

Summary

Following the success of [proposal #157](#) to set up the dYdX Treasury SubDAO, we are proposing to:

- transfer 45,000,000 DYDX from the [Community Treasury](#) to an account controlled by the dYdX Treasury SubDAO for the implementation of the staking program (this is roughly 50% of the vested DYDX in the [Community Treasury](#));
- ratify the Community Signers and karpatkey Signers as Directors of the Cayman Foundation;
- obtain dYdX community consent with respect to the Cayman Foundation formation documents.

Abstract

The Treasury SubDAO has been established as a Cayman Islands Foundation Company, named the “dYdX Treasury SubDAO Foundation”.

Three Community Signers were selected to be part of the multi-signature wallet of the dYdX Treasury SubDAO Foundation, along with three karpatkey signers. The Treasury SubDAO will utilize a 3-of-6 wallet signer configuration. This structure will consist of two groups: Group 1 will comprise three signers from karpatkey, while Group 2 will include three Community Signers. To execute a valid transaction, a total of 3 signatures are required, with at least 1 signature coming from each group. This design ensures that neither karpatkey nor the Community Signers can unilaterally control funds.

After their background verification, the six chosen signers will also be appointed as Directors of the dYdX Treasury SubDAO Foundation. Until such time, Glenn Kennedy of Leeward Management will act as a temporary director.

Leeward Company has been appointed as a Supervisor and a Secretary of the dYdX Treasury SubDAO Foundation.

We will share the dYdX Treasury SubDAO Foundation Memorandum & Articles of Association with the community as soon as they are available.

The Treasury SubDAO has been onboarded with Fordefi’s self-custody solution. We will share the dYdX Treasury SubDAO Foundation’s dYdX Chain address with the community as soon as it is available.

We now seek approval from the dYdX Community for the transfer of 45,000,000 DYDX from the Community Treasury (approx. 50% of the vested tokens currently available in the Community Treasury) to the dYdX Treasury SubDAO’s dYdX Chain account to support the implementation of the Staking Program. Through this program, DYDX tokens will be delegated to several dYdX Chain validators from the Treasury SubDAO’s dYdX Chain account, allowing the dYdX Treasury SubDAO to start accruing staking rewards in USDC. [The validator selection criteria for the Staking Program are available here](#)

As referenced in the previous [text proposal](#), karpatkey will receive a 5% fee on the net USDC staking yield, subject to a low bound of \$300,000 per year and capped at \$1 million per year.

Motivation

The dYdX Community Treasury is among the largest in the industry in terms of dollar value. However, its composition is currently limited to a single asset type, the DYDX token and liquid-staked DYDX (stDYDX). This concentration introduces significant volatility and risk, substantially impacting the treasury’s value and long-term stability. Relying heavily on a single asset exposes the community to market downturns and limits the treasury’s ability to mitigate risks through diversification.

Moreover, deploying treasury assets through module accounts governed by DYDX stakers and validators uncertainties around legal and tax liabilities.

The creation of the dYdX Treasury SubDAO as a Cayman Foundation addresses these challenges by eliminating legal and tax risks for DYDX holders. Through the Treasury SubDAO’s staking program, the dYdX ecosystem will be able to diversify its holdings by accruing USDC through staking yields, enhancing the treasury’s resilience and reducing exposure to market volatility.

Specification

We request 45,000,000 DYDX tokens from the Community Treasury (approx. 50% of the vested tokens currently in the treasury) to be transferred to the dYdX Treasury SubDAO’s dYdX Chain account to implement the staking program.

The key initiatives of the current engagement include:

- Designing a transparent validator staking program to enable the dYdX Treasury SubDAO to contribute to securing the dYdX Chain and increasing the share of stablecoins in its treasury;

- Allocating 45,000,000 DYDX tokens to the staking program with the goal of generating USDC-denominated yield, simultaneously growing the treasury and diversifying its asset composition;
- Supporting the dYdX 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 a secured runway;
- Providing detailed and timely reports on the dYdX Treasury SubDAO's asset allocation and performance.

Expected outcome

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 from this staking program to the dYdX Treasury SubDAO's balance sheet of 4.95M USDC per year (average APR throughout 2024 ~15%). Our DYDX price assumption is \$0.98, the 30-day moving average price.

One of the main priorities of the Treasury SubDAO is to diversify its treasury to reduce long-tail asset exposure and build sufficient runway and resiliency in the ecosystem to survive future market downturns.

Transparency and reporting

Detailed and timely reports on the dYdX Treasury SubDAO's asset allocation and performance will be published on the [karpatkey website](#) on a monthly basis. Both the staking address and the rewards accumulation address will be public so the community can verify them independently at any time.

Compensation of Community Signers

Each of the selected Community Signers will be compensated \$500 per month, paid in DYDX or USDC tokens.

Staking program

The staking program is designed to drive treasury sustainability, ecosystem security and growth.

Validators will be scored based on their performance on key metrics for the dYdX Chain. dYdX Chain validators will be delegated DYDX tokens from the dYdX Treasury SubDAO's holdings following the [selection criteria](#).

If this proposal is successful, the Treasury SubDAO will:

- share the list of validators that will/have received delegations under the staking program;
- periodically review and rebalance its delegations when appropriate. The review of the Treasury subDAO's stake delegations shall occur at least quarterly.

Next Steps

Following the forum discussion, we plan to initiate a Community Treasury Spend governance proposal on the dYdX Chain.

We will share complete information on the dYdX Treasury SubDAO Foundation, including the Articles of Association and the dYdX Treasury SubDAO Foundation's dYdX Chain account on the dYdX Forum as soon as they are available.