

Current LIDO emissions are unsustainable.

Lido's value proposition is stETH liquidity. This won't change. Liquidity in DeFi is becoming more expensive, not less. This won't change either.

The problem is that stETH liquidity is paid for with LIDO tokens. LIDO tokens are not a sustainable way to finance stETH liquidity.

Sustainable companies don't pay for things with their equity.

The hallmark of a sustainable company is that it does not rely on issuing equity to cover recurring expenses. Today, Lido is issuing equity to pay for stETH liquidity.

Issuing LIDO tokens to pay for liquidity leads to sell pressure.

Lido currently spends [~4.5MM LIDO / month](#) on liquidity. Below is the expected MONTHLY price slippage associated with that much sell pressure (from [1inch](#)).

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426x531 34.3 KB

](<https://europe1.discourse-cdn.com/business20/uploads/lido/original/2X/4/421168a02d4a6ab56df6181b164490855dfae8c8.png>)

Sustainable companies match revenue with costs.

Being sustainable means using revenue to pay for expenses. It also means raising cash using future cash flow, not equity. Lido generates enough fee revenue to do both.

Lido should issue redeemable IOU tokens.

IOU tokens are programmed to receive DAO revenue. The IOU token can be an ERC-20 and can replace the governance token in all active liquidity reward emission schedules.

IOU token illustrative mechanics

- Each IOU token is redeemable for \$1.03 after 90 days
- IOU tokens would have a Uni v3 liquidity pool with a maximum price of \$1.03 in case some holders want liquidity before 90 days
- The DAO commits to setting aside x% of fee revenue every week.
- This revenue goes to repurchasing IOUs from the Uni v3 liquidity pool OR begins accumulating in the "Redemption Wallet"
- Holders that did not sell into the LP can sell their IOU tokens into the "Redemption Wallet" for \$1.03 after 90 days

IOU token advantages

1. stETH liquidity is paid for with revenue
2. The DAO Treasury stops getting depleted to cover operating expenses
3. The DAO can stop issuing equity
4. No more sell pressure on the LIDO token → higher LIDO price
5. No more dilution for LIDO holders → higher LIDO price
6. Improved capital allocation → higher LIDO price (IOUs represent a cheaper cost of capital)

IOU tokens do not replace LIDO tokens

LIDO tokens represent a perpetual claim on the treasury of the protocol. LIDO tokens should continue to be issued to entities and stakeholders that contribute to the long-term success of the protocol.

The idea of an IOU token is simply to create reward mechanism to pay for liquidity so that long-term LIDO holders token don't get diluted and the LIDO token doesn't get dumped in the open market.

Next steps

Please let me know what you think and feel free to ask any questions.

If the community likes the idea and wants to learn more I will follow up with a formal proposal that includes implementation details.