

Arbitrum Incentives Working Group - 2024/12/11 18:58

EET - Transcript

Attendees

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Transcript

Anastassis Oikonomopoulos: Hey, hey, welcome.

Disruption Joe: What's that?

Krzysztof Urbański: He's alone.

Anastassis Oikonomopoulos: Let's give it a few minutes for people to trickle in as always.

Anastassis Oikonomopoulos: And today we like a briefly agenda rundown. We have IOSG presenting their view and let me drop the link to the proposal. They cover a proposal in the forum about incentives and we'll be talking about that and we also have solve from open source observer that they're also wanting to present. the moment and stuff for today and if there's enough time we'll also have entropy and of course discussion as we always do.

Anastassis Oikonomopoulos: as a kind reminder the call is already being recorded. So if you want to be off camera then you should turn it off. Otherwise we're all set to begin. I think I see both and solved in the call. So

Krzysztof Urbański: something in the beginning we will not be restricting the time so let's first discuss IOSG proposal we agreed to and then if time allows we'll move to solve and if time allows we'll move to entropy if we run out of time we'll remains to the next call so yeah feel free to have an open discussion don't limit yourselves if you want to ask questions feel free to do

Anastassis Oikonomopoulos: further ado, I think we're set to begin. As I mentioned, the call is being recorded already. You want to be off camera. Now's the time to do it. And we'll starting with IOSG discussion. So, Mumir, are you here?

Krzysztof Urbański: Yeah, I saw him on the call.

Anastassis Oikonomopoulos: That was good. He was in the call a few minutes ago. Maybe here he is.

Anastassis Oikonomopoulos: Hey, Mom. all right.

Momir Amidzic: Sorry guys,...

Momir Amidzic: I had to re...

Anastassis Oikonomopoulos: So, don't worry.

Momir Amidzic: because my back MacBook didn't allow me to share screen the existing preferences. let me try.

Anastassis Oikonomopoulos: I'll give you the permissions. I have to give it in the past we've had some interruptions of these public calls.

Momir Amidzic: Okay. I see.

Anastassis Oikonomopoulos: So we have to restrict who can share what so now you're a co-host you can share and the stage is yours for context.

Momir Amidzic: Let me try.

Anastassis Oikonomopoulos: I'm dropping the proposal in the chat.

Anastassis Oikonomopoulos: So already done Sharing again. you should.

Momir Amidzic: It seems still not able to share the screen.

Momir Amidzic: I shared the link in the chat. can you maybe help me share the screen?

Anastassis Oikonomopoulos: Yeah, Although I made you a coffee so probably you have the ability at the bottom menu you should see the present now button again and...

Momir Amidzic: Yeah, I'm clicking the present button, but it seems that okay,...

Disruption Joe:

Anastassis Oikonomopoulos: you try Yeah, now it works perfect.

Momir Amidzic: it works, All right. so yeah first thanks for the time and opportunity to speak to the panel here and I guess some of you have saw the post we made to the arbitrum forum essentially today I will present the high level version of this post and this idea but to give a few words of introduction I'm with IOG ventures and IOGG ventures is a crypto investment firm

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Momir Amidzic: We are also one of the investors in arbitrum and incentive for writing this proposal is that we want to see arbitrum and arb token perform better and we think that there is a need to make change because of the changing environment and some sort of negative momentum that is going against target room. So this was the motivation for the proposal. and with that I would like first of all I want to start with some simple truths. the first one is very obvious one that arbitrum is the part of Ethereum ecosystem. The second one is that D5 is the largest vertical in Ethereum with proven product market fit.

Momir Amidzic: The third one is that until recently, I bet was the only L2 that managed to get meaningful onchain activity and inherit some of the most valuable users which are even today 90% of arbitrum onchain activities due to whales activity. however, as of recently, we also have legitimate contenders. We have B who is also in the recent months succeeding the onchain activity of and they are also starting to attract the valuable user base of Ethereum. today 75% of onchain activity on B is due to whales activity and I think this visualization shows it very well.

Momir Amidzic: before April whale contribution to onchain volume on base was very negligible but then since April we have a strong trend and today when it comes to the volume generated by veils on arbitrum and base it's roughly like 50/50 so the proposal that we have starts with setting up the priorities I think if you want to be like a organization we will fail so we have to set preferences and this starts with two assumptions. Not all users are equal. we think that arbitrum should tailor its offering according to the demand of its most valuable users. And the second one is that not all verticals are equal. we believe that arbitrum should defend its position as a defi hub and double down on defi.

Momir Amidzic: we think that everything else is of secondary importance and only once arbitrum defi network effects become extremely strong then arbitrum D could be a little bit more intentional with some other verticals and we think that D5 alone and becoming the largest integrated D5 chain is already a huge market opportunity so this shouldn't be neglected compared to some other kind of more exotic verticals our assumption here is that we should basically listen to our most valuable users and at the end of the day the whales are simple. Whales want two things. They want deeper liquidity and they want more diverse token offering. And I think this is not just intuitive. It also supported by data. We can see that arbitrary whales still trade on Ethereum.

Momir Amidzic: And when they do trade on Ethereum, it is usually executing larger trade sizes than what they typically do on arbitrum. And they also on Ethereum trade much more diverse token base. So this suggests that to some extent their demands are not met within arbitrum ecosystem. So they usually go to Ethereum to get exposure to more diverse assets. this table we shared in the post on the forum as well. I think it illustrates the differential. So we have whales on ethereum trading average trade size for stable coin being 95k whereas on arbitrum is 2.8k

Momir Amidzic: AK in some other categories the multiple is smaller but is still significant for instance short tail assets like WBTC W it's five to six times larger trade size on Ethereum versus on arbitrum which also supports the evidence that they might not have enough depth when trading on arbitrum. When it comes to the proposal itself, we have the working name for it which is arbitrum summer. I think this is something very flexible in terms of the name as long as it is catchy. But the idea of arbitrum summer is to develop the ecosystem such that our most valuable users never have to leave arbitrum chain.

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Momir Amidzic: and in terms of principles and ideas of the proposal, I think it also differs significantly from some of the previous incentive schemes. first of all, the revi reward criteria is ex post versus xante which was typical for some of the previous incentives. the strategy is created in a top-down approach where the DAO decides whether this is the strategy that we want to follow and then once we set the objectives we determine the rewards in order to achieve these objectives where previously we had a more kind of democratic process where everybody was able to decide the strategy and I think that for setting the strategy of the ecosystem this is not necessarily very efficient.

Momir Amidzic: the strategy here is essentially to nurture the ecosystem network effects and to focus on users and listen to the users and what they want. and when it comes to project participation, we are trying to be agnostic to different protocols and basically allow anyone within a given category to participate not to discriminate against any projects. However, when it comes to verticals and what we want to incentivize, this is very opinionated and discriminating against other verticals. and we think that D5 and more specifically within D5 we should focus on spot markets more than anything else. at this point unfortunately we don't have anything similar being done in other ecosystems.

Momir Amidzic: So empirical results are untested for this sort of proposal. When it comes to the high level overview of arbitrum summer essentially means to place the emphasis on the spot market as the core foundation of onchain activity. why spot you might ask? for that we did some of the data analysis and the data suggests that among top thousand arbitrum largest traders only 39 are actively engaging with borrowing protocols.

Momir Amidzic: and intuitively I think that focusing on spot makes a lot of sense because it is the foundation of D5 and a lot of the value from good spot market can be translated also to derivatives lending markets and other second layer D5 protocols that need deep and good liquidity in the spot market to support oracles onchain liquidations and so and u with arbitrum summer what we want to install with arbitrum governance is that it adopts some sort of a mental model similar to successful exchanges which are the most successful words worth the tens of billions of dollars.

Momir Amidzic: So it's already a huge market opportunity and how exchanges think is that they want to make their biggest users happy by offering them deep liquidity and in demand assets right in the next sections I will talk about specifically how do we choose the assets that are eligible for the program how do we choose the protocols how do we set KPIs and a little bit more about reward framework starting with the asset selection ction. over here we have two categories. The first one is short tail tokens and the second one is the high mind share tokens. When it comes to short tail tokens, we can talk about stables and volatile assets. and for stable coin pairs, we think that the objective should be again to improve the liquidity that for whales and also to become the hub for stable coin projects.

Momir Amidzic: stables are one of the most important categories in the whole D5. So if I arbitrum becomes the hub, I think it would be a great success. and we think that when selecting stable coins that are eligible to be part of the kind of incentive program, we should select all the major stable coins with TVL larger than some level X for instance 500 million dollars. And I think that should already provide good coverage of all the dominant ones and also emerging ones that are very interesting for DeFi communities to play with Etheina usual and some of the other more popular new stable coin projects. When it comes to volatile assets the objective is similar again to improve the liquidity that for whales.

Momir Amidzic: and over here I think we can have a framework again we don't need to be opinionated about what tokens need to be incentivized but we can look into at each epoch what are the most traded tokens and basically choose top 10 of them to be eligible for next epoch as a part of the incentive program. when it comes to high mind share tokens over here the objective is slightly different.

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Momir Amidzic: here the objective is basically to feed the demand of ibbitum users for more asset diversity and I think that selection here should be based on industry-leading mind share analytics which is provided by Kao where essentially they have a good sentiment data to early identify what's getting a lot of

attention from users traders community and basically try to set up bridges to arbitrum for these assets so that traders don't need to leave arbitum in order to access these tokens. When it comes to protocol selections, I think based on early discussion with some of the delegators, this would be probably the most controversial part.

Momir Amidzic: But I think that at the end of the day if we can be protocol agnostic we have a preference for this approach because I think we should let market decide which protocols deserve to get the liquidity and create more competition on the protocol layer. the concern that we get when choosing protocol agnostic path is that what if we end up incentivizing some untested potentially scammy project to receive hund hundreds of millions of dollars of TVL. I think this concern is not super rational because it assumes that the market is stupid and market is not stupid. I think at the end of the day the TVL will go to the projects that deserve it. so I think this is not super legitimate concern.

Momir Amidzic: it is the main concern whether we can structure the KPIs to work in a and if we choose the protocol agnostic way, we can also get a lot more competition among the protocols and potentially more incentive schemes on top our ARB token incentive scheme where protocols can choose to give their own tokens and to essentially have their unique strategies of fighting for this new liquidity. and KPIs are indeed going to be a little bit more challenging if we go for protocol agnostic way. because if you choose certain protocols to work with and we can actually set very specific KPIs we can price impact that and compare that to Ethereum L1.

Momir Amidzic: whereas if you choose for protocol agnostic approach we have to satisfy ourselves with a little bit more high level metrics that are more referring to aggregate volume and user statistics in more detail I think it's still possible to do that and achieve the objective of the program for instance for short assets for stables and volatile tokens that are chosen to be part of the program. this objective is very straightforward. It is to increase the onchain trade volume market share of arbitr versus other ecosystems and to essentially increase the average trade size within each category. which would be good indication that that whales are now executing much larger trades on top of arbitum than they used to be.

Momir Amidzic: and to follow these kind of metrics we basically need to closely monitor the total onchain volume on Ethereum, Arbitum Base and other competitive solutions. we need to closely monitor arbitrum user behavior outside of arbitum. So for instance, what percentage of their trades are happening on arbitum versus externally? and essentially the average trade size on arbitum versus externally. I think with these metrics we can see the clear trend and whether our incentive programs are leading to desired results or not.

Momir Amidzic: And when it comes to high mind share assets in addition to what we discussed in the previous page I think it's also necessary to monitor to what extent are these high mind share assets capturing the attention of arbitum traders in a sense what is their percentage of what is their market share on arbitum onchain trading and I think we can set a KPI Basically if these high mind share assets in first three to four apps don't exceed certain x percentage of market share that we can stop this incentive program for high mind share tokens and don't waste more money on it.

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Momir Amidzic: and to take a little bit step back and to kind of discuss shortterm, medium-term and long-term objectives of the proposal that we have in mind. shortterm it is to make arbitum users trade less outside of arbitum and show that their demands are met within the ecosystem and to essentially

improve the trading conditions for whales or in other words to close the average trade size gap for short tail assets in respect to arbitral whales activity on arbitum versus Ethereum.

Momir Amidzic: Medium term what we want to achieve is essentially to increase arbitum rail market share to get more whales from Ethereum to merge to migrate to arbitum and to basically execute most of their trading activity on top of arbitum and long-term what this proposal proposal would like to achieve is that arbitum becomes leading integrated D5 hub better than Solana, better than any other chain out there.

Momir Amidzic: So basically to become the place where every new project when they want to launch token that they go to arbitum because of its liquidity large user base and network effects reward mechanics we were thinking about epoch based system because it provides a way to regularly kind of review the KPIs and at essentially any point stop the program if it is not leading to better results.

Momir Amidzic: it is also possible that at each epoch we can update the constituents of each category because a lot of things will be changing and we cannot predict for sure what will be the kind of constituents of each category and the metrics that we introduced previously also indicate clearly that this would be all based on market information at the time. so I think that the Apple based system would suit us the best. and at the end there are several key partnerships that are needed for this proposal to work in practice. First of all, if you want to introduce these high mind share assets to arbitum, we also need to work with certain crosschain bridge preferably also non EVM support in order to support.

Momir Amidzic: I know this introduces a new sort of security risk but I think this risk is worth taking because it is the only way to stop our users going to Solana or going to B or some other chains. kite analytics I think is necessary to work with them to maintain a dashboard in order to determine at each epoch what are the highest mind share assets that we need to focus on incentivizing the next one. we think there is also need for a distribution partner like Bravis where we can actually have distribution partner that distributes and allocates tokens directly to the users and in a fair and verifiable manner.

Momir Amidzic: And finally, I think we also need support from a service provider that could help us quantify the formulas and reward calculation and essentially KPI formulas. with that I want to close this part and also issue a call for collaboration. there are certain things that need to be ironed out before we have this of proposal fully prepared for kind of voting. and these things are mostly about modeling what sort of rewards would provide meaningful APY quantifying the weights and exact formulas for reward distribution and reward bonding curve.

Momir Amidzic: quantifying the KPIs and building dashboard for real-time KPI monitoring. and then you can also see the two other bullet points. So essentially if someone among ibid room stakeholders has resources to help on this end and has agreement in principle with the proposal that we would be happy and open to work because we don't have resources to complete this to a full extent. and that's essentially the gist of the proposal.

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Momir Amidzic: I can also discuss any specifics in more detail as you guys want. and for anybody that wants to chat a little bit more about this async, you can also reach out to me on Telegram. I'm usually very responsive and happy to get any feedback and iterate further on this proposal. yeah, thanks for the attention.

Krzysztof Urbański: Do we have any questions from

Kamil Gorski: Thanks Mir for an awesome presentation. I do have a question because in the very beginning of this presentation you mentioned that base has surpassed arbitrum in terms of whales trading and I did very shallow research during this call and basically b is a product that started much later than arbitrum and currently almost 50% of bass

Kamil Gorski: TVL is based in a product which is called RL drone which is say DEX which is financed by Bass the investment amount is undisclosed maybe you have any information about how much B has invested into a drum but my question is do you think it's possible to achieve what B has achieved without basically deploying a huge DEX that will hold a 50% % of the network's TVL similarly as it works in Nice.

Momir Amidzic: of Ethereum onchain activity to their L2. so B is having momentum on its own but I don't think that there is a lack of good products on arbitrum that would kind of present an obstacle for us taking again the number one position among L2s of Ethereum.

Kamil Gorski: Okay so a follow-up question to this because what the way I perceived it is that if you have such a huge product as Earl Drum which is strategically connected to base as a network and then strategically connected to Coinbase which is one of the biggest centralized exchanges if not the biggest one then probably base can actually finance the increasing API and APR for Aerodyums investors and liquidity providers. And I'm not sure if the Arborian Foundation may have the financial potential to compete in the same way with this product operating on base. This is just an open question of course for discussion.

Kamil Gorski: But what I'm afraid is that base has potentially unlimited financial resources to incentivize liquidity providers to deepen this liquidity especially because you mentioned that the liquidity should be deepened on the so I believe the five top most popular assets on arbitrum. So I think that if we start to compete with them on this principle then basically at some point we might spend a lot of money but still get out competed.

Kamil Gorski: What do you think?

Momir Amidzic: How...

Momir Amidzic: how can you elaborate a little bit more? How do you think base can actually incentivize LPS

Kamil Gorski: Bass is an investor in Arjum. The amount of money invested there is undisclosed. but taking into consideration that ...

Krzysztof Urbański: Excuse me,...

Kamil Gorski: Arjum has

Krzysztof Urbański: Camille, but this is not entirely true. We are discussing this in the chat like B did not invest in Aerodrome. Coinbase Ventures bought Arrow token on the open market.

Krzysztof Urbański: It's a bit different situation.

Kamil Gorski: So maybe I'm wrong.

Kamil Gorski: I was trying to understand how this operates.

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Momir Amidzic: it's possible to find the exact amount but I still don't see how this translates to B actually incentivizing Ayerodorm usage and I think that B so far has been clear about not issuing the token and that presents big limitation for them because they will not use token as a vehicle of incentivizing onchain activity at least not in the kind of short term but yes I think there is a risk

Momir Amidzic: that for instance if tomorrow B launches token it would be terrible for arbitrum because it would make B onchain activity even more kind of attractive and that would be very dangerous for arbitrum but do we sit still or do we fight back right I think that's also potential question even in that scenario and I think in a scenario which is more likely where B actually don't incentivizes

Momir Amidzic: or in any way like Coinbase or base chain if I think it's more likely that they don't do any active incentives it is still good momentum on their side and they have been picking up volume and activity and this has been impactful to arbitrum ecosystem and to perception of arbitrum among developers and a go to L2 solution for Ethereum so even in this environment if you don't do anything I think it's also risky. so for me I think the time window in the next three to six months requires sort of action from Ibitum DA. I think the action should be directed to kind of reclaiming the D5 narrative and D5 position whether it is with this proposal that is focused on spot market or with a different form of proposal.

Momir Amidzic: I think one way or another there should be some sort of pressure to act within the next 3 to 6 months.

Kamil Gorski: Thanks.

Krzysztof Urbanski: Yeah, Matt.

Matthew Fiebach: So, first off, thanks for this proposal. I'm super super aligned with everything pretty much that you guys are presenting and I'm super happy to see this in the forum. being a little nitpicky, I think there's assets that we have a competitive disadvantage for inherently. So, for instance, let's say that Geto Soul or something like some let's say Geto Soul was a really hype mind share project or whatever. so we decided to bring over geto soul and incentivize pools using goto soul on arbitum. There's an inherent disadvantage because if you're a market maker on salana you can go unstake your goto soul there's more ability to kind of market make and hedge your risks and therefore holding goto soul on salana actually has advantages versus holding it on arbitum where you have to bridge it back with a 7-day delay.

Matthew Fiebach: additionally, that's just one example. I think that Coinflip brought up a good example in the chat as well, which is USDC on base, which is I believe paying out whatever four and a half% APR or something. so I'm actually not sure, but let's say that if you're an LP and unis swap on base, you get that or on air drum, you get that four and a half% APR. I'm not sure if you do or not, but whatever. Let's say that you did. All of a sudden now we're kind of entering a battle that we can't win. or maybe to me it seems like we're entering a battle that we can't win because we're inherently disadvantaged on specific assets versus on whatever L1 or L2 they I guess natively live. So I guess splitting this into two separate conversations.

Matthew Fiebach: It seems like the idea of let's get the deepest liquidity for the pairs that whales trade the most so that arbitrum one is the most attractive place to trade versus Ethereum mainnet I love that idea

and then the high mind share tokens I see some potential concerns with as far as assets that we have a legitimate disadvantage

Momir Amidzic: to execute with a specific example of let's say potentially some Solana asset being part of the high mind share and then being incentivized to bridge to arbitrum. I think the specifics still depend based on the bridge we work with. I'm not sure about this 7 day delay and then to what extent that would make it harder for instance for market makers to hedge because market makers can on multiple chains even if part of the bag is on arbitrum that doesn't stop them if they want to do some hedge on Solana or some other chain but in terms of whether this would be successful in actually bridging these assets and providing meaningful liquidity so that people can actually execute some of these trades on arbitrum.

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Momir Amidzic: I think this is the risk and so far it's hard to claim that this will definitely work and I think that's why it's also necessary to be very critical about should this proposal pass especially about high mind share assets we should be very critical about it and then if upon three or four epochs it's clear that this is not working out then I think we should just press the kill switch. but so far I feel like this is something that's not tested, haven't been done before. So it would be misleading if I tried to claim yes this would definitely work. I understand there are execution challenges for high mind share assets bridging.

Momir Amidzic: but I think that fundamentally it can also I don't see the strong reason that it won't work except for these instances where this particular asset has a very strong incentive of being on this particular chain but then high mind share assets are also very volatile in terms of the constituent so I think that maybe in 10% of cases we will face this sort of situation and in 90 these would be like assets that don't have some sort of inherent advantage of additional yield of being on Solana or base

Matthew Fiebach: Yeah, I think that might just be worth something considering including in the program, which is some way to discern between assets that are fungible across environments, that's not the right word, but whatever. versus assets that might have a competitive disadvantage in arbitrum.

Krzysztof Urbański: A conflict.

Coin Flip: Yeah. we good to speak to you again. I definitely think that focusing on spot definitely has merit. I do think though that it is important for us to make sure that the metrics that we set up do also account for sort of differences in chains and chain configuration. To use an example, if we were to start to look at the amount of volume that occurs, for example, on base that is basically consumed by effectively searchers, people who are paying sort of priority fees and are aring pools because Bass has now configured relatively low swap fee AMM pools but with multisecond block times which create immense amounts of arbitrage opportunities which to be very

Coin Flip: there do come at a cost and that cost historically if somebody looks at the base ecosystem has come off the token emissions to support any sort of bleed that LPS would otherwise incur as a result of those systems I'm just want to make sure that we don't end up creating a set of vanity metrics but that don't leave behind a sustainable model once incentives step back and I think that's one thing that's really important because if one of the critiques that played out from earlier programs was that TVL came and then TVL dropped I want to make sure that we also don't end up doing the same thing but where there is activity created but that is actually not economically sustainable. So I think that's one thing we just really need to be very careful about because the way each of these chains functions is different.

Coin Flip: the way that MUV exists in these environments differs. how that sort of affects the trading experience is something that's been factored with regards to something that I think Matt said, I mean canonical bridge is only for a limited number of assets. I think that you do need to start to review and see what assets effectively can be available and protocols. and by protocols I'm talking issuers of stable coins, issuers of LSTs and the like are able to provide native support on orbitum. I think that's something that if you're looking at these high volume tokens becomes extremely relevant. I mean the only one that I think may not technically is USDT which still comes in off the canonical bridge of and sorry USDT and WBTC.

Coin Flip: WBTC has sort of indicated some general framework that they might be able to support of a native type of version of the asset. USDT has done it indirectly through working with central exchanges but technically only through central exchanges who more or less are acting as a proxy. So again, I think there are ways for us to do this e bridges like wormhole and layer zero. There is no real issue with the sort of 7-day model. I also would just add in another layer which is that do while I fully agree with you that there's nothing wrong with going agnostic. I'll use an example of a handful of tokens. The BNB token has been bridged across and again for a lot of these there may only be a million dollars worth.

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Coin Flip: To be very open, GMX probably hosts the majority of them, but B&B the Solana token, of which there's 89 million. all of these tokens, getting them across to Arbitum was a herculean effort, coordinating multiple protocols to come together to join multi-IGs with bridges to secure these and give comfort that these assets could come across. And in most cases where the protocols the chains passively supported but were unwilling to officially support which put a lot of weight on sort of the rest of the D5 protocols to actually do this heavy lifting. and I think we're all happy to do it but I think it's just something that people need to understand that if you're running an incentive program be prepared that it'll take months of work for people to actually go and get these assets across.

Coin Flip: And I know that we get TMX we spent hundreds of thousands of dollars of labor and effort getting tokens to bridge across into ARPC it is not a minor effort in terms of human power that has to be done.

Momir Amidzic: Right.

Coin Flip: And so just again somewhere I hope the DAO starts to spend time itself maybe on that rather than outsourcing that weight onto everybody else.

Krzysztof Urbański: Thank you. sorry for interrupting.

Coin Flip:

Coin Flip: But all of this is to stay supportive. We just need to make sure that we actually get the logistics of all of this down.

Krzysztof Urbański: I would like to be mindful about time because I would like to give a chance at least briefly soft to talk about OSO. But before we move to solve Lonard, do you also have your hand raised? Please be mindful about time.

Leandro (Locha) Schlottchauer: And thank you, Mom, for this great presentation. I just wanted to I have two quick questions. I'm co-founder at Fuel is an incentive distribution protocol. So, we've been working with many of these and I appreciate that. It's also very tough to understand what's going to be the impact. I just have two questions one is what was the thinking behind distributing the incentives directly to the users rather than to the projects themselves and the second one is if you can talk a little bit more about how you would define the incentives expost rather like Xante and how you think that will be taken by the users that are the ones that going to be providing this liquidity.

Momir Amidzic: work and there is a proof of work in terms of proof of liquidity in the assets that we want or in the categories that we want. they should be getting the straightforward rewards as promised in a very transparent manner and I think distributing rewards directly to the users goes well with the strategy setting the top down strategy that has the kind of mission of u nurturing the network effects of arbitrum and I think that once you distribute rewards directly to the users you also get to execute this action as a dowo right if you just distribute

Momir Amidzic: ute rewards to protocols individually and then let them do whatever they want with the rewards and decide on their own strategy then it's very hard to come up with some sort of a D level strategy like we want to achieve this and that and then execute right so I feel like this is the most straightforward way of doing it and I think it is also much the direct incentive to the users also is much more appreciated by users themselves. That's also the another assumption.

Momir Amidzic: But the expost incentives should be fairly straightforward for users to understand because everything would be transparent in terms of what needs to be done to earn the rewards.

Krzysztof Urbański: Thank you so much. I would like to wrap this discussion here. Although it's clear that more discussion is needed. I think that it is a very valuable initiative. U however it needs more work in order to be turned into a proposal that we can actually act upon. what I would propose is that I would like to encourage entropy to help with turning this into a proposal that we will be able to vote on probably next year. I will coordinate creating a separate group to work on this and to discuss it further.

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Krzysztof Urbański: so if anybody is interested in working on this please let me know. I will coordinate with Mir with Matt and with other parties that express their interest on working on this to take it further and with other initiatives that are showing up. so we will be turning it more into actionable work streams. And now I would like to give the floor to Salt who wanted to talk a bit about RSO initiative. soft the floor is yours.

Sov: is a little bit both of us putting forth what we believe can be some infrastructure that can help to support the arbitum incentives as we move forward I've been participating in a lot of these calls listening in on them staying up with the bouncing ball that is the forum and all the updates going there and then all the updates from different independent analysis that's come in this quote is one that stands out to me in terms of kind of what we're talking about here with the incentives detox is half the money I spend is on advertising is waste that the trouble is I don't know which half. so John Womaker is one of the godfathers of marketing and this is a quote that he had and it kind of reminds me of some of the discussions that we're having here. How do we align the incentives in such a way that we know that we're getting the best ROI for them? And so in watching the incentive detox unfold seeing all the analysis and things that have had taken place these are the big takeaways that I personally saw from that.

Sov: first, would like to commend, L2 beats and the group that's gathering here to say, hey, let's pause the incentives and rethink the approach and, I think it's healthy and, as we look at how we might go forward, we'd love to see how Gitcoin and Open Source Observer could potentially help with that. when we look on kind of like where things were at and where we see things going based on a lot of the discussions that have already been had and some of the proposals that we're starting to see from folks moving from short-term incentives and TVL to design kind of domain specific programs moving away from a lack of transparency without standardized measurement and evaluation to more open data infrastructure with transparent tracking move from kind of this one-size-fits-all incentive framework to modular program

Sov: design even the playing field a little bit and build a more inclusive incentive framework and inefficient community engagement and moving that to clear roles and accountability. so ultimately the outcomes that we think that can drive is it would be more long-term focus. It can be more excellence driven have scalable infrastructure that you build these incentive programs on top of and ultimately that can enable more efficient management of them. what does that look like in practice? we think it could look like the base layer of that would be open source observer and kind of the open data infrastructure that it gives transparent communitydriven data that can capture, organize and standardize metrics. From a Gitcoin perspective, we're already into building essentially a modular platform designed to support multiple types of incentive programs and allocation models.

Sov: This is something that a lot of work has already gone into prior to the incentives detox and we believe that with all the feedback that we've gathered here, we can finish building that division and create something with OSO that can help to support programs. from the program perspective, vending machine was one that stood out to me as I participated in these calls. I think they had a very thoughtful approach to how they were looking at program design but really this infrastructure could support vending machine IOSG entropy like any of these programs that could be stood up on top of it and what that could look like is you have the data foundation so for one arbitrum has already invested in open source observer as part of the work that I've done with a group known as the ctographer syndicate we received grants through thank and we actually have implemented open source observer

Sov: we've already tagged about 400 plus projects using OSO and the subscription the data flows on that are current for another year and so there's already a sunk investment from arbitrum around OSO and I think OSO meets kind of the criteria for the type of foundation that we need from a data perspective the allocation platform as I mentioned before Gitcoin's already made some existing investments in a custom allocation tool for the arbitrum DAO before the incentives detox And then when you look at programs, teams like vending machine and others could lead program management and drive accountability with program managers across different verticals, areas of focus, etc. visually, it could look a little bit like this where from a governance perspective, we're approving what those programs could look like. Those programs could scale horizontally depending on kind of the needs of the DAO. that program information would feed into the data layer.

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Sov: the allocation infrastructure would be informed by that data layer and the programs and be able to allocate directly to protocols or to users. There's different ways that we've been building out that allocation framework to support both sides of that equation and hopefully you create a virtuous cycle here that can inform different parts of it and ultimately give more efficiency, transparency, all of those types of things. this slide talks a little bit about the program or the allocation tool that we've already been

building. And so it allows you to assign and manage roles for different governing bodies of each program. You can actually redelegate back into governance, some amount of the tokens which can help with a little bit more value capture that way versus all the tokens just being given out and direct incentives that could be pushed onto the market. We created common dashboard views to manage different domain specific incentives.

Sov: got performance metrics that can be built into those views and ultimately provide a consistent UX across programs and then there's ways through disbursement that voting records, key activity, funds dispersed by impact, all of those things can be set by program managers and monitored. why Gitcoin? I'll just kind of breeze over this slide. We've been around for a while. We've been building multi-mechanism tech for the last two years. And a lot of people think of Gitcoin as quadratic funding, but the reality is this year we've actually allocated millions of dollars across eight different allocation mechanisms. being just one of those. So yeah, I know I need to keep it brief and so that is kind of my brief pitch. we'd love to talk with the different programs that are interested in kind of building these incentive structures going forward.

Sov: see how we might be able to adapt the stack that has already been in development to support that and ultimately drive the right kinds of impact for the arbitrum down Definitely.

Krzysztof Urbański: Awesome. Thank you.

Krzysztof Urbański: Can you share the presentation that you shared? thanks so much. I don't see three, two, one. Maybe we'll have some questions later after the call. Matt, do you want to pitch quickly your idea that will be presented fully next week?

Matthew Fiebach: So, sorry I don't have presentation, but as Kristoff mentioned, we'll be presenting next week. I did put together a little one pager, though. Okay, so we're calling it the DeFi Renaissance Incentive Program or DRIP. It is actually very very in line with how IOSG is thinking about their incentive program. so basically we went back to the drawing board and decided okay with past programs what could have went better and then as we're going through the programs looking at kind of success metrics or trying to evaluate them we realized it is almost impossible to evaluate them because there was a hundred different incentive protocols going on and they all had different goals. and yeah just having any type of understanding of what we were trying to do with the incentives program.

Matthew Fiebach: the goal was let's do incentives so that we get more activity but that's not a real goal compared to for instance I think the goal that IOSG presented of let's have the deepest most liquid pairs on stable coins and high mind share tokens very specific goals right so anyways we decided that targeting specific assets and activities across arbitrum would result in a program that was to evaluate far easier to iterate and something that actually let's set a goal and then try to achieve that goal and see how it goes over a short period of time.

Matthew Fiebach: So the goal with the D5 renaissance incentive program is to do three month seasons like IOSG said epochs but for us we were calling them seasons and each one should focus on some very specific activity that we want to increase arbitrum one's market share of so like I said IOSG I think that they were presenting deepest liquidity for specific assets we went a different route and we thought that season one should focus on increasing the market share of the looping trade so very very popular on Ethereum mainnet to some extent popular on L2s but very very low.

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Matthew Fiebach: said today arbitrum one has about less than 1% of the total supply of wrap staked when you look at Ethereum mainnet I think alone has 5 billion or something like that of wrap stake ETH deposited that's because people go in and they borrow stables they borrow ETH against their yield generating and loop leveraged loop that trade so this activity just does not occur in large amounts on arbitrum one and we think that there's a lot of room for arbitrum one to grow and take some of that activity from Ethereum mainnet and bring it over to arbitrum even with just a small incentive given that there is no inherent disadvantage besides the total amount of liquidity to doing it so just for some other valuable context here arbitrum one actually does have the highest market share in its competitive landscape.

Matthew Fiebach: though if you look at the total amount of wrap stake deep deposit into lending protocols for instance we have more of it than base we have more of it than zkync etc. So we are actually strong but it's just that none of this activity really occurs on L2s. So there'll be some data in the presentation next week surrounding this. Anyways what we have is the goal of season one of the D5 renaissance incentive program is make arbitrum one the best place to borrow USDT USDC ETH against your wrapst ETH. So the actual design of this program and this is purposefully simple and purposefully focused.

Matthew Fiebach: So it's not like we couldn't also do a program that was focused on dexes or we couldn't also do a program that was focused on per protocols or something like that. This is just one specific activity that we wanted to target and anyways purposefully simple. So the only collateral that will be incentivized is wrap stake the only borrowable assets that will be incentivized are ETH USDC and USDT. Anyone who has wrapstaked in an arbitrum one lending protocol has borrowed one of these three assets against it and has reached an LTV of 25% will have a targeted yield boost on their wrapst so effectively what we're saying here is that let's say you get you three and a half% for holding wrapst ETH today.

Matthew Fiebach: If you hold your wrapst ETH in an arbitrum one lending protocol and borrow against it, borrow ETH USDC or USDT against it, you'll actually be receiving five and a half percent with that extra 2% paid out in the max budget that we're asking for is 5 million ARB, this will likely not all be spent. Given that, basically you can think about it If it's a three-month program and there's a billion \$1 billion in

Disruption Joe: Yeah.

Matthew Fiebach: it'll cost about \$5 million US to incentivize 2% APR for three months. so that would only be the case if we were able to actually attract into these lending protocols. but yeah anyways and then finally the distribution partner and the valuation partner. So we would need a partner in order to actually send who would hold the ARB whitelist wallets who have achieved these metrics above and actually send it out to them for compliance reasons. And additionally, we would need an evaluation partner who is a resource to be monitoring the success of the program throughout its entire life cycle. So the end, not just doing retroactive analysis, but actually there the entire time making sure that the program keep creating open source dashboards that the community can use to evaluate the program. Finally, other assets and verticals can be included in this program.

Matthew Fiebach: So while we're very very specific targeted with this first experiment of just wrap stake Ethan borrowing these three assets against it. that said there's no reason that you wouldn't be able to do the same type of program but instead of targeting lending you're targeting DEX LPS like IOSG has

suggested. And additionally there's no reason that we couldn't do other assets in the future. So maybe instead of changing it from lending to dexes we just change it from wrap stake teeth to real world assets and do the same type of program for season two. So, it's supposed to be evolving and it's supposed to be evolving based on the evaluation of how the programs actually go in the first place. I would say even though we have a proposal about 95% complete, there is still quite a long way before this can be reality, we haven't really started getting feedback yet and we kind of just finished the rough draft of the proposal. So, quite a long time to go and sorry for going so long there.

Krzysztof Urbański: Thank you so much. Joe, you've got your hand raised, but please be mindful that we are at the top of the hour, so please be brief.

Disruption Joe: Yeah, I'm seeing there's four proposals that I know of that are being worked on towards recommending a program and...

Disruption Joe: I think we need to start thinking about the idea of the work stream or governance versus each program because I think each program could be independently put into a work stream where then things he mentioned the season versus the epics certain things like that that would make evaluation across multiple programs would be easier things like commitment to using open source observer so that you have a full source data set rather than proprietary data sets out of some of the programs where then you can't access that across for evaluation so I mean I think entropy would be great for even considering at that level, what are those few things that each program needs to commit to be applying to this program. sort of the way the events can now apply to and events kind of workstream in a way.

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Disruption Joe: there's some way that they apply and commit to some level of standardized governance across this. Unless we think we should only do one program,...

Disruption Joe:

Krzysztof Urbański: Thanks so much.

Matthew Fiebach: Yeah, I don't have a strong feeling as to,...

Krzysztof Urbański: Yeah.

Matthew Fiebach: whether or not it makes a lot of sense to be doing the IOSG's decks in tandem with, this lending and whatever, maybe one or two more, or if it's more of an iterative thing where we try to kind of fit it all together, but still do very focused small proposals and just short bursts. but that said, we did try to design this in a way where we could fit more stuff into it if that was what the DA wanted or even change season 1's entire idea.

Krzysztof Urbański: Yeah, speaking about this I will be coming with some ideas for rough kind of a framework for those proposals but this will be coming second half of the month of the month. to wrap this up because we are at the top of the hour I would like to wrap this discussion.

Krzysztof Urbański: I already created a group for us discussing IOSG proposal. I want to have a group separate group to discuss every initiative that we'll be working on. So whoever wants to have their own kind of separate work stream feel free to reach out to me and I will facilitate creating a group. if anybody

wants to join discussions for any specific program please also contact me as well. yeah we will be spinning off several separate work streams from this.

Krzysztof Urbański: The goal is to have something ready mid of January. so that can start actually pushing for voting on some incentive program beginning of next year. that's it for now. Camille, you wanted to Yeah.

Kamil Gorski: No, sorry, sorry.

Krzysztof Urbański: I also have your proposal in mind as well as a separate work stream. so feel free to message me. I will put my telegram in the chat. otherwise it's generally quite easy to reach out to me. yeah and we'll be pushing for more work streams coming from now on.

Krzysztof Urbański: yeah and Matt will have a presentation about your idea next week. as I understand we also have two other teams that want to present something next week. as well yeah thank you very much and see you in the forums, see you in the chats and see you next week.

Kamil Gorski: Thanks. Bye.

Meeting ended after 01:03:55 🙌

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