Protocol: Synthetix
Version: 2.3
Previous Report: None

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Please fill in all questions with a written explainer, any relevant links and score per variable based on the [Fundamental Review Process V 1.0](). Insert the scores per variable in the scorecard at the end of the report. Please follow the [Rating Process]() when creating and submitting a report.

Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? In general, forks without any newly added functions are considered subordinate to the protocol they forked.

Answer: Synthetix was [one of the first projects]() on the Ethereum blockchain to provide a synthetic assets exchange. It is also credited as [the first project]() to do yield farming. The project has been at the forefront of decentralizing, first moving from a foundation towards [3 DAOs]() and then moved towards a [Spartan Council](), which since then has been viewed with [mixed views](), but has been seen as being a thought leader once again. The SNX Staking contract is widely forked within the DeFi space.
Score: 15

Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market. To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer: Ever since Synthetix came upon the scene it has been copied, built upon and praised.

Synths are widely seen as the next big thing within DeFi. Whereas user numbers were [still low](#) in 11-2020, the market itself is [growing rapidly](#). SNX is seen as a Blue Chip token within DeFi and the Synthetix protocol of choice.

Score: 15

Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer: While users numbers are still relatively low on Synthetix, the possible size of the synthetics market is huge. Within crypto it has grown immensely within the last year, and has no reason to slow down, quite the opposite, it will only continue to grow.

Score: 10

Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). The relative comparison can become rather subjective, to solve this the score standardizes the results in fixed categories.

Answer: Other synth protocols are popping up. But Synthetix is dominating the sector and will only continue to do so as it is gearing up to launch (as the first large DApp) on the L2 of Optimism. Its contracts are deemed top notch, scoring a [96%](#) on DeFi Safety.

Score: 10

Tokeneconomics

The Tokeneonomics section of the review assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer: Synthetix is an older project, and therefore it was still part of the ICO days. *100,000,000 SNX were [issued](#) in March 2018. 60% were allocated to investors in the Main Sale and the EOI Sale*

and 40% was allocated to the project treasury, with 3% reserved for Bounties and Marketing Incentives, 5% reserved for Partnership Incentives, 12% allocated to the foundation and 20% allocated to the team and advisors. The foundation allocation vested quarterly for 12 months and the Team and advisors allocation is vesting quarterly for 24 months.

As a consequence, it has one of the more evenly distributed token distributions compared to many new DeFi projects without big pre-sale VCs. Large funds have been buying in since then.

From The Defiant (6-5-2020):

"Nine whales (addresses with more than 1% of circulating supply) own 65% of the total SNX tokens. 47.65% of SNX is in an address used for the Synthetix staking escrow and 6.61% for the Synthetix Foundation, according to data from Etherscan. Investors, addresses holding between 0.1% and 1% of circulating supply, hold almost 19% of SNX in circulation, while retail volume consists of only 15% of the current distribution."

Framework Ventures is the largest staker (27-8-2020) of the Synthetix protocol outside of the founding team. As of today, the largest holder outside of smart contracts only has 1.8% according to Etherscan, with 59,649 holders in total. Further distribution happens through inflation with staking.

Score: 15

What is the extent of the token's capabilities? (10 points)

What are the different merits of the token? Is the token useful in the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way?

Answer: Token Use cases (from DeFi Weekly 11-3-2020):

1. *"Inflation based **staking rewards.** By minting SNX assets, you effectively become a staker of the protocol. Because of this, you're eligible to earn more SNX tokens that come out of the inflation of the protocol.*
2. *Exchange trading feeds. Every time someone transfers a SNX-based asset they have to pay a fee. The aggregate of these fees can be claimed by stakers in the protocol.*
3. *Uniswap LP rewards. This is part of the first point but is important to note: anyone who mints sETH with SNX and provides liquidity for the sETH and ETH liquidity pool on Uniswap receives additional rewards. This is extremely important as it maintains price parity between sETH and ETH creating a liquid gateway between all of Synthetix's "synths" (synthetic assets)."*

Additionally, the token is used in its governance.

Score: 10

Is the issuance model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer: Issuance is done through staking SNX, which is the main option to create new synths.

"Synthetix [announced](#) that they will be implementing an inflationary monetary policy as an incentive to bootstrap network effects. Over the next five years, the total supply will increase from 100M to around 250M SNX with inflation diminishing over time."

Synthetix needs synths to be viable within its sector, and by [giving minters of synths](#) rewards, it has an incentive mechanism to lure more collateral to its protocol. The staking rate of SNX has been high for a year and [has been growing](#). The protocol could improve by awarding governance or other valuable activity within its community with tokens as well.

Score: 8

Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the merit of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer: Synthetix's treasury grew primarily as a result of SNX's appreciation since 2019. The SynthetixDAO, currently [managed](#) by core team members with [plans](#) to change, stakes SNX to generate more of the token. Eventually, as Synthetix grows, the DAO will be able sustain itself off trading fees earned by staking SNX. Besides the treasury itself, token holders who stake also get rewarded off of the trading fees. It would be even better if by default a part of the trading fees would go to its decentralized treasury.

Score: 8

Is the token sufficiently liquid to enable active use and trade? (5 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer: Yes. Trading [half a billion](#) per day in volume and listed on loads of exchanges. Considered a Blue Chip within DeFi.

Score: 5

Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favors teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer: The team is [public](#) and well known, notably its founder Kain. The team has made no moves to discredit itself over the past 2 years.

Score: 15

Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer: The team has shipped good code which is admired within the space. The team has been steady over the years, and expended. Synthetix is now governed by its DAO, but the old core team is still the main driver behind innovation within the protocol. The team members have financial [backgrounds](#), but not synth specific.

Score: 8

Does the team participate and help shape the public debate? (10 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

Answer: Kain is seen as a thought leader within the space and spends a lot of time communicating and participating. He is also an [angel investor](#) into other DeFi projects. Other team members are less prolific, however, this is often the case with projects within DeFi.

Score: 10

Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when

needed? How well are resources managed and used?

Answer: The team has done multiple sales, public and private ones with which it has around [34M](#) in funding. **This is complemented with staking rewards and trading fees. There are three DAOs with which SNX holders coordinate the protocol. The treasury is, as mentioned above, currently administered by the team itself, with plans towards decentralization in the future. These plans were meant to be fulfilled half a year ago, so this does raise question marks.**

Score: 9

Governance

The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the needs of all current and future stakeholders.

Admin Keys (20 points)

Admin Keys allow some critical functionalities of a protocol to be controlled by an admin. This allows the developers to react to potential bugs, but also creates a risk as the developers could potentially misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer: As of September 2020 Synthetix smart contracts are fully upgradeable via the admin key, with [DeFi Watch](#) stating that the core team possess "vast power to do just about anything, including adjusting user balances and draining funds." Synthetix's core team acknowledges that the project is highly centralized from this standpoint. The project made changes towards its [Spartan Council](#) in December, which has put these keys into the hands of a multi sig. The Council was voted on.

Score: 15

Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer: Token holders [vote](#) on proposals to change the protocol which presumably get enacted upon by the council.

Score: 12

Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practiced by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer: There are [7 members](#) to the spartan council, which can be voted on constantly. The Spartan Council has a public discord channel in which they discuss matters. There is also a [forum](#) for the general public to discuss in. Their discord is [highly active](#).

Score: 4

Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer: Synthetix has always been informative about how it envisions governance through blog [posts](#). [Docs](#) and formal governance processes are less extensive. Having SNX holders constantly voting on council members gives incentives towards the council members to be public about their involvement and be proactive to a certain extent.

Score: 7

Governance infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer: As mentioned above, most is done through their [governance portal](#) (snapshot), their [research forum](#) and mainly their discord. All together a pretty standard set up for a major DeFi protocol.

Score: 8

Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

Answer: Synthetix was one of the first major DeFi projects which DAOified. Plenty of people have speculated this was also due to regulatory reasons. The judgement is still out on it but as was summarized well by [this](#) article (13-10-2020):

The Synthetix platform does appear to potentially offer a multi-lateral trading venue for derivative contracts that could be considered within the scope of MiFID i.e. enabling multiple parties to buy/sell derivatives in a manner designed to result in binding contracts. However, the absence of matching individual participants in a trade and

the algorithmic nature of the trades complicate this picture and mean it could still be outside of scope depending on the interpretation of each Member State regulator, national law and ESMA. EU law is also very fragmented and much in need of updating in respect of the definition and supervision of regulated derivatives. In addition, the lack of a legal person operating the trading venue would make the regulation or prohibition of the platform very difficult and, to the extent that the regulators wish to capture it, will require looking through the DAOs for one or more individuals that the regulator believes is the effective controller of the venue. Failing that it is difficult to see what regulators can do other than an outright ban on such a platform and product (with all of the novel difficulties that arise from seeking to prohibit smart contract interactions and settlements not mediated through financial institutions).

To the extent that Synthetix is used to create asset-referenced tokens (including stablecoins) then, subject to consideration of whether they are potentially algorithmic tokens, it could be fully within scope of the proposed EU MiCA regime subject to territoriality requirements.

It was at least clear that Kain himself saw becoming a DAO as a defense mechanism towards regulation. The company which launched Synthetix at first is based in Sydney. As a DAO with founders publicly saying they are not in charge anymore, I think this is not applicable.

Score: X

What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer: As mentioned before the DAO has made things different. The company is located within Australia. Kain has mentioned plenty of times that since the DAO, he has not been in charge anymore, which would mean there is no Jurisdiction.

Score: X

Is the protocol (able to become) legally compliant? (5 points)

Is the protocol able to acquire the necessary licenses and supervision to be able to operate in the traditional regulatory environment? Has the protocol already acquired such licenses?

Answer: As mentioned before, Kain is quite outspoken in saying he is not in charge anymore and also that he thinks the DAO will keep regulation at bay, I think it is therefore fair to say they are not actively seeking compliance.

Score: X

Scorecard

Value Proposition	Points
1. Novelty of the solution	15 / 15
2. Market fit/demand	15 / 15
3. Competitiveness within market sector(s)	10 / 10
4. Novelty of the solution	10 / 10
Tokeneconomics	**Points**
1. Is the token sufficiently distributed?	15 / 15
2. What is the extent of the token's capabilities?	10 / 10
3. Is the issuance model able to improve the coordination of the protocol?	8 / 10
4. Is the value capture model able to accrue and distribute value?	8 / 10
5. Is the token sufficiently liquid to enable active use and trade?	5 / 5
Team	**Points**
1. Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	15 / 15
2. Does the team have relevant experience?	8 / 10
3. Does the team participate and help shape the public debate?	10 / 10
4. Is the team able to effectively attract and coordinate resources?	9 / 10
Governance	**Points**
1. Admin Keys (Yes, Multisig, Multi-sig and Timelock, None)	15 / 20
2. Extent of Governance capabilities	12 / 15
3. Active Governance contributors	4 / 5
4. Robustness of Governance process	7 /10
5. Governance infrastructure (rituals, docs, UI)	8 / 10
Regulatory	**Points**
1. Does the protocol have any legal accountability?	X / 15
2. What is the quality of the legal jurisdiction?	X / 10
3. Is the protocol (able to become) legally compliant?	X / 5
Total	**184/205**

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