

Monthly ADA to USDM Conversion Analysis

10 Million ADA per Month for 12 Months vs. Single 100 Million ADA Conversion

Market Impact Comparison

Single 100M ADA Conversion (Original Proposal)

- **Volume:** ~\$60-63M at once
- **Market depth:** Far exceeds typical 24h volume (\$0.7-0.8B) and orderbook depth (~\$0.5-2M for 2% moves)
- **Expected impact:** 5-15%+ immediate price drop
- **Recovery:** Partial recovery over 3-6 months, but likely prolonged pressure

Monthly 10M ADA Conversion (Alternative Approach)

- **Volume:** ~\$6-6.3M per month
- **Market depth:** Still significant but more manageable relative to daily volume
- **Expected impact:** 1-3% price pressure per conversion event
- **Recovery:** Better opportunity for price recovery between conversions

Short-Term Impact Analysis (Per Monthly Conversion)

Reduced Sell Pressure - 10M ADA (~\$6-6.3M) represents roughly 0.8-1.1% of typical daily volume - Still exceeds 2% orderbook depth on most exchanges, but by a smaller margin - Potential for 1-3% price drops per conversion vs. 5-15%+ for lump sum

Market Absorption Capacity - Markets have ~30 days to absorb each tranche - Natural buying pressure and trading activity can help offset sell pressure - Reduced likelihood of stop-loss cascades and panic selling

Predictability Benefits - Regular, scheduled conversions allow market to anticipate and price in selling pressure - Reduces uncertainty and speculative front-running - Aligns with Cardano Foundation's recommendation for "predictable, communicated withdrawals"

Medium-Term Effects (Cumulative Over 12 Months)

Gradual Price Adjustment - Allows for more orderly price discovery - Each conversion creates temporary pressure with recovery periods - Cumulative effect may still depress price below baseline, but less severely

Yield Accumulation Timeline - Treasury begins earning yield on converted portions immediately - By month 6: ~\$30M generating 5-10% annual yield (~\$125-250K monthly) - By month 12: Full \$60M generating ~\$250-500K monthly for buybacks

Market Adaptation - Traders and algorithms adapt to monthly conversion schedule - ADA/USDM trading pairs develop earlier with incremental liquidity - DeFi ecosystem can gradually integrate growing USDM supply

USDM Impact Differences

Gradual Supply Expansion - USDM supply grows from few million to ~\$60M over 12 months - Allows DEX liquidity pools to scale organically - Reduces risk of temporary peg instability from massive supply shock

Ecosystem Integration - DeFi protocols can adapt to increasing USDM availability - More time for yield-generating strategies to develop - Gradual on-ramp scaling rather than immediate large influx

Risk Mitigation Advantages

Execution Flexibility - Can pause or adjust schedule based on market conditions - Ability to use different execution methods (OTC, DEX, CEX) for each tranche - Can optimize timing around market volatility or news events

Reduced Systemic Risk - Lower chance of creating lasting market trauma - Preserves treasury optionality (can halt if needed) - Allows for community feedback and course correction

Communication Benefits - Transparent schedule builds trust - Regular updates on progress and yield generation - Opportunity to demonstrate responsible treasury management

Quantitative Comparison

Factor	Single 100M Conversion	Monthly 10M \times 12
Peak Price Impact	5-15%+	1-3% per event
Market Recovery Time	3-6 months	2-4 weeks per event
Volatility Surge	Severe (weeks)	Moderate (days per event)
Yield Start	Month 1 (full amount)	Gradual ramp-up
Execution Risk	Very high	Moderate
Community Confidence	Likely damaged	Likely maintained

Recommendations for Monthly Approach

Optimal Execution Strategy - Schedule conversions for consistent dates (e.g., 15th of each month) - Use mix of OTC and on-market execution for each tranche - Communicate schedule publicly with 30+ days advance notice - Implement market condition clauses (pause if extreme volatility)

Monitoring and Adjustment - Track price impact of each conversion - Monitor USDM peg stability and adoption metrics - Adjust execution methods based on

market depth changes - Regular community updates on yield generation and ADA buybacks

Conclusion

The monthly 10M ADA conversion approach significantly reduces market impact risk while achieving the same strategic objectives. While it delays full yield generation, it preserves community trust, maintains price stability, and allows for organic ecosystem growth. The gradual approach aligns with best practices for large treasury operations and provides flexibility to optimize execution over time.

Key Benefits: - 70-80% reduction in peak price impact - Preserved execution flexibility and community confidence - Gradual USDM ecosystem integration - Reduced systemic risk to ADA markets - Maintained strategic treasury diversification goals