Summary

The purpose of this proposal is to propose a change in the YFI tokenomics. This proposal will alter the Buyback and Build Yearn BABY (YIP) policy to BAD (Buyback and Donate) whereby repurchased tokens are directed to an xYFI vault instead of the treasury. YFI can be staked by token holders in an xYFI vault which earn a pro-rata percentage of the repurchased tokens. A stable-coin treasury reserve is established as a protocol cash buffer (set by governance) above which funds are used to repurchase YFI tokens.

Background

Buyback and Build Yearn (BABY) was implemented at a time when Yearn core developers were significantly mis-aligned and undercompensated. After BABY was implemented, a 6,666 mint was passed that compensated the developers and left some runway to fund future contributors, protocol-wide initiatives, liquidity mining or any other potential protocol needs. The purpose of BABY even after the mint was to direct profits back to the protocol in the form of YFI buybacks to both enhance token value while retaining the option for yearn to use those profits in the future should they be needed.

The current Yearn protocol earnings are not being reflected in the value of the token. While the buybacks themselves help to an extent, the uncertainty of whether those buybacks will just be recycled to future expenses may depress valuations. Also, there is no mechanism which incentivizes individuals to lock up the token effectively removing it from market circulation and creating a determinable yield for the YFI token itself.

Motivation

Despite stellar earnings, the token price has lagged considerably and does not reflect the protocol's fundamental value. I propose creating a $30mm stable-coin treasury reserve that is used for operational expenses. This reserve can be modified by governance as needed. Once that $30mm reserve is reached, any profits in excess of that amount go to turning YFI BAD. Yearn buys back YFI but those buybacks are instead donated to an xYFI vault. YFI holders can stake YFI and get xYFI to earn their pro-rata share. This will create a tangible link between yearn profits and the token value. It should also create natural market buying pressure for the token and a sink to lock up the tokens from the market.

OPEN QUESTION: Should there be some minimum lockup? Maybe if you withdraw within 90 days you lose any accrued YFI and it goes pro-rata to other xYFI stakers?

We can look at XTK for inspiration as I think they have a good staking rewards module and I like the [Multistaking](#) thoughts (Yearn can also do something here). Anyways they have a 1.75% unstaking penalty, maybe we can add an additional penalty for immediate unstaking and then long staking. 5-10% for immediate unstaking and .5% for unstaking with a 1-2 week lockup?

If we wanna work backwards, stakers should break even after a few weeks so lets say the APY is 5%, then it would be around 5 weeks to break even with a .5% fee. At 10% APY it would be 2.5 weeks and I think these numbers are reasonable.

I agree these withdrawal fees should go back to other xYFI stakers thus increasing the yield that way also.

YIELD ON xYFI VAULT

Market P/E		% of Tokens Staked									
		10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
	10	100%	50%	33%	25%	20%	17%	14%	13%	11%	10%
	15	67%	33%	22%	17%	13%	11%	10%	8%	7%	7%
	25	40%	20%	13%	10%	8%	7%	6%	5%	4%	4%
	30	33%	17%	11%	8%	7%	6%	5%	4%	4%	3%
	35	29%	14%	10%	7%	6%	5%	4%	4%	3%	3%
	40	25%	13%	8%	6%	5%	4%	4%	3%	3%	3%
	45	22%	11%	7%	6%	4%	4%	3%	3%	2%	2%
	50	20%	10%	7%	5%	4%	3%	3%	3%	2%	2%
	55	18%	9%	6%	5%	4%	3%	3%	2%	2%	2%

MARKET PRICE PER TOKEN

Market P/E		Earnings									
	$	20,000,000	30,000,000	40,000,000	50,000,000	60,000,000	70,000,000	80,000,000	90,000,000	100,000,000	110,000,000
	10	6,153.85	9,230.77	12,307.69	15,384.62	18,461.54	21,538.46	24,615.38	27,692.31	30,769.23	33,846.15
	15	9,230.77	13,846.15	18,461.54	23,076.92	27,692.31	32,307.69	36,923.08	41,538.46	46,153.85	50,769.23
	25	15,384.62	23,076.92	30,769.23	38,461.54	46,153.85	53,846.15	61,538.46	69,230.77	76,923.08	84,615.38
	30	18,461.54	27,692.31	36,923.08	46,153.85	55,384.62	64,615.38	73,846.15	83,076.92	92,307.69	101,538.46
	35	21,538.46	32,307.69	43,076.92	53,846.15	64,615.38	75,384.62	86,153.85	96,923.08	107,692.31	118,461.54
	40	24,615.38	36,923.08	49,230.77	61,538.46	73,846.15	86,153.85	98,461.54	110,769.23	123,076.92	135,384.62
	45	27,692.31	41,538.46	55,384.62	69,230.77	83,076.92	96,923.08	110,769.23	124,615.38	138,461.54	152,307.69
	50	30,769.23	46,153.85	61,538.46	76,923.08	92,307.69	107,692.31	123,076.92	138,461.54	153,846.15	169,230.77
	55	33,846.15	50,769.23	67,692.31	84,615.38	101,538.46	118,461.54	135,384.62	152,307.69	169,230.77	186,153.85

Above are two charts. The first shows the estimated yield of the xyfi vault based on market P/E and the percentage of total tokens staked. For example if only 50% of all yfi was staked and the market was pricing yfi at a P/E of 35 then the xYFI vault would have a 6% yield.

The second chart shows price per token based on market P/E and actual earnings.

Specification

Create an xYFI vault
Set a $30mm stable-coin buffer
Direct all bought back YFI to xYFI vault

Poll:
 123456789