Incentive Impact Analysis: Rubicon

Authors

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Program Information

- Rubicon

- Governance Fund Season/Cycle

- Phase 0: 900,000 OP

- Season 2 Cycle 10: 200,000 OP (ONGOING)

- Galxe Quest Dates: September 18, 2022 - January 18, 2023

Key Takeaways

- Incentives targeting high-demand collateral assets (such as stables, WETH, WBTC) proved more capital efficient in attracting capital to Rubicon's liquidity pools than long-tail assets like OP and SNX.

- Despite being less capital-efficient, data from the SNX pool indicates that incentives might be particularly effective in driving growth for long-tail assets. Specifically, the SNX pool saw the highest growth in the comparison between the post-incentive and pre-incentive periods.

- Similar to findings in PoolTogether analysis, Galxe style quests showed greater effectiveness in driving transactions, while liquidity rewards were more effective at increasing TVL. We conclude that Galxe-style quests are best for driving smaller deposits in large volumes.

Distribution

This analysis observes the impact of OP rewards on Rubicon's usage metrics. Rubicon has received OP across multiple distributions, including:

1. The Optimism Governance Fund awarded a 900,000 allocation as part of Phase 0.

2. A 200,000 allocation was awarded by the Optimism Governance Fund as part of Phase 1: Season 2 - Cycle 10.

As the Cycle 10 distribution is currently ongoing, this analysis will focus on the effects of the initial Phase 0 grant. This grant allocated 900,000 total OP with 540,000 OP allocated towards liquidity provider (LP) rewards, 135,000 OP allocated toward a Rubicon Grants program, 135,000 OP allocated to an airdrop for Rubicon users, and 90,000 OP to seed an OP liquidity pool for Rubicon

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Program Overview

The Phase 0 distribution is best observed by breaking down each grant initiative and then providing a deep dive into the 540,000 LP rewards distribution, which will be the primary purpose of this analysis…

Rubicon Airdrop

The Rubicon Airdrop to early Rubicon users occurred on August 23, 2022, allowing users to claim their OP over ~4 months. This correlated most strongly with an increase in transaction volumes directly following the event, presumably as users claimed OP rewards.

Rubicon Grants Program

Launched on July 21, 2022, the Rubicon Grants program distributed three immediate retroactive grants, and has distributed two grants since.

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Rubicon has distributed five grants thus far and established an official Grants Committee as of January 20, 2023. The Grants Committee has received the remaining grant budget from the rubicon.eth address and currently operates out of the Grants Multisig which holds ~130,300 OP.

OP Liquidity Pool

90,000 OP was allocated to Rubicon Pools for bathOP, an LP token representing liquidity positions in Rubicon's single-sided liquidity pools. While Rubicon's deposit remains in the protocol, it's worth noting that the V1 Pool has since been wound down as Rubicon awaits deployment of V2 of its protocol.

Liquidity Provider Rewards

The largest Rubicon Phase 0 proposal program, LP rewards, targeted seven Rubicon V1 Pools. Rubicon's single-sided liquidity pools allow liquidity providers to deposit single assets in exchange for bathAssets representing their share of the pool's liquidity. The program distributed 540,000 OP across 210 days at a rate of 2,572.96 OP per day.

Source: [GF: Phase 0 Proposal] Rubicon

Liquidity Provider Rewards - Program Overview

Total Value Locked

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Rubicon's LP rewards had a noticeable and dramatic effect on protocol TVL. Beginning under $800K in total TVL at the start of the period, the protocol had attracted $12.9 million in total assets by the end of the program, representing a 1,744.21% increase.

Rubicon's program distributed OP across seven pools, covering three stablecoins (USDC, USDT, and DAI) and WBTC, WETH, SNX, and OP.

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Daily Transactions

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Similar to our Pooltogether analysis, the Galxe quest program was significantly more effective in driving daily transactions than the incentive program. Over 2,500 average daily transactions occurred during the overlap between the Galxe program and the incentive period than during the entirety of the governance fund. This discovery is not surprising, given the passive transactional nature of liquidity mining. That said, exciting insights include two spikes in November, likely driven by withdrawals in reaction to the FTX insolvency.

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One particular note is the transaction spike in the days following the end of the Liquidity Pool Rewards, which was presumably driven by LPs leaving the project after Rubicon's announcement to wind down its V1 pools, soon to be replaced by V2.

Daily Transacting Addresses

Like transaction volumes, the Galxe Quest was most effective at driving transacting addresses to the platform. Throughout the length of the LP rewards incentives, it's hard to notice a sizable increase in transacting addresses based on liquidity pool rewards alone. [

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Daily Network Fees Generated

Rubicon generated 105.79 ETH in network fees throughout the Liquidity Pool Rewards program. Fees peaked dramatically on Nov. 9, 2022, to over 9 ETH, presumably in response to rumors surrounding FTX insolvency. Aside from the FTX events, daily fee generation remained below 2 ETH throughout the program.

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Governance Impact

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In our PoolTogether Impact Analysis, we emphasized the significance of measuring the Governance Impact of OP distributed by the Collective. While Rubicon's incentive program did not primarily focus on governance participation, it is crucial for the Optimism Collective to closely examine how the distribution of OP influenced Optimism governance and the characteristics of OP claimers. Out of the 5,066 claimers, a substantial 3,909 (77%) have historically delegated OP, and these addresses account for 370K OP claimed, representing 52% of the total 720K OP claimed.

Reward Claimer Analysis

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The program's largest claimer was the yield aggregator Overnight Finance, presumably using the Rubicon rewards to direct customer liquidity in expectation of boosted yields. Overnight was responsible for 10.8% of the total OP claimed in the program. One encouraging aspect of the program was that 15 of the top 25 claimants were also historical delegates, signaling that active participants in the Optimism governance system engaged with Rubicon's program as users.

Exploring Capital Efficiency

Rubicon proposed a specific budget for its distribution, outlined in the report's first section. We can observe the daily TVL per OP spent on each of the incentivized pools using these numbers. Together, the daily TVL for each pool appears to follow a similar trend, except OP, which lagged a bit behind most assets throughout the middle of the program, and SNX, which

lagged behind all other assets for nearly the entirety of the program.

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By observing the average TVL each OP attracted per pool, we observe that the stablecoin pools remained relatively consistent and performed closely to the WBTC pool, with each on average providing a return of $10-14 in TVL per OP distributed. At the top of the range, WETH outperformed all other assets, drawing an average of $16.48/OP. The poorest performing assets were OP and SNX, with the OP attracting an average of $7.8/OP, and SNX with $3.9/OP.

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These observations lead to several insights. First, capital efficiency appears to be generally higher for less volatile assets per OP basis than the alternative.

Secondly, long-tail assets, which may have seen lower demand before incentives were introduced, were still attracted to the platform, primarily due to the incentives themselves. For instance, SNX, despite attracting the lowest dollar value per OP incentive distributed, experienced the highest percentage growth among all the assets. The average SNX Total Value Locked (TVL) in the 30 days following the program surged by 1,399.81% from the 30 days preceding. This implies that even though SNX may not have been the most capital-efficient in terms of value per OP distributed, the incentive program played a vital role in bootstrapping SNX liquidity for the SNX pool.

Recommendations

1. Optimize Asset Targeting

: Rubicon's liquidity mining program demonstrated that incentives targeting high-demand collateral assets like stablecoins, WETH, and WBTC were more capital-efficient methods of attracting liquidity. Future programs might prioritize these high-demand assets when optimizing capital efficiency with overall protocol TVL growth as the primary metric. Alternatively, programs looking to bootstrap liquidity might succeed more in bringing short-term growth by earmarking incentives to bootstrap pool-specific growth for long-tail assets.

However, with high-demand assets, protocols should be careful not to over-incentivize them. It's essential to understand the marginal benefit of incentives for these assets as there may already be sufficient liquidity on-chain, and any incentives directed towards these pairs could adversely attract liquidity for pairs in need, such as OP or SNX.

1. Aligning Incentives with Product Cycles

: Rubicon's grant program showed how one grant application could fund diverse incentives and growth strategies, including liquidity mining and the OP backstop program. However, the [decision to wind down](#) incentivized products shortly after the end of their incentive programs underscores a lesson in planning and alignment. Product cycles are a natural part of development. However, the amount of OP deployed is large, considering the program's proximity to the products unwind.

The termination of these initiatives potentially stalled the [momentum created by the program](#), highlighting the importance of diversifying funding strategies and weighing incentive alignment with a project's long-term sustainability and vision. For example, the fact that after 108K OP of incentives, and a 90K liquidity backstop, less than 200K OP remains in the [bathOP V1 vault](#) is concerning. This suggests a need for a more careful selection of funding methods that drive immediate growth and align with a project's long-term direction.

1. Dynamic Grant Designs

: By targeting diverse use cases, the Rubicon Phase 0 program not only drove significant value, increased yield, and funded community initiatives, but it also accelerated user discovery and engagement. On the other hand, incorporating innovative and dynamic methods, such as the Galxe style quests or tiered protocol airdrops (see [Blur](#)), might have created a stickier and more interactive user experience. Designing interaction between the programs might have driven greater volume across metrics other than TVL.

1. Analyze and Adapt to Market Events: An unavoidable dynamic was the influence of external market events, such as the FTX insolvency, on the program's results (as seen in the transaction spikes in early November). It's not so much a recommendation as a potential prompt. Still, it's worth envisioning how future programs might include a monitoring system that identifies market influences and enables adaptability to those events in real-time. This could theoretically leverage the volatile market conditions to the program's advantage or mitigate potential negative impacts.

Closing Remarks

In conclusion, the Rubicon program attracted liquidity through capital-efficient strategies but highlighted complexities in incentivizing high-demand collateral asset types vs. long-tail assets. Galxe-style quests again showed how effective the program is at increasing user engagement. New concerns were also raised concerning the role of incentives in the product cycle, and how misalignment of incentives with development cycles might require a greater emphasis on foresight and alignment with long-term goals.

Resources

- [OP Analytics Repo](#)

- [Incentive Program Performance Summary - Dune @oplabspbc](#)

- [@optimismfnd / Optimism Mainnet Project Deep-Dive

(OP Mainnet)](https://dune.com/optimismfnd/optimism-project-deep-dive)

- [Incentive Program Performance Summary - Dune @oplabspbc](#)

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(OP Mainnet)](https://dune.com/optimismfnd/optimism-project-deep-dive)

- [Rubicon Blog](#)

- [Winding Down Pools V1](#)

- [The Rubicon OP Quest](#)

- [OP Airdrop to Early Users](#)

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