

OpenGov proposal: Renewal of treasury USDT and USDC Acquisition

Track: Root

Proposer:

Date:

Requested allocation: 5,001,000 DOT

Short description: We proposed a structured approach for the Polkadot Treasury to obtain native USDT and USDC, for the purpose of diversification and enabling it to pay out expenses in a stable asset. Through this referendum, we aspire to renew the schedule presented in proposal #457 and convert 2,500,000 DOT into USDT and 2,500,000 DOT into USDC via the DCA mechanism described in detail below, where an additional 1000 DOT is reserved for transaction fees. This proposal presents a long-term solution to acquire different tokens in exchange for treasury DOT by Polkadot governance participants.

1. Context of the proposal:

Probably one of the most-requested features is the ability to make Treasury proposals in stablecoins like USDT and USDC. This is for many reasons, including less volatility around Treasury proposals and preserving the value of the Polkadot Treasury to ensure funds are available to support a given budget in the future.

With the latest upgrades to Substrate and the Polkadot runtime, the Treasury has a lot more tools available to it for its management, including proposals with non-DOT assets like stablecoins.

As was done in [referendum 457](#), this proposal is to convert 5,000,000 DOT to USDT and USDC over the course of the next year, with 50% going to each. This uses Hydration's DCA feature to convert a little bit each day and ensure a steady flow of stablecoins into the Treasury.

Unlike 457, this referendum sells a fixed amount of DOT per trade rather than acquiring a fixed amount of USDT/C. For better capital efficiency, the full amount of DOT will be also initially converted into aDOT (yield-bearing collateral token) and supplied into the Hydration Borrow feature. By doing so, the Polkadot Treasury will accumulate yield on the dormant DOT, while substantially increasing the DOT supply available for borrowing, thus enabling more DeFi use cases. More details can be found in this post:

<https://polkadot.subsquare.io/posts/401>

Moreover it newly utilizes the "Rolling DCA" feature, which enables renewing the schedule just by sending DOT to the proxy account. This in turn means other governance tracks with lower security assumptions, such as Treasurer, can be used for smaller topups if needed.

This amount accounts for about 22% of the new DOT expected to be minted into the Treasury over the next year (this could vary based on variables like the staking rate).

2. Proposal objective(s) or solution(s):

The central proposition entails the creation of a schedule that converts DOT into USDT and USDC via the DCA feature on Hydration, a parachain on Polkadot.

The attributes of this proposal are:

- Cost-efficiency (approx. 0.4% of the total amount)
- No necessity to appoint curators who oversee and manage the process
- Conversion is done in small amounts over a longer period which provides a hedge for price volatility and manipulation

DCA schedule parameters: [USDT]

Total duration with current EMA7 price: 365 days

Total amount: 2,500,000 DOT

Trade frequency: One trade every 20 blocks (approx. 4 minutes)

Per trade: 20 DOT

Per day: 7200 DOT

Send to asset hub after accumulating: 5,000 USDT

Total fee estimation: 0.4% of total amount acquired

DCA schedule parameters: [USDC]

Total duration with current EMA7 price: 365 days

Total amount: 2,500,000 DOT

Trade frequency: One trade every 20 blocks (approx. 4 minutes)

Per trade: 20 DOT

Per day: 7200 DOT

Send to asset hub after accumulating: 5,000 USDC

Total fee estimation: 0.4% of total amount acquired

Fee estimation breakdown:

Trade fee: 0.3%

(0.25% to Liquidity Providers, 0.05% to the protocol)

Slippage fee: 0.045%

(→AMM)

Transaction fee on Hydration: 0.035%

(→Protocol treasury)

Transaction fee on Polkadot Asset Hub: 0.02%

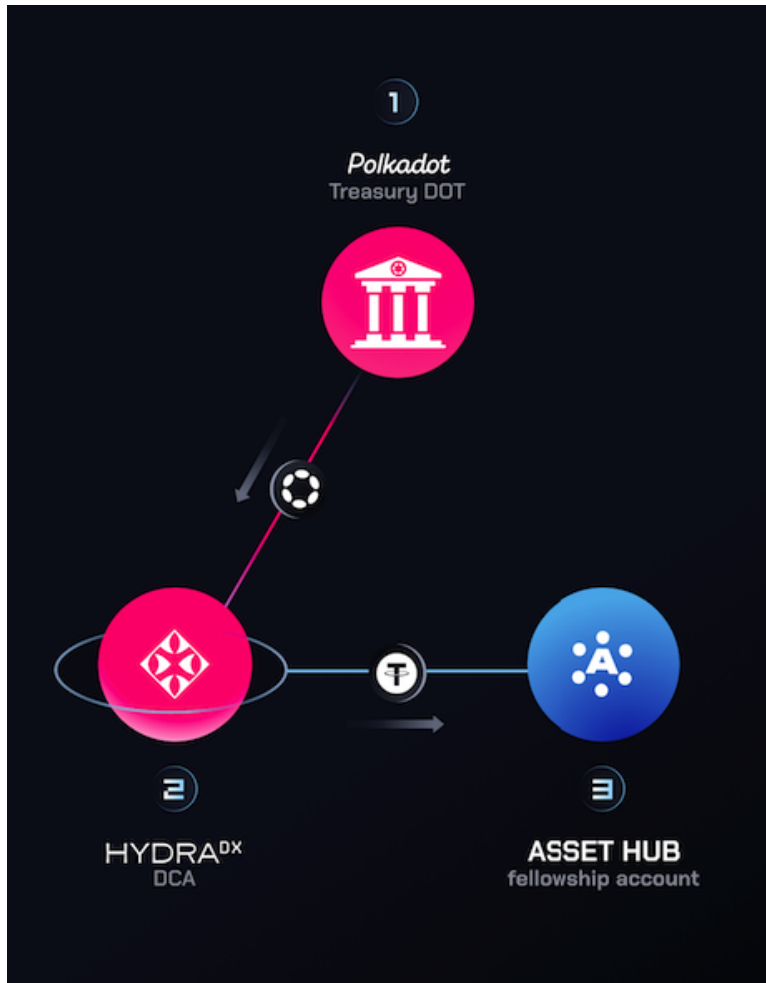
(→Asset Hub collators)

Note: Fees depend heavily on the schedule settings and are estimated based on parameters used. It is worth mentioning that the Hydration protocol also uses dynamic fees based on block space utilization ranging 0.15-5% to protect liquidity providers in times of volatility. All time average trade fees as of proposal submission are around 0.3%.

Description of steps utilizing XCM to achieve the solution:

1. Send 5,000,001DOT from the Polkadot treasury to the Pure Proxy account
[7N4oFqXKgeTXo6CMSY9BVZdHP5J3RhQXY77Fe7qmQwjcx1w] controlled exclusively by the relay chain sovereign account on Hydration
[7KQx4f7yU3hqZHfvDVnSfe6mpgAT8Pxyr67LXHV6nsbZo3Tm]
2. After 1 block to process balance state changes on Hydration, schedule sending an XCM program to Transact on Hydration. This will initiate two DCA schedules, each with a total amount of 2,500,000 DOT, swapping 20 DOT to USDT and USDC every 20 blocks.
3. Once the first USDT chunk is accumulated, initiate a periodic schedule that sends cross-chain chunks of 5,000 USDT and 5,000 USDC from the Pure Proxy on Hydration to the General Treasury account on the Polkadot Asset Hub
[14xmwinmCEz6oRrFdczHKqHgWNMiCysE2KrA4jXXAAM1Eogk], totaling to max. 27500 transactions.

3. Appendix A - Flow diagram



4. Appendix B – DCA execution - View as wallet - Relay chain sovereign account proxy

Your orders

All Open orders Order history

PAY WITH / GET	INTERVAL (BLOCKS)	AMOUNT	STATUS
 → 	20	100 DOT	Active ^
Remaining / Budget 842 515.9909 / 1 700 000 DOT		Received 5 789 400 USDT	
Next execution in 2 minutes, 56 seconds		<button>TERMINATE</button>	

Past transactions

DATE	RECEIVED	PRICE	STATUS
16-08-2024 09:22	100 USDT	0.2307 DOT	✓ Success
16-08-2024 09:18	100 USDT	0.2307 DOT	✓ Success

Will be available at:

<https://app.hydratation.net/trade/swap?account=7N4oFqXKgeTXo6CMSY9BVZdHP5J3RhQXY77Fe7qmQwjcx1w>