The future of liquid staking

Vasiliy Shapovalov
Tech lead @ Lido
Who we are

- Lido is a DAO (headquartered on Ethereum) that builds liquid staking protocols
- It maintains the largest liquid staking protocol in existence, Lido on Ethereum
- Currently #2 DeFi protocol by TVL
- I am a co-founder and tech lead at Lido
Liquid staking is when a staker gets a transferable voucher when they lock up their stake in a staking protocol.
The share of liquid staking is growing.
Protocol-based liquid staking will grow alongside the DeFi ecosystem.
There will be a lot of options for liquid staking, but few winners
Stakers will determine the stake distribution
The growth
Liquid staking protocol growth is driven by DeFi ecosystem growth
Main competition are walled gardens of CeFi
The product is just better than regular staking; adoption barriers are: smart contract risk, governance risk, and sometimes tax implications.
The options
Liquid staking’s users

- Stakers: want staking rewards, security, liquidity, usability
- Protocol’s community: want the best validator set for the protocol - decentralized and censorship resistant
- Node operators: want to run a stable staking business
Broad list of options

- Custodial, vertically integrated (e.g. exchange-based)
- Risk management based protocols
- Bonded
- Hypercompliant
- Marketplace
Custodial liquid staking

- Exchange or custody-based
- Very simple to use
- No additional risk if you already trust the exchange with this capital
- Often include margin-based options
- The owner of custody is double-dipping and can offer very competitive rates
- Usually subpar validator sets (too few operators, little diversity)
- Susceptible to regulatory capture
Risk management based protocols

- Non-custodial
- Manage slashing risk protocol-wide by curating validator sets
- Capital efficient
- Rely on the DeFi ecosystem for the usability and liquidity
Bonded

- Non-custodial
- Manage slashing risk by requiring validator bonds
- Capital inefficient, slow growth
- Validator set management is left to the market (capital == right to validate in protocol)
- At scale delivers centralized validator sets bc capital is centralized
Hypercompliant

- Extensive KYC and certification for operators and, maybe, stakers
- Reg scare as selling tactics
- Likely do not deliver validator sets that the protocol’s community want
- Likely won’t be much liquid or usable
- Similar to risk-management in tech design
Marketplace

● Multiple options for staking in one place
● Different risk profiles, features and costs
● Some kind of forced fungibility (risk management, bonds, or naive) to make a liquid staking token out of nonfungible options
Current state on Ethereum

By size
- #1 - risk management
- #2 - custodial (will quickly jump to #1 when withdrawals are in)
- #3 - bonded

By growth speed
- #1 - custodial
- #2 - risk management
- #3 - bonded
Only non-custodial, trust-minimized options can be designed with “can’t do evil” principle in mind.
Only risk management based protocols can deliver a good validator set at scale
Future state of Ethereum

Good outcome
● #1 - risk management
● #2 - custodial
● #3 - bonded

Bad outcome
● #1 - custodial
● #2 - risk management
● #3 - bonded
Stakers decide the outcome
Kingmakers of block production

- NOT node operators - they validate by using other people’s capital, mostly
- NOT stake aggregators (protocol or custodians)
- NOT protocol researches or developers
- NOT cryptotwitter
- NOT protocol governance
Kingmakers of block production

- Current state of Ethereum staking is the direct result of the stakers making their choice in the past
- Future will be the result of stakers making their choice going forward
Vote with your Ether

Select the best way to stake based on

- Your ethos
- Your needs
- Your capabilities
Bonus: the curveballs
Regulations

- Can force a radical change for the market: most Ether holders are going to comply to local regs
Restaking (e.g. Eigenlayer)

- Using the same stake in multiple protocols
- Combinatory explosion in potential risk/rewards profiles is not so easy to make a fungible representation of;
- Makes risk management based protocols harder to design, marketplaces easier
Second order effects of MEV

- Field with very emergent rules, very hard to see the future clearly
- Has a lot of requirements for latency
- Benefits a lot from exclusivity deals
- Can force centralization on all layers
Thank you!

Vasiliy Shapovalov
Tech lead @ Lido
vs@lido.fi

@_vshapovalov