



Haym Salomon @SalomonCrypto

Jun 17 · 23 tweets · [SalomonCrypto/status/1537908651112878085](#)

(1/21) What exactly IS MEV? How should you understand it?

Let's dive into its deep history, the current context and the exciting future ahead!

(2/21) Not financial advice.

Special disclaimer: This thread is going to cover Payment for Order Flow (PFOF). However, PFOF has become heavily politicized in the last 18 months; I will use an alternate phrase.

Wholesaler Rebate = PFOF



Haym Salomon
@SalomonCrypto

Replying to @SalomonCrypto

(2/18) Not financial advice, this is a product announcement. But I'm sick of my old perma-link so here's the new one:

I do not give financial advice and you should not consider anything I say financial advice. Sometimes I've gotten a few bucks to write. You never know.

NFA!!!!

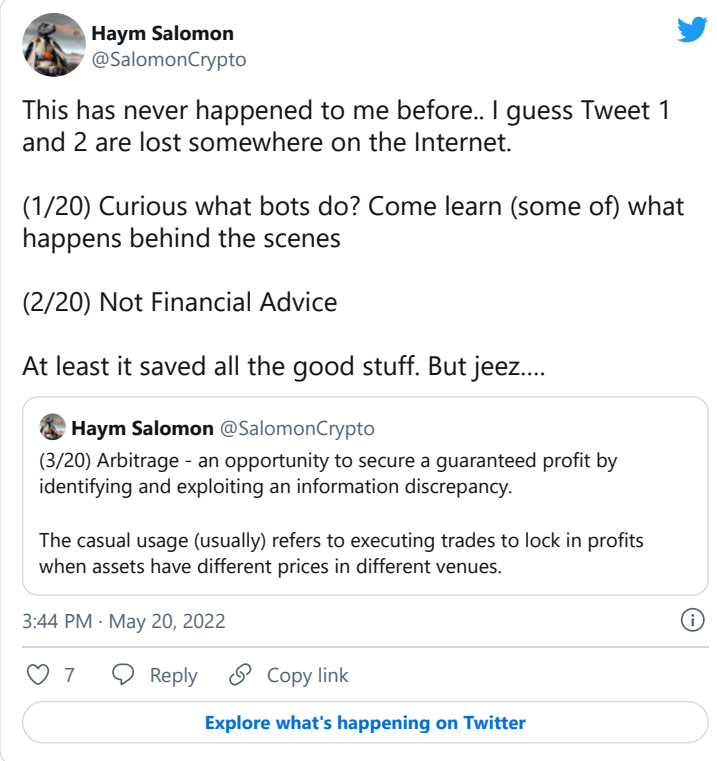
7:42 PM · Jun 11, 2022

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(3/21) Maximum Extractable Value (MEV) exists in both Trad-Fi and De-Fi, even if the terminology is new. The best way to understand (basic) MEV is by understanding arbitrage.

Here's a thread that will get you up to speed:



The screenshot shows a Twitter thread by Haym Salomon (@SalomonCrypto). The main tweet says: "This has never happened to me before.. I guess Tweet 1 and 2 are lost somewhere on the Internet." It includes two previous tweets: (1/20) "Curious what bots do? Come learn (some of) what happens behind the scenes" and (2/20) "Not Financial Advice". The main tweet concludes with "At least it saved all the good stuff. But jeez....". A quote tweet from the same user explains: "(3/20) Arbitrage - an opportunity to secure a guaranteed profit by identifying and exploiting an information discrepancy. The casual usage (usually) refers to executing trades to lock in profits when assets have different prices in different venues." The tweet is dated 3:44 PM · May 20, 2022 and has 7 likes. A button at the bottom says "Explore what's happening on Twitter".

(4/21) If you'll indulge me, let's walk through an incredibly over-simplified, barely correct history of MEV. Here's the format:

[development of finance and MEV]

- TdFi: [as applied to Trad-Fi]

- DeFi: [as applied to De-Fi]

(5/21) Let There Be Trades

- TdFi: Ape trades sharp stick for warm cloak

- DeFi: In May 2010, Hanyecz bought 2 pizzas for 10,000 \$BTC

(6/21) Build a Marketplace, They Will Come

- TdFi: Some Dutch guys needed a venue to exchange "shares" of a "company" they had just created

- DeFi: November 2018 [@hhaydenadams](#) deploys [@Uniswap](#) v1. Eh ok let's look at May 2020 when v2 releases.

(7/21) The Dark Forest

- TdFi: As more activities move on centralized locations, insiders realize they have more info than those trading. They start extracting.
- DeFi: Those who live on-chain notice they can see transactions before they happen. They start extracting.

(8/21) Volume Soars, Technology Crawls

- TdFi: In NYC & Chicago, the world pivots around trading pits. Frantic men scream & make hand signals, all while extracting
- DeFi: [@Uniswap](#) exchanges >\$1 B per day, the bot swarm becomes so thick that it's rare to see a clean transaction

(9/21) MEV Captured, Empires Grow

- TdFi: Automated Market Making firms are founded to capture MEV; they grow into behemoths like [@citsecurities](#) & [@VirtuFinancial](#)
- DeFi: November 2020 [@thegostep](#) submits a post to



and changes the game. Flashbots is born

(9a/21) PAUSE

The above comparison deserves elaboration.

Both RW Market Making firms and Flashbots capture MEV. However, Flashbots products (generally) pass the captured MEV along to validators. RW firms are profit maximizing corporations.

There is no moral judgment here.

(10/21) The Grand Bargain

- TdFi: Market participants (brokers, banks, etc) begin to demand profit sharing. Automated Market Makers (called Wholesalers) begin offering rebates, paid for out of their profit.

- DeFi: [@Keeper_DAO](#) is born. Today you know it as [@Rook](#).

History over.

(11/21) We will discuss Wholesaler Rebates in detail another time, for now:

US financial asset trading happens between ~200 transaction aggregators (eg [@Fidelity](#), [@TDAmeritrade](#)) on ~15 exchanges (eg [@NasdaqExchange](#)) and many dark pools.

(12/21) Automated Market Makers (no joke, [@Dougjelarge](#) uses this term) have built technology that scans all the exchanges, develops price and quotes it back to a transaction aggregator.

Transaction aggregators make their decision based on 1 metric: price improvement.

(13/21) [@citsecurities](#) [@VirtuFinancial](#) and the 4-5 others make A LOT of money. So much that eventually their clients started demanding a cut.

Some brokers (like [@RobinhoodApp](#)) use they payments to offer free trades. Some offer better spreads. Others book it as profit.

(14/21) As the market matured, so did its expectations of where MEV accrues. When it was wild and undeveloped, MEV was available to those willing to seize it.

Over time, the market institutionalized MEV and began exerting pressure on those institutions to distribute it.

(15/21) The same paradigm is playing out in crypto. We are early in the story, but things move much faster.

Flashbots should be understood one of the first institutionalizations of MEV. But true to the De-Fi and crypto ethos, it's immediately distributing MEV fairly.

(16/21) Flashbots believes MEV rightfully belongs to The Network Layer, and has built a system that reflects that.

Tl;dr Flashbots splits MEV between block builders and validators.

I won't get into the details here. Read up on Flashbots.

flashbots/pm

Everything there is to know about Flashbots




👤 12 Contributors 🗨️ 5 Issues 💬 41 Discussions ⭐ 2k Stars 🍴 201 Forks 🔗

GitHub - flashbots/pm: Everything there is to know about Flashbots
Everything there is to know about Flashbots. Contribute to flashbots/pm development by creating an account on GitHub.
<https://github.com/flashbots/pm>

(17/21) [@Rook](#) believes the MEV rightfully belongs to the people generating it in the first place: the dApps and the users.

Rook's keeper network is built around the idea of open coordination and fair MEV allocation.




Haym Salomon
@SalomonCrypto


(1/16) We all walk the path of De-Fi. The road is long and dark, and there are monsters in the forest.

Let me introduce you someone here to change the game and make us safe. A keeper!

A breakdown of [@Rook](#) protocol.



10:14 PM · Jun 7, 2022

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(18/21) \$ROOK provides a platform by which MEV extractors can bid for MEV

For protocols - they receive real value for the MEV they created, bid competitively on the open market

For extractors - they can execute MEV extraction without fear of competition

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@SalomonCrypto

Replying to @SalomonCrypto

(14/16) The @Rook network provides a solution for both protocols and keepers:

- Protocols can capture value from the MEV it creates. No more running from wolves.
- Keepers can bid for opportunities they know they'll get. No more racing against other wolves.

10:14 PM · Jun 7, 2022

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(19/21) And from there, dApps can decide to do whatever they want with the \$ROOK payment: Improve user spreads, reduce user fees, increase treasury balance, etc.

The @Rook network is building the crypto equivalent of the Wholesaler Rebate system!

(20/21) The cool thing about crypto is that we are so good at building and shipping the old models of finance to the blockchain.

Borrowing, options, futures and now wholesaler rebates... all in less than half a decade.

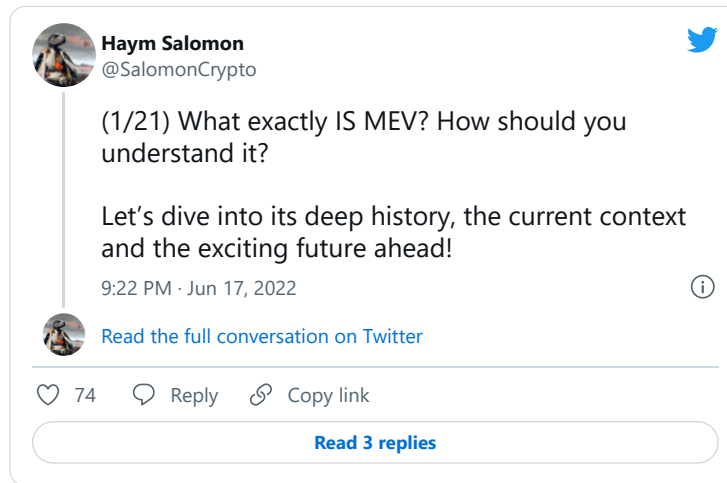
(21/21) But the thing I love about crypto is that we take old models and then build something entirely new.


I can't wait to see what [@Rook](#), [@thegostep](#) and [@hasufl](#) build on top of what we already have...

And will someone PLEASE tell me WEN MEV BRIBING?!?!

Like what you read? Help me spread the word by retweeting the thread (linked below).

Follow me for more explainers and as much alpha as I can possibly serve.




 **Haym Salomon**
@SalomonCrypto

(1/21) What exactly IS MEV? How should you understand it?

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