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Note: This version is deprecated but kept for record purposes

This proposal has been drafted on behalf of the Arbitrum Treasury and Sustainability Working Group as a result of consultation between multiple stakeholders. It does not exclude treasury diversification proposals from outside of the proposed structure.

Title

– Arbitrum's Stable Treasury Endowment Program

Constitutional / Non-Constitutional

- Non-Constitutional

Abstract

- This is a framework for ArbitrumDAO to diversify 10 or 25 mn ARB into stable & liquid real world assets (treasury bills and other money market assets) that are launched natively on Arbitrum One. To maintain our position as the leader of De-Fi, we need to signal our support of the tokenized RWA projects launching on our chain. This proposal thus seeks to earn the risk free rate of return for a portion of our treasury assets and also support the budding RWA ecosystem on Arbitrum One.

The 10 or 25 million ARB is NOT a grant but an investment that the DAO can recall at any time

Motivation

- The arbitrum treasury and sustainability working group was formed in September '23 with a mandate to discover best practices & propose best in class solutions for mitigating price impact of arb liquidations & diversifying arbitrums treasury, currently containing ~3.5 billion ARB

We seek comments on the Stable Treasury Endowment Program or STEP 1, a framework for converting 10 or 25 million ARB into tokenized real world assets (RWAs) , particularly t-bills and money market instruments, for earning yield. As this framework applies to highly liquid assets, the principal can be reclaimed by ArbitrumDAO at any time, with 3 days notice.

Proposals for utilizing interest earned from these investments (the Arbitrum Endowment Fund) can be presented to the DAO in separate proposals , giving us the capability to fund grant programs or retain staff without liquidating ARB.

STEP 1 excludes de-fi & other providers diversifying into cryptonative assets & caters to only those service providers with a tokenized treasury bill or money market RWA launched on Arbitrum; example service providers applying under the framework are included at the end. STEP 2 and STEP 3 will lay out a larger framework to expand treasury diversification to de-fi and crypto-assets.

Rationale - Why only RWA's?

Ecosystem Growth

: With STEP 1 we see an opportunity to support the new wave of financial products launching on Arbitrum that are tokenizing US treasuries & other stable RWAs. As the home of de-fi, we need to create a welcoming environment for what might be its evolution in the near term. The stable coins we use today in De-Fi are mostly backed by RWAs, so creating our own exposure can increase capital efficiency and mitigate some risk of a stable coin collapse or depeg.

Successful passage will also incentivize RWA projects to build on Arbitrum, helping maintain our TVL lead. For example, Mantle recently passed a $60 million support program for the tokenized RWAs on their chain.

Treasury Diversification

: Diverse assets in our treasury can be called upon to defend the ARB price should the need ever arise. If the ARB price increases, we are in the green as it consists of 99%+ of treasury assets; if it goes down, we deploy these investments to buy-back ARB and send a positive signal to the market.

Future STEPs will look at diversifying into other crypto-native assets and De-Fi providers on Arbitrum; as a first step our WG recommends expanding into tokenized RWAs offering the risk free rate of return.

Specifications

- STEP 1 gets the ball rolling with an experiment to diversify 10 or 25 million ARB into tokenized treasury / money market bills on Arbitrum to investment managers meeting the following requirements

- To even be considered, the allocation should add to the TVL of ArbitrumDAO; accordingly, tokenized RWAs that are NOT on Arbitrum are ineligible
- All assets need to be attested for verifiability by a 3rd party
- A strong reputation with relevant team experience, evidence of managing assets and regulatory compliance
- Fully liquid, secured and safe investments that can be called back by the DAO with 3 working days notice
- Between 0.15-0.4% (15-40 bps) of total amount in fees with no bonuses, as service provider performance will be evaluated for renewal of contract.
- Each service provider has enough votes equivalent to managing 100,000 ARB; after clearing this floor, service providers get a proportionate amount to the votes they have received.

STEP 1 can serve as the seed for the Arbitrum Endowment Fund, which spends interest earned from stable assets according to future DAO proposals ($20 million in t-bills gives roughly $1 million a year in interest).

Steps to Implement

- Many delegates still have some trauma from reviewing 90+ proposals during STIP. It also yielded sub-optimal outcomes on approving a larger budget than that initially sanctioned. To overcome these issues, we propose
- A snapshot vote approving either 10 or 25 million ARB to be diversified into tokenized t bills / money market instruments launched on Arbitrum
- Service providers with such a product apply for consideration in a jokerace / snapshot, with our WG screening for eligibility and appeals handled by Plurality Labs.
- Each delegate is given votes to allocate between service providers in proportion to their voting power; if they strongly believe in only one provider, they can allocate all their votes to them.
- Service providers get to handle assets in proportion to the votes they have been allocated, provided they clear a floor of 100,000 ARB.

Timeline

- December 2023 - incorporate changes to the STEP framework from DAO delegates, community members and RWA service providers
- January 2024 - release of the post consultation version followed by snapshot vote
- February 2024 - onchain tally vote & applications from service providers
- March 2024 - vote for service providers followed by KYC approvals , logistics

Investments can begin by April 2024

Overall Cost

- The options put before the DAO for a snapshot vote are
- Diversify 10 million ARB into tokenized, liquid and risk free rate of return RWAs on Arbitrum
- Diversify 25 million ARB into tokenized, liquid and risk free rate of return RWAs on Arbitrum
- Do not support the proposal
- Abstain

As our Working Group receives remuneration from the Plurality Labs multi-sig (AIP-3), we do not estimate costs over and above what is needed for diversification

Frequently Asked Questions

1. Why 10 or 25 million ARB?

We do not recommend more than 25 million ARB as this amount is ample for signaling our support to this nascent and emerging space. Moreover, RWA diversification beyond 25 million ARB should happen only after the DAO decides on a larger investment framework.

We know of at least 3-5 providers applying under this framework. 10 million ARB divided among them is sufficient for gaining credibility from ArbitrumDAO that they can use in getting other clients

1. Won't diversification affect my bags of $ARB?

STEP-1 will show we can take major decisions on prudent treasury management. When we start earning yield, we develop an endowment that can fund grant programs or employees without any sell pressure on ARB

1. I get that, but in the short term how will you deal with the sell pressure from diversification?
2. Selected service providers will get a roster of OTC providers that buy the $ARB from them off the market, minimizing price impact.
3. Our working group also did a price impact analysis on the depth of $ARB limit orders in centralized exchanges to absorb liquidations without impact on price.
4. Moreover, a simple snapshot vote can demand that these investments be reconverted back to $ARB for defending its price.
5. How do we evaluate performance of service providers?

We can quantify the cost effectiveness of each service provider based on risk-adjusted returns, comparing the yield they earn for us (net return) versus their risk profile. We can also benchmark performance by tracking to money market monitoring tools like morningstar

We also measure % of their holdings from ArbitrumDAO, which should go down over time as they start getting other clients.

1. What do you personally gain from this framework passing or failing?

A major lesson from STIP was the importance of having delegates vote on frameworks rather than evaluate individual proposals not coming under any pre-approved framework. For example, only 20-30 applicants took part in STIP consultations but over 90 applied once the rules of the road had been laid down.

This means we need working groups who draft tenders for delegates to vote on and service providers to apply under. Our WG performs this role, paid from the AIP-3 Plurality Labs program

1. Risks from passing this proposal
2. Regulatory issues around holding real world assets. In STEP-1, this is partially mitigated by using the Foundation for KYC checks and custody but it could still be confiscated (this risk also exists for USDC and is overall quite low).
3. The service provider is a centralized point of failure who may go bust and/or hide their actual holdings. Therefore service providers with onchain verifiability and sound legal structures to mitigate these risks are preferred, such as being bankruptcy remote.
4. The type of risks involved; such as counterparty (i.e. issuer), service providers and liquidity
5. Price of $ARB increases, causing a net loss from diversification
6. Lower returns compared to de-fi ; treasury assets only provide about 4% yield, compared to as high as 16% for USDC on compound. However these asset classes have different risk profiles and the focus in this proposal is risk free rate of return

The foundation will act as the legal entity and face the service provider during the KYC process. The foundation and our working group will have authority to withdraw assets from any service provider should any risks be discovered.

Overall, whether this proposal passes or fails, we hope this helps ArbitrumDAO start thinking about treasury diversification and how to maintain our TVL lead.