

MEV 2.0: The Rise of MPSVs

🔗 Tokens	
👤 Contributors	
☰ Tags	
🕒 Date	@June 28, 2022 9:54 AM
🔗 URL	https://www.recvc.com/mev-2-0-the-rise-of-mpsvs/
🔗 Trades	
🔗 Opportunities	
📍 Stage	
👤 Leads	
⚙️ Status	Ideas

<https://www.recvc.com/mev-2-0-the-rise-of-mpsvs/>

Flashbot Explorer:

MEV Explore

MEV Explore

<https://explore.flashbots.net/>

TL;DR

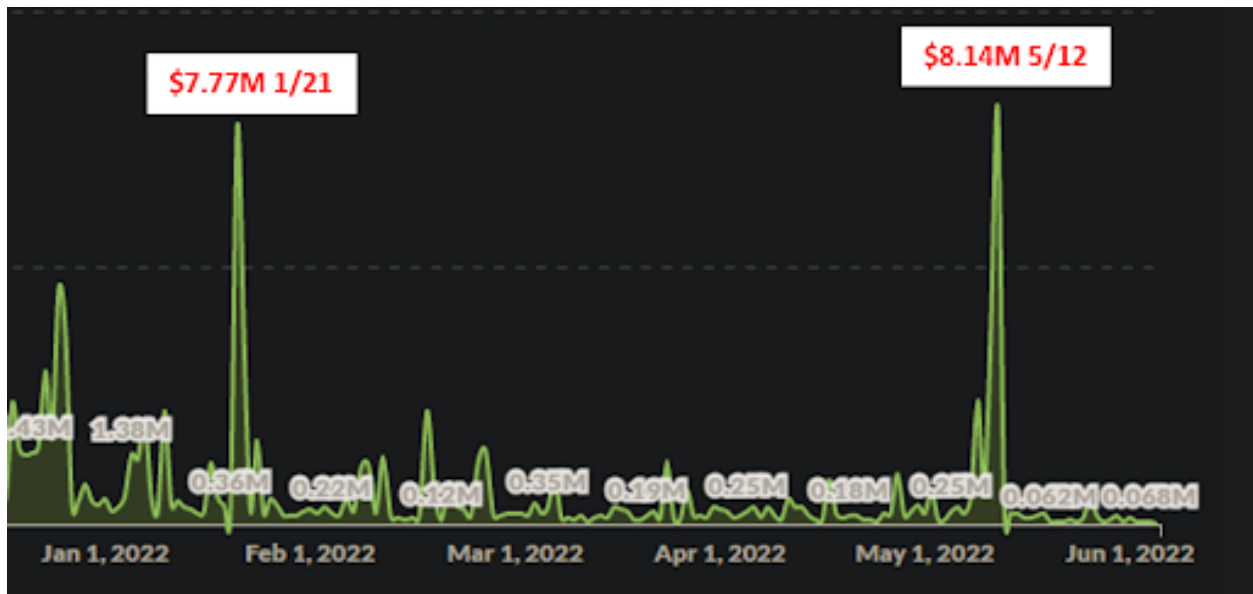
- The merge will drastically change the MEV ecosystem and will allow users to earn profits in this area by moving the market towards a perfectly competitive market structure
- Due to the differences in Solana's and Ethereum's transaction fees it won't be easy to use Solana's validator methods.
- This ecosystem is in its infancy stage and the winner most likely has not been decided yet by the market.
- [REDACTED]

MEV = Maximal Extractable Value

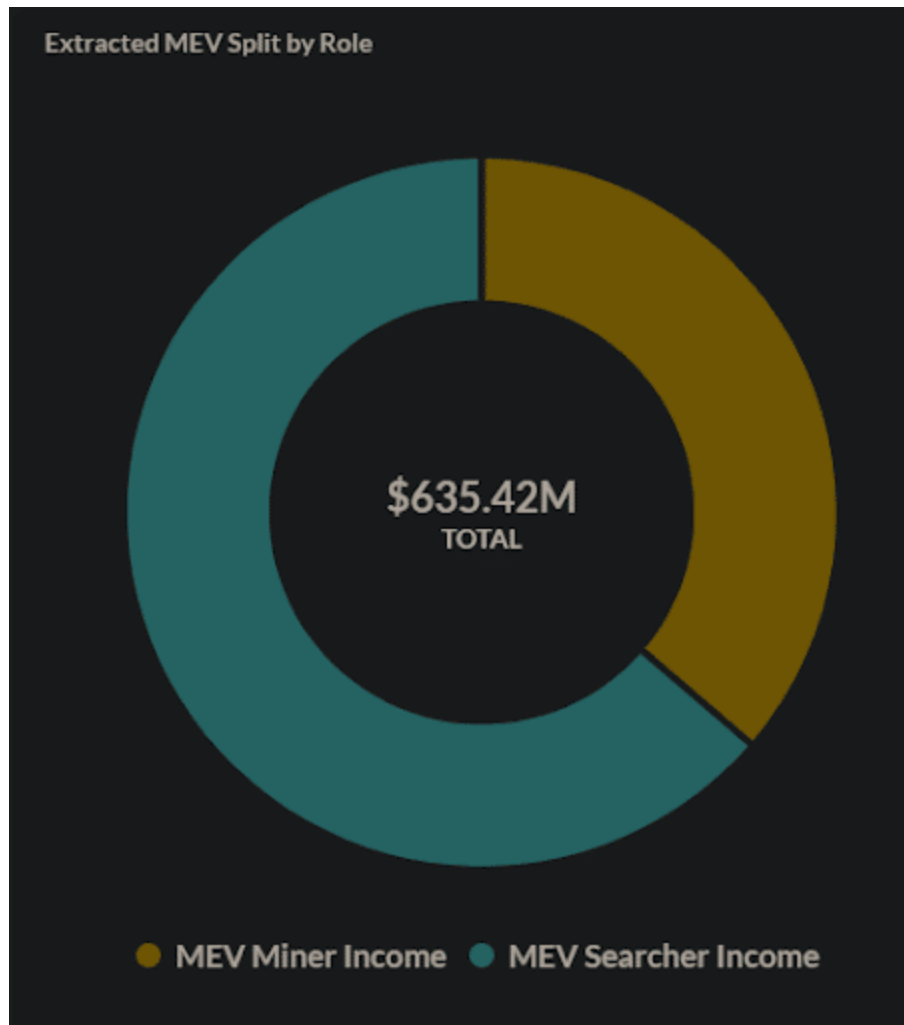
MPSVs = MEV Profit Sharing Validators

MEV in PoW Mechanism

- Focuses on two players: Miners and MEV Searchers
 - The creation of flashbots helps democratize MEV for them
- PoS has the opportunity to allow users to be included in MEV profits
- MEV is the extraction of value from users by reordering, inserting, and censoring transactions within blocks
- About \$28mm worth of MEV has been extracted over the last 30 days, with the highest profitable day happening around the Terra crash on May 12th



- Searchers take home most of the rewards for MEV

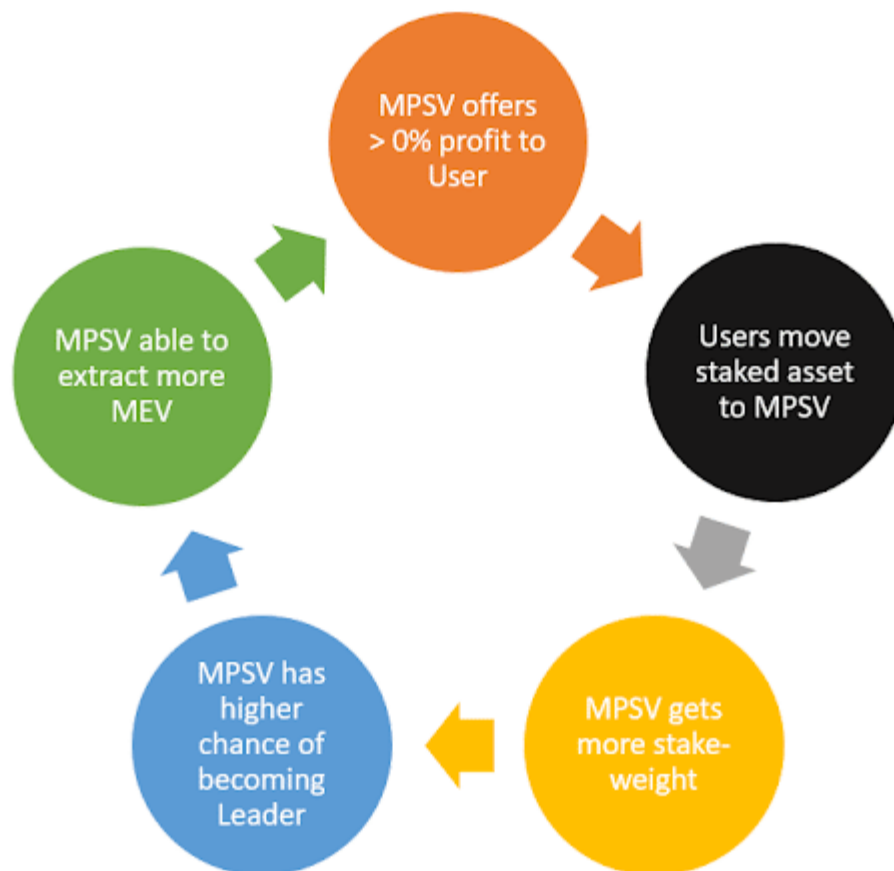


- Searchers are defined as the members that go deep into transactions within blocks to find MEV
- Currently the MEV market is compared to an oligopoly structure when looked at from a high level view.
 - Blockspace is the commodity produced and it is monetized by MEV
 - There are only a small amount of players in the ecosystem (Miners and Searchers) that get to decide how the profit structure is defined and at what price

MEV in PoS Mechanism

- miners will no longer be competing with each other to validate and confirm transactions

- validators are instead randomly chosen to verify transactions based on each validators staking levels
- Allowing users to decided which validators to stake their assets breaks the oligopolistic competition and pushes the market structure towards a perfect competition market
 - Which benefits users as well as validators and searchers
- through MPSVs users are able to earn a portion of MEV rewards
- The reasoning behind this is because it is game theory optimal for validators to offer profits to users in order to guarantee max profit for themselves.
 - They do a great job walking you through this in the article if you want to see their thinking through this game theory exercise



- The users force this by deciding where to stake by choosing the validator that earns the highest APY with the lowest fees

Solana MEV

- Uses Proof of History (PoH) which is its own PoS consensus mechanism
- Validator rewards are broken down in 3 categories:
 - Protocol Based Rewards - issued from a protocol defined inflation rate where rewards are given on top of transaction fees earned
 - Staking - stakers are rewarded for helping validate a transaction on the ledger and delegating their stake to validator nodes
 - Staking yields are based on current inflation rate, total number of SOL staked, and individual validator uptime and commission
 - Stake Pools - liquid staking solutions like Marinade Finance and Lido
- Currently most of the MEV on Solana goes to MEV searchers because spam bots are constantly trying to find arbitrage opportunities and front-running NFT launches
 - This is a problem on solana because of the small transaction fees
- Future Plans:
 - Jito Labs is building a sealed silent bid auction to allow searches to bid on blockspace
 - MEV transactions will run off-chain in a public mempool and will be prioritized by the validators. This will cause the following benefits:
 - Killing Spam Bots
 - Better UX
 - Unclog the Solana network

Author's Hopes

1. Create a new shift in MEV where Users can benefit from MEV passively
2. For smaller MPSVs, this could serve as a way to compete with larger Validators if they are able to share more profits with Users vs. say the Top 10 or largest

Validators – or even band together and pool MEV profits with other small MPSVs.

3. In the extremely competitive case where all Validators pass on 100% of their MEV share of profits to Users, Users end up benefiting overall. [Note: Validators still can make revenue via transactions & priority fees].
4. Everyone is better off in this world including MEV Searchers, Validators, and Users in this model.