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BAKED ETH

As the Ethereum Community nears the end of its long 5-year march towards the Merge, the Ethereum network's most popular liquid staking protocol is emerging as a potential security vulnerability. But fear not, Lido's community will certainly vote to limit their threat to the entire Ethereum ecosystem, even if that limits the growth and value of Lido and its LDO token, right? LOL.

To secure the post-merge proof-of-stake network, Ethereum users holding at least 32 ETH can validate transactions. This is currently happening on the Beacon Chain, and after the Merge it will be the only game in town. These validators can either be independent users or staking protocols like Lido or RocketPool.

Users who don't hold 32 ETH can deposit smaller amounts of ETH via the staking protocol; they help secure the Beacon Chain and receive staking rewards. Depositors receive stETH, which can be used as an ETH substitute in many DeFi protocols. It's a win/win for users, so much so that Lido now accounts for

one third of all current Ethereum staking. And as people are starting to realize, 33% is awfully close to 51%.

A 51% attack occurs when the majority of validators collude to attack or otherwise control the network. The Lido community considered whether to limit its growth to prevent it from becoming an attack vector in the event that bad actors were to take over the majority of validator nodes. Over 99% of the community voted NOT to limit growth; that is, they voted for growth and profits over network security.

At GMN, we have been concerned about the possibility of a centralization failure baked into the staking consensus model. But we are building new things and can't identify all attack vectors at all times. The Merge is going to happen, but let's remember that decentralization is essential to help ensure that Ethereum users don't get burned, turning their staked ETH, all ETH, into baked ETH.

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