Swapr Governance Token Enhancement Proposal

1. Introduction

The following proposal has been created in response to the call for ideas around the tokenomics model for the Swapr protocol. This call is part of the Codeless Conduct Hackathon[1].

1.1. Background

The idea of this proposal is to evolve the role of the SWPR token within the emerging Swapr ecosystem, whilst simultaneously speeding multi-chain independence and sovereignty of the protocol from DXDAO. This independence will help the Swapr community to establish it's protocol identity and provide DXDAO with the necessary compensation for supporting the incubation. The approach suggested in this document will be based on the current veCRV token model for supporting protocol governance.

1.2. Scope

The following section covers the items that will be in and out of the Scope of this proposal.

1.2.1. InScope

This proposal will cover the following aspects:

1. Tokenomic Model
2. Key Risks and Benefits

1.2.2. Out of Scope

This proposal will not cover the following aspects:

1. Emission Model of SWPR token
2. Migration of SWPR token to the new model
3. Detailed Technical implementation

1.3. veCRV Token Mechanism

The CRV <-> veCRV mechanism for supporting governance is the new emerging way in which DeFi protocols are seeking to support their governance efforts whilst driving protocol demand and long term stakeholder commitment. The model works by encouraging users to stake CRV which is the base token of the Curve protocol in exchange for non-transferable veCRV governance tokens. These veCRV tokens enable a holder to vote on proposals within the Curve protocol with the weight of their vote being proportional to their holding of veCRV tokens. veCRV token holders also gain rewards from the protocol[2]. The voting power of the veCRV token holders reduces overtime though it can be re-asserted every year for a maximum of 4 years i.e. if the staker's voting power is 100% in year 1 it reduces to 75% in year 2 unless the staker renews their stake which they can do a maximum of 4 times.

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[1] https://gitcoin.co/issue/caney-fork/dxdao-codeless/2/100027795, accessed 28/02/2022
[2] https://resources.curve.fi/faq/vote-locking-boost#what-are-vecrv, accessed 28/02/2022

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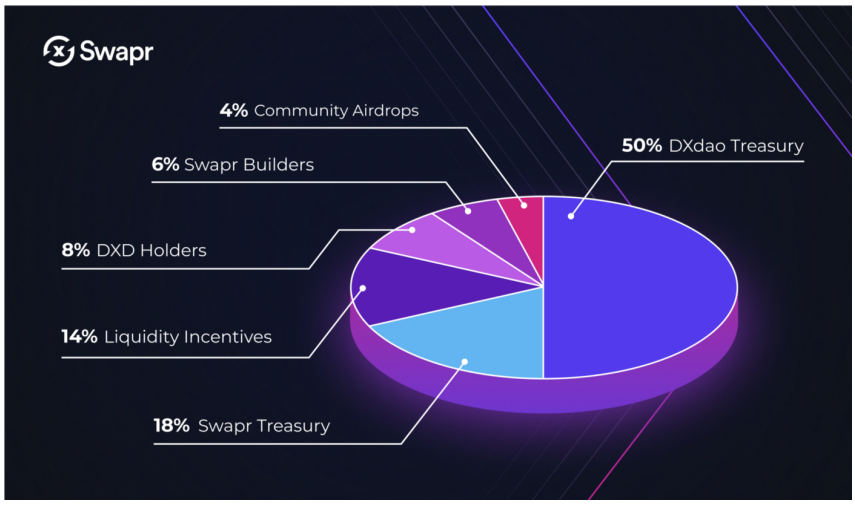
2. Proposed Tokenomic Model

2.1. The Challenge

At the time of writing, the Swapr protocol token distribution model consisted of the elements listed below with DXDAO as the parent holding 50% of the distributed tokens and consequently 50% of the voting power of the protocol.



[Source: Swapr[3]]

This plus the 18% held in the Swapr Treasury essentially makes the Swapr protocol a monopoly with sole authority resting in DXdao. This creates a governance conundrum in that to reduce the power of the DXdao requires new entrants however new entrants into the ecosystem would be dissuaded from joining in a significant way as they would have extremely limited governance recourse in influencing matters of concern.

This is not in the medium and long term interest of existing Swapr ecosystem stakeholders.

2.2. The Proposal

The divestment of the DXdao protocol as the parent protocol is not an easy matter.There are a number of issues such as impact of mass liquidation and uncontrolled governance during the divestment period to consider.

To deal with this host of issues this proposal puts forward to separate the tokenomic functions of governance and operation currently held by the SWPR token. The concept is to incept three new tokens **veSWPR**, **vebSWPR** and **vevSWPR**. This will lead to a state where the protocol supports 4 tokens during a transitory period the description of each token is below:

Token	**Description**
SWPR	Swapr protocol operations token
veSWPR	Primary Swapr protocol governance token

[3] https://medium.com/swapr/announcing-swpr-token-e8ab12dbad45, accessed 01/03/2022

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vebSWPR	Special Swapr protocol governance token for DXdao burn out[4]
vevSWPR	Swapr protocol single issue governance token

2.2.1. SWPR

The amended functions of the SWPR token would be that it still acts in its current role as a rewards and fees token, however it would be completely stripped of its governance capabilities. To re-acquire governance capabilities Swapr ecosystem users would have to either stake SWPR and recieve veSWPR or buy vevSWPR. The effect of this would be to immediately denominate the community voting power, to enable the new v-tokens to function and DXdao to begin exit. The SWPR token would gain the function of gatekeeper token to the Swapr governance mechanism i.e. users have to hold SWPR tokens in some form in order to gain a method of voting.

2.2.2. veSWPR

veSWPR would operate like veCRV in that SWPR stakers would receive it along with staking rewards and governance powers including the ability to vote on fee distributions. This would be a non-tradeable, non-transferable token backed by the holder's stake. It's voting power would diminish linearly with time, whilst staking rewards are subject to vote. Voting power would be renewable half yearly based on protocol participation such as participating in votes. The premise being to ensure that governance is regularly exercised.

2.2.3. vebSWPR

vebSWPR would be a special token awarded to the DXdao protocol in exchange for staking its current share of the protocol issued SWPR supply. vebSWPR is a governance token like veSWPR however it is non-redeemable, non-tradeable and non-transferable. Voting power for this token would also diminish linearly however unlike veSWPR, as voting power expires this token would automatically burn triggering two events. The first is emission of non-SWPR based staking rewards and the second is burn of the staked SWPR effectively reducing the issued supply of SWPR. This would continue until the stake held by DXDAO is below 5% of the issued supply. At this point the vebSWPR would be automatically converted into veSWPR with the stake migrated to the veSWPR time lock and rewards regime.

2.2.4. vevSWPR

The purpose of the vevSWPR token is to support single issue governance, which occurs during particularly contentious protocol issues e.g. voting on post holders[5]. The vevSWPR token is a single-use fungible token with no ascribed value or backing. The principle around vevSWPR is that small holders and operational users of the Swapr protocol may not have an interest in long term staking of SWPR token to gain governance powers, however they may have an interest in a single issue/proposal under consideration by the protocol.

Hence to support their governance views vevSWPR is created for the issue. Using a heuristic of some description such as historical vote sizes of contentious issues on competing protocols, an allocation of vevSWPR is set aside which can be purchased and traded exclusively by holders of SWPR. Single holder allocation limits would be set to counteract whale and malicious activity. vevSWPR would be used to vote on a single issue and once used would be

[4] Burnout is the process whereby as rewards onstaked collateral are earned the collateral is burned thereby reducing token supply

[5] https://blockworks.co/ens-foundation-retains-director-following-dao-vote-over-controversial-tweet/, accessed 2022/03/09

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burnt with no emissions. The premise of this token is that users concerned enough about an issue will be active enough to accumulate the governance power necessary to steer a given proposal.

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3. Key Benefits and Risks

3.1. Key Benefits

The following are the anticipated benefits of implementing this proposal:

3.1.1. Balance of governance

The primary benefit of this proposal is the balance of governance that it brings without the destabilization of the Swapr protocol either through price or liquidity. The balance of governance has the potential to attract a broader spectrum of ecosystem participants as ideas from the community have a reasonably equal opportunity of being heard and implemented.

3.1.2. Sovereignty of Swapr

The benefit of protocol sovereignty is immense as it enables the protocol to explore radical new avenues for growth which may well be beyond the purview and risk tolerance of a parent protocol. It also enables the adoption of partnerships which in a given context may represent a conflict of interest in the case where there is a majority protocol supporting Swapr.

The compensated exit of DXdao enables the reassessment of the relationship with the Swapr protocol allowing said relationship to move from that of parent/child to that of partner protocol. This enables DXdao to achieve a renewed focus on its own activities.

3.1.3. Price Stability

The final major benefit for the Swapr protocol is that of price stability for SWPR. This enables a much better assessment of new initiatives designed to grow the protocol. In short, with a majority token holder the challenge is in determining which initiatives are actually working in the market as opposed to initiatives which are being counter weighted by the majority token holder.

3.2. Key Risks

The following are the anticipated risks of implementing this proposal:

3.2.1. DXdao pushback

The DXdao community may not appreciate the loss of control over the Swapr protocol.

3.2.2. Insufficient protocol emissions

Protocol emissions may not be sufficient to burn out the DXdao exit in an appreciably short period of time without destabilizing the Swapr protocol.