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1. Intro

In October 2023, the Lido DAO first established the GOOSE (strategic intent) +EGG (budget) processes as a way to express what they want DAO contributors to work on. By design, the GOOSE is focused on intent (what and why), while execution (the how) is for contributors + future discussions to determine.

At the time, I analyzed that the staking market is dominated by network effects, leading to a winner-take-most dynamic. To reach Lido DAO's expressed purpose of keeping Ethereum decentralized, accessible to all, and resistant to censorship and honor its responsibility as a market leader, Lido protocol should be as decentralized and Ethereum-aligned as possible. The resulting "laser focus on security" led to three major priorities:

- decentralize the NO set,

- decentralize the governance, and

- make stETH the most used token in the Ethereum ecosystem.

In this post, we cover what has changed between the ratification of these goals and today. I discuss both internal achievements and external developments, above all the Ethereum issuance debate, and the rise of restaking. Naturally, the magnitude of these developments raises questions about the DAO's strategy and whether it is still the best course of action or whether it should be revisited. In this post, the first "reGOOSE", I want to suggest how Lido should react to the changing tides, what should change, and what should stay the same.

In summary, I propose that Lido DAO:

1. Stay focused on security and decentralization

2. Participate in Ethereum staking roadmap research

3. Reaffirm that stETH should stay an LST, not become an LRT.

4. Support Ethereum-aligned validator services, starting with preconfirmations, without exposing stakers to additional risk.

5. Make stETH the #1

collateral in the restaking market, allowing stakers to opt into additional points on the risk and reward spectrum.

2. What has changed since first GOOSE?

In the months since the first GOOSE submission was ratified, significant progress has been made across all of the identified priorities:

Decentralized Governance:

- The important dual governance design has been completed and ratified by LDO holders. Implementation is in progress

with external audits starting in the summer.

Decentralized NO Set:

- The first staking router modules for Simple DVT added >70 new node operators, including solo-stakers, for the first time pushing the number of operators using the Lido protocol over the 100 mark (goal is 5000 by 2027)

- Client diversity has continued to improve, with usage of the current majority Execution Layer client (geth) across Lido validators going from >80% in 2022 to 45% today

stETH Adoption:

- Important milestones in institutional adoption have been hit, including adoption from qualified custodians, regulated entities, centralized exchanges and other participants who recognize the benefits of stETH in security, liquidity and utility as part of a modular stack for institutional products

- Security-first deployments of stETH are now available on all of the leading Ethereum L2s

At the same time, stETH market share has declined from 32% to 29%, with additional stake sitting in vampire attacks and queued to unstake in the future. The decline in market share has been fueled by the rise of restaking and Liquid Restaking Tokens (LRTs) that attracted stake through billions of dollars in speculation-driven, unsustainable subsidies.

At the same time, Ethereum Foundation researchers have started a debate to dramatically reduce staking incentives, which threatens the economic feasibility of decentralized staking pools.

These two developments, the so-called issuance debate and the rise of restaking, are important enough to warrant a bit of unpacking, followed by my proposal on how Lido DAO should react to them.

3. Lido and changes to issuance

The Ethereum issuance (colloquially dubbed "minimal viable issuance", or MVI) actually conflates several independent debates:

- Whether Ethereum should take explicit steps to limit the growth of the validator set, and thereby, of % ETH staked.

- Whether Ethereum is spending too much on security, and getting incrementally less in return.

Some proponents of changing issuance argue that not capping will eventually lead to a large % of ETH staked, with one or two LSTs "crowding out" ETH as the base token and introducing long-tail risks for security and governance.

Meanwhile, proponents of the status quo argue that effectively capping ETH staked at a relatively low rate could lead to full market capture by centralized providers with cost/scale advantages (e.g. Coinbase, ETFs), crowding out decentralized pools and solo stakers.

I suggest Lido DAO address the issuance debate in two ways:

3.1 Stay focused on security and decentralization

In my view, maximizing the strengths of the validator set and minimizing the risks from LSTs on long-tail security are both important goals, and both sides only want the best for Ethereum. In practice, I see the risk from LSTs as the more manageable problem through continued research and investment in decentralization.

If, on the other hand, the marginal staking rate was lowered to zero today, the effect on said decentralization roadmaps would be severe. Investments into decentralization would have to be cut, hurting not only Lido but also supplier technology like DVT and community staking software, ultimately leading to a more centralized and fragile staking layer.

Today, we are not in that place yet. The grass-roots community has been largely opposed to changing issuance without further extensive research, so the chance of immediate changes (i.e. in the next 12 months) should be low.

I believe that stETH meaningfully contributes to Ethereum decentralization and want the DAO to continue improving the stETH validator set and decreasing smart contract and governance risks, all the while researching possible alternatives to the MVI endgame.

3.2 Participate in Ethereum staking roadmap research

In spite of the criticism the MVI proposals have received, the risks that motivate the issuance debate are important to explore further. The arguments in favor of having a low stake rate are not without merit, but the benefits of having a high stake rate (e.g. maximum alignment between holders and stakers) are underexplored as well, and no decision should be made without deeply understanding their tradeoffs.

We have already seen [cyber.fund](#) start a generous research grant to explore the future of MVI, with some prominent independent researchers in the space [heeding the call](#). However, the Lido DAO can do more as well, having contributors who foresaw many future dynamics in staking and have developed strong opinions based on years of on-the-ground experience with staking and network economics.

To that end, I suggest the creation of Lido Research, a new research group tasked with contributing to the future vision of staking in Ethereum, in close collaboration with the Ethereum Foundation, independent incentives and security researchers, and the wider community.

4. Lido and restaking

Restaking is a new economic primitive enabling the same collateral to be put under slashing conditions imposed by multiple validation services (AVSs in the Eigenlayer terminology), increasing capital efficiency for the cost of increased risks. For example, the same ETH might be used as a slashing collateral for Ethereum validation as well as running a data availability node.

When I discussed restaking in my[previous GOOSE submission,](#) I saw it as a fundamentally promising technology that would take several years to fully mature. Restaking (in its proper form) adds risk through additional slashing conditions, while rewards from AVSs are expected to remain inconsequential in the beginning.

What this analysis missed is the hype created by EigenLayer even in the pre-product stage, allowing stakers to farm points in exchange for parking capital. At the time of writing, users have deposited 5m ETH (or $15b) in EigenLayer, most of it before any AVSs are even live. EigenLayer rewards were further augmented by new LRTs launching to tokenize these deposits, and AVS partners to use them, each of which with their own subsidy programs as well.

These subsidies are not sustainable in the long-term, but today, they have caused a significant number of stakers to choose the superior yield of Eigenlayer + LRTs over the superior security and network effect of stETH.

I propose the following updated strategy for dealing with restaking:

4.1 Reaffirm that stETH should stay an LST, not become an LRT.

In spite of the current popularity of restaking/LRTs, it would be a mistake to expand stETH into an LRT, for two reasons:

First, as explained in the original GOOSE, more institutional than retail capital is expected to join Ethereum over the next three years. If the Ethereum staking layer is to stay decentralized, then Lido or another decentralized staking protocol winning that institutional opportunity is essential. In my experience, the more risky and actively-managed nature of LRTs does not align with the risk preferences of these institutions today. Much has been invested into making stETH the most secure and liquid LST; becoming an LRT and adding extra risks would undermine this cornerstone of our strategy.

Second, while LRTs can offer higher rewards, their nature is closer to ETH-denominated mutual funds or tokenized deposits in an Ethereum lending market. The key attribute of liquid staking was that it's a commoditized software offering, but with LRTs it's less likely that large parts of the market share the same risk/reward preference. As a result, LRTs are less likely to attain a significant network effect and deep liquidity, further limiting their adoption. Their actively managed nature may also make them more likely to be qualified as regulated financial services.

The DAO should stay open to launching additional products on top of stETH, incl. an LRT, if there is sustained market demand for something that feels aligned with the Lido mission. However, stETH should always stay the DAO's priority, and it should always stay an LST.

4.2 Support Ethereum-aligned validator services, starting with preconfirmations, without

exposing stakers to additional risk.

It makes sense to talk about validator services independent of the question of becoming an LRT or not, for two reasons:

- AVSs can be broadly separated into those that require a validator and those that don't and can work on any type of collateral.
- Not every validator service may require slashing to work, and/or the slashing can be isolated to not impact stETH holders.

I believe that Lido should stay at the forefront of what "staking" constitutes and actively explore validator services that support Ethereum's scaling or security roadmap, and has buy-in from researchers and the Ethereum community.

In 2022, Lido was the first staking protocol to commit to using mev-boost (out-of-protocol PBS) across all of the participating node operators. Its [thoughtful MEV policy](#) that balanced MEV maximization with choice for node operators and censorship

resistance has positively influenced other staking providers across the industry.

Today, running mev-boost has become a normal and accepted part of every staking operation. It shows that the definition of "what staking is" can expand to include additional services.

In my view, preconfirmations will be the next widely adopted validator service after mev-boost (though I expect them to be more an evolution than substitution of mev-boost). Preconfirmations allow validators to commit to including a transaction outside the current full-block auction to sequence "based" rollups or DEX trades faster than the current 12 second block time, promising improvements across user experience, security, and interoperability.

Lido should become the leader in preconfirmations, and start looking for partners to collaborate with. And it should achieve that without exposing stETH holders to additional base risk, e.g. through the use of a dedicated cover fund for every new service.

4.3 Make stETH the #1

collateral in the restaking market, allowing stakers to opt into additional points on the risk and reward spectrum.

Apart from internalizing Ethereum-aligned validator services like preconfirmations, there is a second opportunity in becoming the #1

collateral used for AVSs that either don't require validators or are too risky or not Ethereum-aligned enough to pursue in-protocol.

This choice is in line with keeping stETH the most secure and Ethereum-aligned LST. Instead of entering the domain of active risk-management, the DAO should instead strive to give stakers the ability to opt into different points on the risk/reward spectrum, by e.g. depositing stETH into a restaking protocol or AVS in exchange for both higher risk and reward.

This requires establishing a flourishing ecosystem of apps and partners on the stETH platform, and is an effort in ecosystem-building, similar to what Lido DAO once achieved with integrations into Ethereum DeFi and the wider CeFi landscape. It requires deeply understanding the AVS and LRT landscape, forging bonds with key players, and aligning the incentives through key partnerships.

Since DAOs are chronically bad at negotiating strategic partnerships, I suggest the creation of a new ecosystem-building team or initiative for that purpose inside Lido DAO.

5. Summary

In summary, I propose five changes to address the question of MVI/issuance and the rise of restaking:

1. Stay focused on security and decentralization

2. Participate in Ethereum staking roadmap research

3. Reaffirm that stETH should stay an LST, not become an LRT.

4. Support Ethereum-aligned validator services, starting with preconfirmations, without exposing stakers to additional risk.

5. Make stETH the #1

collateral in the restaking market, allowing stakers to opt into additional points on the risk and reward spectrum.

While these are more than cosmetic changes, they leave all of the cornerstones of our previous strategy untouched: the DAO's purpose of keeping Ethereum decentralized, accessible to all, and resistant to censorship, of building the most widely used LST, of heavy investment into governance and NO set decentralization, and a rising focus on institutional capital.

Since its inception, the Lido DAO has been a deeply mission-driven organization, putting the health of Ethereum over anything else, while achieving a rare synthesis between OG idealism and pragmatic reality. I am happy to bet that continuing on this path, incrementally chipping away at our ambitious roadmap, and playing long-term games with long-term people, will lead to the greatest success in the end.

Disclaimers:

- I am Strategic Advisor to the Lido DAO.

- As outlined in the GOOSE, this proposal is submitted in its final form, and the rationale offered explains both the high-level and the lower-level goals. I invite the extended community to engage on the proposal and will happily respond to questions at any time.