

Risk Assessment: Deal to Swap Treasury INV for 750k-1M DOLA

Inverse Finance Risk Working Group

This document serves as a comprehensive risk assessment of the proposal put forward for swapping up to 1,000,000 DOLA for INV between Inverse Finance DAO's treasury and (wallet). The proposal presents a multi-stage transaction that intertwines a DOLA-INV swap with the unwinding of a Synthetix debt position. While the proposed transaction seeks to benefit the DAO by offsetting its bad debt, it introduces multiple dependencies and potential risk factors that are detailed below. For sake of conciseness, this assessment does not weigh in on risks tied to complexities of the deal including user error in executing on-chain actions, reputational risks as a result of such errors, etc.

1. Centralization of Power & Ethical Implications:

Background:

The concern is around centralizing too much power and influence within a single entity or a few key members, even if their past actions have been supportive of the DAO. The entity at the address (wallet) holds a considerable amount of INV, presenting the risk of centralizing voting power. With 70k INV, the wallet has the potential to exert significant influence on governance decisions.

Assessment:

- **Veto Power:** The main power that (wallet) can realistically exert is veto power. This means that (wallet) has the ability to reject or stop any proposals that are not in line with its interests or viewpoints.
 - **Implication:** Over-reliance on a few key stakeholders could result in autocratic decisions or decisions that may not represent the broader interests of the community. However, this is how governance systems are designed to work; those who have the most financial stake have the most at risk and therefore get the biggest say. In worst-case scenarios, (wallet) could stifle innovative proposals or direct the DAO in a direction beneficial to its interests.
 - **Mitigation:** Engaging with (wallet) to understand its intentions and promote a collaborative environment can help. Maintaining open channels of communication, and perhaps asking for a statement of intent, could also be beneficial in addressing such concerns. Additionally, educating the wider community on the importance of participation in governance can help dilute the impact of any single entity.

2. Gov Guardian Role Retained by (deployer)

Background:

The Gov Guardian role, designed as a safeguard and currently held by (deployer), has the power to cancel governance proposals. While the Guardian can act to address malicious* scenarios tied to (wallet) holding significant voting power, the OTC deal risks creating a dependency on a centralized point of control and puts a hold on the DAO's decentralizing roadmap.

Assessment:

- **Guardian Sovereignty:** The Gov Guardian is essentially sovereign. This means that even if the wider governance disagrees with the decisions of the guardian, they have no power to override these decisions.
 - **Implication:** There is a potential misalignment of interests. The DAO, theoretically, should be decentralized and operate on consensus. But the presence of a powerful guardian role could lead to autocratic decisions.
 - **Mitigation:** The Gov Guardian agrees to act only in instances where their intervention protects the DAO against malicious* proposals. It's also advised to have a system in place for periodic reviews of the Gov Guardian role.

**Malicious - Actions undertaken by an entity resulting in unfairly benefiting from DAO resources, manipulating DOLA minting, or unequally distributing the treasury. This definition should be agreed upon and documented by the DAO.*

3. Risk of No INV Buyback from (wallet)

Background:

There's an inherent risk, however unlikely, associated with the potential that (wallet) does not buy back INV. The timeline for unwinding SNX is a crucial component in ensuring smooth execution of the proposal. No explicitly defined timeline can introduce delays and uncertainties in the execution of the plan.

Assessment:

- **Timeline and Unwinding SNX:** It is expected that the process will take a few hours at most, given the liquidity of SNX in the market. To safeguard the DAO's interests, it would be prudent to stipulate a reasonable time frame from (wallet). This ensures predictability and reduces the possibility of the plan being "bricked".
 - **Implication:** given the discounted rate at which the DAO acquires INV (12.7 DOLA per INV), the DAO stands to benefit from a scenario where (wallet) decides against buying back INV. A non-buyback can introduce a period where liquidity operations come at no added cost. The DAO could also opt to introduce the INV back on the market via bonds for a profit, potentially leading to increased stakeholder confidence.

- **Mitigation:** As mentioned in the previous point, It might be prudent to have a (wallet) produce a statement of intent before proceeding.

4. Risk of Market Price Fluctuations

Background:

Token prices are subject to volatility. The proposal is contingent upon specific price benchmarks for SNX and INV.

Assessment:

- **Market Crash:** If the prices of SNX or INV deviate significantly from their specified thresholds (\$2.3 for SNX and 25 DOLA for INV), the viability and attractiveness of the entire proposal could be jeopardized. Sudden market downturns could render the transaction unfeasible or far less beneficial than initially anticipated.
 - **Implication:** The deal could fall through or be executed with terms different from those voted on by the DAO.
 - **Mitigation:** Agreeing to a price "floor" mitigates this and allows for minor price deviations from current levels without affecting the proposal's main objectives. Furthermore, setting up a fallback option in the event of significant price fluctuations might ensure the proposal's objectives can still be achieved under varied market conditions.

Conclusion:

All the above holds significant governance and financial implications for the DAO. It is imperative that relevant stakeholders consider both the potential upside and the highlighted risks when weighing in on the proposal. It is also important to consider how future actions may be affected as a result of this proposal. By addressing these points head-on, through clear definitions and open communication, the RWG aims to inform and maintain the trust and confidence of DAO stakeholders.