

# Introduction

Since the genesis of dYdX Chain on October 26, 2023, dYdX Chain has generated \$232B in trading volume and distributed \$39M in USDC to dYdX Chain validators and stakers.

On August 12, 2024, dYdX Trading [announced](#) the dYdX Unlimited software featuring significant improvements to the dYdX Chain open-source software, such as permissionless market listings, MegaVault, the potential for revenue sharing, and an Affiliate Program, among other things.

Despite product achievements, the DYDX token has been facing challenges due to high inflation and a significant amount of token unlocks. We believe that dYdX Unlimited presents a unique opportunity to optimize dYdX Chain and DYDX tokenomics for the protocol's long-term viability and success. Our proposals aim to (1) improve liquidity on dYdX Chain markets, (2) increase the attractiveness of the DYDX token, and (3) encourage holding and staking DYDX, all with a view to increasing the security of the dYdX Chain and driving sustainable growth in the dYdX ecosystem.

To achieve this goal, we recommend implementing revenue sharing, enhancing DYDX token utility, and reducing DYDX emissions, all while supporting the immediate growth requirements of the dYdX Chain. Implementing these changes will significantly enhance dYdX's competitiveness and reduce DYDX inflation. This will turn the DYDX token into a more robust asset, therefore benefiting the overall security and resiliency of the network.

We published our [Analysis and Proposals on dYdX Chain and DYDX Tokenomics](#) on the dYdX Forum on 22nd October 2024 which has garnered constructive participation and discussions.

Our extensive analysis of the proposal can be found in our [research report](#).

Based on the community's feedback, we are splitting up the proposals based on subject matter. The four separate proposals (and threads) are as follows:

1. Reduce the Trading Rewards "C" constant from 0.90 to 0.5.
2. Protocol Revenue Distribution:
  - a. 50% of all protocol revenue routed to the MegaVault.
  - b. 10% of all protocol revenue routed to the Treasury subDAO.
  - c. Recommendation that above an \$80M level of annual protocol revenue, the Treasury subDAO could consider a Buy & Stake program.
    1. Reduce the active set from 60 to 30 validators.
    2. Cease support for the wethDYDX Smart Contract (i.e., the Bridge) on the dYdX Chain side.

## Summary of Recommendations

1. Trading Rewards
  - a. Reduce the Trading Rewards "C" constant from 0.90 to 0.5.

## Reduce the Trading Rewards "C" constant from 0.90 to 0.5

We propose reducing the "C" constant from 0.9 to 0.5. This change aims to decrease inflation and mitigate selling pressure on the DYDX token by reducing trading rewards. Traders will experience an expected increase of 0.5 basis points on trading fees for 90% of trading volumes.

This adjustment is designed to address current market challenges while maintaining dYdX's competitive edge. To mitigate potential effects, traders will benefit from increased liquidity provided by the MegaVault, resulting in narrower spreads and improved trading efficiency. Additionally, the introduction of the new Affiliate Program will further help reduce costs for traders by offering better fees.

We have conducted a thorough analysis of this proposal. For more details, please refer to our [research report](#).

## Next Steps:

We have noticed a general consensus in favour of this proposal, and we tentatively plan to advance it for an on-chain vote next week.

## FAQ:

Question 1:

[Analysis and Proposals on dYdX Chain and DYDX Tokenomics](#)

A smoother transition, gradual changes to trading rewards, and temporary incentives for validators would improve the overall outcome.

Answer 1:

[Analysis and Proposals on dYdX Chain and DYDX Tokenomics](#)

1. Reducing Trading Rewards “C” constant from 0.9 to 0.5

To date, approximately 17M (~\$30M) DYDX have been distributed as trading rewards on dYdX Chain and there is an opportunity to significantly reduce DYDX emissions from Trading Rewards.

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"[Lenses](#)

Trading rewards were initially increased to 0.9 to stimulate activity on the dYdX Chain after its launch in Q3 2023.

Our analysis indicates that this reduction is equivalent to raising dYdX fees by 0.5 basis points. Please refer to the report for more details. Considering this alongside the impact of launch incentives, trading on dYdX is expected to remain cost-competitive compared to other exchanges (CEX and DEX). Additionally, the increase in trading fees will be more than offset by improved liquidity and reduced slippage.