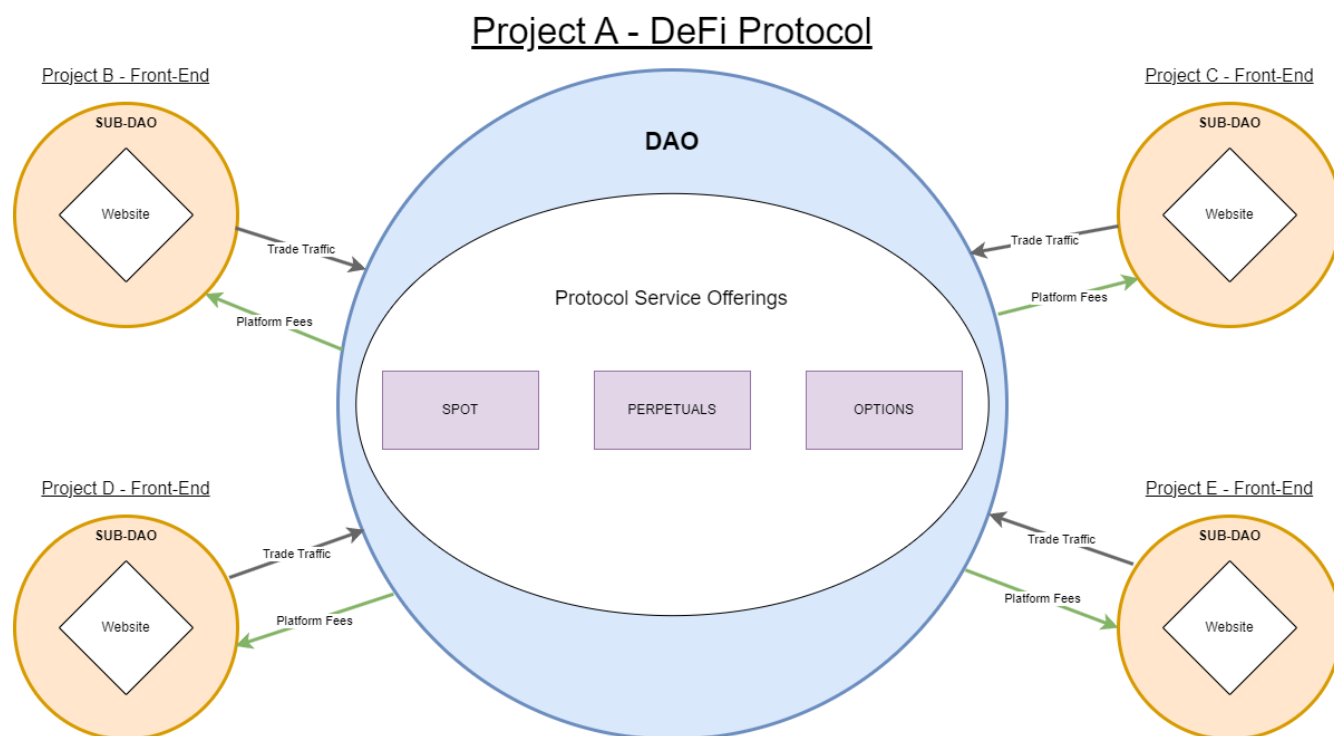# Track-8-Homework-1-Arc

Introduction

The project presents a decentralized finance (DeFi) protocol that leverages smart contract infrastructure to deliver core services such as spot trading, leverage trading, options, and more. This DeFi protocol serves as the central hub, providing the underlying infrastructure for the front-end components.

The front-ends, which are independent projects in their own right, focus on delivering user-friendly interfaces and websites that enable end-users to interact with the smart contracts. In return for channeling trade traffic to the back-end protocol, these front-ends receive a portion of the fees generated as a platform fee.

The overall system's governance structure is based on a decentralized autonomous organization (DAO) and sub-DAO architecture. The DeFi protocol is governed by a DAO, while each front-end has its own independent sub-DAO. This design choice aims to be cost-effective when seeking compliance with regulations, such as being under the same legal entity. By sharing financial costs and legal risks between the back-end and front-ends, the project reduces its overall regulatory burden.

This structure also provides an avenue for future changes to the DeFi protocol based on user feedback and outreach. The front-ends are well-positioned to drive these improvements, as they have direct connections with end-users. It's essential to note that any front-end can be created to serve the DeFi protocol, with or without joining this federated system. However, those that choose not to participate will miss out on certain perks, protections, and access.

Exploration of Token Functions

The project employs a two-token system, featuring a fungible stakeholder token for the DeFi protocol. This token allows users to stake and explicitly claim part of the fees generated by the smart contract back-end. While the front-ends have the option to follow this path, they are not obligated to do so. However, if they choose to issue their own token with revenue-sharing capabilities, there will be specific requirements, such as a stake-and-user-claim function, designed to reduce securities risk.

Regarding governance, the DAO and sub-DAOs utilize soulbound NFTs (sbNFTs) to separate governance power from the main token. This approach aims to reduce securities risk by decoupling voting rights from the primary token. The requirements and restrictions in place are intended to minimize overall system risk, as all projects operate under the same legal entity.

Each DAO will have discretion over how governance power is calculated and derived from these sbNFTs, but must standardize to a common metric. For example, a sub-DAO may opt for a reputation system with their sbNFTs, while another sub-DAO might choose one-person-one-vote. In either case, each sub-DAO is capped at a percentage of the total vote power across the system, with the discretion on how to allocate that vote power among users left up to them.

The sbNFTs also enable gated access to certain services or social club memberships, allowing each sub-DAO to craft its own exclusive offerings. To utilize these sbNFTs, users must subscribe to a specific sub-DAO (front-end), where the associated vote power can only be used within that context or for more general governance at the DAO.

Origins of Value Identification

The origins of value for the stakeholder token are rooted in the claim of future cashflows. This token serves as a representation of ownership and participation in the DeFi protocol, with its value tied to the potential revenue streams generated by the platform.

In contrast, the soulbound NFT (sbNFT) has an origin of value that is distinct from traditional financial instruments. Although non-tradable and not financially quantifiable, the sbNFT's value lies in its utility within governance processes and potential for use in gated access features. This unique value proposition underscores the sbNFT's significance as a token of participation and influence within the decentralized ecosystem.