

# Q&A: Securing Validator Economics and Network Sustainability

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## I. Strategic Context

### 1. What is the core objective of this proposal?

The proposal seeks to secure validator economics and ensure long-term network sustainability by restructuring token emissions and recapitalizing the ecosystem to support market-enabling integrations, liquidity depth, and operational runway.

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### 2. Why is a structural reset necessary now?

Although execution capability and delivery momentum have materially improved, the primary constraint has shifted to capital required to access key market gateways, such as top-tier exchanges, stablecoin integrations, and interoperability networks, that directly influence token demand and validator economics.

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### 3. What has changed over the past year?

Over the last 12 months:

- Casper 2.0 and 2.1 were delivered
- Major CSPR Suite upgrades were completed
- Core DeFi primitives (DEX, liquid staking, perpetuals, oracles) launched
- On-chain governance was implemented
- Enterprise use cases (e.g., Americorp MVP) went live
- Annual expenditures were reduced by approximately 80% vs. prior board levels

The Association is now leaner and executing at a higher level.

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#### 4. What is the economic challenge being addressed?

Persistently high emissions can create structural sell pressure, weaken value accrual, and reduce long-term confidence in the token's design. Emissions must now support adoption, price stability, and high-quality staking yield rather than simply subsidize early participation.

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## II. Inflation Structure

#### 5. What happens to base protocol inflation?

Protocol base inflation remains **8% annually**.

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#### 6. How will the 8% inflation be allocated?

- **2% of total supply per year** → Casper Association (operations & ecosystem development)
  - **6% of total supply per year** → Validators (unchanged reward mechanics)
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#### 7. Does this change validator reward mechanics?

No. Validator selection and reward mechanics remain unchanged. Validators continue receiving rewards from 6% annual inflation.

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#### 8. Why redirect 2% to the Association?

Redirecting a portion of inflation transforms passive token emissions into targeted ecosystem investment that:

- Reduces market structure risk
- Funds exchange and liquidity integrations
- Supports long-term demand growth

Protocol funded development is common in the blockchain industry. See the examples in Question 22, which include Cardano, Polkadot, Zcash, DeCred, Dash, and Cosmos

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## 9. What is the net validator-facing inflation rate?

Approximately 6%.

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## III. One-Time 33% Issuance

### 10. What is the proposed one-time issuance?

A one-time issuance equal to **33% of circulating supply** at the time of issuance.

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### 11. Why is this issuance necessary?

It is intended to accelerate market-enabling integrations that are difficult to achieve without capital, including:

- Centralized exchange listings
  - Stablecoin integrations
  - Interoperability bridge integrations
  - DeFi liquidity support
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### 12. How will the issued tokens be allocated?

The allocation will be split:

1. **Structured OTC placements**
    - Lockups
    - Staking requirements
    - Staged release provisions
  2. **Staking across the validator set**
    - In accordance with network-approved staking programs
    - Aligns Association balance sheet with network security
    - Enhances ecosystem stability
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### **13. Will these tokens be immediately sold on the open market?**

No. A portion will be placed via structured OTC agreements with lockups, staking requirements, and staged release terms.

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### **14. How does staking the remaining tokens help validators?**

It aligns the Association's incentives with validator performance and network security, while contributing to stake stability across the validator set.

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## **IV. Governance and Transparency**

### **15. How will spending be governed?**

**Validators will vote quarterly for:**

- Grants
- Hackathons
- Special R&D
- New capital-intensive initiatives

**Core functions will be exempt from validator voting:**

- Exchange integrations
  - Stablecoin integrations
  - Interoperability integrations
  - Core protocol development
  - Odra framework
  - CSPR Suite maintenance
  - Liquidity provisioning
  - Testnet validator incentives
  - Legal/regulatory expenses
  - G&A
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### **16. How often can new funding initiatives be approved?**

Once quarterly, unless extraordinary circumstances require more timely votes.

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## **17. How will financial transparency be ensured?**

The Association will provide regular financial reports via an authenticated portal detailing expenses by category.

The first reports are presented to Validators during the February 17th, 2026 Validator Meeting. The first quarterly Validator Meeting will take place the week of July 20th, 2026, and the Q2 2026 quarterly report will be made available in advance of that meeting. Any extraordinary expenditure requests will be presented and put to on-chain vote following the Validator Meeting.

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## **V. Rationale**

### **18. Why does the Board believe this is justified?**

The Board executed a successful strategic turnaround with drastically reduced resources (and ~80% reduced overhead) and demonstrated capital efficiency. It now seeks runway to convert momentum into sustained growth.

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### **19. What evidence supports the turnaround claim?**

In one year:

- Casper 2.0 and 2.1 released
  - Decentralized Governance implemented
  - Major DeFi ecosystem expansion - new DEXes, liquid staking, token launchpads, prediction markets, perpetuals, oracles, datafeeds, and much more were launched
  - A successful hackathon introduced hundreds of new developers to the Casper ecosystem and saw dozens of new applications being built, several of which successfully launched on mainnet already in the weeks following the hackathon.
  - Enterprise use case launched - Parking Blox MVP is on mainnet and expanding
  - ~80% reduction in annual expenditures
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### **20. What risk does inaction pose?**

Without capital to secure operating budgets, exchange access, stablecoins, and liquidity, the network risks stagnation and/or decline, despite improved technical performance and operational performance/delivery.

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## VI. Industry Precedent

### 21. Are recapitalizations common?

Yes. In traditional markets, companies like Rolls-Royce, Lufthansa, Virgin Atlantic, Aston Martin, and others recently executed dilutive recapitalizations during strategic turnarounds:

- Rolls-Royce - ~77% dilutive recapitalization in 2020
- TUI - 32% dilutive recapitalization in 2021
- Lufthansa - 50% dilutive recapitalization in 2021
- Virgin Atlantic - private recapitalization in 2020
- Aston Martin - 80% dilutive recapitalization in 2020
- Noble Group - 80% dilutive recapitalization in 2018
- Carnival Cruises - 43.4% dilutive recapitalizations in 2020 and 2021

In crypto:

- MakerDAO minted MKR for recapitalization
- EOS Network Foundation redirected a large portion of circulating tokens during restructuring

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### 22. Is protocol-funded development common in crypto?

Yes. Examples include:

- ZCash: 20% of block rewards to development
- Decred: 10% to treasury
- Dash: 10% to development
- Cosmos: Community tax on staking rewards
- Cardano: 20% of rewards to treasury
- Polkadot: 15% of inflation + 80% of fees to treasury
- AAVE: 100% of product revenue to the community treasury

This proposal aligns Casper with established industry practices.

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## VII. Validator Voting Process

### 23. When was the proposal posted?

February 17, 2026.

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### 24. When does discussion end?

February 22, 2026.

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### 25. When does voting occur?

February 23–25, 2026.

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### 26. Who can vote?

Mainnet validators receive voting tokens proportional to network weight when voting begins. They represent the holders who have staked their CSPR with them.

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### 27. What is the quorum requirement?

More than 50% of total network weight (including abstains).

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### 28. What is the approval threshold?

Simple majority:

- More than 50% of participating weight
  - Abstains excluded from majority calculation
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### **29. What happens if a quorum is reached but majority fails?**

The proposal fails.

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### **30. When would implementation occur?**

Immediately following a successful vote.

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## **VIII. Economic Impact Summary**

### **31. Does this increase long-term dilution?**

Base inflation remains unchanged at 8%. The 33% issuance is one-time and intended as recapitalization rather than ongoing inflation expansion.

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### **32. What is the long-term goal?**

To transition from early-stage emission-driven participation to a structurally sustainable, demand-driven token economy that supports:

- Strong validator yields
  - Deep liquidity
  - Stable token pricing
  - Institutional-grade integrations
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