PIP 17 - Should the DAO replenish its Treasury by changing the 3rd Year of PNT inflation to 10%?

PIP 17 - Summary & Motivation

Proposal summary

This proposal aims to replenish the pNetwork DAO Treasury via a PNT inflation mechanism at an overall 10% rate over the next 12 months. This would enable the pNetwork DAO to fund activities directed at the growth and further development of the protocol and the ecosystem.

Previously applied at a 42% rate and at a 21% rate during DAO Years 1 and 2 respectively, the inflation rate would be halved for Year 3 to reach 10% rather than going directly to 0% as previously planned.

Newly emitted PNT tokens would be directed to the pNetwork DAO Treasury and would be under the control of the DAO. Should this proposal be approved, the pNetwork DAO would be able to manage the Treasury and decide how to allocate funds via dedicated DAO proposals.

Specifically, three key areas of focus would be grant programmes, security budget and liquidity mining.

Important note: the newly issued tokens would represent locked tokens (out of circulation) until the DAO decides if, how and when to spend them.

Motivation

Because of the hack that happened in September 2021, PNT tokens coming from the inflation mechanism have been used to compensate those affected along with PNT tokens from the team. Therefore, the pNetwork DAO Treasury is currently empty. **This proposal aims to create a strategic reserve for the DAO to fund the further growth of the protocol.**

Benefits for pNetwork as a whole:

- Create a strategic reserve that enables to provide for pNetwork's future and aims at advancing pNetwork as a world's leading cross-chain protocol

- Decentralize the decision-making on DAO Treasury funding via DAO proposals

- Incentivize new contributors and retain existing contributors for the further development of the protocol

- Add security-oriented practices that benefit users in their decentralized journey

- Grow the ecosystem and incentivise pNetwork active users

PIP 17 - Summary & Motivation

Motivation

Creating a strategic reserve for the DAO to fund the further growth of the protocol is aimed at giving more power to DAO voters and the DAO itself.

The pNetwork DAO having its own Treasury is a key element for the DAO to have more influence on the future of the project, specifically accounting for two main outcomes:

- Empowering DAO voters to be part of the decision making process regarding funds allocation and project evolution

- Opening up the path to improve and evolve the project to more transparency and accountability

Since its inception, the pNetwork DAO has evolved itself into a tool that gives more and more responsibility to the community (i.e. community-sponsored DAO proposals, access from multiple blockchains, lower entry barrier to become a node, …). This proposal continues in the same direction by giving the DAO financial independence to influence the resource allocation of the project itself.

pNetwork DAO & PNT token

pNetwork is a multi-chain routing protocol for moving assets, NFTs and data across blockchains. Currently, pNetwork connects 15 different blockchain environments (including Layer 1s, Layer 2s and sidechains) and it has processed $ 1+ Billion in cross-chain volumes.

pNetwork DAO & PNT token utility

pNetwork is home to the pNetwork DAO and its governance token PNT. The PNT token represents a key element of the system as it aligns incentives for all participants. In fact, **PNT is leveraged internally by the pNetwork protocol to enable operations for:**

- **pNetwork DAO members**, who can participate in governance decisions both by opening DAO proposals and by voting on them
- **pNetwork node operators**, who can contribute to the decentralization of the protocol by powering cross-chain operations

Both these populations require PNT tokens to perform their roles and contribute to the evolution of the protocol. The token enables DAO members to participate in DAO governance decisions as well as being a necessary tool for node operators to run a node and access rewards (fees on cross-chain operations are distributed to node operators in the asset-currency being transferred).

pNetwork DAO PNT token allocation

At stake on Ethereum
32.5%

At stake on BSC
0.4%

Not at stake
67.1%
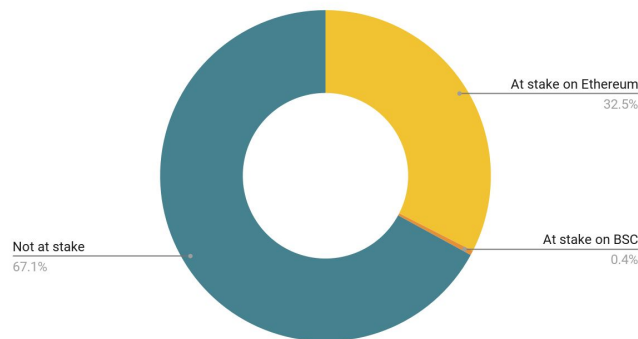
According to Etherscan.io and BSCscan.io, 32.5% of PNT tokens are currently staked in the pNetwork DAO (on Ethereum). Additionally, another 0.4% of PNT tokens are staked to serve DAO-related roles on BSC.

However, **the pNetwork DAO Treasury is currently empty**. Because of the hack that happened in September 2021, PNT tokens coming from the inflation mechanism have been used to compensate those affected. Additionally, another 4 Million PNT tokens have been contributed by the team to the compensation plan.

pNetwork DAO & PNT token

pNetwork DAO Treasury

The DAO Treasury is a key element that allows DAOs to grow and to fund future evolutions of their reference project. According to the "State of crypto" report by a16z, DAOs have accumulated $ 10+ Billion in treasury assets under management. A large majority of value held by these DAOs is in the form of the protocol's native governance token.
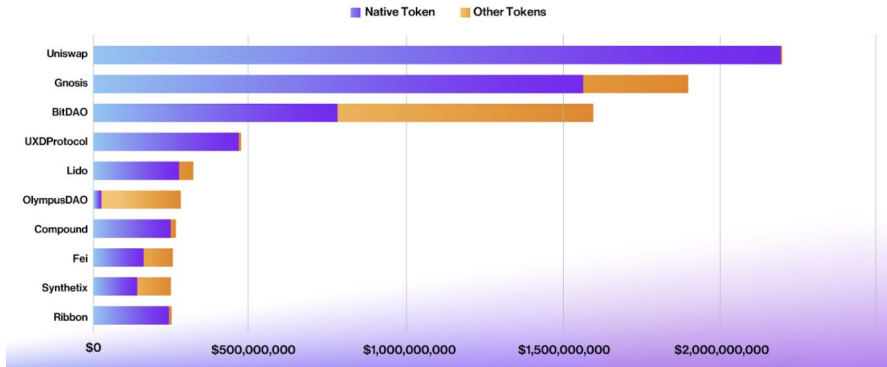
Over the past 2 years, the pNetwork protocol adopted an inflation mechanism where the generated PNT tokens were redistributed to the community as an incentive for their active participation. **This proposal focuses on the future and proposes a path forward for the inflation mechanism and its destination.**

This proposal aims to replenish the pNetwork DAO Treasury via a PNT inflation mechanism at an overall 10% rate over 12 months. This would create a positive impact on the pNetwork DAO Treasury, therefore enabling the pNetwork DAO to fund activities directed at the growth and further development of the protocol and the ecosystem.
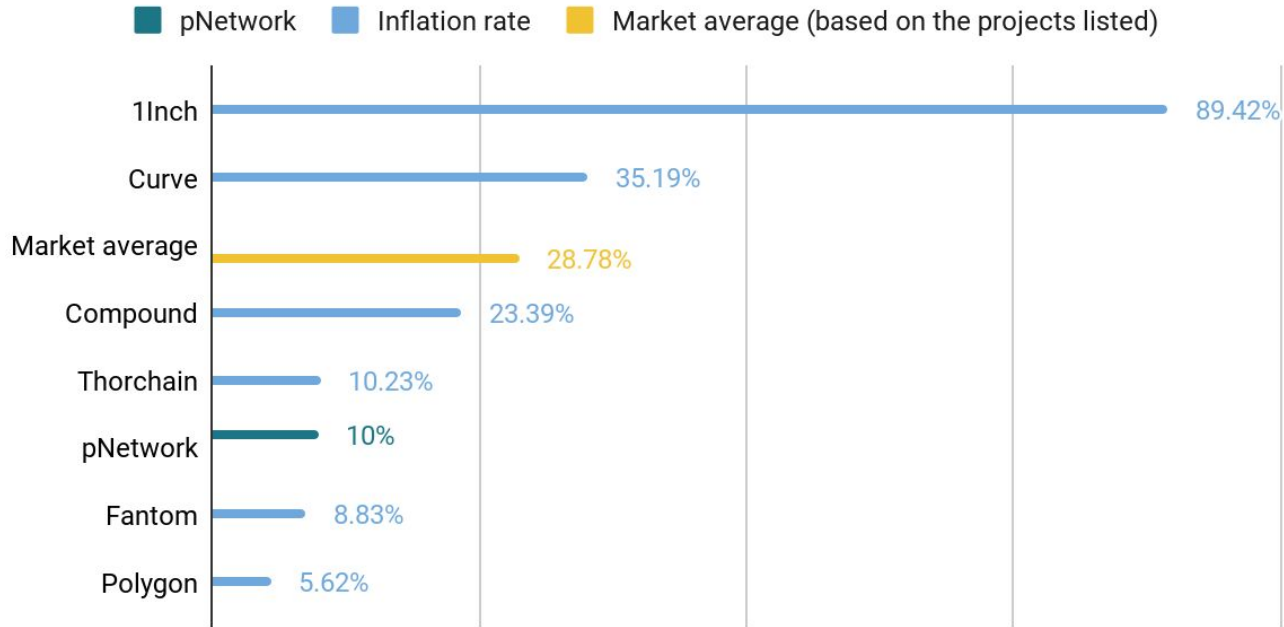
Previously applied at a 42% rate and at a 21% rate during DAO Years 1 and 2 respectively, the inflation rate would be halved for Year 3 to reach 10%. Newly emitted PNT tokens would be directed to the pNetwork DAO Treasury and would be under the control of the DAO (details on treasury management in the following slides).

42%	Year 1
21%	Year 2
10%	Year 3

Market comparison

Below is a comparison of pNetwork's proposed inflation mechanism with the respective inflation mechanisms of other players in the market:

Market comparison of inflation rates

■ pNetwork   ■ Inflation rate   ■ Market average (based on the projects listed)

| Project	Rate
1Inch	89.42%
Curve	35.19%
Market average	28.78%
Compound	23.39%
Thorchain	10.23%
pNetwork	10%
Fantom	8.83%
Polygon	5.62%

pNetwork DAO & PNT token

Treasury management

This proposal aims to replenish the pNetwork DAO Treasury via a PNT inflation mechanism at an overall 10% rate over 12 months. Newly emitted PNT tokens would be directed to the pNetwork DAO Treasury and they would be under the control of the DAO.

According to Banklesshq.com, treasuries help DAOs fund critical development, grow their network, express their values and increase their longevity. The goal of treasury spending is to reward core contributors and attract the right set of new contributors. For example, Uniswap, Compound and Aave have proposed grants programs that aim to fund individuals and teams that contribute to the protocol. Or, projects like Yearn have a decentralized and bottom-up work structure where the core team gets paid from the community treasury via an operational fund.

Creating a pNetwork DAO Treasury is expected to positively impact the project, enabling the DAO to fund activities directed at the growth and further development of the protocol and the ecosystem. **Should this proposal be approved, the pNetwork DAO would be able to manage the Treasury and decide how to allocate funds via dedicated DAO proposals.**
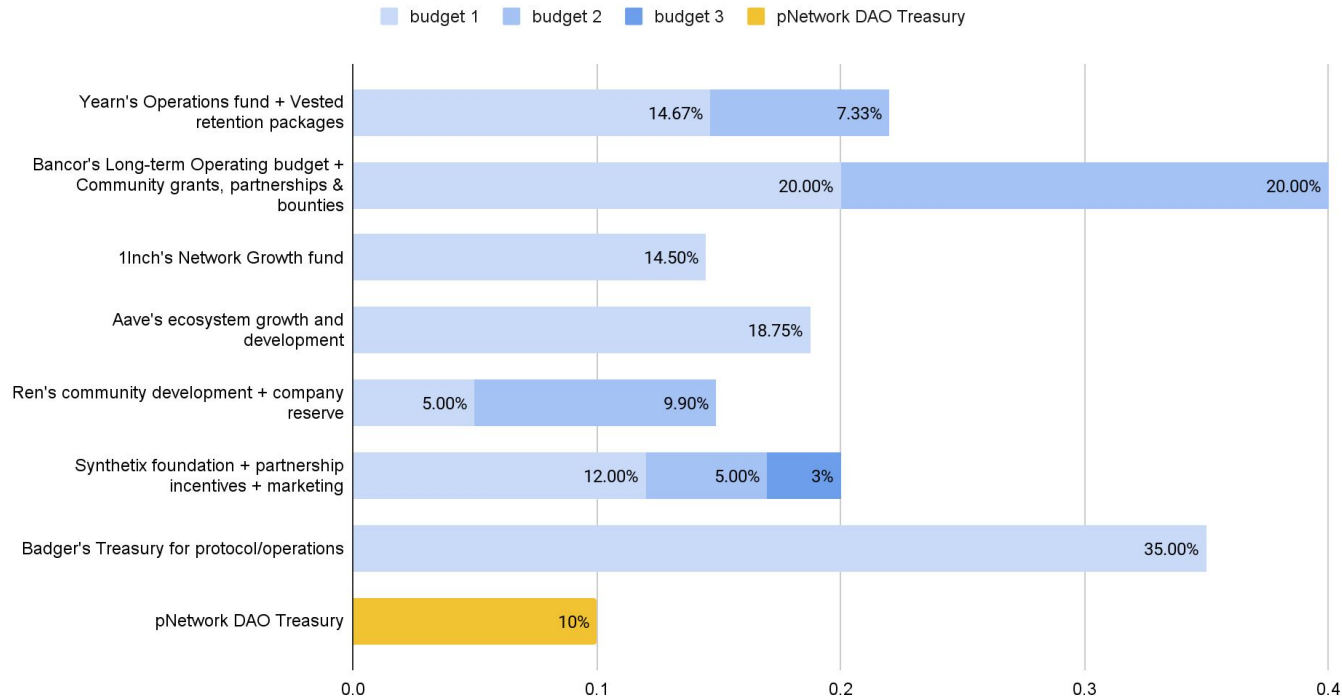
Specifically, three key areas of focus would be grant programmes (for the core team and external teams), security budget and liquidity mining (more details in the image below).
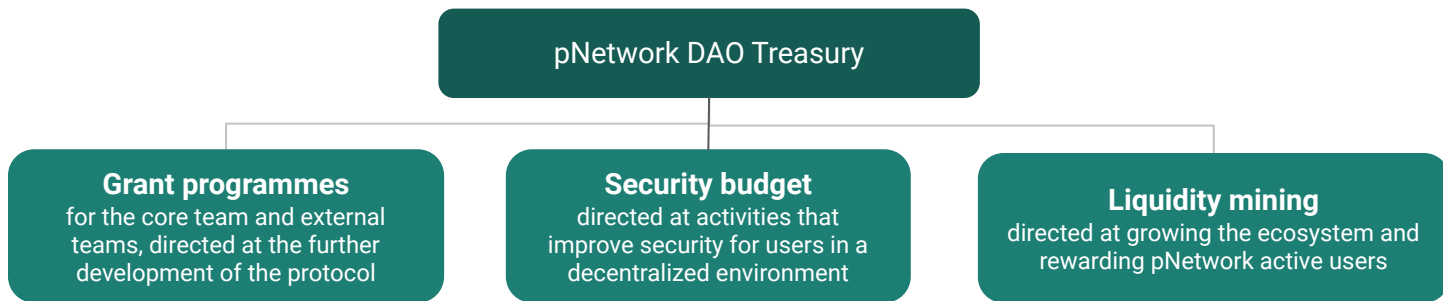
Market comparison

Below is pNetwork's proposed DAO Treasury funding directed at the further development and expansion of its ecosystem compared with the operating funds of industry peers:

Market comparison of the budget dedicated to operating activities as a % of the token supply

Sources:

https://consensys.net/blog/cryptoeconomic-research/tokenomics-research-september-2021/

https://gov.yearn.finance/t/yip-57-funding-yearns-future/9319

https://docs.aave.com/aavenomics/incentives-policy-and-aave-reserve#:~:text=The%20total%20supply%20of%20AAVE,Aave%20Ecosystem%20growth%20and%20development

https://www.kraken.com/en-gb/learn/what-is-ren

https://www.cryptoeq.io/corereports/synthetix-abridged

https://hackmd.io/Hm2ILXHKSKe_oui573UxZg

pNetwork DAO & PNT token

Treasury management

Should this proposal be approved, the pNetwork DAO would be able to manage the Treasury and decide how to allocate funds via dedicated DAO proposals. Specifically, three key areas of focus would be grant programmes (for the core team and external teams), security budget and liquidity mining.

As a reference of how the funds allocation may look like, below is a prospect showing the running costs sustained during the past year to support the project in each of these categories (the prospect excludes other costs e.g. legal, marketing activities,...).

	Average FIAT monthly costs (in USD)	Average PNT monthly cost	Annualized running cost
Core team	~$ 130,000	-	$ 1,560,000
Security (security audits, bug bounty programme & insurance coverage)	~$ 40,000	~PNT 16,600	$ 480,000 PNT 200,000
Yield farming *	-	~PNT 160,000	PNT 1,920,000
Total (denominated in PNT at $ 0.30)			**PNT 8,920,000**

* this figure is the average over the last 4 months given yield farming rates have changed significantly over time and aren't expected to rise

pNetwork DAO & PNT token

Treasury management

While this proposal serves the immediate need of replenishing the DAO Treasury, more sustainable funding streams will need to support the DAO's operational costs in the longer term.

Ideas on how to sustainably replenish the DAO Treasury and finance pNetwork's operational costs:

- Introduce a tax for node operators, where the tax payments are directed to the DAO Treasury
- Introduce a fee-accruing node delegation system via lending, where the fee payments are directed to the DAO Treasury
- Other

One of the main goals of the pNetwork DAO for the long-term is to become fully financially independent, so to sustain itself in its operations.
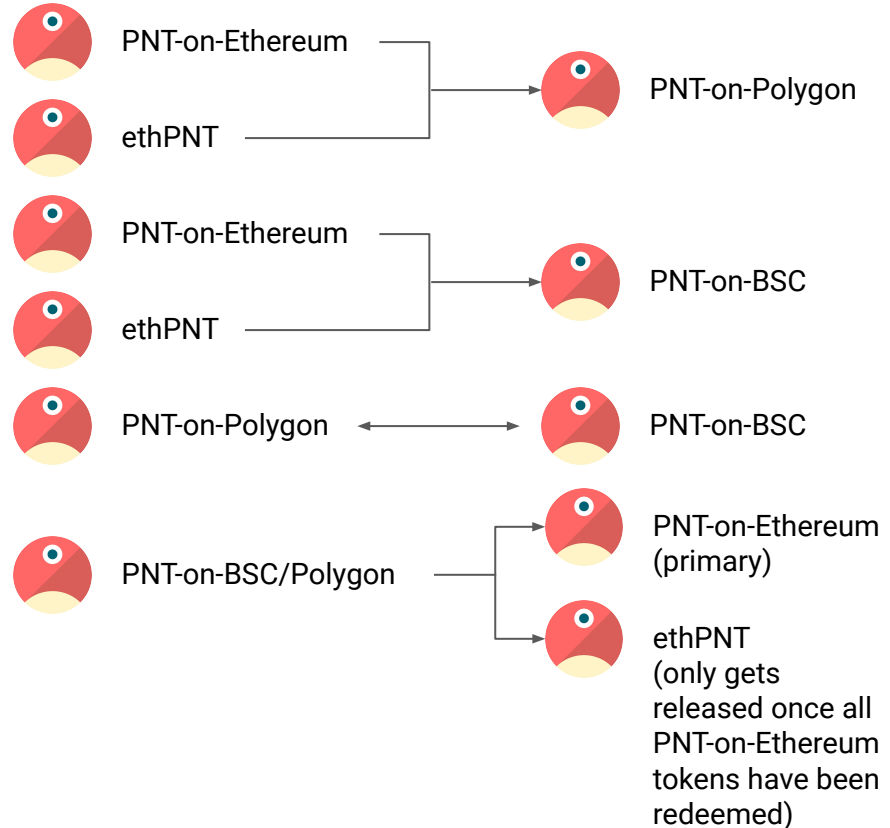
How is the PNT inflation issued?

The PNT token is currently available on 6 different blockchains and it benefits from the pNetwork protocol to move across them. Similarly, the pNetwork DAO governance is available on 2 different blockchains.

The PNT inflation would be issued with cross-chain functionalities. Specifically:

1. **On Ethereum, a new token called ethPNT will be issued according to the logic of the Year 3 inflation. It is an extension of the PNT token** that uses a different representation on Ethereum, but maintains the same token economy and the same functionalities of PNT-on-Ethereum.
2. **On all other blockchains, the single representation of PNT will remain.** pNetwork v2's cross-chain bridges will accept both PNT and ethPNT for the cross-chain transfers that go from Ethereum to any other blockchain where PNT is available. This will be available starting from PNT-on-BSC and PNT-on-Polygon.

How does it work?

PNT-on-Ethereum
ethPNT
→ PNT-on-Polygon

PNT-on-Ethereum
ethPNT
→ PNT-on-BSC

PNT-on-Polygon ↔ PNT-on-BSC

PNT-on-BSC/Polygon
→ PNT-on-Ethereum (primary)
→ ethPNT (only gets released once all PNT-on-Ethereum tokens have been redeemed)

Community discussion: forum.p.network