

Renewal of slashing cover from Unslashed

Development team made a new deposit to Unslashed yesterday to renew cover on Unslashed to prevent the deposits to be stripped of cover. There's been a significant time crunch and we were not able to push it through the regular governance procedure due to lack of time, so we went ahead and spent 42,8453819444444462 of our own ETH to keep the protection uninterrupted. We would like to propose a vote that would

1. refund the expenses to the dev team
2. transfer unused cover tokens to the dev team wallet so that we can sell it and return proceeds to the DAO

Given that cover terms significantly changed over that time period and the cover prolongation wasn't discussed with the DAO beforehand, feel free to vote against here.

What happened

The previous period came to an end on June 22, and as the terms have both changed significantly and were finalizing up to the last moment, we had no chance to discuss the issue properly with the DAO. Current post aims to facilitate this discussion, as well as detail the cover we've been offered & purchased.

During the first half of the year Lido has purchased the cover from Unslashed Finance for total 400 635,503898 ETH staked from the 5% slashing penalty (two purchases, 14 Feb & 23 April). That cover's period came to an end at June 22.

We've contacted the Unslashed in the beginning of June to see what the terms for the next cover period would look like. The change the Unslashed team has proposed was the division of single policy to 9 separate, one for each Node Operator, covering single operator's stake from 5% slashing penalty. The process of figuring out the details of the policy took all the time till the June 22, preventing us from discussing the issue with the DAO beforehand.

We've made the new deposit on behalf of the DAO, purchasing the covers from the 5% slashing of a single operator's stake for all 9 operators. The deposit should get the Lido said cover in full for a period of 5 days, after which the amount of covered stake will continue to decrease each 5 days by about 20%. That means that each five days there's a need to top up the cover. The actual cover price is dynamic & terms are detailed below.

The post is aimed to provide details on the current terms we have & explain the reasoning behind our actions regarding this purchase.

We've reached out to Unslashed team and have got the updated terms for the cover for the next period. The new cover policies are divided between the Node Operators, providing cover for 5% slashing penalty of the Operator's staked amount and cover for offline penalties of more than 1% of the Operator's staked amount (no more than 5% of the Operator's stake). The cover period would be changing from 6 months to 5 days, with automatic rollover of the unused premium. That timespan can be changed to 30 days if need be, but this change most likely would require another 300 ETH deposit to Unslashed.

The premium amount to pay is determined algorithmically and depends on supply and demand, varying between a min and max price. New policy specifies the range of 0.25-10% of the sum covered per year (the previous numbers were 1-1.5%). The deposit required to purchase the premium is calculated by the upper bound, and the actual cover price Unslashed is aiming to provide is in the same 1-1.5% as the previous one.

Cover on 600k ETH on these terms will cost us approximately 450 ETH per year ($600000 * 5\% \text{ slashing covered} * 1.5\% \text{ target cover price}$), while DAO's revenue stream on these would be around 1923 ETH per year ($600000 * 6.41\% \text{ beacon chain APR} * 10\% \text{ Lido fee} * 50\% \text{ DAO's fee share}$), so cover expenses will eat up about 23,4% of revenue. Note that the numbers here are approximations, as both the cover price and the beacon chain APR are dynamic.

Preparing the operations for those policy changes have taken considerable time, and as the previous policy was coming to an end, we've proceeded with the purchase of the cover on behalf of the DAO. The current deposits cover total 584798,5 staked ETH from the 5% slashing of the Node Operator's staked amount, with the max sum covered of 6052,475 ETH for P2P Validator stakes.

What we propose the DAO to do

Buying the cover cost us 42,8453819444444462 ETH, and if DAO agrees to have the cover on these terms, we'd like to have that ETH refunded.

The next thing we need to do here is wrapping up the previous policy and getting refund for unused cover. These operations are purely technical in nature, and are included in this proposal to save on voting hassle.

Next steps

If agreed, we'll have to incorporate every-five-days cover rebalance operation into DAO lifecycle; it would require some

voting as well.

Footnote

During the cover purchase the development team mistakenly deposited extra 2,234374999999999740 ETH to DSRV Node Operator premium. To get a refund, we'll have to have 2,234374999999999740 DSRV premium tokens transferred from the DAO's address.