

Hey everyone,

We are proposing a new on-chain model for the validator reward system with the goal of creating a more sustainable income for all validators, including the lower-ranked ones. This proposal is inspired by the reward system implemented by Nois Network<sup>1</sup>.

#### Current Situation

At present, the rewards for validators on the Secret Network are heavily biased towards the top-ranked validators. This results in significant income disparity and a lack of sustainability for validators further down the ranks.

#### Proposed Solution

We are proposing a shift from the current inflation-based model to a flat compensation model for all validators. This implies that regardless of the ranking, each validator would receive the same amount of reward. The Nois Network implements a similar model where they allocate a fixed percentage (6%, which we don't need, we think that 2% is enough here, see below) of the inflation to validators in the active set, and each validator receives the same amount that is not shared with stakers<sup>1</sup>.

#### The Implications

##### 1. Higher-ranked Validators:

The income of the higher-ranked validators would decrease, if this proposal passes.

##### 1. Lower-ranked Validators:

The income of the lower-ranked validators would increase due to the flat fee, ensuring sustainable income even for those at the bottom of the active set.

##### 1. Risk of Sybil Validators:

With the new model, there could be an increased risk of Sybil validators as even the bottom-ranked validator would still get the flat fee.

#### Method of Implementation

The easiest way to add this flat fee would probably be as a tax. This would circumvent the need to add a new inflation mechanism, albeit at the cost of public perception due to the term 'tax'. However, we believe the long-term benefits of a more equitable and sustainable validator reward system would outweigh this potential drawback. We still need to ask SCRT Labs how hard it would be to implement such a system in practice. Based on the extensive knowledge with splitter contracts with the Terra Builders Fund, I hope we can find a fast and easy solution for it.

Added afterwards: After doing some calculations, we think that 1.5%-2% gives validators a base income of around 10k SCRT yearly, which is enough at current prices to sustain a validator node.

We are eager to hear your thoughts, feedback, and suggestions on this proposal.