Our Proposal

As a member of the Lido DAO and co-founder ofOpenBlock Labs, I am submitting a proposal to build an objective-based framework for incentivizing organic trading volume, starting with DEXs on Arbitrum, Optimism, and Mainnet. OpenBlock Labs looks to craft a robust, tailor-made incentive engine and systems analytics dashboard that is founded upon data–driven research and a first principles analysis. This proposal stems from the research motivated by the Steakhouse Financial team (outlined in their most recent post), as well as a number of discussions with the analytics + reWARDS committee over the past 1-2 months.

Key Objectives

OpenBlock Labs aims to accomplish the following objectives:

1. Create a robust systems analytics dashboard to monitor the gamut of relevant pools and venues with real-time volume data. Breakdown the source of current trading volume in stETH and ETH pools, and identify specific pools + venues where organic volume can be obtained. This data will inform the Lido DAO with actionable insights on business development regarding new pools and venues as well as the Lido reWARDS committee with actionable insights on pin-pointing where to incentivize growth. Improving stETH velocity is a critical piece in making Lido the optimal venue for liquid staking.

2. Transition towards a data-driven model for incentive budget quantification on new venues, in contrast to subjective decision making. Extend existing models to take volume data into account when quantifying the amount of liquidity needed in a given pool, and continue R&D on the PID controller. The key metric is improving the volume per dollar in incentives across relevant pools.

A Novel Incentive Engine for Growing Volume

The April rewards budget outlines an allocation of ~700k LDO, which is a substantial expenditure for the DAO. We are glad to see the reductions in expenditure across the past few months, but there is still significant room for growth on optimizing the incentive process. Specifically, the current reward system has achieved its goals in renting liquidity reserves, but the focus should be shifted towards rewarding organic trading volume. Reports from the analytics team show that current reserves are multiples higher than what is needed to support potential liquidations at risk.

Rewards should be carefully used to bootstrap a network, but the underlying success of stETH should be measured by its velocity within the ecosystem; this velocity should make trading fees high enough for LPs to be profitable without additional rewards. One of the primary goals of this research is to identify the levers to improve organic volume and adjust incentives accordingly.

The reWARDS committee has been granted a large quantity of rewards from Arbitrum and Optimism. These two chains are showing a strong upward trend in TVL and volume during this market, which presents a unique opportunity for stETH. If managed incorrectly, the Arbitrum and Optimism deployment can become an expensive liability, as mercenary liquidity providers will abandon the network when rewards dry up—the new pools may never reach escape velocity, and future LPs will pay the price.

OpenBlock Labs will conduct a deep-dive analysis on the current set of both market makers (LPs) and takers (volume) on stETH and ETH pools. The research and analysis (Phase 1) will motivate a variety of ways for the reWARDS committee to consume these actionable analytics, which we outline in Phase 2. We believe a tailor-made incentive engine and systems analytics dashboard can significantly cut costs by rewarding participants through well-structured principles, rather than supporting ephemeral yield farmers.

While the community has built an impressive set of liquidity analytics compared to most DAOs, we believe mandating an external team such as ourselves can offer a novel perspective on a well-trodden problem. OpenBlock Labs is committed to working with the pre-existing data frameworks, and iterating with the analytics committee to leverage insights from previous experiments.

Specification

Phase 1: Liquidity and volume assessment + systems analytics dashboard

- OpenBlock Labs prepares a dynamic and robust report with the following information
- Liquidity provider and trader (volume) distribution of every stETH pool across top venues, and a competitive analysis focused on ETH-based stablecoin pools.
- Number of total LPs and traders per stETH pool, and compare to ETH pools.
- Pool-level data
- Breakdown of liquidity reserve and volume source (automated strategies, arbitrage, liquidations, retail, institutional)
- Current and historical buy/sell trading volume

- Current and historical add/remove liquidity reserve volume
- Price impact compared to competitive pairs (i.e. stETH-USDC vs ETH-USDC) along with real-time reward recommendations for closing the spread
- Comparative trading volume analysis of stETH-stable and ETH-stable pools, with quantitative incentive recommendations to minimize the discrepancy.
- Breakdown of liquidity reserve and volume source (automated strategies, arbitrage, liquidations, retail, institutional)
- Current and historical buy/sell trading volume
- Current and historical add/remove liquidity reserve volume
- Price impact compared to competitive pairs (i.e. stETH-USDC vs ETH-USDC) along with real-time reward recommendations for closing the spread
- Comparative trading volume analysis of stETH-stable and ETH-stable pools, with quantitative incentive recommendations to minimize the discrepancy.
- Trader and LP-level data
- List of top traders by volume traded
- Current and historical holding of other liquid staking tokens
- Current and historical holding of LDO token
- Historical performance of stETH LP position
- Liquidity depth of position
- Price range supported
- Historical LP positions to detect volatility (i.e. JIT liquidity)
- Selling of ARB, OP, and LDO rewards received from incentives
- List of top traders by volume traded
- Current and historical holding of other liquid staking tokens
- Current and historical holding of LDO token
- Historical performance of stETH LP position
- Liquidity depth of position
- Price range supported
- Historical LP positions to detect volatility (i.e. JIT liquidity)
- Selling of ARB, OP, and LDO rewards received from incentives
- Analyze which venues are dominating in volume, where the volume originates, and form recommendations on how stETH can increase its share of trading activity. These recommendations will inform trader + LP incentive budgets, broken down by how much each pool across various venues should be rewarded.
- Portal for existing traders and LPs to receive rewards for answering survey questions about their position
- Liquidity provider and trader (volume) distribution of every stETH pool across top venues, and a competitive analysis focused on ETH-based stablecoin pools.
- Number of total LPs and traders per stETH pool, and compare to ETH pools.
- Pool-level data
- Breakdown of liquidity reserve and volume source (automated strategies, arbitrage, liquidations, retail, institutional)
- Current and historical buy/sell trading volume
- Current and historical add/remove liquidity reserve volume
- Price impact compared to competitive pairs (i.e. stETH-USDC vs ETH-USDC) along with real-time reward

recommendations for closing the spread

- Comparative trading volume analysis of stETH-stable and ETH-stable pools, with quantitative incentive recommendations to minimize the discrepancy.
- Breakdown of liquidity reserve and volume source (automated strategies, arbitrage, liquidations, retail, institutional)
- Current and historical buy/sell trading volume
- Current and historical add/remove liquidity reserve volume
- Price impact compared to competitive pairs (i.e. stETH-USDC vs ETH-USDC) along with real-time reward recommendations for closing the spread
- Comparative trading volume analysis of stETH-stable and ETH-stable pools, with quantitative incentive recommendations to minimize the discrepancy.
- Trader and LP-level data
- List of top traders by volume traded
- Current and historical holding of other liquid staking tokens
- Current and historical holding of LDO token
- Historical performance of stETH LP position
- Liquidity depth of position
- Price range supported
- Historical LP positions to detect volatility (i.e. JIT liquidity)
- Selling of ARB, OP, and LDO rewards received from incentives
- List of top traders by volume traded
- Current and historical holding of other liquid staking tokens
- Current and historical holding of LDO token
- Historical performance of stETH LP position
- Liquidity depth of position
- Price range supported
- Historical LP positions to detect volatility (i.e. JIT liquidity)
- Selling of ARB, OP, and LDO rewards received from incentives
- Analyze which venues are dominating in volume, where the volume originates, and form recommendations on how stETH can increase its share of trading activity. These recommendations will inform trader + LP incentive budgets, broken down by how much each pool across various venues should be rewarded.
- Portal for existing traders and LPs to receive rewards for answering survey questions about their position

Phase 2: Execute recommendations

- OpenBlock Labs creates a set of actionable strategies, and works with the reWARDS committee to safely and seamlessly execute the recommendations
- Based on the analytics from Phase 1, OpenBlock Labs will propose a governance vote to distribute rewards in an innovative fashion, rather than using the AMM's generic staking mechanism.
- Based on the analytics from Phase 1, OpenBlock Labs will propose a governance vote to distribute rewards in an innovative fashion, rather than using the AMM's generic staking mechanism.

Phase 3: Continuous optimizations

- OpenBlock Labs provides continuous incentive management support to maximize growth in a capital-efficient manner to create long-term, sustainable growth across new venues. The key metric of growth is organic trading volume, with an emphasis on stETH-stablecoin pairs.

- Regular monitoring based on KPIs and market conditions, with consistently updated recommendations.

To cover all 3 phases, OpenBlock Labs requests 25k LDO, 50k OP, and 50k ARB for a duration of 3 months. These funds will be used to finance the cost of 2-3 data scientists, 1 frontend engineer, 1 designer, 1-2 quantitative analysts, and 1 project manager. Wallet address: 0x12ec61a0ca037A810424F00C9E70F77d6d9FF4a8

About OpenBlock Labs

OpenBlock Labs is an R&D firm that empowers decentralized organizations with on-chain data insights for incentive optimization. OpenBlock is backed by notable figures in the crypto space, including Foundation Capital, Electric Capital, Circle Ventures, AlleyCorp, and others.

The team has backgrounds from Stanford University, a16z, Carnegie Mellon University, Meta, Palantir, and other top-tier institutions; the highly technical background of our team makes us confident that OpenBlock is uniquely positioned to tackle a problem of this nature.

Final Thoughts

OpenBlock Labs looks forward to assisting in the design of a sustainable incentive model to grow stETH volume across Ethereum, Arbitrum, and Optimism. This grant will be a great first step towards solidifying a productive relationship for both communities. We look forward to hearing the community’s thoughts, and answering any questions. Thank you for your consideration.

Update

The proposal is updated to avoid confusion - Delta One mentions are replaced with OpenBlock Labs - a primary legal entity of the team working on this proposal. Please also note that this is a second version of proposal with reworked goals after receiving a feedback from LEGO committee (the original version of the post is unlisted from the forum to not make duplicates and extra confusion).