Treasury Management Framework

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Proposal

Adopt a systematic treasury management framework. This proposal includes the following sub-proposals:

- **KIP23a: Purpose of the DAO Treasury; Desiderata**
- **KIP23b: Use of Funds -** Provides general guidelines for how our asset allocations should be prioritized between different use cases
- **KIP23c: Treasury Composition -** Establishes parameters around the diversity and composition of our treasury
- **KIP23d: Evaluation and Monitoring -** Establishes the methodology by which Rook DAO's treasury performance is evaluated and monitored

Background

DAO Treasuries Are Checking Accounts: Not Brokerage Accounts

Go into any discord of a DAO with funds in its treasury and you will see the same thing: dozens, and in some cases hundreds, of community members recommending that the DAO invest their money into a countless number of projects to receive a variety of different returns. While many of these ideas could result in meaningful windfalls, are they truly helping meet the long-term mission of the DAO? In many cases these basic investments simply expand the treasury's balance and don't consider the opportunity costs of not using those funds to instead acquire another cash generating business, investing in talent to expand/diversify existing capabilities, or potentially support integration partners who support the flywheel we hope to create.

The purpose of any DAO is to manage and govern its protocol in perpetuity. DAOs therefore need to position themselves in a way that not only ensures their ongoing operations can continue, but also lets them invest in their protocol's future growth — this is not dissimilar to how corporations think about capitalizing themselves. Similar to how traditional corporations can use retained earnings, equity, and debt to finance themselves, DAOs also have a similar universe of options. Instead of viewing our treasury as a brokerage account, these funds should be used as a business's checking/saving account that is there to expand the DAO's mission. Although the DAO structure is a new paradigm in social interaction, in the end, it is just a more transparent and equitable business and should be run as such.

Imagine if early stage Amazon had chosen to deploy the extra cash in their treasury into a portfolio of securities to earn an immediate return. Would they have built the capabilities, talent, or moat that they have now? Would they have had the liquidity to survive during the dot com bubble crash? Instead, they took a simple stance: let's reinvest our money in internal efforts that make us the easiest and most reliable retailer in the world. They focused on being customer obsessed and correlating their spending back to their long-term mission.

We propose to follow a similar path for Rook. Simply put, let's invest in ourselves and the things we can control. **If we focus relentlessly on making MEV a fair and equitable benefit to the space as a whole, we can increase our chances of success.** We should make bold rather than timid business decisions where we see a sufficient probability of gaining market leadership advantages, and should manage the treasury to support our ability to make those long-term investments. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.

Document Purpose

By ratifying this document, we can establish a shared mindset, a culture and a formal signal that outlines our vision around the management of our treasury. **Like our DAO, this document should be viewed as a living organism that is flexible and must adapt to not only survive, but thrive. This document is intended to provide a North Star, so to speak, by which governance can make more decisive, systematic, and collaborative decisions within a broad framework.**

Before attempting to make any material financial transactions, we must ensure that a holistic and systematic approach to viewing how our mission, risk tolerance, and incentivization structure are interrelated. This file outlines a practical foundation for establishing a treasury management system that identifies and establishes the following:

- The current makeup of Rook DAO's ("RD") treasury, current processes, and cash flows
- The expected use of treasury funds
- Diversification and risk management guidelines around:
    - Treasury composition metrics
    - Allowable investment options
    - Establish a minimum internal rate of return (IRR)
- Rebalancing and execution process

References

- For the definition of the DAO Treasury accounts and their management procedures, see [KIP-X: DAO Treasury Accounts]. https://docs.google.com/document/d/11tciBtTSqJF7Xqb2L_V-nCpDs6iicCbe82gtNFf525A/edit?usp=sharing ??
- For the definition of DAO Budgetary procedures, see [KIP-X: DAO Budgetary procedures].

Specification

KIP23a Purpose of the DAO Treasury

The purpose of the Rook DAO treasury is to ensure that operation of the DAO is ongoing, sustainable, and resilient to market volatility. As such, the main focus of the treasury management framework is to ensure that decisions are being made to support the contributors, capture market share and support key infrastructure of the DAO**.** While direct investments in other tokens will be key to the treasury's mission of ensuring stability, the primary driver of treasury growth should be the revenues generated through partnerships and integrations.

KIP23b Expected Use of Funds (+Priority)

Like our members, the goals, initiatives, and passions of our DAO are diverse and cannot be managed as fully independent variables. There are myriad investment opportunities available but they must be managed in relation to each other in the aggregate including consideration of protocol risks, opportunity costs, lockup periods, etc.

As such, the DAO should roughly strive to prioritize using treasury funds as follows:

1. Ongoing Operations

2. Capital Reserves
3. Community Grants
4. Strategic Investments
    a. Strategic Partnerships
    b. Yield Generation

To better understand the classification of an investment or allocation, each of these fund types is defined further below.

KIP23b1 Ongoing Operations

Operating costs are associated with the maintenance and administration of the DAO and protocol on a day-to-day basis. Operating costs include disbursements such as:

- Contributor compensation
- Security costs
- Dues and subscriptions
- Research and development
- Gas fees
- Testing
- Marketing and advertising

KIP23b1a Determination of operating costs: the budget process

Operating costs are determined using the quarterly operating budget process, the discretionary operating budget process, and the emergency operating budget process, defined in [KIP-Y: The Budget One].

KIP23b1b Determination of contributor compensation

Contributor compensation is defined in the Rook Labs Contributor Incentive Guide.

KIP23b2 Capital Reserves

A capital reserve refers to a specific fund or amount set aside to cater for future or unpredictable expenses or losses to a protocol. Put simply, capital reserves is the cash reserved for unexpected short-term expenses. The purpose of maintaining a capital reserve is to allow the Treasury to meet unexpected short-term costs. It does not include anticipated or long-term costs.

KIP23b2a Allowable reserve assets

A **reserve asset** is a token which meets the requirements to be included in the capital reserves of the DAO Treasury.

KIP23b2b Reserve asset listing procedure

KIP23b2c Reserve asset delisting procedure

KIP23b3 Community Grants

The DAO treasury funds the operation of the DAO by setting team budgets and issuing grants. A grant is an amount of tokens paid or provided by the Operations Team wallet to another external address, under a fixed authorization or plan subject to approval by the DAO governance or as part of a team's budget.

TODO: Grant KIP may be in the BUDGET KIP

KIP23b3a Grant types

The three primary types of grant are:

- **Short-term grants**: may be made available each quarter to fund those wishing to undertake part-time or project work for the DAO teams. Short-term grants are typically made in ROOK.
- **Long-term grants**: may be made available to incentivize and retain long-term contributors. These may be a mixture of a fixed salary and or milestone-based. Long-term grants are subject to conditions on conduct and performance and may be terminated.
- **Operational & Miscellaneous grants**: may be made available to pay running operational costs and minor expenses with proof of valid need.

KIP23b3b Grant application procedure

For a grant to be funded, a proposal must include the following attributes:

Vision	How does this project advance KD's goals or align with its values?
Objectives	What will be delivered by the workstream using this funding?
Budget	What amount is required for the workstream to achieve the initial target, and how will it be spent? What costs are fixed vs. variable in nature?
Milestones	What are the key milestones for the initial target?
Timeline	What is the timeline for completing the initial target?
Steward Responsible	Who is the steward managing the project and accountable for its outcomes?
Official Team	Who is committed to working on this project and what are their responsibilities?

KIP23b4 Strategic Investments

Strategic investments must be evaluated for their technical/economic feasibility and for their fit within the Rook DAO investment portfolio. 'Fit' is a function of investment amounts required, the synergies introduced between RD & partners, the opportunity costs involved, risk, and countless other variables - in other words, investment decisions cannot be made in a vacuum.

KIP23b4a Proposing a strategic investment

While the expected use of funds as previously discussed leaves room for interpretation and flexibility, the DAO should ensure that its core mission is at the heart of every financial action. As such, all financial action or planned actions should fulfill the **ALL** of following criteria to be approved by the Community:

1. Relates back to achieving our mission and objectives
2. Relates to the development of a future revenue stream that can support ongoing treasury expansion
3. Directly benefit the RD community
4. Does not clash with our founding principles and is not unethical in nature
5. Raise awareness of project and mission

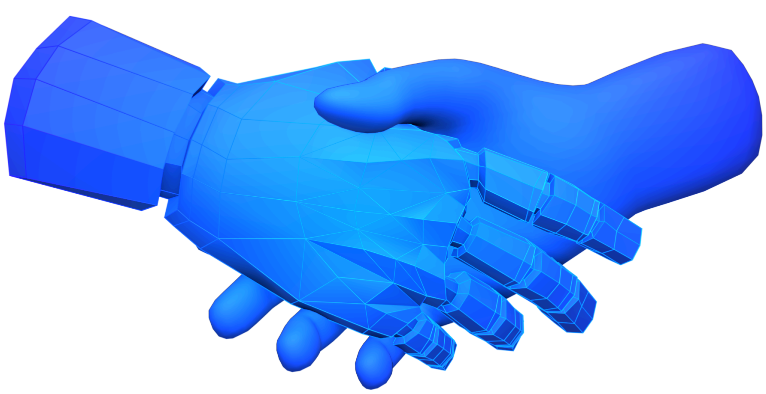
A KIP relating to a prospective investment or group of investments shoot include the following attributes:

Vision	How does this project advance KD's goals or align with its values?
Investment Background	What investment is being proposed and what are the factors that warrant an allocation of capital? Is this a long-term investment or a short-term trade?
Budget	What amount is required for the workstream to achieve the initial target, and how will it be spent?
Analysis	What is the expected return from this investment and what conditions/inputs may impact the results?
Timeline	What is the timeline for initiating a purchase, rebalancing, and exiting the position?
Execution	How will the investment be executed and what funds should be utilized?
Official Team	Who is committed to analyzing the ongoing results of an investment and what are their skills to support this?

KIP23b4b Types of strategic investment

The word strategic can be defined in many ways, and RD's strategy will evolve materially over time; however, **strategic investments can be divided into two buckets: strategic partnerships and yield generation.** While these two investment types may be very distinct in nature, there are many cases in which they may intersect.

KIP23b4b1 Strategic Partnerships



Once an organization has defined its vision and strategy and has identified the assets and capabilities required to win in the markets in which it chooses to play, it is then faced with the question of how to obtain those assets and capabilities. The organization needs to be able to answer the question of whether to build, buy, or partner. While building will always be the cornerstone of what we do at RD, we feel, now more than ever, that buying and partnering are integral components of our growth strategy.

Partnerships present a relatively rapid means of gaining access to external capabilities when time-to-market, financial, or legal issues preclude the development of capabilities in-house or the pursuit of an acquisition. Partnerships often create strategic optionality that can be valuable to companies operating in uncertain markets or expanding into adjacent products or services. Alliances can be seen as a highly effective alternative—or a preceding step—to an acquisition.

The basic objective of a business or equity strategic partnership is to achieve synergy through integrated, combined and tailored in-depth cooperation; put another way, it is to achieve an additional joint effect that an individual organization would not be able to achieve on its own, while concrete objectives may be quite different in each individual relationship and for each participant. Additionally, **by focusing on forming a portfolio of partnerships rather than a portfolio of unrelated, external investments we can better strengthen our technological diversity, knowledge base and market mindshare.**

More specifically, the most optimal partnerships have the following characteristics:

- **Significant alignment in core values, culture, and mission**
- **Significant elements of knowledge and technology are shared or transferred**
- **Creates significant awareness of both projects and offers a compelling narrative**
- **Creates additional opportunities for networking**
- **Organizations complement or supplement skills sets, infrastructure and processes on both sides**

The target should be a high degree of cross-organization collaboration in network effects through the forging of multilateral relationships—generating social value as well as economic profits and fostering a shift in mindset toward expedited entrepreneurial approaches across organizational boundaries.

KIP23b4b2 Yield Generation

These are investments made with the goal of generating safe, steady returns with the purpose of supporting the ongoing expansion of our operating costs as we expand. These investments could include liquidity pools, stake farms, etc. Because of the wealth of yield generating options, we should in all cases make it a prerequisite that the protocol in which we deposit funds into is willing to integrate us into their suite of offerings. If this can not be met, there should be a rationale of why this opportunity should be viewed as an exception.

KIP23b4c Risk Tolerance

The partnerships and types of investments that RD is able to pursue are heavily dependent on the treasury's risk tolerance as defined by the community. The purpose of the treasury is first to ensure that ongoing operations, technology development, and RD growth is sustainable and uninterrupted. The secondary mission is to deploy capital in a diversified and strategic manner to grow treasury funds and create partnerships with other protocols and DAOs.

Risk tolerance is the degree of variability in investment returns that an investor, or in this case a DAO, is willing to withstand in their financial planning. Rook DAO recognizes that higher returns involve higher volatility and RD has indicated a willingness to tolerate some volatility (based on the target allocation of the Fund) in order to optimize the total return of the Fund. While complete consensus on risk tolerance is an impossible goal, we must establish a shared mindset on what risks we are willing to assume. By establishing these risk parameters we are then more effectively able to budget, dictate what investments are allowable and establish parameters around treasury diversification.

KIP23b4d Allowable Investments

Because the landscape is evolving at an accelerated pace and the types of investment options in it are becoming more diverse and complex in nature, we must establish certain limits on what types of investments we can make as a community. Investments can be thought of and evaluated in a variety of ways such as investment grade and high risk investments. By grouping investments in this way and allocating a percentage of funding to each type of investment it can help keep the treasury diversified. It can also prevent RD from making the optimal investments due to arbitrary parameters. As such, investment type, and the risks involved, should be considered as part of the decision process but not be used as a deciding factor.

Each investment should be evaluated on its merits and how it fits in the RD portfolio and overall mission. If the treasury, or community, tries to define very specific and potentially prohibitive parameters it raises the possibility of the debate turning into one of semantics and definitions rather than an evaluation of the investment as part of the RD portfolio. RD is not an investment fund so the treasury will not engage in speculative ventures; it will be mandated that all investments are ‘Rook DAO Investment Grade’ which may include higher risk partnerships with emerging protocols and may exclude protocols that are traditionally viewed as ‘Investment Grade’, ‘Blue chip’, or ‘safe’.

Variables such as operation time, audits, conflict of interest, the potential for strategic partnerships, and the level of risk will need to be considered as part of the whole. These heuristics can be used during the process, however, they should not be used to arbitrarily exclude investment opportunities as part of the investment strategy allocation distribution.

KIP23b4d1 Investment Grade

- The investment option has been in operation (fully) for at least 6 months
- RD has sufficient expertise and bandwidth to monitor the performance of the investment
- There is at least one audited report attesting to the soundness of the smart contracts integrated into the investment option.
- There are no major conflicts of interests with any of RD’s stakeholders

KIP23b4d2 High Risk

These should represent no more than 5% of the treasury’s total at a given time

- The investment option may have just launched or may be pre-launch (seed investment)

- Understanding of the investment may be limited and requires a high level of sophistication to monitor
- There may not be a readily available smart contract audit
- There could be conflicts of interest within the team or other related parties
- There are active no lines of communication between RD's team and the investment options team

KIP23b4e Minimum IRR

What do we feel is the "risk-free rate" or the rate of return by which all investments need to exceed before being considered by the community? Although there are fundamental and theoretical ways this can be viewed, perhaps the most simple and effective benchmark would be the average expected returns derived from the stablecoin funds deposited into Curve Finance, AAVE, and Compound. See below for an example of how using a basket of these investment options can be used to calculate the minimum IRR:

Protocol	Current Stablecoin APY
Curve Finance	6%
AAVE	5%
Compound	4%
Average APY	**5%**

Under this scenario, the calculated minimum IRR would be 5%, and thus, any potential investment being proposed must exceed this expected return.

KIP23c Treasury Composition

Because we expect to use a material portion of our funds to provide livable wages for people in the roles we create, it is critical that a majority of our assets are housed in non-directional assets and stablecoins . More specifically, we propose that the treasury strive to maintain the diversification mandate as presented in the schedule below.

KIP23(c): Treasury Composition

Asset	Lower Bound	Middle Bound	Upper Bound
Core Assets	75%	85%	95%

Strategic Investments	5%	15%	25%

Strategic investments are defined further above, while "Working Capital & Reserve Assets" can be comprised of the following:

- ROOK
- Stablecoins (USDC, DAI, USDT)
- ETH and related derivatives (stETH, rETH,sETH2)
- BTC

ADD: Derivative ratio consideration

Due to the volatile and ever-changing nature of crypto, these parameters shousnild not be viewed as concrete, strict requirements. Instead, these should be used as ranges that DAO should strive to fall within as representative positions that support the objectives of the protocol.

Currently, much of the value of Rook DAO can be seen on-chain represented by tokenized assets or tangible assets. To be a public good it will be necessary for RD to grow considerably in terms of part-time and full-time contributors. This means that the growth of non-tangible assets, the value of contributors, will far exceed the on-chain assets that we hold. Without a conservative approach to treasury management, in the form of stablecoins and non-directional assets, a downturn in the market could prevent hiring/compensating the necessary personnel and/or lead to the liquidation of intangible assets in the form of contributors leaving to work elsewhere.

In addition to making sure we have sufficient, liquid capital to support our contributors, there are numerous benefits to holding a large percentage of our treasury in stables:

- Provides for predictable, safe, and recurring cash flows
- Yield earned is relatively predictable making budgeting and cash flow forecasting more effective
- Provides for a greater ability to engage in other M&A activities and strategic partnerships
- Signals financial soundness to the community, investors, partners and contributors
- Allows for RD to continue making the necessary investments somewhat agnostic of market conditions
- Creates a more stable and diversified treasury

Based on our current treasury composition, no action would be required to be taken to adhere to the parameters as outlined above.

KIP23d Evaluation and Monitoring

See our budgeting process that provides further guidance on the review process:
https://www.notion.so/Rook
DAO-labs/DRAFT-The-Budgeting-Process-1dac9770626f4cdc94a1157c0c57d691

The objective of the evaluation and review process is to monitor the progress of the investments of the Fund. Performance will be measured and reviewed by the treasury team as well as the DAO as a whole. Because of the volatile nature of the ecosystem and with so many new opportunities developing every day, the treasury team and DAO should on a monthly basis (at a minimum) ensure that:

- The total portfolio of the treasury achieving its stated objectives;
- The treasury's risk parameters and other requirements are adhering to these guidelines;
- The overall policies and objectives continue to be appropriate, reasonable and achievable.

Although much of the operational analysis will come in the form of the budget-to-actual review performed as part of the budget process, monitoring our investments on a more frequent basis than quarterly is critical. We should expect that the value of the assets in the treasury will naturally deviate from these percentages. To best maintain the diversification mandate previously stated, the treasury should strive to rebalance the assets when any asset type deviates from its mandated upper or lower bound percentages.

Looking Forward

The marriage between community engagement and decentralized governance is providing the world with a new level of organization — one that copes with current social and economic needs and overthrows archaic models based on hierarchies and fragmented power. The future is bright for DAOs and us pioneers that are creating new paradigms in human interaction and value creation. While the path ahead is unknown, scary and difficult at times, it is one worth taking for future generations. Every DAO should strike a perfect balance between making money and becoming a public good over time.