

TL;DR:

The launch of [Lido v2](#) will help diversify, decentralize, and scale Lido's Node Operator Set.

This proposal aims to catalyze a discussion re. increasing incentive alignment between the Lido DAO and new/existing NOs. I propose introducing NO bonding, which increases overall protocol safety as well as stakeholder incentive alignment. I also propose revisiting the current fee split between the Lido DAO and NOs in favor of altering the current split (50/50) in favor of the DAO.

Issues

1. NOs don't take enough protocol risk relative to their earnings (have no meaningful capital at stake)
2. Running a validator on behalf of the DAO is highly profitable. Current costs associated with operating an Ethereum Validator cluster at scale are around 600k USD per year. The average Lido NO manages ~\$360m worth of staked Ethereum and earns roughly \$900k per year (assuming 5% staking yield). Estimated profit margins are around 40%.
3. NOs who run validators subject to slashing events are currently allowed to continue operating on behalf of the DAO. Historically, the Lido DAO has covered all user losses. NOs also have no liquid capital at risk through the protocol.
4. As the recent RockLogic slashing [incident](#) demonstrated, it requires significant coordination by the DAO to resolve slashing events. I believe a more straightforward, economically-aligned approach is warranted.
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7. As the recent RockLogic slashing [incident](#) demonstrated, it requires significant coordination by the DAO to resolve slashing events. I believe a more straightforward, economically-aligned approach is warranted.
8. NO/Lido DAO fee split
9. Fees are currently split evenly between NOs and Lido DAO (5% of staking yield each). This number was arbitrarily chosen and should be revisited and reevaluated using historical empirical data, especially since the DAO is losing ~\$15m a year (h/t [@hasu](#)) and given that NO profit margins are currently >40% as outlined above.
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11. Lido's Insurance Fund is too small to effectively support continued growth
12. Lido's insurance fund currently holds 6.1k \$stETH (0.09% of TVL). This number is arbitrary and potentially too low to accommodate Lido's growing TVL. I suggest altering the insurance fund minimum to be a function of the ratio of: Insurance Fund value/TVL ([Perhaps 0.2 - 1% as @monet suggested](#))
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Proposed Solutions

1. Introduce NO Bonding
2. On average, each NO is responsible for managing \$360m worth ETH. I propose introducing a bond between 0.2% - 1% of committed stake. This bond will be posted by NOs and act as insurance in case they face a slashing event
3. Bonding in this context is defined as NOs putting up collateral as a "Bond" which gets slashed if they don't follow a set of rules defined by the Lido DAO.
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5. Bonds can be posted in any of the following assets: \$ETH, \$LDO, \$stETH, \$ETH-stETH LP
6. Bonds can be posted progressively, but NOs have been operating profitably since the launch of the Lido DAO and should be willing to put up capital to continue to attract more stake .

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12. Revisit NO/Lido DAO fee split
13. The 50:50 split between NOs and DAO is arbitrary and not based on any empirical data.
14. Lido shouldn't be overpaying NOs and more work should be done to come up with a more equitable split in fees. As the market leader, Lido has the power to price this split.
15. I propose contracting a research entity to assist the DAO with revising this parameter
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19. Introduce reputation scoring for NOs
20. A reputation score system should be implemented which analyzes NOs performance and assigns scores which can be used to manage allocation among NOs within each type of NO set.
21. Bonding, alongside parameters like historical performance, can alter NO reputation scores and user deposit allocations
22. \$LDO staking can possibly be used to boost someone's score and show skin in the game from NOs.
23. Newer NOs or DVTs (SSV for ex.) won't have any historical performance data. I propose having them stake \$LDO to align protocol/DVT cluster incentives. This [post](#) states that limits will be set on new NO allocations and thus those willing to stake more for reputation should get preference over incoming ETH vs. those who do not.
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Next Steps

After collecting feedback from the community, I'd like to introduce concrete proposals for:

1. Contracting a research firm to re-evaluate the Lido DAO/NO fee split
2. Introducing NO Bonding (temp check)
3. Reputation Scoring (temp check)