

Project Andromeda: Risk & Legal Assessment

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Introduction

This is a risk and legal assessment of the proposed deployment of 1,280,000,000 Dai by BlockTower Capital Advisors LP ("Blocktower") for the purchase of short-dated United States Treasuries ("U.S. Treasuries") to be held in custody by Wedbush Securities Inc ("Project Andromeda"). The proposed transaction was initially presented to the community by BlockTower under "MIP90", but has since undergone material revisions and is described in more detail below.

The proposed transaction is presented in accordance with [MIP101: Maker Atlas Immutable Alignment Artifact](#) and [MIP104: Stability Scope Bounded Mutable Alignment Artifact](#).

Key Transaction Terms

Term

Figure

Description

Debt Ceiling

1.28B Dai

A new vault with a debt ceiling of 1.28B Dai will be deployed.

Stability Fee

0%

Set to 0% for the purposes of MakerDAO accounting. Vault will receive quarterly distributions.

Eligible Collateral

Short-dated U.S. Treasuries

Initial strategy will include purchases in a ladder from 0 to 6 months.

Arranger Fees

0.15% of Vault Balance

Paid to BlockTower quarterly, subject to Minimum Arranger Fee.

Minimum Arranger Fee

\$1.8MM

The minimum total fees paid to BlockTower over the life of the transaction. For more, see "BlockTower Capital Advisors LP" below.

BlockTower Indemnity Amount

\$2.5MM

Indemnity will be capped at \$2.5MM and will operate for 4 years from Inception Date. For more, see “BlockTower Capital Advisors LP

” below.

Executive Summary

Project Andromeda implements the proposed transaction by means of the TACO Foundation (“TACO”) in the Cayman Islands. TACO was incorporated in 2022 in connection with the [BlockTower MIP6 transaction](#) and is an exempted limited guarantee foundation company with limited liability.

TACO, as directed by Maker Governance in the instruction sets below, will instruct the transaction parties to mint Dai, exchange Dai for other stablecoins held in the PSM, and purchase U.S. Treasuries evenly across maturities ranging from zero to six months. The assets will be brokered by Celadon Financial Group (“Broker”) and held by Wedbush Securities Inc (“Custodian”) in a segregated account in the name of TACO.

BlockTower will serve as the Arranger on the transaction and will be responsible for supervising and directing the assets in the TACO Account based on guidelines and instructions provided by TACO as BlockTower’s client. The guidelines and instructions are summarized below in the section titled “The Transactions and Flow of Funds–Deployment

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Ankura Trust Company (“Paying Agent”) will be responsible for the receipt, disbursement, and settlement of funds and transactions for the purpose of managing the TACO Account in accordance with the SMA.

Coinbase, Inc (“Coinbase”) and Galaxy Digital Trading Cayman LLC (“Galaxy”) will serve as Exchange Agents on the transaction, facilitating the conversion between stablecoins and U.S. Dollars.

Risks relating to Project Andromeda include regulatory risk, concentration risk, exchange platform risk, and a number of risks specific to U.S. Treasuries. For more on risks, see “Risks and Mitigants

” below.

Key Definitions

Term

Definition

Arranger

BlockTower Capital Advisors LP, a Delaware limited partnership.

Broker

Celadon Financial Group

Custodian

Wedbush Securities Inc

Exchange Agents

Coinbase, Inc (“Coinbase”) and Galaxy Digital Trading Cayman LLC (“Galaxy”).

Inception Date

The date on which the initial Andromeda funds are received by the Custodian.

Paying Agent

Ankura Trust Company, a New Hampshire limited liability company and chartered non-depository trust company.

TACO

TACO Foundation, an exempted limited guarantee foundation company incorporated in the Cayman Islands with limited liability.

TACO Account

The assets deployed in Project Andromeda and any accompanying proceeds thereof.

Documents & Other Resources

Public Documents

- [TACO Articles of Association](#) (Final
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- [BlockTower Separately Managed Account Agreement \(“SMA”\)](#) (Agreed
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- [Ankura Paying Agent Agreement](#) (Agreed
-)

Confidential Documents

- Celadon Prime Brokerage Agreement (Agreed
-)
- Coinbase Prime Broker Agreement (Agreed
-)
- Galaxy Cryptocurrency Purchase & Sale Agreement (Agreed
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Instruction Sets

- [Ratification of Initial Setup](#)
- [Setup Transactional Third-party Relationships](#)
- [Pilot Deployment](#)
- [Initial Deployment](#)

TACO Foundation

TACO is an exempted limited guarantee foundation company incorporated in the Cayman Islands. TACO was registered in November 2022 and was used to facilitate the deployment of a \$150MM DAI facility by BlockTower into real-world credit assets. Similar to James Asset (PTC) Limited and the RWA Foundation, TACO serves as an entity through which Maker Governance can conduct activity in the “real world.”

TACO’s operations are governed according to its Articles of Association (the “Articles”), which provide that the Director of TACO may only make certain decisions on certain matters with the prior approval of Maker Governance via a DAO Resolution. Specifically, clause 4.16 of the Articles requires that the director of TACO must implement all MakerDAO resolutions (subject to applicable law). This makes the TACO entity highly responsive to directions from Maker Governance.

BlockTower Capital Advisors LP

Pursuant to the SMA, BlockTower will manage, supervise and direct the assets in the TACO Account based on guidelines and instructions provided by TACO as BlockTower’s client. Such guidelines and instructions can be found in Exhibit A of the SMA and are summarized in “The Transactions and Flow of Funds–Deployment

” below.

BlockTower is a registered investment adviser with the U.S. Securities and Exchange Commission, applying the skills of professional underwriting, structuring and investing at the intersection of real-world credit and crypto. BlockTower was founded in 2017 by Ari Paul (its Chief Investment Officer) and Matthew Goetz (its Chief Executive Officer). BlockTower draws from its personnel’s decades in combined experience across professional investing and trading, early-stage venture capital, and credit.

For services provided on Project Andromeda, Blocktower will be paid the standard arranger fee of 15 basis points under MIP104: Stability Scope Bounded Mutable Alignment Artifact ("Arranger Fee"). The Arranger Fee will be paid on a quarterly basis and calculated using the average net asset value of the assets in the TACO Account during the applicable quarter.

Under the SMA, Blocktower is guaranteed a total minimum fee of \$1.8MM over a two year period. Given the uncertain crypto regulatory environment in the United States, Blocktower will also have access to an indemnity under the SMA that is capped at \$2.5MM ("Indemnity Amount"). The Indemnity Amount will remain an obligation of the TACO Account until the 4th anniversary of the Inception Date and will survive termination of the SMA.

If BlockTower draws on the entire Indemnity Amount prior to the 4th anniversary of the Inception Date, it will not be entitled to additional indemnity given the indemnity cap. To draw on the Indemnity Amount, BlockTower will make a request to the Paying Agent who is authorized to provide the necessary amount of funds from the TACO Account (limited by the cap) when BlockTower provides evidence of costs covered in Section 18 (Indemnification) of the SMA.

Ankura Trust Company

Pursuant to the Paying Agent Agreement, Ankura will act as the Paying Agent with respect to the TACO Account. Ankura will be responsible for the receipt, disbursement and settlement of funds and transactions for the purpose of managing the TACO Account in accordance with the SMA.

Ankura's duties will include delivery of the Arranger Fees, payment of expenses, payment and receipt of funds to and from the Exchange Agents and deposit and withdrawal of funds from the TACO Account in connection with the purchase or sale of U.S. Treasuries, in each case, in accordance with instructions provided by the Arranger.

The Paying Agent Agreement also provides the flexibility for the Paying Agent to make payments that are not enumerated in the agreement. However, such payments will require jointly issued instructions from both the Arranger and TACO via Maker Governance.

The Paying Agent shall send statements to TACO and the Arranger on a monthly basis reflecting activity in the Account for the preceding month, which shall be posted to the MakerDAO forum.

Celadon Financial Group

Celadon Financial Group was founded in 1986 and is a full-service broker-dealer that provides a range of services to financial institutions, professional traders, and high-net-worth investors. Pursuant to the Prime Brokerage Agreement, Celadon will serve as the Broker and oversee the custody of the U.S. Treasuries by the Custodian, Wedbush Securities Inc. TACO assets held at Celadon and Wedbush will be held in an account in TACO's name and segregated from firm assets.

The Transactions and Flow of Funds

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Andromeda Transaction FoF

2821×1818 397 KB

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For the full detail surrounding the technical implementation of this transaction, see the related Dewiz Technical Assessment.

Deployment

The Paying Agent calls the draw function, with a Dai amount as input, in the RWAUrn2 contract. At such time, Dai will be minted from the Andromeda vault and sent to the RWASwapOutputConduit. The Paying Agent will then call the pick function in the RWASwapOutputConduit with an ERC-20 address as input, representing the Exchange Agent designated to receive such funds. Last, the Paying Agent will call the push function in the RWASwapOutputConduit, which will swap the Dai for USDC (or other stablecoin in a Maker PSM) and send the tokens to the previously designated Exchange Agent.

Once the Exchange Agent receives tokens in the account established for TACO, it will exchange those tokens for USD and wire all funds to the Custodian. Once funds are deposited with the Custodian, the Director of TACO and BlockTower will instruct Celadon to acquire assets according to the below schedule, to the best of their ability, and in an amount equal to the full account balance. As U.S. Treasury Bills mature, Celadon has direction to redeploy cash proceeds to maintain the investment strategy until further notice.

Schedule of Asset Purchases

- 1/6th (16.67%) allocated to 0-1 month U.S. Treasuries

- 1/6th (16.67%) allocated to 1-2 month U.S. Treasuries
- 1/6th (16.67%) allocated to 2-3 month U.S. Treasuries
- 1/6th (16.67%) allocated to 3-4 month U.S. Treasuries
- 1/6th (16.67%) allocated to 4-5 month U.S. Treasuries
- 1/6th (16.67%) allocated to 5-6 month U.S. Treasuries

Return of Capital

At any time, the transaction parties may be instructed by DAO resolution to sell any assets and/or return any proceeds back to the MakerDAO protocol. Additionally, as set forth in the Separately Managed Account Agreement, at the end of each calendar quarter, BlockTower will calculate the amount of interest proceeds generated during the quarter and instruct the Brokers and Paying Agent to begin a distribution back to the MakerDAO protocol.

The designated proceeds will be wired from the Custodian to the Exchange Agent. Once USD is received, the Exchange Agent will convert the USD into USDC (or other stablecoin supported by a Maker PSM) and send the tokens to the RWASwapInputConduit RWAJar if the tokens represent fee proceeds or the RWASwapInputConduit RWAUrn if the tokens represent principal proceeds. The Paying Agent or any Ethereum address will then call the push function in the RWASwapInputConduit contract, swapping the USDC (or other stablecoin) into the PSM, receiving Dai. The Paying Agent or any Ethereum address will then call the void function if the tokens represent fee proceeds or the wipe function if the tokens represent principal proceeds to move tokens to the surplus buffer or repay debt as appropriate.

Risks and Mitigants

General Risks

Regulatory Risk

The digital assets industry is subject to an extensive, highly-evolving and uncertain regulatory landscape. Many of the applicable legal and regulatory regimes were adopted prior to the advent of the internet, mobile technologies, crypto assets, and related technologies. As a result, some applicable laws and regulations do not contemplate or address unique issues associated with the crypto economy, are subject to significant uncertainty, and vary widely across U.S. federal, state, and local and international jurisdictions. These legal and regulatory regimes, including the laws, rules, and regulations thereunder, evolve frequently and may be modified, interpreted, and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. To the extent TACO is deemed to have not complied with such laws, rules, and regulations, it could be subject to significant fines and other regulatory consequences, each of which may be significant and could adversely affect MakerDAO. To assist with navigating this complex landscape, legal experts were consulted extensively by the different transaction parties.

Concentration Risk

In this context, concentration risk describes the risk of loss arising from a concentration of transactions with a single entity, a group of closely linked entities, the same geographic area, specific economic or industry sector. Project Andromeda leverages the existing TACO structure in the Cayman Islands and utilizes some of the same service providers as the previous transactions involving TACO. In the event of adverse developments in any of the transactions or entities related to TACO, the overall impact of such developments could be considerably greater than if the transactions had not been concentrated to such an extent. To mitigate this risk, there is a segregation of duties on the transactions, meaning no single party has end-to-end control of the processes.

Exchange Platform Risk

The required conversions between stablecoins and U.S. Dollars will be carried out by the Exchange Agents on their respective platforms. To the extent that any of the private keys relating to wallets containing digital assets held for customers are lost, destroyed, or otherwise unavailable, and no backups of the private keys are accessible, an Exchange Agent may be unable to access the digital assets held in affected wallets. Crypto assets and blockchain technologies have been, and may in the future be, subject to security breaches, hacking, or other malicious activities. Any loss of private keys relating to, or hack or other compromise of, digital wallets used to store customers' digital assets could result in the loss of stablecoins placed with the Exchange Agents for conversion. Additionally, funds may be trapped in the event of a bankruptcy or other similar credit event. A mitigating factor is that the Exchange Agents will only be used for conversions and Project Andromeda funds will not remain on the platforms for long.

Risks Relating to U.S. Treasuries

U.S. Treasury Obligations Risk

U.S. Treasury obligations may differ from other fixed income assets in their interest rates, maturities, times of issuance and other characteristics. Similar to other issuers, changes to the financial condition or credit rating of the U.S. government may cause the value of the Account's U.S. Treasury obligations to decline.

Treasury Bill Interest Rate Risk

Treasury bills, like other fixed-income assets, are susceptible to interest rate fluctuations. This is known as interest rate risk. When interest rates rise, the prices of existing treasury bills on the secondary market typically fall, as newer issues come to market bearing higher coupon rates, making the older, lower-yielding T-bills less attractive. Consequently, if the TACO Account is forced to sell these treasury bills before maturity, it may realize a capital loss. This risk is particularly acute for treasury bills due to their short-term nature, as they are more directly tied to the Federal Reserve's short-term interest rate decisions.

In addition, if the Federal Reserve embarks on a period of tightening monetary policy (i.e., raising interest rates), the yield on newly issued treasury bills will increase. However, if the TACO Account holds onto older T-bills with lower yields, the overall return of the TACO Account could lag behind the market.

Conversely, in a declining interest rate environment, while the market price of treasury bills already held in the account may rise, the yield on newly issued treasury bills would be lower. This would mean that as treasury bills in the TACO Account mature and the proceeds are reinvested, they would be invested at these lower yields, potentially reducing the income generated by the TACO Account.

Thus, interest rate risk can affect both the market value of the treasury bills in the TACO Account and the income generated by the TACO Account. This risk underscores the need for careful monitoring of changes in interest rates and may require adjustments to investment strategies based on interest rate trends.

Treasury Bill Reinvestment Risk

Treasury Bill Reinvestment Risk pertains to the uncertainty surrounding the rate at which the proceeds from a maturing treasury bill can be reinvested. Given the short-term nature of treasury bills (with maturities of 26 weeks or less in the TACO Account's case), the TACO Account will face frequent instances of reinvestment. If interest rates have fallen at the time of these reinvestments, the proceeds from the matured treasury bills will be reinvested at a lower yield, potentially reducing the overall return of the TACO Account. This is known as reinvestment risk.

For example, suppose the TACO Account initially invests in treasury bills yielding 2%. If at maturity, the rates have dropped to 1.5%, the proceeds from the matured treasury bills will be reinvested at this lower rate. This could lower the income that the TACO Account can generate, thereby impacting its overall return.

It's worth noting that reinvestment risk is especially relevant in a falling interest rate environment. Conversely, in a rising interest rate environment, reinvestment risk is less of a concern as maturing treasury bills would be reinvested at higher rates, potentially increasing the income generated by the TACO Account.

However, the degree of reinvestment risk depends on the broader economic climate, the monetary policy of the Federal Reserve, and other factors that influence interest rates. Effective management of this risk requires close monitoring of economic conditions and potential adjustments to the investment strategy based on interest rate forecasts.

Treasury Bill Inflation Risk

Treasury Bill Inflation Risk refers to the risk that the returns from the treasury bills may not keep up with inflation, resulting in a decrease in the real purchasing power of the income from these investments. In other words, even if the investment in treasury bills is safe in nominal terms, the real value of the return could be eroded by inflation.

For instance, if the treasury bills are yielding a two percent (2%) return, but inflation is running at three percent (3%), the real return on the investment is effectively negative one percent (-1%). Over time, this could lead to a significant reduction in purchasing power. This is especially relevant when investing in low-yield treasury bills, as their returns are more likely to be outpaced by inflation.

In periods of high inflation, the nominal returns on treasury bills may not be sufficient to maintain the purchasing power of the capital invested. Therefore, even though the treasury bills are considered a low-risk investment, the inflation risk could lead to a loss in real terms.

Treasury Bill Credit Risk

Treasury Bill Credit Risk refers to the risk that the U.S. government will default on its obligation to repay principal or pay interest. U.S. Treasury Bills are backed by the full faith and credit of the U.S. government, which has historically made them one of the safest investments in terms of credit risk.

However, that does not mean they are entirely without credit risk. In theory, severe financial or political crises could increase the risk of the U.S. government defaulting on its debt obligations. For instance, during periods of political gridlock, the U.S.

government has come close to a debt ceiling breach, which if not resolved could lead to a default scenario.

While the likelihood of such a default is extremely low, it is not zero. In the event of a default, the value of U.S. Treasury Bills could decrease significantly, leading to potential losses for the TACO Account.

Therefore, even though the credit risk associated with U.S. Treasury Bills is minimal, it is important to monitor the fiscal and political situation in the U.S. to assess any potential changes to this risk. This includes keeping track of the U.S. government's credit rating, fiscal policies, and the political climate, especially around times of debt ceiling negotiations.

Treasury Bill Liquidity Risk

Treasury Bill Liquidity Risk refers to the risk that the TACO Account may not be able to quickly sell its holdings of Treasury Bills without suffering a loss in value. Under normal market conditions, U.S. Treasury Bills are considered highly liquid due to their strong demand, standardized features, and the large, active market in which they trade.

However, in certain abnormal market conditions, such as during periods of significant financial distress or market dislocation, the liquidity of T-bills could diminish. This could occur if a large number of investors simultaneously attempt to sell their holdings, causing supply to outstrip demand. In such a scenario, the Account may be unable to sell its treasury bills without accepting a lower price, which could lead to losses.

It's also worth noting that while the liquidity of treasury bills is generally high, it can vary based on the specific maturity of the treasury bill. For instance, treasury bills with less common maturities may be less liquid than those with more standard maturities.

Treasury Bill Market Risk

Treasury Bill Market Risk refers to the risk that the value of the treasury bills could decrease due to changes in the broader market. While treasury bills are less volatile than many other types of securities, they are not immune to market risk. Various factors can influence the overall market, leading to fluctuations in the price and yield of treasury bills.

Economic indicators, such as changes in GDP growth, unemployment rates, consumer confidence, and business investment, can influence market perceptions about the future course of interest rates, which can in turn affect the value of treasury bills.

Moreover, geopolitical events, such as wars, terrorism, political instability, trade disputes, or unexpected election results, can create uncertainty in the market and can potentially affect the value of treasury bills. Natural disasters or public health crises, which can have significant economic impacts, are also sources of market risk.

Treasury Bill Operational Risk

Treasury Bill Operational Risk refers to the risk that potential losses may result from inadequate or failed internal processes, people, and systems, or from external events. This includes a wide range of risks such as transactional errors, system failures, fraud, or any event that disrupts the normal functioning of the account.

For instance, errors in executing transactions, such as buying or selling the wrong quantity of treasury bills, could lead to financial losses. Similarly, failures in the Account's systems, such as issues with its trading platform or risk management software, could hinder its ability to effectively manage its treasury bill holdings. Fraud, either internal or external, could also lead to losses.

External events that could lead to operational risk include natural disasters that disrupt the TACO Account's operations, changes in laws or regulations that affect its ability to operate, or a significant event at a third-party service provider, such as a custodian or a broker, that impacts its ability to service the TACO Account.

Operational risks can be managed through strong internal controls, regular audits, robust systems and procedures, disaster recovery planning, and diligent oversight of third-party service providers. However, it's important to note that not all operational risks can be predicted or controlled, and there is always a degree of residual risk that must be accepted.

Treasury Bill Regulatory Risk

Treasury Bill Regulatory Risk refers to the risk that changes in laws or regulations may affect the value, operation, or profitability of the treasury bills in the TACO Account. Regulatory changes can come from various sources, including Congress, government agencies, or regulatory bodies like the Securities and Exchange Commission or the Federal Reserve.

For example, changes in tax laws could affect the after-tax returns from treasury bills. Similarly, new regulations pertaining to the purchase, sale, or holding of treasury bills could impact the Account's ability to invest in these securities or could increase the costs associated with these investments.

Additionally, regulatory changes could affect the broader economic environment, which in turn could influence interest rates

and the value of treasury bills. For example, changes in banking regulations or monetary policy could affect market interest rates, which could then impact the yields on treasury bills.

Treasury Bill Counterparty Risk

Counterparty risk refers to the risk that a party to a financial transaction will not fulfill their obligations. For instance, when purchasing treasury bills, the counterparty is typically a broker or dealer. If this entity fails to deliver the treasury bills after the Account has paid for them, this would be a form of counterparty risk.

Similarly, the TACO Account will use the Custodian to hold its treasury bills. If the Custodian faces financial or operational difficulties, it could affect the TACO Account's ability to access its treasury bills. This could be particularly damaging if the TACO Account needs to sell its treasury bills quickly to make distributions.

While the counterparty risk associated with treasury bills is generally low due to the highly regulated and standardized nature of these transactions, it can increase in times of economic stress or market turmoil.

Note:

Despite mitigating actions where applicable, some residual risks will remain as risk cannot be entirely eliminated.

Next Steps

- Will announce in this thread when all agreements have been executed.
- Will announce in this thread that the addresses in the instruction-sets match up with intended use and ownership before transmission of instructions to the Trustee.