

Exploratory Phase

Exploring Token Economic Design Directions (TED) for the Melon Protocol
& exploring ways to improve Melonomics

Melon Protocol



MELON

Versioning

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Table of Contents

[New Melonomics Research](#)

[Ecosystem Overview - what is the market doing?](#)

[Mapping Token Economic Design \(TED\) Directions](#)

[3 TED suggestions](#)

[MLN LP \(Liquidity Provider\) Booster](#)

[MLN Farmers heaven](#)

[MLN AUM Booster](#)

[Suggested Course of Action](#)

[Execution & Next steps](#)



New Melonomics Research

The current #DeFi market is exploding and it is hard to keep up with all developments. As an active Melon Port supporter and long term MLN holder I write this exploratory phase. This document will be open for everyone to comment on and I hope this will evolve as a community effort to explore ways to improve [Melonomics](#). We will start with an exploration of the current ecosystem which will evolve over time. The goal here is to explore current innovative ways of distributing tokens or bootstrap liquidity.

In the community, we can already see proposals like the following:

<https://github.com/melonproject/MIP/issues/7>

This is very helpful and I see some good points. The issue that I see in this report is that some #DeFi primitives are left out as #DeFi is moving too fast and I think it is already outdated on some points. I would like to propose a slightly different approach described in the current report.

Ecosystem Overview - what is the market doing?

In order to determine a strong token economic model, it is important to look at what the market is doing? Below we can see some projects that are creating innovative ways that are bootstrapping their liquidity/community. Below are projects that I followed and learned from and are relevant to the topic.

- Loopring:
<https://alpha.defiprime.com/t/liquidity-mining-on-loopring-exchange/100>
- Set Protocol
<https://medium.com/set-protocol/introducing-the-defi-pulse-index-on-tokensets-79f87c6b295b>
- bZx
<https://bx.network/blog/bzrx-token>
- SushiSwap
<https://sushiswap.vision/home>
- Yearn Finance (YFI)
<https://yearn.finance/>
- PieDAO
<https://medium.com/piedao/dough-tokens-d2479c7ea608>

If there are other interesting protocols that you want to analyze and give a spot here please add them and I will review them and commit them to the ecosystem overview.



Mapping Token Economic Design (TED) Directions

Now with all prior knowledge and looking at some creative ways of bootstrapping liquidity we need to find a TED model that is fit for purpose, that purpose being an increase of MLN's token economic value. Looking at the inflation ratio and current token distribution of the MLN tokens I think if distributed and allocated well this is still a good token design and incentive for long term protocol development. As mentioned in MIP7 discussions by Felix funds should hold MLN to get discounts. I would say funds need to hold LP tokens for selected MLN Balancer pools instead of holding the MLN tokens itself.

3 TED suggestions

In this section I will formulate 3 bold TED directions and a suggested course of action.

MLN LP (Liquidity Provider) Booster

In my view Melon Port should definitely start an official collaboration with Balancer and focus on the new smart pools that will be coming out soon. As preparation for this MLN discounts and protocol incentives should firstly be given to people that put skin in the game and stake their MLN holdings in a balancer liquidity pool. This will create more MLN token economic value by generating a higher MLN token liquidity.

MLN Farmers heaven

It would be good to have a percentage of the MLN inflation for protocol incentives. These incentives could be in the form of rewarding Liquidity provisioning, investing in Melon funds, participating in governance, fund creation and fund performance (AUM & Performance period to date). This will create more MLN token economic value by aligning token holder incentives in a more efficient way.

MLN AUM Booster

Allocate a percentage of the MLN inflation and invest it in the Melon Fund Universe best performing funds. This will give the MLN token holders a rotating stake in the best performing Melon funds. This will boost AUM and generate extra token economic value since tokens are burned if funds perform well and also incentivises MLN holders to participate more in governance. Fund management and allocation is managed by MLN holders where funds are selected by the community and invested into. Each quarter new funds are selected and previous investment decisions are reviewed. Investment decisions need to be made or all fees are burned. You could see this as a honey pot for smart asset managers helping the smaller funds to bootstrap AUM buy delivering good performance. In combination with other MLN incentive models, this could be a growth catalyzer in my opinion.



Suggested Course of Action

There are a lot of valuable discussions in the [MIP7 - Melonomics](#) I will also use bits of this and formulate a high level suggested course of action. I think we can embed the 3 TED suggestions and in combinations with parts of MIP7 I think we can have a more fit for purpose token economic model that will increase MLN's token economic value.

Platform Costs

If funds are $\leq 30K$ USD pay yearly listing fee else pay a fixed BP AUM fee (which then buys and burns MLN), just like traditional fund administrators do, or have them hold X% (Depending on AUM) of their fund in MLN LP tokens to waive fees. Balance has to be average daily balance so funds don't just bulk buy and sell at a snapshot date.

All fees will be paid in ETH and sent to the Melon engine which will purchase MLN using ETH through its contract for a premium. All the MLN purchased will be burned.

Issuance:

Currently, Melon's issuance schedule features issuing 300,600 tokens per year, forever. By creating more token economic value and allocating the inflation accordingly a deflationary issuance can be achieved.

The MLN issuance should be allocated to MLN Farmers heaven and MLN AUM Booster TED suggestion. Also part of the inflation can be used for gas subsidy the more gas is used the more MLN earned? So lets say stake X Balancer LP tokens = X amount Chi etc tokens which can be minted and hooked to the address if the user does not use full amount chi tokens over Y time burns it and puts it into the collective GAS pool. To support AUM growth implement a referral system if you bring investors to the fund, you receive compensation, e.g a revenue share of the management fee for a limited period of time. This could also be a source of additional revenue for Melon and third parties.

Execution & Next steps

After this phase I would suggest the following steps towards creating new Molonomics:

- Completing the Exploratory phase
- Setup new Melonomics
- Feasibility Study/Market Testing
- Technical implementation plan

