

Abstract

This vote authorizes transfer of another 35 million ARB to the [STEP multisig](#) for the next edition of the [Stable Treasury Endowment Program](#) (STEP), for diversifying Arbitrum DAOs treasury into real world assets that are stable in value, liquid in conversion and have yield uncorrelated to crypto markets. The ARB will be converted by the Arbitrum Foundation only when macroeconomic conditions improve and the total amount obtained is similar to or higher than the first iteration (which got \$30 million). The goal of the STEP program is treasury diversification along with ecosystem growth for Real World Asset (RWA) protocols on Arbitrum.

Motivation

This proposal kickstarts the next version of the [Stable Treasury Endowment Program](#), which aims to grow the RWA ecosystem (many of the top protocols do not need grants so much as AUM for their product) while simultaneously diversifying our treasury into stable, liquid and yield-generating assets (the volatility of the ARB token has highlighted the need for prudent diversification based on fixed targets).

The RWA sector is currently \$12 billion (it was \$1 billion at the time of STEP 1), growing at leaps and bounds with much room to grow even further considering the US treasury market by itself is \$20 trillion. To stay on top of this competitive sector, we need reliability and consistency in the programs we run for this vertical.

At the same time, we have seen increasing interest in treasury diversification initiatives across Arbitrum DAO. We propose 3 clear principles to follow in dealing with service providers proposing to help with Arbitrum treasury diversification;

1. Directly own the process of selecting stable assets providing yield rather than delegating to a treasury manager (no point paying 1% AUM for them to hold low-risk assets on our behalf).

The STEP program is an example of how this can take place: an RFP under which projects apply with their product; a committee to review applicants; a program manager to monitor selected products

1. Diversify the treasury in a manner that also promotes ecosystem growth, by conducting a competitive process where the legitimacy of Arbitrum DAO selecting a providers asset is as valuable as the business they get from it

Accordingly, have projects directly apply in a competitive process on our forum if they want us to diversify into their product and be ratified in some way through a vote, not privately approach a treasury manager to get included

1. Use fixed targets for conversion to obtain a better bang for our ARB and reject treasury managers proposing point-in-time diversification below the target

We propose additional treasury diversification take place at a rate close to or higher than the first STEP program. Since we already have \$30 million converted into stable RWAs, there is no urgency for more diversification at a significantly lower price.

Rationale

In mid-2024, Arbitrum DAO diversified \$30 million into stable, liquid & yield generating RWAs. A comprehensive RFP process was undertake, where the DAO received 33 applications from RWA issuers, of which 16 were shortlisted and 6 were finally selected for allocations: Securitize BUIDL (\$9.57 million), Ondo USDY (\$5.22 million), Superstate USTB (\$5.22 million), Mountain USDM (\$3.48 million), OpenEden TBill (\$3.48 million), and Backed Finance bIB01 (\$3.48 million). These allocations helped us diversify the treasury into dollar denominated assets, got selected providers to launch on Arbitrum and are expected to generate a yield of roughly \$1-1.5 million per year for our treasury.

While the 1st program narrowly targeted low-risk and liquid instruments (primarily US treasury bills and money market instruments), the second version will expand its scope to include products in private credit, equities, commodities and global bonds. We saw breakout interest from service providers with such products in the 1st version of STEP and had to turn down the majority of them due to a limited mandate. The dashboard at [rwa.xyz](#) lists these categories as fast-growing and we should be at the forefront of nurturing such products.

Overall, this proposal aims to achieve 3 broad objectives;

1. Show that Arbitrum has a plan for the RWA vertical and such projects should build on our chain, by expanding the STEP program to more categories than just U.S. treasuries
2. Let the DAO directly own stable RWAs through a competitive selection process for providers, instead of paying 1% AUM to treasury managers for selecting and holding low risk assets on our behalf. Use yield from the products to cover operational expenses.
3. Provision funds ahead of time for optimal execution, so that the next STEP program is of a roughly similar value or higher than the last one (\$30 million) at the same price tag, by waiting until the right macroeconomic conditions before liquidating the budgeted ARB

Specifications

- We will transfer 35 million ARB to the same foundation managed wallet (0xe41d54471EfA03eFF6365795f60545F3cAF7C97e) used in the initial STEP program
- The foundation will at their discretion either set limit orders for ARB or liquidate after average ARB price over the last month is close to or higher than the amount received for the initial STEP program
- The Arbitrum Foundation announces availability of funds on the forum after completion of orders, kickstarting the next phase of an RFP for RWA projects to apply under on the governance forum
- While funds are awaiting optimal execution or soon after, proposals are passed ratifying the RFP, committee composition for selection of providers, asset types, eligibility criteria for STEP 2 and other required details for running the program
- Funds are allocated to selected providers after ratification by the DAO

Steps to Implement

The focus of this proposal is ensuring we have sufficient time to optimally convert and receive adequate funds for the next STEP program, along with laying out some general guidelines for treasury diversification into stable assets (no AUM % fees on stable assets, focus on ecosystem growth in diversification, do not diversify when macroeconomic conditions are poor).

Concurrently, the [STEP steering committee](#) (not involved in this proposal) is putting forth its own implementation budget to complete its research on STEP such as types of assets, eligibility criteria, liquidation methods, selection procedures and more. These deliverables will come into play after we are ready to run the next iteration of the program, upon successful conversion of the ARB into stables by the foundation, at a price similar to or higher than the last iteration of STEP.

Timeline

Forum Discussion: September

Snapshot vote: After first report from STEP 1 is released

Tally vote: After first yield from STEP 1 comes into our treasury

Indefinite : Waiting for optimal conditions before commencing diversification at a rate either higher than STEP 1 or not significantly below it

Overall Cost

Work on this proposal has been funded by Thrivecoin's ThankArbitrum Firestarter program, so there are no implementation costs baked into this proposal. The Steering Committee will separately put forth its own implementation budget for working on the necessary research into the STEP program.

The only direct cost incurred with this proposal is the 35 million ARB to be converted by the Arbitrum Foundation at an opportune time to hold the next edition of the STEP program.