ATTENTION: AFTER ~1 MONTH OF COMMUNITY FEEDBACK AND COMMITTEE MEMBER VETTING, THIS PROPOSAL HAS BEEN RENAMED FROM V1.1 TO V1.2 AFTER BEING UPDATED. PLEASE REVIEW THOROUGHLY AS OF OCTOBER 30, 2024.

Abstract

On September 12th, Entropy hosted a preliminary treasury working group call (recordings availablehere) in an effort to align all of the different parties within the DAO on the optimal path forward when it comes to managing the different sections of the DAO's balance sheet. I.e., chain profits (ETH) and tokens that have been authorized for spend but have not entered circulation yet (ARB). The primary points of contention were around ARB diversification, the need for a DAO budget before the conversation on treasury management continues forward, whether the DAO needs active treasury managers at all, infrastructure selection, and details around a treasury committee's implementation, e.g., how many individuals/entities, are they DAO-elected or appointed, when should we target to have this committee stood up, etc. From our perspective, we did gain consensus that the DAO's profits (ETH) in the treasury should be turned productive and that a treasury management committee of some sort should be established. However, even on these two points that most people seem to be in favor of, specific details need to be ironed out for actionable strategies to be implemented.

We believe that we have come up with a fair compromise between all of the various perspectives on these identified issues, all of which stem from the information gathered during the working group calls and conversations with delegates. The compromise suggested herein will, in our opinion, enable the DAO to move forward and initiate the required operational standards for optimizing the use of idle tokens in the treasury. Based on the feedback received on the call on September 25th (link to recording here) where we presented the overarching ideas herein, we feel confident that this proposal aligns well with the treasury managers, infrastructure providers, and overall DAO sentiment towards treasury management. We are eager to gather more feedback from the community and continue iterating so this initiative can move forward.

Key Issues Treasury Management can Solve Today

1. Service Provider Shortfalls: DAO-funded programs as well as service providers that have proved valuable to the DAO (the ARDC, Steakhouse's services as a part of STEP, etc.) have run into the problem of having dollar-denominated contracts and not enough ARB to meet the agreed upon rate for services rendered.

2. Flexible & Metrics-Driven Capital Deployment: The DAO is reliant on RWAs/Treasuries for passive yield on dollars, but has no mechanism for reallocating to onchain strategies as we enter a global rate cutting regime that could make onchain yields more attractive. The DAO also currently lacks the ability to frictionlessly assess the returns and underlying risks of comparative liquid market investments, how much of/when ARB in the treasury should be diversified, and how to optimize operating cash-like reserves.

3. Reinvesting Sequencer Revenue: The DAO has neglected to do anything productive with its ETH holdings, which could provide the DAO leverage to fuel growth and partnerships alongside yield—consistent with the DAO's growth-first mindset.

The Proposed Solution

TL;DR

- Establish two token management tracks (Treasury and Growth) with their own 3-seat committees. Treasury Management will focus on passive yield via ARB-only onchain strategies on Arbitrum One and create a cash-like reserve alongside a management strategy to cover service provider shortfalls. Growth Management will focus on strategic partnerships by exclusively reinvesting the DAO's ETH holdings into "ETH-backed strategies". ETH-backed strategies are defined as opportunities that aim to earn yield on ETH or ETH-pegged assets, with high guarantees of returning (at minimum) the original number of ETH deployed to the DAO treasury at a certain point in the future.

- Treasury Management ™: 10M ARB for ARB-only onchain strategies + 15M ARB converted to stables or other cash-like holdings to serve as a pilot for the DAO's "checking account".

- Growth Management (GM): 7,500 ETH allotted (about 75% of the DAOs ETH after BoLD bootstrapping), but all spend must be DAO-approved on a case-by-case basis.

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Since inception, the DAO has spent 19.3M ARB on core DAO initiatives (long-term committees/groups that get funding directly from the DAO via proposal), grants programs, and direct DAO-to-service provider grants according to the August Token Flow report from @r3gen

. So outside of protocol/user incentives and the large GCP initiative, the DAO's spend has been relatively modest throughout the first 18 months of its life, spending about 1.07M ARB per month. The average price of ARB since the token launched sits at $1.16, which puts the DAO's rough monthly spend on these types of initiatives at $1.24M USD.

In an ideal world, we would have a budget outlined before setting aside some ARB to be converted to stablecoins or other cash-like assets to cover general operating expenses and make up for any service provider contract shortcomings. However, we need the proper people and procedures in place in order for a budget to be executed to the expected standard. We believe that the OpCo will not only be better equipped to tackle this issue, but will also have better incentive alignment with the DAO than any other entity/individual tasked with creating a DAO budget, and more data surrounding DAO-revenue to analyze.

In many cases it is unprofessional for the DAO to put the burden of ARB volatility on its service providers. If we aren't careful, we will negatively impact the pool of SPs that desire working with Arbitrum DAO. Given the aforementioned historical spend and the absence of a formal budget, we are suggesting the TM be given 25M ARB with the intent to swap 15M ARB for stablecoins over the course of 3 months. This stablecoin reserve may be deployed in low-risk, yield-bearing strategies or other cash-like assets and will be used to cover DAO dollar-denominated expenses and service provider contract shortfalls. This cash-like balance should not be used to give out grants, but rather to pay out service providers that demand dollars. The remaining 10M ARB is to be used on ARB-only onchain strategies that are approved by the TM Committee (TMC). The TM track will solve problems 1&2 mentioned above by putting the infrastructure and service providers in place to conduct onchain strategies on both ARB and stablecoins while ensuring service providers enjoy a professional/stress-free experience working with Arbitrum. The TMC's mandate also indirectly supports ecosystem growth by focusing primarily on ARB-only strategies by leveraging Arbitrum protocols.

The need to reinvest sequencer revenue is best depicted by the following chart, which shows the DAO has foregone ~400 ETH by not staking its idle holdings.

[

Arbitrum Revenue

2400×1400 270 KB

](https://global.discourse-cdn.com/flex029/uploads/arbitrum1/original/2X/3/3f25fde491adc04de29d44b4d527e5f7ec5ea064.png)

However, given that the primary goal of the Arbitrum DAO is spreading its technology stack and promoting growth across its ecosystem, we believe that we can do better than just staking the ETH or otherwise reinvesting DAO profits into liquid market opportunities. Furthermore, Entropy Advisors has been approached by numerous protocols interested in strengthening their alliance with the Arbitrum DAO. These protocols include market leaders within well-established DeFi and infrastructure sub sectors as well as projects in emerging verticals that have generated significant attention within the industry. Some of these projects are pre-TGE, generate significant revenue, could solve liquidity fragmentation/interoperability across Orbit chains, or strengthen ARB narratives. These types of deals require a counterparty to negotiate with and discretion until a deal is formally reached. This will be one of the primary deliverables of the Growth Management Committee (GMC), but all deals will need to be approved by the DAO via a snapshot vote with a simple majority For/Abstain, and a quorum equal to 3% of the votable token supply prior to any engagement's execution. Again, only strategies that rely on ETH and ETH-pegged asset strategies will be pursued. It is important to note that some specific details may need to remain confidential even once the DAO begins voting via Snapshot. The GMC will play a similar role as the STEP committee so that this can be achieved.

TMC and GMC: Members, Deliverables, and Pay

While we could staff these positions via DAO election, we believe that it would be more efficient to appoint these individuals/entities given the specific qualifications required of the members. These council members will serve a ~6-month term, and be eligible to receive 10k USDC each month. Please note: Only 20k USDC will be claimable by each member until the following deliverables have been met: 1) RFP process fully implemented/approved via Snapshot 2) The first quarterly report posted on the forum 3) The second quarterly report posted on the forum. Therefore, this engagement could take slightly longer than exactly 6 months, but tying committee pay to deliverables provides the DAO with a check on committee members. As always, the DAO can remove these members from the council, replace committee members with other candidate(s), or disband this program altogether at any point in time through a Snapshot vote with a simple majority For/Abstain, and a quorum equal to 3% of the votable token supply. Entropy Advisors is happy to assist in any type of open election process if that is deemed necessary in the future.

Suggested TMC Members:

- Austin Campbell

: * With a multi-decade background in trading, financial risk management, and structuring,Austin Campbell is regarded as a leading expert in the field of tokenized assets, stablecoins, and crypto risk management. Austin has run trading desks at JP Morgan and Citigroup, been the head of portfolio management and chief risk officer at Paxos, and is currently the CEO of WSPN USA, a stablecoin issuer. Austin also teaches blockchain courses at NYU Stern school of business, speaks frequently on podcasts, to the media, and at regulatory events, and testified in front of Congress on stablecoins in 2023.

- Austin believes that treasury management in the crypto space should focus on principal protection, liquidity to ensure smooth operations, and risk-adjusted return, in that order. Austin has helped with previous efforts in this space when at Paxos, including the inclusion of USDP into the PSM for MakerDAO, as well as partnering with protocols to ensure strong economic design and stability when integrating stablecoins and real assets. A robust RFP process, a rigorous set of standards for anyone managing treasury assets, and programs for monitoring performance, activities, and conflicts are things that Austin believes are mandatory for effective treasury programs.

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Austin will be claiming the 10k USDC monthly.

- Three Sigma

: * As seasoned experts in the DeFi ecosystem,Three Sigma is uniquely positioned to add significant value to Arbitrum's Treasury Management Council (TMC). With vast experience in risk assessment and advisory services, Three Sigma is equipped to collaboratively design and execute a transparent Request for Proposal (RFP) process for treasury managers. These RFPs will strategically identify managers aligned with the DAO's objectives—such as converting ARB to stablecoins, optimizing fund deployment, and managing whitelisted ARB strategies.

- Three Sigma's commitment extends beyond process design, as they will serve as vigilant overseers of treasury management strategies, proactively flagging any questionable activities to the DAO. Drawing from extensive experience in helping teams design protocols with risk in mind, they uphold the principle: "Don't trust, verify." Three Sigma will develop a robust methodology focused on risk-adjusted returns, evaluate service provider performance, and deliver quarterly reports to the DAO forum. These reports will offer transparent insights into performance metrics, stablecoin balances, and strategic recommendations for asset liquidation or replenishment. Leveraging their deep understanding of DeFi markets, risk management, and governance, Three Sigma aims to drive optimal outcomes for the Arbitrum DAO, safeguarding the community's assets with unwavering accountability.

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- Make Markets

: * A bespoke consulting agency focused on liquidity strategy design and optimization for asset issuers, Make Markets brings deep crypto-native technical expertise to Arbitrum's Treasury Management Council through its principals fiddyresearch, a core contributor to Curve DAO, and benny, a seasoned DeFi builder, analytics specialist and contributor to Curve DAO. We combine practical DeFi protocol engineering experience with extensive knowledge of smart contract security, on-chain data analysis and decentralized market mechanics. Their technical background enables them to assess smart contract risk and economic security considerations when reviewing strategy proposals for managers. They will also leverage our analytics capabilities and familiarity with on-chain data to provide data-driven reporting to the DAO.

- Make Markets believes that the TMC's success depends on establishing robust, standardized processes for evaluating and monitoring treasury managers. Their goal is to implement systematic approaches that ensure fair selection, efficient oversight, and clear performance assessment across all treasury activities. They aim to establish consistent and transparent processes that will serve the DAO over the long term and ensure accountability to the community.

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Make Markets will be claiming the 10k USDC monthly.

TMC Deliverables

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- Design and host an RFP process seeking treasury managers with predefined overarching strategies. E.g., the process for converting ARB to stables, how the stables can be deployed when sitting idle, the process for a DAO contributor to request stablecoins from this program within their proposal, whitelisted stablecoin/ARB strategies or protocols, etc. This will need to be ratified via a snapshot vote with a simple majority For/Abstain, and a quorum equal to 3% of the votable token supply.

- Serve as a check/balance on strategies deployed by treasury managers, and flagging any questionable strategies being deployed to the DAO.

- Developing a methodology for evaluating service provider performance, with risk-adjusted returns as the focal point.

- Prepare quarterly reports (2 over the course of their term) for the DAO forum that provides visibility into service provider performance.

- These reports should also include updates on the stablecoin balance, and provide recommendations to the DAO in relation to liquidating more of the allocated ARB for stablecoins, or requesting additional ARB to top up the stablecoin reserve.

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Suggested GMC Members

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- Entropy Advisors

- Entropy Advisors will be waiving payment.

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- Callen from Wintermute

- Callen will be claiming the 10k USDC monthly.

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- Llama Risk

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The primary qualifications for GMC members are the ability to negotiate deals and possess large networks within the wider crypto industry. They may also be required to sign and adhere to NDAs. Entropy felt it was important to add a risk-focused member to the GMC so that economic, general smart contract, and other design risks can be better accounted for when evaluating deals. The GMC will receive support from Arbitrum partnership teams (Foundation and OCL), thus ensuring all opportunities are explored and that whatever the GMC is exploring does not conflict with that of Arbitrum partnership teams.

GMC Deliverables

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- Design and host an RFP process seeking protocol partnerships through the deployment of the DAO's ETH, which must target the use of ETH itself or ETH-pegged assets. This will need to be ratified via a snapshot vote with a simple majority For/Abstain, and a quorum equal to 3% of the votable token supply, and it is possible that these applications will be ongoing rather than a specified time period. Some information may need to remain confidential—this body will follow a similar playbook as the STEP Committee.
- Serve as the point of contact/negotiating body for protocol teams interested in a deeper alliance with the Arbitrum DAO.
- Coordinate the amplification/marketing of engagements across various Arbitrum contributors, e.g., the Foundation, OCL, protocols, etc.
- Prepare quarterly reports (2 over the course of their term) for the DAO forum that provides visibility into the status/general success and failures of the growth partnerships being deployed.
- Evaluate smart contract or general economic risk of potential partnerships before they are proposed to the DAO, and to notify the Arbitrum Foundation of any risks that arise as a result of general market conditions, fundamental, or technical risks.
- This is one of the primary motivations of adding Llama Risk to the GMC, as this is work they specialize in.
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Specifications / "Costs"

In order to reduce ambiguity around tax, legal, and any other possible liabilities, we suggest that the Arbitrum Foundation serves as the custodian/counterparty of the funds at all times. The TMC and the GMC simply help coordinate the process, the DAO still remains as the ultimate decision maker, and the Foundation serves as the custodian/counterparty of the funds and thus abides by Cayman Islands law. While the MSS is great for serving as the DAO's solution to multi-sigs, it is clear that the Arbitrum Foundation is the most logical party to custody these funds, until the OpCo's legal entity is stood up, to avoid unforeseen legal liabilities. If this vote passes onchain via Tally, 7,500 ETH and 26M ARB will be moved to two separate Foundation-controlled addresses. No funds can be deployed by either the TMC or GMC—they are only tasked with providing options for the DAO to vote on, and the Arbitrum Foundation will be subject to act in accordance with how the DAO votes. The additional 1M ARB being transferred to the Foundation will be liquidated for 300k USDC to pay committee members, with the remainder returned to the DAO treasury.

The DAO can claw back funds at any time via a snapshot vote with a simple majority For/Abstain, and a quorum equal to 3% of the votable token supply. It is worth noting that some of the initiatives in the GM may contain verbiage that prevents the DAO from clawing back a specific allotment of funds. As mentioned, the DAO will ultimately make the decision on these deals, so delegates/voters will need to review and take these factors into account when voting. Again, the GMC members may be under NDA and only be able to disclose what the partner in question is willing to share publicly. As proposed, the GMC will receive assistance from the OCL and the Arbitrum Foundation, and it is equipped with members with strong BD skill sets and risk evaluation experience. Therefore, we feel confident the GMC will only have the DAO's best interest in mind.

Lastly, we want to emphasize that this is not a proposal to spend these funds, so the funds being moved are not actually a "cost" to the DAO. Rather, these funds will be used for diversifying risks and creating yield, laying the groundwork for prudent financial management for the Arbitrum DAO, setting it up for long-term success, sustainability, and growth. The only costs incurred by the DAO from this proposal are those of specific committee members, which equates to 300k USDC over the course of their 6 month-term. Entropy received overwhelming feedback from both interested committee members and the broader Arbitrum DAO community that the payment needed to be altered from 30k ARB vested over 2 years to a more attractive payment arrangement in order to attract the right people.

Steps to Implement and Timeline

1. September 12, 2024: Prelim. Treasury Working Group Call #1

(recording here)

1. September 25, 2024: Prelim. Treasury Working Group Call #2

(recording here)

1. September 27, 2024: Treasury Management V1 proposal posted on the Forum
2. November 14, 2024: Snapshot vote to move forward with Treasury Management V1

3. November 28, 2024: If the proposal passes, move to Tally. If the proposal fails, host another working group call in an effort to find a new path forward.
4. Late-December: If the Tally vote successfully passes, funds will be moved to the Arbitrum Foundation. (Note that TMC and GMC members will receive their first payment at the end of January 2025, and will be eligible for payments through June 2025 barring any setbacks in deliverable execution.)
5. The TMC and the GMC will have until the end of January to get a formalized RFP process on the DAO forum, and are expected to be prepared for Snapshot by early February.
6. Barring any setbacks, the GM and TM RFPs should be open for Service Providers to apply by mid-February 2025. Note that the TMC/GMC may elect to keep applications open/rolling.

Long-term Desires

This proposal remedies 3 key problems plaguing the Arbitrum DAO today, and sets the stage for all of the DAO's identified financial management needs being met in the future:

1. Service Provider Shortfalls: DAO-funded programs as well as service providers that have proved valuable to the DAO (the ARDC, Steakhouse's services as a part of STEP, etc.) have run into the problem of having dollar-denominated contracts and not enough ARB to meet the agreed upon rate for services rendered.
2. Flexible & Metrics-Driven Capital Deployment: The DAO is reliant on RWAs/Treasuries for passive yield on dollars, but has no mechanism for reallocating to onchain strategies as we enter a global rate cutting regime that could make onchain yields more attractive. The DAO also currently lacks the ability to frictionlessly assess the returns and underlying risks of comparative liquid market investments, how much of/when ARB in the treasury should be diversified, and how to optimize operating cash-like reserves.
3. Reinvesting Sequencer Revenue: The DAO has neglected to do anything productive with its ETH holdings, which could provide the DAO leverage to fuel growth and partnerships alongside yield—consistent with the DAO's growth-first mindset.

We envision the functions of the TMC and the GMC to roll up into OpCo once established, and depending upon the OpCo's structure, e.g., Cayman Islands Foundation entity, the OpCo will become the custodian of these funds once the legal entity has been set up and its operations stabilized. A lot of the ground work around treasury management will be handled by the TMC and GMC in the interim, and will provide the OpCo with a rubric that can be improved upon as it relates to procuring treasury managers, budgeting, transparency/reporting, etc.

This is a good starting point as it ensures service providers do not bear the burden of ARB volatility, puts the infrastructure and SPs in place for the DAO to conduct onchain strategies, and generates revenue while spurring growth across the Arbitrum ecosystem.