

- This post is an addendum to the [comment](#) posted summarizing the UF's analysis on paths to mitigate compliance uncertainties related to the fee switch.
- After a thorough review, we believe that the best path forward may be to implement new mechanisms for distributing protocol fees to specific persons, for instance to those who have “opted-in” by taking some action to benefit the Protocol.
- In the same vein, we have had many discussions with stakeholders who are excited to research new methods for accruing fees to the DAO, and to innovate upon the applications of the UNI token to support the protocol.
- The UF has already allocated 25% of our total Grants budget (spread across Protocol R&D, Incentive Program R&D, and Protocol Development) to support this area of R&D, which includes, amongst other things, new designs for fee collection, distribution, and for innovative applications of the UNI token.
- We invite those interested in contributing to do the following:
- For those beginning to explore ideas, or who would like the community to consider an idea, to share it below
- For those who have an idea and are looking for support and financing to do the work, review the questions posed below, and apply for a grant [here](#).
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This post is an addendum to the [comment](#) recently posted in the latest proposal related to the fee switch, and results from a thorough analysis and discussions with stakeholders within the community.

For one, we have also had a number of conversations related to fee distribution. Much of our research have led us to the conclusion that implementing a programmatic distribution of fees directly to persons, for instance to those who have “opted in” through taking some beneficial action for the Protocol, may be a superior path forward. This kind of mechanism would represent a significant mitigation of risk for the Uniswap DAO because tax obligations would rightfully be the responsibility of the individual in their respective jurisdiction, among other potential benefits. For instance, properly designed, this mechanism could further incentivize productive behavior to support the Protocol.

There have already been many comments in the forum exploring different uses of fees, including but not limited to [gas fee rebates](#), [incentivizing LPs to lock their liquidity](#), and [distribution directly to UNI token holders who actively “opt-in” through taking some beneficial action](#). Programmatic distribution of fees directly to stakeholders would relieve some, but not all, of the uncertainties associated with fees directly routing to the DAO.

Discussions we had with several community members over the past several weeks have also explored alternative methodologies for accruing fees within the Protocol. While Uniswap Protocol v3 launched with only the ability to extract fees from the LP fee, it is possible there are superior mechanisms by which to extract fees for the benefit of the Protocol in the future. Two recent blog posts by community members ([one](#) by Wilson Cusack, [one](#) by Jesse Walden) have explored the idea of “productive fees” – fees which “make the protocol better off”. As an example, they bring up the idea of fees on Just in Time liquidity provision, which would discourage flash LPing, at the same time accruing value

Further, since the Uniswap Protocol, and UNI token, were initially deployed, there has been considerable research and learnings in the area of token design that we can all learn from. New applications for the UNI token may overlap with research into new mechanisms for fee accrual and distribution. As just one example, almost 2 years ago Vitalik Buterin suggested that the [UNI token become an oracle token](#). Depending upon its design, this model would potentially provide a built-in fee distribution mechanism to its contributors, and benefits for the entire DeFi ecosystem. This is just one example to explore in a massive design space. Just as the design of the Protocol as an AMM has evolved over time, so too can its fee accrual, distribution, and token design.

It's within the Foundation's broad mandate to explore novel incentive mechanisms, and general protocol R&D. We have already allocated 25% of our total Grants budget (spread across Protocol R&D, Incentive Program R&D, and Protocol Development) to support this realm of research and development, focused on, amongst other things, new designs for fee collection, distribution, and for innovative applications of the UNI token.

We wrote about this in the [forum](#) during the UF's governance process, have directed a large percentage of our grants budget to incentive program research, design, and experimentation, and we have already funded [research](#) in the area. Two additional partners recently kicked off research grants in the same design space; we plan to announce those in the coming weeks. And we hope to collaborate with and support many more of you in the coming months.

How can you contribute?

- If you would like to begin to explore an idea, or would like the community to consider an idea, post your idea in this

forum post

- For those who have an idea and are looking for support and financing to do the work, apply for a grant here [UGP Application Form](#)

For those looking to apply for a grant, we are specifically interested in funding projects centered around one, some, or all of questions:

1. What new fee types might Uniswap Protocol implement? What would be the objective of the fee? How might those new fees be implemented?
2. How might fees be distributed programmatically to Protocol stakeholders? What would be the objective of this fee distribution mechanism? What would be required to implement this new mechanism?
3. How might the UNI token be redesigned in order to support the Protocol? What would the objective of this redesign be? What would be required to implement this new mechanism?

For these grants, we are interested in understanding how you would go about your work, whether that be research, design, developing a POC, or the actual code which could be used to achieve your objective. We are also understanding the potential long term impacts of the changes you suggest, as well as relevant open questions which we may fund other teams to explore.

We look forward to hearing your ideas, and to support the community in pushing the Uniswap Protocol forward.

The Uniswap Foundation supports a community of individuals and organizations dedicated to a more open, fair and decentralized financial system through education around and broader adoption of blockchain technologies and smart contract-based decentralized protocols.

This post does not constitute, and is not intended to constitute, any kind of legal advice, and readers are not to construe the contents of this brief as legal, business, tax, accounting, investment, or other advice. Each UNI token holder should consult its own advisers as to legal, business, tax, accounting, and other related matters concerning the proposal in light of such token holder's particular circumstances.