

THE FEE SWITCH

Reasons why to turn it on on V2

In the past, the argument for not turning it on was the V3, migration of liquidity from V2 to V3 which is now underway along with lower tx fees, and L2 solutions. Arbitrum/Optimism is already whitelisted so it's coming as well. With these reasons out of the way, it is time to turn on the fee switch and start a UNI buyback programme. Feedback on this proposal has been gathered from multiple delegates who all expressed their interest in implementing it.

The UNI token served only as a psychological gauge when it came to the success of Uniswap and its time to tie it firmly with the protocol where it rightfully belongs. The UNI token holders proved to be an active governance force passing great proposals like the UNI Grant committee which funded many awesome projects and continue to do so.

So, what does Uniswap get from turning on the fee switch?

Uniswap actually benefits in a variety of ways if we turn the fee switch on for the buyback programme. First, the UNI treasury would swell up with additional UNI while it would make the UNI more valuable; therefore, the treasury could spend more on the proposals like grants creating more value for the protocol as such. The second benefit would be that the LPs who have not bought UNI yet would be kind of forced to in order to capture the outgoing fees. Two things will happen: this will make them involved in the UNI governance or make them buy it just for the outgoing fees. NOTE: This comment was made with the assumption the fee switch gets turned on on V3 eventually as well.

Why now?

It has been a while since V3 has launched. By turning on the fee switch on V2, we will encourage migration from V2 over to V3. The reason why to turn it on now is due to the upcoming release of Optimism to reduce the gas fees.

Common misconceptions:

UNI holders will just get a bag

In order to properly address this misconception, we have to talk about the purpose of the UNI token: the governance of the protocol along with the UNI treasury. Now, the latter point is tremendously important due to its unique function with the ownership of the token. Every time a speculator or a person buys the UNI token, they subsidize the UNI treasury by increasing its value as well. This value allows the governance to do more stuff which is beneficial for the protocol.

Now, the buyback would solve the free rider's problem in a unique way since every time somebody buys UNI, they actually subsidize the UNI treasury by making it more valuable. This means that even the LPs and speculators who would buy UNI just for the money would be actually helping Uniswap grow via the treasury holdings.

It is obvious that if we do not turn on the fee switch, then the UNI token would not be connected to the success of the protocol in any way. Having such an outcome materialize, the value of the treasury could suffer as a result. You can do less good stuff with treasury that's worth far less. Ironically, not turning on the fee switch will hurt the protocol in the long term because it could lead to the lower value of the UNI treasury meaning the governance will have less firepower at their disposal.

Turning the fee switch on and doing the buyback programme incentivizes governance which would benefit the protocol as a whole because the holders would get paid based on the volumes generated by Uniswap. Not turning it on could cause brain drain and impaired governance.

Also, this proposal is long overdue as the holders deserve better than to see sell proposal all the time...

It is time to give back to the holders.

Legal Issues

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UNI could face increasing risk by being classified as a security. Lawyers should chip in here, but we do not observe the risk of turning the fee switch on as substantial.

This proposal was discussed a while back during the Uniswap Community Call and the findings concluded:

Turn the buyback programme on V2 first. All pools, 100 % UNI buyback. Incentivize the migration to V3 , and see how the LPs respond. If it is a success, instate the same programme on V3.

The following days leading up to the full release of Optimism will be used to discuss the proposal further with the community. Temperature check will follow soon after.