

2.0 Fundamental

Prime Rating Report V2.0

Protocol: Enzyme Finance formerly Melon Protocol

Version: 1.0

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

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Author: Andru

Instructions

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

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

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

1. Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer: The former protocol known under the name of Melon dates back to the early days of dApp deployment on Ethereum ([2016](#)). Before the term DeFi was created (2018), Melonport was offering a blockchain protocol for digital asset management on Ethereum. In December 2020, it was rebranded to [Enzyme Finance](#). Nevertheless, Enzyme Finance or rather the smart contracts behind it, can be seen as one of the first and groundbreaking finance protocols on Ethereum which allowed for autonomous on-chain digital asset management strategies.

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: With more DeFi projects being launched every month, especially in the Ethereum ecosystem, the need for decentralized investment vehicles (like those created Enzyme vaults to profit from various coins) is growing. Enzyme is currently in the midfield of DeFi protocols ([Rank 46 Defi Pulse](#)). Recently the protocol has seen a surge in the TVL ratio to around [\\$54.5M](#).

Score: 10

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: By embracing all kinds of DeFi protocols to create unique Crypto Funds on Enzyme protocol, the market size for decentralized digital asset management is substantial and rises proportional with the growth of DeFi protocols coming to the market.

Score: 10

d) Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s).

Answer: With the sudden explosion of DeFi past 2018, a lot of new competitors entered the market with a focus on on-chain digital asset management protocols such as yearn.finance (\$3.32B TVL), Badger DAO (\$389.6M TVL) or Set Labs (\$183.4M TVL). Enzyme Finance was the first mover in this market segment ([Asset category](#)) but has lost a lot of traction over the past couple of years. The (innovation) pressure will continue, currently observable with the hyped passive investment strategies (see index promoting asset management protocols e.g. Index Coop)

Score: 6

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: Vaults are able to perform various interactions, respectively offering integrations with trading on DEXs, lending (e.g. AAVE, Alpha Homora, Compound, etc), providing liquidity on Curve and Uniswap, trading synthetics (long and short), yield farming and with the upcoming [release](#) (SULU) a lot of new functions will be added. In addition to that, [Rari Capital](#) for instance is using [Enzymes infrastructure](#) to build their products on top of it. [Midas technologies](#) is currently developing a mobile app Ash for fund management and investing on the Ethereum blockchain, built on the Enzyme protocol. With all of that considered the Enzyme protocol represents a decent building block for DeFI protocols offering on-chain asset management products.

Score: 13

2. Tokenomics

The Tokenomics section of the review assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

a) Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer: With around [5400 holders](#), the distribution of the token seems at the first glance fairly distributed. The [Melon Council Wallet](#) (DAO) holds around 16% of the total, adding 7% with its [Melon spender address](#). Another [account](#) holds 16%, which is huge and creates an unbalance. The rest of the top 1000 holders are ranging below the 3% mark.

Score: 7

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer: The MLN token is a [utility token](#) which directly comes to use for governing the ecosystem and aligning stakeholders. In the current state, the token serves two functions: 1. Users pay for usage in MLN tokens 2. Developers or outside contributors can earn MLN tokens by submitting for a grant. Tokenomics is currently being [reworked](#). This could add up to additional token capabilities in the future.

Score: 5

c) Is the issuance/distribution model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer: The MLN token operates as a [burn and mint model](#). Each year a fixed amount of 300,600 tokens are minted to compensate maintainers and developers performing work for the network. MLN also acts as “asset management gas”. The buy + burn model of the protocol assures that as usage on the network increases, more asset management gas is consumed and therefore more MLN burned. This is a framework designed to align the growth of the network with the value of the token. Furthermore, a pool of 300,600 MLN is available every year for projects who want to apply for a grant. The tokens are only issued to projects if the teams involved are deemed to enhance the overall value of the network relative to the dilution effect. If no such need or project is available, the tokens are burnt.

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: The MLN token is used to execute fund operations and for voting on the protocol's software policies, such as its inflation rate. Fund operations might include transaction costs or performance and management fees. As mentioned in 2.c), the protocol implements a buy-and-burn model in order to incentivize MLN's use. Network fees are paid for in ETH, the DAO converts the collected ETH to MLN and burns the coins, effectively removing them from circulation. This creates upward pressure on the price and may make MLN coins more valuable long term. Since 2019 when the Melonport AG passed its management to the Melon Council, the further development of the [„Melonomics“](#) lies in the hand of the DAO members, therefore also bringing uncertainty about future decision making/capability/skill regarding the maintenance and further development of the value capture model.

Score: 6

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: MLN is traded on most T1 CEXs (Coinbase, Kraken, Binance) and on DEXs such as Uniswap (V2), 1inch, Balancer (v1). With \$99,094,348 in 24h trading volume (06-07-21) it shows sufficient [liquidity](#).

Score: 4

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: The token runs natively as a utility token on Enzyme Protocol. There are use cases outside of those protocols for MLN. One [example](#) is LP on Sushiswap.

Score: 4

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favors teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

a) Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer: The initial team of Melonport (Enzyme protocol) is highly credible and public. With [Mona El Isa](#) ([twitter](#), [LinkedIn](#)) as one of its founders, a professional financial background is represented and with e.g. [Gavin Wood](#) (Co-Founder Ethereum, Founder Polkadot) as a technical advisor, the technical baseline is rock solid. With the dissolution in 2019 Melonport -> [Enzyme Council](#) (DAO) the composition of the members stays top-notch (see [Will Harborne](#) (CEO of DeversiFi), [Zahreddine Touag](#) (Co-Founder of Woorton)).

Score: 15

b) Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer: The Council is composed of the Enzyme Technical Council (ETC) (currently 11 people) and representatives from Enzyme User Representatives (EUR). Both groups are packed with members having relevant track records. Since the Enzyme Council is a fully trusted entity, which is at the core of the protocol's security, a rigid application process guarantees the coverage of the relevant skill sets needed. Applications to the ETC and EURs can be made by emailing council@enzyme.finance.

Current EC members:

Janos Berghorn: Investor @ KR1 (ETC)

Giel Detienne: User representative (EUR)

Mona El Isa: Founder & CEO @ Avantgarde Finance (ETC)

Felix Hartmann: Founder @ Hartmann Capital & User (EUR)

Fabian Gompf: VP @ Parity Technologies (ETC)

Will Harborne: Founder & CEO @ Deversifi (ETC)

Lev Livnev: Formal verification researcher @ dapp.org and a founding partner @ Symbolic Capital Partners (ETC)

Martin Lundfall: Formal Verification Researcher @ Ethereum Foundation & DappHub (ETC)

Nick Munoz-McDonald: Smart Contract Auditor & Researcher @ G0 Group (ETC)

Paul Salisbury: Founder @ Blockchain Labs (ETC)

Zahreddine Touag: Founder @ Woorton (ETC)

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: Most of the advisors and team members are bright Web3 community members and/or investors e.g. [Fabian Gompf](#) (VP @ Parity Technologies) or [Felix Hartmann](#) (Founder Hartmann Capital&User). Mona El Isa as the protocol founder is also actively involved in public debates around DeFi ([Tech Open Air](#), [MoneyDance](#))

Score: 4

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 Enzyme Council (DAO) has [Funding Proposals](#) as an instrument to effectively compensate any person or entity contributing to the Enzyme protocol and its ecosystem. The treasury is managed by the Enzyme Council and funded through the inflation of MLN tokens. The funds can also be used to compensate developers contributing to the Enzyme codebase or burned if there is no relevant funding (see 2d). The problem here is the complicated handling of creating a proposal and following up on them. Everything is funneled through the github page offering no intuitive UI e.g. portal for submitting, reviewing and voting on proposals. (In addition to that, a grant application has to be sent prior to that via email to the council)

Score: 6

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 terms of upgradability, there are no admin keys or backdoors. Vaults are version-specific and can only be upgraded from one version of the protocol to the next if Vault Managers opt in and signal an upgrade. Depositors have an opportunity to opt out if they do not like the new upgrade parameters being signalled."* → [FAQ](#) section website. Work was committed for enabling fund upgradability re [approaches](#). Additionally, there is a clear [governance procedure](#) for contract handling.

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: [The Enzyme Technical Council](#) (ETC) was initially appointed by the Melonport AG team and held a two-third majority vote of the Enzyme council (The ratio of ETC : EURs is currently 5 : 2). The technical council is responsible for deployment of protocol upgrades, management of ENS

subdomains pointing to smart contracts, allocation of resources to developers, and adjusting network parameters. Members will be compensated with 20% of the inflationary rewards.

The Enzyme User Representatives (EUR's) The Enzyme User Representatives are designed to collect, prioritize and deliver user feedback to the Enzyme Council on behalf of users. It's intended to balance the power of the ETC by checking their decisions and electing delegates to represent their interests on the Enzyme council. With those two instances, distrusted governance within the DAO is enabled.

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: See composition of Enzyme Council which manages the Governance on the protocol and gathers all governors (4b).

Score: 4

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: Enzyme protocol has documentation around [governance](#). But it has to be said that more could be done to actively engage users via a dedicated governance user forum or portal. As for now (06-07-2021) discussions are taking place on [github](#) (ENZIP: Enzyme Improvement Proposal) excluding the average user. Voting and decisions for protocol changes take place via the Council.

Score: 5

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: The governance framework and smart contract basis for a functional DAO is successfully running on Enzyme. The process of governing future protocol changes (incentives, technical upgrades (features) follows a robust pattern and are secured with the controlling entity, the Enzyme Council. A clearly stated [Trust Model](#) is also established, defining roles, technical handling with extensions and plugins and lists common risk scenarios in the context of decentralized asset

management protocols. Good governance is actively promoted, and Council members are incentivized to behave in the interest of the protocol. Nonetheless, potential remains for designing more user friendly and transparent governance therefore strengthening more secure processes.

Score: 7

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: Melonport AG used to be the accountable part until 2019 when the Melon protocol dissolved to a [DAO structure](#) (Enzyme Council (former Melon Council)) entering uncharted territory from a legal perspective. However, the DAO council members include some of the former core team (founders). It should be noted that the council is constantly initiating [third party audits](#) on the smart contract base of the Enzyme protocol to ensure functionality and safety.

Score: 13

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: Currently, the protocol is controlled by the DAO. There is no legal entity or jurisdiction you could assign to Enzyme Protocol.

Score: 0

Scorecard

a) Novelty of the solution	15 / 15
b) Market fit/demand	10 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	6 / 10
e) Integrations & Partnerships	13 / 15
Total Points - Value Proposition	54 / 65
a) Is the token sufficiently distributed?	7 / 15
b) What is the extent of the token's capabilities?	5 / 10
c) Is the issuance model able to improve the coordination of the protocol?	8 / 10
d) Is the value capture model able to accrue and distribute value?	6 / 10
e) Is the token sufficiently liquid to enable active use and trade?	4 / 5
f) Are there any extrinsic productivity use cases?	4 / 10
Total Points - Tokenomics	34 / 60
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	15 / 15
b) Does the team have relevant experience?	10 / 10
c) Does the team participate and help shape the public debate?	4 / 5
d) Is the team able to effectively attract and coordinate resources?	6 / 10
Total Points - Team	35 / 40
a) Admin Keys	18 / 20
b) Extent of Governance capabilities	12 / 15
c) Active Governance contributors	4 / 5
d) Robustness of Governance process	7 / 10
e) Governance infrastructure	5 / 10
Total Points - Governance	46 / 60

a) Does the protocol have any legal accountability?	13 / 15
b) What is the quality of the legal jurisdiction?	0 / 10
Total Points - Regulatory	13/ 25
Total	182 / 250

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