

941502b0aa104c850d197923259444d2b57cab7af18b63143775465aaacc84f5#0 - Governance Action Voting Rationale - DRep

1. Governance Action Details

- **Title:** Decrease Treasury Tax from 20% to 10%
- **Action ID:**
941502b0aa104c850d197923259444d2b57cab7af18b63143775465aaacc84f5#0
- **Type:** Protocol Parameter Change
- **Submission Date:** 13/02/2025, 14:32:13
- **Expiry Date:** 15/03/2025, 22:44:50
- **Links:** [GovTool](#), [Adastat](#), [Cardanoscan](#)

2. Voting Recommendation of Governance Advisory Team

- **Recommendation:** No
- **Vote Summary:**
 - **Total Votes:** 5
 - **Votes in Favor:** 0
 - **Votes Against:** 5
 - **Abstentions:** 0
 - **Votes Not to Vote:** 0
 - **Not Voted:** 2

3. External Rationale

DRep Rationale

The Cardano Foundation's decision to vote "No" as a Delegated Representative (DRep) on the governance action proposing a decrease in treasury tax from 20% to 10% (Action ID: gov_action1js2s9v92zpxg2rge0y3jt9zy626he2m67x9kx9phw4r942kvs6sqfym0d7) is not a blanket opposition to adjusting the treasury growth rate. In principle, a well-supported decrease could offer benefits to the Cardano ecosystem. However, the current governance action raises several concerns that need to be addressed to ensure the long-term sustainability of the Cardano blockchain.

The proposal rests on assumptions regarding future ada price appreciation without providing concrete projections, detailed risk assessments (particularly for bear market scenarios), or a clearly defined contingency plan. Additionally, the estimated APY increase appears to be based on an inflated baseline, which may overstate the benefits for delegators. There is also a lack of analysis on the potential inflationary pressures that might arise from an increased flow of ADA to SPOs and delegators. These issues are magnified considering the change proposed is a drastic one, halving the treasury tax.

Approving this proposal without the necessary modeling and supporting data prevents us from determining whether the proposed change to the treasury growth rate will actually enhance incentives without compromising long-term sustainability. Without robust financial models, we cannot verify that reducing treasury inflows will not lead to a long-term shortfall in resources needed for maintenance and future development or, worse, result in an unforeseen depletion of the treasury. Moreover, accepting such a far reaching proposal lacking rigorous analysis risks setting a bad precedent for future governance actions. Although there are institutions and experts capable of developing the required models, it is important that the proposers of governance actions include all relevant information and supporting materials within the governance action metadata. This information is crucial to enable all DReps to reach an informed and independent conclusion.

In our view, a revised proposal or any future proposal to modify this and other economic parameters should include the following elements:

- **Multi-year Treasury Projections:** A financial model projecting treasury income and expenses for at least 5 years under the proposed change. We recommend this model to include:
 - **Baseline Scenario:** Uses realistic, historically grounded projections for ada price and transaction volume.
 - **Bear Market Scenario:** Assumes a significant and sustained ada price decrease (e.g., 50% or more) and stagnant/declining transaction volume.
 - **Bull Market Scenario:** Assumes a significant and sustained ada price increase and increased transaction volume.
 - **Stagnant Scenario:** Projects minimal to no price change and slow transaction growth.
 - *All scenarios should clearly show the projected treasury balance over time and categorize potential and expected expenses (e.g., Catalyst, Cardano Budgets).*

- **Staking Simulations:** Robust simulation techniques (such as agent-based modeling) to demonstrate the impact of the proposed change on:
 - Stake distribution across pools of *varying sizes and configurations* (different pledge levels, fixed fees, and margin fees).
 - Decentralization metrics (for instance, the Nakamoto coefficient or the Gini coefficient of stake distribution. We highly recommend looking at the Edinburgh Decentralization Index).
 - *It is important that these simulations use the current, actual average staking APY as a baseline, rather than an inflated or outdated figure.*
- **Inflation Analysis:** A quantitative assessment of how increased staking rewards may affect ADA's inflation rate and, potentially, its price. This should include modeling of the increased outflow from reserves.
- **Reversion/Recovery Plan:** A detailed plan outlining steps to take if the treasury value (in USD or ADA balance) approaches or falls below a defined threshold. This should include a pre-established mechanism for reversing the parameter change, with clearly specified triggers (such as a treasury balance falling below a certain level for a set number of consecutive epochs).
- **Current Decentralization Metrics:** Baseline data on the current state of stake pool distribution, including measures of concentration (for example, the Nakamoto coefficient or the percentage of stake controlled by the top pools).
- **Data-Driven Justification for the Chosen 10% Value:** A clear and well-supported rationale explaining why 10% is optimal compared to other potential values within the constitutionally allowed range, based on the aforementioned modeling and data.

Given the uncertainties associated with the upcoming Cardano Budgets and potential Net Change Limit (NCL), it is essential to proceed with caution when making adjustments to mechanisms that are central to the treasury's long-term sustainability. For instance, if the 2025 Cardano Budgets require substantial treasury withdrawals, reduced inflows could impact overall stability.

The Cardano Foundation is committed to engaging in constructive dialogue about adjusting economic parameters to enhance Cardano's stability and sustainability. Our recent whitepaper on "Cardano Economic Parameters" and our work on the Java rewards calculation reflect that commitment.

In addition, we encourage off-chain discussion and peer review before submitting governance actions on-chain. This collaborative approach helps incorporate diverse perspectives and improves the overall quality of proposals. While the governance system is permissionless, responsible governance is strengthened by thorough preparation and early feedback from DReps, SPOs, and the Constitutional Committee.

For these reasons, and until the necessary economic modeling and supporting data are provided, the Cardano Foundation votes "No" on this governance action.

Relevant Articles (RelevantArticles)

- Cardano Economic Parameters - Whitepaper by Massimo Morini in collaboration with the Cardano Foundation
 - <https://github.com/cardano-foundation/cardano-economic-parameter-insights/blob/main/whitepaper.md>
 - Cardano Rewards Calculation in Java by the Cardano Foundation
 - <https://github.com/cardano-foundation/cf-java-rewards-calculation>
 - “Our Cardano” by the Cardano Foundation
 - <https://www.cardanofoundation.org/our-cardano>
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