

# Managing Systemic Risk in Uniswap's Community Treasury using KPI Options

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## Summary

### Problem

Uniswap's governance treasury will retain 43% of \$UNI supply vested over 4 years, currently allocated 113 million in \$UNI. Current value ~ \*\*\*\*\$2.724 Billion USD. Max drawdown starting on May 3 2021, in 20 days \$UNI lost 71% of it's value, a loss of ~ \$3.616 Billion USD.

We need to manage this systemic risk and volatility for the long term success of the community treasury.

### Solution

Partial divestment of Uniswap governance treasury by using UMA Synthetic KPI Options to create a win for the treasury, a win for the protocol and a win for the stakeholders. Long term goal would be to put together an actively managed portfolio for the treasury aka uniHOUSE.

### TLDR:

[

image

880×2000 275 KB

](<https://global.discourse-cdn.com/business6/uploads/uniswap1/original/2X/1/101b4b8aef3387ece5e21d609d5d5ff788b8072d.png>)

## Background

### Yam.Finance

[Yam.finance](https://yamfinance.medium.com/yam-finance-presents-dao-house-86625f9bae5a) has been leading the charge on treasury management for DAOs via our project DAO House: <https://yamfinance.medium.com/yam-finance-presents-dao-house-86625f9bae5a>

We've realized that there are significant systemic risks for DAO's treasuries. During the bear market of 2017 multiple projects were forced to sell their treasury at historically low values, which ultimately caused many of them to disband and shutter.

Treasury management is mission critical for DAOs, yet the challenges and complexities are formidable. Sushi realized this systemic issue and collaborated with [Yam.Finance](https://yamfinance.medium.com/yam-finance-presents-dao-house-86625f9bae5a) to build a custom treasury management solution called sushiHOUSE: <https://forum.sushi.com/t/sushihouse-a-treasury-management-proposal/3106>

The most difficult part of a treasury management solution for a DAO as large as UNI, is the first part, the treasury protocol token divestment. I present a novel solution that will benefit the treasury, the long term success of the protocol and also all stakeholders.

### UMA Synthetics

A quick primer on UMA: <https://docs.umaproject.org/getting-started/how-uma-works>

By using UMA's platform, we are able to use battle tested UMA financial contracts to create KPI options. Here are some examples of current KPI options that are already deployed and distributed.

<https://medium.com/uma-project/uma-kpi-options-and-airdrop-bae86be16ce4>

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

# KPI Options

## How do KPI Options work?

KPI options can be created by using UMA's battle tested UMA financial contracts.

1. Determine KPI metric for the synthetic. For example, KPI metric is Total Value Locked (TVL), currently ~\$1.5b. KPI Metric could be many different things like volume, total fees generated over 30 days ect.
2. Determine target for KPI, value and expiry date. For example, we want to target 2x TVL start, \$3b and want the option to expire end of 2021.
3. Mint KPI option by depositing collateral to be used at settlement. For example, collateralize 1 \$UNI token for 1 KPI option.
4. For our example above:
5. TVL option starts at a value of .5 \$UNI because current TVL is \$1.5b
6. If TVL > \$3b before the end of 2021, the TVL option can be settled for 1 \$UNI after it expires at the end of 2021.
7. If TVL < \$3b at expiry it will be worth a fraction of 1 \$UNI. For example at expiry TVL is \$2b, the value of the synth expires to  $\frac{2}{3}$  \$UNI = .667 \$UNI.
8. Synth is unliquidatable and fully collateralized.
9. TVL option starts at a value of .5 \$UNI because current TVL is \$1.5b
10. If TVL > \$3b before the end of 2021, the TVL option can be settled for 1 \$UNI after it expires at the end of 2021.
11. If TVL < \$3b at expiry it will be worth a fraction of 1 \$UNI. For example at expiry TVL is \$2b, the value of the synth expires to  $\frac{2}{3}$  \$UNI = .667 \$UNI.
12. Synth is unliquidatable and fully collateralized.

## How do KPI Options divest UNI's community treasury?

From example above, KPI Option is created by:

1. Collateralizing 1 \$UNI token
2. KPI metric tracked is TVL, starting at \$1.5b
3. Target is \$3b TVL by the end of the year. If it reaches \$3b TVL anytime before expiry

UNI's community treasury is able to utilize its treasury full of UNI tokens to create these KPI options.

1. KPI Options would be minted by treasury and sold for stable coins via a gnosis auction or by various other means. Implied value of the option is .5 UNI (current TVL is \$1.5b with target of \$3b).
2. The sale would fund the treasury with stablecoins which could then be used to create a secondary market for the KPI Options by using Uniswap's AMM pools.
3. At expiry all KPI options could be settled and stablecoins withdrawn from LP positions.
4. Treasury now has stable coins = WIN!
5. UNI stake holders have incentives to increase TVL = WIN!
6. Stablecoins are the cornerstone of long term success for UNI protocol = WIN!

Win - Win - Win

## 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.

## Link to snapshot, starts on May 31st 21:00 UTC for 2 days [Snapshot](#)

Link to any additional reading:

<https://claim.umaproject.org/>

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

<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>

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