The deployment of Uniswap v3 brings some pretty significant changes and additional powers to UNI governance.

To review, UNI token holders already have control over the following via Uniswap governance (seev2 blog post):

- Uniswap v1 SOCKS/ETH LP tokens
- Community treasury UNI allocation
- Control over the Uniswap v2 fee switch
- Uniswap.eth ENS domain

New Updates

Uniswap v3 will grant UNI governance additional controls including:

- Deciding Uniswap v3 fees on a individual pool basis, with several protocol fee levels to choose from
- Uniswap v3 license (via the Uniswap.eth ENS domain)
- Ability to create new swap fee tiers in addition to the existing 0.05%, 0.3% and 1% options

Governance Responsibilities and Choices

Here are some quick takes on upcoming governance decisions and operational needs. This is meant to be a jumping off point for discussion so please call out my blind spots

Deciding fee strategy for Uniswap v2

Governance can turn on the 0.05% swap fee on Uniswap v2 to earn revenue from trading volumes.

Pros:

- Earn protocol revenue
- Passively incentivize migration to Uniswap v3 (where protocol fees will be off by default until governance turns them on)

Cons:

- Makes competing AMM/DEX platforms more competitive for LPs, and reduces their need to continue paying out high user incentives (eg Balancer v1, Sushiswap, etc)
- Uniswap may have less dominance in “long tail” / small cap assets

Deciding fee strategy for Uniswap v3

V3 gives governance a lot of strategic discretion, with fees turned on in a case by case process and several protocol fee share options (10-25% of swap fee). This is a lot more open ended than the binary on/off decision for v2 fees. Some heuristics we can consider for fee setting in v3 include:

- Liquidity fragmentation: Having multiple fee tier pools of the same pair is sub optimal from a gas perspective. It could make sense to charge reduced fees on the highest liquidity/trading volume instance of each asset pair to incentivize LPs sticking together.
- Bridge asset incentivization: Certain assets (eg fiat stablecoins, ETH, wrapped BTCs, etc) are provide greater utility to the platform overall because they help traders bridge between smaller assets. It could make sense to favor pairs including at least one of these assets with lower protocol fee rates over the long term.
- Competitive positioning: v3 gives Uniswap a much greater ability to compete on “like kind” asset swaps (eg USDC to DAI, WBTC to renBTC). The community may want to incentivize LPs for these pairs by keeping fees low.

Handling assets accumulated from fees

Once Uniswap turns on v2 or v3 fees, it will begin to accumulate protocol earnings in hundreds of separate tokens. While some of the assets might be worth holding on to (USDC, DAI, ETH, WBTC, UNI, certain defi tokens, etc), there are also a lot of low cap/low quality assets trading on the platform. How will Uni governance decide which tokens to dump vs hold? What asset should we consolidate earnings into? Should we invest into Uniswap pools or other yield opportunities? How will asset management work in practice, considering it may be infeasible to hold governance votes for each transaction?

Next Steps

It would be great to hear your perspective on these issues, or any other key challenges you see upcoming for Uniswap governance.