

Oversight Analysis

Oversight does not support the developed bonus methodology and its proposed implementation schedule. This decision is influenced by our analysis of the discrepancies between the published language in Transparency Report 7 (TR 7) and the intended implementation of the bonus policy and structure as a whole. We believe inconsistent and imprecise representations erode public trust, and can cause the AADAO team reputational harm.

Oversight's primary function in this process is to ensure transparency and conduct an independent review of the bonus methodology shared with us. This responsibility operates on two levels: firstly, the transparency you are required to demonstrate to the community, and secondly, ensuring reasonable internal transparency regarding the approved methodology. While the handling of any perceived lack of principally concerned with the team's lack of precise communications and transparency regarding the utilization of 100,000 ATOM approved for the bonus pool.

We urge the team to carefully review the bonus related language published via TR 7, with the aim of developing awareness of, and addressing potential misrepresentations.

We have also identified key areas where the language in TR 7 diverges from the actual bonus methodology and policy to be implemented. Our intention is not to criticize but to provide constructive guidance on how you can structure a potential public report relating to the existing policy or a new policy. These identified discrepancies can serve as a framework for enhancing the accuracy of your future communications about AADAO's bonus and/or compensation practices.

Please review the TR 7 bonus related published content provided (in full) below.

Transparency Report 7

Published: Jul 30, 2024

[Link](#)

Performance Bonus

Performance Bonus Structure and Key Performance Indicators (KPIs)

During the renewal mandate (Proposal #865), the Atom Accelerator team proposed a performance-related bonus structure without defined Key Performance Indicators (KPIs). Since the proposal's passage, the team has now formalized both its KPIs and the methodology for

implementing this bonus structure. The methodology and KPIs were developed by the Strategy Committee members, the role of Oversight is ensuring the methodology and KPIs are shared in a transparent manner.

Performance Bonus Allocation

The performance bonus for each individual shall be allocated as follows:

1. Individual Performance (50%): Assessed based on personalized Key Performance Indicators (KPIs) tailored to the specific responsibilities and duties of each team member.
2. Organizational Performance (50%): Evaluated against the AADAO's collective KPIs, hereinafter referred to as "Team-wide KPIs."

Individual KPI Design Rationale

Individual performance KPIs are being developed collaboratively between each contributor and their direct supervisor, aligning with the overall Team-wide KPIs. These individual KPIs are highly contextualized to contributors' roles and their respective committees.

It is important to note that for Strategy Committee members, their individual KPIs are identical to the team-wide KPIs outlined below. This unique alignment means that the Strategy Committee's success is directly tied to AADAO's overall success.

For information regarding the assessment process and vesting timelines, please refer to the section below.

Team-wide KPI Design Rationale

The Team-wide KPIs have been formulated with dual intent:

- To measure the direct performance of the AADAO team within their scope of control.
- To establish aspirational targets that encourage the team to exert positive influence beyond their immediate purview, to promote inter-subDAO coordination and performance optimization.

Team-wide KPI Composition and Weightings

The Team-wide KPIs shall comprise of the following components:

1. ATOM Market Cap Dominance (15% weighting): Measured against an index of other Shared Security providers. While AADAO does not engage in market making or product development for Interchain Security, this metric aims to incentivize efforts to positively influence this key Cosmos Hub product. (This has been approved by AADAO's legal counsel and does not create regulatory risk — insert here the reasoning via footnote)
2. Service Quality Improvement (35% weighting): Focused on enhancing the quality of service provided to teams engaged with AADAO. This metric extends beyond funding

allocation to encompass a comprehensive evaluation of AADAO's ongoing support to grantees.

3. AEZ Growth (50% weighting): Quantified by the increase in projects and developers within the AEZ. This metric aims to foster the development of user-centric products within the Cosmos Hub and AEZ ecosystem. It should be noted that while AADAO does not directly control developer education or onboarding processes, this benchmark will track the influx of new developers and projects into the AEZ.

Specific targets for each component are delineated in the accompanying graphic.

Weighting	Desired Outcome	Performance measure	Targets					
			Needs improvement	Meets Expectations	Exceeds Expectations	Outstanding		
15%	Financial Outperform direct competition	ATOM marketcap dominance vs index of other Shared Security providers: EigenLayer, Avalanche Subnets, Celestia roll-ups, etc	Decrease	Increase of less than 5%	Increase of between 5 - 10%	Increase of 10% or more		
35%	Qualitative Improve AADAO programs and services	Grantee feedback: Satisfaction survey average score (Oversight to send, collect and compile data)	Score below 60%	Score between 60% and 72.5%	Score between 72.5% - 85%	Score above 85%		
50%	Quantitative Support and grow the AEZ	1. # of new projects onboarded into the AEZ (20%)	1. Less than 3	1. 3 to 6 projects	1. 7 to 10 projects	1. 10 or more projects		
		2. # of existing AEZ projects supported (15%)	2. Less than 5	2. 5 to 9 projects	2. 10 to 14 projects	2. 15 or more projects		
		3. % of new developers onboarded into the AEZ (15%)	3. Decrease	3. Increase of less than 5%	3. Increase of 5-14%	3. Increase of 15% or more		
		Payout					0%	50%

Interpretation and Possible Application of Performance Bonus Criteria

The following examples illustrate the application of the aforementioned performance bonus criteria:

- Minimum Threshold Example: In the event that AADAO facilitates the onboarding of four (4) new projects into the AEZ, the maximum performance bonus awarded under the Team Key Performance Indicators (KPIs) shall be limited to ten percent (10%).
- Mid-Range Performance Example: Should AADAO achieve the following:
 - Onboarding of four (4) new projects into the AEZ;
 - Attainment of a ninety percent (90%) score in the feedback survey; and
 - Growth of ATOM market capitalization dominance by three percent (3%);
 - the maximum performance bonus awarded under the Team-wide KPIs shall be fifty-two and one-half percent (52.5%).
- High Performance Example: In the instance where AADAO accomplishes the following:
 - Attainment of a one hundred percent (100%) score in the feedback survey;
 - Onboarding of fifty (50) new projects relevant to the Cosmos Hub and AEZ. ; and
 - Increase in the number of developers in the AEZ by four percent (4%);
 - the maximum performance bonus awarded under the Team-wide KPIs shall be sixty-two and one-half percent (62.5%)

Performance Bonus: Assessment and Vesting

Performance assessments are conducted semi-annually by the designated direct supervisor.

Committee Leads assess the performance of individuals within their respective committees (e.g. Grant Reviewers are assessed by the Grants Committee Lead), while the General Manager assesses the performance of leads and individuals not affiliated with a single committee (e.g. Ventures Lead, Marketing & Comms Lead, etc.)

Non-permanent members of the Strategy Committee are responsible for assessing the performance of the General Manager and evaluating the entire team's performance against Team-wide Key Performance Indicators (KPIs). Performance bonuses are vested on a linear basis over a six-month period commencing from the date of award.

Bonus structure is divided into two components:

- 1. Individual Performance Bonus (50% of total): Assessments and awards for individual performance shall occur semi-annually.**
2. Team-wide KPI Bonus (50% of total): Assessments and awards for Team-wide Key Performance Indicators (KPIs) shall occur annually.

For the 2024 performance cycle:

1. Individual Performance Assessments:
 - Assessment Date: June 30, 2024
 - Full Vesting Date: December 31, 2024
 - Assessment Date: December 31, 2024
 - Full Vesting Date: June 30, 2025
2. Team-wide KPI Assessment:
 - Assessment Date: December 31, 2024
 - Award Date: December 31, 2024 (subject to bonus qualification)
 - Full Vesting Date: June 30, 2025 (approximately)

Any bonus awarded shall vest in full six months from the respective assessment date. The vesting process shall occur gradually over this six-month period, with the total awarded amount becoming fully accessible at the conclusion of the vesting period.

Note: The bonus methodology and associated Key Performance Indicators (KPIs) have been developed by the AADAO Strategy Committee. Oversight's role in this process is limited and complementary, rather than directly involved in policy development.

Oversight's primary function in this context is to conduct an independent review of the methodology, with a specific focus on identifying any potential vulnerabilities or conflicts of interest within the assessment process. This review serves as a crucial check to ensure the integrity and fairness of the system.

Additionally, Oversight plays a key role in promoting transparency – ensuring that the logic behind bonus distribution is communicated clearly and comprehensively to the

Cosmos Hub community. This transparency is essential for maintaining trust and accountability within the organization and the broader community.

Footnote shared in Transparency Report 7: [AADA0 Compensation Brackets](#)

Program Managers and Strategy Committee Members: \$75 to \$95 per hour

Oversight Members - \$60 to \$80 per hour

Technical/Developer Members: \$45 to \$65 per hour

Reviewer Committee Members: \$35 to \$55 per hour

Administrative Members: \$15 to \$20 per hour

Additional Published Literature Relevant to Bonuses:

- [Proposal 865](#)
- [Full text of Proposal 865](#)
- [AADA0 Performance Bonus Structure](#) (appended to full text proposal via IPFS)

Disconnect Between Published Language and Actual Policies

Overview:

1. Misuse of the term "bonus": The report presents the performance bonus as a reward for exceptional performance, which is the traditional understanding of bonuses. However, in reality, 50% of the individual performance allocation is being used for "meets expectations". This fundamental difference is not communicated and is not consistent with performance assumed when a bonus is given. We also understand that awarding a bonus for meeting expectations would result in non-compliance with the salary brackets approved by the community
2. Frequency of distribution: The decision to disburse monthly allocations of bonuses, as requested by the General Manager to the Financial Controller, with the apparent intention of obfuscating the size of bonuses being distributed, is deeply concerning. This approach, which deviates from the semi-annual assessment schedule communicated publicly, raises serious ethical and accounting issues:
 - Deliberately structuring payments to conceal their true nature or size is a form of financial misrepresentation. This practice violates basic principles of accounting transparency and accuracy.
 - As stewards of public funds, AADA0 has a fiduciary responsibility to manage resources in the best interest of the community. Intentionally obscuring financial information breaches this duty.

3. Performance metrics: The report emphasizes KPIs and performance metrics throughout, giving the impression that all bonus allocations are tied to specific achievements and performance that objectively exceed expectations.
4. Team-wide vs. Individual KPIs: While the published bonus language provides detailed information about team-wide KPIs, it's less specific about individual KPIs, but also obscures the fact that a significant portion (50%) of individual bonuses are tied to baseline performance, not exceptional performance. The language and provided examples of team KPIs strongly implies enforcement of standards that do not apply for individual assessments.
5. Equity and fairness: The report does not address the potential disparity in individual bonus allocations, particularly how the bonus pool disproportionately rewards continuing senior roles. This lack of disclosure could lead to misunderstandings about the equity of the system, both internally and externally.

Vesting Schedule & Monthly Allocation Schedule

Despite the six-month vesting schedule, individual performance allocations *determined* and *vesting initiated* on a monthly basis is problematic for the following reasons:

1. Premature evaluation: Allocating bonuses monthly, even with a vesting schedule, implies that performance can be accurately assessed and rewarded on such a frequent basis. This contradicts the nature of most work at AADAO, where meaningful outcomes and contributions often require longer periods to materialize and evaluate.
2. Lack of comprehensive assessment: Monthly allocations preclude a thorough, holistic review of a contributor's performance over an extended period. This short-term focus may not accurately reflect the true value and impact of an individual's work, especially for projects with longer timelines or strategic initiatives.
3. Misalignment with performance cycles: The monthly allocation is incongruous with the stated semi-annual and annual performance reviews mentioned in the report.
4. Time as a critical factor: Time is a meaningful factor in accurately assessing performance. By allocating bonuses monthly, the system potentially rewards short-term actions over long-term, sustainable contributions.
5. Potential for bias: Frequent allocations may be more susceptible to recency bias or short-term fluctuations in performance.

