Marco Walz / 11-04-2023

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DAO-Fi: The DAO and DeFi Code Challenge

Checkpoint 2: DAO meets DeFi!

Keep your DAO treasury safe and diversified

Agenda

- What is a DAO?
- Key Aspects of a DAO: Non-technical vs. Technical
- DAO Governance: On-Chain vs. Off-Chain
- DAO meets DeFi: Treasury Management Considerations

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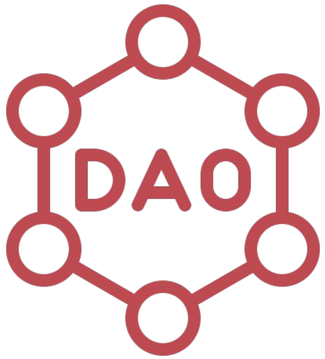
What is a DAO?



- DAO - **decentralized autonomous organization** - is an entity structure in which tokenholders participate in the management and decision-making of an entity.
- There is no central authority of a DAO; instead, **power is distributed** across tokenholders who collectively cast votes.
- All votes and activity through the DAO are posted on a blockchain, making **all actions of users publicly viewable**.

“DAOs are organizations who use blockchain technology to coordinate and achieve their mission”

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DAO
Key Aspects

Key Aspects

- **Clear** and **well defined purpose** that aligns with DAO members' values and interests
- **Governance** structure with a transparent and clear decision making process
- **Reliable** and **secure *Smart Contracts*** as technical infrastructure
- A **vibrant** and **engaged community** that is passionate about the DAOs purpose and committed to its success
- A **sustainable** (business) model that ensures its long-term viability (plan to generate revenue, ***treasury management***, strategies for adapting to changing market conditions

Non-technical vs. Technical

Non-technical ❌

- Community values & culture
- Strategic vision & leadership
- Trust and reputation
- Legal compliance
- Conflict resolution / maintenance of positive relationships

Techical ✅

- Governance
  - (Delegated) Voting / Decision-making
  - Enforcement of decisions
- Tokenomics
  - Supply & Distribution
  - Staking
  - Incentives
- Transparency
  - Auditable record of DAO activity
- Treasury Management
  - MultiSig, Balance sheet, Payouts, Reporting, ...

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Token Standard

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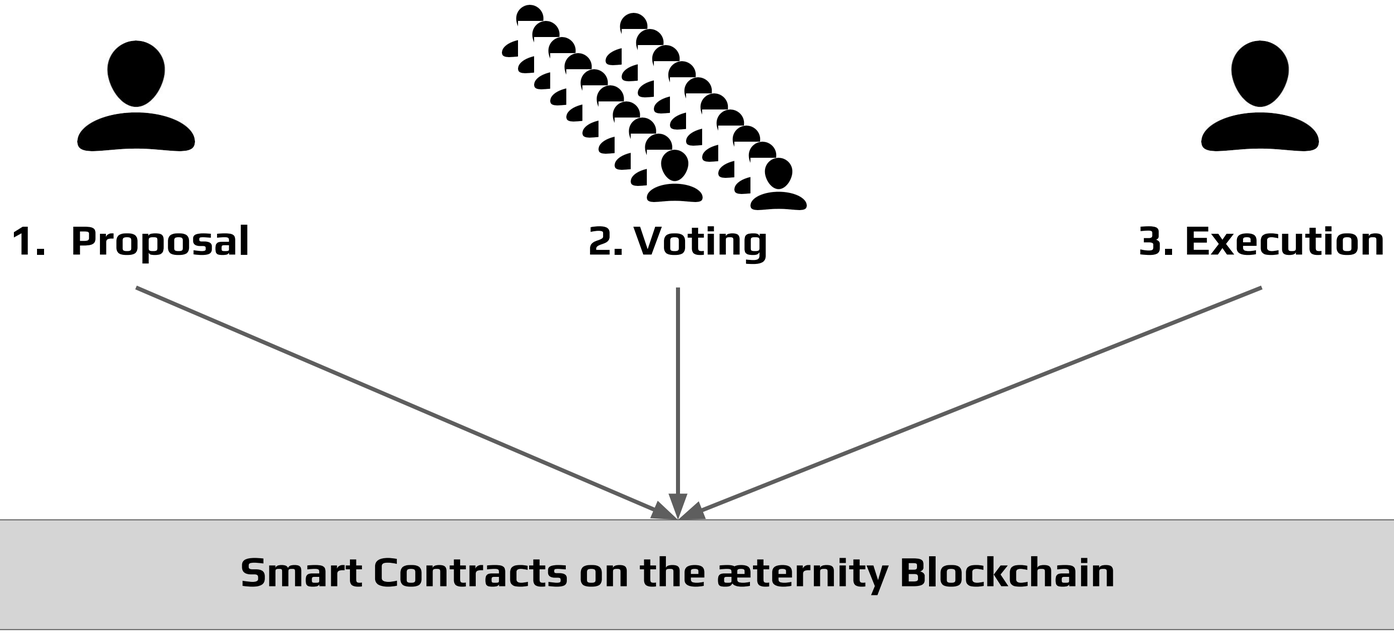
DAO Governance Process

Decision delegation

- DAO defined working groups / committees
- (General) delegation to specific users



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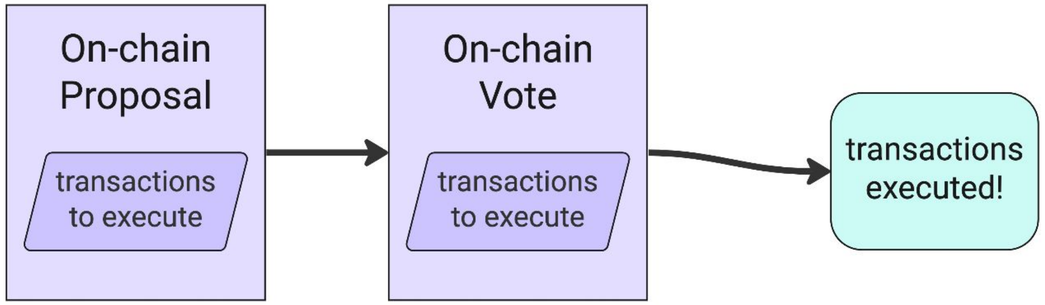
DAO Governance: On-Chain vs. Off-Chain

On-chain votes execute proposals trustlessly.
Off-chain votes don't.

On-Chain

An on-chain flow runs everything entirely in code:



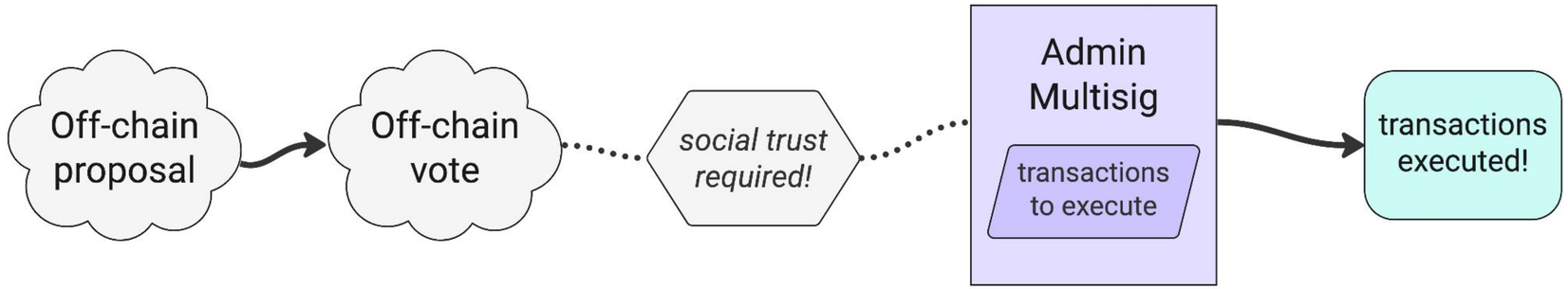
✔ **No trusted third party needed to count or enact votes**

✔ **Passed proposals execute automatically and trustlessly**

✔ **Well suited for approving protocol changes or other high stake votes**

Off-Chain

An off-chain flow depends on trusting admins to execute the result of the vote:



Source: https://docs.tally.xyz/knowledge-base/tally/on-chain-vs-off-chain

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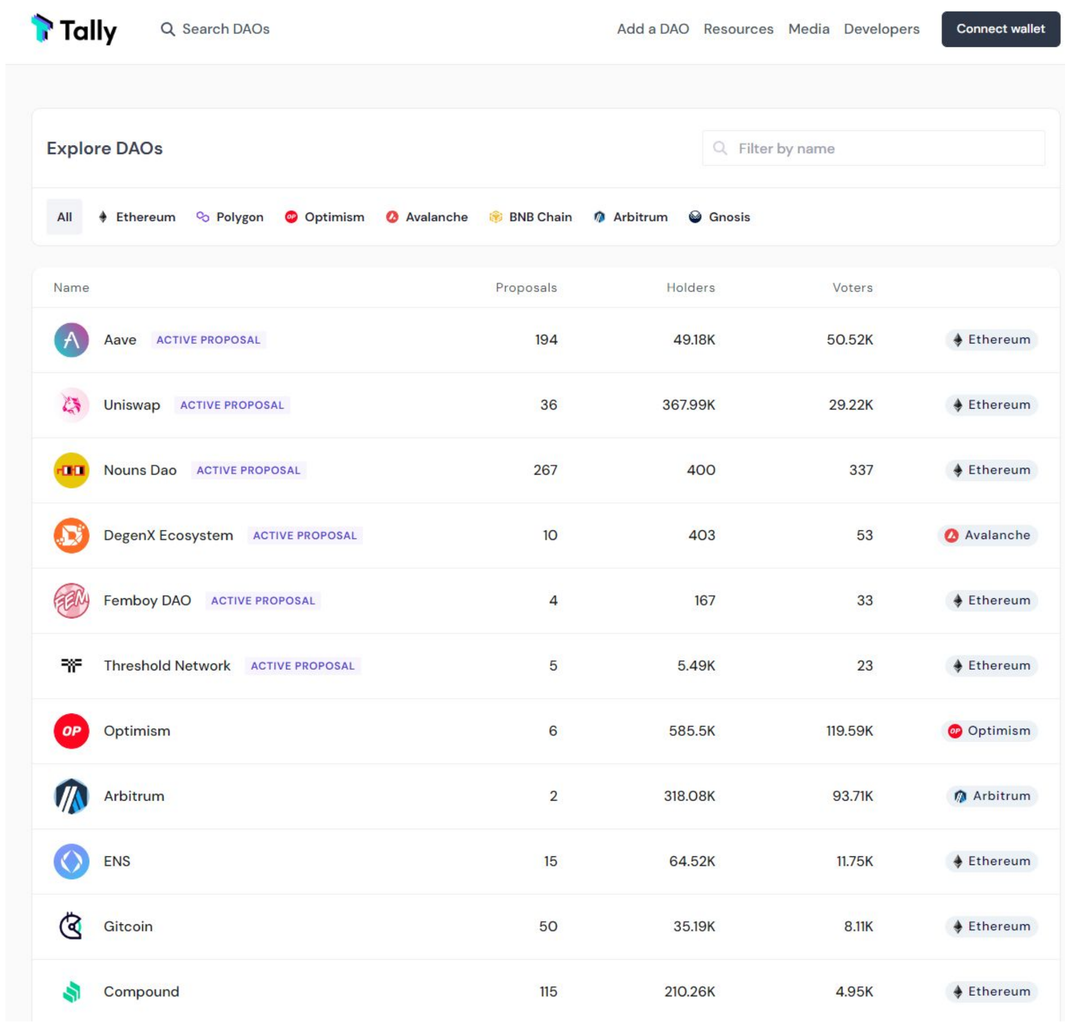
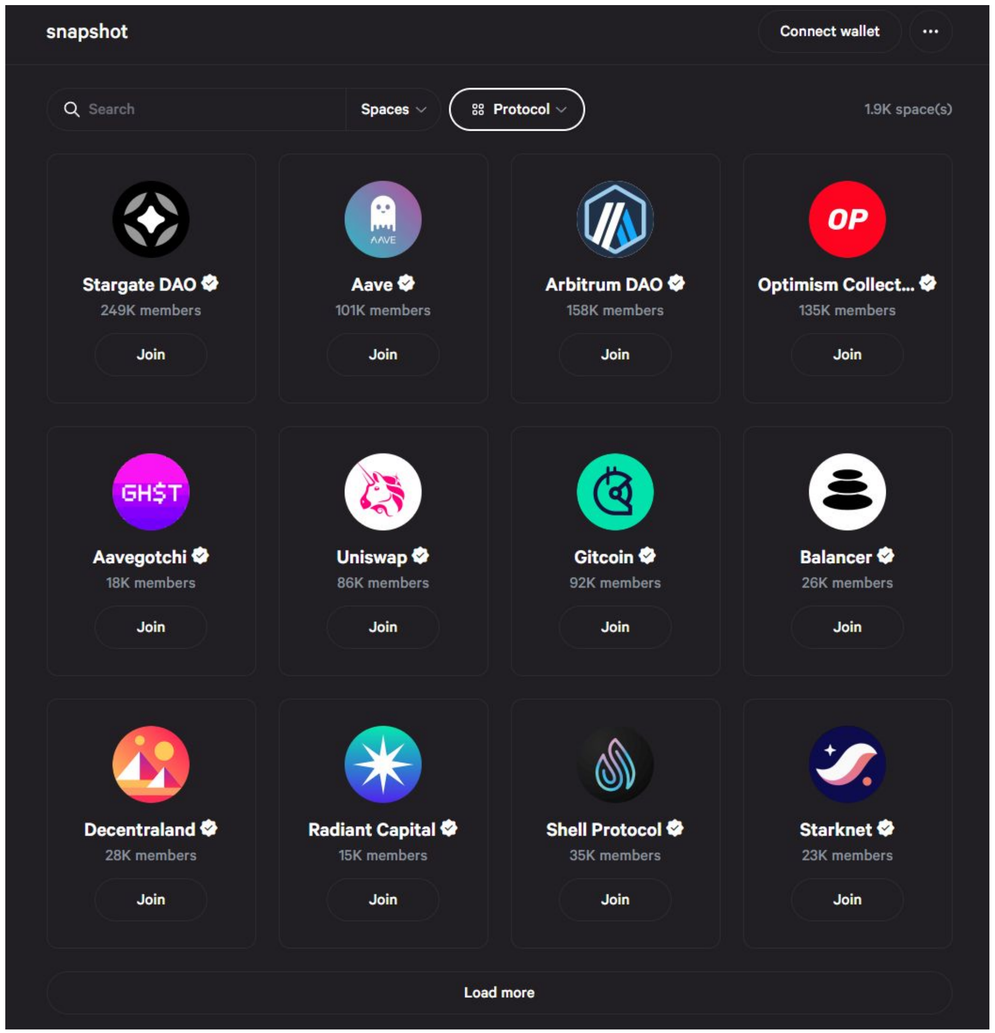
Prominent DAO Governance Tools

Tally.xyz (On-chain)



Snapshot.org (Off-chain)



Prominent DAO Governance Tools

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DAO meets DeFi!
Key Aspects

DAO meets DeFi! - Key Aspects

- **MultiSig** solutions (e.g. Gnosis Safe) to **keep funds** of the DAO **secure** and to **prevent unauthorized access** / value transfer
- **Treasury Management Tooling** (Balance sheet, Payout management, Reporting, Risk Management, ...)
  - Examples: https://utopialabs.com, https://hedgey.finance, https://multis.com
- **Treasury Management** can be a full-time task and DAOs should consider a "Treasurer" as a full-time group of elected individuals to manage the portfolio & holdings of a DAO
- **Diversification** of the DAO **portfolio** is important
  - Don't put all eggs into one basket!
  - DAO tokens can be distributed for some team compensation, but are generally considered for voting - not for paying people!
  - Stablecoins make budgeting and forecasting simpler

What could go wrong?

What could go wrong?

Twitter Thread: https://threadreaderapp.com/thread/1634518915668668416.html

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USDC de-peg

USDC de-peg

Name	Price	1h %	24h %	7d %	Market Cap	Volume(24h)
☆ USD Coin 5 USDC	$0.8969	▼5.18%	▼10.29%	▼10.32%	$36.75B	$17,737,492,176 19,534,683,013 USDC

- **What happened?**
  - Bankruptcy of Silicon Valley Bank (SVB) due to a bank run
  - **USDC** stablecoin **de-pegged** more than **10%** from the US Dollar
  - Coinbase & Binance temporarily paused USDC:USD conversions
- **Why did the de-peg of USDC happen?**
  - Circle, the company that issues the USDC stablecoin, held ~10% of the backed USD at SVB
- **Takeaways**
  - Even (backed) **stablecoins** include **risks**
  - A DAO's **financial health** can be **seriously impacted** if a stablecoin de-pegs
  - A **time-lock** from treasury decisions to execution like e.g. the **ENS DAO** had in place, should be seriously reconsidered in treasury management
  - DAO's need to be able to **react fast** in such **emergency scenarios**, every second matters

Read more:
https://medium.com/@avantgardefi/a-wake-up-call-for-dao-treasury-management-lessons-from-the-usdc-de-peg-7ca12c30a74d

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THANK YOU!
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ANY QUESTIONS?