Intro

This post is a response to the The Guided Open Objective Setting Exercise ("GOOSE"). As a strategic advisor to the DAO, I see it as my responsibility to support the new process getting off the ground. For my submission, I have surveyed stakeholders across the Lido ecosystem (stakers, contributors, LDO holders, ecosystem, node operators, and more). My goal was not to satisfy everyone but rather use their input to develop a set of ambitious yet realistic, focused yet inspiring, and internally consistent and synergistic goals.

The central goal for the 3-year and 1-year goals I am proposing is to increase the DAO's chances of fulfilling its purpose of keeping Ethereum decentralized, accessible to all, and resistant to censorship

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Each higher-level goal has several key results, making them more objective in their execution. This would allow DAO members and the Ethereum community visibility into gaps between the DAO's intentions and actual activities. Estimating the progress and detecting gaps could also allow for allocating resources to be linked to the alignment of activities in the future.

Rationale

We start by evaluating the status quo – how is the Lido community doing against thismission? First, we briefly summarize what I see as the protocol's strengths, weaknesses, opportunities for improvement, and threats today. Then, we discuss the key questions for how the DAO and protocol contributors should focus their limited resources (capital, labor, etc.). We conclude with my proposal for three-year and one-year goals that should follow naturally from the previous analysis.

Overview of Lido today

Many great resources are available for a general overview of the staking industry and the players within, e.g., this one by Token Terminal.

With 270k individual stETH holders on Ethereum L1 alone, Lido is not only the most-used staking protocol but one of the most used protocols overall. The high adoption results from a first-mover advantage, paired with a relentless focus on security and product excellence by Lido contributors. stETH is the most used Liquid Staking Token (LST), has the deepest liquidity against ETH and stablecoins, and has deep integrations on- and off-chain.

Room for improvement lies in expanding its currently permissioned node operator (NO) set of31 members and creating additional safeguards in DAO governance. The software has also been criticized for being "too popular" with users, with the DAO subsequently declining to self-limit user adoption (discussion, vote). Many in (and outside) the DAO believe that the staking market is winner-take-most. The best strategy to protect Ethereum is to make the winner as decentralized and Ethereum-aligned as possible. However, this view still polarizes the Ethereum community, and the Lido DAO has historically not done a good job communicating its story and rationale to the community.

The biggest opportunity, hence, is to level up its decentralization by hardening the protocol and DAO governance. The recently introduced Staking Router allows Lido to reach new users, both on the staker and NO side, by expanding the NO set and adding permissionless access. Developing a path for institutional users is an interesting opportunity and one that is necessary to keep Ethereum decentralized.

Threats to Lido's service and adoption include governance attacks and competition from exchanges, wallets, and other major crypto applications closer to users. Getting ring-fenced from the institutional staking market could allow a less decentralized and non-Ethereum-aligned player to pull ahead in network effect and ultimately dominate the market.

Key questions to consider

How will the staking industry play out?

Staking is a young industry, but to operate within it, educated guesses must be made about how it will evolve. My assumptions are:

1. First, due to the natural division of capital and labor, all stake will be delegated at the limit

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1. Second, liquid staking beats all other forms of staking

and will grow dominant over time.

1. Third, LSTs compete as money, leading to extreme network effects

. Network effects occur when a product or service becomes more valuable to users as more people use it. In industries where network effects are strong, market leaders often benefit disproportionately, and the “winner takes most” or even “winner takes all” scenarios are common

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Based on these assumptions, dominant user adoption is not only a viable direction but necessary for Lido to exist and reach the DAO’s mission of keeping Ethereum decentralized.

At the same time, liquid staking protocols must manage risks for Ethereum

: Security is critical, as is alignment with Ethereum. My strong belief is that a staking protocol can improve base-layer decentralization by automatically distributing stake to many node operators according to objective rules, e.g., across distinct entities, jurisdictions, Ethereum clients, and so on.

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Source: Grandjean, Heimbach, Wattenhofer

The winning approach in the liquid staking market is to maximize moneyness

. Lido achieves this by maximizing security and user adoption, making stETH useful to use and transact. Liquidity and rewards should be kept competitive but are of secondary importance.

How to think about growth for Lido?

There have been concerns in the Ethereum community around any staking protocol growing too large, raising the question of what happens if the adoption of the Lido Protocol keeps growing.

I find all the concerns both extremely valid and important to address. However, despite what some skeptics might think, they have no easy solutions. Any application can destabilize Ethereum consensus at a specific scale

, whether Lido, Uniswap, Flashbots, Metamask, Tether, USDC, or something else. Ethereum can understandably not be completely indifferent to these risks. However, it also cannot effectively curtail the growth of any application without sacrificing its credible neutrality.

How Ethereum should think about enshrining things in the base protocolis an important and hotly debated topic in the community. However, the unintended second-order effects of these changes must be studied and understood

, or a well-intended change can worsen the situation. For example, enshrining a fungible LST in the protocol, e.g., by lowering the max slashing risk, may reduce competition in the staking market by forcing NOs to compete exclusively on rewards. A market reduced to a single number effectively enshrines providers with the lowest cost of capital (CEXs and institutional NOs), pushing the unwanted centralization to the physical realm/hardware layer.

As mentioned earlier, liquid staking as an industry will inevitably result in one or two large protocols. Hence, it is of the highest importance that the biggest staking protocol is fully decentralized and Ethereum-aligned.

The Lido protocol can make significant headway towards this vision by reaching its next decentralization milestones of Dual Governance plus a much bigger and permissionless Node Operator set.

Only a direction with a singular focus on security

can allow the DAO to reach both of these goals – confidently addressing Ethereum concerns while respecting the natural market forces of this industry.

How to think about new features for Lido?

Complementary products to Lido include restaking, DVT, wallet, stablecoin, lending, and other applications that interface w/ stakers, stETH, or NOs in some way. The DAO needs to consider its stance towards these products and decide which would be beneficial to be built, used, and ignored, respectively.

In my view, new features should be considered in scope for the next few years only if they support the primary or secondary goals w/o hurting the primary goals. For example, DVT raises security for a small overhead in rewards, making it a core

capability for the DAO to focus on. Restaking increases rewards but comes at the cost of security. Depending on the size of the reward, it can become part of the scope, but for now, it probably has to mature more and would require tight risk mitigation.

A case can be made for wallets or exchanges, as they control the channel through which most users can discover and access Lido. However, this is first a large, if not impossible, undertaking. And second, there are better ways to align wallets, stakers, and Lido DAO. This is discussed in the goals section.

Finally, a Lido DAO-operated stablecoin, lending, or other Defi offerings has no meaningful benefit for Lido users compared to external offerings today. However, it comes at the cost of diluting focus and increasing the governance overhead. For the next three years, the DAO should only consider creating its own Defi protocols when existing players refuse to integrate stETH, e.g., for political reasons.

This cost of increasing governance overhead cannot be overstated. Lido DAO should focus singularly on security

. Having the highest security requires the protocol to be thin, making it easy to secure, audit, and align with Ethereum. In other words, the Lido protocol should be kept at the minimum scope necessary to provide competitive liquid staking

, but no more.

What users to focus on next?

Following these assumptions, the protocol should eventually appeal to all user groups. Lido has seen strong user adoption in the Defi/on-chain segment. It cannot stop growing here because serving only 30% of stakers is not a long-term sustainable position in an environment with high network effects

. Eventually, it would be overtaken by a competitor who enters the market by dominating the institutional segment and growing into other segments.

The institutional opportunity

is still largely untapped and is growing. While stETH encourages everyone to self-custody their assets, the relative share of institutions should grow as crypto moves closer to mass adoption. If stETH should become a mass market asset, users must be able to hold stETH in their brokerage or exchange accounts.

Further, there is an opportunity to convert institutional users to Defi instead of creating isolated non-fungible siloes for them to operate, which would be a huge success for the mission of Ethereum.

On the other hand, losing the institutional opportunity opens up an attack on Lido and Ethereum. If there is one large winner, it better be a decentralized protocol with a strong security culture and Ethereum alignment rather than a consortium of centralized exchanges.

Conclusion

LSTs compete on moneyness, leading to a winner-take-most market.

To reach the mission of keeping Ethereum decentralized, accessible to all, and resistant to censorship, the biggest staking protocol should be as decentralized and Ethereum-aligned as possible

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This requires a laser focus on security

, which requires keeping the protocol as thin as possible.

Lido DAO should focus on further decentralizing the protocol (esp NO set) + DAO governance

. It should stay competitive on liquidity + rewards and ignore everything else.

My ultimate vision for Lido is to become trustless middleware that can operate for 100 years with minimal human guidance

. Over the next three years, the DAO and contributors should take major steps toward that vision.

Proposed 3-year goals and key results

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My proposed three-year goals and key results should follow naturally from the previous analysis.

The first two goals seek to decentralize Lido's governance and validator set

, unlocking the third goal: stETH becoming the most used token

in the Ethereum ecosystem.

Goal #1:

Lido has effective and decentralized governance

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The first goal is to harden Lido DAO governance significantly

by introducing a new governance framework and giving stakers a voice

in every decision that impacts them.

Above everything else in this post, the key result is the integration of Dual Governance

, which is currently in an advanced research phase. Dual Governance effectively de-risks the protocol from governance attacks by giving stakers a voice in decisions. It is not only required to allow for further adoption safely but also makes Lido even more secure for its existing users.

In addition to Dual Governance, Lido DAO governance improves across various dimensions. GOOSE is a start on making goal setting more decentralized, something that needs to be paired with frameworks for funding and assessing the execution of these goals.

Finally, bootstrapping a more diverse contributor base matters to get to a thin DAO that only sets a high-level direction and provides funding, but where all the complex work is happening at the edges.

Goal #2:

Lido attracts the best validator set in the market

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The second goal is to improve Lido's NO set

to become the market's most diverse Ethereum-aligned staking protocol while maintaining a high bar for performance.

This goal builds on the back of the [Staking Router

](https://docs.lido.fi/contracts/staking-router/) as a platform, aiming to add 5000 NOs total

through permissionless staking modules, DVT modules, and more. As the Staking Router evolves, the DAO fosters expertise in auditing staking modules and distributing stake.

As much as possible, NO management is handed to a free market for validation

, where stake is distributed according to simple objective functions that are only periodically adjusted by governance. Finally, decentralization of the NO set must be balanced with a competitive performance effectiveness ratio (PER).

Goal #3:

stETH is the most used token in the Ethereum ecosystem

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This third goal seeks to increase stETH's user value by increasing its utility as money

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A good outcome in three years would be for 50% of stakers to choose Lido. To make that possible, NOs must offer competitive network rewards (in the 90th percentile for the staking market) while providing best-in-class security to stakers.

The moneyness aspect is measured using stETH as a top 3 trading pair in real volume. The final result measures significant headway with institutional users.

Proposed 1-year goals

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Effective, decentralized governance

Dual Governance

: Dual Governance has already been established as the most important priority. Dual Governance gives stakers a veto in every governance decision, introducing checks and balances and reducing the principal-agent problem between stakers and LDO holders.

New Governance Framework

: While the new governance framework may take multiple years to implement and operationalize, the next twelve months will set the foundation for decentralized yet effective governance. New processes should include decentralized goal-setting, result assessment, and funding frameworks connected with the DAO-aligned goals.

Better Governance Rails

: Dual governance should be supported with improvements that make it easier to participate in governance. This can be achieved by lowering the number of proposals and their cadence, allowing holders to delegate their LDO, bootstrapping a community of delegates, and more.

Decentralized validator set

Permissionless SR Module

: The first goal for Lido's validator set is to deploy a permissionless module to the staking router. A permissionless module resembles a "Rocketpool inside Lido," where anyone can become a NO by putting up a small bond.

DVT-Powered SR Modules

: The second goal is to deploy Distributed Validator Technology (DVT) powered module(s) to the staking router. DVT technology allows several node operators to control a validator together, increasing uptime and limiting things that can go wrong. This will require engaging DVT infra providers to enable a wide range of Node Operators to use the Lido protocol to collaboratively operate validators, reducing technical, operational, and financial barriers to entry for Node Operators and increasing the network's resiliency. In the first year, the goal is a mainnet solution that serves as a proof of concept and to inform design on more robust & scalable solutions within the following two years.

SR Marketplace

: As the Staking Router gains traction, contributors and researchers can validate many of their hypotheses and research what the final version of this mechanism should look like. Within a year, there should be infrastructure for 3rd parties to develop modules, and the experience for these developers should be great. There should be initial research on introducing more market mechanisms in the protocol's validator set selection mechanisms.

Programmatic Exits (by the DAO)

: Having programmatically initiated validator exits removes the potential for node operators to grieve Lido by refusing to unstake. These exits would be helped by activating EIP-7002, but alternative approaches can work without it.

stETH token

Education

: Lido's narrative problem has been previously identified as a weakness, which should be tackled with additional education about why Lido & stETH are good for Ethereum's decentralization.

Institutional Staking

: The goal around institutional staking represents my strong conviction in this user segment for Lido and that it is the right timing to pursue it.

BYOV

: One of the ways to address institutional users, as well as other big players (like DAOs), is through a Bring-Your-Own-Validator (BYOV) module. The idea is that stakers become empowered to run their

validators inside Lido or select specific validators to delegate to.

Channel Approach

: I previously outlined wallets and exchanges as potential threats to Lido. An improved channel approach is needed to align incentives and turn these parties and others into valuable partners.

Liquidity

: Finally, one of the main differentiators for LSTs is liquidity, pulling it into the extended focus.

Final words

Crypto is an uncertain and fast-moving environment requiring adaptivity in the face of new threats, crises, or opportunities. As a result, parts of this plan may have to be changed as the circumstances change. However, I believe that the nature of crypto shouldn't be an excuse not to engage in long-range planning at all. First, I am convinced that having and changing a plan is better than having no plan. Second, the Lido DAO is in a unique position to adopt longer-term plans to coordinate because

1. Lido has already achieved a strong protocol-user fit
2. Lido is designed to be as thin as possible
3. Lido's challenges can only be solved through a multi-year effort.

As outlined in the OPDE, this proposal is submitted in its final form, and the rationale offered should explain both the high-level and the lower-level goals. However, I would love to field any questions and invite the extended community to poke any holes in my thinking.

Thank you for reading.