



# Governance with the new tokenomics: a way forward [discussion draft]

 Last revised	
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The proposed tokenomics for \$ROOK are the culmination of deep research into the mechanism design, product-market fit and regulatory implications of continuing to operate as we have done to date. They represent a significant step forward in our ability to align the financial aspects of our protocol with our stakeholders and environment and to prepare for the future.

As ROOK decouples from the protocol and transitioning it to become purely a governance token, the new tokenomics imply a need for governance to become more representative of the project's evolution and needs. Rook's "V1" and "V2" approaches to governance followed established practices among DAOs of linking voting power to ownership of ROOK across various platforms. This owner-based model has been a necessary stage in the evolution of both Rook DAO and the larger space but has also brought with it the common issues of over-concentration and falling participation in an environment of falling token prices. The disconnect between passive staking for xROOK and meaningful participation in Rook's purpose has also become glaringly evident.

In the spirit of Rook's new tokenomics, this document proposes to ***look beyond token ownership as the sole source of voting power*** and to ***capitalize on our control over the xROOK contracts to design for coordination***. In doing so, it offers a vision of small-g governance as a form of orchestrated coordination that operates in sync with the big-G formal governance process. It also steps beyond our earlier reform emphasis on Sophon-related issues to align governance more closely with Rook's long-term purpose. This vision reflects both the spirit of recent developments in DAO tooling such as Coordinape as well as Rook's unusual advantage in terms of not needing to denominate participant rewards in external tokens.

Coordination is a central pillar of Rook's technological and social organization but requires engagement if it's going to be more than a buzzword. The value we produce is based on creating positive network externalities out of extractable private goods, and is only possible if we can collectively coordinate. This need for coordination makes a range of stakeholders necessary for Rook's ability to deliver on its values and evolutionary purpose. Governance is a natural place for us to begin this process of working more coherently on coordination across Rook's ecosystem.

This document is the first step in a larger conversation about how we can get there. It proposes that we expand our mindset from token ownership as the primary means of participation and:

- Identify forms of participation - whether in the DAO, in governance, or in interaction with the protocol - that further Rook's purpose and values.
- Incentivize these forms of participation with variable voting power using our control of xROOK parameters.

## Why do we need this?

The purpose of Rook governance is simple: *making the best possible decisions in support of Rook's evolutionary purpose*. This is distinct from generically decentralizing, or seeking the largest number of votes (though voting remains important). Instead, we use a deliberative model of governance rather than a purely voting model, one where participation is at least as important *prior* to voting as it is in the final decision. This is a higher hurdle than simply revising an initial draft that moves forward unchanged through the deliberation process - the draft should at a minimum be exposed to (and benefit from) rigorous debate and dialogue from informed parties.

Governance has evolved over the past few months to address some practical challenges to this model. The most obvious of these was the timeliness, responsiveness and perceived legitimacy of the process, especially around transitions into and out of Sophon Review. Future iterations of governance will continue this progress by formalizing Sophon roles and other aspects of the process.

That said, our reforms to date have not addressed another pressing issue: the absence of participation in the deliberative processes that governance relies on. The process is designed for rational apathy in voting, but that design is also conditioned on active

debate and discussion of objections so that proposals that reach voting are as strong as possible. Without that participation, we are not yet delivering on the potential of Rook governance.

The revision of our tokenomics also presents an opportunity to think more broadly about participation in the context of Rook's evolutionary purpose - what kind of participation we want to encourage, and how that participation can be linked to a voice in the DAO that secures the public goods we create together.

## Bringing stakeholders in

Our current governance stakeholders broadly reflect the stakeholder roles that have been with Rook since the beginning, with the largest set being ROOK holders. While tokenholders remain central actors in our ecosystem, the set of stakeholders we interact with has evolved significantly, and is likely to continue to. The table below gives a summary of the evolution of Rook's set of stakeholders over time, and shows that the group has expanded well beyond a starting set of "contributors and tokenholders."

2020	2021	2022	2023-
ROOK holders	ROOK holders	ROOK holders	ROOK holders
Founders	Founders	xROOK stakers	xROOK stakers
Community contributors	Labs contributors	Labs contributors	Labs contributors
	Community contributors	Community contributors	Community contributors
	Traders	Traders	Traders
	Liquidity providers	Searchers	Searchers
	Ninja (searcher)	MMs	MMs
		Integration partners	Integration partners
		Research partners	Research partners
			TBD!

The table above is only a start in terms of the breadth of where our stakeholders can eventually grow to and will only grow as we consider other potential actors. For example, university blockchain clubs routinely act as active and informed governance

delegates in other DAOs, and could serve the same function for us as Sophons. Moreover, each of the table entries may well include a range of different kinds of participant/contributors that we haven't yet encountered. The category of "Traders," for example, is likely to become more diversified once the market-rate swaps product goes live.

A simple list of stakeholders is a necessary but not sufficient step to creating a system of incentivized participation given that not all stakeholders are — or want to be — engaged in Rook's larger ecosystem beyond their single roles. We should focus in this next development on those willing to engage for the greater good. I call these **active stakeholders**, and define them as:



*Individuals and organizations that have committed resources (time, effort, money, etc.) to help Rook meet its evolutionary purpose.*

## How can this work in practice?

The ideas here build on our current process as well as planned "V2" changes. This plan also retains the virtues of accounting for "Rational Apathy" in the Beige Paper in that those who choose to sit out an election can continue to do so without sanction or consequence beyond the election result. Instead, it seeks to move in two directions that build on this strategy:

1. Deliver more participation across the entire process so that proposals are improved to the extent possible. Raising the quality of proposals will make rational apathy more rational for those who choose to passively hold their governance tokens, and should also improve the quality of our decision-making.
2. Incentivize this participation so that rational apathy is not the sole dominant strategy — those willing and able to participate should also have a rational path to doing so in the absence of economic rewards from the protocol.

The immediate technological solution here is relatively straightforward, if not easy. First, we need to **eliminate as much of the staking fee as possible**. Second, we **make xROOK's voting weight a more finely tunable parameter that varies with the type of participation**. Notably, this would not necessarily require minting or distributing more

ROOK to be staked, but rather would make voting power (rather than the underlying token) the tunable parameter. We have already laid the groundwork for this with KIP-32 and the work of Pai-Sho and his team though the scope of additional work would need to be feasible for them or outsourced with a grant, and perhaps an integration with a participation tracking tool like [Karma](#).

The bigger challenge is how we develop and organize the forms of participation we want, and the incentives to attach to those. **This process may also require revisiting the scope or surface area of governance in cases where stakeholders are particularly affected.** For example, if we follow up on our earlier discussion of shifting some protocol parameters to governance, we may find it optimal to follow the path proposed for Lido by giving our searchers their own extra governance power. We could similarly decide to grant strategic partners targeted voting rights in cases that touch on their interests.

Determining these parameters is far beyond the scope of this document, and will require engagement with all of the stakeholders listed above (or not, depending on organizational and stakeholder needs). This is a set of decisions that would be best workshopped internally, and would evolve over time.

In the meantime, this kind of approach can be tested first within the governance process itself. While this would be relatively coarse-grained in terms of identifying active stakeholders, the clearly defined stages of participation would make it a tractable testbed for experimentation and iteration before rolling out similar incentives elsewhere. Some ideas around linking participation and rewards are:

Participation	Stakeholder	Potential Rewards	Notes
Proposal writing	Unspecified	-	Shouldn't require incentive
Commenting on the forum	Sophons	V2 expects/compensates	Included in V2 plans
	Open community	<b>xROOK power</b>	
Contributing to workshops	Author	-	AMA required in V2
	Open community	<b>xROOK power</b>	

Participation	Stakeholder	Potential Rewards	Notes
	Sophons	V2 expects/compensates	Included in V2 plans
Voting	Sophons	V2 expects/compensates	Included in V2 plans
	Open community	<b>xROOK power</b>	Have discussed both time- and participation-weighted power in workshop

The proposal below is a more concrete example of how this might proceed, beginning with extending voting power rewards to voters using non-economic rewards that expire if unused and are also capped to avoid farming:

### **How we vote: discussion draft**

We could take this draft to workshop ASAP, and can also develop similar proposals for other forms of governance participation in the course of Q4 while also working with other groups within Labs and the community to determine other forms of participation that we can bring into this framework.

## **Conclusion**

The fluidity of our technological, market and regulatory environment mean that these aspects will naturally shift over time. That doesn't mean we can't take on the challenge of building answers to these questions - in fact, it means the opposite. We will only move forward by working together to create, build and iterate a governance structure that crystallizes the incentives and participation dynamics that best serve Rook's evolutionary purpose.

