Proposal #17 - Max LDO airdrop CAP for early stETH users - #4 by vsh

Seeing as the LDO retroactive airdrop event will take place soon while the community is currently creating and discussing ideas for a fair and equal distribution in this thread–and also not neglecting the fact that once the distribution takes place, that these new users will be responsible for participating in the DAO and for voting in these Aragon proposals from then on–I propose an incentive for LDO token owners to participate in the DAO rather than use the LDO tokens, say, solely as an investment device.

Problem

There are no current incentives for LDO token owners to participate in the DAO, and seeing that the LDO token is fundamentally a governance token, users should be incentivized to govern the platform.

We believe a DAO is an optimal structure for launching Lido. If we were to launch Lido without decentralised governance, users would be required to trust a single point of failure to maintain a 1:1 relationship of ETH to stETH – similar to how Tether requires trust that the USDT is backed 1:1 by dollars.

– Vasiliy Shapovalov, on behalf of Lido team

Solution

Create a possible incentive for LDO token owners to participate in the DAO

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1. One shape that this can take is a flat fee distribution to LDO owners.

Rewarding early adopters of Lido from DAO treasury - #3 by cryptodenier

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Lido fee

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As per the current mechanism, a portion of the fees received from staking with Lido (10%) are split between the node operators (eg. Stakefish, p2p, Certus One, etc) and between the Lido treasury.

With that being said, one possible incentive is to reward LDO owners who have participated in governance

with a portion of the fees that flow into the Lido treasury (5%). I do not believe it would be a smart idea to fully distribute the total 5% to participants, seeing as how these funds would be used to cover the costs of maintaining and improving the protocol itself.

A flat 2.5% fee (half of the fees collected in the treasury) distributed to LDO owners could be considered.

1. A variable fee distribution to LDO owners.

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ETH staking rewards

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The Ethereum staking reward rate is variable and changes based on the total amount of ETH staked. If the total amount of ETH staked is low then the reward rate will be higher, with a maximum annual reward rate of 18.10%.

– Kasper Rasmussen

With a variable rate of return on users depositing their ETH as mentioned above, an alternative to a flat fee distribution would be a relative fee distribution. One possible shape that this can take is LDO owners receiving fees at the rate at which depositors stake in Lido or the amount at which ETH is staked in Lido.

Currently, the more users that stake with Lido: the more fees there are to be claimed and distributed. If there are more people staking in the vanilla ETH contract itself as opposed to contracting Lido, there are less fees to claim and distribute.

When utilizing this relative fee distribution, users could instead receive a larger fee share when more depositors are using

Lido as a service, but a smaller fee share when depositors prefer the vanilla ETH contract over Lido.

1. LP Pools trading fees on top of treasury fees

An interesting concept which I had in mind is to generate fees on top of fees. A smart contract that users can supply with their LDO which sends it to a liquidity pool (LDO/ETH) to accrue trading fees. On top of that, the user will accrue treasury fees (mentioned above) by participating in the DAO. Once a user decides to withdraw their rewards, they can choose to withdraw their LDO + the Lido treasury fee (presumably paid in ETH) + LP fees (paid in ETH) and that profit was then used to stake back in Lido

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This seems like something a vault would be useful for.

Is it possible to incorporate the possibility of participating in a DAO if the LDO tokens are locked in a liquidity pool? I assume that the contract would have to move the LDO tokens from liquidity pools to the governance smart contracts when a user decides to vote.

Now, if that is too much of a hassle, what if users were supplied with a synthetic LDO (stLDO), similar to stETH, that represents their share in governance and follows the same burn and mint function as stETH, and users can use this stLDO to vote in the DAO while also accruing LP rewards!?

The possibility of fees on top of fees to LDO owners only benefits Lido and only incentivizes LDO owners to participate and vote in the DAO.