

Hi dYdX community –

Steven from [Amber](#) here. We're a large team engineers, quantitative researchers, traders, and crypto enthusiasts. Operating globally 24/7, we are an active market participant heavily involved in pricing, trading, and hedging cryptocurrency assets across all the various venues.

We have been active on dYdX from the start, being among the initial market makers on the platform and contributing to over a quarter of total trading volume at times. We are also an investor in dYdX and are excited to see the launch and success of dYdX V4.

## Simple Summary

We are proposing to end the Beta Stage by activating Trading Rewards and the 6-Month [Launch Incentive Program](#), among other things:

- (1) activate Trading Rewards by crediting the Rewards Treasury Vester, setting the [trading rewards constant "C"](#) to 0.33 to enable Trading Rewards, and for the constant "C" to subsequently increase to 0.66 and .90;
- (2) approve the start of the 6-month Launch Incentive Program proposed by Chaos Labs;
- (3) Credit dYdX Chain Community Treasury Vester with DYDX based on [DIP 29](#); and
- (4) to potentially seed the Insurance Fund with ~1M USDC.

## Abstract

Since the [Genesis](#) of dYdX Chain, 430M ethDYDX tokens have been [bridged](#), and over 14M DYDX tokens have been [staked to dYdX Chain validators](#). On November 13, 2023, the [Beta Stage](#) outlined by the dYdX Operations subDAO commenced after the [vote](#) to set markets to active passed. The Beta Stage served as a testing phase to ensure smooth trading functionality on dYdX Chain. There were no trading rewards during the Beta Stage, although fees have been accruing to Validators and Stakers.

On November 22, 2023, the dYdX Operations subDAO [published](#) a deep dive on the Full Trading Stage. Full Trading could encompass Staking Rewards, Trading Rewards, and the start of the 6-month Launch Incentives Program proposed by Chaos Labs.

During the Beta stage, the dYdX Chain has been stable with minimal bugs and issues, therefore we propose ending the Beta Stage and transitioning to Full Trading with DYDX rewards distributed through Trading Rewards and the 6-Month Launch Incentive Program.

## Specification

1. Credit the dYdX Chain Rewards Treasury Vester with DYDX tokens to enable Trading Rewards based on the remaining allocation of Trading Rewards.
2. Change the [fee\\_multiplier\\_ppm](#) parameter that represents the trading rewards constant "C" to 0.33.
3. Increase the trading rewards constant "C" to (1) 0.66 at the relevant block height and (2) 0.90 at the relevant block height which corresponds to the Epoch 30 and Epoch 31 changes to Trading Rewards on dYdX v3.
4. Approve the start of the [6-month Launch Incentive Program](#) proposed by Chaos Labs.
5. Credit dYdX Chain Community Treasury Vester with DYDX based on [DIP 29](#).
6. Seed the Insurance Fund with ~1M USDC.

## Motivation and Rationale

Since the [Genesis](#) of dYdX Chain, more than 430M ethDYDX tokens have been [bridged](#), and more than 14M DYDX tokens have been [staked to dYdX Chain validators](#). On November 13, 2023, the [Beta Stage](#) outlined by the dYdX Operations subDAO commenced after the [vote](#) to set markets to active passed. The Beta Stage served as a testing phase to ensure smooth trading functionality on dYdX Chain. There were no trading rewards during the Beta Stage, although fees have been accruing to Validators and Stakers.

On November 18, 2023, dYdX v3 governance [voted](#) to (1) wind down dYdX v3 Trading and LP rewards, (2) migrate available ethDYDX in the Community Treasury and Rewards Treasury to the dYdX Chain, and (3) upgrade the Treasury Contract for each of the Community Treasury and the Rewards Treasury smart contracts leveraging the Community Treasury Bridge and the Rewards Treasury Bridge contracts, respectively. The Community Treasury Bridge and Rewards Treasury Bridge contracts effectively enable dYdX Chain governance to credit the corresponding amount of tokens from the

Ethereum Community Treasury vester and Rewards Treasury vester to the Rewards Treasury Vester and Community Treasury Vester on dYdX Chain.

On November 22, 2023, the dYdX Operations subDAO [published](#) a deep dive on the Full Trading Stage. Full Trading could encompass Staking Rewards, Trading Rewards, and the start of the 6-month Launch Incentives Program proposed by Chaos Labs. During the Beta stage, the dYdX Chain has been stable with minimal bugs and issues, therefore we propose ending the Beta Stage and transitioning to Full Trading with DYDX rewards from Trading Rewards and the 6-Month Launch Incentive Program, among other things.

## **dYdX Chain Trading Rewards (and Rewards Treasury Vester)**

To activate Trading Rewards on the dYdX Chain, the dYdX community through governance needs to credit the Rewards Treasury Vester with DYDX tokens and set the [trading rewards constant "C"](#) to a non-zero amount.

First, we propose crediting the Rewards Treasury Vester with DYDX to account for the remaining [allocation](#) for trading rewards.

Second, we propose setting the trading rewards constant "C" [<https://github.com/dydxopsdao/networks/blob/fd7ee6e63e7e4b3ffab4fe600ac7cdb77c28d88d/dydx-mainnet-1/genesis.json#L3760>] to 0.33 and to increase the trading rewards constant "C" to (1) 0.66 at the relevant block height and (2) 0.90 at the relevant block height which corresponds to the Epoch 30 and Epoch 31 changes to Trading Rewards on dYdX v3. We have included our rationale:

1. dYdX v3 governance [voted](#) to wind down trading rewards by  $\frac{1}{3}$  each epoch starting in Epoch 30. Correspondingly, dYdX Chain trading rewards can ramp up at the same rate on dYdX Chain. The delayed message enables increasing the [trading rewards constant "C"](#) at approximately the same time that dYdX v3 rewards are reduced.
2. We anticipate that activating trading rewards will result in more activity (trading and staking) on dYdX Chain. Initially, setting the constant to 0.33 could push ethDYDX holders to migrate their tokens to the dYdX Chain and dYdX Chain DYDX holders to stake to validators.

## **Start the 6-month Launch Incentive Proposal**

We propose approving the start of the [6-month Launch Incentive Program](#) proposed by Chaos Labs.

On October 1, 2023, the dYdX community supported a [sentiment signaling proposal](#) to use \$20M in DYDX from the dYdX Chain Community Treasury for a 6-month Launch Incentives Program. This program is "designed to motivate the seamless migration of volume and users to the dYdX Chain."

Note this proposal item will not result in any dYdX Chain on-chain changes. Each distribution of DYDX rewards under the Launch Incentives Program is subject to a dYdX governance proposal on the dYdX Chain. We are including this proposal item so that the dYdX community is aligned on the start of the 6-Month Launch Incentive Program if this proposal is successful.

The Launch Incentives Program could motivate the migration of volume and users to the dYdX Chain. Similar to Trading Rewards, we anticipate that the Launch Incentives Program will result in more activity (trading and staking) on dYdX Chain.

## **dYdX Chain Community Treasury Vester**

On dYdX v3, the dYdX community through several governance proposals voted to reduce ethDYDX emissions and as a result, ethDYDX from emissions reductions accrued in the dYdX v3 Rewards Treasury.

We propose crediting the dYdX Chain Community Treasury Vester with DYDX based on the balance of the dYdX v3 [Community Treasury Vester](#) and the dYdX v3 [Rewards Treasury Vester](#), less the DYDX that will be allocated to the dYdX Chain Rewards Treasury Vester for Trading Rewards.

## **dYdX Chain Insurance Fund**

Given that we are proposing to activate trading rewards on dYdX Chain, it is crucial to incorporate a precautionary measure to mitigate potential systemic risks that could impact dYdX Chain users. Therefore we are proposing to seed the [Insurance Fund](#) with ~1M USDC.

If you are interested in sending USDC tokens to seed the Insurance Fund please respond to this thread with your intent, the number of DYDX from the community treasury you expect in return, and the calculation for arriving at the requested amount of DYDX.

Note that the Insurance Fund grows when a given trader's position(s) is/are liquidated. We think it makes sense to have at least ~1M USDC in the insurance fund at the time that Trading Rewards are activated.

## Next Steps

We will provide an update about when we plan to create the on-chain vote in the near future.