# ❓ FAQ

## General

### How is Lyra different from the other options protocols?

Lyra uses a dynamic volatility input to price the entire options surface using a Black Scholes model. Current implementations use a static IV or other, less accurate workarounds to price options. Lyra is also the first options AMM to compose with other DeFi projects to automatically price and hedge risk for LPs. The reduced risk allows LPs to feel comfortable to provide deeper liquidity, yielding more trading volume and higher fees.

### Why not use an order book model?

DeFi order book models have long promised liquidity for a wide range of options, but this simply hasn't eventuated yet. The AMM model offers instant liquidity using a model that is instantly scalable and generalizable to many different assets that are currently underserved or untouched by the order book model (i.e. any non BTC/ETH asset), even on CeFi exchanges like Deribit. The AMM model can be iterated on to converge on a solution which ultimately offers LPs flexibility, whilst preserving the instant liquidity that has been the reason that AMMs have seen explosive growth in DeFi to date.

### Why use Optimism and not another scaling solution?

Optimism is a layer 2 scaling platform that inherits the security of Ethereum by virtue of being a rollup. Sidechains like Polygon do not share this property. Their security is dependent on their own consensus mechanism.

There are two categories of rollups, Optimistic and Zero Knowledge. Due to their simpler design, Optimistic Rollups have been quicker to provide a generalised environment where multiple applications can exist. This is an essential requirement for Lyra, since the protocol needs to compose with external markets to hedge risk.

V1 of Lyra has been designed to hedge risk via Synthetix, which offers zero slippage, infinite liquidity and a simple means of getting long/short. This is why Lyra has chosen to deploy to Optimism. Future versions of the protocol will be designed to ensure Lyra can be deployed on multiple L2s, so that the protocol can exist wherever the majority of users and liquidity ends up.

### Where can I read the whitepaper?

Here

## Governance

### How is Lyra governed?

Lyra is a DAO, owned and governed by the Lyra token holders.

### How do I propose a change to the protocol?

If you have an idea to improve the protocol, the best place to start is in the governance channel on discord. Once you've gathered some initial feedback, you'll need to write a Lyra Improvement Proposal (LIP). After the community has had a chance to review the LIP, token holders will vote on snapshot.

## How do I propose a change to the protocol parameters?

Parameter changes can be enacted without writing an LIP. Please discuss the change with the community in the governance channel on discord. Once there is sufficient support, a vote will be conducted on snapshot.

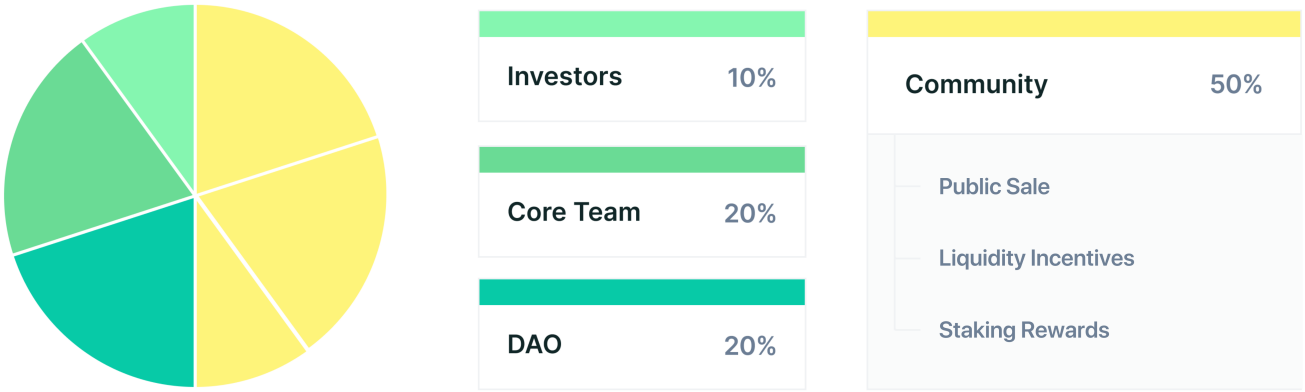
## What is the purpose of the Lyra token?

The Lyra token has two main purposes. The first is governance over the protocol. It affords holders the right to propose improvements to the protocol and vote on active proposals. The second is to provide capital for the security module.

## What is the Security Module?

The Security Module is designed to secure the Lyra protocol. Lyra staked in the security module will provide capital in the event of specific issues that cause loss of funds. The security module is under active development and more information will be shared soon.

## What is the token distribution?




**Community**

Half of all Lyra tokens are allocated to the community, to ensure that ownership of the project can be effectively decentralized. These tokens will be distributed in various ways, including liquidity incentives and governance staking rewards.

**DAO**

20% of the Lyra tokens are allocated to the LyraDAO. The purpose of this DAO is to ensure the ongoing development of the Lyra Protocol and general growth of the Lyra ecosystem.

**Core Team**

20% of Lyra tokens were allocated to the core team. This is enough to ensure long-term incentive alignment, whilst still allowing the community to own the majority of the project.

**Investors**

10% of Lyra tokens were sold to investors. Lyra raised crucial early funds from crypto's best funds, DeFi founders and options experts.

# Trading

## Do I have to exercise my options?

Nope, Lyra automatically cash settles options on expiry. The settlement value is based on the oracle price at the time of expiration. After you have purchased an option, all you have to do is sit back.

## Can I sell options to the AMM?

Yes! Selling covered calls or cash-secured puts are common strategies used by sophisticated investors to earn extra returns. The Lyra AMM is able to both buy and sell options.

## What types of options does Lyra support?

Lyra supports buying and selling European calls and puts, with automatic cash settlement on expiry for ETH and BTC. We will quickly be expanding the range of assets supported to cater to a variety of DeFi ERC-20s.

## Why is delta hedging important?

Delta hedging is a sophisticated hedging technique employed by the top market makers worldwide. In a risky domain such as options, hedging is vital to stay in the game over the long run whilst utilizing your capital in an efficient manner. Delta hedging allows LPs to smooth exposure to the moves in the price of the underlying asset. An added bonus is that in crypto options, traders tend to be bullish, so LPs without delta hedging tend to be extremely short crypto.

## Why doesn't Lyra just tell LPs how to hedge?

We wanted to make the Lyra LP experience as smooth as possible in order to maximize the liquidity in pools. Users can simply deposit funds, and Lyra does the rest. It is a difficult undertaking to consistently be aware of the underlying risks of the pool and take steps (and pay fees) to hedge. This is particularly true with respect to volatility exposure, which Lyra uses as a major component of its fee in order to balance the flow that LPs trade with.

## How does Lyra price volatility?

Check out this section of the docs.

## How does Lyra account for strike volatility (realized volatility smiles)?

Check out this section of the docs.