OpenGov proposal: Polkadot Treasury USDT Acquisition

Track: Root
Proposer: 14z2CnmqMX2kcWGp5VT68sovjKXZipjkNUPtaMMnz6cjXW3q
Date: October 31, 2023
Requested allocation: *469,000* DOT (≈*1,800,000* USDT) [Amount based on Subscan's EMA7 converter]
Short description: We propose a structured approach for the Polkadot Treasury to obtain USDT, for the purpose of paying the Polkadot Technical Fellowship salaries**.** Through this referendum, we aspire to convert 469,000 DOT into USDT via the DCA mechanism described in detail below. This proposal presents a long-term solution to acquire different tokens in exchange for treasury DOT by Polkadot governance participants.

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1. **Context of the proposal:**

    This proposal aims to supersede bounty proposal #26, which was intended to acquire USDT for the Polkadot Technical Fellowship by converting DOT from Polkadot treasury. To understand the motivation behind the proposal please read through it carefully.

    The systemic solution presented in this proposal has several advantages over bounty #26:

    - 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

2. **Problem statement:**

    The Polkadot Technical Fellowship is seeking USDT in which to pay its members salaries. Of course, the Treasury only has DOT and needs a mechanism to convert this into USDT. An ideal solution would not require trusted parties, either acting as curators or escrow.

    The motivation for paying salaries in USDT instead of DOT was described in bounty proposal #26:

    "Part of the Technical Fellowship model involves paying members salaries for their contributions to the core protocol. Relying on DOT for salary disbursement implies a large fluctuation in value, while salaries for active members should be roughly aligned with the 80th-90th percentile of OECD levels. Consequently, the proposal seeks to adopt USDT, a stablecoin tied to the US dollar, to establish a more stable salary structure."

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

The central proposition entails the creation of a schedule that converts DOT into USDT via the DCA feature on HydraDX, a parachain on Polkadot. Automatic routing to determine the best route for conversion shall be used.

DCA schedule parameters:

Total duration with current EMA7 price: 180 days
Total amount: 469,000 DOT
Trade frequency: One trade every 180 blocks (approx. 36 minutes)
Per trade: Acquire 250 USDT
Per day: Acquire 10,000 USDT
Send to asset hub after accumulating: 5,000 USDT
Total fee estimation: 0.4% of total amount acquired

Fee estimation breakdown:

Trade fee: 0.3%
Transaction fee on HydraDX: 0.07%
**Transaction fee on Polkadot Asset Hub:** 0.02%
Slippage fee: 0.01%

Note: Fees depend heavily on the schedule settings and are estimated based on parameters used. It is worth mentioning that the HydraDX protocol also uses dynamic fees based on block space utilization ranging 0.3-0.45%. Current market data don't suggest more than a minimum 0.3% will be applied as trading fee.

Description of steps utilizing XCM to achieve the solution:

1. Send DOT from Polkadot treasury to the Relay Chain's sovereign account on HydraDX *[7KQx4f7yU3hqZHfvDVnSfe6mpgAT8Pxyr67LXHV6nsbZo3Tm]*.

2. After 1 block to process balance state changes on HydraDX, schedule sending an XCM program to Transact on HydraDX. This will initiate a DCA schedule with a total amount of 469,000 DOT, swapping DOT to 250 USDT every 180 blocks.

3. Once the first USDT chunk is accumulated, initiate a periodic schedule that sends cross-chain chunks of 5,000 USDT from HydraDX to the Fellowship salary account on the Polkadot Asset Hub *[13w7NdvSR1Af8xsQTArDtZmVvjE8XhWNdL4yed3iFHrUNCnS]*, totaling to max. 938 transactions.

4. Appendix A - Flow diagram
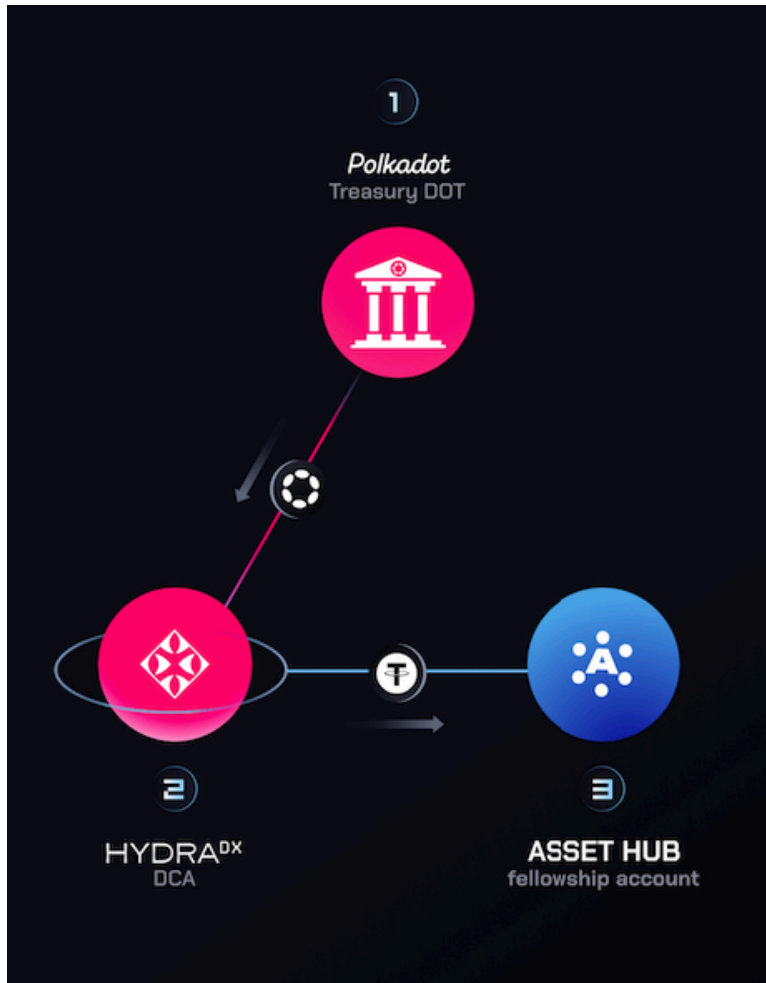
5. **Appendix B – DCA execution - View as wallet - Relay chain sovereign account**