Abstract

The Arbitrum Token Swap Pilot proposal is the next step toward the long-term effectiveness and sustainability of ecosystem support programs in the broader Arbitrum ecosystem.

In this initial pilot phase, we prioritize mature protocols on Arbitrum, the so-called Arbitrum Blue Chips of which 19 have been identified. The pilot aims to swap with 3-7, with a maximum swap budget of 2M ARB and a cap of 0.5M ARB per project.

We foresee token swaps as a complimentary mechanism to the current incentive programs for Arbitrum DAO to participate in the development and success of its ecosystem projects.

Motivation

One of the primary limitations of the initial incentive programs is that they were all one-directional, with Arbitrum treasury allocating ARB to projects and only receiving network transaction revenue in return. While project growth resulting in additional network activity does provide some upside for Arbitrum treasury, the effects will likely take years to accrue to a point where the net resources flow of the Treasury is positive, only once Arbitrum and the applications on top reach maturity.

Token swaps provide a robust mechanism for value alignment and bidirectional upside between organizations. In addition to potential financial benefits, they come with governance and utility perks associated with tokens.

Moreover, Treasure DAO's recent move from Arbitrum to ZKsync has shown that bidirectional, long-term alignment is even more critical, especially for protocols that play an essential role in the ArbitrumDAO ecosystem and have received significant ARB incentives.

By embedding Token Swaps as a vital element of Arbitrum Ecosystem Development and critical programs such as LTIP, Arbitrum can continue pro-actively incentivizing ecosystem growth while receiving additional upside and leverage in the most promising project's building in its ecosystem.

The detailed Token Swaps to DAO Token Swaps as Ecosystem Enablers report, produced by LuukDAO and JashFi through the Thank ARB Firestarters Program powered by Thrive Protocol, offers insights from over 50 DAO token swaps, which are the basis for this pilot proposal.

Rationale

The Token Swap Pilot contributes to Arbitrum DAO by:

- Increase bi-directional alignment with top ecosystem projects.

- Gain valuable insights into strategies for ecosystem development, which can inform grant and incentive programs like STIP and LTIPP.

- Create incentives for protocols to remain loyal to Arbitrum through a token swap program. In the pilot phase, reward those who held on to (at least 50%) of their initial ARB airdrop.

Steps to Implement

Projects eligible for a swap

During the initial Token Swap discussion, it became clear that stakeholders and delegates value the ecosystem alignment and contribution nearly as much as the financial upside. To optimize Arbitrum ecosystem alignment and longevity, the Token Swap Pilot prioritizes projects with significant past engagement with Arbitrum.

Only projects that received the initial ARB airdrop and still hold at least 50% of their tokens, participated in one of the STIP or LTIPP programs, and have a token available on Arbitrum Mainnet will be eligible for this pilot.

19 projects that fall within this category have been identified. These projects still hold over 27,2M ARB in their treasury and have received significant rewards from the incentive programs. The complete list can be viewed here.

Any project that does not fall within the above categories will not be eligible for the Arbitrum Token Swaps Pilot. Still, if the pilot is successful, it may be an addition to future grant programs and expanded to prior STIP or LTIPP grantees.

To determine the exact swap size, the following parameters will be considered by the Committee members:

Airdrop Size:

Airdrop % Sold:

Incentive Rewards received:

Market Cap:

FDV:

Lifetime Fees Generated:

6 month Fees Generated:

Lifetime GAS consumed:

6 month GAS consumed:

% of protocol usage on Arbitrum:

Project Treasury Size currently:

Token Pool depth on Arbitrum:

Token Utility:

ARB utility plan:

Swaps will be executed through Hedgey Finance's Token Swap solution, the most used DAO token swap solution.

Note: If insufficient projects are willing to participate in the exchange, we'll explore alternative

eligibility requirements and submit an additional Snapshot vote to ratify these changes.

Token Swap Budget

The Arbitrum Token Swap Pilot will have a Token Swap budget of up to 2M ARB, which the Pilot Council will manage through the MSS multi-sig.

- The initial pilot program is anticipated to conduct between 3-7 token swaps.

- Each swap is capped at a maximum of 500,000 ARB, comparable to some previous swaps executed on Arbitrum One by GMX and its partners.

- The minimum swap size will be 100,000 ARB.

Non-Sales Clause

Arbitrum DAO and the third-party DAO will swap tokens with a 3-month lock. After the three month lock, the tokens will unlock 10% monthly for ten months. If no Arbitrum Treasury Management team is in place within nine months of executing the token swaps, the Pilot team will propose a solution for managing these tokens before they unlock.

All tokens received by Arbitrum will be kept in its main Treasury (0xF3FC178157fb3c87548bAA86F9d24BA38E649B58).

Pilot Program Implementation (timeline)

The Token Swap Pilot Council

The initiative will comprise 3 voting members and 1 non-voting facilitating member.

The following 3 voting members are nominated as they provide a deep understanding of ArbitrumDAO and Token swaps.

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  1. @LuukDAO, for producing the initial research and various Token Swaps programs
- @LuukDAO, for producing the initial research and various Token Swaps programs

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  1. @GFXlabs, for being an active LTIPP and STEP Council member
- @GFXlabs, for being an active LTIPP and STEP Council member

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  1. @CastleCapital, for doing in-depth airdrop research and being an application advisor in LTIPP.
- @CastleCapital, for doing in-depth airdrop research and being an application advisor in LTIPP.

The non-voting member (except in case of a tie) will be 4.@thedevanshmehta, who supervised the token swap research and performed a similar role in the STEP program.

Phase	Deliverables	Staff	Time	Budget
Pre-Swap/ Application Period	RFP for interested projects to apply with details on number of ARB tokens the project would be interested in swapping, information about the project's treasury and runway, information about the token utility and governance, and a plan for what it would do with the ARB received from the Token swap.	WG0 Members: Devansh Mehta and LuukDAO	3 weeks	21,000 ARB
Execution / Review Period	The Council will review each application based on quality and recommend which projects and what quantities to swap. These recommendations will be put to Snapshot for ratification by Arbitrum DAO	Voting Members: WG0 Lead LuukDAO,Castle Capital, GFX LabsFacilitating Member: Devansh Mehta	4 weeks	56,000 ARB
Post-Swap/Monitoring Period	Work with the Arbitrum Foundation for KYB of selected projects and with projects to ratify the deal with their team, community, and governance. Update and track deals in Dashboard after all execution is complete (those failing KYB or not getting approval will be removed from the list) through a Dune Dashboard to track its and third-party holdings of swapped tokens. Create a detailed Pilot Report with learnings to be published in week 6 of the monitoring phase. When token Swaps are larger than 400K ARB or otherwise deemed necessary, facilitate sourcing of delegates to represent Arbitrum's interest in the counterparty DAO Facilitate WGs to decide on future of program and integration with other ecosystem support programs.	WG0 Lead: LuukDAO	16 weeks	53,000 ARB

Conflict of interest rules

The dealmakers are not allowed to be involved in a token swap if they have direct or indirect exposure to the counterparty; this includes holding over 0,001% of the total supply of the token personally or through the affiliated company and having a direct, active working relationship with this protocol.

Program KPIs

This pilot's objective is to better understand the impact and logistics of DAO token swaps as a value-alignment tool for growing Arbitrum DAO's ecosystem.

The following KPIs are identified for the pilot:

- Execute at least three swaps and document the process and learnings
- Gain a better understanding of the change of behavior and perception of ecosystem players following a token swap with Arbitrum DAO
- Provide a comprehensive summary of the pilot and support future incentive programs, allowing them to leverage Token Swaps in their program design.

Overall Cost

- The total cost to implement the AIP

Total Cost: 2,130,000 ARB

- Token Swap Budget: 2,000,000 ARB. The entire budget does not need to be spent. Any unused funds will be returned to the DAO.

Implementation Budget: 130,000 ARB. All staff involved are paid 3,500 ARB per week for their involvement.

1. Application period: 21,000 ARB will be split equally between LuukDAO and Devansh for drafting the application form in week 1, and helping protocols apply in weeks 2 and 3.

2. Review period: 56,000 ARB, split equally between all four committee members for four weeks, to negotiate token swap deals and put forth recommendations for approval on snapshot.

3. Execution (~6 weeks) and monitoring period (~10 weeks) to formulate continuation of the program - 53,000 ARB to 1 member (LuukDAO).

Helpful links:

- [DAO Token Swaps as Ecosystem Enablers Report 3](#)
- [DAO Token Flow Report - July 2024 1](#)
- [Earlier thread on the token swap proposal](#)