Temperature Check Passed: https://gov.uniswap.org/t/temperature-check-should-we-be-managing-systemic-risk-in-uniswaps-community-treasury-using-kpi-options/12624 12

Consensus Check Passed: https://gov.uniswap.org/t/consensus-check-create-uniswap-volume-kpi-options-to-help-divest-uniswap-s-community-treasury-into-stablecoins/13533

Prior to submitting proposal for on-chain governance vote, I wanted to clarify specifications, process and procedure.

**For transparency and clarity: No part of this proposal is backed, supported, or agreed to by any of the Uniswap team. This is solely a 100% community generated proposal for the Uniswap's Community Treasury.

Summary

If you have read the temperature and consensus check, skip to Specifications

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Problem

We explored the issue of systemic risk in a treasury of 100% $UNI tokens, where there can be and have been significant drawdowns that directly effect the spending power and run way of the community treasury.

There are additional issues with paying grants with a volatile asset like $UNI:

1. Grant value is determined in USD, but paid in $UNI Tokens.

Value of $UNI token is determined at the time tx is submitted to be approved by the multi-sig. There is minor price risk to the grantee as they get the approximate USD value in $UNI tokens after approval. The majority of the price risk is allocated to the treasury, as the grants budget will grow or shrink depending on what happens to the price of $UNI.

1. Almost all $UNI that has been awarded to the grantee is market sold.

Most of the grants are used to fund actual people/projects/business and most of these people require stable coin cash flow to operate. 1. An example:

A recent grant of 10 million $UNI tokens was awarded for a DEFI Education Fund. Allocation was supposed to be over 4-5 years, but the grant was awarded entirely at one time. The awardee publicly declared that it would be a problem to sell the entire award at once to allay fears of dilutive effect of 10 million $UNI tokens. Shortly after they received the award, they sold the entire award. This could have been avoided by the treasury divesting themselves in a controlled manner and awarding in stablecoins when necessary.

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A recent grant of 10 million $UNI tokens was awarded for a DEFI Education Fund. Allocation was supposed to be over 4-5 years, but the grant was awarded entirely at one time. The awardee publicly declared that it would be a problem to sell the entire award at once to allay fears of dilutive effect of 10 million $UNI tokens. Shortly after they received the award, they sold the entire award. This could have been avoided by the treasury divesting themselves in a controlled manner and awarding in stablecoins when necessary.

1. We do not know what and when spending will be required.

Crypto is volatile, prepare for the worse, expect the best. If there is a significant outlay of funds at the low of the market, it will be devastating for the treasury's long term prospects. We've seen this happen with ICOs from 2017, where they were forced to sell assets at a significant loss to cover expenses.

Solution

The purpose of this proposal is to initiate the process of building a KPI option using UMA's battle tested EMP contracts (more details at the bottom) in order for the Uniswap Community Treasury (or anyone that wants to) to mint KPI options using $UNI as collateral to purchase stablecoins from the community.

KPI options can be created from any number of defined metrics/indicators, from feedback from the UNI community, the best metric to align stake holders with long term goals of Uniswap's platform is to track the Volume across Uniswap.

The beauty of KPI options is that it creates a win-win situation between Uniswap Stakeholders and the platform itself. Stakeholders that hold KPI options has the direct incentive to continue to support Uniswap platform because the value of the options increase as the overall value of the Uniswap platform grows.

Specifications

KPI - 30 Day Average Trade Volume across Uniswap

UMA has built and deployed Uniswap's Volume KPI option, here's the contract address:

https://etherscan.io/address/0xebf4849eda1f518bc1b2ce3120668e6465718be3

UMA Implementation specs on calculation method and script to calculate:

https://github.com/UMAprotocol/UMIPs/blob/master/Implementations/uniswap-volume-kpi.md

We closely mimic the methodology that Uniswap uses on their website to mitigate potential manipulation of volume and restricted to top pairs to each V2 and V3 calculation.

KPI Metric Calculation

1. KPI starts on August 1st 2021 and expires on 00:00 UTC April 1st 2022.

2. The KPI tracked is average 30 day daily volume across Uniswap V2 and V3 using Uniswap's own volume inclusion criteria

3. Uniswap V2 Volume calculation criteria:

4. It cannot be listed in the explicitly blacklisted tokens

5. One or both tokens in a pair must be included in the explicitly whitelisted tokens

6. If there are less than 5 LPs, the liquidity must be higher than 400,000 USD

7. In addition to these criteria, we restrict it further to keep only the 250 pairs with the highest volume on August 1st 2021

8. It cannot be listed in the explicitly blacklisted tokens

9. One or both tokens in a pair must be included in the explicitly whitelisted tokens

10. If there are less than 5 LPs, the liquidity must be higher than 400,000 USD

11. In addition to these criteria, we restrict it further to keep only the 250 pairs with the highest volume on August 1st 2021

12. Uniswap V3 Volume calculation criteria:

13. One or both tokens in a pair must be included in the explicitly whitelisted tokens

14. In addition to these criteria, we restrict it further to keep only the 1,000 pools with the highest volume on August 1st, 2021.

15. One or both tokens in a pair must be included in the explicitly whitelisted tokens

16. In addition to these criteria, we restrict it further to keep only the 1,000 pools with the highest volume on August 1st, 2021.

KPI General Parameters

1. KPI starts on August 1st 2021 and expires on 00:00 UTC on April 1st 2022.

2. Collateral = 1 $UNI Token to mint 1 KPI option.

3. Target = 2x of the starting 30D Volume using KPI Metric Calculation on 00:00 UTC August 1st, 2021

4. The closer to target the higher the value of the option with a cap of 2x from starting KPI.

5. The closer to target the higher the value of the option with a cap of 2x from starting KPI.

6. Minimum Floor Value = 0.5 $UNI

7. The minimum value this KPI option will be worth is 0.5 $UNI no matter the ending volume metric.

8. The minimum value this KPI option will be worth is 0.5 $UNI no matter the ending volume metric.

9. Maximum Value = 1 $UNI

10. If ending volume metric ≥ target volume metric then KPI option is worth 1 $UNI

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KPI Distribution Method

1. Uses Uniswap V3 KPI Option <> USDC pool to create a limit order

2. Limit order is placed 1% over market value of pool using smart contracts and a 2 hour Uniswap TWAP

3. Limit order floor price is 0.55 $UNI (10% above floor value of KPI option)

4. Pricing will be the higher of the floor price or 1% above 2 hour TWAP market price

5. Pool will be created in advance by UMA

6. If limit order is filled, smart contract will allow withdraw of funds

KPI Smart Contract

1. UMA has deployed this Uniswap's Volume KPI option, here's the contract address:
   https://etherscan.io/address/0xebf4849eda1f518bc1b2ce3120668e6465718be3

2. Contract utilizes UMA's audited and in production LSP contracts with parameters specified above.

3. Contract utilizes UMA's audited and in production LSP contracts with parameters specified above.

4. Uniswap KPI Option <> USDC pool will be created prior to deployment of Uniswap's Community Treasury Funds.

5. Contract address:

6. Contract address:

7. Smart contract for deployment of Uniswap's Community Treasury Funds:

8. Contract address:

9. Contract address:

10. KPI option will be listed on synths.yam.finance and projects.umaproject.org but it is open source for anyone to list.

Uniswap Community Treasury Allocation

1. We propose this to be a initial trial run and mint 100,000 KPI Options using 100,000 $UNI tokens.

2. If all tokens sold it will generate at minimum 55,000 $UNI worth of USDC.

3. Depending on ending value of KPI option, treasury can reclaim up to 50,000 $UNI.

Specification Summary

1. KPI starts on August 1st 2021 and expires on 00:00 UTC April 1st 2022.

2. The KPI tracked is average 30 day daily volume

3. Using volume inclusion criteria from Uniswap's website and a additional restriction to top pairs to for Uniswap V2 and V3.

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9. If ending volume metric ≥ target volume metric then KPI option is worth 1 $UNI

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11. Uses Uniswap V3 KPI Option <> USDC pool to create a limit order

12. Pricing will be the higher 0.55 $UNI in USDC or 1% above 2 hour TWAP market price

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Additional Details

Yam.finance has extensive knowledge on building synthetics on UMA's platform via our development of degenerative.finance V2 of site to be launched soon. Combined with our experience in DAO treasury management, it allows us to have a unique perspective to create this proposal.

Links:

https://claim.umaproject.org/ 2

https://medium.com/uma-project/the-uma-kpi-options-airdrop-is-now-claimable-and-the-super-uman-campaign-is-live-7e9baa5c1669 2

https://medium.com/uma-project/badgerdaos-rebase-mining-kicks-off-now-using-uma-s-kpi-options-cd75f71dc1fa

https://forum.sushi.com/t/build-kpi-options-with-uma-to-speed-kashi-adoption/3940 1

https://etherscan.io/token/0x1f9840a85d5aF5bf1D1762F925BDADdC4201F984?a=0x1a9c8182c09f50c8318d769245bea52c32be35bc 1