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Fundamental

Prime Rating Report

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Protocol: Kyber Network
Version: 0.1
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:

Kyber was one of the first protocols building a decentralized token swap solution for the Ethereum ecosystem, which essentially marked the beginning for decentralized exchanges. The protocol also helped kick-starting blockchain interoperability, as they are part of the initial consortium creating WBTC for Ethereum. The team has kept innovating technically and organizationally. They were also one of the first projects moving to a DAO mode and are now fully governed by KNC holders (source). And just recently, they announced the introduction of their dynamic market maker (DMM) which is again a novelty in the space (source).

Score: 12

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:

While the protocol is used by many other projects and the number of partnerships is one of the highest in DeFi (100+ [integrations](#)), Kyber still has rather low trading volume, TVL, and low user numbers compared to other protocols offering token swaps. Although reporting decent usage, Kyber could not keep up with the exponential growth of other token swaps in 2020 and early 2021. [Source](#); [Source](#)

Score: 7

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 target market for token swaps is immense. DEX and CEX daily volume is in the billions (Binance daily volume ~20B; Uniswap -~1–1.5B). Although Kyber is more an "indirect" exchange, in that it supports other protocols for seamless token swaps, the market size is still massive. In addition, growth opportunities are huge, especially given that Kyber is more or less blockchain agnostic and is aiming for interoperability and connecting different blockchains.

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:
During 2020 and early 2021, Kyber has lost a lot of ground compared to its peers. This has a lot to do with the design of the liquidity pools, that are not as permissionless as others ([source](#)). For most key metrics (e.g. volume, liquidity, number of tokens, number of trades, market share) Kyber is still way behind other protocols ([source](#)).

Score: 2

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:
The Kyber ICO distributed ~60% of the KNC supply to 21'000+ ICO participants ([source](); [source]()). Kyber is among the DeFi protocols with the highest token distribution, making it more decentralized than most other protocols ([source]()). Close to 30% of all tokens are currently staked, which is required for governance participation ([source]()).

Score: 13

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:
KNC tokens can be used as a method of payment within the network and other third parties (utility). The token is also required for governance participation and voting to implement changes to the protocol (governance). Furthermore, governance participants are eligible for earning parts of the fees generated (revenue) ([source](); [source]()).

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:
All tokens aimed towards the community were sold in an ICO in 2017. The other tokens are held by founders, team, and early investors. However, with the migration to [Kyber V3.0](), KNC will change from a fixed to a dynamic token supply, allowing governance to mint new KNC tokens to fund protocol development or bootstrap / incentivize adoption ([source]()).

Score: 5

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:
KNC holders can stake their tokens, to participate in governance votes and earn a portion of the fees

generated by the protocol. Another portion of the fees is used to burn KNC tokens, making it a deflationary asset ([source](#)). The deflationary part will be omitted with migration to Kyber V3.0

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:
KNC is listed on many centralized exchanges, including major exchanges such as Binance, Coinbase, Kraken or Huobi. The token is also available on most decentralized exchanges and has decent volume. Furthermore, the token is integrated into other DeFi protocols and can be used as collateral on Maker or Aave for instance.

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 and the founders are publicly known. The founders have been in crypto since 2014 and are highly credible publicly known personas. Kyber founder and CEO Loi Luu is a regular speaker on different public venues. Lio and Victor were both elected as Forbes Asia 30 under 30 ([Source](#)).

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 founders have an academic background in research and computer science. They have a long track record of delivering value to the Ethereum ecosystem. In addition, Vitalik Buterin is one of the advisors. ([source](#); [source](#))

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:

The protocol is active on several social media channels and regularly informs their followers. Their CEO Loi Luu is also a regular guest speaker on different public venues. ([source](#))

Score: 8

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 raised close to ~$48M in an ICO in 2017. Since then, more than 100 protocols and projects such as wallets have integrated to the Kyber network. However, it is unclear how the status of the treasury currently looks like. The core team has also expanded to several employees.

Score: 8

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:

Admins use a Multisig wallet that requires 3 signers, they are still held by the Kyber team (it is unclear who exactly the signers are). There is currently no timelock. However, as with many points above, this will change with migration to V3.0 where the keys will be handed over to the DAO governance modul. According to plan this should happen in Q2 2021

Score: 12

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:
Kyber's governance module lets governors (stakers) vote on network fee distribution and new token listings, but rarely other topics (the only example of a non-parameter vote was the recent vote to migrate KNC to new token contract (with Kyber V3.0). Again, the governance capabilities will increase with full migration to Kyber 3.0

Score: 7

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 usually a few hundred voters participating in votes, however, participation can vary with high gas prices, as it costs gas to participate. Voting is incentivized, it's the only way to receive a portion of the fees. In addition, users can delegate their votes directly or via third parties ([source](#)).

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:
The governance process is clearly documented and pretty straight forward.

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:
Kyber has reliable and useful governance infrastructure ([source](#)) and provides resources (e.g. [video](#) and [documentation](#)) on how the governance process works. Kyber also has Telegram, Discord and a Forum to discuss governance.

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:
Kyber has a private company connected to the protocol with headquarters in Singapore ([source](); [source]())
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:
Kyber is registered as a Private Limited Company and has its jurisdiction is Singapore
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:
It is not clear whether Kyber needs or holds any specific licences. However, it is assumed that this would be possible, given that they are a registered company.

Score: 4

Scorecard

Value Proposition	Points
1. Novelty of the solution	12 / 15
2. Market fit/demand	7 / 15
3. Target market size	10 / 10
4. Competitiveness within market sector(s)	2 / 10

Tokeneconomics	Points
1. Is the token sufficiently distributed?	13 / 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?	5 / 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?	10 / 10
3. Does the team participate and help shape the public debate?	8 / 10
4. Is the team able to effectively attract and coordinate resources?	8 / 10

Governance	Points
1. Admin Keys (Yes, Multisig, Multi-sig and Timelock, None)	12 / 20
2. Extent of Governance capabilities	7 / 15
3. Active Governance contributors	4 / 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?	4 / 5
Total	**181 / 235**

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