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Summary

This proposal outlines a collaboration between karpatkey and dYdX, focused on managing the dYdX Community Treasury.

If approved, karpatkey will set up a Cayman Foundation to manage ~40M DYDX tokens from the Community Treasury. The treasury will gradually diversify by accumulating stablecoins through validator staking, helping to further secure the dYdX Chain. Two potential scope extensions include periodically using USDC to execute DYDX token buybacks and staking, and deploying USDC across DeFi protocols to generate additional yield for the treasury.

The staking program will be designed to drive both treasury sustainability and ecosystem growth. dYdX Chain validators will be delegated DYDX from the Community Treasury and will benefit from their respective validator commission.

karpatkey will request a 5% fee on the net (after validator fees) staking yield payable in USDC with a lower bound of \$300k per year and an upper bound of \$1M per year.

dYdX DAO retains the right to terminate this agreement through its governance mechanism.

Overview

About the dYdX Protocol

dYdX is a leading DeFi protocol focused on advanced trading. The dYdX Chain enables a trading experience that parallels centralised exchanges while allowing traders to maintain full custody of their funds onchain. The chain utilises a fully decentralised, off-chain order book and matching engine, secured by a diverse set of validators.

The protocol is governed by its community through the DYDX token. The dYdX DAO recently voted to form and fund two SubDAOs: the dYdX Ecosystem Development Program

and the dYdX Operations SubDAO

. The DAO is expected to continue expanding by adding more SubDAOs that each work on core functional areas of the protocol.

About the dYdX Community Treasury

The current value of the dYdX [Community Treasury](#) is \$95M, comprised of 84.8M vested DYDX tokens and 19.4M vested stDYDX. Additionally, the [Community Vester](#) holds roughly 121.8M unvested DYDX tokens, with a value of \$110M at current prices. These will continuously vest to the Community Treasury at a rate of ~2.04 DYDX/second through August 3, 2026.

About karpatkey

Founded in 2020, karpatkey is a DeFi-native organisation specialising in onchain finance. We help our partners grow their operations, deploy liquidity, and invest prudently for the long-term success and sustainability of their organisations.

karpatkey is the market leader in non-custodial asset management, working with many leading DAOs, including [GnosisDAO](#), [Balancer](#), [ENS](#), [CoW Protocol](#), [Aave](#), [SAFE](#), [Arbitrum](#), [Uniswap](#), and [Lido](#). The total value of our partner treasuries exceeds \$2.1B, and we currently manage over \$1B in non-custodial AUM. To date, karpatkey has executed over 9,000 DeFi transactions for multiple partners with zero security incidents.

We focus on supporting our partners through the various stages of their growth. We have helped ecosystem strengthening through [GNO large-scale buybacks](#), [contributed to GHO's growth to over \\$100M market cap](#) [forecasted Balancer's OpEx](#), [managed the ENS endowment](#), served as a [committee member for the Arbitrum Stable Endowment Program](#) and analysed the Uniswap Treasury as part of the [Uniswap Treasury Working Group](#). We have produced research reports for the dYdX Foundation, and closely followed the evolution of the protocol since its inception.

Motivation

The dYdX Community Treasury is one of the largest in the industry, based on dollar value. However, the treasury is limited to a single asset type, namely the DYDX token and its liquid-staked version. This dependency on a single asset type introduces volatility and concentration risks that greatly impact the overall value of the treasury. Furthermore, the productive use of treasury assets in module accounts accessible through dYdX Chain governance faces uncertain legal and tax risks.

For these reasons, the dYdX Foundation has begun [a dialogue on the present and future trajectory](#) of the dYdX Community Treasury, including the formation of a Treasury SubDAO managed by a professional service provider.

Because of our extensive experience managing some of the largest and most complex DAO treasuries, we believe we can meaningfully contribute to dYdX's mission.

Specification

This proposal outlines the initial scope of a strategic collaboration between karpatkey and dYdX to enhance the DAO's financial sustainability and improve the treasury's capital efficiency.

Within the scope of the current engagement, karpatkey will develop and set up the relevant legal and Cosmos-specific technical infrastructure required to perform the below-listed activities effectively. This includes bootstrapping a Cayman Foundation as a legal wrapper for the Treasury SubDAO. karpatkey will subsidise the costs associated with the initial setup of the Treasury SubDAO and Cayman Foundation infrastructure as a signal of our long-term commitment to the dYdX community.

The key initiatives of this collaboration include:

- Staking program

. Designing a transparent validator staking program to enable the Community Treasury to contribute to securing the dYdX Chain and increasing the share of stablecoins in the Treasury.

karpatkey proposes staking DYDX tokens from the Community Treasury through validators. dYdX Chain validators will be delegated DYDX from the Community Treasury and will benefit from their respective validator commission. We will encourage a healthy validators ecosystem while redistributing DYDX tokens (e.g. prioritising competitively priced validators).

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- Treasury Management

. karpatkey recommends allocating ~50% of the vested DYDX tokens (approx. 40M) in the Community Treasury to the staking program. We believe this to be a good balance between decentralisation and generating non-operating revenues for the treasury.

This will enable the allocated funds to generate USDC-denominated yield, simultaneously growing the treasury and diversifying its composition.

More on the expected outcomes below.

- Financial planning

. Supporting the DAO in forecasting and optimising expenses and suggesting non-operating revenue streams to ensure the buildup of USDC reserves with a long-term target of reaching 18 months of secured runway.

Here is an example of our previous work on [forecasting Balancer's OpEx](#).

- Reporting

. We will provide detailed and timely reports on dYdX Treasury's asset allocation and performance, including relevant expense forecasts.

Other than our traditional reporting system, karpatkey will develop and set up Cosmos-specific reporting to maximise transparency and visibility of the treasury management activities performed within the Cosmos ecosystem.

We are ready to offer two optional elements to the dYdX community that will be subject to separate follow-on proposal/s, shall the current one be successful.

- [Optional]

karpatkey recommends leveraging the USDC accumulated through the staking program in DeFi strategies to grow the treasury further. karpatkey only interacts with renowned and battle-tested DeFi protocols to minimise risks (e.g. technological, market, or governance risks). The USDC tokens generated from the staking program will be allocated to DeFi strategies on Ethereum mainnet (e.g. lending stablecoins in AAVE, or USDC liquidity provision in Balancer). Protocols in the dYdX Chain or Cosmos ecosystem will also be considered as they become available. This approach will generate further returns without adding exposure to volatile assets.

- [Optional]

karpatkey can operationalise the deployment of a portion of the USDC accumulated through the staking program towards buybacks of the DYDX token in the open market, followed by staking of such tokens. Such an initiative could return value generated by the dYdX network to holders of the DYDX token by reducing the token's circulating supply.

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To summarise, we are presenting the dYdX community with a proposal to offer a Staking Program, Treasury Management, Financial Planning and Reporting. Optional services of DeFi Strategies and Buybacks will be subject to a follow-on proposal, conditionally to the current proposal being accepted.

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Expected outcome

karpatkey aims to allocate assets within the dYdX ecosystem to ensure long-term sustainability and foster growth. To drive ecosystem growth, the DYDX tokens in the Community Treasury will be staked with external staking providers (existing and potentially new).

The average reward the dYdX network has paid out to stakers throughout 2024 is 16.8%. The staking program would increase the amount of staked dYdX by ~16%, reducing network yield. Using the current asset-weighted average validator fee on the network of 10% (excluding Santorini as an outlier with a 100% fee), we expect a net contribution to the treasury of 4.8M USDC per year. Our DYDX price assumption is \$0.99, the 30-day moving average price.

The main priority will be diversification of the dYdX treasury to build sufficient runway and resilience to survive market downturns by reducing long-tail asset exposure.

Fee structure

karpatkey will subsidise the costs associated with the initial setup of the Treasury SubDAO and Cayman Foundation infrastructure as a signal of our long-term commitment to the dYdX community.

For the services included in this proposal (setup of the staking program, treasury management, financial planning, reporting), karpatkey requests a 5% service fee on the net (after the validator fees) yield generated under the Staking Program to be paid in USDC. To accommodate for the volatile nature of crypto markets, we introduce the following bands to our fee:

- Minimum fee of \$300K per year
- Maximum fee of \$1M per year

[EDIT] To clarify, currently, karpatkey will request \$300k per year, as the 5% fee currently equates to approx. \$250k. This will remain at the minimum until substantial growth in the dYdX ecosystem is achieved.

The optional elements will be subject to separate follow-on proposals with their own respective pricing.

Termination

dYdX DAO may terminate the engagement under this agreement for any reason by its Governance Mechanism. It may do so at any time after the first 12 months. karpatkey DAO may terminate this agreement upon four weeks' notice posted as a new discussion thread in the dYdX's forum. Regular fees will be collected until the day of termination.

[EDIT] Based on community feedback, we are clarifying two elements of this proposal:

- the operations of the Treasury SubDAO are designed to serve and support the dYdX ecosystem. Consequently, we welcome community participation and collaboration with other dYdX SubDAOs.
- the Treasury SubDAO will be able to tap into a large set of skills and expertise. A dedicated team covering treasury, risk and data will be set up for the dYdX ecosystem and led by an experienced Treasury Management Lead.

The karpatkey organisation will be available to support this endeavour with 20+ professionals specialised in relevant topics (treasury management, governance, risk management and TM infrastructure development) as well as its larger karpatkey team (legal, BD & growth, capital raising, M&A and VC, among other areas).

Community AMA

Join us for an AMA with the dYdX Foundation to discuss our proposal on Thursday, September 19th, 3 pm UTC, on the dYdX Foundation Twitter Spaces.

x.com

[dYdX Foundation](#) ([@dydxfoundation](#)) on X

[@dydxfoundation](#)

Join us for an AMA with @karpatkey to discuss their proposal to form a new Treasury subDAO!

Sept 19, 2024.

15:00 UTC.

dYdX Foundation Twitter Spaces.

Tune in to share your thoughts, ask questions, and help shape this key initiative