Request for Comments: Panoptic Incentive Points (Pips) Program

<u>Who</u>: Panoptic is pioneering a permissionless perpetual options protocol integrated with Uniswap, enabling users to trade options on any token, at any strike price, and in any size.

<u>What</u>: We are seeking public comments on our newly introduced Panoptic Incentive Points (Pips) Program designed to enhance user engagement and ecosystem growth.

About Pips

The Panoptic Points Program aims to incentivize user participation, bootstrap liquidity, and encourage the adoption of DeFi options. Users engaged in various activities within the Panoptic ecosystem can earn Pips, rewarding them for their engagement and contribution.

Opportunities to Earn

Pips can be earned by interacting with the Panoptic protocol. There are two main ways to earn Pips:

Passive Liquidity Providers (PLPs)
- PLPs who deposit funds in the Panoptic protocol will earn Pips in proportion to <u>(ETH deposit) x time</u>.

Options Traders
- Active options sellers earn Pips in proportion to the amount of ETH fees <u>earned</u> as streamia
- Active options buyers earn Pips in proportion to the amount of ETH fees <u>paid</u> as streamia
- Note: the amount of <u>streamia</u> earned and paid will be netted on a per account basis to avoid double rewarding selling+buying of similar options positions

Additional Boosts

Additional multiplicative boosts on a wallet's Pips earning rate will be given to users that have interacted with other DeFi protocols.

Eligible Markets

A curated selection of ETH-based markets on Ethereum mainnet will be eligible for the Pips program. The points program will initially launch with a limited number of markets. Week one starts with two pools:
- ETH/USDC 30bps
- ETH/WBTC 30bps

The list of qualifying markets will be reassessed each week and gradually expanded. The Panoptic team will exercise discretion in selecting eligible markets, considering various factors such as pool metrics.

Join the Conversation!

Your input is invaluable as we strive to refine and enhance our Pips Program. We encourage you to provide feedback and suggestions. To participate in the discussion, please join us on our <u>Discord forum</u>. Access is granted upon submitting a <u>short form</u>, where you can share your initial ideas.

→ See attached technical specifications for more details

Pips Program: Technical Specifications

Pips Allocation Model

The goal of the Pips program is to reward onchain actions that positively impact the protocol's liquidity and improves the overall user experience for retail users. The distribution of Pips aims to reward users that display sustained and organic contributions to the protocol.

A total of three billion Pips will be distributed during the Pips program, with one billion Pips to be allocated to each of the three categories of Panoptic users: Passive Liquidity Providers (PLPs), Options Sellers and Options Buyers. Pips will be distributed to each class of user until the one billion allocation runs out, after which no more Pips will be awarded for that specific category. Other categories will continue to earn Pips until they also run out.

User Category	Pips allocation	Pips Distribution	Issuance Rate
Passive Liquidity Providers	1 Billion Pips	Earn Pips based on the amount and duration of ETH deposited	$5 * \sqrt{(\text{TVL in ETH}/\text{block})}$
Sellers	1 Billion Pips	Earn Pips based on the ETH premia earned from selling options	$2 \text{ million} * \sqrt{(\text{ETH premia earned}/\text{day})}$
Buyers	1 Billion Pips	Earn Pips based on the ETH premia paid from buying options	$1 \text{ million} * \sqrt{(\text{ETH premia paid}/\text{day})}$

It is expected that Pips will be distributed to each category of user at a different rate, with the issuance rate for sellers being larger than buyers to promote the early bootstrapping of liquidity necessary for buyer participation. The issuance rate for traders is higher than PLPs because traders must deploy more capital to generate streamia and take on more risks.

The amount of Pips issued to PLPs will be determined by the TVL at each block. The amount of Pips issued to traders will be based on the streamia traded in the previous 24h period. The issuance rate is designed to increase in a convex manner in response to increased activity, details of which are shown in the table above and on the next page.

PIPs Boost Multipliers

A key feature of the Pips program is that it rewards active community members with a faster Pips issuance rate based on their DeFi activity.

Specifically, additional boosts on earned Pips will be awarded to this preliminary list of users (snapshot: March 1, 2024):

- Panoptic beta testers (1.75x boost)
- Uniswap V3 LPs (1.5x boost)
- Uniswap V2 LPs (1.25x boost)

Boosts are multiplicative, and the boost multiplier will be computed for each wallet the first time it interacts with the app.

The multiplier will decay according to the amount of Pips earned historically according to:

$$\text{multiplier} = 1 + (m_0 - 1) \cdot \exp\left(-\frac{\text{Pips earned}}{100,000}\right)$$

Hence, an account with a multiplier equal to "m_0" will potentially earn an amount of extra Pips equal to $(m_0-1)*100,000$.
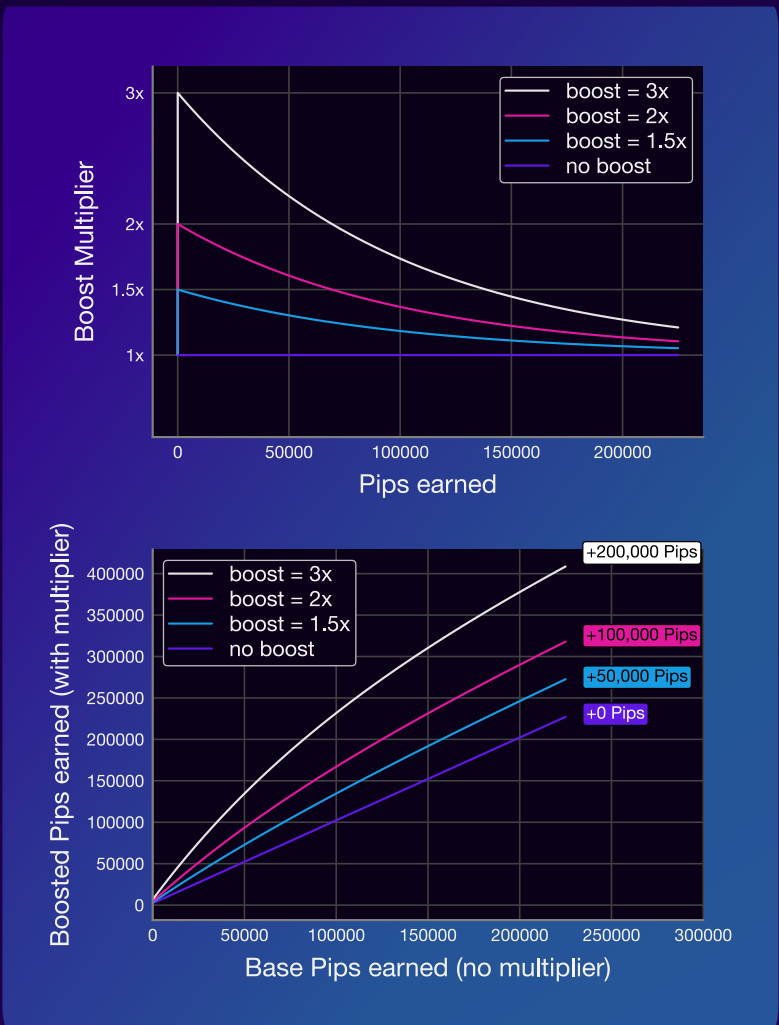
Let's say the total amount of ETH deposits is 1,024 ETH. On a particular day, the ETH streamia collectively earned by all sellers is 1ETH, and the ETH streamia collectively paid by all buyers is 0.5ETH. Then for that day, 1,152,000 Pips will be issued to PLPs, 2,000,000 Pips will be issued to sellers, and 707,106 Pips will be issued to buyers. This assumes that there are 7,200 blocks in a day.

Alice: Let's consider Alice, which was a Panoptic beta user (1.75x), a Uniswap v3 LP (1.5x), and a Uniswap v2 LP (1.25x). Her initial Pips multiplier is 1.75*1.5*1.25 = 3.625x. Alice deposits 1 ETH and sells an option that earns 0.0025 ETH in streamia over the last 24h period.

Alice's Pips allocation for the day will be:

$$\texttt{Pips for Alice per day} = (3.625) \cdot \left(\texttt{7200*5 Pips} \cdot \frac{1}{\sqrt{1,024}} + \texttt{2e6 Pips} \cdot \frac{0.0025}{\sqrt{1}} \right) \approx \texttt{22,203 Pips}$$

Bob: Now consider Bob, who was a Uniswap v3 LP (1.5x) and a Uniswap v2 LP (1.25x), so his Pips multiplier is 1.5*1.25 = 1.875x. Bob deposits 1 ETH and buys an option that costs 0.003 ETH in streamia per day.

Bob's Pips allocation for the day will be:

$$\texttt{Pips for Bob per day} = (1.875) \cdot \left(\texttt{7200*5 Pips} \cdot \frac{1}{\sqrt{1,024}} + \texttt{1e6 Pips} \cdot \frac{0.003}{\sqrt{0.5}} \right) \approx \texttt{10,064 Pips}$$

Charlie: Charlie is a brand new wallet, so his Pips multiplier is 1x. He wishes to be a PLP and simply deposits 10 ETH and 25,000 USDC and does not trade any options. The number of Pips he earns will only depend on his ETH deposit (10 ETH).

Charlie's Pips allocation for that day will be:

$$\texttt{Pips for Charlie per day} = (1) \cdot \left(\texttt{7200*5 Pips} \cdot \frac{10}{\sqrt{1,024}} \right) \approx \texttt{11,250 Pips}$$

Diana: Diana is also a brand new wallet and she deposits 1 ETH in the ETH-WBTC pool. She bought an option that cost 0.003 ETH and sold another option that earned 0.0025 ETH. Diana is a net buyer because she paid more premia than she owed, and the number of Pips she earns is based on her net premia of (0.003 ETH - 0.0025 ETH).

Diana's Pips allocation for that day will be:

$$\texttt{Pips for Diana per day} = (1) \cdot \left(\texttt{7200*5 Pips} \cdot \frac{1}{\sqrt{1,024}} + \texttt{1e6 Pips} \cdot \frac{0.003 - 0.0025}{\sqrt{0.5}} \right) \approx \texttt{1,832 Pips}$$

FAQ

- Q: Will other markets besides ETH/USDC and ETH/WBTC be eligible for Pips?
  - A: Yes, the list of qualifying markets will be reassessed each week and gradually expanded.

- Q: Will non-ETH based markets be eligible for Pips?
  - A: Markets without ETH pairings (e.g. DEEZ/NUTS) will not be made eligible for Pips by the Panoptic team. If there is strong community demand for particular non-ETH markets, Panoptic will gladly consider the request.

- Q: Why are only ETH-based markets eligible for Pips?
  - A: Eligible markets are based on their corresponding Uniswap pools' liquidity and volume. If there is strong community demand for particular markets, Panoptic will gladly consider the request.

- Q: Do non-ETH deposits earn Pips?
  - A: No, only ETH deposits are eligible for Pips. For example, depositing ETH into the WBTC/ETH 30bps market is an eligible way to earn Pips, but depositing WBTC is not.

- Q: Why can I only earn Pips by depositing ETH and not other tokens?
  - A: Price changes make it difficult to accurately determine the Pips issuance rate. If there is strong community demand for particular non-ETH deposits, Panoptic will gladly consider the request.

- Q: How will I be able to track my Pips?
  - A: Panoptic will have a leaderboard tab that will allow users to easily see their own and other users' Pips.

- Q: How will I know if the market I am participating in is eligible for Pips?
  - A: Eligible markets will be continuously updated and visible to users on the UI.

- Q: Is all premia eligible to earn Pips?
  - A: No, only ETH premia is eligible for Pips. For example, trading options in the ETH/USDC 30bps market will accrue premia in terms of both ETH and USDC, but only the ETH-portion of accrued premia will be eligible for Pips.

- Q: Are all options contracts eligible to earn Pips?
  - A: Deeper in-the-money and deeper out-of-the-money options are out of range and do not accrue streamia. These positions will not earn Pips as long as they remain out of range.