Proposed Changes:

- Reduce DYDX emissions yearly by 1,246,575 DYDX.

Summary:

5 years after the launch of the DYDX token (3/8/2026), DYDX holders will be able to vote on enacting an inflation rate with a maximum upper bound of 2%. Without gradually reducing DYDX emissions, stakeholders and the protocol will face a massive supply shock that will likely result in unexpected/unwanted user/LP behaviour.

Description:

The current emissions schedule fails to account for the large impending supply shock at the end of the 5-year schedule and disproportionately values stakeholders. Specifically, around 3/8/2026 token holders will be able to vote on enacting an inflation rate with a max bound of 2%. Even if the max inflation rate is approved, stakeholders and the protocol will face a large supply shock. Therefore, we propose a new emissions distribution and choose to reduce emissions yearly over the next 4 years and gradually bring them in line with the maximum 2% inflation rate.

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The new distribution of emissions illustrated in Figure 9 provides an equitable allocation to current stakeholders. Trading Rewards retains the highest share as it's responsible for stimulating trading and platform activity, while Liquidity Providers receive a bump in reward share as moving into V4 they will play an important role in supporting the platform across multiple markets. Lastly, the Community and Rewards Treasury retain a large portion of emissions as it will be responsible for funding subDAOs, grants, growth etc.

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Assuming the community enacts the max 2% inflation rate on the total supply of 1,000,000,000 DYDX, emissions will be reduced to 20,000,000 DYDX per year or 1,534,247 DYDX per epoch.

This is a significant reduction in comparison to the current 85,000,000 DYDX per year or 6,520,548 DYDX per epoch (community emissions). Thus, we have intentionally lined up the final reduction in Figure 9 on 3/8/2026 to be on par with the 2% inflation rate, in order to gradually shift inflation expectations amongst stakeholders. This is achieved by reducing community emissions by 1,246,575.34 DYDX per epoch every year.

However, assuming these changes are implemented on the proposed dates the new total supply would be reduced by ~162,500,000 DYDX (16.25%), impacting the base of which the 2% inflation rate will be calculated.

In the first 2 years, the reduction in emissions is moderate in order to continue facilitating growth efforts. In the last 2 years, the fixed rate of emissions reduction becomes significant, increasing the scarcity of DYDX.

Notably, for the first reduction no change will occur to trading rewards if the proposal to reduce trading rewards is approved. If in the case that V4 is not live by the first reduction date, governance can choose to send the excess DYDX to a burn address and ensure that the total supply is being reduced.

Next Steps:

We'd like to request feedback from the community surrounding this change. Pending community discussion, we will look to initiate a Snapshot Vote.

Note this vote will include both the yearly reduction in DYDX emissions and the change in reward distribution. If the community feels that these votes should be separate we will happily proceed with 2 separate votes.

There will be a binary vote, with:

- Yes - Implement a Yearly Reduction in DYDX Emissions & Amend the Distribution of Rewards.
- No - Do nothing.