Edit: After listening to the community's feedback, I have adjusted the proposal to keep the same fee structure as it currently stands. However, I have slightly adjusted the lowest volume tier to 0.0250% from 0.0300%. This change is reflected in the proposed changes section below.

I will also postpone the vote until we can incorporate some feedback from the reduction in trading rewards

Proposed Changes:

- Adjust the Maker and Taker Fee Schedule.

Note: the community has no power over the Trading Fee Schedule, this is simply a signal to dYdX Trading on behalf of the community.

Summary:

As part of our V4 Vanguard Post, we propose to adjust maker and taker fees that are competitively optimized across volume bins and should help with toxic flow.

Description:

Trading and liquidity provision rewards have been successful in bootstrapping and retaining intended participants on the platform, as well as moulding liquidity expectations. However, it's apparent that the current DYDX emissions schedule and lack of utility have been hurtful to both token holders and the net profit of the protocol. Recent measures to address these issues have helped, but there are other concerns that need to be addressed:

1. The allocation of incentives across an increasing number of markets and products
2. The retention of traders and liquidity providers once regular emissions end

To address both concerns, dYdX requires a scalable and natural way to incentivize users on their platform.

Building a Sustainable Base Incentive Layer

A large proponent of dYdX's overall sustainability is retaining liquidity providers and traders. If we assume DYDX rewards are non-existent, how do we incentivize both market makers and trading participants? We can start by offering fees that are on par or better with competitors and that naturally incentivize MMs.

Maker and Taker Fees:

Note: We have included Binance (BUSD) in our analysis however, don't include it in our analysis discussion given it's not fairly comparative as Binance directly benefits from BUSD usage.

dYdX's current trading fee schedule is highly competitive and significantly cheaper than CEX competitors. This provides a cheap trading environment for traders, however, it also creates an adversarial environment for market makers. Having such low taker fees (e.g. 0.2bps) makes MMs on dYdX susceptible to toxic flow, an issue most market makers have been dealing with for a while now, including ourselves. While latency and infrastructure play a massive part in this, it's also heavily dependent on individual MMs and an issue that is rather hard to solve from the protocol side. Thus, an alternative solution that is quick and easy to implement would be increasing taker fees across all volume bins.

In the case of dYdX, we refer totoxic flow from the latency perspective. Specifically, the price latency with dYdX and other centralized exchanges, coupled with low taker fees, allows aggressive takers to arbitrage market makers on dYdX. This results in market makers becoming out-of-the money nearly immediately.

Figure 1: Comparison of Taker Fees Across Competitors

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Chart

1580×976 74.7 KB

](https://europe1.discourse-cdn.com/standard21/uploads/dydx/original/1X/030a4e3a9cb6c7c631af34948cb31d75cf11c40a.png)

Figures 1 and 2 illustrate the base case comparison (ignoring token discounts) of trading fees amongst dYdX and major competitors. Evidently, the current Taker Fee schedule (DYDX_OLD) for dYdX is significantly lower than competitors, except in the case of Binance's BUSD pairs. We'd argue that it's actually too low and that slightly increasing the rates in the Taker Fee schedule (DYDX_NEW) should improve toxic flow due to higher transaction costs and hopefully revenue, assuming users are relatively inelastic at higher yet competitive prices. With the new Taker Fee schedule, dYdX remains highly competitive and in most volume bins it's cheaper than all exchanges if not most.

Figure 2: Comparison of Maker Fees Across Competitors

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Chart

1600×990 130 KB

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dYdX's Maker Fee schedule (DYDX_OLD) is competitive, however, there are volume bins we can improve. As indicated by DYDX_NEW, we propose to reduce Maker Fees for volume bins $0 - $5M and $25M - $100M, making fees in line with BYBIT and FTX respectively. These fee reductions are illustrated in Figure 4.

The new proposed Fee Schedule in Figure 4, provides a more efficient and competitive trading platform for users and should improve toxic flow. Nevertheless, it still fails to incentivize MMs to provide liquidity naturally.

Compared to its competitors, dYdX lacks a separate Market-Making Fee Program. This is arguably a result of the LP rewards program. However, as the number of markets, products, and competitors increases, the average reward per MM is expected to decrease with a fixed reward pool. Therefore, it's imperative for dYdX to introduce a Market-Making Fee Program with rebates to naturally incentivize liquidity and reduce the reliance on rewards.

Next Steps:

We'd like to request comments from the community surrounding:

1. The proposed taker fee schedule
2. The proposed maker fee schedule

Pending community discussion, we will look to initiate a Snapshot Vote on Friday 17th of Feb.

There will be a binary vote that signals to dYdX Trading the wishes of the community, with:

- Yes - Adjust Maker & Taker Fees
- No - Do nothing