

## Intro

If your money's on the move, exposure to DeFi can be difficult, daunting and expensive. Interest rates and yield rewards are given primarily to those providing liquidity through monetary assets being held at an "idle" state. In reality, the majority of the global population, especially those from low income backgrounds, cannot afford to participate.

**Fluidity** is a system for people who can't afford to leave their money idle generating interest. Fluidity rewards users when they actually use their cryptocurrencies.

Fluidity will be creating a system that rewards users for the first time when they use their Cryptocurrencies, with no extra fees or costs.

The way Fluidity works is that:

1. Users deposit their assets and get a Fluid Asset in exchange which is collateralised by their deposit. Ex: 1 USDC → 1 Fluid USDC.
2. Fluidity will deposit the asset into yield generating protocols such as Lido, Uniswap. The yield is deposited into a prize pool that can only be accessed when users move their fluid assets.
3. Every time a user moves their fluid asset, it is as a probability to win, these probability range based around the type of action and other variables such as size of trade and past history.
4. If that specific transaction is a winning transaction, both the sender and receiver win a portion of the prize pool, this can range from \$1,000 to \$100,000+ depending on the prize pool.

[

photo\_2021-07-23 23.29.53

1200×675 48.4 KB

](<https://europe1.discourse-cdn.com/business20/uploads/lido/original/1X/a06fd5d5b6c314bd23142090fe8badb1c27069aa.jpeg>)

## The Integration

Fluidity wants to integrate Lido as a source of yield for Fluid-ETH based assets.

When users deposit Ethereum into Fluidity, Fluidity will deposit a portion of the ETH collected into Lido as a source of yield. The yield earned from st-ETH will be used to add to the prize pool. We believe Fluidity will retain a significant section of its liquidity as we will be rewarding users with higher expected outcome for winning a prize, for doing so.

Lido will be able to get exposure to liquidity from users that cannot afford to leave their assets idle for extended period of times and reduce the risk of withdrawal of assets.

Existing sources of yield for Ethereum are limited and have risk of extremely variability due to changes in price, we believe that Lido will be able to provide a more stable yield source and allow users to get exposure to ETH 2.0 yield by using their assets instead of holding onto them.

## Challenges So Far

There have been two significant challenges we've faced in this project. One of them is a technical challenge of generating on-chain randomness and second is the economic challenge of preventing sybil attacks and whales from abusing the system.

### Randomness:

Randomness on Blockchains is a non-trivial problem to solve. The current best solution is to use Chainlink's VRF. However this is impractical for Fluidity as we require a randomness call every time a transaction is made, which makes it impossibly expensive to operate on Ethereum but is negligible in cost on Polygon. For Ethereum we are building an off-chain randomness solution that will eventually be opened to workers and anyone to participate in. This is a semi-trusted setup but will allow for the theoretical test of this concept. We will decentralise this as time progresses and better solutions come into existence.

### Economics:

There are significant challenges in developing this system. We wanted to avoid a situation similar to Pool Together where whales would constantly keep winning the prize. Fluidity will look at multiple ways at preventing attacks, one such way is by rewarding txs on Uniswap with higher expected outcome of winning correlated with trade size, as there is an LP fee, the cost to attack is extremely expensive as each trade costs 0.3% of the principal amount.

Other ways we are exploring reducing attack vectors include awarding Governance token holders with higher expected outcomes and other high fee actions with similar high expected outcomes.

We are currently working with RMIT university to validate our solutions and have attached a draft of our in house initial economics exploration in the additional info section.

#### Proposal

We propose a \$20,000 Grant paid in Lido Tokens for the integration of Lido as a yield source for Fluidity.

Most of the expenses will be spent towards the backend integration of Lido as a yield source.

A portion of the funds will be allocated towards the economic modelling of the expected yield and prize pools and risk exploration.

We expect Lido as a source of yield for Fluidity and Fluid ETH to be ready by November this year and an extended economic overview to be ready September. This will allow for testing and experimentation of the protocol and concept. We aim to update the community monthly on the progress of Fluidity and aim to deploy before the expected timeline.