

Track-8-Homework-2-Arc

Value Capture Mechanism: Vote-Escrow Governance

The vote-escrow governance mechanism requires token holders to “lock up” or escrow their tokens for a specified period of time. The longer the user locks up their tokens, the more incentives or utility the user receives in return. In most protocols, governance power is what is being increased as per the length of time tokens are in escrow. A mechanism such as this may also entitle the user to other beneficial aspects such as access to claiming protocol revenues.

Origins of Value

Future Cashflow [2]: Locked tokens often yield rewards, tying the value of the token to the success of the protocol and creating a future income stream.

Governance [3]: Grants holders the power to influence decisions that shape the protocol's future such as how the treasury is utilized; giving the token real utility beyond just speculation.

Risk Exposure [7]: Locking tokens exposes holders to various risks such as price volatility during the lockup period and potentially the project itself being out-matched by a competitor.

Conditional Action [8]: The act of locking tokens is a prerequisite for gaining increased voting power and rewards, aligning user actions with the long-term success of the protocol. In addition, there is a conditional action of participation regarding the governance process itself.

GMX: Vote-Escrow Rewards (And Governance!)

GMX, a decentralized perpetual exchange allowing users to trade perpetual contracts with up to 30x leverage on various crypto assets, has implemented a form of vote-escrow governance, which can be seen as a "vote-escrow rewards" value capture mechanism. Users who stake their GMX tokens unlock access to a protocol fee share, escrowed GMX (esGMX) rewards (which grant additional benefits), governance power, and multiplier points. The longer users stake, the greater their pro-rata share of rewards. However, once tokens are unstaked, or esGMX rewards start vesting into liquid GMX, multiplier points are lost.

Origins of Value

Future Cash Flows [2]: GMX token holders can earn a substantial share of the platform's fees (up to 30%) in ETH and AVAX, directly tying their rewards to the protocol's success and generating a future income stream. This incentivizes users to support GMX's growth, as their rewards increase alongside the platform's trading volume.

Governance [3]: The GMX token is designed to be used for voting on governance proposals. This governance participation gives the token added utility, and empowers token holders to have a voice in the direction of the protocol.

Risk Exposure [7]: While there's no direct time-locking mechanism in GMX, the multiplier points system indirectly introduces an element of risk exposure. Multiplier points are earned through staking and compounding rewards, increasing the user's share of protocol fees. Users who choose to unstake their tokens early forfeit their accumulated multiplier points, potentially missing out on significant compounded rewards. This creates a form of asset depreciation for those who prioritize short-term liquidity over a long-term view.

Conditional Action [8]: The act of staking GMX tokens is a prerequisite for earning rewards and accumulating multiplier points. This creates a clear link between users' actions and the benefits they receive. By requiring staking, GMX encourages active participation and long-term engagement with the platform.

Value Capture Mechanism: System Outcomes

1. Promoting Long-Term Alignment
2. Missionaries Over Mercenaries
3. Sustainable Ecosystem

The core philosophy behind GMX is to create a sustainable and community-driven platform. By incentivizing users to stake their GMX tokens, the platform fosters a sense of shared ownership and encourages decisions that benefit the long-term health of the ecosystem. Furthermore, the boosted rewards associated with staked tokens not only incentivize long-term holding but also serve as a signal of commitment to the project. This can attract users who are genuinely interested in the GMX ecosystem and its growth, as opposed to mercenary capital (short-term investors focused solely on quick profits). Although there are many moving components of GMX's tokenomics: staking GMX, esGMX rewards, protocol revenue rewards, multiplier points, vesting periods, etc. - the system does not have the inflationary aspects of other protocols. Instead, all these moving parts are incentives to stake GMX tokens or provide liquidity; minting GLP, to earn a larger share of the total pie. The total amount of rewards available essentially stays the same.

Disclaimer: *The content of this document is provided for informational, educational, or discussion purposes only and does not purport to be complete or definitive. It should not be considered as financial, investment or legal advice. While every effort has been made to ensure accuracy and completeness, the author does not guarantee that it is free from errors or omissions and may update, revise, or retract information without prior notice. Readers are advised to consult the most recent version for the latest details and to be aware of the inherent risks of cryptocurrency and blockchain technologies. The author does not make guarantees or representations regarding any discussed tokens or projects and shall not be liable for any direct, indirect, or consequential damages arising from the use or reliance on this content. Mention of any project, token, or protocol does not constitute an endorsement. By accessing this document, readers waive all claims against the author.*