<div align="center">

Fundamental

Prime Rating Report

</div>

Protocol: MakerDAO
Version: 1.0
Previous Report: None

Date: 18-1-2021
Author: Zeb

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 (10 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: MakerDAO was the first protocol which allowed for creating synthetic US dollars in the form of the DAI token in a decentralized manner by overcollaterelizing ETH (and ERC20s). It was also one of the first major projects which [handed over](#) admin keys of MKR to a community driven DAO.

Score: 10

Market fit/demand (10 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: Stablecoins are widely used, and DAI is arguably the most popular decentralized version within DeFi. MakerDAO is as of 17-1-2021 at the top of DeFi Pulse with [$4.19B TVL](#).
Score: 10

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: The stablecoin market has grown immensely within the crypto space and has no sign of stopping.

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: Due to the huge growth within the stablecoin segment of crypto, MakerDAO has a lot more competitors then when it launched in 2018, or even years earlier, when it was [conceived](#) as an idea. Centralized stablecoins like Tether and USDC dominate a large part of the market sector. After opening up the floodgates with [Multi-Collateral-Dai](#), ETH is not the only collateral type allowed within MakerDAO. This led to tokens like USDC being accepted as collateral and therefore DAI has [lost](#) its pure decentralized nature. This has created room for new algorithmic and decentralized competitors to pop up. It is still early however and DAI is seen by many as the benchmark within decentralized stablecoins.

Score: 8

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: It is widely accepted knowledge that MKR distribution is divided between a few big stakeholders. There are 62,292 addresses (17-1-2021), which is quite a high number for a DeFi project. But with 1% of the MKR addresses holding 90% of the MKR tokens (10-6-2020). This has meant that governance has been dominated by a couple funds.

Score: 8

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: MKR is used for on-chain governance and interest accrued on the outstanding DAI is distributed to MKR holders in the form of token burns. Due to the centralization of the distribution, governance has been plutocratic (an issue in many DeFi projects, but MakerDAO is a common example for these problems). The revenue has been comparatively small when looking at other projects. After Black Thursday, the amount of MKR printed to offset the crash immediately nullified all burnings that happened previously.

Score: 7

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: The initial supply of MKR is distributed in batches via crowd sales on the Maker forums. Extra issuance can be minted to sell in debt auctions when loans get uncollateralized. This is meant to only happen in extreme cases, since it dilutes the supply and therefore lowers the value for MKR holders. If the protocol and its users act well, burns occur and the MKR token will get more scarce. MakerDAO was a pioneer in DeFi but tokenomics have gotten more intricate since then.

Score: 7

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: MakerDAO has no decentralized self funding mechanism. MKR holders can vote on risk parameters and collateral asset inclusion. Not on funding. It has no staking rewards or other mechanism

to distribute fees. It does burn fees, which, if substantial, should drive up the value of MKR holders. MKR is also used as a backstop when debt gets undercollateralized, buy minting new MKR and auction it off until the debt is gone.

Score: 6

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: DAI is the most liquid decentralized stablecoin in the ecosystem with $255,072,882 in daily volume (18-1-2021).

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: MakerDAO has been around for years and is regarded as a professional team. Its members are publicly known. The foundation did have internal power struggles in 2019 which lead multiple core believers leave the project.

Score: 12

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: MakerDAO has been active within the space for years and arguably have been the creators of decentralized stablecoins. Its foundation and team have been showing off their skills by collaborating with plenty of projects through partnerships and grants. There are few big DeFi projects who have zero ties to the MakerDAO foundation. Their background and previous work is openly available and verifiable.

Score: 10

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: Rune Christensen is publicly [active](#) and people like Mariano Conti (former chief of oracles) is well known and [respected](#) within the community. MakerDAO gives grants and supports other projects extensively. It is however not the most extentric, and most of its team members are relatively unknown.

Score: 9

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 MakerDAO foundation [received](#) around $27M in funding. There is no self funding mechanism. The foundation has given out a lot of grants, which suggests it is not lacking funding. Compared to newer projects which bring in up to $100M in funding, it is more modest.

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: MakerDAO smart contracts do not have an admin key. There is no single key or multisig that can be used to modify MakerDAO's smart contracts. Any changes must be approved by a

governance vote. The timelock is 4 hours. This timelock was initiated by on-chain governance after the protocol experienced its first [flash loan governance vote](#).
Score: 19

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: MKR holders can [vote](#) on risk parameters and collateral asset inclusion. Not on funding.

Score: 9

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: MakerDAO is [known](#) for its [low](#) governance participation and its MKR whales [deciding](#) the votes.

Score: 2

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: MakerDAO has [extensive documents](#) on their governance and has a dedicated [governance portal](#).

Score: 10

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: MakerDAO has clear [models](#), a [forum](#) and a [portal](#).

Score: 10

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: Rune used to be the legal accountable person of MakerDAO and with him the [foundation](#). Since they publicly moved to a DAO structure, this has all become unchartered territory. However, when Black Thursday happened, some users [sued](#) the Foundation, which is still an ongoing case. It is also an [ongoing discussion](#) within the community.
Score: 13

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: The various entities associated with the Maker Foundation are [currently](#) held under the Maker Ecosystem Growth Foundation (MEGF), a Cayman Islands foundation company limited by guarantee.

Score: 8

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: MakerDAO is working towards dissolving the Foundation and letting it purely run by the DAO. There is no roadmap towards being legally compliant. When it [writes](#) about compliance, it is totally left up to the user. The Foundation is involved with regulatory people and is actively [making partnerships](#) (12-2019) with relations to being compliant indirectly.

Score: 2

Scorecard

Value Proposition	Points
1. Novelty of the solution	10 / 10
2. Market fit/demand	10 / 10
3. Target market size	10 / 10
4. Competitiveness within market sector(s)	10 / 10
Tokeneconomics	**Points**
1. Is the token sufficiently distributed?	8 / 15
2. What is the extent of the token's capabilities?	7 / 10
3. Is the issuance model able to improve the coordination of the protocol?	7 / 10
4. Is the value capture model able to accrue and distribute value?	6 / 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)	12 / 15
2. Does the team have relevant experience?	10 / 10
3. Does the team participate and help shape the public debate?	9 / 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)	19 / 20
2. Extent of Governance capabilities	9 / 15
3. Active Governance contributors	2 / 5
4. Robustness of Governance process	10 /10
5. Governance infrastructure (rituals, docs, UI)	10 / 10
Regulatory	**Points**
1. Does the protocol have any legal accountability?	13 / 15
2. What is the quality of the legal jurisdiction?	8 / 10
3. Is the protocol (able to become) legally compliant?	2 / 5

Author: Zeb