

dYdX v4 marks dYdX's transition to a fully decentralized exchange, owned and operated by the dYdX community as a standalone Cosmos blockchain. The dYdX Chain, as its called, features various improvements with respect to decentralization, scalability, and customizability.

Of course, the full decentralization of the dYdX protocol places additional responsibility on dYdX governance to operate the chain.

We have seen the community begin to mobilize on several fronts, including: launching [v2 of dYdX Ops Trust](#), discussing [a slashing review committee](#) to mitigate MEV activity, and proposing an [innovative launch incentives program](#).

In great anticipation of the launch of dYdX v4, Xenophon Labs has prepared a [report](#) in hopes of familiarizing the reader with the unique challenges that dYdX governance has faced in migrating from Ethereum to Cosmos, how it has overcome those challenges, and how it might tackle the challenges that lie ahead.

We hope this report helps inform dYdX community members on how different parts of the dYdX Chain work, and how they may best contribute to making dYdX v4 a thriving ecosystem. Thank you for reading.

Links

- Report: https://xenophonlabs.com/papers/dydx_v4_report.pdf
- GitHub repository: [GitHub - xenophonlabs/dYdX-v4-Report](#)

Part 1: Recapping dYdX's Migration from Ethereum to Cosmos

We begin with a brief overview of dYdX v4, followed by a chronology of the various steps taken by the dYdX Community to migrate the dYdX ecosystem from Ethereum to Cosmos. This includes:

- Adopting the dYdX v4 open-source software developed by dYdX Trading as the next version of the dYdX protocol.
- Establishing DYDX as the L1 token for dYdX Chain.
- Winding down dYdX v3 ecosystem incentives.
- Bridging community resources to dYdX Chain.
- Deploying novel incentives programs to accelerate the adoption of dYdX v4.

As of mid-October 2023, some of these are still a work in progress.

Part 2: The Challenges that Lie Ahead

Next, this report overviews the many critical components of dYdX v4 which the community will be largely responsible for researching, developing, and maintaining. This includes:

- Monitoring MEV activity and slashing misbehaving validators.
- Managing trading fee tiers and rebates.
- Monitoring and adjusting the Trading Rewards program.
- Listing new markets via permissioned or permissionless listings.
- Managing market risk parameters and monitoring missed liquidations.
- Implementing novel incentives programs targeting key behaviors across the dYdX Chain ecosystem.
- Managing governance proposals, subDAOs, and other governance parameters.

A Note to the Reader

This report is a living document with versions documented in the changelog. It lives in [this](#) GitHub repository; contributors are welcome and encouraged.

If you feel we have missed an important component of the dYdX Chain, or would like to include your thoughts, suggestions, or recommendations, please engage with us on this forum thread and open a PR on the repository.

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