

2.0 Fundamental

Prime Rating Report V2.0

Protocol: Inverse Finance (INV)

Version: 1.0

Previous Report: [Link to previous report](#)

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Instructions

Please go to files and make a copy of this template.

Fill in all questions with a written explainer, any relevant links and score per variable. Insert the scores in the scorecard at the end of the report. Please follow the process as laid out in the Medium announcement and submit the report through the form.

Please include your sources into the text (as a link), so others can follow your trail of thought.

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

Answer: Inverse finance is a [suite of permissionless decentralized finance tools](#) governed by the Inverse DAO running on the Ethereum blockchain. The main products are Anchor (money market and synthetic asset protocol), DOLA (Stable Coin; can be minted by using other assets on Anchor as collateral and can also be used itself as collateral to borrow other assets on Anchor) and DCA Vaults (allowing for dollar-cost-averaging (DCA) token invests for yield bearing strategies). With this product suite composition the protocol itself is offering no fundamental product novelties and steps into the ring with a lot of competitors (see section 1d)). A minor innovation can be seen in the Anchor product, which tries to offer capital efficient lending & borrowing via the issuance of synthetic tokens (e.g. DOLA) & non-synthetic credit (e.g. borrowing tokens such as ETH).

Score: 4

b) 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 (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: Positioning themselves in the money-market protocols, stablecoins and yield farming segment with their offered products they cover key areas of the DeFi market. Feasibility and efficiency are on another page. Out of the market fit perspective the protocol joins a promising market over the coming years.

Score: 12

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: Targeting basically the whole DeFi key segments, with three different products (lending, assets + stablecoin) the market size is substantial and still shows growth potential.

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).

Answer: Stepping directly into competition in multiple areas and facing protocols such as Maker, Compound or Synthetix as money market protocols or yield farming protocols such as yearn.finance, Harvest Finance or Fei protocol as a stablecoin protocol, Inverse Finance is under heavy pressure and with a [TVL](#) of currently \$16.5M (14-07-2021) ranked at the lower end (#68) on DeFi Pulse. The main competitors are leading with a big margin. It is questionable if the project can catch up in the coming months/years, weighting in its [experimental nature](#).

Score: 1

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: As for now the project has no ongoing partnerships or relevant integrations outside the protocol. Even [listing attempts](#) of INV as collateral assets on other decentralized lending protocols such as CREAM were rejected.

Score: 0

2. Tokenomics

The Tokenomics 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.

a) 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: Currently there are [1943 addresses](#) (14-07-2021) holding the token. Initially 654 got approved for the airdrop (more on that in 1c)). Since the token was [not transferable](#) from the beginning on, the holders have nonetheless increased. Due to the nature of the airdrop the token got widely distributed between different interest groups. Effectiveness and real impact on the governance of this distribution kind will be discussed in section 4.

Score: 8

b) 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: The [INV token](#) serves as a governance token to the Inverse Dao. Its utility is defined by giving the holder voting power. Several important parameters and aspects of the Inverse treasury and products can be controlled by voting , comprising -> The INV governance token; The Inverse

DAO treasury (INV tokens, Anchor profits and Vault profits); Vault parameters; Anchor Banking parameters (fees, collateral ratios, liquidation parameters etc); Anchor Stabilizer parameters (fees, debt ceiling). INV represents a pure governance token without any revenue mechanism attached to it.

Score: 5

c) Is the issuance/distribution 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: The token was distributed via an [airdrop](#), this was done because the founding team/community wanted to encourage people to actually participate in governance using their tokens - not just simply hold them for speculative reasons. The DAO even went as far as to seize tokens from holders who hadn't used them to vote in any of the governance proposals. Nonetheless the overall status now shows that the initial activity to participate in voting has nearly [faded away](#). This realised distribution can be seen rather as an experiment in the DAO space than an actually sophisticated distribution model.

Score: 1

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: INV holders can vote on Anchor profits and Vault profits for instance (see 1b). There is no native staking option for the token available. There are several [yield farming programs](#) (most of them outdated /not updated in the docs) which earn you INV by LPing into various pools.

Score: 2

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: \$283,990 [trading volume](#) (24h) (14-07-2021) does not indicate much active use and trade. Mainly all the trading activity falls to 3 pools existent on Uniswap (V2) (2) and Sushiswap (1), one mediocre CEX is represented with MEXC. All in all, INX does not show sufficient liquidity and very limited availability.

Score: 1

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: Currently the INV token is underrepresented and lacks pools/pairs or listings as an collateral asset.

Score: 2

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: The founder of Inverse Finance is [Nour Haridy](#), together with [Mo'az Mohsen](#) and [Tony Snark](#) he is forming the core team of Inverse Finance. All of the persons maintain a credible public presence (despite the artists name (Tony Snark), but not uncommon in crypto space, especially in the developer ranks)

Score: 8

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 [founder](#) itself shows smart contract engineering skills reaching back to 2017 ([github profile](#)). With positions as a Blockchain Developer, Blockchain Architect or Web3 Engineer he gathered experience in relevant positions. [Tony Snark](#) also adds valuable blockchain developing skills, winning him several hackathons (Ren Protocol Hackathon , AAVE prize winner @chainlink2020...). [Mo'az Mohsen](#) brings in extensive experience as a Web / Product Designer.

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: Nour Haridy participated in some public [panel discussions](#) (sample) but it dates back to 2018. Despite that, the team is not really on the public radar.

Score: 1

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: [Acquiring Tonic Finance](#) (was a competitor building products in the DCA space) back in April 2021, brought in Tony Snark , the founder and lead developer of Tonic Finance, as a full-time developer for Inverse Finance. For the [acquisition](#) of Tonic, [\\$1,675,500 USD](#) (paid in INV (1500 INV back at that time!) was spent. This indicates that there is at least some acceptance to the funds (in INV) available, but this merger was rather irrelevant for the overall market Inverse Finance is competing in. In the current state, the valuation of INV has changed drastically (\$159.60). Inverse

Finance is still lacking relevant partnerships and market acceptance as well as stable funding besides their DAO INV treasury for long term operations.

Score: 2

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: Nour Haridy still holds an [admin key](#), which lets him control relevant parameters such as (not clearly stated): The Inverse DAO treasury (INV tokens, Anchor profits and Vault profits); Anchor Banking parameters (fees, collateral ratios, liquidation parameters etc); Anchor Stabilizer parameters (fees, debt ceiling). There is no clear timeline on when the control over the key will end, it's just stated that it will be during the bootstrapping & setup phase. Defi safety also confirmed [unclear and incomplete information](#) in that regard.

Score: 2

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: Every INV token holder on the Inverse protocol gains voting power. This power can either be delegated to another delegate (someone else) or be self delegated. 1 INV = 1 vote. The community can make [proposals](#), meaning they request specific changes to be made to the protocol (partially stated [here](#)). Then, the community and delegates vote on whether they agree or not. If the proposal is accepted then the changes will be implemented 5 days after the vote ended. Delegates can be seen as representatives chosen by the Inverse community. Once they reach 1000 votes they'll gain

the unique power to formally launch an official proposal that can be voted on. (more on the module, voting process in 4d)).

Score: 8

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: With [11.7% engagement ratio](#) out of 211 voters for 25 proposals so far, the governance re voting activity is low. For instance, the account with the biggest voting weight (6.04%) voted on only 2 proposals. This indicates heavy unbalances in the voters' activity and interest of the protocol.

Score: 2

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: The protocol's governance is built on the [Governor Alpha module](#). For the voting process and proposal aggregation, a [Tally](#) side and a separate [governance subpage](#) are available. It is not clear which side should be used, the (governance) documentation on gitbook overall seems outdated and is not sufficient, relevant links e.g. on the [voting page](#) do not work. Still there is a [discord channel](#) for governance debate. On the technical side the base for a usable voting mechanism is set, but it lacks on the documentation and coordination side.

Score: 4

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: There is no documentation available, describing clear role profiles, norms, a common

language for “good governance” or overall a formal governance process. With the current state of [impoundments on inactive members](#) a voting pressure on every proposal is produced, which is not sustainable in the long run and also questionable (abstention from voting is sometimes also a valid position). Also having in mind that the founder still holds the control over parts of the DAO (unclear to what extent -> see 4a) weakens the robustness of the governance process enormously. Aiming for high participation rates is reasonable, but it has to be done with the community and not by fostering agitation.

Score: 2

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: There is a specific [risk disclosure](#) in their documentation, stating that Inverse Finance is an unaudited protocol, and a 100% loss of funds can occur. Participation happens at the user's own risk. Accompanied by the fact that Inverse Finance comes in the form of a DAO, no legal entity is attached to it to provide any kind of legal accountability. Still the developer team of Inverse Finance is known to the public and could be legally targeted (questionable but possible)

Score: 0

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: Since Inverse Finance is designed as a DAO from the inception on, there is no legal entity or jurisdiction you could assign it to.

Score: 0

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	4 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	1 / 10
e) Integrations & Partnerships	0 / 15
Total Points - Value Proposition	27 / 65
2. Tokenomics	Points
a) Is the token sufficiently distributed?	8 / 15
b) What is the extent of the token's capabilities?	5 / 10
c) Is the issuance model able to improve the coordination of the protocol?	1 / 10
d) Is the value capture model able to accrue and distribute value?	2 / 10
e) Is the token sufficiently liquid to enable active use and trade?	1 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	19 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	8 / 15
b) Does the team have relevant experience?	6 / 10
c) Does the team participate and help shape the public debate?	1 / 5
d) Is the team able to effectively attract and coordinate resources?	2 / 10
Total Points - Team	17 / 40
4. Governance	Points
a) Admin Keys	2 / 20
b) Extent of Governance capabilities	8 / 15
c) Active Governance contributors	2 / 5
d) Robustness of Governance process	2 / 10
e) Governance infrastructure	4 / 10
Total Points - Governance	18 / 60
5. Regulatory	Points

a) Does the protocol have any legal accountability?	0 / 15
b) What is the quality of the legal jurisdiction?	0 / 10
Total Points - Regulatory	0 / 25
Total	81 / 250

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