Background

The Rewards Share Program (the “Original Program

”) is a program that helps spread awareness about liquid staking technology and liquid staking tokens like stETH. The Original Program consists of sharing some of the middleware usage fees with selected applicants who have demonstrated their commitment to furthering the adoption of stETH.

The Original Program was detailed in this forum post and approved by Snapshot (end date June 30, 2023).

While test driving the Original Program since its launch, the Rewards Share Committee (the “Committee

”) noticed that the Original Program was not as effective as hoped. It found that Participants that had not previously attracted large levels of stETH adoption (in the range of 40,000 - 50,000 stETH) did not attract new stETH adoption after being onboarded to the Program, meanwhile it produced stress and load on the contributors to keep it alive.

Based on this experience, the Committee has identified a number of changes that are required to enable the Original Program to operate more effectively.

Proposal

On behalf of the Committee, I propose the following new Rewards-Share Program to replace the Original Program:

As with the Old Program, the new program helps spread awareness about liquid staking technology and liquid staking tokens like stETH. The program consists of sharing some of the middleware usage fees with selected applicants who have demonstrated their commitment to furthering the adoption of stETH.

The program operates in three-phases:

1. Onboarding

: This phase involves the initial application and evaluation process. Prospective participants need to meet the eligibility criteria outlined in the proposal below. The Committee will review and vote on applications, then add the accepted addresses to the program. As part of this phase the Committee shall be free to and may negotiate bespoke terms with promising prospective participants (the “Agreed Terms

”).

1. Rewards-Share

: Once onboarded, participants who attract new ETH are eligible for rewards-share. The Committee will monitor participants’ stETH contributions and calculate rewards based on the Agreed Terms.

1. Offboarding

: The program is designed with defined termination points for all participants. The offboarding phase happens either when a participant voluntarily leaves the program, does not renew their participation, gets disqualified due to violation of the program’s rules or the Agreed Terms, is discontinued by a DAO vote, or the rewards pool for rewards-share is exhausted and not renewed.

Each of these phases is explained in detail below.

Onboarding

Prospective participants can be wallets, institutions, protocols, crypto services, neobanks, and custody services, or other types of participants with solutions that are capable of integrating the Lido middleware solution.

- Minimum Threshold

: Participants must demonstrate that they have already driven at least 40,000 ETH to Lido.

- Committee Discretion

: If an applicant does not meet the Minimum Threshold, the Committee can still assess applications from projects that show potential for driving stETH adoption. Evaluating factors may include the uniqueness of the product or any other qualities that the Committee recognizes as indicative of future growth potential. All Committee decisions are final and are not subject to review.

- Commitment

: Participants must not breach applicable laws and have to resort only to legal means when advocating for the further adoption of the stETH liquid staking token. Participants are free to advocate for the adoption of alternative liquid staking tokens (ALSTs) and liquid staking solutions, but must not do this in a way that shows the middleware or stETH in a bad light, must not use derogatory language when referring to the middleware solution or stETH and/or should use the same or very similar amounts of efforts to spread awareness about stETH as it does for ALSTs.

- Ongoing compliance with the program

: As described below.

Application Process

1. The Committee will review applications and make a decision on whether to reject or accept an applicant.
2. The identity of participants will not be public, however participants' addresses and rewards-share amounts may be publicly disclosed.
3. The applicants will be eligible to earn rewards from the date they are accepted.
4. Applications must have the following information and be submitted to the Committee:
5. Platform name
6. Background information
7. Evidence that the Minimum Threshold has been met
8. How you intend to make use of the program
9. Ethereum address and if it is an externally owned account (EOA) or smart-contract (this will determine how transfers are made)
10. Update a public record with the participant's address (only addresses, no names).

Applicants (both successful and unsuccessful) will not be reimbursed for any time, costs or expenses incurred in applying for the program. Decisions of the Committee are final.

Program compliance and conditions

- Participants are expected to comply with the rules of the program on an ongoing basis and not just on the date they apply to be included. Participants shall certify that they fully understand how the middleware operates, and will undertake to not use the middleware for unintended purposes, as described well and in detail in these independent third party interface maintainers' Terms of Use
- The snapshot vote determines the size of the rewards-share pool ("Rewards Pool

") and the amount and terms of the stETH token reward program, and can modify them through another vote

- The DAO can vote to stop, pause, and resume the program at any time
- The DAO can, at any time, vote to change the operating conditions of the program
- The program does not have a specific time frame. The program ends when there are no more tokens in the Rewards Pool
- Participants must maintain open lines of communication with the Committee and report any changes in their staking activities, relevant business operations, or other factors that could impact their eligibility for the program
- Participants are eligible for rewards share for up to 12 months from time of joining, or such other period as may be agreed by the Committee in exceptional cases (the "Initial Period

") * The Committee will periodically review each participant's performance and may remove the participant from the program if it is not effectively furthering the adoption of stETH

- At the end of the Initial Period, the Committee may vote to renew a participant's eligibility into the program and the duration of the renewal period
- In the event that the DAO does not renew the program, all rewards in the Rewards Pool will be paid out until exhausted
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Rewards-Share

Rewards Share Percentage

Participants share a percentage of the middleware usage fee in the amount of 5% calculated as a share of staking rewards. The percentage is determined by the Committee during the application process and applies for a period of 12 months, or such other period as may be agreed by the Committee in exceptional cases (the "Rewards Share Percentage

"). The maximum Rewards Share Percentage that the Committee may agree to is 50% of the DAO's 5% share of staking rewards - i.e. 2.5%).

For each individual ETH staked as a result of the rewards share program participants' efforts, those participants shall be entitled to rewards for a period of 12 months starting from the date the ETH was staked, or such other period agreed by the Committee in exceptional cases. The amount of rewards-share is determined by the total cumulative ETH staked by the participant and/or by users via participants' products and services.

A participant's rewards share will be determined by the amount of ETH originating from a participant's products and services. A necessary prerequisite for the recognition of the staked amount is that the staking transactions must be unambiguously attributable to the participant's products and services based on the on-chain data. This might be achieved by:

- The integration of a unique referral code provided to the participants of the previous referral programs that tracks staked ETH
- Or by using on-chain data from a router smart contract that interacts exclusively with the participant's own tokens and/or tokens belonging to the users of the participant's products and services.

The Committee can disqualify any staking transactions if they are too ambiguous or difficult to attribute to a participant's products and services with a sufficient level of confidence.

For example, let's say prior to enrollment, the amount of ETH staked through participant A's products and services is 60,000 ETH and the Committee agreed to a 25% Rewards Share Percentage.

If as a result of the 60,000 ETH stake a middleware usage fee in the amount of 1,000 ETH is programmatically collected, Participant A would receive 250 ETH as their share (25% of 1000 ETH). This reward-sharing continues for each ETH staked, starting from the date each ETH is staked, and generally lasts for 12 months. If Participant A decides to stake additional ETH during this period, each new ETH will also earn rewards for 12 months from the date it was staked.

The actual reward amount could be higher or lower depending on the actual staking rewards generated during this period.

Rewards-Share Calculation

All participants will be provided a unique referral code, that can be integrated at the website or protocol level, to track ETH they stake using Lido protocol. The Committee will check activity within calendar months (ex. Jan 1st-31st) and will share rewards with participants quarterly or such other period as may be agreed by the Committee.

These actions determine the amount of rewards-share:

- ETH Contribution

: The total amount of ETH staked by relevant users of the Lido middleware, meaning the participants themselves and/or users of their products and services (for avoidance of doubt this does not include swapping ETH for stETH through crypto exchanges).

- Rewards Share Percentage

: the Rewards Share Percentage agreed by the Committee, up to a staking duration: Rewards share lasts 12 months from the time each ETH was staked, unless otherwise agreed by the Committee.

For example, Participant A initially staked 40,000 ETH and the Committee has agreed to a 20% Rewards Share Percentage. Later, they staked an additional 20,000 ETH. Rewards are earned per ETH staked and last for 12 months from the staking date. Thus, Participant A earns rewards for both the initial and additional ETH stakes based on the agreed Rewards Share

Percentage.

Rewards-Share Disqualification Activities

Listed below is a non-exhaustive list of samples of activities that are detrimental to the program and can result in disqualifying ETH from being included in rewards-share. Only ETH involved in disqualification is excluded, not all ETH. The Committee will filter for all new staked ETH within calendar month checking periods. These activities include:

- Unstaking: If ETH has been staked and unstaked in a period, then only net amount will be counted towards rewards-share
- Selling stETH on DEXs/CEXs: Trading stETH on decentralized or centralized exchanges
- Cycle-staking: Repeatedly staking ETH, selling or unstaking the resulting stETH, and then staking again
- One-sided stETH liquidity provisioning on DEXs: Providing liquidity for only one side of a decentralized exchange pool
- Secondary leveraged staking: Engaging in leveraged staking on platforms like Aave, Compound, or Spark are eligible for rewards-share. However, rewards-share for stETH originating from leveraged staking will be disqualified if the position risk ratio (borrowed funds/borrow limit) is above 0.95 or if the corresponding staking transactions take place:
- While the deviation of the stETH:ETH swap rate from 1:1 is greater than 1%
- When a temporary increase of the liquidation threshold for (w)stETH collateral is enacted
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For example, Participant A has contributed 60,000 ETH and the Committee has agreed to a Rewards Share Percentage of 25% of the DAO's 5% share of staking rewards. However, 10,000 ETH from Participant A are associated with disqualifying activities, such as providing liquidity only on one side of a DEX pool, or repeatedly cycle staking (staking ETH, unstaking it, staking again), the 10,000 ETH associated with this activity will no longer be eligible for the rewards-share.

These activities do not disqualify the participant from the program outright, just the ETH directly involved in disqualification activities. However, if ETH originating from a participant is repeatedly involved in disqualification activities, the Committee can disqualify a participant from the program completely.

The Committee can disqualify participants if it has reason to believe that a participant is involved in illegal or fraudulent activities.

Unstaked ETH and the Social Unstake Deduction

Unstaked ETH will be deducted from the amount of tokens eligible for rewards-share. For unstaked ETH that is difficult to track directly to its source (mixed with tokens from other sources, or split between different addresses etc.)

- we created the social unstake deduction.

This technique indirectly adjusts eligible ETH for rewards-share by considering the total unstaked ETH during a calendar month and the proportion of that unstaked ETH contributed by rewards-share participants. This mechanism was invented to overcome limitations imposed by stETH fungibility - it is hardly possible to determine the origin of a particular unstaked token.

For example, imagine a total of 10m ETH staked with 1M ETH coming from the rewards-share program. Participant A is responsible for 900k ETH, and participant B is responsible for 100k ETH. If users unstake 1k ETH with an uncertain origin, the social unstake deduction is applied. In this case, 10% of the 1k unstaked (100 stETH) is used as the deduction and is proportionally deducted from each participant's share of tokens eligible for rewards-share.

The social unstake deduction will not be enabled by default. It will be used as an emergency brake in case of mass unstaking of participants in the rewards-share program.

- If the total amount of withdrawals that are difficult to attribute directly to participants in a month exceeds 40% of the average monthly new stake for the last three months, then the social unstake deduction will be applied. By default, the deduction will be disabled the next month if withdrawals don't exceed the threshold.
- The social unstake deduction will be enabled on a permanent basis if multiple participants are systematically cheating through cycle staking to get higher rewards.

Avoiding the Social Unstake Deduction with Whitelisted Addresses

The whitelisted address is a way for participants to avoid the social unstake deduction. stETH sent to the whitelisted address will be exempt from the social unstake deduction but will be subjected to direct unstake deduction instead if withdrawals take place.

For Example, let's say participant A requests to have their Ethereum address (0x123abc...

) whitelisted by the Committee, which is granted. Initially, they decide to stake 60,000 ETH through Lido protocol and send it to the whitelisted address. For as long as the 60,000 stETH is in the whitelisted address, the social unstake deduction is not applied for that 60,000 stETH.

This process allows the Committee to easily track a participant's contribution.

The process for creating and defining a whitelisted address is as follows:

1. Request for Whitelisting: A participant submits a request to the Committee to have an address whitelisted.
2. Address Verification: Verifying a participant's address and identity is used through telegram and discord channels, on-chain analytics, and other sources (ie, social media accounts)
3. Eligible addresses can be:
4. Externally owned account
5. Proxy contract
6. Smart contract
7. Any Ethereum address that can verify the existence and balance of stETH by the Committee over a rewards period

Offboarding

The Rewards-Share Program is designed with a predetermined termination point, marking the onset of the offboarding phase. This phase can be triggered under several circumstances:

- Voluntary Departure: Participants may decide to leave the program at their own discretion.
- Non-renewal: After expiry of the agreed period of active participation, participants must reapply for the program. If a participant does not renew their participation, they automatically enter the offboarding phase.
- Disqualification: If a participant violates the program's rules stipulated herein, they can be disqualified and pushed into the offboarding phase.
- Rewards Share Discontinuation: The DAO reserves the right to vote for the conclusion or non-renewal of the Rewards Pool. If such a vote passes, all participants are moved to the offboarding phase.
- Exhaustion of Rewards Pool: If the Rewards Pool for rewards-share is exhausted and not renewed, all participants will no longer receive rewards-share.

If a participant's status in the program is terminated and is no longer earning rewards-share going forward, stETH before termination will still be earning rewards (e.g. for 12 months from time of actual staking). However, should the Rewards Pool be depleted or the DAO decide to vote to discontinue the program, the rewards-share distribution will consequently cease for all participants.

The Committee

The Committee will control a multi-signature wallet with authority to whitelist, filter, and distribute stETH protocol rewards. The Rewards Share Program gives the Committee broad discretion and authority when deciding and managing the rewards share activities, so in case of doubt it should be considered that the Committee is free to make any decisions except the ones which are expressly reserved herein and require a DAO vote. The Committee shall be free to make any and all legal arrangements that it might deem necessary to give effect to the reward share program.

Whenever it sees fit and/or necessary, the Committee would be able to designate and reserve certain amounts of tokens from the Rewards Pool for specific purposes or projects with the idea to be able to meet any specific or bespoke commitments towards program participants.

In exceptional cases and to ensure engagement, where an applicant does not meet the Minimum Threshold but has a significant growth potential, the Committee would be able to make arrangements so that the participants that meet their bespoke growth commitments are entitled to retroactive rewards share for a period of up to six months before the date on which they met their target (which could be set above, but not below, the Minimum Threshold and is at the Committee's discretion).

Multisig disclosure: Use 0xe2A682A9722354D825d1BbDF372cC86B2ea82c8C rewards share multi-signature wallet that is controlled by the Committee signers. Current signers are:

- @Mol_Eliza 0x21b82AA7149c8Fd0562E78b740937442FfD43094
- @EvgeniyEmelyanov 0xf2374BCb265505002055942D070459a4d2011012
- @Alex_L 0xB339918e75664a07BB650513427559920C0A0F6C
- @Marin 0x04e7C0350241b818eE5c92cc260008C9898F41cf
- @McNut 0xc7a8DE05264442A318189f2bd160d2830902C8CD
- @pipistrella 0x5da409e1cbDABeC67471dB01Ff956f804bb8879f
- @zuzu_eeka 0x004812da927b5DCd07e7329609eDD75E25d2d295
- @smiles 0x90D07d4c4801f275217de42Dca67c552Da0295Af

The committee may rotate and replace signers and will post updates to the forum. Those changes would not require a DAO vote.

The committee will follow the DAO's policy on multisig operations.

The Committee will start with the remaining stETH from the Old Program's initial Rewards Pool of 3,000 stETH (at the date of this post, 2,866.969 stETH is remaining). When the pool is depleted, the DAO will vote whether to replenish it.

Definition of Terms

In this proposal, the following terms have these meanings:

- "Committee

" means the rewards-share committee established to oversee the distribution of rewards within the Rewards-Share Program.

- "Lido

" refers to the name of a suite of software tools (middleware) deployed on the Ethereum blockchain.

- "stETH

" means the "staked Ethereum" token, which is self-minted by users of the Lido middleware and that represents the digital key to their staked ETH.

- "DAO

" means the decentralized autonomous organization responsible for managing and governing Lido middleware.

- "ETH

" refers to the native cryptocurrency of the Ethereum blockchain.

Voting and Discussion

All stakeholders and the Ethereum community are invited to weigh in on the proposal. This proposal will be followed by a Snapshot vote with the link published here, when ready.