

## PART II: EIGENLAYER GOVERNANCE STRUCTURE

In [Part I: EigenLayer Governance Values](#), I presented what I believe to be an appropriate set of values for governing EigenLayer. The TLDR of that post is that EigenLayer should strive to implement a governance system that upholds the values of Ethereum itself—namely, Decentralization, Transparency, Inclusivity, Security, Flexibility, and Community.

In this post, I'll get the ball rolling on community discussion around what EigenLayer's governance structure should look like to uphold these values.

### Why Should EigenLayer Protocol Progressively

#### Decentralize?

As far as I'm aware, up to this point, the EigenLayer Team (LayrLabs) has been largely responsible for the development of the core EigenLayer protocol (as well as EigenDA) that is anticipated to be launched sometime in the next few months, but it is not without major thought contributions/insights from various people in the Ethereum community. While the centralized approach to governance of EigenLayer is absolutely appropriate today, prior to launch, and in the short term, there are arguments to be made for methodical, progressive decentralization rather soon after launch (if not immediately upon launch):

- As EigenLayer launches and inevitably gains more traction and is relied upon by many AVSs, the efforts needed to maintain the protocol and ensure its security and stability will only increase over time, thus requiring additional labor/contributions.
- Assuming that the EigenLayer protocol will collect a fee (this is an unconfirmed assumption and may thus be an incorrect assumption), there will be a continued expectation from ETH restakers, AVSs, and AVS users that the protocol will decentralize over time and distribute its generated fees in a way that is value accretive to the protocol (as seems to be the expectation from any protocol/product built on Ethereum or Layer 1s these days). Over time, if the EigenLayer Team does not decentralize and distribute its generated fees in a way that is community-aligned, it seems quite possible that another restaking protocol could come onto the scene and offer similar services but with incentives that draw restakers and/or AVSs away from EigenLayer.

#### What Inspiration Can Be Derived from Corporations?

As much as we in the crypto space like to rag on corporations, let's be real—the efficient coordination of complex production at scale has largely been made possible by corporate hierarchical management structures that organize labor. Within this hierarchy, seniority should ideally reflect an employee's competence and the company's level of confidence in them. The more competent an employee is deemed to be, the greater their responsibility, influence, and compensation.

To facilitate a meritocratic division of labor and authority, EigenLayer should aspire to implement a governance structure in which decision-making power is based on a fairly assessed contribution of value, while still maintaining the values of decentralization, transparency, and inclusivity.

Therefore, we start at assessing valuable work performed for the EigenLayer protocol.

#### Why Introduce an EigenLayer Token? Why Introduce Reputation?

What I'm about to propose below is heavily influenced by prior work done by the folks at [Colony](#).

. If you ask me, they are masters in the DAO space, and have been heads-down building what I think has the potential to become a revolutionary framework on which DAOs can build (see the Colony whitepaper [here](#) for reference). I believe that the DAO framework that the Colony team is building can and should be used by EigenLayer if the EigenLayer team is considering progressive decentralization.

Let me explain what I had in mind longer term for EigenLayer:

I propose that ETH-denominated fees paid to the EigenLayer protocol be deposited into a Treasury managed by an EigenLayer DAO and that, for every amount of ETH that goes into the EigenLayer Treasury, the EigenLayer Governance and Reputation System automatically mints a proportional amount of its own ERC20-compatible native token.

Contributors to the EigenLayer protocol receive compensation from the EigenLayer Treasury in ETH and receive an equal amount of EigenLayer's native token. When compensation is received in EigenLayer's native token, the recipient is also rewarded with Reputation for their contributions within the specific domain of expertise in which they were compensated. Reputation serves as a measure of a member's historical contributions and helps to ensure that contributors are fairly compensated. A contributor's Reputation in a particular domain of expertise corresponds to their decision-making power within that domain. Reputation is non-transferable and gradually decays over time to reflect recent contributions that benefit the EigenLayer protocol. Due to the complexity of calculations involved, Reputation updates require use of a DAO Framework like Colony (upon which this proposed concept is based) or a similar Reputation System AVS secured by restaked ETH to underwrite the accuracy of on-chain updates to contributors' Reputation.

While it may be advantageous in some contexts to just directly use the ETH fees that the EigenLayer Treasury accrues in

order to track Reputation (instead of using a native token specific to EigenLayer), it's worth noting that doing so would weaken the incentive alignment underpinning the game theoretic security of the EigenLayer protocol, in that the value of ETH is not 100% tied to the performance/value of the EigenLayer protocol. Conversely, EigenLayer's performance/value should be considered to be tied quite heavily to the performance of ETH, thus lending some credence to the idea that the EigenLayer DAO should mandate maintenance of a certain % (if not all) of its total Treasury in ETH.

It also may be argued that payments in both ETH and EigenLayer's native token to assign Reputation (rather than just EigenLayer's native token) would be beneficial; however, doing so could feasibly result in tricky exchange-rate problems, such as incentives to receive more of a less valuable token to earn more Reputation.

Below is just one simple example of how such a Decentralized, Reputation-Weighted Governance System could be beneficial to EigenLayer:

If the EigenLayer DAO approved the payment of its native token to smart contract security auditors for auditing AVS contracts built on EigenLayer, the recipient contract security auditor would also receive some amount of Reputation in the Contract Security Auditing Domain (over time, the granularity of the domain of expertise can be increased further; for example, to identify Reputation in just auditing oracle services or just auditing bridging services). This Reputation in the Contract Security Auditing Domain would then be used to assign variable-weighted veto powers to auditors to veto unintended or malicious slashing events triggered by AVSs built on EigenLayer; this concept of a time-decaying reputation-weighted slashing veto power is generally consistent (and arguably more value-aligned) with the EigenLayer team's plan to elect a Slashing Veto Committee, which is ultimately needed due to the fact that the slashing contracts are immutable on the Ethereum chain.

But What About Voting?

While a governance framework like Colony encourages the use of reputation as the primary sibil-resistance mechanism, there are situations where tokens are more appropriate. Specifically, if reputation is a proxy for "labor", and tokens are a proxy "capital" or "investors", then token-weighted voting is appropriate whenever a decision must be made by capital, rather than by labor.

Nonetheless, it would be expected that day-to-day operation and maintenance of a decentralized EigenLayer protocol would be done via decisions made by "labor"—those having accrued Reputation for the contributions to the protocol in their given Domains of Expertise.

As is the case with Ethereum governance, it should be the goal for EigenLayer to make as many decisions as possible on the basis of rough consensus. Under the proposed reputation-based governance framework, EigenLayer contributors are expected to monitor each other's behavior but should only need to intervene in rare cases in which there's a need to dispute another contributor's attempted on-chain conduct, in which case the suspecting contributor can attempt to intervene with a motion. In this framework, the motions system is a self-regulating mechanism that incentivizes contributors through a balanced system of rewards and punishments, promoting coordination/communication and deterring bad behavior and fraud.

Now, I know that this opens the door to a whole slew of questions, as a lot of what is presented above is a bit vague...but this is mainly just intended to get the juices flowing and get people talking more about the future EigenLayer governance. This is a governance forum after all, so let's get the discussion going!

Cheers!