This proposal aims to start a discussion on the possible launch of the Lido protocol on the new Terra network. As events are still unfolding, it should not be considered final and will be edited based on the DAO's feedback, since the launch is scheduled to occur on the 27th of May.

UPD:

The Snapshot vote for this proposal is live. Because of the tight timeline the voting period is from May 22, 2022 to May 25, 2022.

The allocation of Terra's new token to bLuna and stLuna holders is not contingent on the DAO's decision. In other words, if the DAO decides not to support the reboot, bLuna and stLuna users at the time of the snapshots will still be able to claim their shares of the allocations.

About the reboot

On the 7th of May, UST started to deviate from its peg. Despite TFL and LFG's efforts, the peg was never recovered, which led to a bank run on Terra: fleeing capital overwhelmed the redemption mechanism and trillions of Luna were minted. The death-spiral led to the exodus of foreign capital and the rapid degradation of the network's economic security. Validators subsequently halted the network and disabled the market module, delegations and a few IBC channels, in an attempt to stabilize the network.

As these events unfolded, the Terra community expressed a strong desire for revival: hundreds of propositions were made on the agora, and multiple groups of developers, validators and community members spontaneously formed to try and organize a recovery. Eventually, Do Kwon published a Revival Plan for Terra, which has been updated twice since. It has the support of the Terra Builders Alliance but community alignment is unclear at this point.

Proposal on the Agora: https://agora.terra.money/t/terra-ecosystem-revival-plan-2-updated-and-final/18498

While it has not achieved consensus, it is so far the most likely outcome, as it is already garnering support via public announcements on Twitter, and being coordinated with TFL, Terra's validators and ecosystem developers. Following this plan, the current network will be renamed into "Terra Classic" (legacy chain) and "Terra" (new chain) is going to be launched, and partially-vested equity issued and distributed at genesis among the various categories of stakeholders.

As an "essential dApp", if it commits to building on the rebooted chain, Lido on Terra will be eligible to a share of the network's equity. Allocations for developers will be finalized next week, which means the DAO must have decided whether or not to commit to the reboot by the 25th of May.

Token allocation

Essential app developers committing to launch on Terra will receive:

1. Emergency allocation (0.5% of total supply): immediately after

network launch.

1. Developer Alignment Program (1.5% of total supply): Protocol teams

that were live in Terra Classic divide this allocation weighted by the

last 30 day TVL from Pre-attack snapshot - 1 year cliff, 3 year vesting

thereafter

1. Developer Mining Program (8% of total supply): Essential app

developers earn a share of the mining program proceeds pro-rata to the

amount of TVL every quarter for 4 years.

Once vested, these tokens can be used to finance the team's operations, transferred to the DAO's treasury, airdropped to Terra Classic users (e.g. Luna, stLuna and/or bLuna holders) or distributed in any other way the DAO deems suitable. The Lido on Terra team would like to suggest using these tokens, or a portion of them, to help make UST savers whole. We invite the DAO and the wider Terra community to ideate on how these tokens can be best used, and welcome all feedback.

About Lido on Terra

Lido on Terra was arguably a success. It amassed $10Bn in TVL before the crash, making it the most successful Lido implementation after Ethereum. Multiple integrations with other ecosystem protocols were underway, including the release of two innovative types of pools on Astroport and various partnerships with money markets and ETF protocols.

The team behind Lido on Terra is based in P2P and has deep understanding of Lido internal processes and strong relations with Lido's core team.

Current developments would allow Lido on Terra v2.0 to launch with minimal technical overhead.

Competitors

Terra Classic had three other liquid staking providers at the time of the crash. It is unclear at this point which ones will deploy on the new chain.

Stader Labs

Stader Labs is a liquid staking protocol launched on Terra in November 2021, which rapidly expanded to Hedera Hasgraph, Fantom and Polygon. Stader Labs was built around degens and yield-maximization: the protocol recently released vaults where users could deposit their auto-compounding tokens in exchange for a higher yield, sourced from other ecosystem protocols. Stader launched on Terra with three permissioned staking pools (high performance, community and airdrop plus), selected on three criteria (uptime > 99.85%, never slashed, commission ≤ 10%). Stader Labs' total TVL went from roughly $1Bn, before the crash, to $53M now, mostly on Hedera, according to DefiLlama.

Prism Protocol

Prism is a multi-faceted protocol: it comprises a liquid staking solution, a "refraction" mechanism similar to bond stripping, a DEX, and was on the cusp of releasing isolated lending pools powered by Edge protocol. Prism selected its set based on three criteria (< 2% voting power, ≤ 5% commissions and community contributions), and 7 validators were onboarded in waves #1 and #2. Prism launched in February 2022 and reached a peak TVL of ~600M on the 6th of April, according to DefiLlama and the protocol's dashboard.

STEAK

Steak is Larry0x's liquid staking protocol. It officially launched on the 6th of May, few hours before the crash. Steak was released without governance token, with the intention to be governed by Luna holders. Its validator set was selected on Twitter: validators nominated by community members were added to a shortlist at Larry0x's discretion, then voted upon via Twitter polls.

Risks

Lack of adoption and downside risk

If the ecosystem splinters rather than migrate to the new chain, the new token and its allocations could turn out to be worth less than the cost of deploying Lido's smart contract on the new chain.

Legal risk and Key Person Risk

Terra's crash did not go unnoticed. It was mentioned by Janet Yellen in the US' Senate Banking Committee, and, according to The Block, the SEC could be opening an investigation in the matter. In Korea, the FSC and FSS reportedly requested information from domestic exchanges following the crash. It is thus prudent to assume the network is under the scrutiny of traditional financial institutions, and that litigations against founding members of Terra Classic could occur.

Brand risk

Whether it decides to support the reboot or not, there is a risk to Lido's reputation.

Terra's failure damaged individuals, protocols and institutions who participated in the network, which significantly tarnished the project's reputation. The proposed revival plan was also criticized. Supporting the reboot could thus be a risk to Lido's reputation.

On the contrary, if the Lido DAO was to reject the reboot and discontinue Lido on Terra, it could be seen as a sign that Lido lacks commitment to the ecosystems it operates on.

Compensation

For historical reasons, Lido on Terra was not financed by the Lido DAO and it never charged a fee for its liquid staking services. Lido on Terra was not meant to be gratuitous in perpetuity, which is why, if the reboot is recognized by the DAO, Lido on Terra's liquid staking protocol will be relaunched with the 5% fee on yield-staking enabled.

The following calculations are based on assumptions and aimed at producing a rough assessment of what Lido's revenue could be on the new network. Let's assume Terra will reach a $1B marketcap. Based on our experience with Terra and

Juno, we can estimate that, once the genesis stakes are unbounded and put into circulation, around 33% of the liquid tokens should be staked.

$1,000,000,000 * 0.33 = $330,000,000

staked

Assuming 20% of that Luna is staked with Lido:

$330,000,000 * 0.20 = $66,000,000

staked with Lido

Given the expected annualized staking APR of 7%, the rewards should amount to:

$66,000,000 * 0.07 = $4,620,000

annual staked rewards

At 5% fee, Lido's annual revenue would be:

$4,620,000 * 0.05 = $231,000

annual Lido revenue

Given the annual revenue, we can calculate the monthly:

$231,000/12 = $19,250

monthly Lido revenue

Given this revenue assessment, potential motivations for launching Lido on the network would be (and/or):

1. To demonstrate our alignment with the ecosystems we operate on,
2. Because we assume the network will grow,
3. Because we believe the reboot is a good solution to Terra's current situation.

The Team thus proposes the following model of compensation:

1. While revenue is below $20k/m, all revenue is forwarded to the team
2. While revenue is between $20k and $100k per month, the team receives $20k and the remainder goes to Lido treasury
3. While revenue is more than $100k/m, 20% of revenue is forwarded to the team and 80% goes to the treasury.

We will do our best to update this proposal with more reliable data as soon as it is available.

Conclusion

Given the tight timeline, and to facilitate the decision making process, we would like to propose 4 scenarios:

A) Do not support the reboot.

B) Support the reboot, do not accept tokens from the builder's allocations.

C) Support the reboot, keep X tokens as compensation for redeploying the contracts and donate the rest to impacted UST savers.

D) Support the reboot, keep all tokens.

We welcome the community's feedback and are open to updating the proposed scenarios before submitting them to a snapshot vote.

UPD:

Based on the discussion, only two options were proposed for Snapshot voting: A and C.