

# Fundamental

Prime Rating Report V2.0

**Protocol:** 1INCH

**Version:**

**Previous Report:** N/A

**Date:** 05/11/2021

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**Reviewed by:** 🧡 a Rating Pepe

**Season** 1

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

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# 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 1inch Network describes itself as a collection of decentralised protocols *"whose synergy enables the most lucrative, fastest and protected operations in the DeFi space"* [1]. The product suite consists out of the [1Inch Aggregation Protocol](#), [1Inch Liquidity Protocol](#) and the [1Inch Limit Order Protocol](#). The different protocols are reconciled in the 1Inch dApp. The whole coalition of the protocol is governed by the 1inch DAO and the Inch Token.

Aggregators in the traditional financial market are a common primitive and with the 1Inch Network being a translation of this to DeFi. Nevertheless, 1Inch is one of the first and most successful aggregators in DeFi with its foundation having been developed on a hackathon as early as May 2019 [2].

1Inch also brings a novel organisational solution through its governance system called “instant governance”, whereby token stakers or LPs (for voting on parameters related to the 1inch liquidity protocol) can constantly and dynamically vote to change protocol settings, without having to wait for proposals to be submitted or concluded [3]. This justifies an overall score of 13.

**Score: 13**

## 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:** When viewing the Total Value Locked (TVL) in Decentralised Exchanges (DEXes), we can see a sustained increase over the past year from 5B in January 2021 to about 35B in November 2021 (See Figure 1). Each DEX will have different liquidity and potentially different pairs listed, yet with a growing list of DEXes<sup>1</sup>, the 1Inch Network allows an automatic comparison of prices and liquidity and optimal trade execution.

### Total Value Locked (USD) in DEXes



Figure 1: Total Value Locked (USD) in DEXes, [Defi.pulse](#)

The growth of DEXes is unlikely to reverse and thus the unified interface for users will become more and more important [2]. This is reflected when looking at the average sustained growing volume between Jun 2020 with about 500 Million USD in Volume to October 2021 with a Volume of 13 Billion. (Note: the fall between May to July due to a reversal of market conditions).

<sup>1</sup> For instance, compare [this snapshot](#) of the Coingecko DEX category in February with the [present day](#). The number of pages of DEXes doubled.



## DEX Aggregator Trade Volume

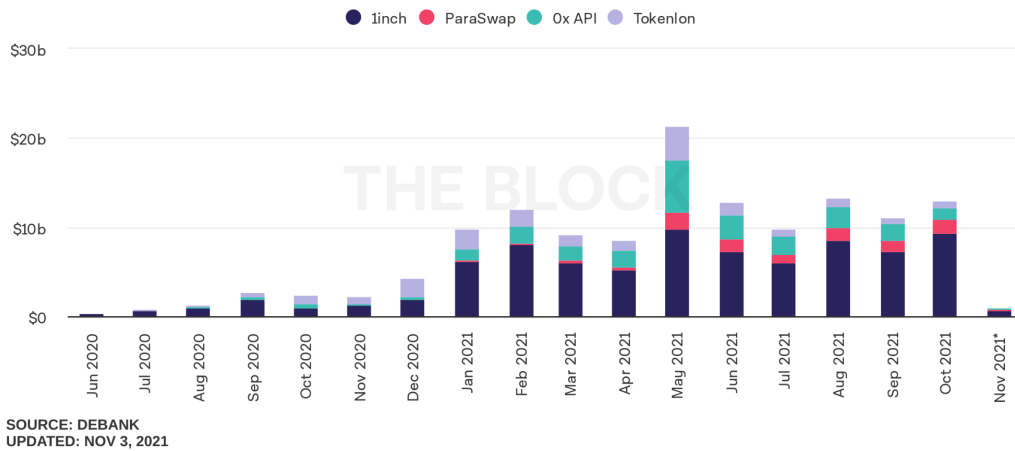


Figure 2: DEX Aggregator Trade Volume, TheBlockCrypto

Noteworthy is that 1Inch and other DEX aggregators are limited to the foreseeable future in predominantly DeFi and thus are limited by this market. Nevertheless short to medium term the 1Inch Network is positioned in a promising market and has achieved a clear market fit.

**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 success of aggregators will depend to a large extent on the success of DeFi and its role in cannibalising the traditional financial market. In theory trade execution through the selection of price and liquidity can occur for any asset class and thus any assets that with popularity are traded on DEXes will be subject to aggregators. Providing a number is arbitrary in the view of this rater but basic reasoning as well as the figures presented in the prior sub-section b), suggests that the target market size is substantial and shows signs of sustainable growth for the market of DEX aggregators. Full points are not awarded in the final score as it is a conditional bet on the success of DEXes.

**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:** Referring to Figure 2 presented in sub-section b) we can see that the 1Inch Network has been the clear market leader in terms of Volume and has maintained a position of dominance since inception.

Figure 3 compares the 200 Moving Average of 1h Active Addresses (AA) between 1Inch, Tokenlon and 0x between October 2020 to End of October 2021. While AA is relatively low (relative to other protocols) with topping out at 178 as the maximum value of the moving average, 1Inch nevertheless dominates between the different protocols since approximately the 12th of February 2021.



Figure 3: 200 Moving Average of 1h Active Addresses (AA) between 1Inch, Tokenlon and 0x from October 2020 to End of October 2021, Santiment.net

Given the clear leadership position in the Industries among aggregation protocols, 1Inch deserves a score of 9 as it acts as a clear benchmark in the market segment aggregator. However, its DEX product is lacking adaption ranking 7 by volume [3].

**Score: 9**

## 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:** The 1Inch Network has a large set of contributors, auditor and ecosystem partners across multiple chains [4]. On their website alone 42 partners are listed with many being wallet services. This makes sense as it pursues a vertical integration strategy to pursue a steady stream of users through other protocols built on top of it [5]. While some partners are displayed to make the impression of a logo collection, meaningful partnership integration can be identified (see, for instance, [Chainlink](#), [Dharma](#), [Oasis.app](#) or [TrustWallet](#)).

Score: 15

## 2. Tokenomics

The Tokenomics 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:** The 1Inch Token is held by 75000 unique addresses according to Etherscan [1]. This is relative to other projects with a medium number of unique addresses (refer to Perpetual in contrast for the lower end and Uniswap for the upper end). A closer investigation of the distribution of the address can be found when viewing Figure 4, which displays the Supply held by top addresses (as % of total supply). The distribution currently hovers at 82 % which is relatively speaking middle ground. As an example, we included Perpetual (Red) on the higher end and Uniswap (Pink) to mark the lower end.

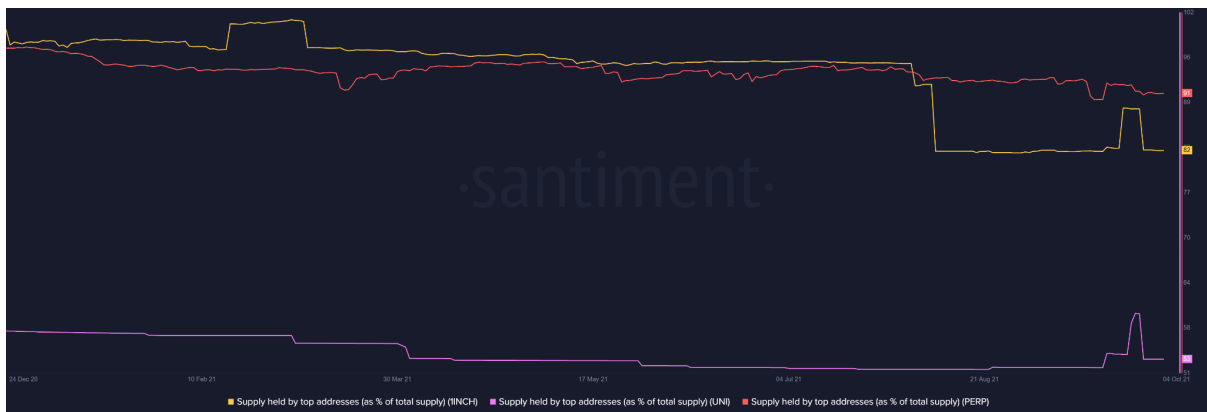


Figure 4: Supply held by top addresses (as % of total supply) of Perpetual Protocol (Red), 1Inch (Yellow) and Uniswap (Pink).<sup>2</sup>

When looking at holder behaviour a bullish pattern can be observed, as since inception small addresses (holding 0 to 100 000 Inch token), as well as large addresses (holding 100 000 to infinity 1Inch Token), seem to on average grow. This suggests an overall conviction in the success of the 1Inch Network Token since its inception, which may suggest stakeholder alignment and overall health.

<sup>2</sup> The sudden bump towards the end seems to be exchange acquisition of 1Inch Token compared to sentiment by supply held by top non-exchange addresses.



Figure 5: 1Inch Supply Distribution small addresses (holding 0 to 100 000 Inch token) and large address (holding 100 000 to infinity 1Inch Token), Santiment.net

Overall, the rater assigns a score of 12 since there are avenues of improvement (i.e. Larger holder base and less centralised supply among top addresses).

**Score: 12**

## 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 1INCH token enables protocol governance, allowing 1INCH stakers to vote for and receive rewards. At present, its primary utility outside of Governance is as a connector to achieve high-efficiency routing in the 1inch Liquidity Protocol by rewarding dApps and wallets that route users and trading volume through the 1inch network (see Figure 6). The token is said to be used in the tokenomics of all new protocols released by the 1inch Network [3]. Overall the 1Inch Network token is attractive and makes sense and thus deserves a score of 7 [2].

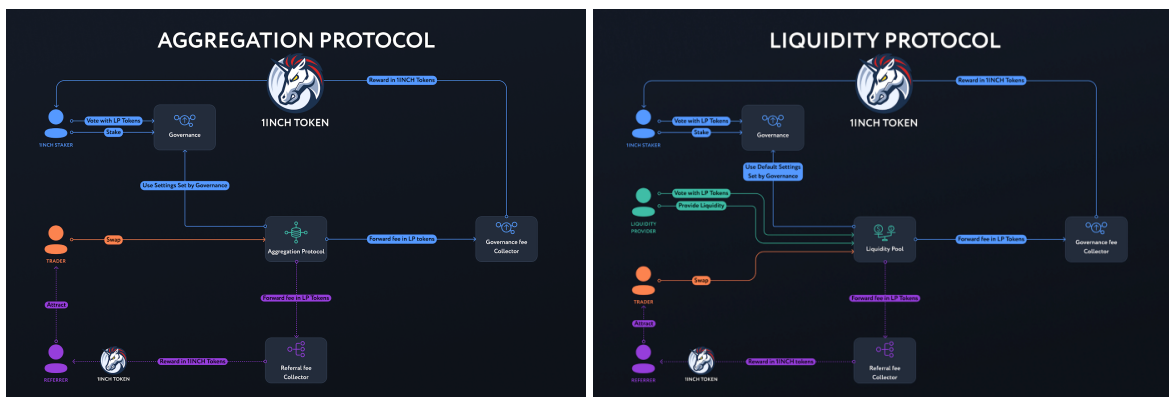


Figure 6: 1Inch token use in Aggregation Protocol & Liquidity Protocol, Medium

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:** 1Inch has a circulating supply of 180 Million with a remaining 1.5 Billion token as total supply [4]. The remaining supply will result to a large extent from community incentives (30%) and protocol growth and development funds (14.5%), as well as unlock from, early backers and core contributors (see figure 7).

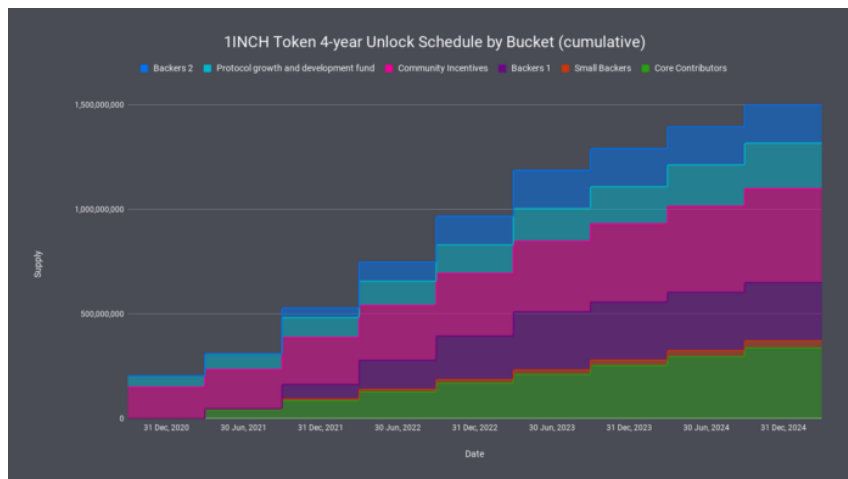


Figure 7: 1Inch Token 4-year Unlock Schedule by Bucket (cumulative), [Medium](#)

Overall, 1Inch has created a robust governance model which governs the 1Inch network and allows the direct adjustment of parameter settings, rewards stakeholders and meaningfully attracts protocol to build on top of 1Inch, justifying a high score of 8 [2].

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 1Inch protocol is able to effectively accrue and distribute value.

The first source of Revenue comes from the Aggregation Protocol through the Spread Surplus. The Spread Surplus is generated by swap transactions when the executed price is slightly better than the price quoted. The percentage of this surplus is governed by 1Inch Stakers and can be claimed by 1Inch Token Stakers, Governance participants and dApp referring users to the 1Inch network [2].

The second source of Revenue results from the Liquidity protocol. Here the protocol occurs value through the Swap fee and the price impact fee. The Swap Fee is a fixed fee charged on each swap on the protocol. The price impact fee is a dynamic swapping fee charged on each swap and is based on the price impact incurred. Beneficiaries of these fees are 1Inch Token Stakers, Governance participants and dApp referring users to the 1Inch network [2].

1Inch is lacking currently a sustainable funding mechanism for its treasury. There is however a proposal in the making trying to implement a sustainable funding mechanism [8].

**Score: 8**

## **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:** The 1Inch token is widely available and highly liquid across DEX and CEX [5].

**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:** The use cases beyond the protocol to the best of this rater's knowledge are relatively limited. Yet, there are several proposals that attempt to extend its utility beyond internal use cases [6,7].

**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 1Inch team is credible and public. At present according to LinkedIn, the team consists of nearly 50 team members [1]. Both founders Anton Bukov and Sergej Kunz are well-known actors within DeFi.

**Score: 10**

### 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 skillsets?

**Answer:** [Serjei Kunz](#) demonstrates a plethora of work experience across software development positions to senior leadership positions [2]. [Anton Bukov](#) demonstrates deep experience in Blockchain development [3]. In the meantime, all major business verticals from Software, Business development, communication, strategy and marketing are covered across the employed staff [1].

**Score: 9**

### 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 1Inch founders can be found on popular podcasts, indicating participation in the public debate [4]. In DEX Aggregation 1Inch is the benchmark that is reflected in the authority that the founder enjoys on the topic. Lastly, 1Inch can be found in many ryl events (e.g. Liscon).

**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:** Evidence for effective coordination may be reflected through the growth of volume (see Figure 2 with 1Inch marking the clear dominant position. In addition, the team managed to raise a total of 14.M in funding from 22 Investors among which are high profile names such as Pantera, Blockchain Capital, Dragon Fly Capital and Galaxy Digital [5]. As pointed out by the reviewer with a huge funding round of \$70 Million currently being conducted [6].

**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:** According to the Gnosis Safe the Admin Keys are controlled by a 2 out of 3 Multisig [1]. The multisig seems to be controlled by the team at present with plans to decentralise [3]. Yet, as pointed out in the Aave Governance forum discussion, the multisig controls nearly 88% of all token supply [2]. This rater was unable to identify exactly the extent of the power of the multisig, yet there exists evidence that there is general unclarity around this [16].

**Score: 6**

## 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 instant Governance function enables participants to vote to adjust the protocol parameters at all times allowing changes to be made directly to the protocol with their vote [4]. In addition, a governance forum exists where proposals can be put forward to community vote by anyone [5].

**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:** The discord and the governance board shows active and lively discussion from a diverse group of holders [6,7,8,9].

**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:** The 1Inch Network has a Governance Dashboard to directly adjust protocol parameters for the Liquidity and Aggregation Protocol [10]. Beyond this, it utilises a dedicated [governance forum](#) as well as discord for debate and proposal [11]. Votes are conducted via Snapshot [12]. Documentation is ample [13]. Given this, the 1Inch Network in the view of this rater deserves a score of 10.

**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 creating

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 process is clearly outlined on an operational basis [14]. In addition guidance on how to engage and conduct a good proposal are outlined [15]. This makes the governance of the 1 Inch protocol clear and robust.

**Score: 8**

## 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:** The 1Inch Network has a legal entity of the 1Inch Foundation associated with it. Although a clear differentiation is drawn in their terms of services between DAO and Foundation. In addition, most liabilities are renounced in the Terms of Service limiting legal liability [1].

**Score: 4**

### 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:** According to the Terms of Service provided on the Webpage disputes will be settled in Cayman Island suggesting the location of their legal entity there [1].

**Score: 4**

## Scorecard

1. Value Proposition	Points
a) Novelty of the solution	13 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	8 / 10
d) Competitiveness within market sector(s)	9 / 10
e) Integrations & Partnerships	15 / 15
<b>Total Points - Value Proposition</b>	<b>57 / 65</b>
2. Tokenomics	Points
a) Is the token sufficiently distributed?	12 / 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?	8 / 10
e) Is the token sufficiently liquid to enable active use and trade?	5 / 5
f) Are there any extrinsic productivity use cases?	4 / 10
<b>Total Points - Tokenomics</b>	<b>51 / 60</b>
3. Team	Points
a) Is the team credible and public?	10 / 15
b) Does the team have relevant experience?	9 / 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?	10 / 10
<b>Total Points - Team</b>	<b>33 / 40</b>
4. Governance	Points
a) Admin Keys	6 / 20
b) Extent of Governance capabilities	12 / 15
c) Active Governance contributors	4 / 5
d) Governance infrastructure	10 / 10
e) Robustness of Governance process	8 / 10
<b>Total Points - Governance</b>	<b>40 / 60</b>

<b>5. Regulatory</b>	<b>Points</b>
a) Does the protocol have any legal accountability?	4 / 15
b) What is the quality of the legal jurisdiction?	4 / 10
<b>Total Points - Regulatory</b>	<b>8 / 25</b>
<b>Total</b>	<b>189 / 250</b>

**About the Author:** @thxthx7

# Sources

## Value Proposition

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2. <https://messari.io/article/1inch-defi-s-leading-aggregator?referrer=asset:1inch>
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## Tokenomics

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3. <https://blog.1inch.io/1inch-token-is-released-e69ad69cf3ee>
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## Team

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2. <https://www.linkedin.com/in/deacix/>
3. <https://www.linkedin.com/in/k06aa/>
4. [https://www.google.com/search?q=1+inch+dex+aggregator+talk&sxsrf=AOaemvJ9TKR4QuJfLNFG4VPHxkgrUvrhig:1636102118268&source=Inms&tbm=vid&sa=X&ved=2ahUKEwi-9cys64D0AhV0IFwKHc6SAQgQ\\_AUoBHoECAEQBg&biw=954&bih=944&dpr=1](https://www.google.com/search?q=1+inch+dex+aggregator+talk&sxsrf=AOaemvJ9TKR4QuJfLNFG4VPHxkgrUvrhig:1636102118268&source=Inms&tbm=vid&sa=X&ved=2ahUKEwi-9cys64D0AhV0IFwKHc6SAQgQ_AUoBHoECAEQBg&biw=954&bih=944&dpr=1)
5. <https://www.crunchbase.com/organization/1inch-limited>
6. <https://www.theblockcrypto.com/news+/115771/1inch-network-series-b-plans-2-25-bill-ion-valuation>

## Governance

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#### Regulatory

1. [https://1inch.io/assets/1inch\\_network\\_terms\\_of\\_use.pdf](https://1inch.io/assets/1inch_network_terms_of_use.pdf)