Track Name (updated list)

Decentralized $ARB liquidity

Challenge Statement

As it currently stands, the DAO has no control over weather the ARB token can remain liquid and stable. As the largerst holder of the token the DAO should view this as a problem.

Members: Name or Alias.

Ian Campbell - Hacker

Keith Carlino - hustler

Taylor Pedde - hipster

Henry He - Dreamooor/hacker

Team Lead contact name or alias (Winners will be DM'd for prize distribution)

Ian Campbell: Telegram Web

Video Pitch

: Loom | Free Screen & Video Recording Software | Loom

Proposal Summary

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The purpose of this proposal is to bring to light the liquidity deficit of the $ARB token. This is one of the most pressing issues on the DAO. In a few short weeks major unlocks begin and the circulating supply of the token will double- with over 100m tokens releasing each month after that for years to come. We believe that even with the CEX's and OTC market, there is not enough liquidity to absorb the potential sell pressure. With that, we also believe that because Arbitrum is a DAO, it should be focused on decentralized solutions instead of relying on the centralized market for the token. The DAO needs to acquire POL and use its emissions as efficiently as possible, with the goal of achieving a high ROE (Return on Emissions).

Goals

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- Increase liquidity depth for blue-chip tokens on Arbitrum.
- Diversify DAO treasury with yield-bearing assets.
- Turn idle tokens into a profit center.
- Attract more developers to the network.

Bonding liquidity presents a compelling alternative to traditional liquidity mining models, particularly for L1s and L2s seeking sustainable liquidity sourcing and treasury diversification. Unlike short-lived liquidity mining strategies that often result in rapid liquidity fluctuations, bonding liquidity aligns incentives between users and protocols, offering a more stable approach. Traditional liquidity mining typically involves protocols incentivizing liquidity providers with token rewards, leading to temporary liquidity influxes. However, once these rewards cease, liquidity providers often withdraw, causing liquidity and token prices to plummet—a phenomenon known as the "death spiral".

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](https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/9/9fc17cc76df7cd2a9c4eb981e67649af001b7c30.png)

Bond program example built by Serious People:Notion – The all-in-one workspace for your notes, tasks, wikis, and databases.

Bond Program Implementation & Risk Management

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Implementing a bond program offers strategic advantages for the Arbitrum DAO. By diversifying the treasury with yield-bearing assets and blue-chip tokens, the DAO can turn idle $ARB tokens into a profit center while increasing liquidity depth for key tokens like $ETH and $wBTC on the Arbitrum network. This approach aligns incentives among stakeholders and promotes sustainable growth. Additionally, bonds provide a lower-risk alternative to traditional yield farming, as unsold tokens are reclaimed by Arbitrum, minimizing potential losses. Unlike yield farming, where tokens are distributed regardless of actual liquidity provision, bonds reward tokens only upon user purchase, ensuring that tokens enter circulation when accompanied by enduring value to the ecosystem. This approach not only mitigates risk but also fosters natural demand for $ARB tokens, further strengthening the network's position.

Expected Outcome & Implementation Strategy

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Bond programs generate significant outcomes, including an average ROE of 85%+ and LP tokens which accumulate trading fees to generate a return. This initiative aims to establish a stable liquidity foundation for the $ARB token and diversify the treasury with yield-bearing assets. To achieve these objectives, Arbitrum should utilize $ARB tokens for bonding, exchanging them for various LP pairs such as $ETH-$ARB, $USDC-$ARB, $USDT-$ARB, and $wBTC-$ARB.

Short-term goals involve building specific amounts of protocol owned liquidity (POL) for central pairs during the initial sales period. These targets, based on liquidity-to-volume ratios across DEXs on Arbitrum, may be adjusted based on real-time data. Regular progress analysis will be conducted to optimize $ARB token allocations and meet outlined goals. Public status reports will track progress towards these objectives. Due to the composability of bond markets the total amount of $ARB needed to achieve the liquidity goals for each pair can be changed as the market fluctuates. At the time of this writing the necessary amount of $ARB needed to achieve our liquidity goals would be 30,193,296 tokens, if they were all earmarked for bonding. With that said, the entirety would NOT be required at the beginning of the program as the tokens are meant to be used for micro-experiments, potentially even beyond bonding, to ensure the highest ROE possible.

This bond program strategically places $ARB at the center, ensuring an $ARB token clawback on every pair. This mechanism, combined with an average ROE of 80-90%, results in the permanent retention of approximately 40-45% of $ARB tokens emitted as permanent protocol-owned liquidity (POL). This approach minimizes token emissions while enhancing liquidity, setting the stage for sustainable growth and price appreciation through the positive flywheel effect.

Key Performance Indicators

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Maintain a minimum gross Return on Emissions (ROE) of 80% throughout the sales period.

Active Monitoring and Controls

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Ongoing oversight of liquidity profile and bond performance.

Process

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- Approval by Arbitrum DAO voters.
- Creation of a multi-sig wallet to stream the initial $ARB tokens.
- Allocation of tokens to the bond treasury smart contract.
- Setup of bonds for different pairs.
- Distribution of net proceeds back to the treasury wallet.
- Regular status updates on program success.
- Renewal or cessation of program based on KPIs.

It is crucial to assess the desirability, the feasibility, and the viability of this proposal.

Desirability

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- Whether it's “desired” or not is irrelevant, it is necessary in order to help achieve success for the rest of the tracks being presented today (except for maybe the one about sequencer fees)
- Arbitrum is the home of defi but the actual decentralized liquidity does not reflect that. The nomenclature would suggest that Arbitrum cares about decentralization and therefore should significantly boost its on-chain decentralized availability via LPs

- It is rare to find a solution to a problem that has as little potential downside as bonding. The tokens set aside for bonding are only emitted upon the actual locking in of protocol owned liquidity, therefore the tokens being released are only doing so AFTER the end user first permanently increases the liquidity depth and therefore helps to stabilize the price action

Feasibility

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- The market has validated the capacity

○ Olympus Pro: current value of treasury assets $188,657,418

○ Bond Protocol: TBV $78,441,450

- The success of prior bonding programs for tokens with less demand than $ARB have achieved the results necessary for $ARB to reach a healthy liquidity level
- Smart contracts from a multitude of bond service providers are already deployed on Arbitrum
- There are other solutions as well like Double we can explore - LOTS of opportunity to collaborate
- Serious People has been designing liquidity acquisition methods for a multitude of projects for just shy of two years and is therefore perfectly suited to lead the building of these strats on behalf of the DAO

Viability

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- Current decentralized/on-chain liquidity is lacking and on-chain liquidations will significantly harm the price of $ARB
- The amount proposed is the specific amount at the current price of $ARB that would be required to accomplish the goal of achieving a healthy liquidity environment.
- This distribution method is purely demand based, therefore if the market invalidates the approach it is non-punitive

This proposal outlines a strategic plan to bolster the Arbitrum DAO treasury through the addition of LP tokens, leveraging the potential for sustainable growth and liquidity provision. With a focus on maintaining a minimum gross Return on Emissions (ROE) of 80% and ongoing monitoring of key performance indicators, this structured approach ensures adaptability and transparency. Through careful implementation and optimization, the DAO should aim to achieve long-term success in liquidity provision and treasury diversification, ultimately strengthening the foundation of Arbitrum.