Proposal to include Ethereum Network Validators in Token Distribution

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Intro:

To start discussion around this idea, that Ethereum Validators should be included in L2 token distributions

This is a draft proposal, primarily to get discussion and feedback

Intent:

Include Ethereum network validators in Arbitrum token distribution. This proposal targets solo validators

who made at least one deposit to the Beacon Chain. This excludes LSD (liquid staking derivative) token holders and staking as a service providers.

To onboard ecosystem-aligned actors who have proven their early dedication to Ethereum. Validators are likely to partake in governance and node operations on L2, arguably more so than basic users of Arbitrum.

This proposal sets a precedent to incentivize those actors who have been working to further decentralise the L1 validator set. Incentivizing growth of independent validators would benefit both the base layer and any L2 that inherits security from L1.

Recipients:

A list is being maintained here ETH-Solo-Validator-Addresses/Solo Validator List.csv at main · GLCNI/ETH-Solo-Validator-Addresses · GitHub

Currently 12,775

addresses and is up to date until the merge on September 15th 2022, RPL node operators are included using their withdrawal addresses. This is an attempt to gather addresses belonging to individual stakers in full control of their nodes.

Rewards should be on the basis on whether an eligible deposit was made and not number of validators

, the list contains all unique

addresses that made a valid deposit to the Beacon Chain, addresses belonging to centralised exchanges (such as Coinbase/Kraken), LSD services (such as Lido/Stakewise) and contracts have been removed. Data from ethereumpools.info & beaconcha.in (more information can be found on the repo)

Airdrop Allocation:

TBD pending discussion.

Token allocation and airdrop eligibility has not been confirmed; however, it is accepted that a portion of the supply will be allocated to the community, likely past users of Arbitrum and other such activities deemed valuable. Arbitrum aims to have a large community ownership.

Distribution is highly important, not only wide but also targeted to a diverse and valuable set of stakeholders. Rewarding ecosystem aligned participants will bring value to Arbitrum.

ETH Validators operate nodes to secure Ethereum via proof-of-stake consensus, this is the fundamental infrastructure layer for Ethereum. They must provide or pay for resources to keep active on the Network, which incurs electricity costs, hardware costs, internet provider costs and time/effort for maintenance. In a proof of stake system these actors are the strongest set of stakeholders aligned with the success of the network.

Arbitrum aims to be maximally decentralised, including the infrastructure with multiple geographically located full nodes. Decentralising the sequencer is a long term goal, if the token will have utility in this area it would make sense to include those actors that are likely to support these operations.

Validators will have:

Proven: aptitude to run node operations and service the network

Proven: long term alignment with Ethereum, especially pre-merge

Proven: ‘proof of work’ actual resources and effort is spent to secure the network, and this cannot be gamed.

This primes the network to start with a strong set of stakeholders ready to serve decentralised infrastructure/ node set of the L2.

Benefits to both Arbitrum & Ethereum:

For Arbitrum

Onboard a strong set of ecosystem aligned users, that will bring

Value to governance:

this set consists of builders/devs & very dedicated early supporters, proven by commitment to early risk pre-merge. Those responsible for the base network’s security/infrastructure should have voice in the direction of L2.

Strengthen the future node set of Arbitrum:

ensure a strong foundation of the Arbitrum community to run the nodes and decentralised sequencers. Many validators have expressed interest to run nodes on L2, and it will be trivial for existing validators to add to existing operations. L2 networks should aim to have a decentralised node set that is run by the community with many node operators, and not in the hands of a few institutions.

For Ethereum

Layer 2 is essential for Ethereum to reach mass adoption, Including these participants sends a strong signal of rewarding meaningful support that will have positive effects on L1 that will benefit the L2 layer by having a stronger foundation.

External Incentives: Increase Validator Decentralisation

Centralisation of ETH staking is a growing concern for Ethereum, and proof of stake. Ethereum has prioritised decentralisation & sustainability, allowing end users to participate in network consensus. However, the conditions of the merge timeline allowed centralised institutions to gain a large share over individual stakers.

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image

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](https://global.discourse-cdn.com/standard17/uploads/arbitrum/original/1X/c2b860c06b739e333b7f4631df071fcb0178804d.png)

LIDO (stETH) accounts for ~30% of deposits to the beacon chain. LSD holders benefit from liquidity without needing to lock ETH or run nodes, this has hindered unique validator growth harming the network’s security/decentralisation.

Centralised exchanges Coinbase, Kraken and Binance account for ~30% of Beacon chain deposits. Single entity’s custody/staking such large numbers is damaging to network security, and a massive honeypot for hackers.

LSDs allow additional yield to be earned in DeFi on top of the base staking yield. It is currently more profitable and easier to stake with a service like Lido than it is to run your own validator, all work and maintenance involved in running a validator/s is abstracted away and handled by a centralised institution/s.

We see a trend where individual stakers (‘others’ in the chart above) are diminishing, incentives for solo validating simply struggle to compete with current LSD.

This has the potential to turn the tide on the current problem of Ethereum’s increasingly concerning centralisation

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We see a similar effect with other external incentives

: Gitcoin participants

have become increasingly included in project airdrops. resulting in increased ecosystem funding, though the motivations may be profit seeking it does not detract that this creates an environment where more public goods are funded. Governance participants

, many who would have been apathetic to governance voting, are much more likely to pay attention and contribute to these activities when active voters in proposals are included in project distributions.

If Airdrop incentives drive ecosystem growth, airdrop incentives could also drive ecosystem decentralisation.

By creating external incentives to run solo validators, many more ETH holders will opt to solo validate for the additional incentives (increased ‘implied’ APY), this will take market share away from LSDs. It is also likely that other L2s and projects will follow suit. A stronger Ethereum foundation is beneficial to any layer 2 that relies on the trust assumptions/security of layer 1.

Why the exclusion of LSD holders, and exchange depositors:

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Difficulty: due to liquidity of these tokens it makes it easier to game as people can spread these to farm airdrops, add the extra challenges with liquidity pools and tokens held on exchanges.

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Incentives: Expanded in the previous section, reduces the effectiveness of this proposal to increase validator decentralisation.

Final note

I strongly encourage everyone to support this proposal. A stronger infrastructure layer will strengthen Ethereum’s value and economic potential, which in turn strengthens any L2 network on top.

It is essential for the long-term success of Ethereum that we do not allow the chain to be captured and monopolised by a few entities, external incentives such as this will have a positive effect on decentralisation.