

Governance Discussion: Aave DAO should diversify a portion of its treasury from governance AAVE tokens into stable coins & ETH

Summary:

There is significant research around the risks for DAOs who hold a large majority of their treasury in native tokens, especially when it comes to long term planning for DAO funding and operations. I am putting forth this initial forum discussion to propose action to begin diversification of the treasury into stable coins and ETH, with a larger goal of creating a treasury management working group, a subgroup under the DAO, to lead ongoing diversification and treasury management goals on behalf of and for the benefit of the DAO. Initially, I propose converting \$50mm worth of AAVE tokens to a mix of stable coins (USDC / DAI) and Ether using the Hedgey OTC protocol. \$50mm was chosen as an initial diversification amount given other proposals for funding, where some of this cash could be utilized in grants (like upcoming \$6mm grant funding proposal), and sufficient funding to formalize paying contributors in stable coins as the DAO forms more formal working groups, like the treasury management group I've also proposed.

Pros:

- Builds a stable capital pool that does not fluctuate with the markets
- AAVE sale (via OTC protocol) is publicly available, and can include token time locks to avoid any impacts to liquid markets
- Grants and investments can be funded with ETH and stable coins, avoiding the significant sell pressure often associated with funding grants in AAVE tokens

Cons:

- Appreciation of the tokens converted will benefit the buyers instead of the Treasury

Outline:

While there are several methods that DAOs can use to convert tokens responsibly to stable coins, I propose a simple over the counter style token sale offering to the Aave community and public at large. This sale would have the additional parameters of incorporating a discount plus a time-lock for the purchased tokens. At Hedgey, we have built protocols for this purpose, allowing DAOs to publicly sell tokens with a time-lock (with tokens locked in an NFT representing their right to claim those tokens after the vesting period ends). Anyone can participate in the sale, including institutional investors, as well as community and retail investors. Utilizing the Hedgey OTC permissionless protocol is a simple way to execute the transaction and event, which would be incorporated directly into a DAO proposal and executed automatically from the passing of the proposal. Exact details regarding the amount, sale price, and discount are up for discussion, though I would propose the following as a starting point. Draft numbers below (three separate tranches of sales):

Tranche sale 1

Amount of Tokens: 150k

Payment Currency: USDC

Price per token: \$130

Effective discount: ~20%

Lock Period / Unlock Date: 2 years

Tranche sale 2

Amount of Tokens: 150k

Payment Currency: DAI

Price per token: \$140

Effective discount: ~15%

Lock Period / Unlock Date: 18 Months

Tranche sale 3

Amount of Tokens: 75k

Payment Currency: ETH

Price per token: \$120 (priced in ETH)

Effective discount: ~25%

Lock Period / Unlock Date: 3 years

Justification:

Aave Protocols DAO are a core infrastructure of the web3 ecosystem. As the DAO evolves to expand its involvement with the larger DeFi and web3 ecosystem via grants and additional protocol developments and deployments, the DAO needs to have in place the financial stability to support these important endeavors, with a strong and balanced treasury as its backbone. DAOs, such as Gnosis, that have successfully diversified their treasuries are now able to operate, grow, and invest primarily from their non-native token offerings. By diversifying a portion of the Aave treasury into stable coins, the treasury can then generate stable coin yield on those assets using its own protocols, and fund grants and the DAO indefinitely. Ultimately, this would be the first step in creating an active, healthy, diverse treasury ensuring longevity of the Aave ecosystem.

As a first step after some discussion and feedback, I would propose moving forward with Tranche sale 1, first with a snapshot heatmap, and then with a formal DAO proposal. There is no need for an intermediary multi-sig, the DAO proposal execution will trigger the deployment of the AAVE tokens and generate the OTC sale, and all proceeds will be automatically paid to the DAO treasury contract.

Hedgey Protocol Information:

The Hedgey OTC protocol is a permissionless OTC smart contract that simply allows a seller to create a sale for their tokens with a given set of parameters; price per token, minimum purchase size, total sale amount, payment currency and unlock date. When purchased the buyers pay directly to the DAO the amount owed, and if the tokens are locked, then the buyers are minted an NFT representing their right to claim those locked tokens after the unlockDate. The NFT contract is the combination of a standard NFT contract with the token-time-locks (with some fun artwork by the Hedgey team to help visualize the tokens purchased that are locked up). As such, the NFTs can be traded and sold on marketplaces such as OpenSea, to get access to secondary liquidity while the tokens are still locked and cannot impact liquid UNI markets.

Links to Hedgey documentation:

About: [Hedgey Finance](#)

Audited smart contracts can be found at: [Github repo](#)

Documentation: [Documentation](#)

Background on the author:

Alex Michelsen is a CFA Charterholder who served as senior treasury manager at WeWork for over five years. He is CFO and Co-founder at Hedgey Finance, where he builds protocols for enabling better DAO treasury diversification.