0.75).

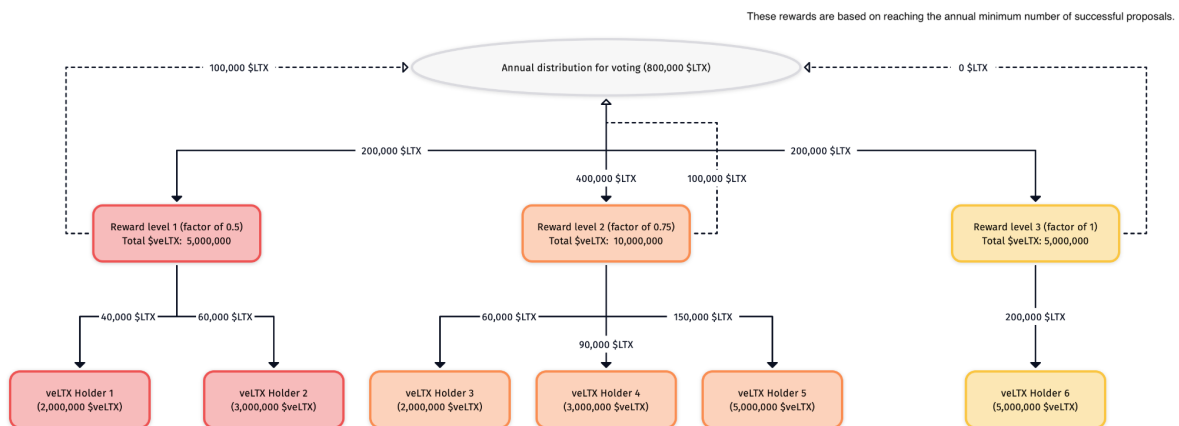
Example: 0.015 / 0.03 \$LTX per \$veLTX
If the holder owns 10,000 \$veLTX then the holder will receive 150 / 300 \$LTX in total.

Reward level 3:

If at least eighty percent (80 %) of the proposals are voted, the holder will receive the maximum possible one hundred percent (100 %) of \$LTX to be distributed with a factor of one (1).

Example: 0.02 / 0.04 \$LTX per \$veLTX
If the holder owns 10,000 \$veLTX then the holder will receive 200 / 400 \$LTX in total.

The proposed voting system results in the maximum annual distribution of 800,000 \$LTX not being reached once \$veLTX holders reach only reward levels 1 or 2. For example, if the distribution of the aforementioned 20,000,000 \$veLTX of eligible holders consists of 5,000,000 \$veLTX of reward level 1, 10,000,000 \$veLTX of reward level 2, and 5,000,000 \$veLTX of reward level 3, then a total of 200,000 \$LTX will not be paid to reward level 1 and 2 group. The undistributed \$LTX Rewards will be returned to the Vote Escrow Reward Pool, which will allow the pool to last longer and, for example, fund future ideas proportionally or entirely (see the figure below).



Pool 2 - Rewards for a quarterly distribution (200,000 \$LTX)

Voters are eligible for quarterly rewards if they participate in at least one (1) successful proposal over that quarter. Here, a successful proposal means that a quorum of at least thirty-three percent (33 %) of all \$veLTX is reached. It does not matter whether the proposal is accepted or rejected.

Using the following equation, the quarterly \$LTX reward of your \$veLTX held can be calculated as a function of the voter's activity:

$$LTX \text{ Rewards} = \text{Quarterly distribution} \times \frac{\text{User's qualified \$veLTX}}{\Sigma (\text{Qualifying \$veLTX})}$$

with

$$\text{Qualifying \$veLTX} = \text{Average \$veLTX held} \times \frac{\text{Number of personal votes cast}}{\Sigma (\text{Successful proposal})}$$

In our case, the quarterly distribution is 200,000 \$LTX and the user's qualified \$veLTX depends on the average \$veLTX held times multiplied by the ratio of votes participated and the sum of successful proposals. The sum of all qualified \$veLTX in the denominator is also based on this.

In the following examples we assume the quarterly distribution pool contains 50,000 \$LTX. As with the annual payout, the total amount held by eligible holders during voting is 20,000,000 \$veLTX.

Assume there were a total of five (5) successful proposals during the quarter and the named voters each hold 10,000 \$veLTX. Voter A participates consistently in 1, Voter B in 3 and Voter C in 5 proposals. The following numbers are an approximation of the rewards.

Example 1 (Community participates in 1 of 5 proposals on average)

Voter A receives 0.0025 \$LTX per \$veLTX, i. e. 25 \$LTX in total.

Voter B receives 0.0075 \$LTX per \$veLTX, i. e. 75 \$LTX in total.

Voter C receives 0.0125 \$LTX per \$veLTX, i. e. 125 \$LTX in total.

Example 2 (Community participates in 3 of 5 proposals on average)

Voter A receives 0.00083 \$LTX per \$veLTX, i. e. 8.3 \$LTX in total.

Voter B receives 0.0025 \$LTX per \$veLTX, i. e. 25 \$LTX in total.

Voter C receives 0.00416 \$LTX per \$veLTX, i. e. 41.6 \$LTX in total

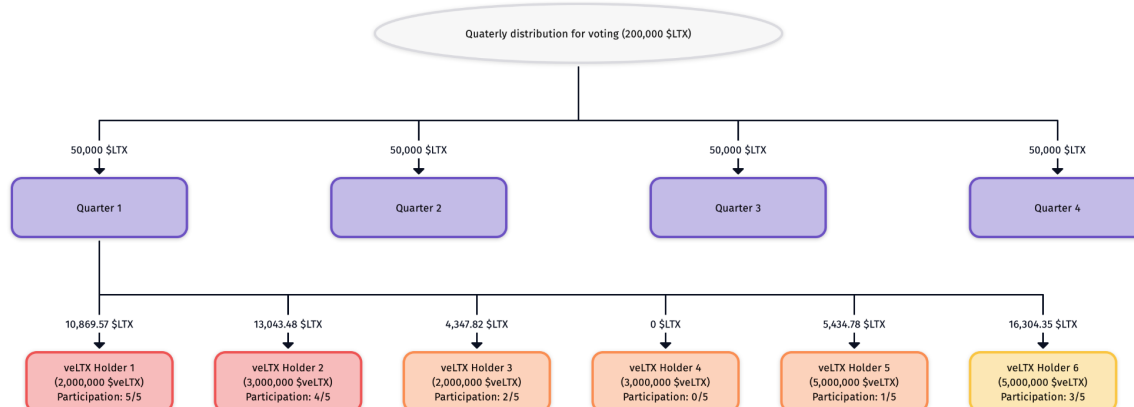
Example 3 (Community participates in 5 of 5 proposals on average)

Voter A receives 0.0005 \$LTX per \$veLTX, i. e. 5 \$LTX in total.

Voter B receives 0.0015 \$LTX per \$veLTX, i. e. 15 \$LTX in total.

Voter C receives 0.0025 \$LTX per \$veLTX, i. e. 25 \$LTX in total.

Depending on the level of participation in the voting, the \$veLTX holder will receive more or less rewards. In addition, the proposed system allows holders with fewer \$veLTX held to receive as many or even more rewards through active voting as less active holders with larger wallets. By not participating in the voting, holders indirectly give up a share of their possible tokens to be obtained to more active holders, ensuring an actively voting community. The magnitude of this effect becomes clearer when the exemplary \$veLTX holders from the top flowchart from pool 1 with their high staked sums of \$veLTX participate in the proposals with different frequencies (see the following figure).



Rewards claiming

The distribution of pool 1 annual rewards from the current governance reward period (1 year) takes place on January 1 of the following year. This is a one-time payout per governance reward period.

The distribution of pool 2 quarterly rewards from the current governance reward period (1 quarter) are paid out on the first day of the following quarter. If no successful proposal is created per quarter, the rewards will be rolled over to pool 1 and distributed with the pool 1 mechanism.

The rewards for the voter are paid out in the cryptocurrency \$LTX.

3. Technical requirements

A bot / program will be created to record the participation in all successful votings. This bot / program will properly document the annual voting reward of each \$veLTX holder and provide a live ticker with the respective expected \$LTX rewards.

Since \$veLTX has a time limit and can therefore be dropped at any time, the sum of \$veLTX used to vote must be recorded for each vote. Analogously, this applies to the increase of \$veLTX held. Therefore, the average of all held \$veLTX of each voting is taken.

4. Financial requirements

Voting rewards come from the Lattice Gateway's Vote Escrow Reward Pool and are limited to a maximum of 1,000,000 \$LTX per year.

5. Final words

Monetizing participation in votings ensure that \$veLTX holders are actively shaping the future of the Lattice Gateway DAO. In order to reward the voting community for both their short- and long-term governance activity, \$LTX rewards will be distributed quarterly and annually.

The annual \$LTX rewards are divided into three (3) different reward levels and are awarded on a "more activity, more rewards" basis. The quarterly \$LTX rewards are also distributed according to

this principle, but are tied to the voting participation of the entire community instead of the reward levels.

The total annual distribution of rewards will amount to a maximum of 1/24th of the total Vote Escrow Reward Pool, ensuring that over half of the Vote Escrow Reward Pool is still available for other reward programs after 9 years.