Fundamental Report

Prime Rating Report V2.1

Protocol: IDEX v3
Version: 1
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Previous Report: Link to previous report

Author: Dliteofficial
Reviewed by: dabar90
Season/competition: Season 3

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	11 / 15
b) Market fit/demand	4 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	4 / 10
e) Integrations & Partnerships	8 / 15
Total Points - Value Proposition	**37 / 65**
2. Tokeneconomics	**Points**
a) What is the extent of the token's capabilities?	4 / 10
b) Initial token allocation	4 / 15
c) Continuous token issuance & tokenomics mechanisms	7 / 10
d) Is the value capture model able to accrue and distribute value?	6 / 10
e) Is the token sufficiently liquid to enable active use and trade?	3 / 5
f) Are there any extrinsic productivity use cases?	0 / 10
Total Points - Tokenomics	**24 / 60**
3. Team	**Points**
a) Is the team credible and public?	13 / 15
b) Does the team have relevant experience?	6 / 10
c) Does the team participate and help shape the public debate?	3 / 5
d) Is the team able to effectively attract and coordinate resources?	9 / 10

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Total Points - Team		**31 / 40**
4. Governance		**Points**
a) Admin Keys		**17 / 20**
b) Extent of Governance capabilities		**1 / 15**
c) Active Governance contributors		**0 / 5**
d) Governance infrastructure		**0 /10**
e) Robustness of Governance process		**0 / 10**
Total Points - Governance		**18 / 60**
5. Regulatory		**Points**
a) Does the protocol have any legal accountability?		**15 / 15**
b) What is the quality of the legal jurisdiction?		**10 / 10**
Total Points - Regulatory		**25 / 25**
Total		**135 / 250**

1. 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.

a) 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 users' problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer: IDEX is a Hybrid Liquidity DEX, combining a high-performance order book and matching engine with Automated Market Making (AMM). It blends the best of centralized and decentralized exchanges, with the performance and features of a traditional order book and the security and liquidity of an AMM. It is intent on getting the best spreads, avoiding failed transactions, and easily providing liquidity, all with the power of real limit and stop-loss orders.

In order to build a high-performance exchange, IDEX had to implement 3 things (innovations):

1. **Off-chain trading engine**: The essence of this is to improve performance beyond optimal level, and to *process tens of thousands of orders per second with millisecond latency. This is in contrast to the majority of DEXs which execute trades on-chain, leading to low throughput and high latency associated with blockchain transactions. The IDEX trading engine leads to a responsive user experience and insulates users from the failed trades, front-running, and sandwich attacks that plague on-chain DEXs. (Source)*

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2. **Off-chain order book:** The combination of this and the off-chain trading engine minimizes gas costs and maximizes the benefits of the trading engine. ([Source](#))
3. **Advanced Orders:** *The use of a high-performance trading engine enables advanced order types typically only found on centralized exchanges. These include stop-loss, post-only, and fill-or-kill. Introducing these order types allows for more sophisticated strategies typically not possible on DEXs* ([Source](#))

Besides this, IDEX also created a [Hybrid Liquidity](#), *the first order book exchange to integrate a smart-contract Automated Market Maker (AMM) as a liquidity source. It combines a traditional order book and matching engine with liquidity pools of an automated market maker (AMM). Traders are seamlessly matched against the best combination of limit orders and pool liquidity for the lowest-cost execution without any additional effort.*

At the moment, IDEX has not introduced any organizational innovations but given the technical innovations, this section is scored 11.

Score: 11

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). 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: IDEX recently launched their [v3 hybrid DEX model](#) in Nov 2021. The protocol has generated ~1.6 million trades with a total cumulative trade value of ~$1.7 billion ([Source](#)). Relative to other DEXes, its total cumulative trade value is about half of Uniswap and is a little above the number 2 (in terms of market share) which is Curve FInance on a 24-hour time frame. Uniswap's 24-hour trading volume is ~$3.3 billion, and that of Curve Finance currently stands at ~$604 million ([Source](#)). On the basis of this comparison, IDEX doesn't stand a chance as mentioned earlier and would be unfair to compare them at such a level. How about examining the receptivity of the market to the launch of IDEX v3. IDEX v3 was just 16 days old as of the 17th of December, 2021 and in just over 2 weeks, it achieved over $110,000,000 in trading volume, $30,000,000 TVL, and over 370,000 trades ([Source](#)). After a little bit of extra research, it was discovered that at the time IDEX launched their v3, there was a boom in the volume of trades on DEXes (unfortunately, the same can't be said for DeFi at the time) ([Source](#)). All this proves is that IDEX doesn't have a product-market fit. They need to do better but it isn't fair to entirely rate them low hence the score of 4

Score: 4

c) 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: IDEX belongs to the Decentralized Exchanges (DEX) sector of Decentralized Finance (DEFI). According to [DeFiLlama](#), the Total Value Locked (TVL) of all DeFi protocols currently stands at $89.05b. Although there has been a reduction in the figure cited in the previous report, DEX still constitutes ~33% of the TVL of all Defi Protocols, a 3% increase. DEXes have a TVL of $29.01b which makes the DEX market the largest category ahead of Lending and Bridge ([Source](#)).
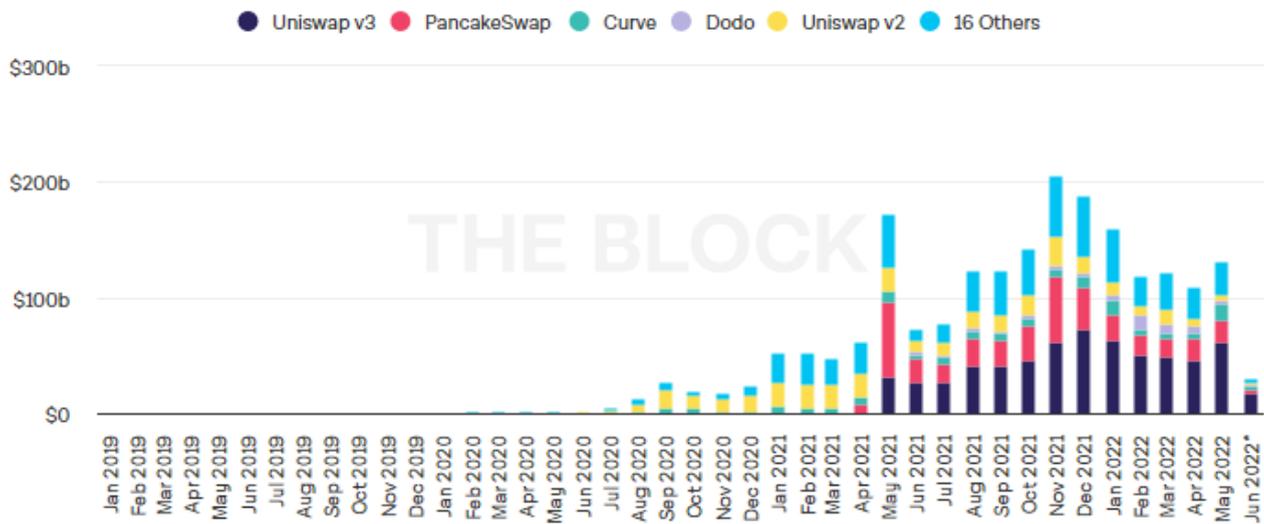
SOURCE: COINGECKO
UPDATED: JUN 13, 2022

Chart embedded from The Block Crypto Data.

The Block Crypto Data

DEX is a growing market according to a report by Coinbase which reads that *in the first quarter of 2021, $217 billion in transactions flowed through decentralized exchanges. As of April 2021, there were more than two million DeFi traders, a ten-fold increase from May 2020.* And according to The Block Crypto, *Decentralized exchanges (DEXs) reported more than $1 trillion in trading volumes in the year 2021. That figure is a massive 858% increase compared to 2020 DEX trading volumes, based on data as of December 23.*

All this information indicates how important DEX is to the DeFi space, the share it holds in the whole DeFi space, and most importantly, the growth in DEX Trade volume over time.

DEX is a large/substantial market with a potential for growth and most importantly, it is currently the most significant contributor to DeFi.

Score: 10

d) 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). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer: Coupled with all that was mentioned in section 1b, IDEX ranks #55 on DeFiPulse and has taken 10 steps back in ranking order for DEXes on DefiLlama since the last report was written. Comparing IDEX TVL to that of market leaders such as Uniswap and Curve, you would find that IDEX's TVL is insignificant. IDEX's TVL is $14.8M while Uniswap and Curve's TVL are $7.04B and $4.9B respectively. According to Dune Analytics, The number of trades executed on IDEX on a trailing 7-day time frame is 28,276 and it is ~a quarter of the number of trades executed on the same time frame on Uniswap for WETH/USDC alone (86,474).

IDEX may have found the right market and maybe with the ideal product but they are struggling to remain competitive. This section should get a score of 3 but considering the launch of IDEX v3 HL which could be considered a success plus it was launched at the right time could give the impression that they have competitive abilities, hence the score.

Score: 4

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/ partnerships without much purpose).

Answer:
PARTNERSHIPS
Coinswitch: CoinSwitch is the world's largest cryptocurrency exchange aggregator supporting over 275+ coins and 45,000+ currency pairs - the highest in the world.
Upbots: a trading platform that allows users to trade on centralized, decentralized exchanges and other capital investment DeFi products. Integration includes IDEX on UpBots platform
Moonbeam: *By deploying to Moonbeam, IDEX is able to include assets from Polkadot and its parachains in their exchange without making major changes to their existing code.*
CCXT: This integration with CCXT is just one of many steps IDEX has taken to improve the market-making experience and liquidity options on IDEX. Continued upgrades to its API, such as recent performance improvements or integrations with CCXT, have made it easier for market makers to interface with the IDEX platform.
INTEGRATIONS
Polygon: *IDEX is bringing to Polygon the same world-class off-chain infrastructure as IDEX Ethereum. This includes the high-performance matching engine, instant execution, front-running protection, and advanced order types not found on any other DEX. Bringing IDEX to polygon makes settlement costs 10,000-100,000x cheaper than on Ethereum L1, eliminating the cost tradeoff that exists today for order book DEXs.*
Algorand: IDEX and Algorand are working closely together to develop advancements in financial tools and services to support the new economy. With Algorand, IDEX can develop a solution with full finality, tokenization of assets, and programmatic transfers at Layer-1. Looking ahead, Algorand's forthcoming innovative new primitives also offer IDEX the incredible opportunity to offload smart contract complexities onto the Algorand platform's native features. IDEX stands to gain invaluable benefits from Algorand's core offerings. The Algorand platform has the potential to deliver uncompromising speed, security, and decentralization—benefits that have not gone unnoticed by the blockchain community.
The partnerships between IDEX and the other protocols in the partnership section are basically an extension of what they already offer and the integrations are to provide IDEX with speed and advanced scalability mostly.
Score: 8

2. Tokeneconomics

The Tokeneonomics section 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.

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

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer: IDEX has a use case and it is staking which invariably confers revenue rights on the holder. The staking program allows holders with at least 5000IDEX to operate their own staking node or delegate their IDEX to an existing node. As compensation, stakers are entitled to 50% of trade fees collected by the network.
Score: 4

b) Initial token allocation? (15 points)

Token distribution can be an indicator of a healthy protocol and, if done well, can improve coordination and alignment among different stakeholders. Was the genesis/initial distribution fair and balanced? Are the tokens distributed widely or is the ownership concentrated and skewed toward early insiders? Are vesting schedules aligned with long-term vision?

Answer: Aurora was rebranded to be IDEX and the token is pegged at 1:1. According to their old whitepaper, the total supply of IDEX is 1 billion and it is to be shared equally between protocol improvement and team & operations. Of the portion that is set aside to accelerate the adoption of the protocol, 40% will be used to help to subsidize the growth of the protocol by distributing tokens to users and community members through programs such as market maker rewards, marketing campaigns, and airdrops. The other 10% will be given proportionately to individuals who purchase IDEX membership.

The other 50% will be distributed in the following proportion:

1. Founding Team - 25%
2. Future Employee Token Pool - 10%
3. Future use - 10%
4. Business Expenses - 5%

The whitepaper doesn't provide any additional information as to what the vesting schedule is for these tokens. What does this genesis distribution indicate? The following are the deductions:

1. The distribution schedule favours IDEX in terms of whether they conform to industry-standard or not. What it also says is that although 50% was allocated to the community and the betterment of the protocol, 50% of the distribution is also skewed towards insiders.
2. Founding team getting 25% could be considered to be on the high side. Most protocols have it capped at 20% - 23%.
3. Adding the 10% of Future Employee Token Pool to the initial 25% allocated to the Founding Team, that's 35%, which is definitely too high for the team.

Definitely, the token distribution is heavily skewed towards insiders, hence the score.

Score: 4

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c) Continuous token issuance & tokenomics mechanisms (10 points)

Most token distribution schedules have built-in inflation. This section evaluates the purpose of that continuous token distribution. Is it justifiable? Does it help improve the coordination and alignment of incentives for the protocol? Does it incentivise positive-sum behaviour? Are the benefits flowing to all relevant stakeholders or just select groups?

Answer: According to information provided by the team, after rebranding to IDEX from Aurora, there was a little change to the tokenomics and distribution. The IDEX to Aurora exchange rate is still 1:1 however, as of the day of the publication of the new tokenomics (Oct 29, 2021), ~41% of the total supply resides in the company's treasury and will be directed towards all initiatives that help grow the protocol like the IDEX V3 Hybrid Liquidity (HL) at the time alongside many others. Their reason for rebranding is to incentivize people who truly understand the ecosystem and people who play a key role in the operations of IDEX (e.g stakers)
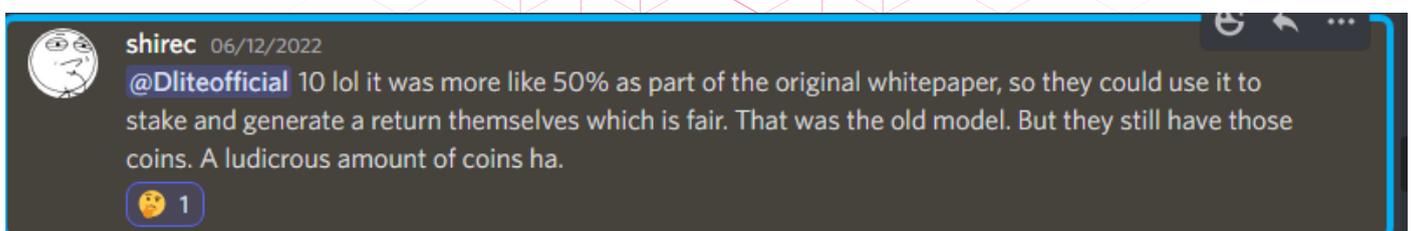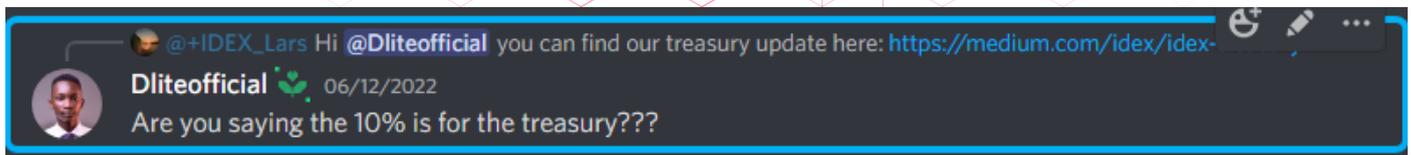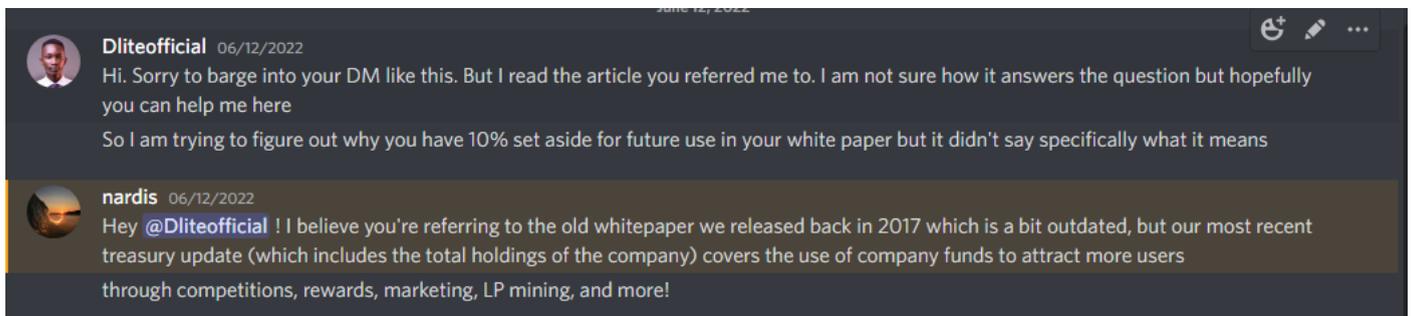
According to coinmarketcap, the fraction of IDEX's total supply in circulation is currently at about 66.2% which means that less than 34% is yet to be distributed. An analysis by Messari indicates that the token distribution (inflation) increases at an increasing rate. The inflation rate currently stands at 2.89%.

Score: 7

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

A value accrual and distribution mechanism can help improve the utility 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: At the moment, there is one source through which value is generated for IDEX stakers and it comes from the

trading fees. By running/operating your own node or delegating your IDEX to an existing node, stakers are compensated with 50% of trade fees collected by the network ([Source](#)).
Score: 6

e) 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:

IDEX is listed on major CEXs like Binance, KuCoin, Coinbase Exchange, etc. with a moderate to a high level of liquidity. The only notable DEX that IDEX is listed on is IDEX. IDEX is not listed on major DEXes like Uniswap and Sushiswap for example.

Score: 3

f) Are there any extrinsic productivity use cases for the token? (10 points)

Besides the protocol's value distribution model as described in 2. d), can the token be used productively on other protocols (e.g. as collateral, for lending, LPing, yield farming, etc.)?

Answer: None at the moment

Score: 0

3. 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

a) 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: IDEX doesn't have a team page but they have a [LinkedIn company page](#) where you can find additional information on the team. The consists of

Alex Wearn (CEO and Co-founder) [LinkedIn](#), [Twitter](#)

Phil Wearn (COO and Co-founder) [LinkedIn](#), [Twitter](#)

Jason Ahmad (CTO) [LinkedIn](#)

Brian Fernalld (Head of Product) [LinkedIn](#)

Brian Yennie (Senior Software Engineer) [LinkedIn](#)

Juraj Husár (Software Engineer) [LinkedIn](#)

You can check the LinkedIn page attached to examine other team members who are responsible for building IDEX. This is to indicate that the team is credible and public.
Score: 13

b) 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 [CEO of IDEX](#) has been building IDEX for close to 7 years but before then, he was either a (Senior) Product Manager for reputable companies like Amazon or a Business Analyst for IBM. The [COO](#) was the coFounder/COO of EtherEx for close to 2 years and an Account Specialist for Janus Capital Group for a while. Jason currently serves as the Chief Technology Officer (CTO) but before IDEX, he was the CPO/CoFounder of Epoxy for 4 years. The Head of Product has been in the business of building tech products before joining IDEX and all of his experiences are a valuable addition to the team. Beyond the executive team members, there are other people with skills that are relevant to the development of the product as you would find on their [LinkedIn page.](#) This section gets a 6 because although they have relevant experience in building a successful business or contributing to the success of one and some of the team members have blockchain knowledge, it isn't evident that the members of the team have a finance background. IDEX has a team with relevant experience, not a highly skilled team.
Score: 6

c) Does the team participate and help shape the public debate? (5 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: The active member when it comes to discussing blockchain, DEXes and IDEX is Alex Wearn. Alex Wearn participated in the [Global DeFi Summit 2020](#) joining a list of highly reputable DeFi Advancers to speak on all matters DeFi. He is also about to speak on blockchain and IDEX at the [DHG Events, LA Blockchain Summit](#) #9. His speech was also transcribed into [an article by CoinTelegraph](#) on the *Journey in Blockchain by Alex of IDEX*. He explained how his journey started in the blockchain space and he didn't fail to answer the popular question as to whether blockchain has a future. This section is graded 3 because although Alex is doing a great job maintaining a great public image by attending all of these events, it would be better if more team members were involved.

Score: 3

d) 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?

Answer: In 2018, IDEX (formally Aurora) created a total of 2,000 tokens with 1,600 distributed to token sale participants ([messari](#)). The image below shows how the fund raised from this token sale is projected to be used. They were able to raise $6 million from the sale ([Source](#))

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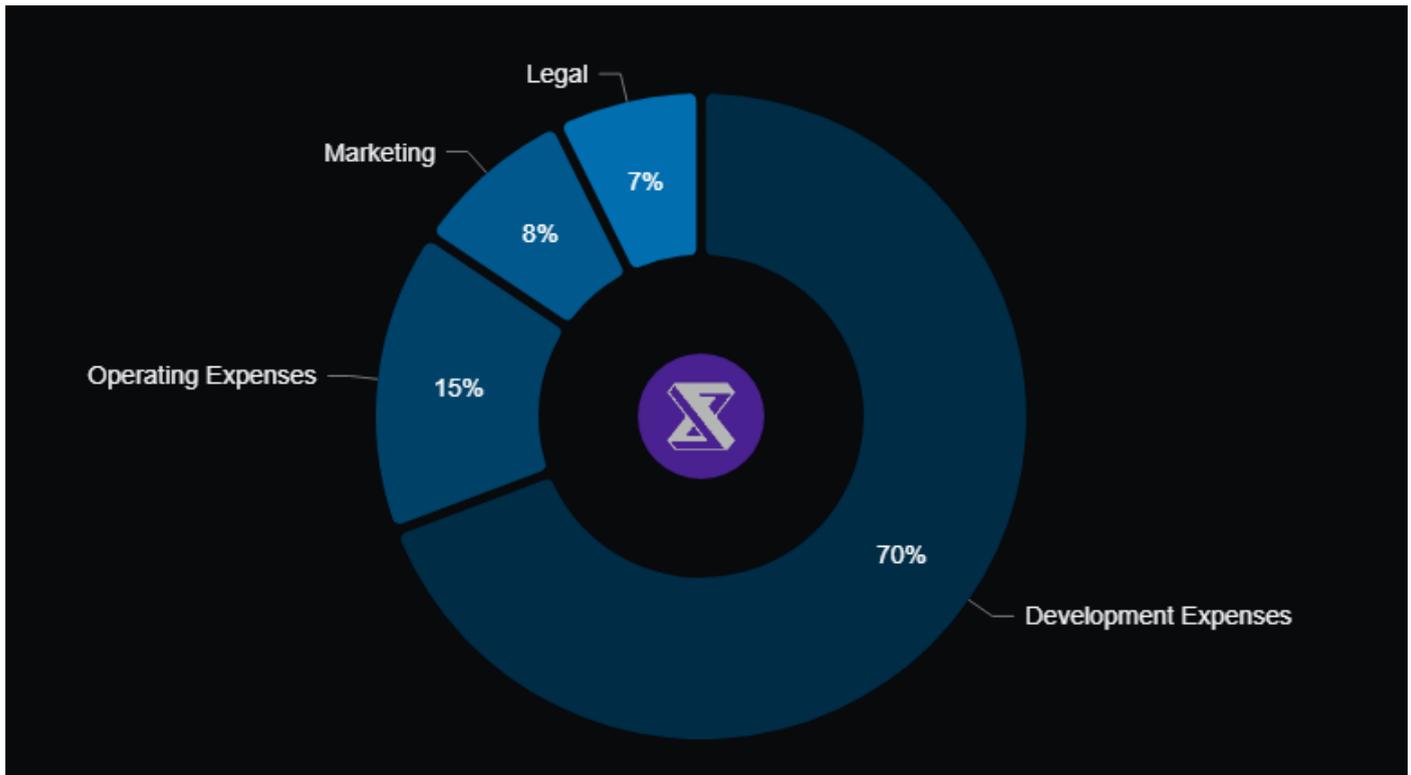
Furthermore, when the team needed to raise funds for the launch of IDEX 2.0, they were able to. In fact, they raised $2.5million which was used to launch an improved version of its existing exchange at the time. *The new exchange would combine the performance of a centralized exchange with the security of a DEX. The fresh capital would be used for continued product development, marketing, and user acquisition. The round was led by G1 Ventures and Borderless Capital, with participation from Collider Ventures and Ethereum prediction market project Gnosis.* ([Source](#)). The protocol also has seasoned practitioners mostly from Finance and Tech as advisors who are responsible for helping them navigate the world of fundraising and product building ([Source](#)). The team has attracted sufficient resources and has advisors who can help them attract even more.

Score: 9

4. 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.

a) 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: There are several smart contracts that IDEX runs on but there are 3 which are especially of relevance here

which are the [Governance](#), [Exchange,](#) and [Custodian](#) contract. The Custodian contract is responsible for holding and safeguarding the deposited assets for all users of both the AMM pools and the order book. The Exchange contract authorizes transfers of funds out of the Custodian contract. It also implements the majority of the exchange functionality, including balance tracking and AMM pool reserve tracking. The Governance contract manages the upgrade process. It contains the logic and constraints for changing the Exchange and Governance contract addresses within the Custodian. This allows for changes to both the exchange features and governance process without requiring users to migrate funds from the Custodian contract.

Owner: The Governance contract has a single owner, which is the address that launched the contract. The owner of the contract cannot be changed.

Admin: The Governance contract has a single admin. The admin address can be changed by the owner of the contract with no delay.

The admin is the only address permitted to change the Exchange or Governance contract addresses in the Custodian. Changes to the contract addresses have a 1-week time delay before taking effect. This delay gives users time to withdraw their funds in the event that they disagree with the Exchange contract upgrade.

This means that the contract is controlled by two persons (multi-sig), the owner, and a single admin, and there is the grace of 1 week for users to react to changes before they take effect. This section gets a 17 because of how their smart contracts are organized separately to allow for an upgrade without affecting other smart contracts. And it was reduced by 3 because information about the admin isn't available.

Score: 17

b) 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: No governance mechanism currently exists. IDEX manages the protocol. Users have the ability to make suggestions and request listings on Discord however this is informal and not limited to IDEX holders.

Score: 1

c) 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: No formal governance process exists. [Community](#) Involvement is limited to protocol updates, access to airdrops, giveaways, and events. (see 'community').

Score: 0

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d) Governance technology/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: None. Users have access to Discord, Telegram, and Reddit. As mentioned in section 4b users can make suggestions and listing requests.

Score: 0

e) 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 and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer: No specified governance process exists.

Score: 0

5. 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.

a) 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: IDEX (previously Aurora Labs)

Score: 15

b) 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: San Francisco, USA

Score: 10

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About the Author: Dliteofficial