

Arbitrum Incentives Working Group - 2024/12/18 18:57

EET - Transcript

Attendees

Alex (Arana Digital), Alex Lumley, Ana-Maria Yanakieva, Anastassis Oikonomopoulos, APLsdcOtr's Notetaker, Bee 926, Brick, Daniel Ospina, Disruption Joe, Disruption's Notetaker, JuanRah, KR, Krzysztof Urbański, Leandro (Locha) Schlottchauer, Matt Grunwald, Matt L, Matthew Fiebach, Matthew Fiebach's Presentation, Matthew Stein, Nathan vdH, Pruitt Martin, Sam Martin, Saurabh Dhekale, Silvio Busonero, Traversi Normandi

Transcript

Anastassis Oikonomopoulos: Hey Chris, sharing links.

Anastassis Oikonomopoulos: Hey, Rob.

Saurabh Dhekale: We have MGM sir.

Anastassis Oikonomopoulos: Hey, Folks are Morning.

Matt Grunwald: One guys

Anastassis Oikonomopoulos: Folks are slowly starting to trickle in. So, let's give it a few minutes. Hey M GM,...

Matthew Fiebach: GM GM.

Anastassis Oikonomopoulos: give you host so you can share your screen.

Matthew Fiebach: Just talked to AD.

Anastassis Oikonomopoulos: Yeah. All right,...

Matthew Fiebach: You were trying to get them to do some more work with us, which I'm sure make Kristoff happy.

Anastassis Oikonomopoulos: let's give it another three minutes and we'll start at past 5. As a kind reminder, the call is already being recorded. So, if you don't want to be on camera, then don't.

Anastassis Oikonomopoulos: GM jams over one for a few more minutes for people to join. And while we're waiting, looks like this is going to be our last incentive school since next week is Christmas on Wednesday and the week after that is New Year.

Anastassis Oikonomopoulos: So, I assume everyone's going to be taking some time off with their families and everything. And if you're not taking some time off, you really should. so, yes, this will be the last call. We'll probably talk after New Year's. Hope everyone has plans.

Anastassis Oikonomopoulos: And if people join, I of course will let them in. Matt, you're on mute by the way.

Matthew Fiebach: Sorry, can you guys hear me? Are you guys able to see my screen and...

Matthew Fiebach: access the link I just sent in the Awesome.

Anastassis Oikonomopoulos: Yes with the screen and...

Anastassis Oikonomopoulos: yes will it blink? Go ahead.

Matthew Fiebach: So, we've been working on a new idea. So, this has been in the works for quite a bit, maybe like two months now. It kind of started off with informal conversations with Gauntlet and with some other stakeholders. the idea we were working on for a long time was like, how do you target specific activities kind of across the whole chain? That was kind of the thesis we were building on. And then over the past few months we've continued to iterate and now finally after quite a while we've turned this into an actual actionable framework. So sorry for bringing frameworks back because I'm personally happy that we've kind of moved away from the framework mechanism the DAO for a long time but by framework what I mean is that anyone can actually apply with their own ideation or proposal for how incentive should work within this DeFi renaissance incentive program or within the DRIP framework.

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Matthew Fiebach: So there's lots of rules if you want to actually create a drip season which is what we're calling them. So just to note it's a 20 total allocation four seasons and each season is three months. So basically the idea here is each season can have an total of 5 million ARB allocated to it at the most and each season is extremely targeted both in activity and in asset. also each season has to be generally app agnostic. So across the whole chain I say generally because we don't want to be viewed as endorsing protocols that have serious risks or zero TVL. So there can be some discretion as to which apps do not get this but overall its the goal is to be pretty much protocol agnostic. So across the entire chain by extremely targeted I mean things like build the deepest liquidity for each season needs to have extremely specific goals.

Matthew Fiebach: So why did we go with this, kind of new mindset of doing specific activities and doing specific assets within those activities and small amounts with short seasons it's kind of very different than we've done in the past. And this was kind of based off of stuff that we'd noticed throughout past programs as well as comments from Chaos, Blockworks, and IOSG. So some of Chaos's key takeaways when doing their analysis of incentives programs in the past were experiment So programs that continued to, iterate and the anal look at the data from their program and tailor it specifically to the program were better than the ones that kind of just generalized it and left it high and dry. Keep the incentive criteria clear and simple. So the ones that were complicated or complex or had rules that were hard to follow I think got less attention and didn't do as well as ones that were just deposit year or, something very simple like that.

Matthew Fiebach: and align incentives with ecosystem goals. So ones that were actually very targeted did better than ones that didn't really have any goals behind them. So Blockwork said, basically dexes and lending were the two categories that they viewed as doing For Dexes, the people the programs that focus on LPs did the best. That's very in line with what IOSG is proposing in their proposal. And for lending, the

ones that optimize for utilization rather than for TVL did better. so for instance, let's turn those into, kind of what I view as very specific LP to this specific pair, get incentives. Deposit this specific asset into a lending protocol and borrow against it, get incentives. Anyways, IOSG said established protocols have disproportionate influence, which we saw as something that occurred too. That's why that we think that they should be chainwide app agnostic.

Matthew Fiebach: And they said the proposed distribution model in their new incentive proposal they say their proposed distribution model shifts the ARB token incentives from protocols to liquidity providers directly which is something that we also believe should occur. one other thing that I noticed in past programs is that by having so many different types of programs run at once it became impossible to truly evaluate the success of the programs. So, of course, it's going to be hard for Block Work or Chaos to say that because that was kind of their job. But at the same time, I think objectively having to look through a hundred different programs and figure out what worked well and what didn't makes it really, really hard to iterate and evaluate what went So, that's another reason we chose to kind of design this how we did it. So, as far as what we need partner-wise before the Drip can be a reality, we need a distribution partner and evaluation partner. So, these will be RFPs.

Matthew Fiebach: The distribution partner identifies eligible wallets according to a season's rules and distributes rata incentives to those wallets. So protocols don't get sent any ARB. All the ARB goes to our distribution partner. The distribution partner is in charge of looking at all the different let's use the dexe let's say let's use the DEX as an example. So in IOG's proposal instead of do they put a 10 million minimum TVL as their rule set of which apps or dexes are actually eligible. So distribution partner goes and finds all the dexes across arbitrum with greater than 10 million TVL looks at the wallets who have lpd into the pairs or pair that was actually incentivized and then gives them the correct amount. The evaluation prov partner provides continuous public data. So basically host a data dashboard. Let's use that example again to kind of has the different decks volume how much incentives has been given to different decks things like that.

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Matthew Fiebach: and they're also in charge of throughout the program and at the end of the program giving recommendations of how the program could have been improved. So the drip will have rules and this is still a significant work in progress. it's going to need quite a lot of iteration before this is ready to go but seasons must have a defined singular goal. Specificity is required. So I know I've already said this five times but I'll say it again we're going back to first principles here. We want to incentivize specific activities that we want to increase arbitrum's market share increase trading activity is not a specific goal or increase lending market TVL is not a specific goal. Create the deepest liquidity C ETH across dexes. That's a specific goal.

Matthew Fiebach: create the most utilization of deposited ETH or let's go with wrap stake across different arbitrum lending platforms. Now that's again a specific goal. Each season has to be three months in length. A max of two seasons can run concurrently required to be chainwide and protocol agnostic minus security related whitelisting. So again it's chain wide and protocol agnostic with some discretion but the discretion is meant to be purely security related purely riskrelated not opinionated that this app is better than this app so we should incentivize that one rather just like okay this one has less than 10 million TVL or something like that we probably shouldn't be endorsing it proposed programs must be brought to the

Dow it's actionable and executable so like just saying okay I think that this is cool but then not having a proposal that actually goes over the required metrics like we're incentivized

Matthew Fiebach: Let's say, we're incentivizing USDC ETH depositors across DEXes with 1% extra yields. And then, if the 1%, it has to be specific and actually actionable. work with those existing partners. So, we'll RFP the distribution partner, we'll RFP the valuation partner. We already have the ARDC. So, it's not like this proposal can come and just say, okay, actually I'm going to be the distribution partner for this one. And it's like we already have the partners onboarded and that'll be who's actually executing this Proposal authors cannot get paid as part of the program or season. And finally target assets must be a leader in a well-established category or show objective proof that has the potential to achieve the highest growth in such category.

Matthew Fiebach: again, that last one's going to need some work, but basically the idea there is we're looking for assets and activities that we want to increase arbitrage market share in that aren't we're not disproportionately favoring specific assets or protocols activities. We're saying okay we think wrap stake is the leader in liquid staking tokens so that's the one we're going to choose. it's not about anything else other than leaders or highest growth assets. So a selection committee of three- member committee will be stood up and that is actually who's saying okay this proposal follows the rules and it is also a good idea.

Matthew Fiebach: So that's the kind of their job I already gave some examples but again increased TVL and arbitrum is not a good example increased trading activity is not a good example boosting sequencer revenue is not a good example form the most liquid market to borrow USDC against wrap de that might be a good example or at least that is a good example around specificity so the evaluation committee would also the season selection committee would also be say it follows all the rules and we think this is a good idea. So as an example submission and we're using make arbitram the best place to borrow US USDT and against wrap stake as an example but you could feel free to think about this instead as create the deepest liquidity for a single pair or whatever else you might think makes the most sense. it needs to be very specific. So as you can see here it's across all of Arbitum's lending platforms but it requires a utilization of 25% LTV.

Matthew Fiebach: So that means that the distribution partners in charge of actually going into the lending platform seeing which wallets have achieved a 25 greater than 25% LTV against Rap State Heath collateral and distributing the ARB to their partners. this proposal would also need significant motivation and rationale as to why this is even a good idea in the first place versus whatever other ideas and as you can see here it says yield lending market rate greater than 2%. So basically normally you get three and a half% or 3% on your app state H but if you're participating in this program we're going to boost you with ARB rewards to 5%. so yeah as a framework it's a bit complicated but overall the idea here is move incentives to very targeted activities and assets short very closed off experimentation.

Matthew Fiebach: So we're experimenting in very controlled settings with 5 million ARB over three months. and focus on our goals. So let's go and increase our market share of activities we really want to increase our market share of instead of kind of trying to take this stance of everyone gets money and we're just going to kind of throw s*** at the wall and see what sticks. maybe a better mindset is targeted first principle thought of we want the looping trade on Ethereum to happen on arbitrum one. So we're going to do this one that I propose here in the condensed example submission or maybe we say we want the deepest liquidity for ETHUSDC like IOSG has said and in that case it's goal So yeah the goal is to bring the D5 renaissance to arbitum. Again 20 million ARB is definitely an experiment. It's actually four separate

experiments is the idea here. It's still a work in progress but we are aiming to have it in the forum in the next few weeks and start getting feedback before that.

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Matthew Fiebach: yeah, if anyone has any questions, please let me know.

Anastassis Oikonomopoulos: Yes, Dino. Go ahead.

Traversi Normandi: Yeah. what's up everyone? I think obviously I've talked with IOSG and Entropy and a lot of the folks on this call discussing similar ideas in the past. So I think it's pretty aligned with what I've been thinking about. I think a couple interesting areas, maybe not off the bat, but for where we could be at in the future would be like instead of choosing one evaluation and distribution partner, having a whitelisted, pool of service providers that the applicants could select to work with. just since there's some specialization across these different areas in DeFi and if it ends up expanding to maybe a certain types of whales or whatever maybe it makes more sense to use a different distribution model depending on those goals.

Traversi Normandi: the other piece of this is slipping my mind. sorry, I'm making coffee right now. It's 9:15 here, but I'll drop it off and circle back around when the rest comes back to

Matthew Fiebach: Yeah, I like the idea of having whitelisted partners in the DAO overall. And I think it's a structure that we should move to in general, not just for this initiative, but for lots of different kinds of stuff that we're kind of doing in the O. and definitely open to including it in this. But that said, I'm not like one of the reasons that we kind of have pushed this forward so quickly is that we expect that come the new year, the Dow will be doing incentives no matter what. So, we wanted to make it as actionable and executable as possible. But that said, I'm fully more than willing to take a step back and breathe and kind of make this as good as possible before we push it forward. I just do want to be cognizant that, there's a lot of cooks in the kitchen on this one and I think a lot of people want to get incentives moving. So we kind of balance the trade-offs

Anastassis Oikonomopoulos: There are a couple questions in the chat by Alex, do you want to voice them or...

Anastassis Oikonomopoulos: should I read them up?

Alex Lumley: First of all,...

Alex Lumley: Torm, I hope you're making good coffee. secondly, Matt, we've kind of talked about this in the past, but I think, I might have a little bit different perspective or thoughts on this, and I'm happy to write them out and provide them to you. but it's more I want to ask the question of how you've kind of designed this so we can be conscious of the design decisions that we're making. the first one is around I want to better understand how do you decide the goals and the higher level objectives and I'll call out that I really like how you guys are setting I like the thought of setting those and it sounds similar to the SOS as you guys are calling it setting these higher level objectives like how do you guys set those and who decides those

Matthew Fiebach: So, because it's a framework, anyone would be able to come to the DAO or actually rather come to this committee with their idea of what should be the highest priority items and it's up to

the committee to decide whether or not that's something that the DAO should be moving forward. So, they should be representatives of the DAO. That said, in the proposal itself, I've already mentioned a few of the I guess key targets that I've heard people talk about. So for instance from entropy we've been pretty interested in bringing looping trade to arbitrum one from Ethereum mainnet which is why that was the target example given obviously IOSG has kind of focused on creating the deepest liquidity on major tokens which I think is also a great goal. I've heard people talk about bringing wrapped bitcoin to the network and I've heard about people talking about LRTs and reststaking.

Matthew Fiebach: So I think that already we have some ideas within the DAO kind of some of these goals but it's a framework so we want to leave it open to pretty much anyone who wants to come in and say okay actually this is a very good idea of something arbitrum should increase its market share of and it'll be up to the committee to decide whether or not they agree.

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Alex Lumley: And that's the approach of how to go and get that goal can be different than the actual goal itself. Right. So ...

Matthew Fiebach: Sorry. What do you

Alex Lumley: what I mean is there are certain people who have a lot of context who are really good at deciding and defining these are what our goal should be and how it ties to options overall objectives and there's other people who are more planners or executioners who can think about how to iterate and get towards those objectives. We are Separating the strategic goal and the execution of how it can actually be done or do those all have to be tied together.

Matthew Fiebach: Technically, they all have to be tied together. So, the way that it's pitched in here,...

Alex Lumley: Okay. Yeah.

Matthew Fiebach: it needs to have both the idea and the fully executable proposal. That said, I would imagine that if someone went to the committee with a really good highle idea and 90% of the way there that they could kind of call on entropy to help bring that to actual fruition.

Alex Lumley: And then how do you guys make sure that those goals tie with the high level objectives arbitrage just because we're still trying to figure those out why would bringing bitcoin activity to arbitrum be good for it as an example.

Matthew Fiebach: I think that there's, hundreds of different goals that can be proposed here.

Alex Lumley: Exactly. Yeah.

Matthew Fiebach: And at the end of the day, at some point you need to discern between what is valuable and what's not. for instance, someone could say their goal is to bring all of the RPGF all the RP PGF action to arbitrum one. And I would personally take a strong stance that's probably not a great idea for which one to focus on. But yeah, that'll be up to the committee to decide.

Alex Lumley: I'll just quickly go through a couple things to consider. One is the concept of design of versus single experiments. I know that we're focusing on giving one season and focusing on one season

as opposed to doing multiple goals and multiple experiments within each goal at once. And that can if I'm sure you guys are familiar with design of experiments, that can be a more efficient way for us to learn especially if we want to get incentives started early. We can actually do with point number three starting small on funds and then scaling them up. So if we start with, four or five small goals, give each one a 100k, get them started, and then the ones that work, we double down on them and give them more funds. So we're actually going across many goals at once rather than just doing a linear single experiment at a given time. I brought this up yesterday, Matt, but the same thing of growth versus incentives.

Alex Lumley: I personally think if we set the objective of let's bring do X to Y then incentives won't have to be our only mechanisms and people can also apply with marketing or whatever it is because incentives are just one mechanism. And then I'll also just call out that I love that you guys are think about this as a framework and c because that infrastructure allows people to experiment within the bounds of this framework this infrastructure which should allow us to create better experiments within that. So great job. I really appreciate the work that you guys did.

Matthew Fiebach: Yeah, I largely agree with kind of how you pitch it as start small and iterate, double down on the ones that succeed, but to a different extent. I think if we do 100,000 programs and we do 20 of them, we end up with the same problem where we have no idea what worked and what didn't work and it's hard to evaluate and it's just kind of messy. and I also think that with 100k you're probably not going to be able to incentivize any real activity to come over. I think 5 million is already kind of on the lower end honestly.

Matthew Fiebach: So to me it's just on both sides of it. It's four is enough to experiment with and five million is a good number. But it's kind of the same thought process just with a different mindset on what the right numbers are. Set.

Alex Lumley: Fair enough.

Alex Lumley: Thanks, dude.

Traversi Normandi: Yeah, I think chiming in was the committee and how they evaluate. I think making it super clear, Matt, in the proposal that this is for thesis driven programs and objectives that have data behind them and there's a clear business case that has basically some semblance of product market fit, right? and so that's basically two things.

Traversi Normandi: One is scaling products that are already in demand on arbitrum or two trying to vampire and bootstrap products DeFi products that exist in other chains and ecosystems but aren't reaching their full potential and we think we can bootstrap on arbitrum and I think all those examples kind of fall into that bucket but it's worth defining that criteria for the committee because I could see this people with kind of exotic experimental ideas and I don't know if we have earned those ideas yet based on how stip went. I think it makes sense for this first crack to be very conservative and aggressive in terms of those use cases and goals it aims to pursue.

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Traversi Normandi: And then the second piece is I'm curious, have you guys thought about optimization across the 3 months time span or is this kind of going for just those three months with one set goal

advising or is the evaluation and distribution partner going to be expected to optimize whatever their goal is over the three-month period or...

Traversi Normandi: is that kind of up in the air right

Matthew Fiebach: So to the first question definitely agree good call out there should be specific criteria that the evaluation committee or...

Matthew Fiebach: the seasoned selection committee choosing is using. I also think that the the framework the rules of the program should be designed in a way that kind of dissuade a weird incentive. So for instance by having to work with our distribution partner and our evaluation partner in the ARDC you might be able to kind of mitigate a lot of the proposals coming in that are more out there and kind of not written with the sole goal of having arbitrum protocols like best interest in mind but yeah definitely noted and we'll definitely add some stuff there kind of the way you framed it regarding adjustments to the program throughout it that was something that I was thinking about and TBD at first I had that small adjustments could be made, but then I changed it as I was, kind of thinking through maybe it makes more sense to really make the data as easy in interpret as possible. I don't have any strong feeling there.

Matthew Fiebach: I think it might be a little bit hard to define what adjustments the distribution partner and evaluation partner can be making, but overall yeah, no strong opinion.

Traversi Normandi: Yeah, I think the adjustments are if it's being done by a single partner, it might end up being critical. the last thing we want is for someone to be trying to incentivizing certain whale trading certain assets on PERS and then it ends up being like a ton of wash trading and it's being gamed, And then they won't be able to change it because we put in too stringent rules. So, open to brainstorming that. But overall, love this path that you guys put up.

Matthew Fiebach: Yeah, there's definitely still some open questions around what the exact rules of the program should be, what the evaluation committee's criteria for, what fits in with our objectives and what should be and then as well as what adjustments should be made during the program. I think those are three open questions already flagged.

Alex Lumley: I was gonna say going along with what Norm said on the expectations, Matt, this is a point that like I made to you before of if it's 2 million, three million, how do we give a team enough responsibility to go and act in their best interest within this world while giving them the checks and balances? Because I would trust entropy to go at this goal and iterate on a weekly basis of what would be the best thing and continue to show the DAO where the progress is and why they've made decisions. I would choose you guys or someone else to go and do that. how do we give and empower the team who has been chosen the ability to make those weekly decisions just like any good entity or startup would have.

Alex Lumley: that's the direction I would love to move more towards it's not just how it was in STIP where teams couldn't make changes based on the new information that was happening they were gathering.

Matthew Fiebach: Yeah, that's a good question for discussion. I don't have a great answer for it. the way that I had written this down, it was very rigid for the three months and three months isn't such a long time that I foresee problems. But I do think that it's like to the detriment of arbitrum one to not be able to make changes. But definitely trying to give someone whether it be the distribution partner or the ideator the ability to make adjustments throughout the program introduces a lot of complexity. But it's just topic for

discussion. think so the actual document being worked on as far as the proposal probably needs at least 3 days before it's ready for feedback from the people on this call.

Anastassis Oikonomopoulos: Joe, go ahead. Go ahead first.

Disruption Joe: Is there a place to leave feedback

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Matthew Fiebach: But that said, as far as the total outline of the program on the presentation itself would be very valuable.

Disruption Joe: Yeah. I think it's great work and a few notes I put down were one mistake we made I felt before was that we got open source observer through other grant programs to build a bunch of data pipelines but then we were using open block and we continued to use open block which then made it so we didn't continue extending these open source pipelines allowing anybody in the community to go and you play with the data as easily as it could have been. So kind of pushing that open source data substrate I think would be really nice. another feedback was that marketing a lot of the protocols said if we could have spent one or two% on marketing what our things were.

Disruption Joe: So that could be done at maybe it's the distribution partner or something, but allowing some funding in for marketing the programs and letting people know that they're in there is important. I also had the concern about optimization across the three months and trust that that's a design decision thing. And then the last thing I'd want to put in here is maybe like a chair of the council being elected or somebody a vending machine like vendor somebody to be at the kind of work streamish level of the program cuz councils it's really hard to have somebody really own doing that work and keeping context between month to month to month.

Disruption Joe: So, it wasn't clear if that was supposed to be you guys, which I'd be fine with, or if there should be a vendor or something that really owns keeping context between the seasons. So, those are my suggestions, but overall, I think this is Really good direction.

Matthew Fiebach: That is super helpful feedback especially open source data front. I think that that is really important. So it's our evaluation partner whatever we should be expecting that they use open source rails. I think that makes a lot of sense. I do think it's worth maybe talking to some of the big names that would be good for that role just people with a lot of experience in incentives as well as open block potentially to see if there's any big blockers to that open source data decision around marketing. Yeah, the proposal doesn't include anything about marketing for now. I think that given it's super targeted and there's only two seasons going on at once. So there's only two things that we're marketing it becomes a lot simpler.

Matthew Fiebach: But that said maybe we should still add budget for it instead of just trying to rely on arbitum or rely on offchain labs the arbitum foundation etc and the protocols themselves. and then optimization through our program definitely is a TBD and yeah we'll continue to iterate and work on that to figure out if there's a path forward that we can do without adding too much complexity. tickets.

Anastassis Oikonomopoulos: So I understand the complexity in terms of introducing changes in the program as the program progresses so kind of like a live feedback and iteration during the program but

have you thought about at least having a monitor function in a way so basically not necessarily to see what's wrong and correct it but at least see what's wrong in a live setting and specifically not so much

Anastassis Oikonomopoulos: about suboptimal use of funds but rather as either misuse of funds or altogether where I'm getting is for example break during last ARDC cohort he did identify some misuse of funds or funds being sent to crack and all those things and while it's great to have seen those things happen after the fact while we did the checkups so to speak. It would be great to have those kinds of things be identified live so we can stop them as they're happening.

Anastassis Oikonomopoulos: Have you thought about that at all? any sort of monitoring

Matthew Fiebach: Yes. Yes.

Matthew Fiebach: This is definitely where I see the distribution partner and the evaluation partner is beneficial. by not giving money to the protocols, we already kind of reduce the risks associated with fraud by quite a bit. The money is going to go like we now only have one party to hold accountable to fraud instead of every single protocol. as far as civil protection, that's another question because the way that the program is designed today, there isn't really any civil protection and that's not something that really can be implemented without adjustments. and then the evaluation partners who we would expect to be giving us data throughout the whole program. for example, is this being civil? is it what is this a good program? Is this a bad program? Should we be doing it at all? if we should continue doing it,...

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Anastassis Oikonomopoulos: Okay.

Matthew Fiebach: what changes should we be making?

Sam Martin: to add to that too on this is why I've had my hand raised because Joe mentioned the data point and retrospective monitoring and you're mentioning the live monitoring because this is structured the way it is. I think it should be a lot easier to actually develop these live metrics as opposed to the programs past every protocol has its own contracts, its own collection and redistribution of fees, buyback and there's a million things and it was nearly impossible for open block to actually do their job in a very welldetailed manner. So I think this structure actually enables us to actively monitor and improve a lot easier. even regular Dune wizards could probably spin up dashboards that would be very very helpful and much more impactful than what we saw with open block and...

Sam Martin: not at the detriment of themselves but kind of we set them up for failure a bit.

Anastassis Oikonomopoulos: And it could be kind of tied into the sleuth program that you were working on offer kind of boundaries for people to use that kind of stuff like doing dashboard or...

Anastassis Oikonomopoulos: track different protocols basically. anyway, yes, Leandro.

Leandro (Locha) Schlottchauer: So, hi. Hey, great presentation. I had a question on incentive distribution. so in previous calls we discussed a lot around long-term just trying to make sure that the value or that the liquidity that comes in is sticky. are there any plans for distributing those incentives on a longer term period? Maybe users acrow these incentives but then if they still hold their liquidity that kind of unlocks

that's what I mean I'm curious if any teams doing these proposals were thinking about something like Listen.

Matthew Fiebach: Yeah, I've definitely heard that mentioned before. I think that one thing that this pro by going in with a thesis and going in first principles, what activity do you want to increase Arbitrum's market share in? One thing that we kind of unlock there is for instance, why is lending on Ethereum mainnet so much more popular than on any rollup? Arbitrum for instance actually is a pretty large leader in lending markets across rollups but at the same time we're less than 1% market share because Ethereum mainnet just has it I think a large piece of it is that you need to attract enough liquidity to become kind of where the flywheel starts. So basically if you have the most stable rates and the most liquid market for a specific asset whether that be on a decentralized exchange or on a lending market or whatever all of a sudden you've attracted the activity and it makes it harder to leave.

Matthew Fiebach: So, I think that a large piece to the puzzle isn't like, okay, I'm a DeFi farmer, whatever, and I'm just going wherever the best yield is, and then I'm going to move it versus targeting real activity that we want to see arbitrum's market share increase of. So, it goes back to that question of what do we actually want? So, we should be identifying activities that we think real DeFi users implement in practice. for instance, I really do think that real DeFi users put on that leveraged ETH looping trade. I really do think that real whales, will go wherever the deepest liquidity is to sell their ETH through USDC or buy ETH with USDC. So, it kind of starts back with that first question of what activity do we actually want to take place on Arbitrum 1. That said, definitely not against the idea of a more milestone approach where a season splits its 5 million ARB where I guess technically it'd be against the rules as it's pitched right now because the incentive program has to last three months. But I do think it's an interesting idea to explore and maybe there's a way to make it fit into this

Leandro (Locha) Schlottchauer: Thank you. And then one last thought is that also remember from previous sessions sometimes as projects presented the results of the incentives they were asked if they kept doing these incentives by themselves. I always thought maybe it could be interesting to have some small incentive budget for projects that were willing to match in incentives maybe what they were getting from the DAO. maybe saying "Hey, I will match that amount and also give it to users after X epoch or whatever." I don't know. I thought that could be interesting as well to transfer.

Matthew Fiebach: Yeah, that was a takeaway I believe from chaos as well, which is that with protocols that incentive match, the program generally did better. But this program shifts the mindset completely from protocols or app agnostic. So, I think it's unfortunate that we probably can't take that into account with this program, but I don't see a way to make it app agnostic and also create an incentive for matched incentives here, which is to the detriment of the program. But maybe the trade-off of being able to, reduce some of that negative externality of protocols feeling like other protocols were favored more might be worth worthwhile for the detriment of not being able to incentivize matching.

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Traversi Normandi: I'll counterpoint that just to say that I agree in theory from the dealm side, but if you make it agnostic, you're putting it on the open market, right? And market actors theoretically will be further incentivized if there's more capital going to incentives on a certain market to try and win that market share probably. but I don't know what's going to happen, but I think the open competitive market

will probably respond in some way and aggressive actors will probably, look to juice their yield on certain pools as well. So, I don't know. We'll see. But that's kind of the theory behind the open market approach.

Disruption Joe: Here's a interesting question would be if the DAO kind of expresses an appetite for a larger program, do you see this committee and so forth as being in the interest of designing a larger thing or potentially being a larger work stream or something longer? or is this a desire of your team to run this and run it well and if the Dow had desire for let's say 50 million over 6 months or something like that that there could be other driplike programs that run parallel to this would you want to expand this program or...

Disruption Joe: would you want to see other programs very tightly organized this run in parallel if there was that appetite

Matthew Fiebach: Preferably, I mean up to the Dow,...

Matthew Fiebach: but preferably we would see programs start within DRIP and then based on their success spin out of DRIP. So for instance, you don't need the committee anymore to say this is a good idea or a bad idea once you've proven yourself. So this gets you that 5 million ARB to allocate to your idea as to what we should be incentivizing on the chain. And then if it's proven that that's something that as Alex said should be doubled down on obviously we should be doubling down on it and it doesn't really need to fit so much within Drip anymore and it can kind of just be its own incentive program. So this is the controlled experimentation phase that we then build out on and hopefully that way we can create incentives that are kind of unprecedented in the industry as far as their success because we have this experimentation mechanism that can then be expanded into larger programs for ones that see success and iterated

Traversi Normandi: I think importantly too, not to just gab the entire time, but I think importantly this should be objective based, So if we see traction in a program in drip, we should be extending that program and that objective out. But the ultimate goal here should be to wean incentives off once we've bootstrapped a market or a product or a service, So I think that's kind of the framework that we should have mentally in terms of what the goals are here. and then once we have some data, we can measure maybe retention in the couple months it'll take to spin up Drip V2 or an extended version of this and then evaluate.

Traversi Normandi: But that's kind of where the optimization and the evaluation partner question that I brought up earlier gets at, which is like this needs to be long-term sustainable. But I think as a first crack this makes sense.

Matthew Fiebach: Yeah, I think nailed it. for instance, if we want the deepest liquidity on ETHUSDC, I kind of doubt five million really gets us the dominant market share in that metric. Maybe it would, but I kind of doubt it would. So, we probably continue the program with a larger amount of ARB that then gets us that dominant market share so that we can kind of turn off the drip alto together or turn off the incentives altogether. What's a Jeff?

Disruption Joe: This one should be 2x And then if we 2x the amount of incentive, do we 2x the return of what we get back for that? Or if we 2x the incentive and we find out that 5x is the return, great. This is something that we should really dive in on deep because it's scaling exponentially for us and we can bootstrap that market super fast. I love the idea of being able to bootstrap the ones that we can wean off of and aren't solely mercenary.

Matthew Fiebach: Exactly. That's how I view The evaluations part partner's job is to say this, was bad. It just didn't work, so we're not doing anymore. Or this was a good idea, but there was, different specifics that needed to be changed in order to have it be more successful, so let's do it again with the information we've learned. Or maybe they say, "This is a great program. How much is scaled up?"

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Disruption Joe: That's great. I think maybe when I'm saying a workstream or drivers or something, it seems to me your view of that is more like there's two drivers, the distribution and the evaluation partner that would hold context over multiple seasons hopefully and then the committee would be some other roles that may change season to season but then overall there is that framework of a structure that is somewhat continuous. Yes.

Matthew Fiebach: Yeah, the distribution partner I view a little bit differently. the reason we need a distribution partner is a bit nuanced. technically speaking, the DAO could just actually give incentives directly to the end users who fulfill our requests. there's no reason that we couldn't do that besides KYC requirements of the DAO. So we need a distribution partner specifically for that reason because we probably don't want to build the infrastructure that discerns between wallets that are eligible and are not. but yeah, overall agrees.

Disruption Joe: Yeah, I definitely do think that there feels like there's a slight gap of somebody almost with a product manager type skill set of prioritization, pulling that feedback and monitoring the experiments and pushing them forward from one season to the next. But this is great. often.

Matthew Fiebach: Yeah, I definitely view entropy a bit in that role. as far as just making sure that the evaluation partners feedback is something that is executed in the DAO. That said, over time, there's no reason that we would be needed for that role versus the evaluation partner for themselves themselves as long as those relationships were built and...

Matthew Fiebach: they were competent and did a good

Traversi Normandi: I think this is another area...

Traversi Normandi: where opco makes total sense, even more than you need a program manager and the program manager's goal should be to see oversee an objective, and reaching that objective and being a party who's accountable to the DAO to say if something's working or not working with the distribution and evaluation partners because there's obviously a perverse incentive to keep programs going. But for the program manager, once that goal is achieved, new goals will obviously arise. So yeah, that's kind of how I think about OPCO and the structure. Maybe a nice thing to slap on that Obco proposal.

Matthew Fiebach: I like that. Cool. I really appreciate everyone's feedback. already the question of optimization or adjustments throughout the program's life cycle is definitely something to be addressed as well as the very good points around marketing, open source data and other points as well. but yeah, Alex, what's

Alex Lumley: What I think it was kind of missing in the deck a little bit is some of the design principles of this decision because I think Torm's point was very very important on how this is about bootstrapping specific I don't know if the word is microeconomies or leverage points or something that the objective

here is not just to incentivize the three months but that each season should have continuation and should have some owner so that we're not just spending money for three months and then it's

Alex Lumley: not getting to the place where it can go and grow on its own, right? It needs to be kind of coddled and developed to be its own kind of microeconomy or whatever you want to call it. I think that's key is that we're trying to bootstrap these microeconomies or bootstrap these leverage points. and that's why I would argue that having at least two maybe three some of these goals at the same time realizing that they're probably going to take a year to get fully up to where they need to be and not just three months.

Brick: Yeah, I mean I guess that depends as well. That's why I think it's good to have a goal as let's say for the USDC liquidity on arbitrum our market share isn't that great and another point being then that do we want to incentivize USDC but the goal should be to grow that until we reach a sustainable market share point and at that point you start tapering the incentives off because I think that's been also somewhat of a problem in recent programs where a lot of projects do grow a lot but then when incentives are cut off you're on such a high market share basis level that it's not sustainable and then capital goes somewhere else.

Matthew Fiebach: also with the data right if we have a good idea that has now been proven in practice there's no reason that we couldn't have existing members of the DAO drive it forward so for instance it could be a good fit for the risk seat in the ARDC or it could be a good fit for a few different existing positions so I do think we already have the resources and what we really need now is very targeted thesis driven incentives that are easy or easier to evaluate and then potentially move into a different sphere of incentive before attempting to capture the entire I guess critical mass of that market. What's up Joe?

00:50:00

Disruption Joe: I'd actually agree with you guys on that my learning from trying to do the pluralistic model is like I mean you guys are going at a pluralistic model. It seems like you're taking lessons from the way it was received where 10 or 12 or 20 in previous things was too many. And so starting conservatively at two and giving yourselves the option to then roll that up, make them something bigger three months from now. And at that time you could add two more markets or you could add 10 more markets if it worked really well. But starting here at a point where you're not going to fail from starting too large, even if potentially those programs are successful, I'd agree that's a better way to do it because we've seen, that people can't adjust to that.

Traversi Normandi: Nice.

Anastassis Oikonomopoulos: Yeah, I was going to ask if there are any other questions or things to discuss. Matt, as next steps, you did mention that the document is going to be ready in at least three days. do you plan on doing any other feedback session let's say or call or open feedback session on document or what's the kind of next steps

Matthew Fiebach: Yeah, so I need to take some of the feedback here in dig count as well as finish up some I guess loose ends or formalize some parts of the proposal and then probably we'll kind of go about it in the normal way that entry goes about proposals which share it with the people who we think might have the most context. So gauntlet and chaos block works whoever else IOSG get feedback there. I would really like to ensure that this can work with IOS, how IOSG is thinking about their proposal because I think

their proposal is awesome and I want to make sure that we can collaborate with them instead of have this be a competitive thing. I really want to make sure it fits with them. But anyways, align with the people that we need to align with and then potentially move it to the forum sometime around the end of the month or...

Matthew Fiebach: first week of January if not preferably earlier.

Anastassis Oikonomopoulos: All right.

Anastassis Oikonomopoulos: All right. Alex is asking whether we think the ties to sex or deex. Alex, what do you Yeah. he's talking about the proposal from a while back. to fund research for a move from sex to death from Caesar.

Matthew Fiebach: So I think that the way that the proposal is written, there's no reason that that couldn't be an application. That said, it's also written in a way that thesis driven take activity from other EVMs to grow Arbitrum 1's market share and is definitely kind of like how we pitch it. So, I don't think it fits great, but there's no reason that it couldn't be pitched.

Anastassis Oikonomopoulos: Speaking of sexy decks, I'll personally go ahead and say the UX for trading on Dexes is still kind of s No shortfire to anyone, but I like my deep banning quick and easy.

Disruption Joe: Maybe it'd be fun for idea generation of identifying markets where there's an opportunity to actually win that market and bring market share which is a very divergent thing to do a small contest of that delegates or tokenos whoever could participate in and suggest what markets there are out there that we to win.

Matthew Fiebach: Yeah, that's kind of the idea with having a framework approach instead of just saying okay, we talked to people, here's four of them, it basically does create an incentive, but what we also want to do is dissuade what is potentially unaligned ideiators. So, for instance, we probably don't really want proposals that are very focused on the people we want to be creating these programs. We want to be creating these programs because they want arbitrum dow incentives to win and succeed and arbitrum protocol to win, but not necessarily because it's the best thing for their token, their platform for giving stuff away, whatever

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Matthew Fiebach: evaluation risk type group. So kind of a balance there.

Disruption Joe: Yeah, that's...

Disruption Joe: where I think separating the divergent ideiation of the markets that potentially have that features that we could win them that gives a chance for a little bit broader participation but then also filters and closes off once you say these are the markets that we're going to be targeting and you've already done some work with IOSG and so forth then it also filters to good applicants in the framework part but it just opens up a little bit to the community in a way that I think people might appreciate and might turn out to be helpful to identify it's something where a divergent exercise might actually be helpful and just an idea

Matthew Fiebach: Yeah, definitely not against that. need to think through a little more what it would look like. But having some sort of incentive for smart aligned people to come forward with strategic objectives or thesis driven ideas could make sense for

Anastassis Oikonomopoulos: All right,...

Anastassis Oikonomopoulos: I think we're are nearing the top of the hour and I think we are kind of wrapped up in the discussion. are there any other final questions or remarks that anyone wants to make? takers. All right. I think then we could wrap this up and spare the last four minutes. as I said, next week is Christmas, especially on Wednesday, and then the week after that, it's New Year's, so we're not going to be meeting for these calls for the next two weeks. we'll probably do the week after New Year's, but it's still kind of like a TBA if we'll be doing that or not. So, enjoy your holidays. Merry Christmas. We're celebrating. Happy New Year to everyone.

Anastassis Oikonomopoulos: I'm sure most of us will run into each other and some other calls before the end of the year but for the purpose of this call then have happy holidays and we'll talk again after New Year's. Thanks everyone.

Meeting ended after 00:57:39 🙌

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