

Airdrops



Walter Teng, CFA

VICE PRESIDENT OF DIGITAL ASSET STRATEGY

Key Takeaways

- Airdrops refer to the retroactive distribution of native tokens to users based on criteria set by projects. They often share the common objective of rewarding early users and supporters of projects, and serve as marketing levers for projects themselves.
- Airdrops are aligned with the general crypto ethos of disintermediation. Instead of paying centralized entities for access to select goods and services, users get rewarded by crypto platforms for their patronage and support.
- Farming airdrops during bull markets are less attractive given the uncertainty of immediate return. In bear markets, however, trends are less clear and market liquidity is generally constrained. Acknowledging that token launches (incl. airdrops) are the path to liquidity for the majority of projects (and their VC backers), farming airdrops becomes an attractive strategy.
- We examine the airdrops of dYdX Exchange (\$DYDX) and Ribbon Finance (\$RBN), highlighting the former's tiered-based approach to airdrop thresholds and the latter's controversy with Divergence Ventures. We then provide a list of platforms that have strong value propositions but do not yet have a token, perhaps serving as good platforms for subscribers to try.
- All airdrops are considered income, which are taxable. When airdrops are treated as a taxable event depends on when users gain dominion and control (ability to sell) over the tokens.
- Closing thoughts: While airdrops today get a bad rep because they are used in scams, they are a great choice as projects' Token Generation Event (TGE) if used properly. They create buzz within communities and reward early users. In bear markets, farming airdrops pose as an attractive strategy until markets decide on a reversal. Not only can farmers financially benefit from future liquidity events, they can also discover new crypto primitives. The only thing to look out for are scams, which have proliferated the airdrops space to target those seeking a 'free lunch'.

Figure: Pepe Farming Airdrops To Save His Rekt Portfolio



It's a Bird... It's a Plane... It's ~~Superman~~ an Airdrop!

Everyone in crypto has heard of airdrops. Anyone who's anyone, however, has actually received them. Upon receipt of a highly anticipated airdrop, the pang of dopamine from the financial implications and being rewarded for participating in the digital economy does urge one to wonder:

"Rekt pepe, what exactly are airdrops? Are they free money? Where do they come from? What are they for? Ser, we know DeFi farming alfalfa is dissipating, so wad^[1] do in the bera^[2] markets?" a fellow DeFi Digest farmer calls out in a distance.

Fret not, fellow farmer, as we will share airdrop farming strategies that may prove superior to liquidity pool yield farming in the bera markets. As farmers, we need to acknowledge these changing liquidity dynamics (resulting in depressed gross yields), and re-strategize accordingly to optimize future portfolio gains.

Airdrops refer to the retroactive distribution of native tokens (both fungible and non-fungible) to users based on criteria set by projects. While the specific conditions and thresholds may differ from one project to another, they often share the common objective of **rewarding early users and supporters of projects, and serve as marketing levers for projects themselves.**

Figure: Airdrop Types, Conditions, Motivations, and Historical Examples

#	Airdrop Type	Conditions	Motivations	Examples
1	Exclusive Airdrop	Performing actions on native platforms	Rewarding early users who help find product-market fit	dYdX exchange (\$DYDX) airdropping to early traders
2	Holder Airdrop	Holding another token in users' wallets	Rewarding supporters of partner projects to launch new projects	Holding Omisego (\$OMG) tokens for Boba Network (\$BOBA) airdrop
3	POAP* Airdrop	Attending an in-person / virtual event	Rewarding communities that support projects through life experiences	Metamask airdropping NFTs to attendees of their Decentraland party
4	Bounty Airdrop	Engaging (sharing/liking) with social media pages	Rewarding supporters who help market projects	<i>B-tier projects that rely on social media engagement to generate hype</i>

* POAP stands for Proof of Attendance Protocol, which are digital badges that are given out for free to event attendees

Source: Fundstrat

Exclusive Airdrops are commonly used by DeFi protocols to encourage users to interact with their platforms, whereas Holder Airdrops have been popular amongst NFT projects (Bored Ape Yacht Club (BAYC) NFT holders airdropped Mutant Ape Yacht Club (MAYC) and Bored Ape Kennel Club (BAKC) NFTs and ApeCoin (\$APE) tokens.

Before we dive deep, airdrops are, at least superficially, aligned with the general crypto ethos of disintermediation. Instead of *paying centralized entities for access to select goods and services*, *users get rewarded by crypto platforms for their patronage and support*.

Tokens then become the medium of exchange through which value can be distributed back to users. In a well-designed ecosystem supplemented by tokens, users can then opt to spend or pledge these tokens in exchange for utility.

Projects that distribute value to users via airdrops can then facilitate the value transfer between users via these airdropped tokens. [Ethereum Name Service \(ENS\)](#) airdropped \$ENS to ENS domain registrants, solidifying its position as Web 3's identity platform for wallets. Although \$ENS is merely a governance token today, it can be used to renew domain registrations at a discount in the future.

From a project's perspective, airdrops are a great tool for marketing - those who are excluded often hear of lucrative airdrops based on retroactive actions, spurring them to read up on these projects to avoid missing out on future opportunities. Some projects even have allocations for future airdrops post their genesis one, to keep loyalists on their feet and discourage them from migrating liquidity elsewhere.

Additionally, airdrops can be used to seed liquidity, where users can pair their airdropped token with another token (most commonly \$ETH and other alternate L1 tokens) to form an LP pair that is deposited in an incentivized liquidity pool. This bootstraps liquidity and further decentralizes ownership of a certain token, as opposed to private funding rounds which centralize ownership around VCs.

Farming Airdrops as a Strategy

During bull markets, the opportunity cost of capital is high. Farming airdrops are less attractive given the need to speculate and execute these strategies with capital without certainty of immediate return, especially when almost every other token is appreciating daily.

In bear markets, however, trading becomes more challenging as trends are less clear. Traders have less capital to work with, given market liquidity is generally constrained. **Acknowledging that token launches (the distribution of which include airdrops) are the path to liquidity for the majority of projects (and their VC backers), farming airdrops becomes an attractive strategy.**

It is worth noting that projects prefer to airdrop tokens during bull markets. This is because relative to a bear market when token prices are depressed, they do not need to distribute as many tokens for a given airdrop dollar value that will attract attention or handsomely reward early adopters.

As such, farming airdrops by using newer protocols (without tokens) poses an attractive option for retail investors throughout bear markets - they can learn about new primitives with the potential of reward. They may however need to wait until bull markets to resume to reap what they sow.

Airdrops Case Study #1 - dYdX Exchange (\$DYDX)

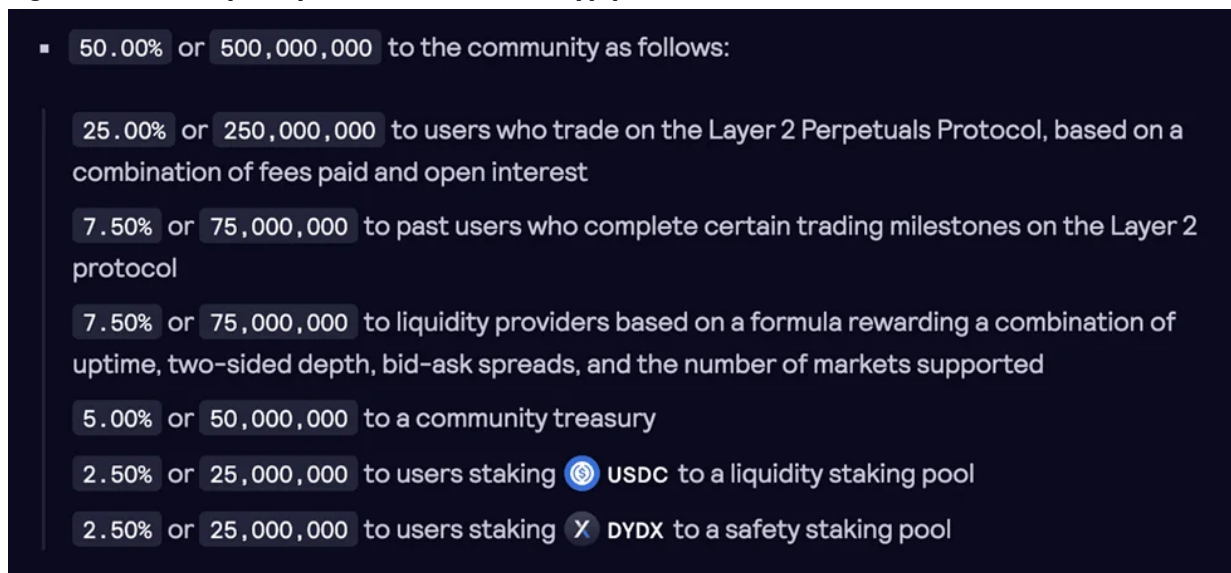
Since its founding in Jul '17, dYdX has grown to become the most prominent derivative DEX built on ETH, having >\$600m in TVL^[3] that is twice as much as its closest competitor, Synthetix (TVL: \$286m). v1 - v3 is built on StarkEx (StarkWare DEX product) and offers 37 trading pairs that are predominantly Layer 1 or DeFi tokens.

Figure: dYdX Historical Roadmap, TVL, and Market Capitalization

Source: [DeFi Llama](#)

The platform launched in late 2020 and raised two rounds of funding before launching the dYdX token via an airdrop based on qualifying activity before snapshot date of 26th July 2021. The drop amounted to north of \$13.4B at the peak (50% of dYdX market cap), rewarding traders, users, liquidity providers, and other key stakeholders.

Figure: dYdX Airdrop Composition (50% of total supply)



Source: dYdX

Improving upon past airdrops that have rewarded users (big and small alike) equally or proportionately, dYdX introduced a tiered approach towards their airdrop allocations. For context, *allocating equal rewards* across users of different sizes have historically elicited Sybil Attacks^[4] and airdrop farming (). In an attempt to amass the large airdrop payday, whales create numerous wallets and interact with protocols to qualify with the minimum condition threshold.

Conversely, allocating rewards proportionate to activity size may concentrate ownership of the newly-airdropped token amongst larger holders/transactors. We believe successful airdrop design falls somewhere in between equal and proportionate, rewarding users based on a number of conditions and weighted towards the metric the protocol most desires.

Figure: Tiered Allocations of \$DYDX and Condition Thresholds

Category	Unique # Users	% Program	Tokens / User	Total Tokens	Claim Milestone
User Deposited	36,203	15.00%	310.75	11.25M	Make 1 trade
Traded \$1 – 10K	20,305	31.50%	1,163.51	23.625M	Trade \$500
Traded \$10K – 100K	4,828	28.00%	4,349.63	21M	Trade \$5K
Traded \$100K – \$1M	1,754	15.00%	6,413.91	11.25M	Trade \$50K
Traded \$1M+	787	10.00%	9,529.86	7.5M	Trade \$100K
Expo Bonus	663	0.50%	565.61	375K	No history Make 1 trade History See tier above
Total	64,306	100%		75M	X

Source: dYdX

dYdX recently announced v4 plans to build its standalone blockchain utilizing Cosmos SDK and Tendermint PoS protocol. It will reportedly feature a decentralized, off-chain orderbook and matching engine, and will use \$DYDX as the L1 token for gas and validating the chain.



















This development has knock-on implications for L2 service providers such as Starkware, but goes beyond the scope of this issue.

Airdrops Case Study #2 - Ribbon Finance (\$RBN)

[Ribbon Finance](#) is a decentralized options exchange that invented the DeFi Options Vault (DOV) approach to covered call and protected put strategies commonly deployed by derivatives platforms today. In the space, Ribbon is also known for its slick and responsive UI characterized by neon outlines, and straightforward UX of depositing funds into yield-bearing vaults.

Founded by @juliankoh and @kenchangh, Ribbon [attracted 8.8m in funding from crypto-native manager Paradigm in the form of a liquidity partnership and a Series A](#). The platform is the leader in the Decentralized Options vertical and hosts \$80m in TVL today.

Figure: Options TVL Rankings

Options TVL Rankings							
All Ethereum BSC Avalanche Solana Polygon Fantom Arbitrum Mixin Optimism Aurora Moonbeam Moonriver KCC Wanchain Others							
Name	Category	Chains	1d Change	7d Change	1m Change	TVL	Mcap/TVL
1  Ribbon Finance (RBN)	Options		-2.25%	+1.86%		\$80.42m	0.73885
2  Opyn	Options		-2.27%	-9.07%	-50.28%	\$72.97m	
3  Friction	Options		-2.35%	+6.26%	-24.61%	\$44.9m	
4  Dopex (DPX)	Options	   	-4.14%	-7.26%	-65.50%	\$19.15m	1.45267
5  Thetanuts Finance	Options	     	-0.46%	+3.53%	-15.00%	\$15.3m	

Source: [Defi Llama](#)

Despite its decorated background, Ribbon Finance's airdrop was subsequently revealed to be internally gamed. [Divergence Venture](#) were listed as backers of Ribbon, founded by ex Compound Finance strategy lead Calvin Liu.

After Ribbon's airdrop, on-chain sleuth @gabagooldoteth linked multiple airdrop claimant addresses to the [Divergence Ventures marked wallet on Etherscan](#). His work revealed at least 652 \$ETH (worth \$2.32m on 10/8/21) farmed in airdrops executed by then Divergence Ventures employee @_bridgeharris.

Figure: Gabagool Uncovering Divergence Ventures Analyst Farming Ribbon Finance's Airdrop



Source: [Twitter](#)

Effectively, Divergent Ventures sent 0.1 ETH via multiple wallets to deposit in these yield-producing vaults four months in advance in anticipation of an eventual token.

Figure: Ribbon Finance Founder Disclosure to Angels / VC Backers



Source: Twitter

Upon discovery and the corresponding pressure from the community, Divergence Ventures eventually returned more than 1.9B in \$RBN farmed from the airdrop to the Ribbon Finance treasury. The event also led to the divestment and disbandment of the fund. It is unclear how many other portfolio protocols (of Divergence and other venture capital firms) have been Sybil-attacked in the same manner historically.

While Fundstrat is not proud of the actions of some backers (crypto-native nonetheless) who abuse material non-public information, we take comfort in crypto's transparency and immutability that empowers vigilantes like @gabagooldoteth and @zachxbt to self-police the space in lieu of regulatory clarity.

OK Past Airdrops May Be Cool, But What's Next?

Glad, you asked, Pepe. Below is a list of promising platforms and actions that users can perform to validate their respective value propositions, all without a token ;) Given that *tokens are vehicles to transfer value*, and assuming that these *protocols do generate organic, steady value*, it might be reasonable to expect these project teams (and other fundamentally-sound projects without tokens) to release tokens in the future.

Figure: Potential Upcoming Airdrops and Speculated Conditions to Qualify

#	Protocol Name	Description	Speculated Conditions
1	Mirror Protocol	Web-3 publishing platform for writers	Create profile and publish article
2	Set Protocol	Platform for investors to create and invest in token indices	Create index of a basket of tokens or invest in existing ones
3	Superfluid	Streaming payments app live on Arbitrum, Gnosis, Polygon, and Optimism	Create a money stream to another wallet
4	DeFi Saver	DeFi all-in-one portfolio management platform	Create automation that manages leveraged positions
5	Arbitrum	Optimistic rollup that scales Ethereum	Interact with Arbitrum-based protocols and Arbitrum Odyssey
6	Cozy Finance	DeFi platform allowing users to access insured yields	Use platform to farm insured yields
7	Metamask	Wallet service provider offering hot wallet creation and integration with cold wallets	Perform in-app swaps and transfers
8	DeBank	DeFi portfolio tracker	Connect and verify wallets, create bundles of wallet addresses
9	Frikion Labs	Vault-based automated covered call / cash-secured put strategies	Earn yield by depositing assets into vaults
10	Polymarket	Prediction market on events	Create a prediction market or bet on existing ones

Source: Fundstrat

Regulation & Taxation^[5]

Remember that all airdrops are considered income, which are taxable. Exactly when airdrops are treated as a taxable event depends on when users gain *dominion* and *control* over the tokens. Dominion and control refer to the right to *transact, sell, or trade* the airdrop crypto.

According to IRS The fair market value of the airdropped crypto is determined (and taxable) on the day user get dominion and control. Put differently, users who do not have access to the airdropped tokens are not yet liable for taxes.

Due to the novelty of this liquidity-generating event, regulatory clarity is lacking some nuance involved. Some airdrops are contingent on certain criterion (with financial implications) and need to be claimed, while others are automatically distributed to holders of another coin. The IRS has yet to release guidance on each one of these specific situations.

Airdrop Scams

As a final note, airdrops today get a bad reputation because they are commonly used as a ploy to phish unsuspecting new entrants of their private keys, most commonly via mass tagging on Twitter. These tags are usually in the replies of legitimate accounts, preying on inattentive users who do not want to miss out on the next lucrative opportunity.

The most common fraudulent airdrop type requires a manual claim, where users are led to illegitimate websites to connect their wallets and approve what they assume to be the transaction to claim the airdrop. They instead grant approvals to these misleading front-end UIs to withdraw funds out of the users' wallets.

We urge subscribers to stay vigilant of these as we attempt to uncover them here and in future issues.

Figure: Phishing Scammers Mass Tagging Accounts to Rug Users of Their Funds



Source: Twitter

Closing Thoughts

Used properly, airdrops are a great choice for projects' Token Generation Event (TGE). They can create buzz amongst the community and reward early users, all while progressively decentralizing ownership of the tokens themselves. In bear markets, farming airdrops pose as an attractive strategy until markets decide definitively on a reversal. Not only can farmers potentially benefit from future liquidity events, but they can also experiment and learn about new crypto primitives. The only thing to look out for are scams, which have proliferated the airdrops space to target those who seek a 'free lunch'.

^[1] Wad is slang for what.

^[2] Bera is play on word sequence for bear, in this case referring to bear markets. Bera has similar roots to HODL, which is a play on word sequence for hold.

^[3] Data as of 7/9

^[4] A Sybil attack is a kind of security threat on an online system where one person tries to take over the network by creating multiple accounts, nodes or computers.

^[5] Disclaimer: Fundstrat Global Advisors is a FINRA-registered independent research firm. For tax guidance, kindly contact a licensed tax expert.

Disclosures

This research is for the clients of Fundstrat Global Advisors only. For additional information, please contact your sales representative or Fundstrat Global Advisors at 150 East 52nd Street, New York, NY, 10022 USA.

Analyst Certification (Reg AC)

Walter Teng, CFA, the research analyst denoted by an “AC” on the cover of this report, hereby certifies that all of the views expressed in this report accurately reflect his personal views, which have not been influenced by considerations of the firm’s business or client relationships. Neither I, nor a member of my household is an officer, director, or advisory board member of the issuer(s) or has another significant affiliation with the issuer(s) that is/are the subject of this research report. There is a possibility that we will from time to time have long or short positions in, and buy or sell, the securities or derivatives, if any, referred to in this research.

Conflicts of Interest

This research contains the views, opinions and recommendations of Fundstrat. At the time of publication of this report, Fundstrat does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

Fundstrat Global Advisors is an independent research company and is not a registered investment advisor and is not acting as a broker-dealer under any federal or state securities laws.

Fundstrat Global Advisors is a member of IRC Securities’ Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of Fundstrat (i.e., Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by Fundstrat clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of Fundstrat, which is available to select institutional clients that have engaged Fundstrat.

As registered representatives of IRC Securities, our analysts must follow IRC Securities’ Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

Fundstrat does not have the same conflicts that traditional sell-side research organizations have because Fundstrat (1) does not conduct any investment banking activities, (2) does not manage any investment

funds, and (3) our clients are only institutional investors.

This research is for the clients of Fundstrat Global Advisors only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but Fundstrat Global Advisors does not warrant its completeness or accuracy except with respect to any disclosures relative to Fundstrat and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies.

The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein.

Except in circumstances where Fundstrat expressly agrees otherwise in writing, Fundstrat is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, fundstrat.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

Copyright 2022 Fundstrat Global Advisors LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of Fundstrat Global Advisors LLC.