Introduction

Since the genesis of dYdX Chain on October 26, 2023, dYdX Chain has generated $232B in trading volume and distributed $39M in USDC to dYdX Chain validators and stakers.

On August 12, 2024, dYdX Trading announced the dYdX Unlimited software featuring significant improvements to the dYdX Chain open-source software, such as permissionless market listings, MegaVault, the potential for revenue sharing, and an Affiliate Program, among other things.

Despite product achievements, the DYDX token has been facing challenges due to high inflation and a significant amount of token unlocks. We believe that dYdX Unlimited presents a unique opportunity to optimize dYdX Chain and DYDX tokenomics for the protocol's long-term viability and success. Our proposals aim to (1) improve liquidity on dYdX Chain markets, (2) increase the attractiveness of the DYDX token, and (3) encourage holding and staking DYDX, all with a view to increasing the security of the dYdX Chain and driving sustainable growth in the dYdX ecosystem.

To achieve this goal, we recommend implementing revenue sharing, enhancing DYDX token utility, and reducing DYDX emissions, all while supporting the immediate growth requirements of the dYdX Chain. Implementing these changes will significantly enhance dYdX's competitiveness and reduce DYDX inflation. This will turn the DYDX token into a more robust asset, therefore benefiting the overall security and resiliency of the network.

We published our Analysis and Proposals on dYdX Chain and DYDX Tokenomics on the dYdX Forum on 22nd October 2024 which has garnered constructive participation and discussions.

Our extensive analysis of the proposal can be found in our research report.

Based on the community's feedback, we are splitting up the proposals based on subject matter. The four separate proposals (and threads) are as follows:

1. Reduce the Trading Rewards "C" constant from 0.90 to 0.5.

2. Protocol Revenue Distribution:

a. 50% of all protocol revenue routed to the MegaVault.

b. 10% of all protocol revenue routed to the Treasury subDAO.

c. Recommendation that above an $80M level of annual protocol revenue, the Treasury subDAO could consider a Buy & Stake program.

1. Reduce the active set from 60 to 30 validators.

2. Cease support for the wethDYDX Smart Contract (i.e., the Bridge) on the dYdX Chain side.

Summary of Recommendations

1. Cease support for the wethDYDX Smart Contract (i.e., the Bridge) on the dYdX Chain side.

Cease support for the wethDYDX Smart Contract

Since the launch of the dYdX Chain in October 2023, 773,020,397 ethDYDX tokens have been successfully migrated from Ethereum to the dYdX Chain. However, over 226,979,603 ethDYDX tokens remain on Ethereum. This represents 22.6% of the total supply, making it critical to address its role in the tokenomics to support dYdX Chain's long-term growth objectives.

We propose to discontinue support for the wethDYDX Smart Contract (the "Bridge") on the dYdX Chain for the following reasons:

1. With the sunsetting of dYdX v3 expected by the end of October 2024, the ecosystem's focus should fully transition to the development and growth of the dYdX Chain.

2. The existence of both ethDYDX tokens and DYDX tokens has led to fragmented liquidity, complicating market dynamics. Note for example that 52% of unbridged ethDYDX tokens are included under Exchanges below.

3. Existence of ethDYDX impacts staking and governance participation on the dYdX Chain.

4. By discontinuing the Bridge, the dYdX Community can streamline the understanding of dYdX's tokenomics and avoid potential future outages or maintenance issues related to the Bridge.

5. The reduction in circulating supply from unbridged ethDYDX tokens could help counterbalance DYDX token sales and

mitigate inflationary pressures on the token.

As such, we propose that, after a successful text proposal backing this initiative, ethDYDX holders should have a 6-month window to bridge their ethDYDX tokens if they so choose. After this date, the dYdX Chain will no longer recognize transactions through the Bridge Smart Contract, and ethDYDX holders will not be able to convert their ethDYDX tokens on Ethereum into DYDX tokens on the dYdX Chain via the Bridge.

As a result of the proposed cessation of support for the Bridge on the dYdX Chain side, any ethDYDX that is not bridged to the dYdX Chain by the effective closure date would be effectively removed from the circulating supply.

We have conducted a thorough analysis of this proposal. For more details, please refer to our [research report.](#)

FAQ:

[Analysis and Proposals on dYdX Chain and DYDX Tokenomics](#)

About the Bridge

- Pausing the bridge at a certain point would be a good strategic move. However, as noted by [@cryptoplaza](#) , it is wise to retain some flexibility for manual adjustments.

[Analysis and Proposals on dYdX Chain and DYDX Tokenomics](#)

1. Cease support for wethDYDX Bridge Smart Contract on the dYdX Chain side

Since dYdX Chain's launch on October 26, 2023, ~226M ethDYDX, representing 22.6% of the total supply, remains unbridged. While we recognize the risks of ceasing support for the wethDYDX Bridge Smart Contract on the dYdX Chain side, after evaluating the costs and benefits, we concluded that a 6-month window following the proposal's approval would be sufficient for ethDYDX holders to migrate to the dYdX Chain if they so choose to, providing the required time for ethDYDX token holders to migrate to the dYdX Chain.

In relation to this proposal in particular, we also strongly advocate for recurring, ample disclosures by all community members, including on the dYdX social media channels, to ensure that the public -and ethDYDX holders in particular- are sufficiently informed about this proposal and have sufficient time and information to make informed decisions.

If implemented, we believe that this proposal could significantly benefit liquidity, governance, and staking participation, promoting dYdX Chain's growth and long-term success.