Kwenta x Perennial: Arbitrum Onboarding Incentives

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For easier reading, see formatted version here: https://docs.google.com/document/d/1hEKHkZdAk9XBSeDYhTCR_HZZ77dEUSIowToRLj4qCaE/edit

FULL MODEL HERE

Authors (Telegram):

Perennial

: Jacob (@JacobPPhillips), AJ (@eth_aj

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Kwenta

: Andotlas (@Andotlas), Burt (@BurtRock69

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Abstract

Kwenta, one of the biggest DeFi apps in the Optimism ecosystem, is coming to Arbitrum, built on top of Perennial V2, an Arbitrum-native protocol. Kwenta & Perennial present this joint proposal to request 1.9M ARB to fund targeted onboarding incentives to bring Kwenta users over to Arbitrum.

SECTION 1: APPLICANT INFORMATION

Provide personal or organizational details, including applicant name, contact information, and any associated organization. This information ensures proper identification and communication throughout the grant process.

Applicant Name:

Andrew Trudel — Kwenta

Jacob Phillips — Perennial

Project Name:

Kwenta & Perennial

Project Description:

Perennial Finance

Perennial is a leading on-chain derivatives protocol built from first principles to be a DeFi primitive. Perennial is infrastructure, with economics to support a whole suite of trading apps, oracles, and higher-level protocols built on top. It's modular throughout the stack — this allows Perennial to support customized (one day, permissionless) markets for any price feed (NFTs, RWAs, Power Perps, exotics). Perennial is hyper-efficient — $1M in TVL can support $5M-$10M in OI. The core protocol is minimalist, flexible, and efficient, allowing Perennial to mold to the needs of many different users & use cases. Perennial leverages fast execution and capital efficiency to support a superior trading experience.

Kwenta

Kwenta is a leading Perpetuals exchange, currently on Optimism and Base. With a recent expansion into aggregation, Perennial will become Kwenta's first non-Synthetix liquidity source, bringing new users to the Arbitrum ecosystem. Via specialization in best-in-class UX, Kwenta optimizes the on-chain perps trading experience, prioritizing the trader experience above all else. Kwenta aims to become the de facto venue for trading perps on-chain across DeFi. The Kwenta DAO is operated by a diverse collection of Core Contributors primarily composed of Synthetix OGs and resident pro-traders. Voted into existence by the Synthetix DAO and fuelled via a community-led initiative, Kwenta's roots are fully decentralized with notable community members including Framework and the founding Synthetix members.

Team Members and Roles:

Perennial

- Kevin Britz (Co-Founder, CEO) — Prev Engineering Manager @ Coinbase, Cofounder @ Astro Wallet
- Arjun Rao (Co-Founder, CTO) — Prev Staff SWE @ Coinbase, Cofounder Astro Wallet
- Jacob Phillips (Product & Strategy Lead) — Partner & Governance Lead @ Polychain Capital
- Lewi (DevRel/Community) — Prev Developer @ Gearbox, Core Dev & Community @ Empty Set DAO
- AJ Hammond (Growth/Business Development Lead) — Prev Head of Growth/BD @ Mycelium / Tracer DAO
- Amaya Neely (COO) — Prev Strategy & Business Operations @ Chainlink Labs / Investor @ Blackstone
- Alan — Senior Frontend Developer @ Centralized Exchange
- Ed Noepel — Cofounder @ Ajna, Senior Developer @ Maker Dao

Kwenta

- Jeremy (CTO)
- Andrew (CEO)
- Yashar (Lead Designer)
- Marko (Community Lead)
- Burt (Growth Marketing)
- Jared (Solidity Engineer)
- Leifu (Frontend Engineer)
- Adam (Lead Frontend Engineer)
- Tom (Solidity Engineer)
- Alexey (Fullstack Engineer)
- Linus (Frontend Engineer)
- Jun (Frontend Engineer)

Project Links:

Perennial

- Website: https://perennial.finance/
- App: https://app.perennial.finance/trade
- Github: GitHub - equilibria-xyz/perennial-v2
- Twitter: https://twitter.com/perenniallabs
- Perps AI: https://perps.ai/?dex=Perennial
- Open Block Labs: OpenBlock Labs
- Gauntlet: Risk Dashboard

Kwenta

- Website: https://kwenta.io
- Decentralized Deployment: https://kwenta.eth.limo
- App: https://kwenta.io/market

- Github: [GitHub - Kwenta/kwenta: A dApp enabling derivatives trading]
- Twitter: https://twitter.com/kwenta_io
- Blog: Kwenta

Contact Information:

Point of Contact:

Jacob Phillips

Telegram: @JacobPPhillips

Twitter: https://twitter.com/JacobPPhillips

Email: jacob@perennial.finance

Do you acknowledge that your team will be subject to a KYC requirement?:

Yes

SECTION 2a: Team and Product Information

Provide details on your team's past and current experience. Any details relating to past projects, recent achievements and any past experience utilizing incentives. Additionally, please provide further details on the state of your product, audience segments, and how you expect incentives to impact the product's long-term growth and sustainability.

Team experience (Any relevant experience that may be useful in evaluating ability to ship, or execution with grant incentives. Please provide references knowledgeable about past work, where relevant. If you wish to do so privately, indicate that. [Optional, but recommended]):

Perennial Finance

The Perennial team is a group of DeFi natives from Coinbase, Polychain, Chainlink, Gearbox, Ajna, Tracer DAO, and more. Its founders started an early smart contract wallet based on account abstraction that was acquired by Coinbase, and the Perennial team placed 3rd at the Arbitrum Gov Hack. Perennial backers include Polychain, Variant, Archetype, Coinbase, Robot, and more.

Kwenta

Kwenta is composed of OG Synthetix Contributors and resident pro traders. Kwenta's DAO Architect, Andotlas, was product lead of Totle, a DEX aggregator, which was acquired by Coinbase. Backers include Framework, the Synthetix DAO, and the Kwenta Community.

What novelty or innovation does your product bring to Arbitrum?

Kwenta

Advanced Tooling: Kwenta's existing product has focused on plugging DeFi primitives such as SNX and building a full stack suite of tooling for interacting with these tools. Our Perps v2 product on Optimism required an in-house solution for advanced orders, reducing friction on basic contract interactions, and other functionality using Kwenta's Smart Margin v2 contracts. Our experience building this UX tooling all the way from the smart contract level to the point of access for the user has given rise to our vision of aggregation tooling on Arbitrum. Our latest margin engine design is engineered specifically for the Arbitrum ecosystem and will focus on the unique needs of perps traders on Arbitrum. These capabilities include both advanced order types which can be applied to any platform which does not offer them natively, unifying the experience across liquidity sources, cross-platform cross margin, and yield-bearing margin sweeping capabilities. While this particular initiative focuses on integrating Perennial into this new system and initial features will be tailored to their needs, the system is designed to expand and flexibly serve the needs of the larger DeFi ecosystem.

A Novel User Base and Approach to User Acquisition: While not a technological advantage, Kwenta's existing community is one of the most valuable and loyal in DeFi, and is a result of Kwenta's unique user acquisition and account management approach. A previous deep-dive into Kwenta users showed that Kwenta's traders had the highest wallet balance of any exchange with a mean balance of $181.9k, and a median of $14.8k, with the second highest number of $1m+ value wallets of any reviewed Perps AMM. This review included large existing Arbitrum platforms Gains and GMX. These high value users are not an accident or a coincidence, but a result of Kwenta's exceptional work connecting with high value individuals and managing accounts, and is reflected in our association with several high profile users such as Andrew Kang and Sifu. Kwenta can both introduce high value users from Optimism to the Arbitrum ecosystem, and surface new and innovative Arbitrum products to Arbitrum-familiar users to broaden the success of the Arbitrum ecosystem and improve user retention.

Perennial Finance

Hyper-efficiency — Native long/short netting for makers allows $1M in TVL to support up to $10M in Open interest — vs. most on-chain derivative protocols that are $1 TVL to $1 OI. Additionally, LPs in Perennial can use high leverage (as high as traders), a feature only available in Perennial. We have had LPs in Perennial at 6x, 15x, even 40x+ leverage, earning as high as 204% APR. Both of these allow Perennial to scale liquidity in response to taker demand much more efficiently than its peers.

Markets no one else has (and customized markets) — Power Perps, NFT Perps, Day-1 listing + Perennial is oracle agnostic, meaning we can easily integrate any new price feed (and thus launch a market for virtually any API). Additionally, Perennial is the only derivatives protocol (that we know of) that offers the ability to launch customized markets (i.e. you tell us the price feed, parameters, and economics), and we'll spin it up. We even have Gauntlet to help teams set parameters for custom markets.

Ecosystem-First Liquidity Layer — Not an All-in-One Product — Instead of trying to be an all-encompassing, vertically integrated solution, Perennial takes an ecosystem-first approach, positioning itself with infrastructure & ecosystem economics (fee shares) to be a foundational liquidity layer that enables and incentivizes other participants to build upon it. By not attempting to own the entire stack, Perennial fosters innovation, encourages specialization, and ultimately, leads to a more robust and resilient decentralized finance landscape.

Is your project composable with other projects on Arbitrum? If so, please explain:

Perennial Finance

Yes, Perennial Finance is fundamentally designed to be highly composable with other projects on the Arbitrum network. Here's a breakdown of how Perennial's architecture enables seamless integration and collaboration:

Modular Protocol Design

Perennial's protocol architecture is built with a strong focus on separation of concerns across multiple layers of the stack. The core Perennial protocol is minimalist and hyper-efficient, handling only the essential functionality. This allows other permissionless layers and components to be built on top, enabling a high degree of flexibility and composability.

Permissionless Integrations

All of Perennial's peripheral layers and components are designed to be permissionless. This means that any project or developer can easily integrate with Perennial and build new functionality on top of the core protocol.

Projects Building on Perennial

Several prominent DeFi projects have already integrated with Perennial and are building on top of the protocol, including:

1. Siren — Options protocol using Perennial as a core on-chain hedging venue
2. Cryptex — Used Perennial infrastructure to launch proprietary market indices (the only protocol that allows them to do this)
3. Liqui — Delta-neutral AMM LP'ing using power perps to hedge
4. Astaria — Integrating Astaria's price oracles to power NFT perpetual markets, starting with Miladys, Remilios, Pudgy Penguins and BAYC.
5. RageTrade — Aggregator building on Perennial for deeper liquidity & expansion of markets
6. Kwenta — First derivatives integration on Arbitrum

Kwenta

Kwenta is a lightweight frontend capable of working with any perps provider on any chain. Traders can programmatically interact with Kwenta via its SDK enabling an additional layer of composability.

Do you have any comparable protocols within the Arbitrum ecosystem or other blockchains?

Perennial Finance

Arbitrum

- GMX
- MUX
- Gains

- Aark

Other Ecosystems

- Synthetix

Kwenta

The most similar projects are MUX, Ragetrade, and Unidex.

How do you measure and think about retention internally? (metrics, target KPIs)

Perennial Finance

Perennial thinks about retention relative to the type of user.

For traders, we think about retention in terms of daily active users and monthly active users (DAU/MAU), open interest retention, and volume retention. We aim to have a consistent/steady flow of activity in markets to keep them active.

For LPs, we think about retention in terms of Maker OI over time (especially for pro makers), as well as vault LP deposits. Makers have shown relatively strong stickiness over time.

For developers, we think about retention in terms of number of protocols building on Perennial & % of flow driven by integrators. Integrations are a very sticky form of user for Perennial.

Note: Gauntlet is commissioned by Perennial to help adjust parameters to target growth in each of these categories.

Kwenta

We measure average DAUs to determine growth and retention. Currently Kwenta has 400 DAUs generating 120M in average daily volume. With Perennial, Kwenta aims to double its user base, increasing our DAU to 800 and our volume to 240M within the next 6 months. We expect 100 new DAUs within the first month, 200 in the second, and 300 in the third.

Relevant usage metrics - Please refer to the[OBL relevant metrics chart 66]. For your category (DEX, lending, gaming, etc) please provide a list of all respective metrics as well as all metrics in the general section:

Perennial Finance

- Traders
- Daily Active Users
- Transaction Count / Number Of Trades
- Daily, Weekly, Monthly Volume
- Open Interest
- Trading Fees
- Daily Active Users
- Transaction Count / Number Of Trades
- Daily, Weekly, Monthly Volume
- Open Interest
- Trading Fees
- LPs
- TVL
- Maker Profitability (Tracked With Proprietary Dashboard By Gauntlet)
- Maker Open Interest (Total Liquidity)
- Funding Rate Stability
- Number Of Pro Makers & Average Maker Leverage
- Total Liquidity To TVL (Efficiency)

- Capital Turnover
- TVL
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- Maker Open Interest (Total Liquidity)
- Funding Rate Stability
- Number Of Pro Makers & Average Maker Leverage
- Total Liquidity To TVL (Efficiency)
- Capital Turnover

Dashboards

- Dune: https://dune.com/sliceanalytics/perennial-v2
- Gauntlet: Risk Dashboard

Kwenta

- Traders
- Daily Active Users
- Daily Transaction Count
- Fee share
- Arb Claimed
- Trader Addresses and Respective Volume
- Total Trading Volume/Daily Trading Volume
- Average Open Interest
- Trader PnL
- Historical Funding Rate
- Liquidations
- Daily Active Users
- Daily Transaction Count
- Fee share
- Arb Claimed
- Trader Addresses and Respective Volume
- Total Trading Volume/Daily Trading Volume
- Average Open Interest
- Trader PnL
- Historical Funding Rate
- Liquidations

Dashboards:

- Overall Basic Performance Stats: Kwenta
- Legacy Optimism Markets Performance: https://dune.com/leifu/kwenta-perps-volume-trackingBase
- Base Markets Performance: https://dune.com/synthetix_community/synthetix-v3

- Kwenta Tokenomics Stats: https://dune.com/electricbabe/kwenta-tokenomics

Do you agree to remove team-controlled wallets from all milestone metrics AND exclude team-controlled wallets from any incentives included in your plan:

Yes

Did you utilize a grants consultant or other third party not named as a grantee to draft this proposal? If so, please disclose the details of that arrangement here, including conflicts of interest (Note: this does NOT disqualify an applicant):

No, We did not utilize a grants consultant or other third party to draft this proposal.

SECTION 2b: PROTOCOL DETAILS

Provide details about the Arbitrum protocol requirements relevant to the grant. This information ensures that the applicant is aligned with the technical specifications and commitments of the grant.

Is the protocol native to Arbitrum?:

[Yes/No, and provide explanation]

Perennial Finance: Perennial has been live on Arbitrum since Feb 21, 2023, and Perennial V2 is native and currently exclusively on Arbitrum.

Kwenta: No, Kwenta is not native to Arbitrum. Previously, Kwenta heavily relied on Synthetix deployments to be able to surface a network.

On what other networks is the protocol deployed?: [Yes/No, and provide chains]

Perennial Finance: No other networks.

Kwenta: Optimism & Base

What date did you deploy on Arbitrum mainnet?: [Date + transaction ID. If not yet live on mainnet, explain why.]

Perennial Finance: Perennial has been live on Arbitrum since Feb 21, 2023, and Perennial V2 is native and currently exclusively on Arbitrum.

Kwenta: NA

Do you have a native token?: [Yes/No/Planned, link tokenomics docs]

Perennial Finance: Perennial currently has no native token.

Kwenta: Yes, Kwenta has a native token with tokenomics that can be found atKwenta State Log. The Kwenta token is currently deployed on Arbitrum & available on Camelot (with incentives)

Past Incentivization: What liquidity mining/incentive programs, if any, have you previously run? Please share results and dashboards, as applicable? Provide more details — how successful was the STIP for attracting and retaining users, volume, and liquidity? How has this led you to design a better program for this proposal?

Perennial Finance

Perennial has had one period of incentivization: Arbitrum STIP Grant (750k ARB)

Final STIP Update: https://forum.arbitrum.foundation/t/perennial-bi-weekly-updates/19619/11?

(copying over from STIP update)

Major Outcomes of Perennial STIP:

- Onboarding Kwenta
- This is one of the major outcomes of the entire STIP program. Kwenta accepted our DAO proposal to come to Arbitrum & build on Perennial. With a modest STIP grant, Perennial was able to outcompete protocols across DeFi that are multiple of our size to onboard the largest source of retail trading flow in the Optimism ecosystem.
- Kwenta does billions in monthly volume and routinely has over $100M in OI. This is a huge win for Perennial, and the broader Arbitrum ecosystem, as these onboarded users will go on to use many DeFi protocols.
- This is huge for Perennial because it potentially leads to a true step-function increase in all protocol metrics, well

beyond what temporary fee rebates or liquidity incentives could have done + protocol integrations are the most sticky users of Perennial.

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- This is huge for Perennial because it potentially leads to a true step-function increase in all protocol metrics, well beyond what temporary fee rebates or liquidity incentives could have done + protocol integrations are the most sticky users of Perennial.
- Proving Out Protocol Mechanism
- Perennial's capital efficiency was on display with pro makers earning 3-digit apy of in-protocol yield (before we gave them ARB incentives). In Our Network in December, We discussed one such pro maker who was earning over 200% APY (before incentives) by LPing into Perennial's ETH & BTC pools with 6x leverage. This gives us confidence Perennial can scale capital very quickly in response to trader demand.
- Taker volume fluctuated over the course of the STIP grant, but one thing was clear — when taker demand flourished, Perennial liquidity mechanisms performed as good as any in DeFi. Perennial reached a peak of over 5x liquidity to TVL (meaning $1 in TVL was supported $5 in total protocol liquidity), a DeFi-leading metric.
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- Taker Growth Across The Board
- Perennial V2 bootstrapped a number of new markets including ETH & BTC markets, which continue to do solid volume each day, and a number of novel/long-tail markets like RLB, TIA, XRP, JUP, ETH^2, BTC^2.
- These markets are well positioned for further growth going forward. Integrations with RageTrade (completed), Kwenta (in progress), and more should work to drive additional taker volume.
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Trader Growth Statistics

- Notional Trading Volume - Increase Total Volume by $500M
- Time Weighted Open Interest - Increased by 723%
- Unique Trader retention - Increased by 153%

LP / Maker Growth Statistics

- Liquidity Depth - 3x Increase in Absolute TVL, 6x Increase in Total Liquidity
- Liquidity Provider Churn - Lowered Churn by 24%
- Maker Diversity - Pro Maker & Vault Utilization Increased 4x

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Takeaway: Perennial operating 3-5x more efficient than other protocols (and we think we can get this much higher)

Ecosystem

- **of Teams Building in the Perennial Ecosystem - Increase by 4 teams, inc Kwenta!**

- % of Flow driven by Ecosystem Partners - The integrations have not yet launched.

Key Learnings (and how this ties into design of this program):

- Pro LPs are More Efficient than Vault LP
- Our original thesis was that vault (retail) LPs would be stickier capital than pro LPs (who LP with leverage & typically hedge off-chain), and so it made sense to focus rewards there. However, the hurdle rate to get retail LPs excited was nearly 30% (at 1x leverage), while 15% (using with 3-7x) leverage was sufficient to get Pro LPs excited.

- Takeaways for This Grant: exclusively focused on pro LP for liquidity, since the capital cost is cheaper. Might incentivize vaults, if they are able to mimic the strategies of pro makers (using leverage), but we likely won't incentive 1x leveraged vaults.

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- Pro LPs Respond Weakly to Pooled Rewards

- The existence of pro LP rewards often wasn't enough to get Pro LPs to make significant moves. This required an active BD effort & often some assurance of stability of rewards over a multi-month period for LPs to justify doing dev work upfront to integrate.

- Takeaways for This Grant: structuring liquidity incentives as a private LP program that we place with specific prop shops & market makers, who we know are Perennial-aligned (likely to retain) + most efficient cost of capital. Additionally, leading to this, we've entirely rebuilt our SDK to make integration much easier, and are building additional developer tooling to easily onboard Pro LPs.

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- Targeted approaches to onboarding users were successful

- We ran some experiments with targeted outreach to addresses who have traded power perps (we sent them messages & engaged to onboard) & had pretty solid success with this. We'd like to replicate this for incentives going forward.

- Takeaways for This Grant: Serving rewards directly to traders through the Kwenta UI has the potential to be highly effective.
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Kwenta

- Kwenta OP Trade Rewards Program April 12th- Sept 7th 2023

Through our initial OP Rewards program, Kwenta bootstrapped its user base and focused on developing a product and culture to retain users. Kwenta went from $2-5M in volume a day with 15 DAUs to averaging 120M volume a day with 400 DAUs and still maintains this level of activity to date. This is a rare example of a decentralized perps exchange converting rewards into long-term users.

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Current Incentivization: How are you currently incentivizing your protocol? Provide more details — how successful was the STIP for attracting and retaining users, volume, and liquidity? How has this led you to design a better program for this proposal?

Perennial Finance

Perennial does not have any current incentives.

Kwenta

The Kwenta token operates on an inflationary model that gradually decreases to 1% (APY) over four years following the Token Generation Event (TGE) on November 17th, 2022.

- Trade Rewards: A portion of the weekly epoch inflation (10%), is distributed proportionally to traders based on their contribution to the fees pool.
- Staking Rewards: The remaining 90% of the epochs inflation is allocated to staking rewards.

Have you received a grant from the DAO, Foundation, or any Arbitrum ecosystem related program? [yes/no, please provide any details around how the funds were allocated and any relevant results/learnings(Note: this does NOT disqualify an applicant)]

Perennial Finance

Yes, we received an STIP grant. Results discussed in the past incentivization section.

Kwenta: No

Protocol Performance: [Detail the past performance of the protocol and relevance, including any key metrics or achievements, dashboards, etc.]

Perennial Finance

Perennial v1 highlights: Perennial performed quite well in its early days on Arbitrum: $1B in volume, ~$10M in notional liquidity, and 9,600+ unique traders in the first three months on Arbitrum. We proved the fundamental concepts behind Perennial as an on-chain primitive and went back to the drawing board (building Perennial V2) to improve the fundamental infrastructure upon which Perennial is built to allow it to scale.

Our Recap post covers some milestones we hit:[Perennial Q1 Recap & Outlook. Since mainnet launch at the end of… | by Perennial Labs | Perennial Protocol | Medium]

Perennial v2

KPIs:

- $550M in Total Volume
- $10-26M in Total Liquidity Sustained (since early November)
- 9,207 Users
- $428,406 in Fees
- Average of over 3x Liquidity to TVL

Perennial V2 launched in October and has been off to a strong start.

What Went Well:

- Proved out Model as a Scalable Liquidity Layer
- Perennial capital efficiency has been on display in V2. When taker demand has been high, LPs have been using high leverage to scale up. The bulk of pro makers used 3-5x leverage, but we had some as high as 15x. We reported in Our Network that we had an LPs at just over 7x leverage who were earning 204%+ APR of in-protocol yield (before considering incentives). [See here](#).
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- Interface Onboarding for an Ecosystem-First Primitive
- Perennial has outperformed protocols multiples of our size on this front. Fundamentally, Perennial is infrastructure, and we've structured ecosystem incentives, such that, long-term, Perennial labs will be able to shut down their front-end (B2B route). Perennial V2 has attracted early integrations with Kwenta (1st), Ragetrade (early partner, in beta), Cryptex (1st) and more. These integrations offer sticky distribution of Perennial liquidity to traders. We continue to focus on being the most efficient liquidity layer, while partnering closely with the best trading applications.
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- Novel Market Launches
- Perennial has been among the first to market with a number of markets, including RLB, JUP, ETH^2, BTC^2. And these markets often end up near the top of volume traded on given days (especially around their launch). Novel & custom markets, like NFT markets continue to drive trader & integrator interest.
- Perennial has been among the first to market with a number of markets, including RLB, JUP, ETH^2, BTC^2. And these markets often end up near the top of volume traded on given days (especially around their launch). Novel & custom markets, like NFT markets continue to drive trader & integrator interest.

What Didn't Go As Well:

- Trader Consistency
- Perennial V2 has some of the best tech on the market (and we're building even better) and has proved it's capable of really big things, but it needs consistent taker flow to do so.
- Takeaways for This Grant: This why a partnership with Kwenta is so huge — it solves the cold start problem for taker demand. Perennial peaked at over $12M in OI and has seen many big days of trading (24 ATH: $69M), but further distribution efforts to traders will help smooth out KPI performance.
- Perennial V2 has some of the best tech on the market (and we're building even better) and has proved it's capable of really big things, but it needs consistent taker flow to do so.
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- Vaults (Retail LPs)
- Volatility-sensitive Perennial vault users were tough to retain.
- Takeaways for This Grant: Perennial has updates in Perennial 2.2, which will help balance longs/shorts in a much tighter range (reducing delta exposure for LPs, and we're working with a couple different groups on delta-neutral market making vaults (to help retail provide liquidity with limited risk). Additionally, we shift our focus to more efficient pro LPs.

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Kwenta

Kwenta has grown with the Base, Optimism, and Synthetix community to establish a foothold as one of the leading on-chain perps DEXs. Through active community engagement on Discord, specialization in refining UX via direct user feedback, maintaining an active presence in community-relevant platforms including active participation in external communities on Discord, Twitter, and Farcaster, and direct engagement with key traders, we have developed a loyal user base. Kwenta users are exceptionally involved in the product itself through direct marketing and account management including personalized incentives and feedback solicitation which is the key to Kwenta's unique strategy for ensuring traders participate across new chains and integrations.

Kwenta maintains roughly 10% market share of all on-chain perps activity, ranks among the top three perps DEXs for OI, and uses minimal incentives to maintain an organic user base by over-indexing on product quality and community engagement. Given the prevalence of incentive initiatives in the ecosystem, Kwenta's exceptionally high open interest — a metric which is not explicitly incentivized and represents genuine demand for perps exposure — is the best indicator of the genuine value Kwenta brings to Arbitrum.

KPIs:

- ~$50B in On-chain Perps Volume
- ~120M/Daily Volume Average
- 18K+ Traders
- 400 DAU
- Average Open Interest of $100-200M
- ~10% of All On-chain DEX Perps Volume

Kwenta's most recent deployment on Base with Synthetix V3 has has surpassed 500M in volume in a matter of two months while in a beta phase. This exceptional performance would be a success for any new product in early development, however Kwenta's performance has been achieved with significant limitations on open interest and available markets, as well as 0 allocated incentives. Despite being available for public testing, the process of lifting early constraints only began in earnest as recently as March 28th, meaning the bulk of these achievements were accomplished in only a few weeks of active migration. We feel strongly that we can far surpass these results by working alongside Perennial on Arbitrum with this proposal.

Protocol Roadmap: [Describe relevant roadmap details for your protocol or relevant products to your grant application. Include tangible milestones over the next 12 months.]

Perennial Finance

New Markets

- Commodity & Currency Markets (Ready)
- Memecoin Markets (Ready)
- Nft Markets + Astaria Integration (Audit Done)
- Exotic Rwa Markets
- Chainlink Low-Latency Oracle Integration (Audit Done)

Protocol / Infrastructure

- Perennial SDK (Ready)
- Improved Price Impact Logic (Audit Done)
- Multi Invoker Optimisations For Gas Savings (Audit Done)
- Yield-Bearing Collateral For Perennial
- Multi-Collateral
- Integration With Market Making Vaults (Let Retail LPs Replicate Pro Strategies)
- 1-Click Trading Protocol Infrastructure
- Basis-Trade Vault
- Revamped Retail & Interface Referral Logic (Audit Done)
- Perennial Intent Layer [Shhh]

Community

- Community Loyalty Program
- Perennial Vip
- Customized Market Launches

Kwenta

Key Highlights

- Launch of Perennial Markets on Arbitrum
- Custom User Notifications
- Web2 Login UX
- Account Abstraction (1-Click Trading)
- Aggregation Infrastructure
- Perps Agnostic Margin Engine
- [Redacted] to Revise Tokenomics Model
- Mobile-First Experience (PWA)
- Cross-Chain Abstraction
- API Development

Audit History & Security Vendors: [Provide historic audits and audit results. Do you have a bug bounty program? Please provide details around your security implementation including any advisors and vendors.]

Perennial Finance

Audit History:

- MVP Audits:
- Code Arena 1 (MVP) - Full Audit Contest
- Code Arena 1 (MVP) - Full Audit Contest
- Version 1 Audits:
- Sherlock (v1.0) - Full Audit
- Sherlock (v1.1) - Update Audit
- Sherlock (v1.2) - Update Audit
- Veridise (v1.3) - Full Audit

- Sherlock (v1.4) - Full Audit Contest
- Sherlock (v1.0) - Full Audit
- Sherlock (v1.1) - Update Audit
- Sherlock (v1.2) - Update Audit
- Veridise (v1.3) - Full Audit
- Sherlock (v1.4) - Full Audit Contest
- Version 2 Audits:
- Zellic 1 (v2.0) - Full Audit
- Sherlock 1 (v2.0) - Full Audit Contest
- Sherlock (v2.0) - Fix Review
- Sherlock (v2.1) - Full Audit
- Sherlock (v2.2) - Announcement (Audit Complete)
- Zellic 1 (v2.0) - Full Audit
- Sherlock 1 (v2.0) - Full Audit Contest
- Sherlock (v2.0) - Fix Review
- Sherlock (v2.1) - Full Audit
- Sherlock (v2.2) - Announcement (Audit Complete)
- Insurance:
- Sherlock (and working to scale up to $5mn)
- Sherlock (and working to scale up to $5mn)
- Bug Bounties:
- Immunefi
- Immunefi

Kwenta

Bug Bounty Program with Immunefi

Audit History

- Smart Margin v2 Audits
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro
- 0xMacro

- Smart Margin v3 Audits
- 0xMacro
- Guhu (3rd part auditor)
- Omniscia
- 0xMacro
- 0xMacro
- Guhu (3rd part auditor)
- Omniscia
- 0xMacro
- SCW-Contracts Audits
- OXcommit
- OXcommit
- Staking V2 Audits
- Guhu
- 0xMacro
- Omniscia
- Guhu
- 0xMacro
- Omniscia

Security Incidents: [Has your protocol ever been exploited? If so, please describe what, when and how for ALL incidents as well as the remedies to solve and mitigate for future incidents]

Perennial Finance: No exploits

Kwenta: No exploits

SECTION 3: GRANT INFORMATION

Detail the requested grant size, provide an overview of the budget breakdown, specify the funding and contract addresses, and describe any matching funds if relevant.

Requested Grant Size:

1.9M ARB over 3 months (which equates to 633.3k ARB per month)

Justification for Grant Size and KPIs — The justification for your grant size should be much more robust and arrived at through detailed calculations — Please refer to our guidance document when completing these.LTIPP: Framework and examples for grant size definition

Key Qualitative Justifications

- Kwenta would be the #2

on-chain derivatives protocol by volume & OI on Arbitrum (some days, even #1

)

- Onboarding Kwenta users to Arbitrum brings net-new flow to the ecosystem — from one of Arbitrum's biggest competitors.
- This sets a strong ecosystem precedent of supporting projects that organically join the ARB ecosystem, hopefully helping to support the next wave of project onboarding.

- Kwenta x Perennial are Arbitrum aligned & not here just because of incentives. Perennial has been live on Arbitrum since February 2023, and Perennial V2 is native & exclusive to Arbitrum. Kwenta sought out an Arbitrum deployment in response to genuine user demand & alignment with product roadmap — not in response to an incentive program.

- An opportunity to expose Arbitrum users to a tier-1 interface frequently praised as the best perps experience in DeFi. The best products will deliver outsized returns for the Arbitrum ecosystem, and Kwenta is, without a doubt, a category leader.

High-Level Quantitative Justifications

At a high level, Using STIP.b & LTIPP rewards as a baseline (in ARB):

Protocol

Monthly STIP.b / LITPP

Total ARB

GMX

2.00M

6.00M

MUX

1.00M

3.00M

Gains

0.75M

2.25M

Kwenta x Perennial

0.63M

1.9M

Aark

0.3M

0.9M

Kwenta typically does real OI & volume numbers well above each of these protocols other than GMX.

The best way of comparing Perps protocols is by Open Interest. Open interest is the cleanest way of measuring platform growth & fundamental retail flow of a perps exchange because it is much harder to fake than volume, which can easily be manipulated by wash trading (high volume, low OI is a textbook indication of wash trading).

Kwenta would be the #2

Perps exchange on Arbitrum and routinely does a multiple of the open interest of its peers.

Open Interest Comparison:

- GMX: OI routinely in the $100M-$300M range. Currently around $200M.

- Kwenta (source 2): routinely has OI in the $80M-150M range. Currently at $45M.

- Gains: OI typically in the $20M-40M range. Currently at $15M.

- MUX: OI typically in the $20M-$40M range. Currently at $11M.

- Aark: OI typically in the $1-2mn range (no days over $3mn). Currently at $2M.

Full Quantitative Justifications

FULL MODEL HERE

To determine the ideal grant amount, Perennial modeled out each of the 3 parts of the grant (quests, fee rebates, and liquidity), and summed the amount up.

Quests:

Note: The full methodology is detailed in Section 4.

Quest 1: User Onboarding

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Goal: onboard as many users as we can by offering a simple, one-time conditional incentive.

The reward is available to any eligible Kwenta user who completes the quest (i.e. onboards to Kwenta on Arbitrum and opens a couple trades). There were 11,000 traders on Kwenta in the past year, and we conservatively think we can onboard at least 20% (2,200 users) of these with a one-time bonus of $50. 2,200 users feels quite attainable — Kwenta on base has onboarded over 400 users in 1.5 months without onboarding incentives. $50 was chosen to be an eye-catching amount that we can serve to users (and a more competitive amount than most quest-based onboarding incentives through something like Coinbase earn which typically range from $5-25). This group of users are generally higher-value & more sophisticated than an average quest program would target, so this justifies the additional cost.

The grand total of this comes out to $110,000 to onboard 2,200 users.

Quest 2: Weekly Rewards

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Goal: active trader incentivisation & retention.

Designing Quest 2 begins by defining tiers for different rewards levels for quests. We use a snapshot of 180-day volume thresholds to break up users into different groups based on percentile (10%, 20%, 30%, etc.). (Note: to avoid gaming of tiers, we'll take a snapshot as of the day of this post to determine the tiers)

There were about 900 users who traded at least $10k in the past 180 days on Kwenta. We group the bottom 40% of users into Tier 1, and separate the top 500 traders into many different tiers, each with increasing rewards per tier, allowing them to earn higher rewards. Tier 2 users or higher are eligible to earn a share of their tier for completing the weekly volume threshold & a cut of all tiers below it (i.e. Tier 3 users can also earn a cut of Tier 2 & 1).

Within each tier, we estimate that we can convert about 35% of users. We use Kwenta on Base as a benchmark: 400+ users, currently at about 50 DAU for a new/developing protocol without incentives. This would be about 13% organic conversion for new protocol launch (with only a few markets), so we think we can do around 3x this conversion with incentives that encourage onboarding & retention. Additionally, our entire approach is extremely targeted, which supports strong conversion rates. We select & skew rewards toward the most active users, and have a direct relationship with users to serve rewards & route these people to Arbitrum, so the rate of conversion should be materially higher than broad onboarding programs.

The rewards per tier are designed to target a 5.0 or greater LTV/CAC (the amount of value you get from a user, relative to their acquisition cost), which would be considered a strong benchmark for a fintech app (anywhere in the 3-5x would be solid). We scale the rewards to account for higher cost of user onboarding & retention for larger users. Additionally, while most tiers have 100 or more users eligible, we add additional tiers that are only available to the top 50 & top 21 traders (Tier 7 & 8) to give top traders the opportunity to earn outsized rewards. DeFi is a whales-driven game, and thus, a flat onboarding incentive is not enough to encourage recurring usage from big players. The biggest users have extremely high value to Kwenta/Perennial & the broader ecosystem, so the rewards to encourage them to onboard must scale in tandem.

The first tier has a slightly lower LTV / CAC since it spans users of many different costs of acquisition, however, 3.0 is still considered a very strong ratio. This LTV for tier 1 is brought down by the least valuable users on paper; however, we hold these users to a higher standard ($15k/week volume) to filter out low-value users.

Total rewards were calculated by assuming some amount of users get converted to share in the reward pool of each tier in a given week, and then multiplying the rewards per user by the 12 weeks of the program — this gives us the total cost of customer acquisition (CAC) over 3 months. Note that CAC in the chart above assumes the user stays on for all 12 weeks, so this value represents the cost of onboarding a 3-month recurring user. We can then compare this to the lifetime value of a user (LTV) to get a sense of whether or not paying the CAC amount is justified by the value the users bring.

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LTVs on the second tab shows a best case (Bull), base case (Base), and worst case (Bear) estimation of the value a user will bring to Arbitrum over time. To calculate the LTV, we start with an estimation of average total volume across Arbitrum DeFi per month (which includes volume on Kwenta/Perennial and other DeFi protocols). We show this for many different average volume levels, corresponding to the levels of Kwenta traders (i.e. Kwenta has traders who average everywhere from a few thousand to over $50M per month).

We assume an average fee rate across DeFi usage. Some benchmarks: Perps (4-10bps), Swap (10-30bps), Vaults (20-40bps). We assume that smaller users by volume are more likely to be trading less perps, but doing more lower volume, higher-fee activities (like swapped in high-cost DEXs). Conversely, we assume that bigger perp traders are predominantly focusing volume on perps, so their average free rate & average volume is much closer to that of Kwenta/Perennial.

Using the average monthly volume & average fee rate, we can calculate the average annual fees a user brings to Arbitrum. Last, we must assume some level of churn, meaning a rate at which users decide to stop using Arbitrum. This report gives some insight into retention on Arbitrum, showing 8-week simple address retention of about 20-30%. Note that this report is from early 2023, so it’s a bit early in Arbitrum’s lifetime & growth (would assume the actual retention is notably higher now, so we can use this as a low-end estimate). If we extrapolate this data to 52-week, the retention rate would be lower; however, for active DeFi users, and specifically a targeted group of users on Kwenta, the retention rate is likely to be notably higher. So we balance estimated churn (the inverse of retention) to be roughly in the 60-80% range (meaning of the users we convert, retention of those for Arbitrum is 20-40% over a year.) Note: playing around with churn doesn’t change the results all that much. The average volume & fee rate are the key inputs driving most of the results.

The core takeaways from LTV modeling is that, even at high rates of churn, power DeFi users add a huge amount of value to Arbitrum and thus can justify large onboarding costs. And onboarding many small users is needed to equal the value of onboarding one of the largest power users.

Note: The weekly thresholds are detailed in section 4.

Fee Rebates

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Fee rebates are modeled using a daily volume target, an average fee on Perennial & Kwenta (though Kwenta doesn’t charge fees), and some percentage of total fee rebated.

Volume is targeted to grow from $10M per day in Month 1, to $25M in Month 2, and $50M in Month 3. The target for Month 1 is based on historical usage of Perennial — in periods of influx of trader demand, Perennial, with modest, or even no, incentives has been able to sustain around these levels, so we think this is a very conservative 1st month estimate for launching as a new deployment for Kwenta’s userbase.

Month 2 is largely based upon the fundamental activity for Kwenta on Base — about 1.5 months in, Kwenta is averaging $16M+ in daily volume & is doing days in the $30-40M range. Given that Arbitrum has been in higher demand from Kwenta users & Perennial’s product will be a much more built out product than what currently exists on Base (only 6 markets, low OI caps), $25M daily volume should be easy to accomplish.

For Month 3, we set a goal of hitting $50M daily volume. We think Arbitrum can become as competitive for users as any of Kwenta’s other deployments. Kwenta over the past year has averaged over $120M in daily volume, so we think Kwenta & Perennial on Arbitrum are well positioned to capture a strong portion of this. Additionally, a large portion of Base’s volume has been driven by net-new markets (ex. $WIF), which will be Perennial’s bread & butter, and a huge differentiator for Kwenta on Arbitrium vs other networks, so this should allow for growth beyond Kwenta’s current volumes.

Average fee on Perennial is around 4bps, the current base fee for ETH/BTC/Majors. Longer-tail markets may have 6bps, 8bps, or higher fees, but we assume 4bps to be conservative.

80% is chosen as a rebate amount to avoid rebating the whole fee and forcing the trader to also put some skin in the game. Rebating most, but not all, is a standard mechanism used across incentive programs in DeFi.

Summing up the costs of rebates per month equals $816,000 in total rewards, with most of the fee rebates coming in month

3 when volume has scaled. Note that fee rebates will always be less than total fees paid, so no incentive to wash trade exists. And if volume does not reach the target volumes, no ARB will be wasted. This ARB will go unspent and will be rolled over to future weeks and ultimately (if still not spent) returned at the end of the program.

Liquidity Incentives

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Similar to fee rebates, modeling liquidity incentives is done by forecasting an amount of liquidity needed each month & an average cost of liquidity (APR %).

Recall that in perennial, Maker OI does not equal total liquidity, as longs & shorts are natively netted, allowing liquidity (and taker OI) to become a multiple of Maker OI. For example, if there are $10M in longs & $9M in shorts, Perennial only needs $1M (plus some buffer, say another $1-2M) to back the market.

For Month 1, we project we'll need about $25M in Maker OI for Perennial. This works out to about $9M in Maker OI for each BTC & ETH markets, and $7.5M for long-tail & novel markets. This serves two purposes: 1) supporting actual Perennial activity (i.e. if we assume 10M/day in volume in month 1 and some amount of OI, we need to be able to support this. 2) A large enough buffer to give traders confidence Perennial liquidity is sufficient (i.e. we want to overshoot the amount we actually use to help remove fears of users onboarding). Using Perennial's average liquidity to TVL ratio over the past STIP program, these Maker OI amounts would mean about $30M in liquidity for BTC & ETH, and $22.5M for long-tail assets.

The average cost of maker OI in month 1 will be 15%. This is the hurdle rate quoted by pro market makers to Perennial. This 15% is sufficient incentive because pro makers can use leverage, meaning that the actual yield on underlying capital can easily scale up to 50%+ APR on USDC. This rate assumes there isn't a strong guarantee of in-protocol yield that would allow market makers to reduce their incentivisation rate. With strong in-protocol yield, we may be able to reduce the rate of additional ARB incentives notably (ex. We've had LPs earning as high as 200% APR in core markets, so in this environment, additional ARB incentives wouldn't be needed).

In Month 2, Perennial is targeting to scale up volume by 2.5x Month 1. As such, some more liquidity is needed, but likely not that much more — as in-protocol yield picks up, we think the need for significant additional liquidity will decrease and the rate required to pay market makers will decrease. Thus, we project only a 40% increase in additional capital needed, despite such a high increase in projected volume. Again, this serves to both cover the additional usage & still provide a sufficient buffer for onboarding new users.

In Month 3, the amount actually can be reduced because we project that volume will have picked up enough to sustain plenty of fundamental liquidity in the protocol. This additional amount is largely only needed to provide an additional buffer to support seamless taker growth for Kwenta users. While not directly modeled, we also think we should be able to lower the relative amount of incentives going towards BTC & ETH (which will likely be the first markets to become sustainable) & redirect some rewards to help bootstrap longer-tail & novel markets, especially those that only exist on Arbitrum (to help with users onboarding).

Total

Summing these up gives us the following estimated monthly & total costs, which land in line with our total ask of 1.9m ARB.

Month 1 Total

$558,333

485,507

ARB

Month 2 Total

$785,667

683,188

ARB

Month 3 Total

$942,333

819,420

ARB

Average Monthly

$762,111

651,377

ARB

Total

$2,286,333

1,954,131

ARB

PROPOSAL TOTAL

1,900,000

ARB

PROPOSAL PER MONTH

633,333

ARB

Grant Matching: [Enter Amount of Matching Funds Provided - If Relevant]

Perennial Finance

Perennial does not currently have a token. If Perennial launches any sort of community loyalty program, we will work to align this program with the program here, to amplify user loyalty to Perennial & Arbitrum.

Kwenta: Kwenta has an in-house trading incentives structure that would be extended to Arbitrum upon launch with Perennial. This program offers over 1400 KWENTA (175,000 USD) to traders each month which is distributed based on proportional volume generated per user. During the three month period outlined in this proposal, Kwenta will enable Arbitrum traders to access 4200 KWENTA (525,000 USD) in trading rewards.

Grant Breakdown: [Please provide a high-level overview of the budget breakdown and planned use of funds]

See above for the full detailed breakdown of allocations.

Onboarding incentives: 33%

Fee rebates: 36%

Liquidity Bootstrapping: 36%

Funding Address: [Enter the specific address where funds will be sent for grant recipients]

0x1813505eDB82a5c0Fc39DDB13213aC530Eb5DB6e (2 of 3)

Note that this is the Kwenta Treasury DAO multisig which will receive the funds.

Some funds for liquidity may be sent from Kwenta's multisig to Perennial's multisig: 0xcc2A6ef429b402f7d8D72D6AEcd6Dfd0D787AcfF (2 of 3)

Funding Address Characteristics: [Enter details on the status of the address; the eligible address must be a 2/3, 3/5 or similar setup multisig with unique signers and private keys securely stored (or an equivalent custody setup that is clearly stated). The multisig must be able to accept and interact with ERC-721s in order to accept the funding stream.

Kwenta: Gnosis Safe with 2/3 signers

Perennial Finance: Gnosis Safe with 2/3 signers

Treasury Address: [Please list out ALL DAO wallets that hold ANY DAO funds]

Perennial Finance: N/A

Kwenta:

- Treasury Addresses
- GnosisSafeProxy | Address 0xD86ce2D00A3C139e21517E4bB6A55d398E81B79a | Etherscan
- GnosisSafeProxy | Address 0x82d2242257115351899894eF384f779b5ba8c695 | OP Mainnet Etherscan
- [https://basescan.org/address/0x2f4004Bc32cc5D18a62fE26E35A0881d5397c549

](https://basescan.org/address/0x2f4004Bc32cc5D18a62fE26E35A0881d5397c549)

- GnosisSafeProxy | Address 0xD86ce2D00A3C139e21517E4bB6A55d398E81B79a | Etherscan
- GnosisSafeProxy | Address 0x82d2242257115351899894eF384f779b5ba8c695 | OP Mainnet Etherscan
- [https://basescan.org/address/0x2f4004Bc32cc5D18a62fE26E35A0881d5397c549

](https://basescan.org/address/0x2f4004Bc32cc5D18a62fE26E35A0881d5397c549)

Contract Address: [Enter any specific address that will be used to disburse funds for grant recipients]

Perennial Finance: SeasonalMerkleClaim | Address 0x4fc1cc62e5d0b12f5a9e3213b4177d2edb301f30 | Arbiscan(merkle drop contract from STIP distributions)

Kwenta: N/A

SECTION 4: GRANT OBJECTIVES, EXECUTION AND MILESTONES

Clearly outline the primary objectives of the program and the Key Performance Indicators (KPIs), execution strategy, and milestones used to measure success. This helps reviewers understand what the program aims to achieve and how progress will be assessed.

Objectives: [Clearly state the primary objectives of the grant and what you intend to achieve]

Goals:

1. To Onboard New Users To Kwenta On Arbitrum — This includes existing Kwenta users on Optimism & Base, sidelined Kwenta community members who have demanded to trade on Arbitrum, and CEX traders (or new DeFi) traders. This mostly concerns the top of funnel — we want tons of users from other ecosystems to have a reason to give our products & the Arbitrum a try (in hope they'll stick around).

2. To Retain New Power Users To Kwenta, Perennial, And Arbitrum — We hope to onboard & incentivize recurring usage from the highest value users from other ecosystems (the power users). These users will deliver outsized value for Kwenta & Perennial, and the broader Arbitrum ecosystem.

3. Mutual Growth Of Kwenta & Perennial — We think the combination of Kwenta & Perennial represents a close partnership of two of the best teams in the ecosystems that together will be a force for onboarding tons of net-new users to Arbitrum well beyond the duration of this grant. The best teams will deliver outsized ecosystem value, and we think Kwenta x Perennial is one of them.

Execution Strategy: [Describe the plan for executing including token distribution method (e.g. farming, staking, bonds, referral program, etc), what you are incentivizing, resources, products, use of funds, and risk management. This includes allocations for specific pools, eligible assets, products, etc.]

As a first principle, Kwenta & Perennial will remain nimble in distribution methods. We will use on- & off-chain data with off-chain rewards distribution to maximize flexibility, and we will experiment with different forms of onboarding incentives and adjust based on what's working or isn't.

The core of our distribution strategy is to heavily utilize Kwenta's frontend application to onboard net-new users to Arbitrum. This is a core differentiator between our strategy and that of others attempting to onboard users — Kwenta & Perennial have the practical means to execute. Kwenta is the leading source of retail flow on Arbitrum, and has a huge & active existing user base to serve direct incentives to. This setup is incredibly unique. Kwenta has power users who visit the protocol every single day (or week or month), and many who visit many times per day. This means Kwenta & Perennial have a practical avenue to communicate with wallets using the protocol by waiting for the user to come to the UI & serving them customized Toasts & pop-ups to share incentive opportunities. We think this will give us the ability to onboard net-new users at a pace & conversion rate that is unprecedented among Arbitrum incentive programs. Compare this setup to a stablecoin, lending, yield farm / vault protocol, stable/spot dex, etc. where users are often infrequently visiting the UI and/or the bulk of users are bots who never access the UI — these protocols will have a much harder time onboarding & converting users to Arbitrum, relative to Kwenta & Perennial.

As a prerequisite, we'll start by creating a best-in-class UX for migrating to Arbitrum: The cost & effectiveness of onboarding net new capital to Arbitrum will be dependent on the UX of getting to Arbitrum. This includes: in-app migration flow, utilizing a bridge aggregator and/or market makers (if needed) to minimize clicks, cost, and time of migration. Goal would be to create a seamless "Zap" from other chains to Arbitrum.

High-Level Breakdown:

- 33% Targeted Trader Onboarding Incentives (Kwenta)
- 36% Targeted Fee rebates (Kwenta)
- 36% Liquidity Bootstrapping (Perennial) *

*This will be treated as a maximum value (up to 36%). If less than the allocated amount is needed for liquidity incentives, this amount will be rolled over into Onboarding incentives or fee rebates. Traders will need ample liquidity to create a strong onboarding experience, but once onboarded, Perennial liquidity infrastructure is designed to scale very well with demand, so the hope is that we may not need as many incentives here as allocated.

1) Targeted Trader Onboarding Incentives

The goal of this bucket is to incentivize net-new users from other ecosystems to come to Arbitrum & stay. We start by defining 2 groups of users for which we will use custom incentives to target each group.

Quest 1 (Mass Onboarding): This targets the long-tail of users (Target: 2,200). This quest may be restricted to any Kwenta user in the last year (about 11,000), filtered for sybils.

Incentive: Structured as a two-step quest: Users are served a notification in the Kwenta app to onboard to Perennial & receive a reward of up to $50. Objective is to cover the user's cost of migrating, as well as offer enough incentive to get them to take action. Costs of migration may include closing a position, bridging, swapping from sUSD to USDC, and opening new positions. To earn the reward, users will need to onboard to Arbitrum, and open at least two trades of at least $1000. After completing this, the users receive rewards & become eligible to qualify for much higher rewards by participating in the trading quests. Quest 2 Rewards are immediately advertised to users to encourage them to participate in the next steps of the quest.

Quest 2 (Active Trader Incentivisation & Retention) — This targets active/power users. While this is open to everyone who meets the minimum criteria, the rewards will be notably skewed towards the largest, most active traders. This group may be defined as any Kwenta users in the last 6 months with at least 2 trades trades & $10,000 in volume.

Incentive: Structured as a 12-week quest (though users may join along the way). The pool of rewards for this will be broken into many different tiers, each with increasing volume thresholds to qualify for each tier. Each tier will have an amount of rewards, with higher rewards tiers having more rewards. All users within a tier that qualify for rewards in a given week (by meeting a required volume threshold) will split the rewards pool evenly (well, not quite evenly because of the multipliers, discussed next).

However, each user has a retention multiplier that starts at 1x — each week a user qualifies for rewards within a given tier, they receive a 20% increase in this multiplier, meaning they begin receiving a larger portion of rewards. Multipliers compound each week, so Active users begin to dilute the rewards of less active users.

To start, users will be assigned to tiers based on their historical trading volume on Kwenta on Optimism. To qualify for a reward, Users in a tier are given certain volume thresholds they must meet in that week. If a user hits their volume target, they will be eligible to earn a cut of the rewards in that tier AND all tiers below it. If a user in a higher tier does not hit that tier's threshold, but they do hit a lower threshold, they will be eligible for a cut of rewards in the lower threshold this week. However, as of now, users are not able to move up tiers (by doing more volume). We think it would be a nice addition to the mechanism to allow upward movement in tiers, but restrict this at launch to minimize gamability.

Additionally, users will have the option to receive ARB at the end of the week or choose to vest it over the course of 3 months. Users who choose to vest their ARB will receive a 50% increase in their multiplier for the following week (structured as binary for each week, so not compounding). This encourages users to vest the ARB they receive.

Quest 2 Starting Tiers / Thresholds:

Thresholds were determined by looking at 180 day Kwenta volume. Each Tier segments off about 100 users, except for tier 7 & 8, where only 50 & 21 users qualify, respectively.

Rewards per tier were determined by scaling rewards as the value of the potential users scales, so that CAC & LTV scale together (at around a 5x ratio, discussed in section 3). These rewards will be distributed on a per week basis, so we can tweak the rewards amount on a weekly basis if needed.

Weekly thresholds (for receiving rewards) are set to target a reasonable amount to expect an average user within each tier to trade in a week (using their previous 180-day behavior on Kwenta as a benchmark). Note that thresholds are slightly higher on a relative basis for smaller users to weed out people who may have tested out Kwenta but not stuck around (so requiring more commitment). Then, for higher tiers (larger, more frequent users), the weekly thresholds very closely align with their average volume per week on Kwenta.

Tier	Kwenta 180d Threshold	Weekly Threshold	Rewards Total
1	$10,000	15,000	24,000
2	$434,000	30,000	18,000
3	$960,000	60,000	30,000
4	$2,200,000	100,000	55,000
5	$5,150,000	250,000	75,000
6	$20,000,000	1,000,000	150,000
7	$45,000,000	2,000,000	150,000
8	$115,00,000	5,000,000	150,000

Source: [Perps AI]

Note: All the thresholds & parameters involved in this are subject to change, and we'd encourage feedback on the incentive mechanism design proposed here.

Additional Considerations

Tradeoff of level of targeting & dev time

— We think the mechanism described here is both practical to implement & sufficiently targets incentives at the most valuable users. For segmenting traders by cohort & tier, we'll likely use a tool like Boost to reduce dev time/overhead. We've already discussed this with the Boost team.

We have some more ideas on cool things we could do to trigger usage among users onboard, but some of these will depend on dev capacity: Ex. we could try to target users who are most likely to be fundamental users of Kwenta on Arbitrum. So perhaps a user on Kwenta shows they like to trade memecoins or hold a ton of NFTs in their wallet. We could create a custom quest for this user/group to come try out the memecoin/NFT markets that only exist on Kwenta's Arbitrum instance (built on Perennial).

Another idea would be to make an "ecosystem participation" multiplier, so users who meet some threshold of participation in other Arbitrum protocols will earn outsized ARB rewards on Kwenta.

The Progression Of Incentives In This Program:

- Incentive to onboard & try out Arbitrum
- Incentive to scale up usage to receive higher rewards
- Incentive to come back each week to start a new quest & earn that weeks' rewards
- Incentive for consistency to increase the multiplier, thereby increasing the share of rewards
- Incentive to vest rewards to show Arbitrum alignment, thereby increasing rewards

If this model for onboarding users is successful, we may be able to replicate it using other protocols/ecosystems.

Big Rewards For High-Value Users

— At higher tiers in quest 2, power users have the ability to receive quite significant rewards. This is intentional — high-value users have a high cost of onboarding, and are worth the cost to Arbitrum because they also have a high lifetime value. One criticism we have of other programs attempting to onboard new users is that they don't target the highest-value users well and suggest CACs which are way too low for power users (with the end result being that they don't onboard power users). If we want the whales to onboard, we have to give them scaled incentives.

Qualitative Thoughts CAC & LTV of Arbitrum DeFi Users

— As a supplement to our quantitative CAC & LTV estimates, it's worth noting why these users are so valuable, and why we believe onboarding Kwenta users to Arbitrum may be the highest value spend of any Arbitrum incentives program thus far:

1. Net New Capital — A clear criticism of STIP was that protocols didn't do enough to onboard new users and capital to the ecosystem. This mechanism is specifically designed to onboard new users to Arbitrum, with the unique benefit of being able to use Kwenta as a portal to do so.
2. Prime Retail Flow — Kwenta has one of the largest retail user bases in all of DeFi. We're not onboarding bots & arbitrageurs, this is some of the highest quality flow, the kind that will help Arbitrum DeFi stay in business.
3. DeFi Power Users — Kwenta has a few hundred of some of the biggest DeFi power users, the kind that will drive substantially outsized to Kwenta, Perennial, and broader Arbitrum ecosystem

Cost Of Customer Acquisition In A Pooled Model

— In Quest 1, the CAC is fixed, so we know exactly how much we're going to pay for a given user. In Quest 2, the rewards are pooled, making the reward a user receives variable, dependent on how many users are onboarded. On one hand, this is great mechanism design — as creates outsized incentives for early adopters and allows Arbitrum to onboard users at different CAC price points. However, it does come with some added risk — if not many users onboard, we could end up overpaying for users acquisition, relative to the value users bring. To defend against this, we'll build in the ability to set a maximum ARB per user within each pool. We're confident we won't need this, but it'll be a safeguard just in case. We've modeled user onboarding & volume targets conservatively & are more than confident we can hit these.

Iterative Approach to Quest 1 & Quest 2

— It's important to remember that we'll remain nimble in our distributions. The original mechanism design & parameters are solid starting points but may not be perfect. We'll actively take in community feedback & monitor data from the distributions to understand where things can be improved & adjust week over week.

Sybil / Wash-trading Resistance

1. Sybil-Filtered Set Of Eligible Users — participation in quest 1 & quest 2 is gated by criteria that specifically filters out potential sybil addresses. Starting with a targeted group helps remove much of the risk here. Furthermore, there hasn't really been an incentive to create sybil usage through Kwenta (they've had a token around for a long time & haven't had sybilable incentive programs). So the attack surface here is one user having a couple accounts that used Kwenta, not one user with 1000 accounts. We can also work with Slice (or another data provider) to do wallet matching to decipher which wallets are likely connected to help reduce the risk of duplicated users. (Note: the cost of onboarding Slice or another group will not utilize the program budget).

2. Sybil Filtering At Time Of Rewards — each week when we're distributing rewards, we can perform some simple checks to filtered out users with multiple addresses (a simple example: 2 addresses claiming from the same IP address). We can 0 out these users. Perennial & Kwenta have both run some form of this for previous rewards programs.

3. Tier Thresholds & Weighted Rewards To Higher Tiers — we scale the rewards per tier as month volume increases, so less rewards for lower tiers, and more rewards for higher tiers. This should limit value capture for users with multiple accounts, as these accounts will predominantly be lower-tier users.

4. Weekly Usage Thresholds — while not directly preventing sybiling, we can set weekly thresholds for volume high enough to limit value capture from potential sybil. As the bonus amount approaches fees paid to the protocol to acquire the bonus, the incentive to sybil goes to 0.

Quest 2 Illustrative Example:

3 Users & 2 tiers with 200 total ARB to distribute each week. Both tiers have 100 in ARB to allocate each week.

User Historical Volume:

U1: $100

U2: $225

U3: $300

Tiers & Volume Threshold:

T1 (100 ARB): $50

T2 (100 ARB): $200

U1 only qualifies for T1, while U2 & U3 qualify for T2. Everyone starts with a 1x threshold

At the end of week 1, all 3 users meet their volume thresholds. T1 rewards are split between all the users, so each user is entitled to 33.3 ARB from the T1 pool. T2 pool is only split between U2 & U3, so 50 ARB goes to each.

Week 1 Rewards:

U1: 33.3 + 0 = 33.3 ARB (–> 1.2x multiplier)

U2: 33.3 + 50 = 83.3 (–>1.2x multiplier)

U3: 33.3 + 50 = 83.3 (–> 1.2x multiplier)

Now suppose a different scenario (forget week one). The quest is multiple weeks in, and U1 has hit thresholds every week, U2 has hit none, and U3 has hit a couple. Now now the multipliers are as follows:

U1: 3x

U2: 1x

U3: 2x

Now, all 3 users hit the reward thresholds for this week, so again, T1 is split between the 3 users, and T2 is split only between U2 & U3, but this time, the multipliers skew the distribution.

U1: 50 + 0 = 50 ARB

U2: 16.6 + 33.3 = 50 ARB

U3: 33.3 + 66.6 = 100 ARB

2) Targeted Fee Rebates

66.6% only available for existing Kwenta addresses

33.3% Available for non-kwenta Arbitrum addresses

Similar to how we create tiers in Quest 2, we'll create 2 groups, one with all non-sybil Kwenta users, and one with Arbitrum users.

The amount allocated for Kwenta users allows for rewards that are perfectly scaled with volume, primarily working to the benefit of the largest users. Additionally, it creates a risk-minimized method of incremental usage of new Arbitrum users, helping create a smooth environment for onboarding.

The amount allocated for Arbitrum users gives Kwenta a small budget to share their product with the broader Arbitrum community.

Fee rebates will follow a pooled model, with rebates capped at fees paid to prevent incentivising wash trading. So at most, users will get 100% fee rebates. With enough trading volume, rebates may only cover a fraction of the total cost of trades.

Rewards will be distributed on a weekly basis.

The same vesting rules as quest 2 will apply — users who choose to vest their rebates for 3 months will receive a 2x (or possibly greater) multiplier.

3) Liquidity Bootstrapping Incentives

Liquidity incentives will be used to boost liquidity in Perennial to smooth onboarding for Kwenta users. These rewards will be distributed on an as-needed basis, with excess rewards funneling back to Kwenta takers.

Our expectation is that liquidity incentives are needed in month 1 to create a temporary boost in liquidity to help onboard trading volume, but then in month 2 & 3, once sufficient activity is on the platform, in-protocol yield will be sufficient to sustain strong fundamental liquidity, so we may not need to scale up as significantly from there, or could even scale down liquidity incentives.

The initial incentive split will be as follows:

70% ETH & BTC

20% Long tail cryptos, commodities/currencies, and new launches (major RWAs & top alt-perps on binance)

10% Novel assets (NFT perps, power perps, etc.)

This split was chosen as it matches pretty closely to existing trader demand on Kwenta & other major perp dexs. We will adjust this on the fly in line with trader demand & organic LP takeup. For Long tail markets & novel assets, we'll place a particular emphasis on creating liquidity for markets which Kwenta doesn't currently offer to help with onboarding traders (new markets being a key reason traders onboard a new exchange).

This Rewards distribution will be primarily (if not, exclusively) be focused on targeting the lowest-cost, most efficient LPs through off-chain liquidity provider agreements (LPA). For STIP, Perennial used a combination of vault incentives (retail liquidity) and pro maker incentives. Vault/Retail liquidity proved to be much more expensive to onboard than Pro Maker liquidity. Hurdle rate for onboarding retail capital was close to 30%, while Pro Makers could be onboarded at a rate of 15% (or less). Retail capital predominantly remained at 1x leverage, while we saw pro makers at 3x, 5x, 7x, even 15x leverage, allowing them to earn a strong return without huge additional incentives. However, onboarding pro makers was also a challenge. These groups need to do dev work upfront to be setup to hedge exposure on Perennial, and to justify that, market makers typically preferred an agreement that guarantees a yield for a given period of time. Additionally, in the past, we've found that pro maker LPs who do small LPAs stick around when trader demand is strong (i.e. if the yield is there, they stand ready to provide liquidity).

Strategically, the goal would be to start big at launch, incentivising a lot of liquidity to ensure that perennial liquidity is not a blocker to onboarding Kwenta users. Then, as in-protocol yield picks up, we'll aim to slowly reduce the cost of liquidity & even the overall amount of liquidity incentivised. Additionally, we should be able to lower the cost of liquidity over time as in-protocol yield picks up.

Perennial has a market-standard LPA ready to go that has been used multiple times. We've been in discussions with market makers who can scale up capital significantly, so scaling to $30-40M in capital should be no problem.

For transparency, we'll share a report with signed copies of the LPAs with the oversight council, along with crypto addresses of the LP & transactions hashes for payments.

Why Do We Need Both Onboarding Incentives & Fee Rebates?

These two two incentive mechanisms reward actions differently — creating different outcomes.

Onboarding incentives: Quest-style, sublinear distribution with respect to volume — onboards more users

Fee rebates: Linear distribution with respect to volume — onboards more volume

Onboarding incentives put rewards in front of users upfront, and allow them to earn rewards. Onboarding incentives are designed to invoke action among users — in this case, recurring trading over many weeks. They are structured in a way that gamifies the experience & creates competition among users. These rewards are directly tied to usage, but don't scale on a linear basis with volume/usage. The result is a more even distribution across users. (Though rewards are still non-linear with respect to users). Additionally, because these are thought of as bonuses by users, it's easier to tier things like vesting/conditions to earning to create alignment.

Compare this to Fee rebates that scale perfectly with volume. This leads to a more equitable distribution with respect to volume (biggest traders get most rewards). Past incentive programs on both Arbitrum & Optimism have shown that traders certainly respond to low-cost trading. However, behaviorally, users treat these more as a discount on trading than as rewards of sorts (that would invoke alignment or retention). And just having fee rebates risks all the rewards going to just a few traders.

Different users will respond differently & have different preferences in reward style. Big traders likely prefer fee rebates, but Onboarding incentives have the potential to onboard many users who may grow or be converted into power users.

Thus, we layer these two mechanisms to create an ideal design that balances onboarding many users & volume. And the two working in tandem are a powerful combo — quest-based rewards onboard users to Arbitrum where they they a good experience with reduced-cost trading, helping to create a fundamental trading experience that will retain users. The goal here is to onboard users, give them an awesome 3 months experience trading on Arbitrum, such that they get hooked and realize they never need to go back to another ecosystem.

Bottom line: We'll closely monitor results from onboarding incentives, and if we're not getting the results we want, we can always pivot these incentives to fee rebates or other mechanisms. We know fee rebates do a good job of onboarding users, but we think we can do even better with quest-style onboarding incentives. We feel very confident in this as a strong starting point and will adjust as needed. We're not locking ourselves into a specific mechanism for these distributions.

What mechanisms within the incentive design will you implement to incentivize "stickiness" whether it be users, liquidity or some other targeted metric? [Provide relevant design and implementation details]

To encourage retention, Kwenta & Perennial use the following strategies:

- Onboarding Incentives (Quest 1) — one-time or upfront compensation to help users overcome switching costs, with the goal of conversion to recurring users. For this initial grant we want to focus rewards on this category, as we see these as having the potential to be the highest ROI.
- Weekly Rewards — encourages users to come back to the platform each week to earn more.
- Loyalty-Based Multipliers — Multiplier for users who complete their quest each week.
- Tiered Rewards — encourages users to scale up usage to receive more rewards.
- ARB Vesting Multiplier — higher rewards for users who choose to lock ARB to show alignment

Related to retention — why is the Kwenta x Perennial product well positioned to onboard & retain users?

- Top-Tier Onboarding Experience — As a prerequisite to dishing out incentives for onboarding, Kwenta & Perennial will have a tier-1 onboarding UX to reduce as much friction as possible to moving over (reducing onboarding costs in the process)
- Same Core Tech + Better Ecosystem + More — Kwenta on Arbitrum, powered by Perennial, will have virtually the same trading experience as Kwenta on Optimism (same pricing & funding mechanism), meaning provided incentives to overcome switching costs & comparable liquidity, it would be a no brainer for users to move over. And once on Arbitrum, we think users will prefer to stay (all else equal) as there is a more robust DeFi ecosystem & lots of exciting technical improvements on the Arbitrum roadmap.
- Novel Features Of Kwenta On Arbitrum — Addressing the "more" in #2

, Kwenta on Arbitrum will have features that don't exist for Kwenta on other chains.

1. New Markets They Can't Trade Elsewhere — NFTs, power perps, novel RWA markets, memecoins, etc. Perennial is the only on-chain perps protocol with multiple audited oracle integrations (3 as of now), giving us access to price feeds no one else has. We'll find the gaps in trader demand and serve them directly to Kwenta users.
2. Faster Listings (12 Hours Vs. 5 Days) — Kwenta on OP & Base is hindered by the underlying protocol's governance process to add new markets (taking many days to complete). Perennial's only blocker to launching a market is the

existence of a price feed, so as soon as Pyth OR Chainlink has the price live, we can spin up a market.

3. Closer Proximity To Other Trading Venues: For users running funding rate or price arb strategies, proximity to other DEXs matters. And for Kwenta/Perennial, this means more efficient/competitive pricing.

4. Better Scalability — Perennial has native netting (longs net shorts, LPs only need to cover the difference) and maker leverage. Perennial is already 3-5x more efficient than other dex’s, and this will grow as more LPs onboard to use leverage. In practice, this means we can launch & scale isolated markets much faster than comparable DEXs (who limit liquidity at 1x).

5. New Markets They Can’t Trade Elsewhere — NFTs, power perps, novel RWA markets, memecoins, etc. Perennial is the only on-chain perps protocol with multiple audited oracle integrations (3 as of now), giving us access to price feeds no one else has. We’ll find the gaps in trader demand and serve them directly to Kwenta users.

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9. Kwenta On Arbitrum Will Have Fundamentally Deeper Liquidity & Better Trader UX Than Could Have Been Created Elsewhere — Kwenta is transforming into an aggregator on Arbiturm. Arbitrum enables Kwenta to offer a fundamentally better product than they can on other chains. Many perp dexs in close proximity means that Kwenta can seamlessly aggregate liquidity to serve better pricing & funding to its users.

**Specify the KPIs that will be used to measure success in achieving the grant objectives and designate a source of truth for governance to use to verify accuracy. [Please also justify why these specific KPIs will indicate that the grant has met its objective. Distribution of the grant itself should not be one of the KPIs.] **

KPIs:

- Onboarding KPIs
- Net-New Volume Onboarded
- Net-New Users
- Net-New Volume Onboarded
- Net-New Users
- General KPIs
- Volume
- Open Interest (taker)
- Total liquidity (maker)
- TVL
- Volume
- Open Interest (taker)
- Total liquidity (maker)
- TVL

KPI target in the grant justification section

Grant Timeline and Milestones: [Describe the timeline for the grant, including ideal milestones with respective KPIs. Include at least one milestone that shows progress en route to a final outcome. Please justify the feasibility of these milestones.]

Our overarching KPI is volume, which drives the flywheel for our other KPIs (volume leads to fees, which attract LPs, etc.).

Month 1

Focused on onboarding users

$10M average daily volume

Total users onboarded (net-new users): 250

For the first month, we think 10M in volume is extremely attainable. At the beginning of STIPs, Perennial was doing a bit under $10M, and Perennial V1 (before incentives) also had an extended period of volume around this level. In this period, we'll be pushing Arbitrum-exclusive markets (NFTs, power perps, exotic RWAs, etc.) to Kwenta users to help drive fundamental onboarding.

Month 2

Focused on growth Volume/OI

$25M average daily volume

Total users onboarded (net-new users): 400

Month 2 focuses on scaling up. These numbers are pretty in line with where comparable protocols are after about 2 months of expanding to a new L2 (ex. Kwenta on base), even without incentives.

Month 3

Focused on retention of growth Volume/OI

$50M average daily volume

Total users onboarded (net-new users): 500

We set $50M in daily volume as our goal for the period's end. We think this number will be attainable provided we onboard enough Kwenta users (especially power users) to Arbitrum.

Additional thoughts on Why this growth is achievable:

Kwenta on Base — Hitting $20-40M in 24 volume on an up and coming chain, with no incentives

[

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https://dune.com/queries/3393771/5694937

Kwenta announced the public launch of its Base deployment on March 7. Less than a month and a half later, Kwenta routinely has $30-40+M days, and currently (7-day ave) averages over $16M in volume daily. And this is with only 6 markets on base, no incentives, and OI caps at $10M (limiting growth).

We think there's a multiple of this organic demand ready to come to Arbitrum & with a little nudge (in the form of onboarding incentives), Kwenta & Perennial can replicate this success on Arbitrum.

How will receiving a grant enable you to foster growth or innovation within the Arbitrum ecosystem? [Clearly explain how the inputs of your program justify the expected benefits to the DAO. Be very clear and tangible, and you must back up your claims with data]

Net-New Capital & Users — Kwenta is the biggest source of retail flow in the Optimism ecosystem. The core objective of this grant is to onboard these users to Arbitrum. We estimate we can onboard a few hundred users & over a billion in monthly net-new volume to the Arbitrum ecosystem. Few, if any, other STIP.b or LTIPP grants have the direct ability to onboard as much net-new activity to the Arbitrum ecosystem.

Arbiturm Perps Proliferation — "Arbitrum is already home to some of the largest perp DEXs—what value add does Kwenta bring to the table?" Kwenta is building a perps aggregator product that will ultimately help bring further distribution (users), efficiency, and competition to the Arbitrum ecosystem which only further propel Arbitrium as the market leader for perps (arguably the biggest category in DeFi). Kwenta as an aggregator is not competitive with existing perp platforms, but rather a huge asset (and there are only a couple other players competing in this space on Arbitrum. The fact that Arbitrum is a mecca for perps is something ARB should continue to lean into heavily — double down on what's working and cut what's not. It's still so early in the grand scheme of DeFi. This is an opportunity to help take the ARB perps ecosystem to the next level.

Distribution For Arbitrum-Native Innovation — Arbitrum is home to some of the most innovative protocol & mechanism designers in all of crypto. The combination of Kwenta, a core tool for perps distribution, and top-tier protocol teams, like Perennial, provide a means through which to take Arb-native innovation and grow it significantly. For example, NFT perps, power perps, and other innovative markets can be directly served to Kwenta's existing userbase & the broader Arbitrum ecosystem.

Two Top-Tier Primitives Bootstrapped On Arbitrum — Kwenta has proved it can be a top-tier trading application and Perennial a top-tier (most efficient) liquidity layer for perps. Each of these projects are fundamentally composable and will go on to lift up many other projects in the ecosystem.

Do you accept the funding of your grant streamed linearly for the duration of your grant proposal, and that the multisig holds the power to halt your stream?

Yes

Accountability Details

Kwenta & Perennial will follow all the same reporting & accountability measures that have been outlined for STIP.b & LTIPP grant recipients. We think of this proposal as the DAO making a one-off exception to an existing grant program/precedent.

This proposal will utilize existing DAO infrastructure for managing the grant — Matt from Stable Labs as the program manager and the same multisig for managing funds as STIP.b & LTIPP. Both groups have confirmed their willingness to take this up. Note that this would impose minimal additional work on behalf of the LTIPP/STIP.b team, relative to Perennial receiving an STIP.b grant, so no additional compensation is added.

Program Manager: Matt (Stable Labs)

Multisig:

The new multisig 2 will be a ⅗ multisig and include:

Lindsey

Limes

Joseph

Bobbay

Alex Lumley

Multi-sig address: 0x544cBe6698E2e3b676C76097305bBa588dEfB13A

- Perennial is also eligible for a small STIP.b grant (375k ARB). We will opt out (and/or deem ourselves ineligible) if this grant is accepted, so as to not double dip.
- If another DAO-run grant program is spun up before the conclusion of this grant and Kwenta or Perennial receives a grant, the stream for this proposal should stop, and any outstanding (unallocated) ARB should be returned.
- Kwenta & Perennial will perform necessary onboarding tasks (ex. KYC), keep the partnership accountable, and have the authority to pause the incentives. The program manager will arrange this.
- We will follow the same timeline as STIP.b — The ARB Grant will vest according to the same cadence as STIP.b — and the stream can be stopped at any time by the multisig. Any unused funds at the end of the 3 month grant will be returned to the Arbitrum DAO.
- Caveat 1: ARB may not be claimed by kwenta/perennial until the protocol is live on mainnet.
- Caveat 2: the start of this the stream for Kwenta/Perennial rewards may be slightly delayed in the governance process (i.e. we might start the grant a week or two after STIP.b if gov process take longer than expected, however, we will work efficiently to stay on as close of a timeline as possible.). The end date of STIP.b will also be the end date of this grant.
- Caveat 1: ARB may not be claimed by kwenta/perennial until the protocol is live on mainnet.
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- Kwenta & Perennial will follow all other STIP.b requirements, including biweekly updates.
- Within 2 weeks of the end of the 3 months grant, Kwenta & Perennial will provide an in-depth analysis of how the

program has gone, with detailed analysis & data showing the results.

- Kwenta & Perennial will provide a stats page to track activity on both protocols.

SECTION 5: Data and Reporting

OpenBlock Labs has developed a comprehensive data and reporting checklist for tracking essential metrics across participating protocols. Teams must adhere to the specifications outlined in the provided link here: [Onboarding Checklist from OBL 50]. Along with this list, please answer the following:

Is your team prepared to comply with OBL's data requirements for the entire life of the program and three months following and then handoff to the Arbitrum DAO? Are there any special requests/considerations that should be considered?

Yes

Does your team agree to provide bi-weekly program updates on the Arbitrum Forum thread that reference your OBL dashboard? (First Offense: In the event that a project does not provide a bi-weekly update, they will be reminded by an involved party (council, advisor, or program manager). Upon this reminder, the project is given 72 hours to complete the requirement or their funding will be halted. Second Offense: Discussion with an involved party (advisor, pm, council member) that will lead to understanding if funds should keep flowing or not.Third Offense: Funding is halted permanently.)

Yes

Does your team agree to provide a final closeout report not later than two weeks from the ending date of your program? This report should include summaries of work completed, final cost structure, whether any funds were returned, and any lessons the grantee feels came out of this grant. Where applicable, be sure to include final estimates of acquisition costs of any users, developers, or assets onboarded to Arbitrum chains. (NOTE: No future grants from this program can be given until a closeout report is provided.) Does your team acknowledge that failure to comply with any of the above requests can result in the halting of the program's funding stream?

Yes

SECTION 6: FAQ

1) Why is this structured as a one-off proposal to the DAO?

Rationale for a One-Off Proposal

While there are existing grant programs (ex. STIP.b & LTIPP pilot) that we believe we would have been strong candidates for, Kwenta x Perennial are not eligible to submit this proposal to any active programs (Kwenta didn't receive an initial STIP grant or backfill, and the deployment timeline is slightly too late to be included in LTIPP pilot, per the existing rules).

However, we feel strongly that the lack of a suitable existing DAO incentives program should not bar or delay Kwenta x Perennial from receiving a grant of justifiable size, given the magnitude of the opportunity to onboard users to the Arbitrum ecosystem — thus, we turn to the DAO for approval.

Philosophically speaking — the Arbitrum DAO is the ultimate decision maker for all grants & treasury allocation. Some of this authority may be delegated to grant programs for speed/efficiency. However, the DAO should still maintain the right to issue grants when necessary — this flexibility is key. Grant programs eligibility may not cover all cases (as is the case here), and truly one-off grants may be worth the DAOs full review. One-off grant requests will need to have a higher potential opportunity/outcome (relative to grant program requests) to justify delegates attention — and we believe the potential impact of this proposal justifies a one-off proposal to the DAO.

Practically speaking — we believe this is a one-off proposal with a huge potential impact for the Arbitrum ecosystem. The largest source of retail trader flow in the Optimism ecosystem is organically coming to Arbitrum and seeking to use incentives to directly onboard their users to the Arbitrum ecosystem. The size of Kwenta represents a one-off opportunity — Arbitrum has had few, if any, other organic & ecosystem-driven wins of this size. And the grant distribution mechanism discussed in this proposal are one-off — few, if any, other grant opportunities have this direct of a method of onboarding net-new capital at scale to the Arbitrum ecosystem.

Given that this doesn't fit well within existing grant programs, we would encourage delegates to evaluate the potential outcomes of this proposal.

Kwenta, having a huge existing user base on Optimism, is perhaps the largest DeFi project to organically come to Arbitrum, and the incentive mechanisms discussed in this proposal — namely, direct onboarding incentives to users of Arbitrum's biggest competitor — is both one-off in nature & a hyper-efficient method of distributing ARB, both unique offerings of this Kwenta x Perennial proposal.

The proposal here is in the same spirit as the LTIPP pilot & STIP.b programs, which offer short-term incentives on aligned timelines with the hope of a unification of DAO incentive programs through a single long-term incentives program later this summer. We intend to align our grant timeline with that of other programs. This ask here is for a short-term grant that will act as a bridge to a future application included in a DAO-run program (ex. The start of an LTIPP (after the pilot) in July).

We feel we've gone above and beyond the requirements of STIP/LTIPP in this proposal & set a strong standard for what a one-off proposal to the DAO should look like.

2) Are Kwenta & Perennial aligned with the Arbitrum ecosystem?

Kwenta & Perennial are Arbitrum aligned — demonstrated not by words, but by actions.

Perennial has been live on Arbitrum since Feb 2023, and Perennial V2 is native and currently exclusively on Arbitrum. The Perennial team attended the ARB Gov Hack & placed Third, and we spoke at Arbitrum day at ETH CC last summer & Arbitrum Community Day at Eth Denver. Arbitrum will remain the core of Perennial's ecosystem.

Kwenta has a sincere desire to go big on Arbitrum — and their action thus far (and going forward) have demonstrated this.

Kwenta has been working on coming to Arbitrum for many months. This integration was locked in organically (i.e. without incentives from Arbitrum) in February. Kwenta has already made notable progress integrating Perennial, and the integration will ship regardless of the outcome of this grant request.

Regardless of where Kwenta may have started off, Arbitrum is the best (and really the only) place for them to build towards their long-term vision. So in this sense, they're about as Arbitrum aligned as could be. Kwenta recently released an updated vision for the app — a DeFi aggregator. As such, Arbitrum is the best fundamental home for this product. Arbiturm has the most DeFi activity of any L2 and is the only L2 with multiple major perps platforms, so it's really the only place that makes sense to build this product. This is the start of a long-term relationship between Kwenta & the Arbitrum community.

See here for more info on Kwenta vision for Arbitrum:Aggregation on Arbitrum — Kwenta

In addition, Kwenta is willing to commit to taking additional action to further demonstrate its commitment to the Arbitrum ecosystem by:

- Launching Kwenta Token On Arbitrum — Kwenta worked with Camelot to make this happen. $KWENTA is now live on Arbitrum!
- Launching Arbitrum-Native Products — To start, Kwenta will launch a VIP program, dedicated to Arbitrum users. In the future, Kwenta will explore launching new/innovative products on Arbitrum.

Kwenta is eager to hear feedback on other ways it can deepen its relationship with the Arbitrum ecosystem and show further proof of alignment.

3) Isn't Perennial eligible for an STIP.b grant? Why not just use that?

Yes, but if selected for this grant, we will opt-out of the STIP.b grant.

An STIP.b grant would help onboard Kwenta but would significantly limit our ability to make an impact. STIP.b would give Perennial $125K /month vs. this proposal requests around $633k /month — a 5x difference because the potential impact is an order of magnitude larger.

Perennial was evaluated for that grant size when we were just launching our V2 protocol (a tiny protocol at the time) VS now with Kwenta, with $100M+ OI & $5B in monthly volume, partnering up with Perennial to onboard net new users & capital to the ecosystem.

The potential impact of this grant is very high when compared to other STIP & STIP.b grant sizes (ex. GMX at 6M, MUX at 3M, Gains at 2.25M). Nonetheless, we think STIP.b is a quite important program for the broader competitive dynamics of the ecosystem given LTIPP pilot excluding STIP projects.