Introduction

Hello Lido Community! My name is Ryan, and I work as a Governance Analyst at Messari, where we recently launched coverage for Lido governance on the Messari Governor product. As a result of our coverage, we occasionally spot trends in DAO governance and feel that some community members may find value in us sharing them. As part of our observations, we've witnessed many DAOs (Aave, Compound, Uniswap) have begun to explore the implications of cross-chain governance. In observing this trend, and being aware of Lido's succesful cross-chain liquidity incentive programs, we thought it might be of interest to the DAO to observe the cross-chain distribution of LDO and what implications the bridging of these funds may have for governance.

Context

In March of 2022, Lido funded research exploring vulnerabilities within the Lido DAO. The research provides forward-looking insight into possible vulnerabilities. However, it does not account for the use of LDO as a liquidity incentive on L2 or Alt-L1 ecosystems unable to participate in governance on Ethereum Mainnet.

To stay in front of any and all possible vulnerabilities, it is worth discussing how the current rewards structure dilutes the governance power on mainnet. To fully understand this, it is important to first understand the LDO token distribution and the utilization of the token by the reWARDS Committee.

reWARDS Program

The Lido DAO's reWARDS committee was organized in December of 2021. The primary goal is to incentivize cross-chain liquidity using LDO from the DAO's treasury. To date, ~11 million LDO (~1.1% of LDO Total Supply) have been directed to rewarding LPs on 6 chains outside Ethereum.

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(Source)

LDO Distribution:

The initial distribution of the LDO token drew centralization concerns due to the amounts allocated to investors (22.18%), initial developers (20%), founders/future employees (15%), and validators (6.5%). Only 0.4% of the total LDO supply was airdropped to form the Lido DAO. Following the one-year lock-up and the subsequent one-year vesting period, around 64% of the total LDO supply will have gone to past, current, and future members of the Lido team, and investors (source).

Around 6% of the total LDO supply remains locked, with the token set to be fully vested in Q4 2024 (source). It is worth noting, however, that after December 2022, the only vested tokens will belong to investors (Plus Dragonfly). Assuming the team currently holds the entirety of its allocated tokens, around 40% of the total supply will belong to the Lido team at the end of this month.

Incentivizing LPs With LDO.

With the team and early investors holding a large portion of the LDO supply, voting power within Lido governance is arguably pretty concentrated, and maybe for good reason. Determining whether or not the Lido DAO governance power is truly concentrated would require a deeper, thorough report. However, this brief post is simply intended to inform the Lido community of the increase in concentration by utilizing the LDO token for cross-chain incentives.

For perspective, the LDO distribution is as follows:

- LDO Total Supply: 1B
- LDO Team/Investors: 636.8M LDO (fully vested).
- Investors: 221.8M LDO.

- (Around 61M remain vesting)

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- Initial Developers: 200M LDO.

- Founders and Future Employees: 150M LDO.

- Validators: 65M LDO.
- Investors: 221.8M LDO.
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- Initial Developers: 200M LDO.
- Founders and Future Employees: 150M LDO.
- Validators: 65M LDO.
- LDO Treasury Allocation: 363.2M LDO.
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Since April 2022, an average of ~880,000 LDO has been sent cross-chain to incentivize liquidity per month (Source). As a result, the votable supply of LDO on Ethereum effectively decreases by around 0.1% a month, increasing the voter concentration. The Lido Team and investors possess ~64% of the voting rights within the Lido DAO. However, accounting for the treasury (which does not vote) and the 11 million LDO that have been sent cross-chain, it currently comes out to around ~73% .

While Incentivizing liquidity is likely still imperative to maintaining a competitive advantage, an alternative method is certainly possible given the diversity of Lido's Treasury holdings.

Potential Alternatives

Alternative Incentivization

The reWARDS committee does a fantastic job of incentivizing liquidity, but the results of these liquidity incentives could likely be achieved using a different treasury asset. A similar result of liquidity incentivization could likely be achieved using different treasury assets (ETH, stETH, DAI) as incentives for cross-chain liquidity.

Alternative Voting Strategy:

The DAO could vote to add LDO from cross-chain incentives and the ability to at least vote on Snapshot. However, cross-chain LDO holders would still be unable to participate in on-chain governance.

Cross-Chain Governance

Cross-chain messaging is currently used to send wstETH to L2 ecosystems. This same technology could be explored for the LDO token, enabling cross-chain messaging for governance. This route has been explored by both Aave and Uniswap. It may even be necessary in the future, if wstETH holdings are increased on L2 to the point it blocks stETH holders ability to veto votes (assuming LDO + stETH Dual Governance is implemented).

Conclusion

As mentioned earlier, this post is intended to set the stage for productive discussion surrounding the intangible cost of incentivizing cross-chain liquidity using the LDO token. There is no proposed action item. While longer-form research likely needs to be conducted to truly understand the power dynamics within the Lido DAO, it appears to be a conversation worth having.

As the DAO moves forward, it may be helpful to have a central place to display the power dynamics within the DAO. Easily accessing this data would increase transparency, and empower DAO members to make data-driven decisions surrounding the utilization of LDO.