

Authors

: [@raho](#) [@tnorm](#)

Program Information

- [Synthetix](#)
- Governance Fund Season/Cycle
- [Phase 0](#)
- [Phase 0](#)
- Date(s) Funded
- [July 27, 2022](#)
- [July 27, 2022](#)
- Wallet Funded: [0x9644A6920bd0a1923C2C6C1DddF691b7a42e8A65](#)

Key Takeaways

- Following the notable adjustment of fund usage by numerous OP grant recipients, the Collective should consider implementing a process for the Grants Council to review and ratify amendments to grantee strategies and distributions.
- Synthetix leveraged the composable nature of its protocol to introduce a unique program that incentivized protocols at the ecosystem level. By supporting its ecosystem, Synthetix has potentially attracted additional builders to the Synthetix ecosystem and OP stack.
- Synthetix uniquely impacts the Optimism Ecosystem, as it incentivizes builders to build on top of the Synthetix ecosystem and could grow Optimism exponentially.

Introduction

Synthetix offers liquidity for derivative protocols such as perpetual futures markets, parimutuel markets, AMMs, and options. Synthetix aims to enable liquidity sourcing as a service, creating an [ecosystem](#) of protocols built on Synthetix liquidity. Protocols sourcing liquidity from Synthetix pay fees to SNX stakers, are returned 5-10% of the fees each month. A few of the protocols building on top of [Synthetix](#) are as follows:

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([Source](#))

The Synthetix liquidity layer plays a unique role within the Optimism ecosystem, directly contributing to the growth of the developer community. By enabling protocols to integrate synthetic assets, Synthetix allows OP developers access to ready-made liquidity, allowing them to focus their time and resources on building their protocol. The benefits of this composability may demonstrate why we've seen so many innovations in the Synthetix stack, like Polynomial's [smart wallet feature](#).

Distribution

Synthetix was [funded with 9 million OP](#) in [Phase 0](#) to incentivize the migration of liquidity from L1 to Optimism L2 and grow activity on Optimism and Synthetix Perps. The proposed distribution was outlined as follows:

- Grants: 2M OP.
- Incentivize sUSD liquidity and bridging: 3M OP.
- Incentivize an SNX/sUSD pool on Optimism: 4M OP.

Following discussions in the Synthetix community, [Kain](#) proposed an entirely new distribution in [SIP 234](#) proposing instead to allocate 3 million OP for various incentives and 6 million OP to SNX stakers. Voters ultimately rejected SIP 234, and a new proposed distribution was brought forth in [SIP 242](#). The proposed distribution in SIP 242 was very similar to that in the

Optimism Phase 0 proposal but added a bit onto the 2 million OP for grants:

"2m OP are to be held for potential builders grants, trading rewards, or other unforeseen incentives needed to bootstrap usage on Optimism over the course of 3-6 months. This portion of the allocation is to be held by the treasury council with the voting power delegated to the Ambassadors until it is spent for incentives."

The significant caveat to the main proposal that should be highlighted within the language of SIP 242 is the 'voting power delegated to the Ambassadors until it is spent for incentives'. The decision to self-delegate OP funded via the Token House [sparked controversy](#) within the Optimism Collective, as the amount initially delegated was 8.9 million (despite only 2 million delegated as outlined in the proposal), accounting for over 27% of the [Votable OP](#). The discussion became heated in the Optimism Discord, where the Synthetix ambassadors pleaded that the delegated OP was rightful due to the alignment Synthetix had with Optimism.

To counterbalance Synthetix's blatant increase in power, the Collective decided to introduce a [Protocol Delegation Program](#) in Season 3, which enabled protocols to have a say in Optimism's Token House governance. The top 20 protocols by total gas fees generated received a delegation of idle tokens from OP as a part of this program, which was renewed in Season 4. The delegation program was stated to have a maximum length of two seasons, so results must be analyzed following Season 4. Aside from the self-delegation, it's unclear what the OP earmarked for grants was used for, which causes significant cause for concern. If Synthetix aims to demonstrate alignment with the Optimism Collective, we'd expect consistency with the distribution proposed in their original Batch 0 proposal, distributed in a timely fashion (6-month distribution timeline was later adopted in the [Code of Conduct](#), but not applicable to Synthetix), and not self-delegating (was later adopted in the [Code of Conduct](#)), as this sets a potentially harmful precedent. It's imperative that fund recipients uphold their proposed obligations concerning the distribution and usage of the OP as described in their grant proposal

While Synthetix's actions may not reflect malicious intent in adjusting their distribution, they're not the only recipient to do so. Respecting the reality that the space moves quickly and adjustments may need to be made, we believe that to succeed as a collective, there must be transparent processes that ensure grant programs grow with these lessons and the Collective remains informed &/or approves of any alterations before deployment.

Actual OP Distribution

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Trading Rewards: 5.2M OP

In February, [SIP 2003](#) was [passed through Synthetix governance](#), approving the usage of 3.5 million OP (200K OP x 17 weeks + 150K OP ramp-up period) for trading rewards. However, upon implementation, the weekly amount was increased to 5.2 million OP (300K OP x 17 weeks + 110K OP ramp-up period).

The trading incentive program allocated a lump sum of 300K OP per week to traders paying trading fees to Synthetix, which included all traders on protocols integrating Synthetix liquidity. The rewards were distributed via the [Synthetix Trading Multisig](#) each week. Distribution amounts were determined by the trader's score, which accounted for the trading fees paid and provided a boost for SNX stakers.

'rawScore' = tradeFeesPaid

The trading score then accounted for a multiplier for traders who also staked SNX, making the final calculation:

traderScore = rawScore * stakedTierMultiplier

Due to challenges in calculating the SNX staker boost, the boost was altered to be based on the total debt shares value outstanding, as follows:

\$0 - \$1,500: 1

\$1,501 - \$3,000: 1.05

\$3,001 - \$6,000: 1.075

\$6,001 - \$12,000: 1.1

\$12,000: 1.15

([Source](#))

Following the conclusion of the 17-week reward period on September 07, 2023, the public [feedback](#) largely felt that the rewards were excessive, unsustainable, and promoted wash trading. The cause for concern was rooted in the sum of rewards paid versus the amount of fees paid, which exceeded \$1 in rewards paid per \$1 in fees paid in some epochs. As a result, it was profitable for traders to take advantage of these rewards by employing otherwise unprofitable strategies. For example, traders could open a trade (long) on Polynomial and open the same trade (short) on Kwenta (or vice-versa), pay the fees, and take on minimal exposure to downside risk. The example provided is only profitable if reward amounts exceed fees. However, given the opportunity, it's speculated that these traders would likely not have been incentivized to trade otherwise and will not remain following incentives.

However, it's important to note that Synthetix did not exclusively over-incentivize trading, as the rewards were increased via contributions from [Kwenta](#) (+30K OP/week), [Lido](#) (+1.5K OP/week for stETH traders), and [Polynomial](#) (16K(AVG) OP/week).

In response to the criticisms, Synthetix announced an [extension of the program](#), which included modifications to disincentivize wash trading. The program extension began on September 13, 2023, and rewarded 100K OP a week for five weeks. The extension program limited the amount of weekly rewards earned to that of the amount of trading fees paid, meaning that the dollar amount of fees generated per week would receive an equal amount of OP in rewards. As the program extension is ongoing, it's impossible to analyze the efficacy of the modifications, but we'll dive into the impact to date below.

Other Rewards

: (?)

Though the trading incentives have been the most notable use of the OP, additional rewards have been distributed to incentivize liquidity and bridging. As there are no supporting documents accounting for the distribution, we're only able to estimate the amount of OP that has been allocated to each:

- [Curve](#): At least 20K OP
- Velodrome: (Estimated ~279K OP based on Dune)
- Hop: (?)
- Lyra: (?)

The Impact of Synthetix OP Funding

Attracting builders is the best way for Synthetix to grow its ecosystem. Leveraging OP incentives to showcase the innovative solutions built by existing protocols and attracts organic usage. Kickstarting this flywheel with aggressive incentive programs has the potential to further fuel a development flywheel and drive a massive growth vertical for the OP ecosystem. However, aggressive incentives are best accompanied by sticky protocols with deep liquidity and should always feature incentive designs that avoid short-term inorganic usage.

OP Impact: Network Level

Daily Transactions & Network Fees Generated

As mentioned, the cumulation of the trading rewards from multiple protocols incentivized the volume traded on Synthetix integrators and not the number of transactions placed. As a result, the immediate benefit to Optimism was minimal, as the transactions and transaction fees before the trading rewards were far greater than during. Looking at the 30D before, the average number of transactions was 1,080, which decreased during the trading rewards to 1,059.

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In terms of network fees generated, we also see a decrease from an average of 0.12 ETH before, down to an average of 0.11 during. However, it's worth keeping in mind that [Optimism's Bedrock upgrade](#) occurred on June 08, 2023, and is [estimated](#) to have reduced fees on perps by over 50%. Additionally, it's worth keeping in mind that the integrators on top of Synthetix likely drove in additional fees that could potentially be attributed to Synthetix, but are not included in the chart above.

OP Impact: Protocol Level

Competitive Impact: Synthetix Vs. GMX

Fueling the hype behind Synthetix's incentive season was the program's effects on the greater Perps market share. Arguably Synthetix's greatest historical competitor, GMX is a notable perpetual protocol on Arbitrum (detailed comparison [here](#)). Prospective developers inherently desire building on the network with the largest audience for their protocol, which has historically favored markets on Arbitrum. Observing the competition between the two protocols became increasingly interesting as a strategic boon for Optimism as it aimed to establish a competitive perpetual vertical. In this context, it's hard to deny the impact of Synthetix's rewards season as Synthetix metrics surged due to trading incentives in the face of their competitors' V2 launch.

Synthetix Vs. GMX: Daily Volume (\$USD)

Looking into the competitive landscape between the two perp markets, we see significant differences in the volume traded on Synthetix after the launch of the Trading season. Between Kwenta and Polynomial, Synthetix Perps surpassed \$22B in cumulative trading volume between April 19, 2023 and September 18, 2023, with GMX reaching over \$17B in trading volume (without incentives).

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Synthetix Vs. GMX: Daily Traders

Despite the sharp rise in Synthetix trading volume, daily users trading was less impacted, meaning around the same or fewer people were trading larger volumes during the trading incentives. In total, Synthetix Perps (Kwenta + Polynomial) had over 61K cumulative daily traders, while GMX had around 142K cumulative daily traders.

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While we recognize that the fee structure is very different between the two protocols, GMX also far surpassed Synthetix in terms of fees during this time period as well, generating a cumulative \$36M in trading fees compared to the \$9M generated from Synthetix Perps.

Synthetix Vs. GMX: Volume per User

To put this into perspective, we took the volume per user between the two. While GMX users spiked following the launch of V2, their volume per user remained relatively constant. On the other hand, Synthetix volume per user began spiking initially, maxing out around July-August (possibly due to the launch of [Polynomial incentives](#)).

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Reward Claimer Analysis

Observing who claimed the most rewards, it was interesting to find that the majority of claimants from OP rewards were protocols. Given Synthetix's function as a liquidity provider for other builders, the takeaway is unsurprising. One notable takeaway is the success of Kwenta, who collected over 3.9M in total rewards, which was then redistributed to Kwenta traders:

- Kwenta: 3.9M OP
- Beefy Finance: 339K OP
- Velodrome: 279K OP
- 1INCH: 59K OP
- OpenOcean: 50K OP

Recommendations

- Greater upfront clarity and stipulations around the distribution of Optimism Governance Fund grants, including a due process for adjustments and amendments post-distribution.
- The benefits of Synthetix's program largely arose from its functionality as a liquidity layer for numerous external protocols, highlighting the compound effects of incentivizing protocols with notable composability and opening up the design space for future incentive programs.
- Collaborative approaches to incentive funding are an excellent way to expose use cases of your product, but they should be done conservatively to avoid attracting inorganic usage.
- As mentioned in the Polynomial report, it's very unclear where funding has been going in terms of 'protocol grants'.

Closing Remarks

Synthetix plays an important role within the Optimism ecosystem, providing builders with a critical resource in liquidity. While incentives may have been aggressive and attracted wash trading, it has provided the rest of the ecosystem with a valuable lesson. While it could likely be stated that the trading rewards program was a success due to increased usage or a failure due to wash trading (TBD), the real success of the program will come from retained usage, signaling an appetite for more builders to develop on Synthetix Perps and Optimism as a result.

(Note: we'd be happy to increase the coverage of this post if Synthetix is willing to provide details on the accounting side.)

Resources

- [OP Analytics Repo](#)
- [Incentive Program Performance Summary - Dune @oplabspbc](#)
- [\[@optimismfnd / Optimism Mainnet Project Deep-Dive](#)

(OP Mainnet)](<https://dune.com/optimismfnd/optimism-project-deep-dive>)

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- Synthetix
- [Dune Dashboard \(@synthetix_community\) - Synthetix Stats](#)
- [@gunboats / Synthetix Perps OP Incentive](#)
- [Lido stETH Synthetix Perps Trading Incentives](#)
- [Dune @shogun / Volume, Fees & Users Comparison](#)
- [Dune Dashboard \(@synthetix_community\) - Synthetix Stats](#)
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- [Dune @shogun / Volume, Fees & Users Comparison](#)
- [Dune @impossiblefinance / Derivatives/Perpetual Markets](#)