

TL;DR:

Introduce \$LDO staking module and buyback program. Allow token holders to stake \$LDO in exchange for a proportion of Lido DAO revenue (via an \$LDO buyback and distribute program). Increase \$LDO utility by having \$LDO stakers serve as insurance providers of last resort.

Abstract

Over the past few years, Lido has grown from an early stage DeFi protocol to the dominant leader in the liquid staking space with over 12b in TVL.

Despite Lido's success, \$LDO token holders don't directly benefit from the revenue generated by the protocol and \$LDO has no direct utility. These points are a principal concern for current and prospective token holders.

This proposal aims to catalyze a discussion and propose a solution to the utility and value-accrual issues facing \$LDO.

Proposal

Goal:

Introduce \$LDO token utility and align protocol incentives between all Lido associated parties.

Exact Parameters/Mechanism:

1. Revenue Share

a. Redirect 20-50% (toggleable parameter based on governance) of future Lido DAO revenue from the protocol treasury to stakers of \$LDO

b. The Lido DAO currently has a treasury exceeding \$280m at the time of writing

i. Since DAO operating costs are an estimated [~\\$16m annualized](#), the Lido DAO currently has an estimated runway of 17.5 years

, suggesting minimal-to-no operational impact from revenue redirection.

c. Distribute Lido DAO revenue to \$LDO stakers in \$LDO tokens weekly through a buyback and distribute mechanism (exact mechanics will be determined separately)

i. This mechanism allows all \$LDO holders (not just stakers) to benefit from the revenue generated by the protocol

ii. All stakers will 'receive' tokens on a weekly basis. All 'earned' tokens will be vested for 6-months before distribution.

iii. I propose the buyback be executed on-chain via a VWAP or TWAMM

1. Set minimum size for the LidoDAO insurance fund

a. As previously discussed, set minimum size of the Lido insurance fund at ~6k stETH

b. If insurance fund reserves dip below the minimum threshold due to a slashing event, the protocol will redirect all revenue from stakers to the insurance fund until the minimum reserve is reestablished.

1. Staking Terms

a. 14-day unstaking cooldown for all stakers

b. Potential loss of up to 30% (industry standard) of staked \$LDO in the event of a major slashing event

i. Similar to stAAVE, staked Lido will be auctioned off to the market

ii. Loss waterfall will initially be as follows: insurance fund (once exhausted) → \$LDO stakers (up to 30% staked tokens slashed) → socialized loss via stETH holder negative rebase

1. While this may make staking \$LDO seem high-risk, I anticipate that the Lido staking program will be improved in the future to include NOs, especially after permissionless validators and DVTs are integrated with the staking router. In this case, I'd anticipate NOs will take most of the slashing risk themselves.

Simulation/Analysis

[\\$LDO Staking Estimations](#)

Note: Assuming staking growth Y + 1 to be the same as past year (58%), and following year (30%) , and Lido mkt share to be 30% of all staked ETH.

Source: TokenTerminal, Dune

FAQ/Concerns

Q:

Wouldn't this cause \$LDO to face additional regulatory scrutiny (especially from US regulators)?

A:

Perhaps, but the proposed model is an industry standard, with several DeFi protocols adopting a similar standard over the past 5-yrs including Maker, Aave, and Yearn.

Q:

Is this proposal likely to increase the potential of SEC enforcement action?

A:

The Lido DAO is a fully-decentralized organization with no legal entities. Lido DAO's only tie to the US is the employment of US-based persons as contractors. Lido has not received any enforcement or warning communication from any US-based regulatory body to-date.

Q:

This proposal doesn't quite address additional utility for the LDO token?

A:

Token holders are more aligned with the success of node operators and the general success of the protocol. I also believe that node operators need to be more aligned with the protocol

Next Steps

After a 7-day period of discussion, I propose moving this proposal to a signaling vote on snapshot.

I am in the process of drafting a second proposal that will impose an obligation on NOs to stake \$LDO. Staked \$LDO will ensure validators have skin in the game in case they get slashed. IMO this is a necessary strategic move to fortify the alignment of incentives across the protocol. I will share the new proposal in the coming week.

I'm excited about the future of \$LDO and believe that this advancement will help underscore the protocol's commitment to \$LDO token holders as well continued growth and resilience.