

Summary

DAO Treasury Challenges

- ARBITRUM DAO's treasury currently lacks sufficient diversification for a DAO of its size, with its spending power overwhelmingly exposed to ARB price risk.
- There has been a lot of debate amongst delegates about whether to diversify ARB to increase long-term runway in stables (and thus, sustainability) or to focus on reducing ARB circulation and pricing pressure.
- There is currently no work openly being done to scope out and agree on the needs of the DAO more holistically on the treasury side.
- The DAO could benefit from having such a framework for DAOs to make more informed decisions moving forward.
- There is currently no process or method of accountability to submit proposals in a competitive manner leaving the DAO susceptible to providers overcharging on fees or winning mandates simply because they were first to propose.

Goals of Proposal

- Establish a DAO Treasury Oversight Committee to formalize a treasury management process and reach consensus on goals and objectives
- Scope of said committee should be holistic and asset agnostic covering all of the DAO's treasury management, including for example ETH and not solely concern ARB diversification.
- The DAO treasury Oversight Committee should also be responsible for overseeing operational aspects of allocating to underlying DAO treasury managers.
- Empower this committee to set overall DAO treasury goals and objectives as well as a holistic and comprehensive portfolio management strategy for the DAO which suits these goals and objectives
- Empower the Committee as part of its deliverables to create a framework on research and selection/removal criteria of managers
- Obtain feedback on this approach going forward from all key delegates and stakeholders
- Kick off the nomination and selection process of the DAO Treasury Oversight Committee

Rationale

Last week, Karpatkey initiated one of the largest [proposals](#) in DAO history to manage 250m ARB of the treasury. This proposal hit a lot of good notes with parts of the community and was delivered by a liked and reputable team. However, it's important to listen to the key messages and feedback coming into this vote which ended up with 61% of delegates against.

Some of the key messages arising from this result can be summarised as follows.

- Fees were deemed too high (flat 1%) and potentially not aligned properly with the DAO (eg. based on performance rather than management)
- The size was too big, especially for a single treasury manager
- There was a lot of pushback on the lack of an RFP process, particularly given the size, fees, and the stark contrast to the rigorous process followed in other programs such as STEP
- There were a couple of comments around operational risk and importance of infrastructure diversification
- There were concerns around the optimal amount to diversify for a treasury denominated mainly in ARB (headline dollar number is not a "real" number)
- There was some discussion around the tradeoff between "yield" on stable coins vs "higher circulation" of tokens in the market which could further depress ARB price making the whole proposition less attractive in the first place
- Questions around the point of selling ARB upfront vs letting contributors sell it when they need to
- No plan to maintain the ARB price (important) and thus neglecting security of the protocol

- Debate around the size of the Oversight Committee (e.g. that it should be increased from 3 to 5)

It is clear that no-one stands to benefit from the current lack of strategy and process when it comes to deciding the fate of one of the largest treasuries. It's essential to first have a DAO-wide conversation about treasury management, its purpose, and the amount of ARB we should allocate towards it. This conversation should be facilitated by a DAO oversight committee working towards this particular deliverable.

Proposal

We propose the establishment of a DAO Treasury Oversight Committee to establish treasury management strategy & process, undertake operational tasks of deploying capital and taking care of monitoring and governance of underlying treasury managers.

To get there we propose two key steps:

Step 1: Feedback & discussion phase (two weeks)

- Asking delegates to provide feedback on this RFP process to create a Treasury Oversight Committee
- Avantgarde to review feedback and update the proposal accordingly into a final RFP which is published and voted on

Step 2: Nomination period for DAO Oversight Committee

The DAO Treasury Oversight Committee will be responsible for:

- Proposing the overall strategy and objectives for the Arbitrum DAO. Note: It is of extreme importance to strike the right balance between diversification of assets vs more circulating ARB liquidity in the market. It is important for the Committee to make a strong case for how much ARB should be diversified (if at all), into what assets, and why. This proposal will be voted on in a DAO-wide vote.
- Creating an RFP process to search for and appoint treasury managers.
- Screening for and assessing candidates looking to run treasury management strategies.
- Providing overall thoughts and expertise for DAO delegates to vote in a more informed and effective way.
- Facilitating the allocation of treasury assets to underlying treasury managers through operation of treasury management infrastructure where relevant.
- Defining selection criteria to the assessment process which considers technical approach, provider diversification, operational set up, fees & rewards, legal set up, recourse rights, etc
- Monitoring of treasury managers and ensuring adherence to agreed mandates, including deliverables of relevant performance reporting.
- Where necessary, initiate the governance process for replacement and/or reallocation from treasury managers who are deemed to be underperforming in relation to their agreed mandate or where there is evidence the managers are not behaving in the DAOs best interests.
- Holding quarterly community calls updating on the progress and performance of managers and giving room for community feedback.
- Management the process from start to finish as well as the ongoing monitoring and removal process of appointed managers

Part 3: Implementation (To be governed by the Treasury Oversight Committee)

The Treasury Oversight Committee will be responsible for overseeing the overall strategy implementation which was put forward in Part 2 and voted on by the DAO. This will include;

- Taking the RFP process live in such a way that seeks a competitive and diversified approach on both manager and infrastructure level
- Ensuring that infrastructure being used is transparent and non-custodial where possible
- Being clear about what kind of strategies it is seeking managers for (eg. yield on ARB, diversification of ARB into stables > stable coin yield, etc).
- Managing price impact of ARB if and when necessary (or ensuring that any 3rd party vendors do)
- Overseeing the allocation of funds to chosen managers

- Monitoring and governance around managers (checking reporting, due diligence, regular calls, etc).

Running an open and competitive RFP process achieves the best outcomes for all stakeholders involved. It also promotes diversification at a manager and infrastructure level which is in line with the decentralised values of the DAO.

Treasury Oversight Committee Nomination Template

To kick off the process after the initial two week review, we would recommend that qualified community members/ organisations who are interested in applying for the Treasury oversight committee put forward their nominations before September 15th, 2024.

These could include:

- Name and/or organisation (if relevant)
- What relevant experience do you have for this role?
- What familiarity do you have with the ARBITRUM DAO?
- Examples of previous work (where possible)
- Time commitment: Can you commit a minimum of 10 hours per week to serve as part of this committee?
- Can you share any references?
- Do you have any examples of relevant past work that you can share?
- Declaration of conflicts of interest (if any)

We welcome feedback and suggestions on this.

Voting Eligibility & Conflicts of Interest

- Entities who applied to be a member of the DAO Treasury Oversight Committee or voted in in the election of members to the DAO Treasury Oversight Committee should be ineligible to apply as a treasury manager during the RFP process.
- When the DAO Treasury Oversight Committee initiates a vote of no confidence in a treasury manager, entities related to any treasury manager who currently has an allocation are not eligible to vote.

Timeline

- Two week review and feedback process for this proposal before going to live vote
- Election of a three member DAO Treasury Oversight Committee via a two week application period and five day Snapshot vote.
- Each voter will select a maximum of three committee applicants to vote for. The three applicants with the most votes will be selected.
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- The Treasury Oversight Committee should put forward the roadmap for the strategy & process as well as the initial amount of ARB should be diversified from the treasury, with clear rationale that should be shared with the community. This is to be provided in a follow up document by November 2024 and kick off the RFP process for Treasury Managers. The DAO Treasury Oversight Committee will initiate the RFP for this, after which there will be a vote.
- The RFP vote for treasury managers should take place by Snapshot vote, of which the top three will be selected. Each voter will select a maximum of three manager applications to vote for. The three applicants with the most votes will be selected.
- The DAO Treasury Oversight Committee will be responsible for supporting the deployment of funds to the managers as indicated by the vote and then monitoring/removing managers where necessary.

Budget

Open to feedback and suggestions. Could either do a monthly rate of, say, 5.000 ARB per committee member per month or a fixed payment in line with the LTIPP Council and STEP Committee (i.e., 25.000 ARB per member)

Next Steps

- Two week review process of this RFP proposal
- Avantgarde to publish final RFP process for Treasury Oversight Committee with delegate feedback included
- Establish the committee and give them until November 1st to post initial findings on how much ARB should be diversified, into what, and why. This will be presented and then go to vote.
- If vote is successful, the Treasury Oversight Committee will continue it's work and move to Part III (implementation)