

Proposed Changes:

- Introduce a Market Maker Rebate Program

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Note: the community has no power over the Trading Fee Schedule, this is simply a signal to dYdX Trading on behalf of the community.

Summary:

As part of our [V4 Vanguard Post](#), we proposed to introduce a Market Maker Rebate Program. As we begin to think about the sustainability of V4, it's important to reduce the reliance on LP rewards and incentivize liquidity in a natural way.

Description:

A large proponent of dYdX's overall sustainability is retaining liquidity providers and traders. If we assume DYDX rewards are non-existent, how do we incentivize liquidity providers?

Compared to its competitors, dYdX lacks a separate Market-Making Fee Program. This is arguably a result of the LP rewards program. However, as the number of markets, products, and competitors increases, the average reward per MM is expected to decrease with a fixed reward pool. Therefore, it's imperative for dYdX to introduce a Market-Making Fee Program with rebates to naturally incentivize liquidity and reduce the reliance on rewards.

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The proposed Market-Making Fee Program as shown in Figure 5 consists of 5 tiers based on maker volume as a % of the 30D exchange volume on dYdX. Such a program with these proposed fee tiers is standard across most top-tier CEXs. As a result, MM's rewards are directly proportional to their maker volume and not bound by the size of the reward pool. Furthermore, by introducing a Market-Making Fee Program:

- MMs become more inelastic to changes in the current rewards program given rebates are more predictable and their reward surplus is now larger than before.
- The protocol now has a way to naturally incentivize liquidity, providing increased freedom when altering DYDX rewards.
- The protocol is no longer constrained by an increasing number of markets that are expected in V4.
- Obvious liquidity improvements by incentivizing maker volume.

Next Steps:

We'd like to request feedback from fellow LPs on dYdX, we believe our proposal in conjunction with LP rewards is fair. However, this is assuming there is an increase in taker fees. If the community is against increasing taker fees, it may be worth revising rebate levels.

Pending community discussion, we will look to initiate a Snapshot Vote on Friday 17th of Feb.

There will be a binary vote that signals to dYdX Trading the wishes of the community, with:

- Yes - Introduce a Market Maker Rebate Program as described above.
- No - Do nothing.