

This post serves as a forum to discuss a potential strategy that could be implemented to increase the pace of adoption of Distributed Validators via the Simple DVT Module by utilizing incentives from DVT Infrastructure providers. Given the timelines of other parties that will potentially be involved, if the Vault moves forward, it is expected that the implementation will occur in an expedited manner.

Background

In light of the [recently updated ReGOOSE goals](#) and as mentioned in the [Simple DVT Expansion proposal](#), research has been underway in regards to a strategy that could be used to increase the decentralization of the Lido Node Operator set and by leveraging the addition of DVT based validators from Obol & SSV Network.

Since SSV Network's mainnet launch, the protocol has seen significant success, partially boosted by its mainnet incentives program. Currently, SSV Network has 24,992 active validators representing over \$2.8B of ETH staked, all of which are eligible to receive SSV token incentives.

In the coming weeks, the Obol team plans to announce a contributions program in conjunction with their [1% for Decentralization retroactive funding initiative](#). Stake that is deployed on Obol DVs will contribute 1% of their staking rewards to the retroactive fund. The expectation for Liquid Staking Protocols is that potential future Obol incentives will be allocated to stakers by taking into account the contributions made on the relevant staking platform.

Within Lido Simple DVT, [Obol clusters](#) are about to start the process of scaling their validators while the [first SSV Network clusters](#) are expected to go live in the coming weeks, with scaling to follow soon after.

The Snapshot vote for Expanding the Simple DVT Module [successfully passed through governance](#), and an on-chain Aragon vote to raise the share limit of the module to 4% is expected in the next two weeks. This proposal has also greenlit the creation of Super Simple DVT clusters, that would allow for quicker scaling of both Obol- and SSV-based DVT clusters via the Simple DVT Module over the next two months.

Proposal

Given the additional capacity soon to be available within the Simple DVT Module, the upcoming launch of Obol's contributions program, and recent revamp of SSV's incentive program, an opportunity has been presented that can 1. Quicken the adoption pace of DVT via the Simple DVT module, leading to a more [secure, resilient, and decentralized](#) Node Operator set and 2. Drive net-new deposits to the protocol.

One way to manage the process is to use some intermediary "vault" solution to serve as a focal point for both user deposits and DVT provider incentives.

The vault strategy would offer capital allocators (stakers) the ability to deposit ETH or WETH into what would be called the Decentralized Validator Vault. This (W)ETH would be staked via Lido, with stakers earning the normal staking rewards from the protocol. 90% of the incentives generated via the Lido protocol Obol & SSV Network validators could be allocated to depositors of the vault, with the remaining 10% allocated to the Node Operators in their corresponding SSV & Obol Simple DVT clusters.

Why Do This?

The combination of the expansion of the Simple DVT Module, the launch of Obol's contribution program, and re-work of SSV's incentive program presents an opportunity for the DAO to increase the resilience of the Lido Node Operator set via DVT, drive a material amount of net-new deposits into the protocol, and offer capital allocators access to incentives that they otherwise would not receive (as SSV & Obol incentives are based on running validators).

With the Simple DVT Module expanded to 4%, there will be capacity for 11,868 validators evenly split between Obol and SSV over the coming months. Excluding the 60 active validators running through Simple DVT currently, this suggests capacity for an incremental 377,856 ETH of deposits into the protocol to fill the capacity of the Simple DVT Module.

Vault Mechanics

Structure

The vault could be introduced and curated by a DeFi protocol, integrating functionality to drive deposits to the Lido protocol and the ability to show monthly snapshots of the allocated points to individual stakers utilizing the vault.

The capacity of the vault would be controlled via the administrator of the vault (depending on the vault design), reflecting the current depositable capacity of the Simple DVT Module, with an up to 10% additional buffer. These parameter changes would reflect when key limits of clusters within the Simple DVT Module are raised, as explained in the [Simple DVT Proposal](#) and [Expansion Proposal](#).

Incentives Eligibility

Similar to the current [rewards share program](#), and in order to dissuade possibly deleterious effects to the protocol due to farming incentives, it is suggested that analysis be conducted on vault depositors. In order to be eligible to receive full vault incentives for the capital provided, depositors must:

1. Hold a position for a minimum of 3 days in the vault through the conclusion of the Snapshot period.
2. Not unstake existing stETH or wstETH that is then re-staked via the vault from the moment of vault launch. The incentives are calculated on the base of ETH deposited to and persisting within the vault during the relevant snapshot period minus any stETH withdrawn after the launch of the vault.
3. Not sell existing stETH on DEXs/CEXs: this condition does not expel a depositor from all incentives, but reduce corresponding amount of capital provided by the volume of sold ETH. Similar to the above, the incentives would be calculated on the base of non-swapped ETH deposited to and persisting within the vault during the relevant snapshot period.

Summary

With the expansion of the Simple DVT module imminent, it is an opportune time to consider utilizing both Obol and SSV's mainnet contributions and incentivization programs to quicken the pace of DVT based validators being added to the protocol.

This strategy would allow for a faster flow of Simple DVT validators being activated, for capital allocators to access DVT provider incentives, and most importantly, hasten the pace that DVT is rolled out across the expanded Simple DVT Module.

Parties interested in providing the infrastructure required for such a DVT vault are asked to respond to this post, noting that there is an expedited timeline due to the estimated launch of DVT provider incentive programs.

As a member of the Lido Alliance with relevant infrastructure capabilities, the Mellow team has been made aware of this discussion post and asked to provide a public showing of interest if they believe they are capable of providing a solution that would cover the above listed requirements. However, this does not preclude another party from expressing interest.