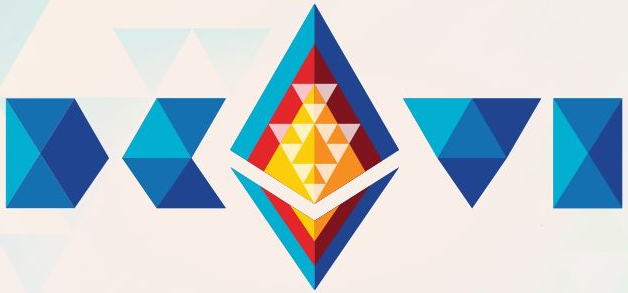


The future of liquid staking

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 cofounder 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

~$80b
Staking

~$8b
Liquid staking

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

Section 1

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.

Section 2

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

Section 3

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

Section 4

Bonus: the curveballs

Regulations

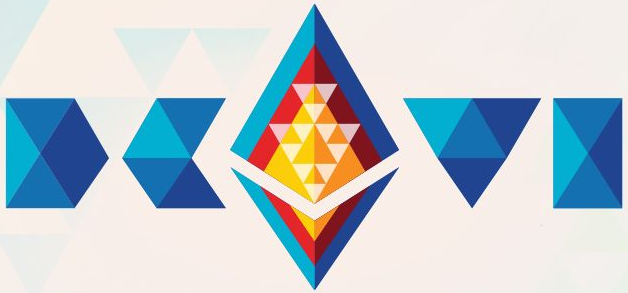
- Can force a radical change for the market: most Ether holders are going to comply to local regs

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!

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