Kwenta x Perennial: Arbitrum Onboarding Incentives

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Abstract

Kwenta, one of the biggest DeFi apps in the Optimism ecosystem, is coming to Arbitrum, built on top of Perennial V2, an Arbitrum-native protocol. Kwenta & Perennial present this joint proposal to request 1.5M ARB over 3 months (4.5M total) to fund targeted onboarding incentives to bring Kwenta users over to Arbitrum.

Introduction

Kwenta is launching on Arbitrum — powered by Perennial.

Kwenta

is a leading Perpetuals exchange, currently on Optimism and Base.

With a recent expansion into aggregation, Perennial will become Kwenta's first non-Synthetix liquidity source, bringing new users to the Arbitrum ecosystem. Via specialization in best-in-class UX, Kwenta optimizes the onchain perps trading experience, prioritizing the trader experience above all else. Kwenta aims to become the defacto venue for trading perps onchain across DeFi.

The Kwenta DAO is operated by a diverse collection of Core Contributors primarily composed of Synthetix OGs and resident pro-traders. Voted into existence by the Synthetix DAO and fuelled via a community-led initiative, Kwenta's roots are fully decentralized with notable community members including Framework and the founding Synthetix members.

Roadmap highlights:

- Launch perpetual futures on Base

- Early trials of onchain Quanto perps

- UX optimization including web2 login and improved cross-chain navigation

Perennial

is a leading Perpetuals primitive, currently exclusively on Arbitrum.

Perennial is: 1) An ecosystem-first primitive: Perennial is infrastructure, with economics to support a whole suite of trading apps, oracles, and higher-level protocols built on top. It's modular throughout the stack — this allows Perennial to support customized (one day, permissionless) markets for any price feed (NFTs, RWAs, Power Perps, exotics). And It's hyper-efficient — $1M in TVL can support $5M-$10M in OI.

The Perennial team is a group of DeFi natives from Coinbase, Polychain, Gearbox, Ajna, Tracer DAO, and more. Its founders started an early smart contract wallet based on account abstraction that was acquired by Coinbase, and the Perennial team placed 3rd at the Arbitrum Gov Hack. Perennial backers include Polychain, Variant, Archetype, Coinbase, Robot, and more.

Roadmap highlights:

- NFT markets (RWAs, real estate, and more soon)

- Leveraged (3-5x) delta-neutral Vaults

- Perennial Intent layer

Kwenta & Perennial Partnership

In January, Perennial put forth a proposal to the Kwenta DAO to expand to Arbitrum by building on Perennial infrastructure. This vote successfully passed the Kwenta Council in February, and the integration is currently underway.

Best of all — This all happened organically. Kwenta sought out an Arbitrum expansion & partnered with an Arbiturm-native team without promises of big incentives or any backroom deals — this is a testament to Kwenta's genuine belief & commitment to the ecosystem. Perennial V2, native to Arbitrum & bootstrapped off a small STIP grant, helped facilitate the onboarding of Kwenta to the Arbitrum ecosystem, perhaps one of the biggest outcomes of the entire STIP program.

This is one of the (if not the) biggest wins for the Arbitrum DeFi ecosystem

! Kwenta is the largest source of trader activity in the Optimism ecosystem, and one of the largest in all of DeFi.

The numbers say it all:

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- 30 day avg. daily volume: $130M

- 30-day 24/hr high: $556M (March 5, 2024)

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- $44B volume in the past 12 months

- Consistent $100M-$200M Open Interest

(without incentives) * Currently $127M (as of March 23, 2024)

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Source: Kwenta

Arbitrum has a HUGE (and urgent) opportunity to onboard these traders to the Arbitrum ecosystem.

The Proposal

Kwenta & Perennial propose allocating 1.5M ARB/month over the course of 3 months, for a total of 4.5M ARB, to facilitate onboarding Kwenta traders to Arbitrum.

Goal: To onboard new users to Kwenta on Arbitrum. This includes existing Kwenta users on Optimism, sidelined Kwenta community members who have demanded to trade on Arbitrum, and CEX traders (or new DeFi) traders.

Kwenta & Perennial will collaborate to distribute the ARB. Both protocols have experience with incentive mechanism designs (OP grants & STIP). As a first principle, Kwenta & Perennial will remain nimble in distribution methods. We will use off-chain distribution to maximize flexibility, and we will experiment with different forms of onboarding incentives and adjust based on what's working or isn't.

Kwenta & Perennial will collect on- & off-chain data to distribute rewards to users in appropriate cadences.

Some ways we'll do this:

- Targeted onboarding incentives for existing Kwenta users on Optimism/Base to trade on Arbitrum

- Small one-time bonuses to incentivize users to move over to Arbitrum

- Mid-size ARB bonuses for existing users who meet certain usage (volume and/or OI) thresholds on Arbitrum

- Large reward multipliers for consistent users who move over to Arbitrum to align & lock in these users longer-term.

- [Non-kwenta users] One-off or customized onboarding incentives to other key high-value users identified by Perennial & Kwenta (any of these will be accompanied by transparent reporting on parties who receive these incentives)

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- Fee rebates to onboard traders to Kwenta

- Capped at total fees paid to ensure sybil resistance

- Reward vesting and/or loyalty bonuses that give bigger rebates to more committed traders

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- Liquidity bootstrapping for markets demanded by Kwenta traders

- Liquidity boosts to major, high-demand markets (BTC/ETH)

- Temporary liquidity incentives to bootstrap new markets (Long-tail cryptos)

- Ongoing liquidity incentives for novel markets (NFTs, Power Perps, etc.)

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- Trading competitions, probabilistic rewards, and other experiments

To encourage retention, Kwenta & Perennial will experiment with these strategies when appropriate:

1. Onboarding incentives — one-time or upfront compensation to help users overcome switching costs, with the goal of conversion to recurring users. For this initial grant we want to focus rewards on this category, as we see these as having the potential to be the highest ROI. Kwenta already has a large, active user base, so these incentives can be very narrowly targeted to users to move the needle on that which drives traders' decision to trade on Arbitrum vs Optimism/Base.

2. Loyalty-based incentives — bonuses in rewards that incentivize recurring usage.

3. Rewards vesting — This could come in 2 forms: 1) rewards with a vesting component to encourage Arbitrum ecosystem alignment; 2) rewards given to users that vest conditional on future activity

Why this is structured as a one-off proposal to the DAO:

While there are existing grant programs (ex. STIP.b & LTIPP pilot) that we believe we would have been strong candidates for, Kwenta x Perennial are not eligible to submit this proposal to any active programs (Kwenta didn't receive an initial STIP grant or backfill, and the deployment timeline is slightly too late to be included in LTIPP pilot, per the existing rules).

However, we feel strongly that the lack of a suitable existing DAO incentives program should not bar or delay Kwenta x Perennial from receiving a grant of justifiable size, given the magnitude of the opportunity to onboard users to the Arbitrum ecosystem

— thus, we turn to the DAO for approval.

Kwenta, having a huge existing user base on Optimism, is perhaps the largest DeFi project to organically come to Arbitrum, and the incentive mechanisms discussed in this proposal — namely, direct onboarding incentives to users of Arbitrum's biggest competitor — is both one-off in nature & a hyper-efficient method of distributing ARB, both unique offerings of this Kwenta x Perennial proposal.

The ask here is in the same spirit as the LTIPP pilot & STIP.b programs, which offer short-term incentives on aligned timelines with the hope of a unification of DAO incentive programs through a single long-term incentives program later this summer. We intend to align our grant timeline with that of other programs. This ask here is for a short-term grant that will act as a bridge to a future application included in a DAO-run program (ex. The start of an LTIPP (after the pilot) in July).

Accountability

- Kwenta & Perennial will arrange similar oversight to the STIP & LTIPP alpha programs, including an oversight committee that will perform necessary onboarding tasks (ex. KYC), keep the partnership accountable, and have the authority to pause the incentives.

- We would even welcome this being tacked on as part of LTIPP (or another DAO grants program), such that it would be subject to the same requirements.

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- ARB grant will begin on the day Kwenta goes live on Arbitrum, powered by Perennial (target May 2024).

- ARB Grant will vest linearly over the course of the grant — and the stream can be stopped at any time by the oversight committee. Any unused funds at the end of the 3 month grant will be returned to the Arbitrum DAO.

- Kwenta & Perennial will provide biweekly updates.

- Within 2 weeks of the end of the 3 months grant, Kwenta & Perennial will provide an in-depth analysis of how the program has gone, with detailed analysis & data showing the results.

- Kwenta & Perennial will provide a stats page to track activity on both protocols.

Grant Size Justification

Qualitatively:

- Kwenta would be the #2

on-chain derivatives protocol by volume & OI on ARB (some days, even #1

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- Onboarding Kwenta users to Arbitrum brings net-new flow to the ecosystem — from one of Arbitrum's biggest competitors.

- This sets a strong ecosystem precedent of supporting projects that organically join the ARB ecosystem, hopefully helping to support the next wave of project onboarding.

- Kwenta x Perennial are Arbitrum aligned & not here just because of incentives

. Perennial has been live on Arbitrum since Feb 2023, and Perennial V2 is native & exclusive to Arbitrum. Kwenta sought out an Arbitrum deployment in response to genuine interest & user demand — not in response to an incentive program.

- An opportunity to expose Arbitrum users to a tier-1 interface frequently praised as the best perps experience in DeFi. The best products will deliver outsized returns for the Arbitrum ecosystem, and Kwenta is, without a doubt, a category leader.

Quantitatively:

Using STIP rewards as a baseline (in ARB):

Protocol

ARB per Month

Total ARB

GMX

4.0M

12.0M

MUX

2.0M

6.0M

Gains

1.5M

4.5M

Kwenta x Perennial

1.5M

4.5M

Kwenta is doing volume & OI numbers that are well above almost every on-chain derivatives protocol in the Arbitrum ecosystem.

Kwenta x Perennial incentives example:

Onboarding Incentives:

Target 500-1000 high-value traders at an average onboarding cost of $1-2K/month (higher for big traders) = ~$1,000,000 / month

(# of traders & cost of onboarding may vary — whales will cost more to onboard but will also be higher-value long-term users)

Fee rebates:

Target $100,000,000 daily volume at 0.04% fees = $1,200,000 / month

Liquidity bootstrapping:

Target average of $50,000,000 in liquidity * 10.00% APY = $416,667 / month

(here, we will target more efficient liquidity providers – i.e. those who are more capital efficient, and thus, have a lower cost of capital. Because LPs are able to use leverage to LP in Perennial, a 10% APY + in-protocol yield can easily stack into the 30-50%+ APY range with respect to underlying collateral)

Total / Month:

$1,000,000 + $1,200,000 + $416,667 = ~$2.6M USD

Timeline

Kwenta & Perennial are currently collaborating on integrating Kwenta on Arbitrum, powered by Perennial.

Targeted launch date: May 2024

Additional Info

Security:

[Perennial Audits & Bug Bounty Info](#)

[Kwenta Audits](#)

Links:

[Kwenta DAO Vote](#)

[Kwenta Announcement](#)

[Perennial Announcement](#)

[Kwenta Stats Page](#)