

Title

– Proposal [Non-Constitutional] Arbitrum Treasury Token Swap Program

Abstract

- We seek comments on the Arbitrum Treasury Token Swap Program, a proposal to elect 5 dealmakers for negotiating token swaps with top apps in our ecosystem. This proposal does NOT seek to transfer any large funds, only enough to elect, empower and compensate dealmakers who upload token swap agreements on Tally for ArbitrumDAO to directly approve.

Motivation

- This is the second of the Stable Treasury Endowment Program proposals put forth by the Treasury Working Group, formed in September '23 with a mandate to propose best in class solutions for diversifying Arbitrums treasury, currently containing ~3.5 billion ARB.

Token swaps are a form of treasury diversification that increases Arbitrum alignment of protocols. In our view, token swaps should be the final stage of ecosystem support by the DAO, which could begin with a small Questbook grant and finally graduate to a direct token swap with us.

Rationale

A. Ecosystem Growth

: We see broadly three categories of projects that would benefit from and apply for token swaps

1. Builders: Some founders, such as Susruth Nadimpalli of Catalog (Ren Protocol), were seeking an L2 they could devote themselves to. A token swap emerged as one way to ensure they build on our chain.
2. Mature Apps: Many of the top apps in Arbitrum have their own token. Although some of them have ARB in their treasuries because of the airdrop, we do not possess any of their tokens. We think ARB DAO should seriously think of getting a nonzero amount of the top tokens in our ecosystem to promote closer integration with successful dapps on our chain and more generally create positive sentiment in the ARB ecosystem.
3. Orbit Adoption: The third category consist of big players that want to launch their own Orbit L2 or appchain. For example, both Celo and ENS are researching a tech stack for their chains. A token swap deal can help cement their decision of whether to choose Orbit over its competitors for their L2.

More broadly, getting a voice in the apps in our ecosystem may prove critical in the future for ensuring they remain Arbitrum aligned (such as by voting against their migration from our chain). At the same time, for it to truly be an ecosystem growth initiative, we need to ensure it doesn't appear that the DAO is picking winners and that the source of tokens we receive in the swap is not from the founder encashing their holdings but a community treasury with clear guidelines on holding periods.

B. Treasury Diversification

: The first proposal by our WG diversified our treasury into stable RWAs such as tokenized t-bills, while helping with ecosystem support through the DAO being a customer of such products built on our chain. The present token swap proposal takes this one step further by becoming more closely integrated with apps in our ecosystem through owning their tokens.

More generally, we do not think apps that have launched their own token should be receiving large grants from ArbitrumDAO. People will always line up for free money; but when they have to give something in return such as their token, they would be more judicious about the amounts they are requesting.

Some of the risks to take care of are avoiding what happened to FTX with their [BitDAO token swap](#). After \$BIT migrated their token and became \$MNT, they [invalidated](#) all tokens held by the FTX estate by preventing their exchange. We also want to prevent one sided deals where we hold in perpetuity while the other side liquidates ARB received. In the future, a DAO treasury manager could keep tabs on alt tokens in our treasury and recommend or even unilaterally hold power to liquidate them with an explanation to the DAO.

Specifications

One big issue with token swaps are price increases upon announcement of a deal. We want to mitigate this issue by the elected dealmakers making the announcement of projects shortlisted via an onchain proposal on Tally, with the applicant locking in terms of the deal using Hedgey's token swap escrow tool and Arbitrum DAO accepting or rejecting the deal via a direct onchain Tally vote.

All shortlisted applicants will need to undergo KYC with the Foundation, before any deal is uploaded on Tally.

We would also let dealmakers negotiate the vesting lengths, lockup periods and other details, which would vary depending on the applicants requirement (a builder seeking a token swap would be different from one launching their orbit chain and wanting a voice in governance).

Steps to Implement

- Snapshot approval of the proposal
- Elections for dealmakers held on Snapshot
- Tally vote approving or rejecting the dealmakers elected in the Snapshot poll and transferring remuneration to them (in case the DAO is not satisfied with the candidates or changes its mind, they can reject the proposal at this stage).
- Dealmakers put out an RFP for projects to apply for token swaps with Arbitrum DAO
- Shortlisted applicants complete KYC, lock up their tokens in escrow and dealmakers upload the deal on Tally ; if passed, tokens are swapped between our treasuries and if rejected, applicant gets back their tokens.

Timeline

April : Solicit comments and feedback on the proposal

May : Put forth a Snapshot vote and if successful, invite applications for people to become ARB DAO dealmakers

June : Snapshot election for appointing dealmakers

July : Onchain tally vote to authorize and pay elected dealmakers

August-October: RFP for DAOs seeking token swaps + search and review of applicants

November: Submission window closes and KYC checks for shortlisted candidates

December : Upload deals for the DAO to vote on Tally

January : Vote on continuation of the program or its disbanding

Overall Cost

: 210,000 ARB

We are still working out the right amount of pay and seek feedback from the DAO and interested candidates in the position. We propose 35k ARB to each of the 5 dealmakers and the Treasury WG as facilitating, nonvoting member except in tie-breaks (upper range should be 50k and lower 20k)

$35,000 \times 6 = 210,000$ ARB

This will be the only incurred cost in the proposal, as the DAO will directly approve or reject any token swap deal uploaded to Tally.

We are keeping a soft target of uploading token swap deals worth at least 10 million ARB before seeking additional funds for continuation of the program. 2% of this amount for implementation is reasonable by industry standards , especially considering the power these dealmakers have.

As a concluding note, we would highlight that it is not terribly important whether these deals are approved or rejected, just that apps in our ecosystem are aware of Arbitrum's token swap ecosystem support program that they may one day benefit from.