Protocol: Bancor
Version: 1
Previous Report: n/a

Date: 01/12/2021
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Reviewed by: Lavi
Season/competition: rate-athon #2

Instructions
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 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: One of the [earliest Decentralized Exchanges](#) (2017), introduced Automated Market Making (AMM), providing token exchange using pooled liquidity via non-custodial smart contracts. Bancor V2.1 introduces innovative features with [Liquidity Provider protection](#) against impermanent loss (IL) and the ability to provide single token liquidity.

Compared to other liquidity protocols, single sided liquidity allows users to provide 1 token versus the general multiple tokens (2 - 8) required by other AMM's. This effectively reduces user exposure and creates more access for LP's to earn staking & trading fees.

Impermanent loss protection is achieved on Bancor by using the fees earned on the protocol to compensate for price changes and resulting IL (in addition to Bancor V2's dynamic AMM pools that mitigated impermanent loss).

[Bancor V3](#) promises instant impermanent loss protection, auto-compounding rewards, dual-sided rewards, and gas cost optimizations, among other features. (Launch scheduled for Q1 2022)

Score: **15**

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:

Total [7-days users](#) on Bancor amounted to 478, these are unique addresses trading on the network. By [7-day volume](#), trades amounted to $458M. Relative to other DEXes, their total users count places them 13th out of 23 DEX traders tracked and volume 6th out of 16 DEX volume tracked.

As an exchange, volume and traders are important in determining demand. Top competitors UniSwap (154,536 users & $25B trade vol), SushiSwap (23,407 users & $3B trade vol) and Balancer (10,989 & $939M) outperform Bancor in both these metrics.

Bancor hasn't shown market fit but with the [implementation of V2.1](#) and introduction of further protocol improvements with [Bancor 3](#) they seem to have a plan to close the gap.
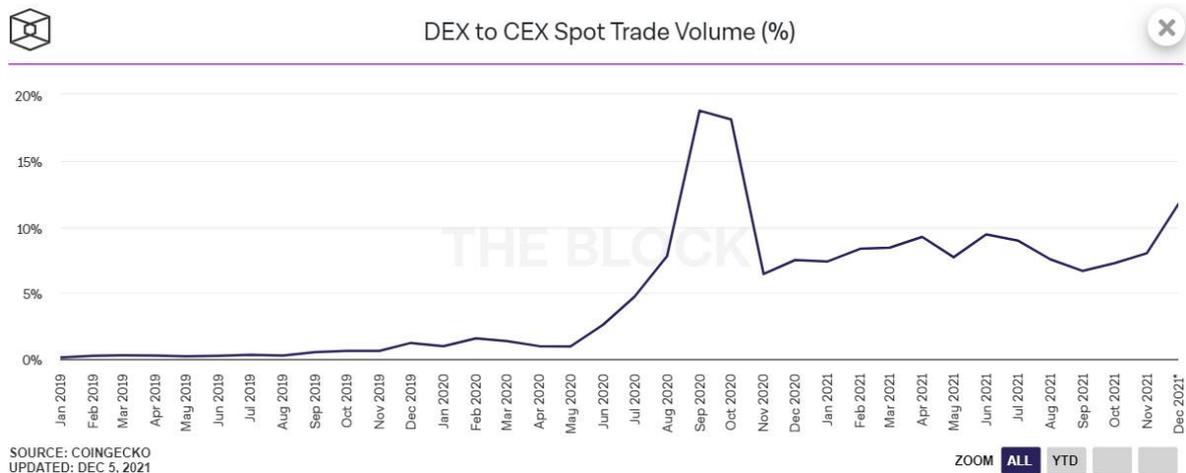
Score: **5**

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: Total value locked in DeFi protocols is approx to +$90B, [DEX total value locked](#) is approx +$40B. This would indicate that DEXes make up more than 40% of all value locked in DeFi. The top centralized exchanges, Binance and Coinbase generate $24B and $5B in 24h trade volume respectively.

The figures above indicate a large existing market within the DeFi space and that DEX's have a significant share in it. Over a 12 month period the DeFi space has grown by more than [700% (11/2020 - 11/2021)](#). This growth rate shows a rapidly growing demand for more open finance. Compared to CEXes (centralized exchanges) DEXes are growing in importance, evidenced by the DEX to CEX spot trade volume % (DEX volume divided by CEX volume - see graph below)

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: Top DEX protocols by 7 day trade volume market share; UniSwap (78%) and SushiSwap (~10%) make up a larger share than Bancor (<2%) indicating a wide gap between Bancor and its top competitors.

(*DEX trade volume market shares*)
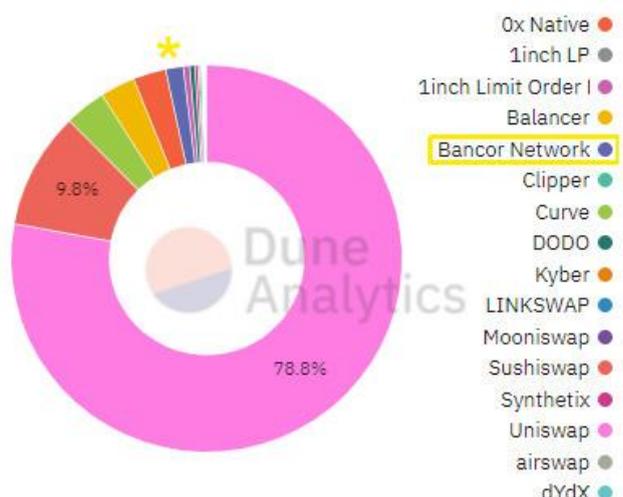
With regards to TVL, top competitor DEXes UniSwap ($8B), SushiSwap ($4B) and Balancer ($2B) are not too differentiated from Bancor's TVL ($1.8B), this might be as a result of their staking rewards being competitive in the market meaning users are more willing to provide liquidity to Bancor than they are to using the protocol to trade (13th for number of unique 7 day traders). Across different blockchains Bancor over $30B staked.

(see 2b for user analysis)

Additionally Bancor's **152** Trading pairs places them 22nd out of 110 DEXes with more than 2 pairs. This is important for DEX user retention as more pairs means more frequent trader use.

Given the figures above Bancor lag behind their competitors.

Bancor Total Volume USD
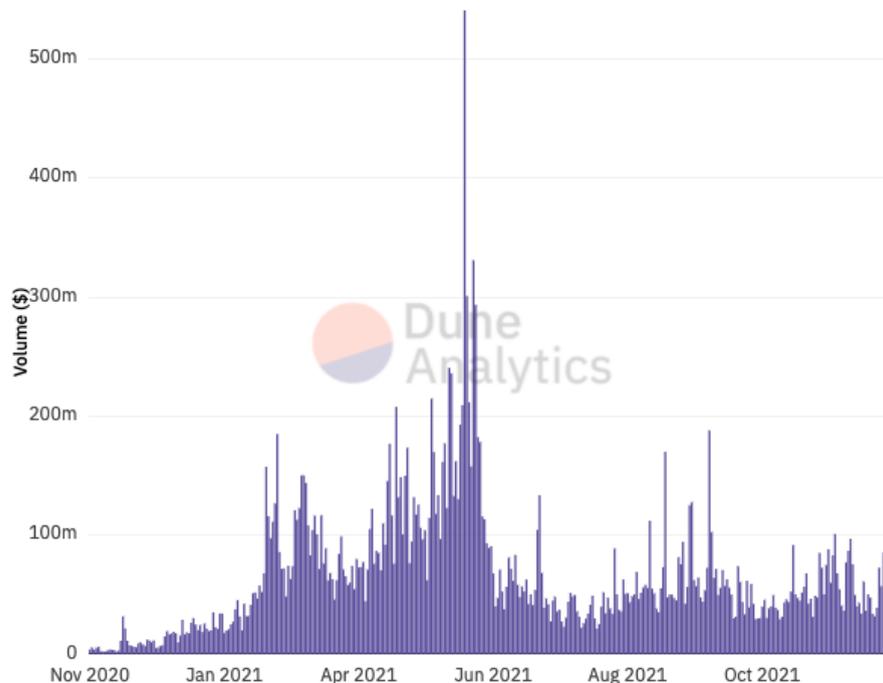
Score: 3

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:
UniSwap: BNT integrated onto UniSwap as an LP in their BNT/WBTC pool
Gnosis: GNOBNT was Bancor's initial launch pool. The strategic partnership involved 4,000 GNO and 400,000 BNT ($1,000,000 value each at the time) being deposited.
Smart Contract Japan: Partnership to collectively release "smart token technology".
Enterprise Ethereum Alliance: Connects Fortune 500 enterprises to Ethereum experts. Partnership aimed at supporting migration from existing business systems to blockchain.
Status: an Eth DApp access platform, Integration allows Status users to create Smart Tokens directly from their Status browser (via Bancor Network).

[Civic](#): Partnership to bring identity management to smart tokens.
[IMToken](#): a digital wallet, Integration allows storing and transferring of network tokens.
[Antshare](#): Project that creates 'Smart Shares', which are a combination of smart contracts and digital assets, integration enables registration, issue and circulation of Smart Shares.
[StarBase](#); project that enables easy token issuance for new blockchain technology users, using Bancor network as vehicle.
[Banxa](#): a payment service provider for digital assets, partnership to create a fiat-to-crypto gateway on the Bancor.

Most of these partnerships are not directly involved with DeFi, the main theme of them being to attach wider crypto adoption. The lack of integrations and the seemingly non-exclusiveness of their partnerships does mean there is fork risk. Therefore a 6 *"The protocol has some partners or some integrations into other protocols"* seems appropriate.

Score: 6

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) 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:
BNT had an [Initial Coin Offering in 2017](#), where 79.3M BNT were minted and the 10,885 participants of the ICO receiving 50% (39.7M BNT) and the remaining 50% distributed as follows:

- 20% (7.9M BNT) to Bancor's long-term budget, locked for two years;
- 20% (7.9M BNT) to existing and future team, advisors, and investors, vested over two years
- 10% (4M BNT) partnerships and community grants

The current total supply of [234,983,728.40 is distributed between 38,175](#) total token holders. Note: BNT has an [elastic supply](#), according to a formula (CW) to mint or burn BNT supply to maintain a constant (CW) value as the token supply changes or burned when BNT is added to a pool (deflationary measure).Proportionally the top 100 accounts collectively own

[92.53% of the total BNT supply](#). Most of this supply is in "Bancor: Converters" which are smart contracts used in [liquidity pools and swap apps](#) i.e. they're locked within the protocol.
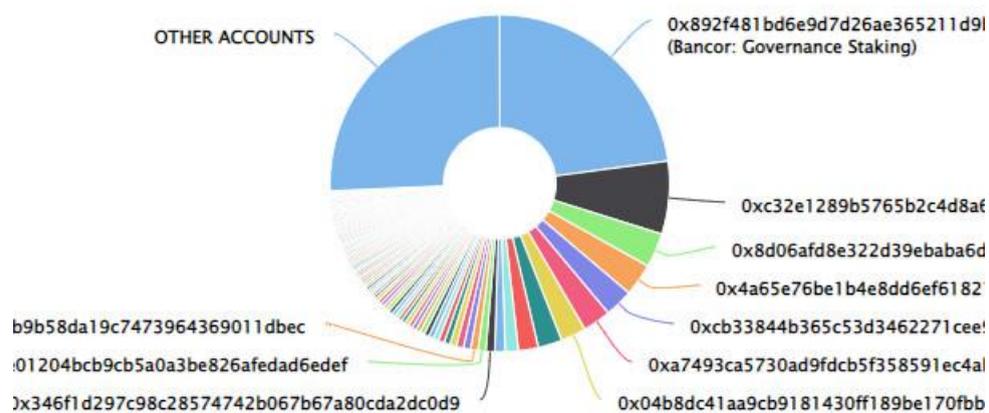
(*[BNT Holder distribution](#)*)

Rank	Address	Quantity (Token)	Percentage
1	📄 Bancor: Converter 571	53,548,942.811019997470536767	22.7884%
2	📄 Bancor: Converter 560	50,971,823.258031021444246573	21.6916%
3	📄 Bancor: Converter 554	36,069,614.047463361293240563	15.3498%
4	📄 Bancor: Converter 559	4,842,660.838364967601584349	2.0608%
5	📄 Bancor: Converter 556	4,556,653.655797600497008785	1.9391%
6	📄 Bancor: Converter 558	4,534,490.275410894983870018	1.9297%
7	📄 Bancor: Converter 589	4,127,029.774849499895895157	1.7563%
8	Binance 8	4,045,246.283142259988574982	1.7215%
9	📄 Bancor: Converter 547	2,827,146.561220284815527949	1.2031%
10	📄 Bancor: Converter 580	1,994,869.619829511019499288	0.8489%

The governance token VBNT (*see 2b for explanation*), 64,578,380.85 tokens held by 5,747 addresses, seems more distributed with the top 100 addresses holding 74.29%. 22% of this is in the '[Bancor: Governance Staking](#)' contract.

(*[vBNT Holder distribution](#)*)

The initial distribution of BNT via ICO appeared to be more in favour of the community and external stakeholders (excluding investor) receiving 60% of the supply, however as a DAO the owners having nearly 20% is pretty significant.

The distribution BNT is hard to determine as most of the supply is deposited in the protocol but I think the distribution vBNT is also as important to note as this affects coordination in the short term. vBNT appears more distributed with a single account not holding more than 7%.

Score: 11

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: BNT is used as a [staking and governance tool](). Users stake a token + BNT pair in a liquidity pool to become Liquidity Providers. BNT also acts as an 'intermediary token' in cross blockchain swaps allowing [any two tokens to be connected in a trade]().

[vBNT is the governance token](), generated when BNT is staked in any whitelisted pool and represents ownership of a pool. vBNT is used in votes for the Bancor Protocol. vBNT also allows users to [borrow against their staked BNT]().

Score: 8

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: Initial ICO with almost [40M tokens being distributed]() to 10 000 investors. After the initial distribution Bancor V2.1 changed BNT to be minted and distributed to pools as an incentive for more liquidity provision on an elastic supply basis (see 2a).

(*[BNT supply schedule]()*)
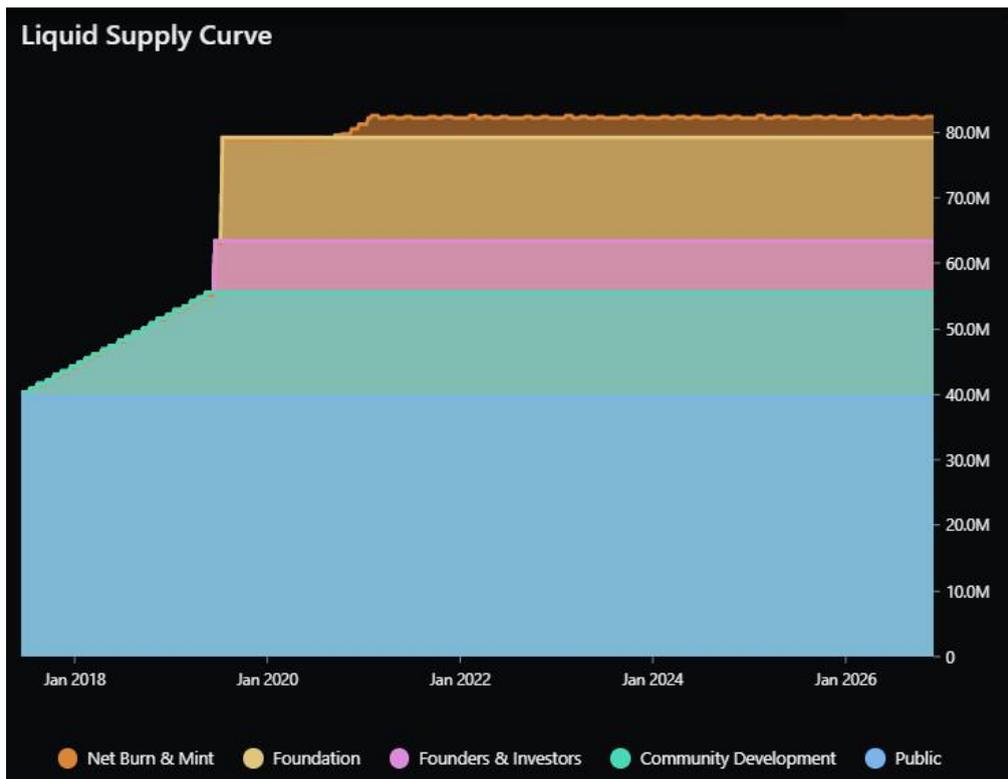
The BNT supply schedule indicates that at any point in time the public and community would own more than approx 68% of the supply of BNT and effectively voting rights in governance.

This issuance model incentivizes the right behaviour as LP's get rewarded for supporting the Protocol. The effectiveness of the ICO in advancing the protocol is questionable as the ICO seemed to attract significant speculative investment.

Score: 8

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: BNT distributes reward incentives to existing Liquidity Providers when more liquidity is added to a pool, Stakers benefit as a result of BNT increasing in value due to increased demand for BNT and increased pool ownership. Staking rewards are in the form of new minted BNT.

BNT has the benefits of being useful for cross chain swaps, generating staking rewards and asset gains from staking but its drawback is that it creates friction by requiring BNT for liquidity provision. This creates a barrier for wider protocol adoption relative to UniSwap, SushiSwap. Newly minted BNT for LP rewards has inflationary pressure on BNT.

Score: 7

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: BNT is available on [centralized exchange](#)s, CEXes with more than 2% of BNT's trade volume: Binance, Coinbase, HitBTC and OKex. Bancor Network makes up the majority BNT trade, UniSwap is the only other DEX listing BNT but liquidity isn't sufficient. Circulating supply market cap: [$976,436,305.00](#)

Score: 5

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: BNT can be used to provide liquidity on UniSwap V3 (BNT/ETH & BNT/USDC), liquidity is low and 2 other pairs aren't active.

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: Founded 2016 by the Bancor Foundation, headquartered in Switzerland. Full team profiles publicly identifiable on [Crunchbase](#) and LinkedIn (see track record below).

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: Yes, the C-suite team bios:

[Guy Benartzi](); CEO & Co-founder of the Bancor Foundation, founder of 2 tech companies that were acquired (Mytopia & Particle Code). Guy is also an investor in blockchain tech. (also has technical dev background)

[Galia Bernartzi](); CBO & co-founder, tech Entrepreneur Galia and former CEO of Particle Code. Past experience as venture capital partner (portfolio included Facebook, Palantir, SpaceX, AirBnb)

[Eyal Hertzog](); Co-founder and Product Architect. Former Chief Creative Officer and President at Metacafe. Extensive experience building "social networks, content sharing, user-generated currencies and blockchain."

[Yehuda Levi](); Chief Technology Officer, co-founder of Mytopia and tech entrepreneur.

Score: 10

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: C-suite team are editors and writers on Bancor's [Medium]() blog. Elay has [written]() responses and his opinion on Decentralized finance. Guy regularly shares his DeFi related tweets. Core contributors participate in Web3 and DeFi discussions on twitter; Nate Hindman (Head of Growth) recently participated in a [Binance AMA](), [Mark Richardson]() (Head of Research) regularly tweets some pretty good meme's, discusses DeFi and attended DCentralCon as a speaker, DCentralConMiami and was on DeFi Download Podcast. Most recently contributors streamed a [video presentation]() of Bancor V3's new features.

Score: 5

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: The team launched via an Initial Coin Offering in 2017, [raising $153M](). According to [Pitchbook]() Bancor raised an additional Seed in 2021 and has 7 investors to date.

(Bancor Funding History)

Bancor Valuation & Funding

Deal Type	Date	Amount	Raised to Date	Post-Val	Status
2. Later Stage VC	18-Mar-2021				Completed
1. Early Stage VC	01-Jan-2017				Completed

(Bancor Investors)

Bancor Investors (7)

Investor Name	Investor Type	Holding	Investor Since	Participating Rounds	Contact Info
Defiance Capital	Venture Capital	Minority			
Genblock Capital	Venture Capital	Minority			
Matthew Slater	Angel (individual)	Minority			
Next Ventures (Hong Kong)	Venture Capital	Minority			
Draper Associates	Venture Capital	Minority			

You're viewing 5 of 7 investors. Get the full list »

Score: 10

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: No Admin Keys, according to a Bancor moderator on Discord [governance is on-chain](#).
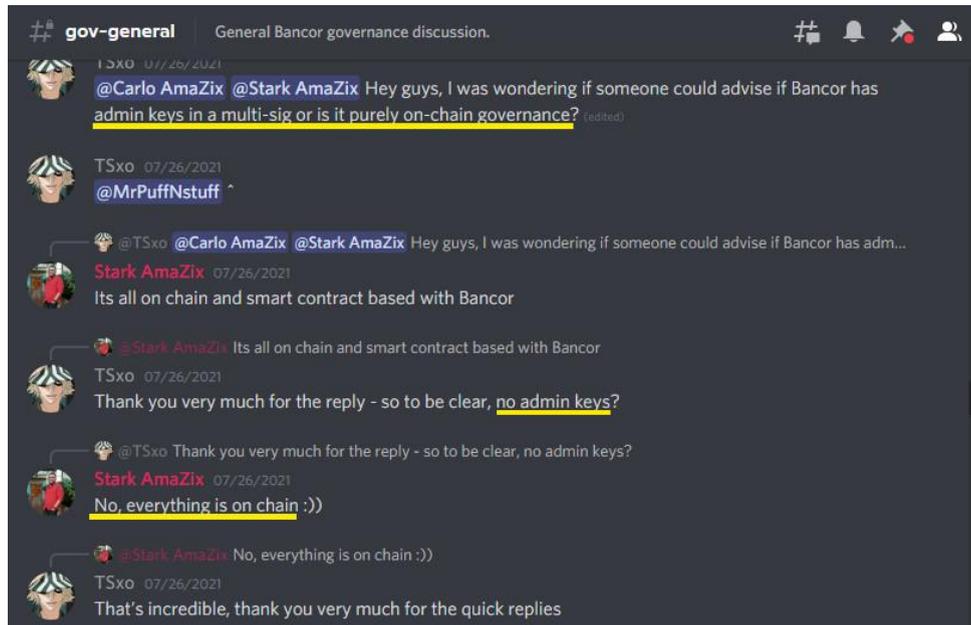
Score: 18

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: [Bancor is governed by vBNT stakers](#), Snapshot votes determine acceptable proposals to be implemented on the protocol. Staked vBNT enables users to vote on Snapshot. Through the [Bancor Governance Forum](#), proposals and discussions are made for token whitelistings, co-investments, fee changes, Bancor Improvement Proposals.

Score: 12

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: Voter demographics: from the graph below voters are diverse and active.

Description	Before 23-May Amount	Quorum	Since 23-May Amount	Quorum
Have never voted on snapshot	2600239	19%	2253917	9%
Inactive whales > 500k BNT	1100000	8%	0	0%
Inactive sharks > 200k BNT	1516085	11%	792578	3%
Inactive top 10% holders	2065626	15%	1364500	5%
Inactive top 15% holders	2247170	16%	1620784	6%
Voted less than 3% - inactives	299181	2%	0	0%
Voted less than 5% - inactives	1168157	8%	14161	0%
Voted less than 10% - inactives	1598871	12%	426433	2%
Voted less than 25% - inactives	3510847	25%	1675128	6%
Voted less than 30% - inactives	3683889	27%	1722229	7%
Voted less than 50% - inactives	7691533	56%	5125803	20%
Voted more than 60%	1388344	10%	15357119	60%
Voted more than 75%	450011	3%	11752622	46%
Active but haven't voted for 1 week	5707755	41%	2741180	11%
Active but haven't voted for 2 weeks	2123034	15%	15477205	60%
Active but haven't voted for 3 weeks	1027943	7%		
Active but haven't voted for 4 weeks	790899	6%		
Median active vote participation		22%		47%
Average active vote participation		30%		52%
Average total vote participation		19%		36%

Protocol discussions are viewable from the Governance Forum.The community is active in discourse and constructive criticisms, see Whitelisting Proposal example.

Score: 5

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: Due processes control the creation of new proposals and Snapshot voting. Snapshot votes are gasless but voters need to stake vBNT. 2 days is the minimum period for discourse before a proposal can be moved to a vote. Documented templates are required for all proposal types, Discord posts are recommended but not mandatory.

Score: 10

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: BancorDAO has formal governance processes documented under 'Due Processes', frameworks are established for governance and the language is clear. Minimum requirements are made clear with regards to quorum and periods between proposal postings to vote. (formalized in BIP3 on 24 October 2020 & BIP12 addendum on 26 March 2021).

Visual guides, Discord community engagement and forum access controls make the protocol's governance more robust.

Score: 10

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: Bancor Foundation is the private legal entity, based in Zug - Switzerland with development in Tel Aviv - Israel.

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: Switzerland & Israel

Score: 10

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	15 / 15
b) Market fit/demand	5 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	3 / 10
e) Integrations & Partnerships	6 / 15
Total Points - Value Proposition	**39 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	11 / 15
b) What is the extent of the token's capabilities?	8 / 10
c) Is the issuance model able to improve the coordination of the protocol?	8 / 10
d) Is the value capture model able to accrue and distribute value?	7 / 10
e) Is the token sufficiently liquid to enable active use and trade?	5 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	**41 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	13 / 15
b) Does the team have relevant experience?	10 / 10
c) Does the team participate and help shape the public debate?	5 / 5
d) Is the team able to effectively attract and coordinate resources?	10 / 10
Total Points - Team	**38 / 40**
4. Governance	**Points**
a) Admin Keys	18 / 20
b) Extent of Governance capabilities	12 / 15
c) Active Governance contributors	5 / 5
d) Governance infrastructure	10 /10
e) Robustness of Governance process	10 / 10
Total Points - Governance	**55 / 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	**198 / 250**

About the Author: OriginalSK on Discord