

This proposal is authored by core contributors to pSTAKE Finance (addressed as 'we' in this forum post).

Summary

- This is a suggested improvement to [Reverie's dYdX Community Staking proposal](#) by pSTAKE Finance Contributors
- We support Reverie's rationale and the need for more economic security and dYdX network decentralization
- We propose that the suggested 20M DYDX token spend be split equally between Stride (stDYDX) and pSTAKE Finance (stkDYDX)
- pSTAKE Finance will charge a 0% fee on the 10M DYDX liquid staked with pSTAKE and is also committed to sharing 20% of its entire DYDX liquid staking revenue with the dYdX Community Pool for the term of this proposal (12 months initially), subject to pSTAKE Finance governance approval
- Key stkDYDX differentiators include pSTAKE Finance's commitment to security, contribution to dYdX Network Decentralization, and an elevated liquid staking UX

Context

Firstly, we fully support Reverie's commendable initiative to bolster the dYdX chain's security and decentralization. The dYdX app chain's adoption and rapid growth warrant mitigating potential risks associated with the network's economic security. We firmly believe in 'security abundance' and 'transparent decentralization'.

As rightly highlighted by Reverie, the dYdX network currently possesses security and centralization risks that are concerning and demand attention from the entire community:

- Low (11.4%) DYDX staking ratio → Less economic security
- Plateaued staking-to-deposit ratio on the dYdX chain → Stunted growth in economic security
- Top ten validators control 66% stake → Centralization Risk
- 3 (Nakamoto Coefficient) validators control 33.33% stake → Centralization Risk

Some reasons for this scenario include a high unbonding period, a lack of knowledge about staking (or liquid staking), and the merits of network decentralization.

Most delegators trust validators with governance rights to act in the network's best interest. Choosing the right validator is highly dependent on brand recognition, low fees, etc., which can lead to network centralization.

This is where trusted liquid staking providers like pSTAKE Finance and Stride can abstract away making such decisions from a delegator to ensure the dYdX network sovereignty and promote decentralization.

Proposal

We echo that the proposed community pool spend to liquid stake 20M DYDX tokens in the original proposal is reasonable considering factors like total community pool and vesting balances, foreseeable spends, and economic security added to the dYdX network.

However, we advocate for an open and decentralized approach involving an equal split of the proposed 20M DYDX tokens between Stride (stDYDX) and pSTAKE Finance (stkDYDX).

We propose that 10M DYDX tokens be liquid staked with pSTAKE Finance through a multi-sig comprising community advocates. The multi-sig will be a mere executor with instructions to only liquid stake tokens and send stkDYDX back to the dYdX community pool, ultimately controlled by the DYDX governance.

We believe that such an approach empowers the adoption of DYDX liquid staking, aligns the network's prominent liquid staking providers, and ensures no centralization risk is added.

To further align with the dYdX community, we propose the following, subject to PSTAKE governance:

1. pSTAKE Finance is committed to offering a 0% fee for the 10M DYDX from the Community Pool that will be a liquid stake on pSTAKE (~\$800k rewards will go directly to the dYdX Community)
2. Additionally, pSTAKE Finance will share 20% of its entire DYDX liquid staking revenue with the dYdX Community Pool till the agreed-upon term of this proposal (pending pSTAKE Finance governance approval). This will go into effect if, and only after, pSTAKE governance decides to introduce any protocol fee. Currently, the DYDX Liquid Staking fee on pSTAKE Finance is 0% for all users.

The core DYDX liquid staking implementation between pSTAKE Finance and Stride is quite similar. stkDYDX and stDYDX have identical liquidity in Cosmos and are primed to be integrated everywhere in Cosmos DeFi. Some notable differences include Security, Decentralization, and User Experience.

pSTAKE Finance's Commitment to Security

We have taken multiple significant measures to ensure that security is always a priority at pSTAKE Finance.

- pSTAKE Finance has undergone [4 security audits for its Cosmos Liquid Staking implementation](#) by leading security firms like Halborn, Oak Security, Hexens, and Notional.
- pSTAKE Finance is one of the few liquid staking providers with an [Immunefi Bug Bounty

](<https://immunefi.com/bounty/pstakeoncosmos/>)

- pSTAKE Finance has deployed rigorous on-chain monitoring of its stkTokens, protocol redemption rate, supply changes, and other security parameters.
- Notably, pSTAKE Finance's stkDYDX implementation, including its auto-compounding feature (similar to Stride), underwent a dedicated additional audit before the launch.

pSTAKE Finance's solution currently leverages DYDX liquidity on Dexter to auto-compound. To decentralize this, pSTAKE Finance has successfully integrated the Skip Protocol API to process auto-compounding USDC staking rewards through various DEXs like Osmosis to ensure users get the best capital efficiency.

pSTAKE Finance's Contribution to dYdX Decentralization

We believe in being a net positive contributor to the DeFi ecosystem and in decentralizing the networks for which we provide liquid staking services. Instead of a committee or protocol contributor driven model of choosing validators, pSTAKE Finance's stkDYDX relies entirely on transparent, on-chain data.

We have developed an algorithm that optimizes dYdX decentralization based on parameters like validator voting power, commission, governance participation, uptime, slashing, and more.

The code filters validators based on the above and assigns individual weights in a model that optimizes overall network decentralization.

Currently, pSTAKE Finance delegates DYDX deposits to 37 dYdX chain validators, 61.6% of the entire active support. pSTAKE Finance's delegation model directly incentivizes validators to act in the network's best interest (parameters mentioned above) to receive delegations. This decentralizes the validator delegation mechanism, powered entirely by on-chain data and code.

In [this sheet](#), one can view simulations of how the dYdX chain stake delegation would look.

- Case 1 → Current Network State
- Case 2 → 20M DYDX is liquid staked with Stride
- Case 3 → 20M DYDX is liquid staked with Stride and pSTAKE Finance equally (10M DYDX each)

Technically, pSTAKE Finance can support delegations to 100% of the active set if all validators qualify for its delegation model criteria.

Elevating DYDX Liquid Staking UX

pSTAKE Finance presents unique differentiators with features like 0% fees and Flash Unstake.

- For DYDX liquid staking on pSTAKE Finance, a 0% protocol fee for the first two months of launch as an added privilege for users (as approved by pSTAKE Finance governance)
- Flash Unstake allows stkDYDX holders to unstake instantly by providing instant liquidity with a unique protocol mechanism that matches withdrawal requests with daily deposits

Term

We propose adopting the terms outlined in Reverie's [initial proposal](#), which suggest a preliminary duration of 12 months. The community will have the ability to unstake the DYDX at any moment and return the principal amount of DYDX plus any rewards back to the community treasury through a governance vote.

Final Thoughts

We are excited and committed to contributing to this next phase of growth in network security, decentralization, and utility for the dYdX Community.

This proposal aims to enhance security and voting power resilience, while also emphasizing the importance of ensuring liquid staking decentralization.

We request the community's feedback on this proposed approach.