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Simple Summary

Chaos Labs proposes resuming the launch incentive program to kickstart [dYdX Unlimited](#). The objective the next phase of this program is to attract, retain and grow trader activity on dYdX Unlimited, showcasing its unique innovations.

dYdX Unlimited

The [dYdX Unlimited](#) upgrade this fall will be the biggest upgrade to dYdX Chain since its launch—introducing a range of features never before seen on any decentralized or centralized exchange. Innovations coming in this release include:

- Permissionless market listings: Users will be able to instantly list virtually any market on the dYdX Chain without requiring governance approval.
- MegaVault liquidity: A master liquidity pool ensuring sufficient liquidity on all markets while providing a passive income strategy for anyone ranging from degenerate trader to risk-averse farmer.
- A lucrative affiliates program: With the potential to earn up to \$1,500 per month per referral, the rewards are substantial.
- Permissioned keys: Providing a more secure and customizable environment for institutional and high-value traders.

In the next few months users can also expect to see a refreshed UI, easier onboarding, and some very exciting integrations. dYdX Unlimited is set to maintain the position of the dYdX Chain as the premier perpetual futures trading platform.

Motivation

The principle underlying the design of the launch incentives program has always been to attract, retain, and grow activity on dYdX for the long term. Every aspect is designed to reward behaviors that correlate most closely with long-term usage. The objective of the launch incentive program is to motivate users try the protocol out and showcase dYdX's value proposition.

Token incentives play a crucial role in bootstrapping trading activity on perp DEXs. dYdX has long been a market leader in rewarding traders for their activity and the launch of dYdX Unlimited presents an opportunity to continue showcasing the benefits of a fully decentralized perpetual futures exchange.

The perpetual DEX trading space has become highly competitive and continued investment is required in the form of incentives to maintain and grow dYdX's strong market position.

The success of the program over the past 9 months is reflected in the adoption of the dYdX Chain over this period. Since the launch of the incentives program, the dYdX Chain has grown from inception to where it is today. Challenges with migrating users and activity to a new chain with a different architecture have been successfully met and the dYdX Chain is a vibrant ecosystem by most metrics. That being said, there is still a lot of room to grow.

Notable achievements include:

- Over \$206bn in trading volume across 116 live markets.

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- Over \$34m in net fees while distributing \$25m in launch incentives to date.

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- Over 14 000 traders actively earned points through seasons 1-5 of the launch incentive program.

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- Throughout the program traders have typically shown a healthy weekly retention rate of 50%-80%. Traders like what they see when they onboard to the dYdX chain.

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- Over 30 different market makers have been motivated to connect their infrastructure to the dYdX Chain's unique architecture and earn market-making rewards as a result.

There is no doubt that Seasons 1-5 of the launch incentives program have contributed positively to the adoption of the dYdX Chain thus far. Despite being only nine months old, the dYdX Chain is a regular at the top of the daily and weekly volume rankings.

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Rewards from the launch incentives program have been earned by diverse users on dYdX chain, including, market makers, large volume traders at the top of trading leagues and retail traders. For example,

- Traders in the four trading leagues have competed for a total of \$4m in rewards based on their trading P&L. These rewards are specifically designed to motivate traders to put in the time and effort to improve their trading performance. Traders who put in the time to hone their craft have been shown to retain significantly better than average.
- Market makers, motivated by the attractiveness of the launch incentive program's market maker rewards segment have earned a combined \$5m over the five seasons to date for adding liquidity to the various markets' orderbooks.
- Retail trading flow, identified as traders initiating orders through one of the user interfaces, receive reward boosts. This targets incentives towards real users, a first in DeFi.

Promoting long-term alignment with the protocol, DYDX stakers are given a points boost. DYDX stakers secure the chain and have exhibited significantly greater retention than non-staking traders. This segment is rightly rewarded for the benefit they collectively bring to the dYdX Chain.

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As stewards of the DYDX community Chaos Labs values transparency and community feedback highly. We have always strived to share the data we use to measure program performance, impact and effectiveness along with clear data-based rationales for why the program is designed as it is. Along the way the program has evolved with dYdX community feedback from mostly focusing on rewarding organic trading volume, to a set of targeted behaviors benefiting the dYdX Chain.

To accelerate the adoption and growth of dYdX Chain momentum, we propose re-launching the incentives program at the launch of [dYdX Unlimited](#). At this early stage in the protocol, we believe that this investment in growth will set dYdX up for long-term, sustainable success.

Proposal

Given the Launch Incentives Program's impact to date and its scheduled end at the end of Season 6 by August 28, 2024, we propose resuming it with a further \$20m in DYDX rewards over six months immediately after the launch of dYdX Unlimited this fall. This will involve a short pause in the program between the end of season 6 and the launch of dYdX Unlimited.

The proposed structure will be administered in a similar fashion to the previous seasons of the program, with defined seasons and rewards targeted at the most valuable user activities to the ecosystem. Our industry-leading performance reporting for the community will continue each season so the community remains informed.

Should this proposal go ahead, the program will continue to be monitored for abuse using the [Chaos Labs Wash Trading Detection Module](#). This will prevent malicious actors from diluting legitimate traders by trading with themselves or related parties.

We intend to maintain and enhance transparency on performance through detailed end-of-season reporting. Clearly defining and tracking the most impactful KPIs is essential for optimizing the program's design and ensuring the community remains informed and empowered.

Chaos Labs values community feedback through all channels and aspires to take every suggestion on board for careful consideration. While data ultimately guides the decision making process, there is room to look into different ideas and we aim to study and respond to all well-intentioned ideas.

Proposal Timing: Why Now?

As Season 6 concludes between August 18-28, this proposal is designed to provide traders and market makers with the confidence that the program will continue for an extended period. This assurance will strengthen their motivation to invest the time and effort required to onboard to dYdX Unlimited.

Restarting the program at the same time as the Unlimited upgrade will give the upgrade the attention it deserves while rewarding early adopters.

Wash Trading Detection

Chaos Labs Wash Trading Detection Module is an advanced implementation of best-in-class wash trading algorithms, fine-tuned to cater to on-chain derivative protocol trading.

The Chaos Labs wash trading detection module is critical in incentive programs. It identifies trading patterns that result in a minimal ownership change, indicative of collusive activities. The module thoroughly analyzes all trades, employing behavioral filters to distinguish between organic and manipulative trading behaviors.

The algorithm leverages sophisticated metrics and conditions rooted in academic research and industry best practices to pinpoint wash trading activities on derivative trading protocols. Its methodology encompasses:

- **Trade Graph Analysis:** All trades concluded over a timeframe are transformed into a [directed graph](#) on which graph algorithms such as [depth-first-search](#) (DFS) are utilized to detect cyclical trading.
- **Wash Trade Definition:** Adhering to stringent criteria, the algorithm identifies wash trades based on anomalous ownership changes in relation to trade volume among clustered accounts. This extreme example shows four colluding traders creating 19 units of trading volume over six trades with no change in ownership. Our wash trading module can also detect wash trading activity where small changes in ownership occur.

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This extreme example shows four colluding traders creating 19 units of trading volume over six trades with no change in ownership.

- **Manual Screening:** A crucial layer of manual review is incorporated to reduce the likelihood of false positives, safeguard legitimate traders, and uphold the algorithm's precision and fairness. Example output from Chaos Labs Wash Detection Module, highlighting trade cycles identified as potential wash trading instances.
- **Parameters and Conditions:** Operational parameters, such as limits on colluding cycles and threshold tolerances, are fine-tuned to ensure a balanced approach between effective detection and the minimization of false alerts. This is done by taking the specific market microstructure of an exchange at a point in time into account to account for legitimate incentive-driven trading activity.

Next Steps

Following community discussion on the forums, we are targeting an on-chain vote starting on Tuesday, August 20.