PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Set Protocol
Version: v2
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Previous Report: Link

Author: Carlos.KC
Reviewed by: OriginalSK
Season/competition: Season 3

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	14 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	8 / 10
d) Competitiveness within market sector(s)	7 / 10
e) Integrations & Partnerships	13 / 15
Total Points - Value Proposition	**54 / 65**
2. Tokeneconomics	**Points**
a) What is the extent of the token's capabilities?	N/A
b) Initial token allocation	N/A
c) Continuous token issuance & tokenomics mechanisms	N/A
d) Is the value capture model able to accrue and distribute value?	N/A
e) Is the token sufficiently liquid to enable active use and trade?	N/A
f) Are there any extrinsic productivity use cases?	N/A
Total Points - Tokenomics	**N/A**
3. Team	**Points**
a) Is the team credible and public?	13 / 15
b) Does the team have relevant experience?	7 / 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?	8 / 10

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Total Points - Team	31 / 40
4. Governance	**Points**
a) Admin Keys	10 / 20
b) Extent of Governance capabilities	0 / 15
c) Active Governance contributors	1 / 5
d) Governance infrastructure	0 /10
e) Robustness of Governance process	0 / 10
Total Points - Governance	**11 / 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	**121 / 190**

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:

[1] Set Protocol is a non-custodial protocol built on Ethereum that allows for the creation, management, and trading of Sets, ERC20 tokens that represent a portfolio or basket of underlying assets. Each Set operates and periodically rebalances its portfolio according to a strategy coded into its smart contract. Set Protocol was announced in Nov. 2017, and its first user-facing application, TokenSets, launched in Apr. 2019. TokenSets currently supports DAI, ETH, WBTC, USDC, cUSDC, and LINK [2].

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TokenSets offer two types of sets: social trading sets with strategies executed by human traders and robo sets with hard-coded strategies including trend trading, range-bound, and buy and hold sets. Each Set has its own criteria for when to rebalance the weight of its portfolio of assets. When a Set's rebalancing criteria are met, a grace period starts that lets holders opt out prior to rebalancing. After the grace period, transfer of the TokenSet is paused until the rebalance is completed via a modified dutch auction process.

[3] The protocol allows utilisation of liquidity from decentralised exchanges for Set issuance and redemption. Users who desire to track an index or have their portfolios automatically updated based on a trading strategy can subscribe to a Rebalancing Set. The protocol is open, non-rent seeking, and aims to utilise decentralised governance. These are the steps to create a Set:

Create Your Set

1   **Choose Your Tokens**
Select tokens to include in your Set. These can be changed later.

2   **Name your Set**
Add a name, symbol and starting price for your Set.

3   **Manager permissions**
Enable fee splits and trading by other asset managers.

4   **Deploy smart contracts**
Your smart contracts will be publishe to the Ethereum mainnet.

5   **Connect to Set Protocol**
Once connected, you will be able to manage your Set and collect fees.

With the creation of the Ethereum blockchain, and others with similar characteristics, anyone can create their own digitised token to represent securities, goods, services, real world assets, etc [4]. The Set Protocol team believes that as more people and organisations turn to tokens for economic coordination in the coming decades, millions or billions of different tokens could exist. This brings inherent problems like transaction costs (each token transfer requires a transaction fee), cognitive overload (due to the vast amount of token with different qualities and value propositions), client limitations (like Metamask, they are limited in their ability to manage groups of tokens) and investor and developer pains.

Investors who hold a multitude of tokens lack the tools to actively acquire, manage, and reassess their investments. Standard active portfolio management practices such as rebalancing, bucketing, and transfers become onerous and repetitive processes. Analysing groups of tokens requires individually aggregating the prices of tokens and bucketing tokens must be done manually. These inconveniences even have financial repercussions when one considers how fees accumulate as a result of token-by-token exchange trades and withdrawals.

Developers lack a standard for hiding the details of multiple tokens from users on the protocol level. Currently, information hiding must be done on the application-layer of the stack vs. natively in the protocol layers. Developers

also need to understand all the tokens that their system deals with. Finally, it is difficult to create a good user experience to onboard new users if the users are inundated by the details of tokens.

Set Protocol proposes abstraction as a solution for all these problems to prevent the overload of the end user with details when they care more about higher level concepts. It gives the traders an option to buy baskets in the form of tokenized assets known as Set Tokens. These baskets are programmed to restructure depending on the chosen strategy of the trader. This process saves a lot of time for traders and takes the stress away from the stressful world of trading.

Set Tokens comply with ERC20 standard, are collateralised by their underlying tokens (components), are redeemable in exchange for their components and every Set Token is specified by a list of underlying tokens and their respective quantities. Each token minted from a Set contract cannot deviate from the specified tokens and ratios as defined during the construction of the Set contract. As long as the desired tokens issued or redeemed matches the predefined Set weights, it is possible to issue and trade fractions of Sets. Sets are composable (can be composed of other Sets) and trustless (: Set is open source and functions only as programmed. Set has been designed so that no owners or administrators can cause changes to the held collateral tokens).

The benefits of this solution is the ability to save gas costs, an increased focus on higher level concepts, an underlying value of the Set tokens, and the absence of counterparty risk (unlike products like ETFs in traditional finance for example).

The use cases for this solution are mainly 3: Index Tokens (ETFs), Multi-Token Decentralised Applications and Decentralised Finance.
- <u>Index Token (ETF)</u>: for low cost investment, tracking of the market, a rebalancing passive strategy and the possibility of creating sophisticated financial products (advanced derivatives).
- <u>Multi-Token Decentralised Applications</u>: to represent units of composite-work in multi-protocol applications (further explained in the whitepape [5]).
- <u>Decentralised Finance</u>: there are numerous emergent, crypto-native use cases for Sets that have yet to be fully explored. Some of these use cases include:
  - <u>Composite StableCoin</u>: A Set composed of other stable coins to smooth out volatility and diversify risk of de-pegging with even distribution across various approaches. After the TERRA-LUNA crash this seems like a very necessary idea.
  - <u>Protocol Collateral</u>: Complex Sets that are used for collateralization in second layer protocols (e.g. basket of goods for use as collateral in the MakerDao CDP System).
  - <u>Hedged Bet:</u> A Set containing both a long position and a short position.
  - <u>Fractional Ownership of Non-Fungible Assets</u>: A Set representing fractional ownership of a collection of CryptoKitties or other pieces of digital art.

[6] Today, some of the largest structured products by AUM (Assets Under Management), including the DeFi Pulse Index ($DPI) [7] and ETH 2x Flexible Leverage Index ($ETH2X-FLI) [8], have been built by DeFi Pulse using Set Protocol. There is also the Metaverse Index ($MVI), built by MetaPortal; DeFi Innovation Index ($GMI) by Bankless; and DATA Economy Index ($DATA) by Titans of Data. Anyone can submit structured product ideas on the website dedicated to it [9].

Set defines procedures for creating, issuing, rebalancing, and redeeming Set tokens using a collection of smart

contracts and integrations with liquidity pools. Set's architecture has been inspired by 0x Protocol and dYdX. Set was designed to be a collection of modular smart contracts where additional components (e.g. modules, factories) can be seamlessly integrated or removed.
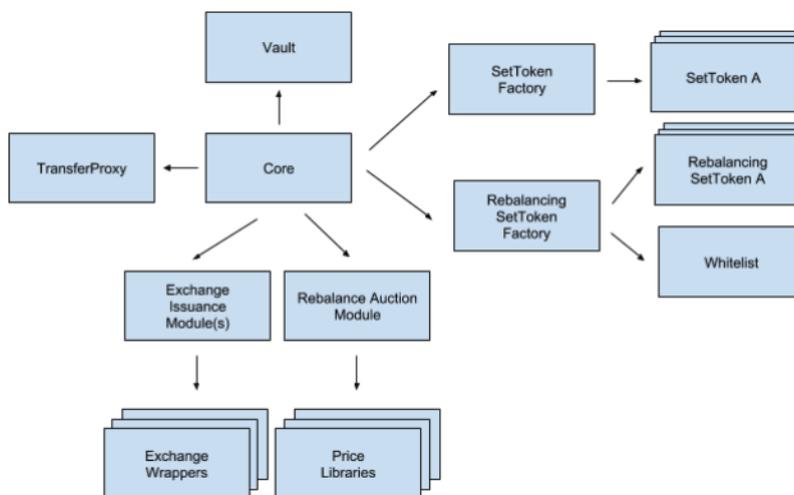

Figure 1: Contract Architecture Diagram

We are not going to enter more into the technicalities or explaining the smart contracts underlying this solution in this report, as it is clearly explained in the whitepaper [10] and it goes beyond the scope intended for this document, but we can see that there is a high novelty and actual demand for the solution created by Set Protocol. No other protocol has created something similar before (we will discuss the competitive landscape and some comparisons later in this section). These novelties only extend to technical innovations, not to organisational ones. This is a project that does not have a token and does not have governance through the token. We will see more on this later.

**Score: 14**

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:

Set tokens have gotten a high market demand, with almost reaching $400 million in November 2021, and are steadily growing both in terms of users and total value locked (TVL) [11]. Since November 2021 the protocol has experienced a big decline due to the cryptocurrency bear market, currently being under $100 million:

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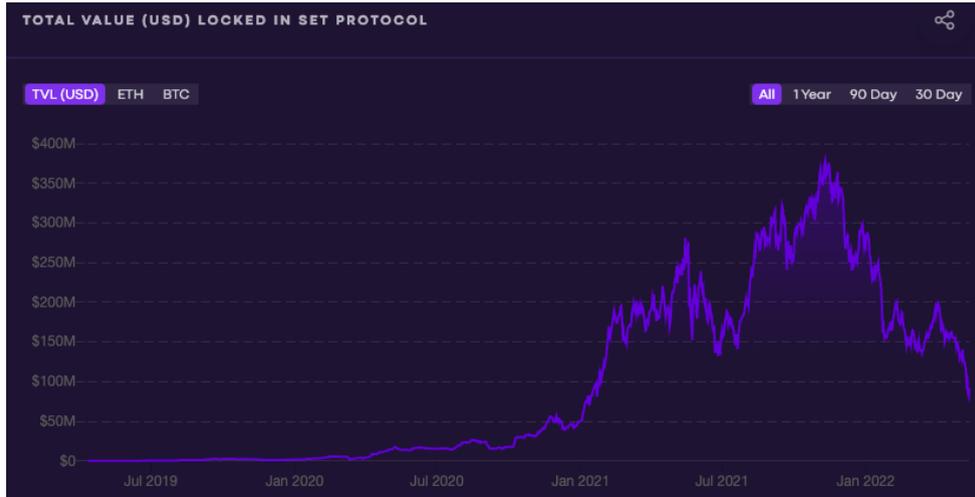
According to Dune Analytics the numbers are slightly different/higher [12]:
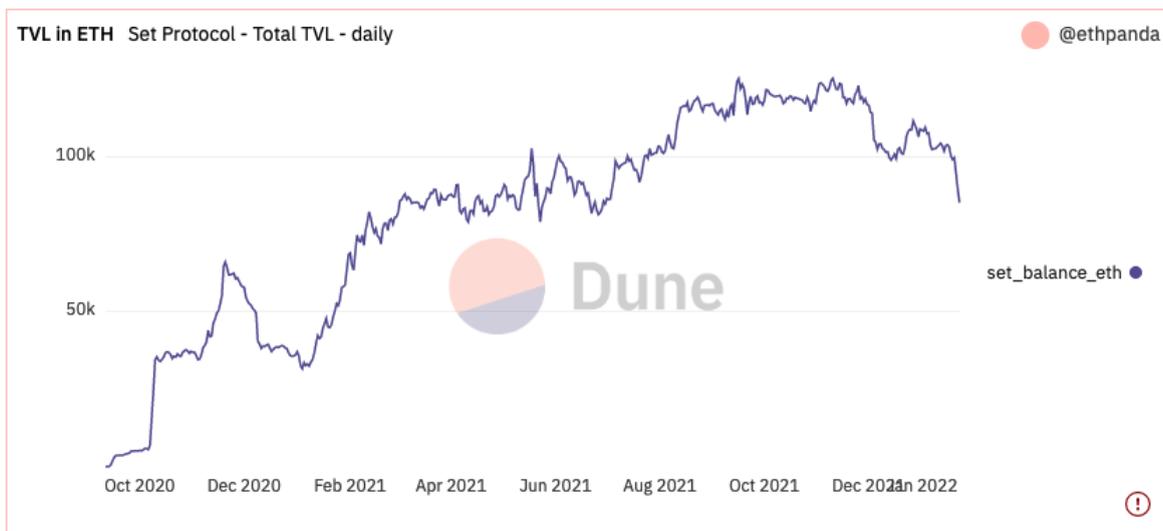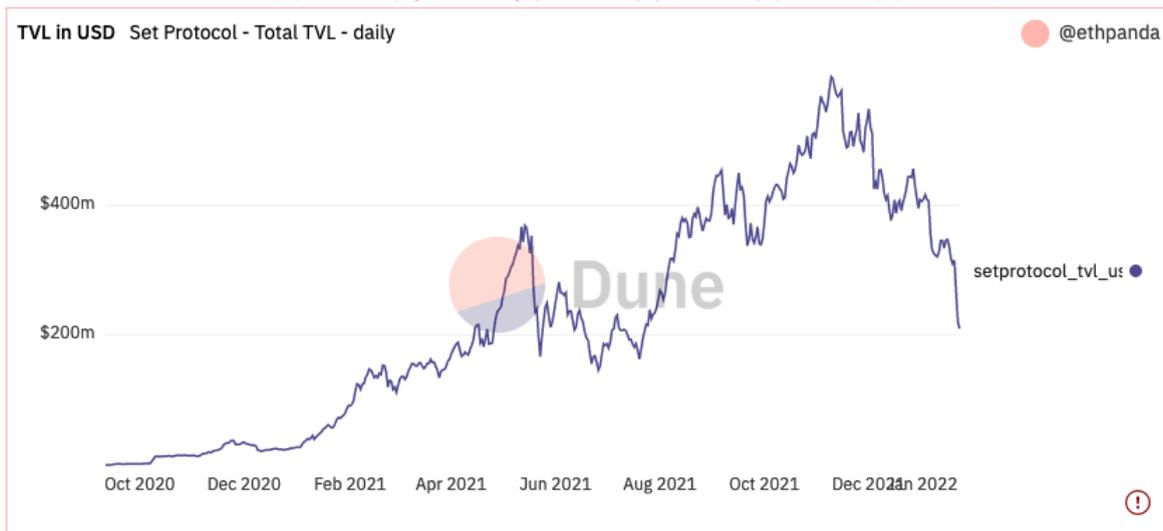
The timing of this product, both short and long term, seems right for the market, as users like simplicity in their investments, not only in the cryptomarkets, but also in the traditional markets. We will see this more in detail in the next question, but it seems that Set Protocol has enabled an open community where many custom financial products can be created and managed, and where ETF like products and many more can be easily established and promoted. There is a strong potential for the demand to grow sharply in the next few years because of this. The people demand abstraction, thematic indexation [13] and the possibility to establish fractional ownership systems. Set protocol made it easy, and anyone can see that in the increasing number of Sets available in the platform currently [14]:

Showing 1 - 20 of 577 Sets

Fractional ownership is trending, we have been able to see it in the real estate market, and also in the stock markets [15]. Set Protocol enables that with crypto the assets. Also we have seen an exponential trend in the demand for ETFs (we will talk more about this in the next question) [16].

We have seen a bear market in the short term that has highly influenced the Set Protocol's TVL, as the assets drop in value and users also look for more stable assets, but when the current bear market is finished Set Protocol should be in good shape to continue the positive trend experienced until November 2021, hence we can say that the protocol has achieved a clear market fit in a promising market.

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:

The protocol has created several use cases that have been trending in traditional finance due to the increased demand. That places Set Protocol in a very good position to gain a huge attraction in the coming years.

This is a graph of the development of assets of global exchange traded funds (ETFs) from 2003 to 2021. We can see that it has grown exponentially, reaching $10 trillion in 2021 globally [17]:

PrimeDAO
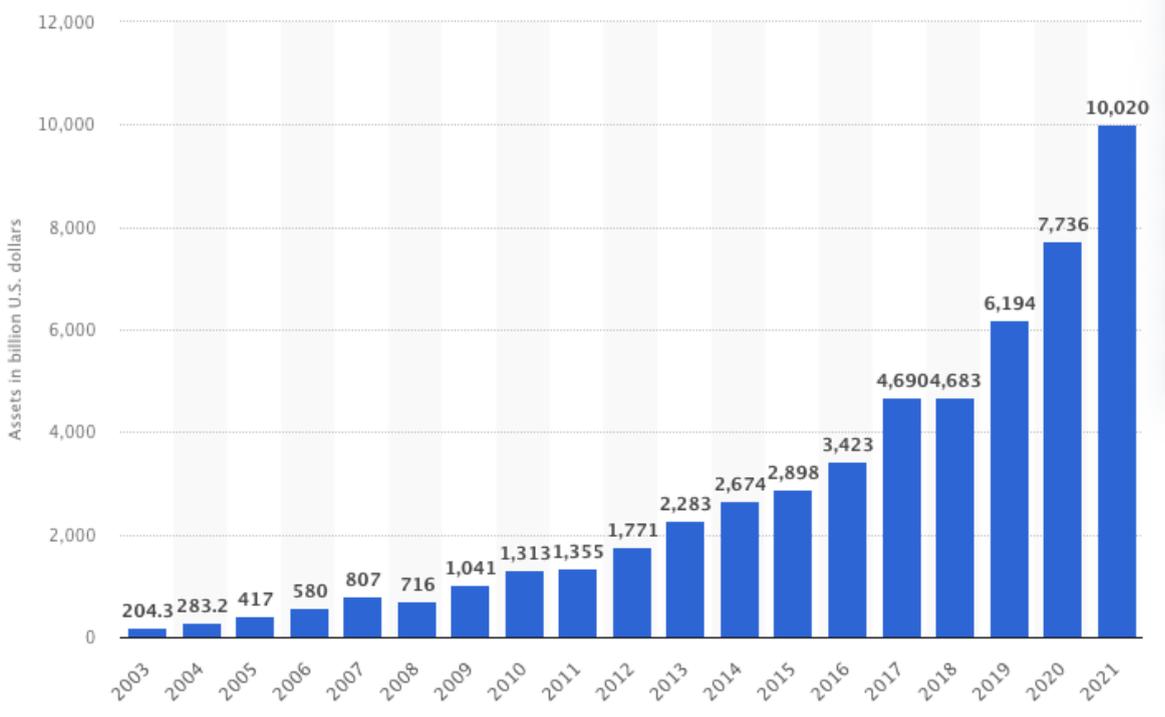
This trend is due to the fact that there is an increasing investment demand for passive investment products (like ETFs and other similar assets). If in the future the tokenization of the real world takes place we will arguably see part of these trillions of dollars move into structured tokens like Set Protocol's. The possibilities of growth are extremely high, not only because of the index market, but also the rest of the structured financial products that Set Protocol allows users to create (with fractional ownership or long-short strategies, amongst many others).

Score: 8

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:

Set Protocol offers you the possibility to create your own structured token, which differs from solutions like CryptoCompare [18], which with MVIS [19] as a partner have created ETF like indices. Set Protocol, as we have seen, allows users to go beyond that, and create hedged bets and fractional ownerships of costly NFTs for example. Set Protocol is also a founding partner of Index Coop [20], which is a protocol that offers a broad variety of investment vehicles to individuals and institutions, from token baskets to leveraged investment products.

Additionally, we also have all the professional market participants coming from traditional finance, which is arguably the strongest competition, in terms of numbers at least ($10 trillion in global ETFs). Although the Bitcoin ETF is finding struggles to be created in the USA, there are already a myriad of options for retail investors to access cryptocurrency exposure through traditional brokers. Exchanged Traded Commodities (ETC), Exchanged Traded Products (ETP), Exchanged Traded Notes (ETN) and Exchanged Traded Funds (ETF) on different crypto assets have existed for some time now in various stock markets [21].

There are other ways to invest in an asset composed of underlying assets, like for example in BlackPoolHQ (BPT), [22] which is a crypto hedge fund specialised in the NFT gaming and art space. Users of BlackPool Token are investing in the underlying assets contained in BlackPoolHQ's balance sheet, but what Set Protocol has created is something that could be the infrastructure and backbone of structured tokens composed of one or many assets, which is significantly different than the idea of BlackPoolHQ's project.

The protocol functions as a top alternative to the benchmark in the market segment, not being the only one of course, as competition is, and is going to be, very tough in this market niche. Set Protocol has been able to gain attraction from knowledgeable people in the space, and it is well integrated with other protocols (more on this in the next question), so it is in a good position to gain good traction in the coming years.

Score: 7

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:

[23] In the website Set Protocol lists some of the integrations that they currently have.
1. Wallets: Coinbase wallet [24], Argent Wallet [25], Trust Wallet [26], Fortmatic [27], imToken [28] and Multis [29]: which are different platforms where anyone can buy, sell and manage Sets.
2. Open Finance Portals: Zerion [30] and DeFiprime [31].
3. Liquidity providers: Kyber [32] and 0x [33], which provide liquidity for the different Set tokens in existence.
4. Prices & Analytics: CoinGecko [34] and Etherscan [35].

Also, although now in the website, Set Protocol is a founding partner of Index Coop [36], which has created interesting products using the solutions developed by the Set Protocol team. They are also integrated on Optimism on structured products [37] and through the so called Perpetual Protocol V2 [38], which is a decentralised exchange, live on Optimism, for decentralised perpetual contracts. Using perpetual contracts, users can open leveraged long or short trading positions for a variety of assets using USDC as collateral. By using Optimism, trade execution is exceptionally fast and transaction fees are small, finally making these DEXs viable alternatives. Also, it has an integration with Aave to create leveraged products like ETH2X-FLI-P, which is is a structured product in ERC20 format that enables traders to automate a target leveraged exposure to ETH in a completely decentralised manner by utilising the Set Protocol Aave Leverage Module [39]. Being deployed on Polygon means that both investors and Asset Managers can take advantage

of significantly cheaper and faster transactions. The ALM lets you build custom leverage strategies such as long/short pair strategies to create unique ratio based sets (e.g. ETH/BTC pair) or larger, more diversified leveraged indices to perhaps capture sectoral moves with more weight (DeFi, BTC). They are also integrated in the Avalanche ecosystem [40].

Additionally, DAOs, funds and communities are creating a lot of financial products in DeFi. This is a list of some of them:

- Index Cooperative - indexcoop.com
- BanklessDAO - bankless.community
- DeFi Pulse - defipulse.com
- Galleon DAO - galleon.community
- Beverage Finance - beverage.finance
- Terra - terra.money
- EmberFund - emberfund.io
- SW Capital - swdao.org
- YAM Finance - yam.finance
- MoonQuant Capital - moonquant.capital

All in all we can see that Set Protocol has some serious and qualitative integration in the space, partnering with well-known entities. Every partner makes sense and has a clear purpose, not being just a logo collection. We cannot say, though, that the protocol is an irreplaceable part (money lego) of the crypto ecosystem, at least not for now.

Score: 13

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 behaviour 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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

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:

There is no tokeneoconomics due to the lack of a token.

Score: N/A

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favours 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:

[41] In the next page we can see that Set Protocol states having as a team a group of ambitious pioneers, passionate about making a better world through our mission. They believe in working hard and playing hard, creating the highest quality products, experiences, relationships, and decisions guided by their culture of continuous learning, authenticity, and transparency.

Lets go an dive into each of the people involved:

Felix Feng [42]: he is the co-founder and CEO of Set Labs and investor at Turing Capital. Previously worked at Radius and 21, Inc. and as an Investment Banking Analyst. He has a BS from UC Berkeley and has studied Computer Science and an Ethereum Blockchain Development course by Consensys Academy.

Inje Yeo [43]: he is the co-founder and was the Chief Product Office (CPO) of Set Labs. According to LinkedIn he left Set Protocol in October 2021 and now he is a Senior Software Engineer at Netflix. He has a BFA from RISD.

Alex Soong [44]: also a co-founder and the Chief Technology Officer (CTO) of Set Protocol. He worked previously as a Software Engineer in Apple, Caviar and Square and Zynga, and as Felix Feng has a BS from UC Berkeley.

Justin Chen: Lead Engineer at Airbnb and has a MS from Stanford & BS from UC Berkeley.

Brian Weickmann [45]: Software Engineer (Technical Operations) at Set Labs. He was a Developer and Data Analyst in Weickmann Consulting and a Trading Analyst in DRW Trading Group.

Richard Liang [46]: he is a Product Manager (Growth Operations) in Set Labs since October 2018. His background is in Economics from Northwestern University. He previously was a management consultant at PwC.

Anthony Sassano [47]: he is a Product Marketing Manager. Previously co-founded EthHub and worked in Cyber Security. He is also currently an Independent Ethereum educator, investor and advisor.

The team is public and credible.

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:

From what we have seen in the previous question the team has different backgrounds and most of them have a software engineer one, which is a good sign. The team seems skilled, with some relevant experience.

Score: 7

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 team actively participates in public debate through social media, mainly Twitter and Youtube [48]. The core members of the team regularly write a blog [49] and product marketing manager Anthony Sassano is active in Twitter [50]. This participation is not extremely intense in terms of listeners and regularity, especially in Youtube, where Set Labs has less than 200 subscribers and only 2 videos uploaded. There is clearly some room for growth in this aspect for the team.

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:

Set Labs has raised a total of $16M up to date [51]. Their latest funding was raised on May 28, 2021. So they have been able to attract some financial resources for the project. The amount is not extremely big, but it is probably enough for what is required in the project for now, as they keep having rounds once a year on average.

The human resources they have been able to attract have been qualitative. They have also managed to maintain that human capital up to now, with the exception of the co-founder and former CEO Inje Yeo, who works as a Software Engineer currently for Netflix.

In terms of operations, they have been able to coordinate very well their resources to create an open platform where anyone can participate and draft a very thorough and complete documentation that allows anyone to also participate as a Set Token creator or as a builder.

We can conclude that the team has attracted sufficient resources and they can coordinate somewhat efficiently.

Score: 8

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:

In the whitepaper we can see their roadmap on governance [52]:

"Set Protocol intends to begin with a centralised governance in the early, formative days and shift over time to a community-based governance system. The governors will have the capability to perform the following actions:

- *Add Modules, ExchangeWrappers, Price Libraries, and Factories. Each addition is a Time-Locked operation, which is an operation that requires a minimum period of time to elapse before being enacted.*
- *Remove Modules, ExchangeWrappers, Price Libraries, and Factories. In the event there is a problematic module, the governors have the capabilities to immediately sever a non-functioning smart contract without a timelock operation.*
- *Add (Time-Locked operation) and remove authorizable addresses in Vault and TransferProxy.*
- *Add (Time-Locked operations) and remove tokens from the Whitelist contract. The Whitelist is currently intended to enforce a Rebalancing Set proposal's base Set components.*
- *Disable and re-enable problematic Sets that may have been associated with a faulty Factory.*
- *Put the protocol into a ShutDown state where only Redeem and Withdraw functions are available.*

Early on, governance actions will be administered a Gnosis multisignature wallet - where folks who have a vested stake in Set Protocol's success will be able to propose adjustments to the protocol. Individual DAO-member private keys will be held in cold storage.

In the early days when there are limited funds in the system and we expect rapid iteration of features, the time lock period will be set to 0. When the value in the vault exceeds the value of the company, then a 7-14 day timelock period will be enforced and the team will begin handing over governance to the broader 31 community.

Generally, administrator intervention will occur in the following scenarios:

- <u>*Critical Vulnerability*</u>: *A critical vulnerability in the modules, exchange wrappers, price libraries, and factories is found. In this event, administrators will remove access of the faulty smart contract from the system. If needed, the administrators will also disable any problematic Sets associated with such vulnerability.*

- _Upgrades_: The team and open-source contributors will continue to develop improvements to the protocol and will introduce these upgrades through modules, exchange wrappers, and factories. Updates to Vault or TransferProxy authorizations would only ever be made if a new Core system were to be put into place.
- _WhiteList Introductions_: Over time, we may add additional components to the Whitelist that enable components to be rebalanced.
- _System Shutdown_: If the entire system is to be overhauled, the protocol will be put into a ShutDown state.

The last information written in our previous report [53] stated that Set Protocol currently is upgradeable via a 2-of-3 multisig contract with no timelock. Token Sets claims to use Ledger hardware wallets to secure the signing keys. We have not found more updated information on the matter. The fact that there is not a governance token is already telling us a lot about the current centralisation of the project. They intend to change that throughout time, but for now decentralised governance has not been implemented.

Score: 10

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:

As we have previously stated, here is no decentralised governance, as there is no governance token yet. The project intends to create a decentralised governance in the future. Currently the capabilities are high due to its centralisation, and all the debates in Discord function only as a sign and have no actual impact on the protocol, as the protocol is upgradeable using a 2-3 multisig contract with no timelock.

Score: 0

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practised 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 is no decentralised governance due to the lack of a governance token. The project intends to create a decentralised governance in the future. The governors are currently the core team with a 2-of-3 multisig contract with no timelock. At least there is some sort of quorum needed for the decision making, but we have to conclude that there is a small group of active governors and no public debate on the matters.

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Score: 1

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:

There is no decentralised governance due to the lack of a token. The project intends to create a decentralised governance in the future.

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:

There is no decentralised governance due to the lack of a token. The project intends to create a decentralised governance in the future, but for now there is no governance process available to analyse.

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:

SetLab.inc is incorporated in the US, located in San Francisco, California, US. It was founded in November 2017. The project has legal accountability, with a legal entity that is connected to the protocol and public information is available [54].

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 (California, USA) is a top-tier jurisdiction with applicable laws and regulations that are enforced.

Score: 10

About the Author:

Carlos Koljonen is a financial professional that has previously worked for Stoxx limited as an Index Analyst in the Corporate Actions department. He also led the Investment Analysis department for an investment company within the cryptocurrency markets, performing fundamental research and technical analysis over various projects and deciding over the company's exposure to crypto at any given time. He is currently preparing for the CFA Level II exam and doing a postgrad in Data Science for Finance in Nova IMS.

Twitter: @KoljonenCarlos
LinkedIn: https://www.linkedin.com/in/carlos-koljonen

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