PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Saddle Finance
Version: v1
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Previous Report: No previous report

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Season/competition:

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	7 / 15
b) Market fit/demand	9 / 15
c) Target Market Size	9 / 10
d) Competitiveness within market sector(s)	4 / 10
e) Integrations & Partnerships	8 / 15
Total Points - Value Proposition	**37 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	N/A
b) What is the extent of the token's capabilities?	N/A
c) Is the issuance model able to improve the coordination of the protocol?	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? (No, Partly, Yes & Anon , Yes & Public)	9 / 15
b) Does the team have relevant experience?	7 / 10
c) Does the team participate and help shape the public debate?	2 / 5
d) Is the team able to effectively attract and coordinate resources?	8 / 10

Total Points - Team	**26 / 40**
4. Governance	**Points**
a) Admin Keys	**13 / 20**
b) Extent of Governance capabilities	**13 / 15**
c) Active Governance contributors	**4 / 5**
d) Governance infrastructure	**9 /10**
e) Robustness of Governance process	**9 / 10**
Total Points - Governance	**48 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**12 / 15**
b) What is the quality of the legal jurisdiction?	**10 / 10**
Total Points - Regulatory	**22 / 25**
Total	**133 / 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:

Saddle Finance is a decentralised automated market maker on the Ethereum blockchain, optimised for pegged value crypto assets such as stablecoins and wrapped BTC, claiming a slow slippage for transactions in their main page [1].

In order to understand the level of novelty that Saddle Finance brings into the picture, and the context of where we are in terms of Decentralised Exchanges, we need to know some of the history behind them [2]. Ethereum was announced in the beginning of 2014 at The North American Bitcoin Conference. One of the original ideas proposed was to use the new network to build a decentralised exchange. The Mt. Gox hack happened just one month later, putting a huge spotlight on the security risk that centralised custodians and exchanges present to the growth of the crypto industry.

Some developers started working on the **EtherEx** Idea [3], an exchange with an on-chain orderbook, which was a combination of the CLOB (Central Limit Order Book) TradFi system -where there is an orderbook with standing limit

orders (from makers) that are totally or partially filled with market orders (from takers)- and DeFi, with the information placed and updated on the blockchain and the users being able to transact with one another in a decentralised fashion using the Ethereum Network. Another example of this type of exchange is Oasis Dex [4].

	EtherEx/OasisDex
Order Book	On-chain
Matching	User
Execution	On-chain

However, it quickly became clear that this design of putting every action on-chain had a few major drawbacks:

High fees: users had to pay a fee to the Ethereum network for every action, including placing and cancelling orders. This made it cost prohibitive for users, in particular market makers who often make 100x as many orders as executed trades.

Latency: every action had to be mined by the Ethereum network, which meant delays. Place an order, wait 15+ seconds for it to appear.

Given these issues, it was difficult for these platforms to grow, but they were an important first step in the development of more user-friendly versions.

[5] A second wave of innovation happened only a couple of years later, during 2016, with **EtherDelta** [6]. It employed the same basic model as the first CLOB DEXs, with the significant difference that the order book was hosted off-chain, where the orders can be shared and takers are responsible for finding and identifying the appropriate order to match against. The taker countersigns the limit order and submits the completed trade transaction to the Ethereum network for execution and settlement.

	EtherEx/OasisDex	EtherDelta
Order Book	On-chain	Off-chain
Matching	User	User
Execution	On-chain	On-chain

This design allows for free order creation and modification and a decrease in their latency. That improvement over the previous CLOB system, and the fact that it launched at the start of the ICO craze, gave EtherDelta success for a period of time. Nevertheless, the overall solution was far from ideal.

On-chain execution means that maker's orders appear as available for trading even when a trade is already sitting in the mempool waiting to be mined. When multiple users submit a trade against the same order, only one trade succeeds. For the rest it results in an on-chain trade collision, where the order fails and users must go back to the order book. This is a negative network effect, as users start competing for orders with the best price, paying a higher gas price to ensure it's successful. On peak days up to 30% of trades failed due to on-chain collisions. This also opens users up to front-running, as arbitrageurs can scan the mempool for pending trades and intercept them if it's profitable to do so. Placing orders is free, but it still costs gas to cancel as all orders are visible and available for execution by anyone. This made it expensive for MMs to operate. Lastly, there is no matching process, meaning that users are free to submit any order

with any parameters, causing some users to place orders with pricing mistakes and creating the opportunity for some users to create bots to pick off mis-priced orders faster than users could cancel.

Despite its initial success, and being many people's first introduction to decentralised exchanges, the project was unable to iterate further and was passed by new DEX designs. Apart from that, there was also a hack in 2017 and a lawsuit with the SEC for "operating an unregistered exchange" [7].

[8] The **main issue** with EtherDelta was that the order book only updated after trades were settled on the network. This means that users were shown orders that were already in the process of being filled. The first thought from the developers was to simply pull any orders that were associated with pending trades. Scanning the mempool allowed them to identify trades that were already submitted and remove the corresponding order from the off-chain order book.

This design worked pretty well, as orders were pulled within a few seconds of being submitted to the network. However, in working through this, they realised the system could be improved by bringing trade execution entirely off-chain, leaving only the settlement on-chain. This solution increased the centralization of operations, as there was a central party necessary to decide who is the legitimate taker, execute the trade and submit it to the contract for settlement. This design and management was introduced by the project **IDEX** [9].

	EtherEx/OasisDex	EtherDelta	IDEX 1.0
Order Book	On-chain	Off-chain	Off-chain
Matching	User	User	User
Execution	On-chain	On-chain	Off-chain

The order book no longer reflects pending trades; as soon as an order is submitted to the network for settlement, IDEX pulls the order from the books, guaranteeing settlement and real-time updated balances in the process. Users can continue to trade on these new balances while previous trades have pending settlement, and can cancel orders without paying gas; the order is simply deleted from the IDEX database.

IDEX 1.0 was the dominant DEX for almost 2 years. However, in hindsight, they overlooked a few key aspects of this hybrid approach. Takers match against a specific maker order; if the order is cancelled/filled by someone else before they can sign (common with delays in metamask/ledger), the order will fail. The off-chain infrastructure was not very robust. API users would experience non-deterministic trade execution, while the process for integration was messy and error-prone. Each trade settled one at a time, leading to high gas settlement costs in times of network congestion.

In late 2018, the IDEX team identified these **issues**, and set to work on addressing them. In the meantime a new type of DEX was emerging, **Uniswap** and the **AMMs**, replacing the order book altogether for a simple on-chain formula [10].

	EtherEx/OasisDex	EtherDelta	IDEX 1.0/Hybrid	Uniswap/AMMs
Order Book	On-chain	Off-chain	Off-chain	N/A
Matching	User	User	User	N/A
Execution	On-chain	On-chain	Off-chain	On-Chain

This architecture and a confluence of other factors allowed Uniswap to achieve **phenomenal growth**. The ever-present permissionless liquidity made it a great solution for other applications to build on top of. This fully-decentralised

architecture also led to a resurgence of ICOs, this time in the form of Uniswap direct listings, as projects can easily deploy their own liquidity pool to jumpstart trading of a new asset. The liquidity pool structure also made it easy for non-technical users to commit capital and earn a passive reward from trade fees from **liquidity mining**. AMMs encourage passive market participants with low time preference to lend their digital assets to asset pools.

There are two main **reasons for Uniswaps success**:

1. Simplicity: which achieves low surface area for hacks, low integration costs and low gas costs. The simplicity also extrapolates to providing liquidity when compared to order book exchanges and when creating incentivized liquidity pools, which works as a marketing and distribution tools for token projects.
2. Small regulatory surface: is trivially decentralised and requires no off-chain inputs, which makes it highly resilient.

This design also addressed many of the UX issues that are created when attempting to operate a traditional CLOB design on a decentralised network. The lack of an order book means that market makers don't have to worry about fees or latency when trying to update their orders. Gas costs are only incurred when a user trades against the pool. There is no need for a matching process, as users trade against a unified pool rather than specific orders. This **solves the problem of failure of execution**.

[11] Uniswap pioneered the **constant product function (X * Y = K)**, and others have run with this as the basis for new pricing models. It is the world's simplest on-chain market making operation, and it is currently the most successful DEX that has ever existed to date. It prices the two assets so that the number of units it holds of each asset, multiplied together, is always equal to a fixed constant. Since Uniswap's rise, there has been an explosion of innovation in AMMs. A legion of Uniswap descendants have emerged, each with its own specialised features.

Though they all inherited the core design of Uniswap and its **Constant Function Market Makers (CFMMs)** -which is an alternative to Hanson's Logarithmic Market Scoring Rule (LMSR) [12]-, they each come with their own specialised **pricing function**. Examples of CFMMs include Uniswap's constant product AMM [13], Curves mixture of constant product and constant sum [14]; Balancer's multi-asset pricing function is defined by a multi-dimensional surface [15]. Different pricing curves/functions are better suited for certain assets, as they embed different assumptions about the price relationship between the assets being quoted.

In spite of these numerous benefits, some experts believe that AMMs in their current form are just a necessary stepping stone in the path of DEX design. They claim that these products are a **less flexible** version of market making than their centralised counterparts, and will lag in markets where sophisticated analytics and human intervention are required.

In order to get a clear sense of how DeFi evolves from here, we need to understand when CFMMs thrive and when they do poorly. We can accordingly draw a hierarchy of the most profitable Uniswap's pools, all other things equal:
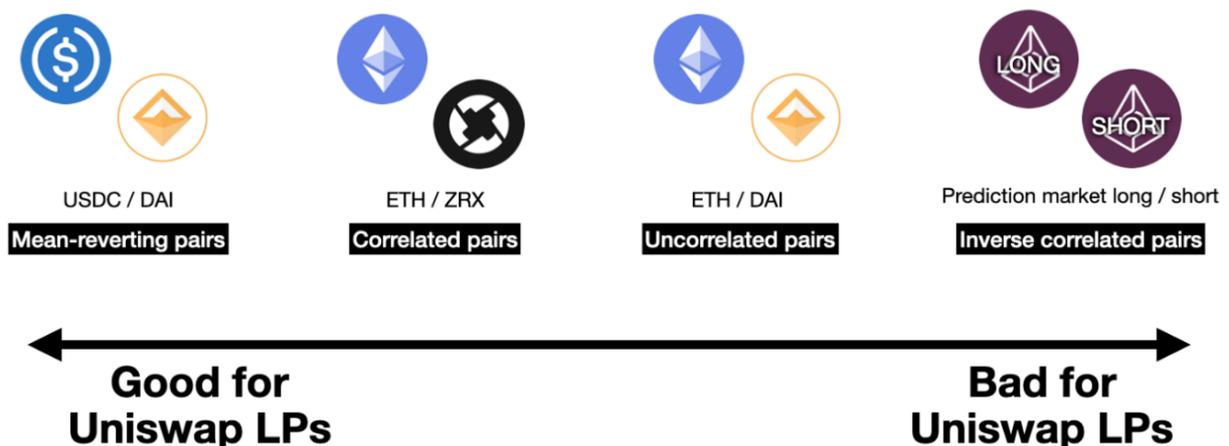
The Uniswap thesis works best when the two assets are **mean-reverting** (USDC/DAI or WBTC/TBTC). These are assets that should exhibit minimal impermanent loss and will purely accrue fees over time. The lower the correlation the higher the chance of impermanent loss, so the higher the rewards should be in order to compensate for the risk involved.

These AMMs will most probably continue to grow in markets where traditional market makers don't have much of an edge, such as **stablecoin to stablecoin pairs**, and there is a non-zero chance that they will not be the dominant way users trade 5 years from now in other types of pairs, especially with Ethereum 2.0 and layer 2 solutions, which will drive down transaction costs and enable more complex markets to flourish, at the same time they attract professional market makers.

This evolution will probably find its way somehow between the **three different paths** [16]:
1. New AMM pricing models with better formulas for specific use cases.
2. CLOBs on-chain with faster consensus times, higher throughput and lower transaction costs.
3. CLOBs off-chain, which intends to combine the power and performance of a centralised exchange with the security of decentralised custody and settlement.

Now that we understand the whole picture, we can see that **Saddle Finance** is in the first of the three previous categories. Inside it, Saddle belongs to the category of CFMMs like Uniswap or Curve, following the StableSwap hybrid mathematical formula in order to get a low slippage. The Stableswap hybrid combines both constant product and constant sum models, which cannot be understood as a novelty in the crypto space.

It is difficult to find novelty in the solution that Saddle Finance has brought to the scene. It combines the Ethereum network with L2 solutions like Arbitrum, Optimism and the Fantom Network (which is Ethereum Virtual Machine compatible) can be used to perform transactions in the AMM. It has also created pools with more than 2 different assets (not a novelty either), and has quite a wide range of different coins and wrapped tokens. Their business model is to create a low slippage model like Curve, but for "every corner of DeFi". The app looks very much like Uniswap with minor changes and additions. There is some novelty in the creation of a pool with four different stablecoins that are decentralised [17] and in the fact that it allows for low slippage trades across different pools [18].

For that reason we can conclude that the protocol has introduced **minor technical or organisational innovations**.

Score: 7

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:

The competition in the DEX market is extremely high and fierce. We can currently see that Uniswap is currently dominating by far in terms of market share by volume, with an astonishing 78% of the whole market, which has been increasing steadily over the last year. Curve is in second place with a 6,1% and Sushiswap third with 5,9% [19].
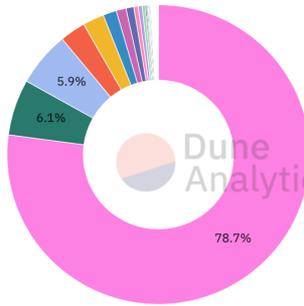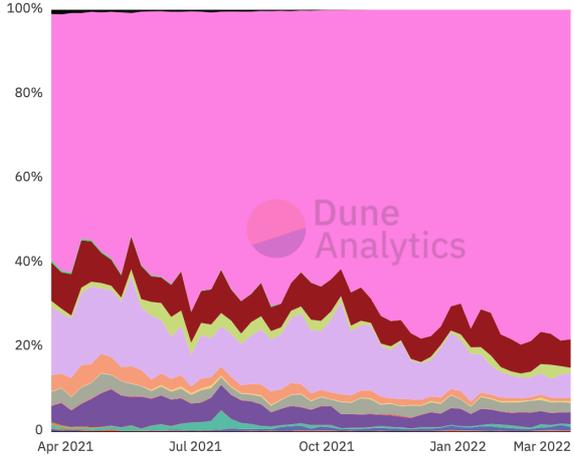
Saddle currently does not appear in the first 26 projects analysed in Dune Analytics. So we can conclude that Saddle Finance is currently a project with minor relevance, with just over 255 million in TVL [20]. The trend of the TVL looks decent, with a trading volume that has decreased quite sharply during the last two months [21]:
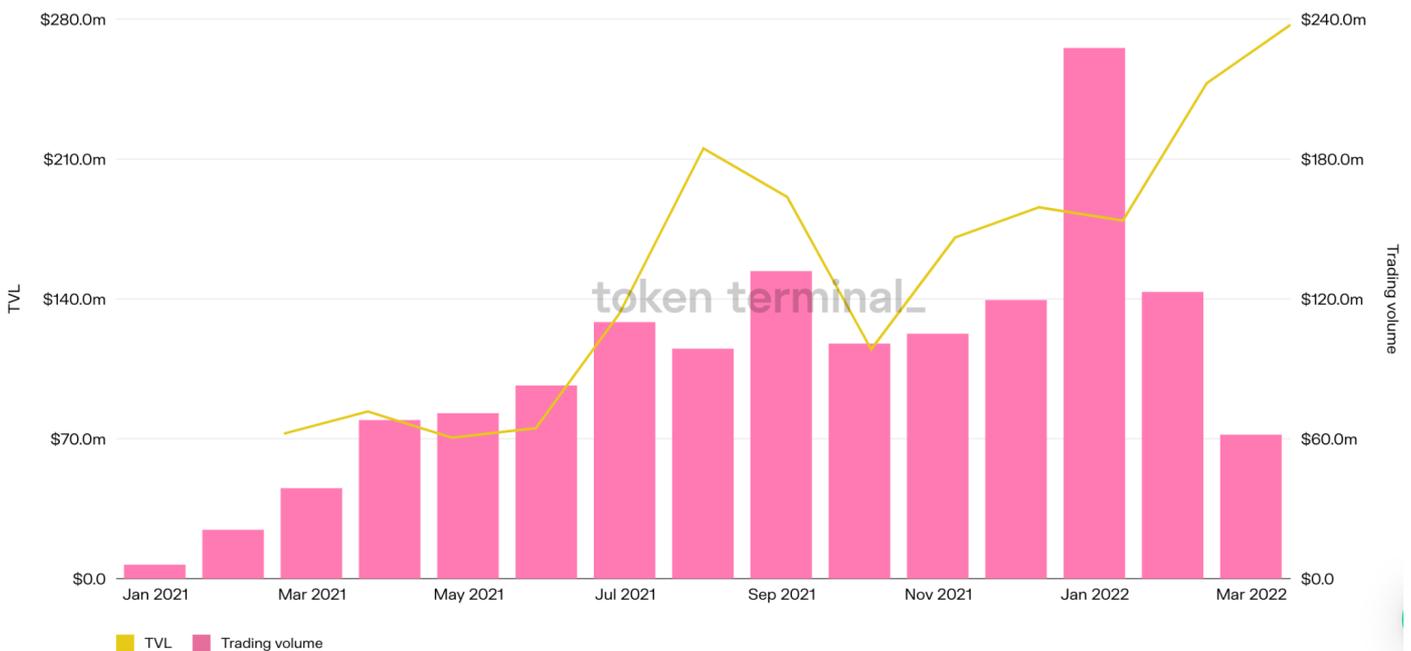

Although the trend looks good, there is still a long way for Saddle Finance to gain relevance in the space. Currently, according to the TVL metric, it has around 2,4% of Curve Finance's TVL, and 3,5% of Uniswap's [22]. The number of trades per day does not seem to increase much over time either, and the number of trades overall are pretty low (most days below 100):

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Trades Per Day
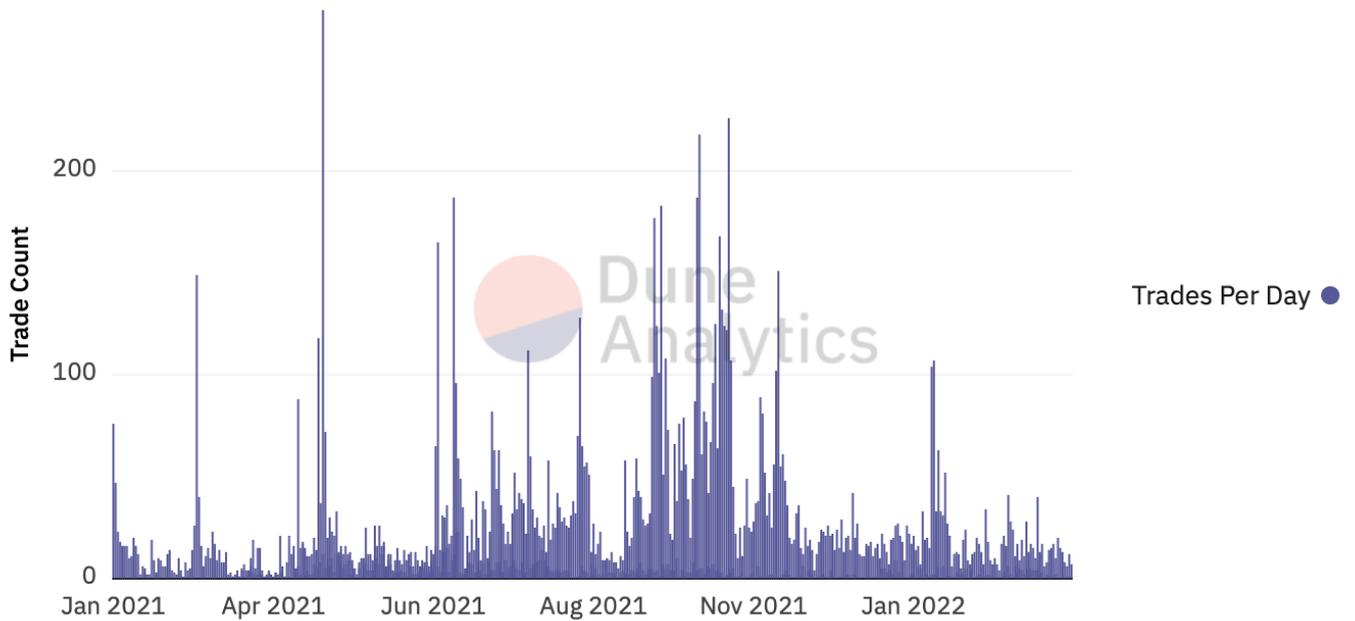
The DEX market is definitely a promising place full of opportunities, but it does seem that Saddle Finance's lack of novelty in the industry will probably not allow them to gain enough relevance and network effects to be able to ever be a significant DEX (top 5). It seems that it is not satisfying any market's important (hair on fire) need, or that they are not being able to attract those who are looking for low slippage swaps in a regular way. They keep adding new features, pools and have a strategy towards the future.

According to DefiPulse, Saddle is currently the 8th DEX project in terms of TVL in the Ethereum ecosystem, which is not a bad place. We have to take into account that TVL is the metric better suited for Saddle Finance currently, as it has gone steadily up since inception. It seems Saddle Finance is able to find liquidity providers, but not so many users that would want to swap in the assets available.

LENDING	DEXES	DERIVATIVES	PAYMENTS	ASSETS			

#	NAME	CHAIN	SECTOR	TVL (USD) ⌄	1 Day %
2 🥈	🔴 Curve Finance	Ethereum	DEXes	$10.70B	0.10%
5	🦄 Uniswap	Ethereum	DEXes	$7.20B	6.57%
9	⚫ Balancer	Ethereum	DEXes	$2.19B	-1.68%
10	⚫ Bancor	Ethereum	DEXes	$1.84B	-0.05%
11	🍣 SushiSwap	Ethereum	DEXes	$1.61B	4.12%
26	🟡 Quickswap	polygon	DEXes	$431.3M	3.59%
28	🔵 Loopring	Ethereum	DEXes	$364.7M	-4.89%
31	🔵 Saddle	Ethereum	DEXes	$228.7M	2.36%

Because of the difference in the results encountered, and taking into account that it has experienced promising tendencies since inception, we can conclude that the protocol has shown signs of a market fit in a promising market.

Score: 9

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 size of the market in terms of **TVL** (liquidity) is growing at an exponential rate, especially in the last two years. This remarkable growth is probably not going to stop in the near term, making it difficult to forecast due to its exponential character, but there is still a lot of room for growth, and DEXs are here to stay in the long run, retrieving funds from market makers and liquidity from TradFi brokers and investment banks and CEXs over time. Although it has grown a lot, and there are probably other areas within crypto that have a higher growth prospect, there is still a lot of room to grow in the market overall due to the cannibalization of TradFi (long-term trend).

In the medium-term the projections of most analysts is that we will have a strong growth, although it is very difficult to estimate numbers on it as stated before [23].

The short-term trend has experienced a minor set-back due to the latest bear market experienced from the end of 2021, but it is already showing signs of recovery.

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TOTAL VALUE (USD) LOCKED IN DEXES

SHARE ⤫
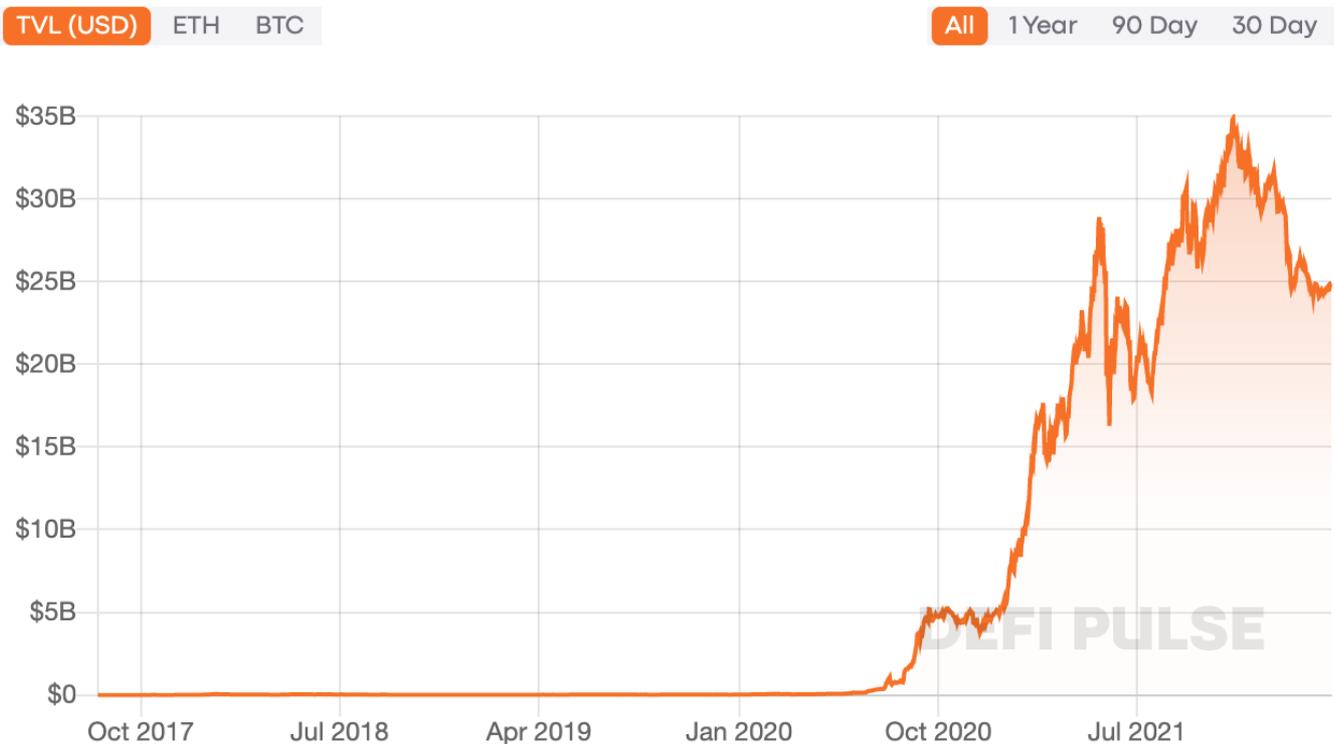
Score: 9

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:

As we have previously seen, Saddle Finance's best metric is the TVL, around 255 million dollars. That places the project in the 8th place within the Ethereum ecosystem in terms of TVL. In other metrics, like for example number of transactions, number of trades or trading volume, it does not seem to get the same relevance, not even appearing in the main projects analysed in Dune Analytics [20].

The competition within the DEX market is extremely difficult, and network effects play a big part in all this, as users will tend to go to exchanges with a higher liquidity in order to secure the prices they are seeing without slippage. Low slippage is a feature that is not only enabled by the pricing formula used, but also by the amount of liquidity inside the pools, and Saddle has a pretty good liquidity in some of the pairs available in the platform, but it is still very far away from the leaders in the space. Having said that, there are ways to get around this fact, and Saddle Finance has done that with their **partners**: 1inch, Matcha and Paraswap are the main DeFi's top aggregators, platforms, and projects that allows for a deeper liquidity for trades.

Within the market segment we could place it as a direct competitor of Curve Finance, so let's analyse some main metrics comparing Saddle with Curve:

1. <u>TVL</u>: Curve is the leader in this metric with 10,7 billion, whereas Saddle is around 255 million (2,38% of Curve). The total TVL for DEXs is currently around 25,51 billion dollars. The market share in terms of TVL for Saddle is around 1% of the total TVL for DEXs, which makes it a minor player.
2. <u>Volume traded</u>: as we have previously seen, it does not appear in the first 26 projects analysed by volume traded [24]. Uniswap here has a staggering lead with over 78% of the pie, and Curve is in second place with just over 6% in the last 24 hours.

Although we have seen that Saddle Finance has clearly not yet established itself in the DEX market, it has some competitive capabilities. At the same time, it is struggling to establish itself in the market due to the high competition, but their multi-chain strategy could separate it from the rest of AMMs.

Score: 4

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:

As we have previously mentioned, 1inch [25], Matcha [26] and Paraswap [27] are the main DeFi's top aggregators, platforms, and projects that allows for a deeper liquidity for Saddle Finance's trades. That is an important partnership, as if that was not present it would be a highly competitive issue for the project due to the fact that most DEXs are part of aggregators currently.

Aggregators allow users to get the best price available at any given moment. That of course is problematic for projects that do not have a moat, a competitive advantage. According to the data previously shown we can safely say that Saddle's last two months trading volume has suffered, in line with the industry as a whole, so we can safely assume that Saddle is somewhat keeping up with the other DEXs.

They also announced integrations with a number of protocols, including: Alchemix [28], Liquity [29], Fei, Frax [30], Keep [31], Synthetix [32], and Celo [33]. The Synthetix integration enabled Virtual Swaps with synths, allowing users to trade across pools with large volumes and low slippage.

Lastly, they have also integrated a number of wallets and DeFi tracking tools, including: Zerion, DeBank, Zapper, DeFi Pulse, and DeFi Llama.

We can conclude that the protocol has some good partners or some integrations with/into other protocols, but there is still a lot that they can do in terms of partnerships going forward.

Score: 8

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) 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:

SDL is a governance token for now, so it makes sense for the stakeholders not to be as distributed as other kinds of tokens [34]. Its data barely appears in coingecko, due to its lack of liquidity (ability to transact easily) [35]. The governance was initially distributed in the next manner [36]:

Allocation	% of Tokens	# of Tokens	Vesting Period
Saddle community members	51%	510,000,000 SDL	*See breakdown in the following section*
Investors	22.5%	225,000,000 SDL	2 years
Team members	25.9%	259,000,000 SDL	3 years
Advisors	0.6%	6,000,000 SDL	3 years

This is slightly high for investors and team members, but we cannot conclude that the token is unjustifiably skewed towards specific stakeholders.

Holders distribution seems fine [37], with the biggest address containing 30% of the tokens and no transactions [38] apart from the 300 million tokens that it received from "Saddle.Finance: Deployer". This address (0x5dfbceea7a5f6556356c7a66d2a43332755d68a5) is the governance treasury, whose funds have not been moved yet.

Vesting period seems fine, with around 30% of tokens vesting in 2 years and another 30% vesting in 3 years:

Allocation	% of Tokens	# of Tokens	Vesting Period
Past liquidity providers and users, as distributed below:	15%	150,000,000 SDL	2 years
Historical LPs	10.5%	105,000,000 SDL	2 years
veCRV Holders	3%	30,000,000 SDL	2 years
Any address that called Saddle contracts	0.5%	5,000,000 SDL	2 years
Multisig signers	0.5%	5,000,000 SDL	2 years
Early depositors	0.5%	5,000,000 SDL	2 years
Liquidity mining	5%	50,000,000 SDL	No vesting
Community incentives program (bounties4bandits) and grants	1%	10,000,000 SDL	No vesting
Governance treasury	30%	200,000,000 SDL	3 years

The distribution is still not very deep and diverse, especially when we take the biggest 10 addresses, but we have to take into account also the premature character that the token has. Due to this we will score N/A on the token economics section.

Score: N/A

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:

Right now the utility is extremely limited, due to its lack of negotiability (it is non-transferable) and the fact that it is only a governance token which is waiting for development. In the next months the token will probably gain some utility within the DEX and the governance is going to be made through a fully-fledged DAO. They also plan to use Curve's way to vote when the tokens are locked.

All in all, it is very clear that for now we need to establish here that the token provides limited utility, revenue or governance rights to the holder currently, as it is only used in order to vote for governance proposals.

Score: N/A

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 behaviour? Are all relevant stakeholders benefiting from the issuance model?

Answer:

Although there is not much information over the tokenomics of the asset, we can read in the documentation of the project and the podcast done about tokenomics that they intend to build a unique model of tokenomics (not a fork of another coin) and they intend to make it as little inflationary as possible. There are different vesting periods for every holder type for the community token allocation:

Allocation	% of Tokens	# of Tokens	Vesting Period
1) Past liquidity providers and users, as distributed below:	15%	150,000,000 SDL	2 years
1.1) Historical LPs	*10.5%*	*105,000,000 SDL*	*2 years*
1.2) veCRV Holders	*3%*	*30,000,000 SDL*	*2 years*
1.3) Any address that swapped $100> using Saddle contracts	*0.5%*	*5,000,000 SDL*	*2 years*
1.4) Multisig signers	*0.5%*	*5,000,000 SDL*	*2 years*
1.5) Early depositors	*0.5%*	*5,000,000 SDL*	*2 years*
2) Liquidity mining	5%	50,000,000 SDL	No vesting
3) Community incentives program (bounties4bandits) and grants	1%	10,000,000 SDL	No vesting
4) Governance treasury	30%	200,000,000 SDL	3 years

The token is initially **non-transferable for a period of between 3 to 12 months**. After 3 months, governance may vote to enable transfers. After 12 months, they may be enabled by anyone. The team is launching SDL as non-transferrable to allow community members to earn more and deter short-term profit-seekers and mercenaries.

Additionally, there is a 3 year release schedule:
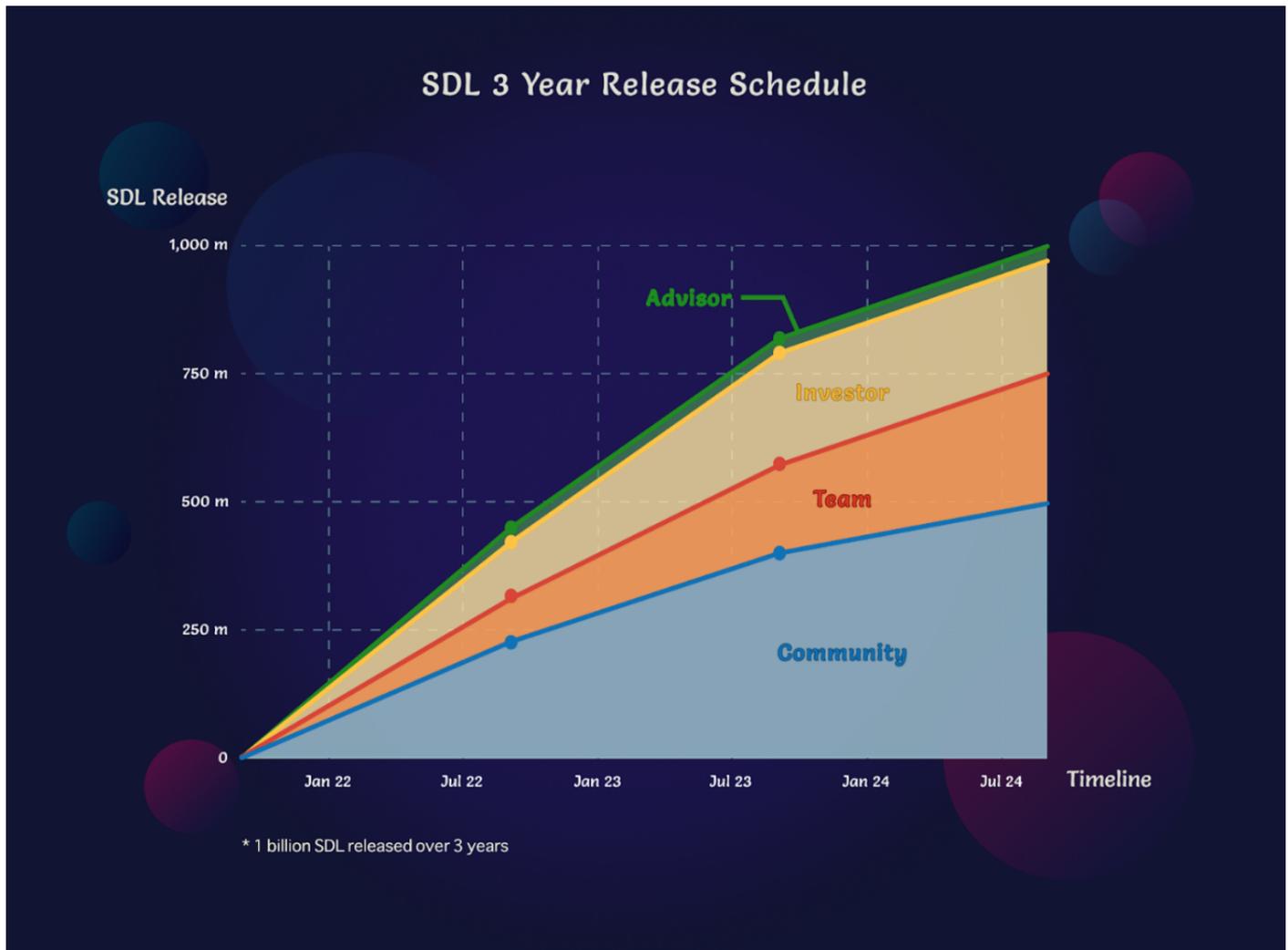
After this we can conclude that the token issuance incentivizes the right behaviour and improves the protocol. Although the distribution is a bit shy for the community members and a bit fast all in all, there are good incentives that will make the token holders think in the long term.

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:

Currently, as stated above, the token is only a governance token with very limited capabilities. It is not used in the DEX yet, so it is non-negotiable and does not have any liquidity. There is currently no mechanism for the distribution of the value created to the token holders, as currently the community is getting value from providing liquidity in the different pools available. We must say, though, that the distribution mechanism slightly improves the coordination of the different

token holders, and the token will probably have, in the future, value accrual for holding it. The only value that it currently has is to be able to vote in the governance decisions (political value), but there is no solely economic value attached to it just yet.

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:

From what we have previously seen about the token it is very clear that, for now, there is no transferability currently in or outside the protocol. The use cases inside the protocol are actually being currently developed and currently it is only a governance token that will be able to be transferred in the future.

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:

From what we have previously seen about the token it is very clear that, for now, there are no use cases outside the protocol. The use cases inside the protocol are actually being currently developed and currently it is only a governance token, so there are absolutely no extrinsic productivity use cases for the token currently.

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:

The team is presented in the main website [39] with Twitter and Linkedin profiles. Saddle is built by a team of DeFi natives. As regular DeFi users themselves, they claim they have seen first hand how important an active and vibrant community is for a project's success.

The founder and CEO, Sunil Srivatsa, has previously been a Software Engineer in Uber, Relcy and Square, being Senior in Uber in different areas like infrastructure security, data engineering and real-time analytics. Sunil is basically the most outstanding profile amongst all the ones shown. The rest of the team are credible, but they are not 100% crypto natives, as many of them have entered the space recently.

That is why we can say that the Team is somewhat credible.

Score: 9

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:

Most of them, starting with the CEO and founder, do have little to no direct previous experience in the field. Having said that, that does not mean that the team will not perform properly, as they have achieved many things in little time. They have demonstrated that they can provide good quality work in a short period of time. We can say that the team is skilled, but only with some relevant experience.

All in all we must say here that the Team can cover the operational functions that are needed in the project.

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:

They are not very present publicly in big channels, but they do give presentations, AMA, and talks in the website's blog [40]. They have technical AMA, tokenomics AMA, and other very interesting explanations of different topics that are useful. They are barely present in the public debate though. The presence of Sunil or Saddle Finance in general in channels like youtube is almost non-existent [41], which makes the participation of the public debate very limited.

Score: **2**

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:

It seems that the team is growing and that they have been able to raise capital from a few notorious investors [42]. Framework, Polychain Capital, Electric Capital, Dragonfly Capital, Coinbase Ventures, Nascent, Alameda Research, BoostVC and Thesis have been the main early investors in the project [43].

Apart from that, it seems they are able to attract and maintain young entrepreneurial minds in the project, which is also a good sign for the long-term prospects of the project. This can be seen in the time that the main developers and workers have been almost since the beginning (and most probably since when they were hired).

The results of their work can be already seen, and they have not been much developing, so we can assume that they work efficiently towards their goals, coordinating properly the resources that they have.

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:

The governance process is clearly explained in the website [44]. For the admin keys they use a Gnosis Safe multisig controlled by 3/7 individuals [45]:

NAME	ENS	ADDRESS
Mariano Conti	-	0x6F2A8Ee9452ba7d336b3fba03 caC27f7818AeAD6
Kain Warwick	Kain.eth	0x5b97680e165b4dbf5c45f4ff42 41e85f418c66c2
DegenSpartan	degenspartan.eth	0x4E60bE84870FE6AE350B563A 121042396Abe1eaF
Klim K	yfi.milkyklim.eth	0x0cec743b8ce4ef8802cac0e5df 18a180ed8402a7
Damir Bandalo	-	0xa83838221278f22ee5bAe3E52 3f34D42b066D67D
Aurelius	aurelius0x.eth	0x0AF91FA049A7e1894F480bFE 5bBa20142C6c29a9
Scoopy Trooples	-	0xf872703F1C8f93fA186869Bac 83BAC5A0c87C3c8

This 3/7 multisig has capabilities to pause new deposits and trades in case of technical emergencies. Users will always be able to withdraw their funds regardless of new deposits being paused. The multisig can also change the swap/withdrawal fees and the per pool/account deposit limits.

Upon questioning Saddle Finance about the time of response, they said it is usually within a day. But it could be faster if the group of people coordinate themselves for doing so. It is, though, not governed by a DAO.

Score: 13

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:

According to what the Team stated, pretty much every significant/major decision about the protocol is brought to governance: deployment to new chains, the creation of new liquidity pools (for now they are going permissionless after tokenomics gets built out), changes to pool parameters, changes to LP incentives, etc. Any time SDL is deployed, that goes to governance.

Things related to the core team like salary, PTO, and all the labour-related stuff is handled by the C-corp, which they hope to phase out eventually.

We can conclude that the governance influences nearly all operations of the protocol including, including on-chain changes, budgets and strategic decisions, and the plan to continue adding more to the governance process.

Score: 13

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:

Currently anyone and everyone can participate in governance assuming they have SDL tokens. Currently the only way to get SDL tokens is by being an LP, but the Team stated that in a few weeks anyone will be able to buy SDL without having to first LP.

Their most popular proposal was the vote for tokenomics + SDL unlock which resulted in 13M SDL tokens voting between 153 participants, so we can conclude that there is an active and diverse group of governors, which can be expected to increase over time.

In order to make proposals as clear as possible they encourage community members who post proposals to do so by following a template [46] where the proposal is explained with a Summary, Abstract, Motivation, Specification (overview, rationale, technical specification, and test cases).

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:

Debate is handled in multiple places. First a nascent proposal will start to get talked about either in their discord by the community at large, or between the core team. If the idea gains traction, it's posted to discourse [47]. There it gets voted on by anyone with an account (anyone can register and have an account).

There is one vote per address and 3 days of voting. Debate happens in the comment section of the discourse poll. if the proposal passes on discourse by a simple majority, it gets posted to snapshot [48].

For on-chain voting: votes are proportional to SDL tokens. Once it is posted on snapshot, we create a new channel in our discord for the community to debate the proposal. After 3 days of voting, the results of the proposal gets implemented by the core engineering team or automatically disregarded.

	1 Gauge Interest	2 Poll on Discourse	3 Vote on Snapshot	4 Fork SIP	5 Execution
Purpose	Test the waters for your idea by starting a discussion on Discord (Saddle Community).	If there's positive response on Discord, then go to Discourse (saddle.community) to create a post explaining your idea and include a poll.	If the Discourse poll passes, the SIP editor will formalize a SIP and a snapshot vote will be created. *Core contributor may create a dedicated Discord channel.*	Once snapshot voting is passed, fork the SIP and create a pull request (PR).	After PR is merged, Saddle Admin or Mod will coordinate with the multisig to execute the proposed change.
Tool	Discord	Discourse	Snapshot / Discord Channel (optional)	GitHub	N/A
Time Limit	No limit	72 hours for the poll	72 hours for the vote	No limit	No limit
Role	Anyone	Anyone	SIP Editor / Core contributor	SIP Editor	Core contributor

We can safely conclude that they use various tools to make governance effective, reliable and efficient. There are channels for debate (Discord and Discourse) with a reliable and usable voting mechanism which has been proved in the past (Snapshot). There is also sufficient documentation available on this matter.

Score: 9

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:

As we have seen in the previous points, there is a lot of documentation that explains the governance process, and the Team has been available to promptly respond to all the necessary queries to make this report more complete and qualitative.

The protocol has a formal governance process that is robust and reliable. It promotes good governance, as it is decentralised enough and has the correct incentives. With the deployment of the SDL tokens available to buy directly in the platform it will be more decentralised, global and reliable, and will allow to add more decisions in the governance

process. They statedly have a great and involved community and we have previously seen that they have set the ground to help the community create improvements proposals to the protocol. This makes the governance process and the protocol robust and somewhat anti-fragile.

Score: 9

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:

Saddle currently has a C-corp that pays the salary of the core contributors. They statedly hope to phase this out, or to reduce it to a minimum of benefits (like healthcare for Americans). The core team already doesn't have control over the protocol. All major decisions have to go through governance, and are voted on by the community at large. They seem to take this very seriously, as decentralisation seems to be core to their mission, but we can conclude that there is a clear legal accountability that is directly linked to the protocol.

Although all these things are good, we must also state that there is not much information about the entity itself available. This is normal, as the C-corp is a private company with less than 10 employees. In crunchbase we can find some info about it [49].

Score: 12

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:

Here we must be clear in granting Saddle Finance every possible point, as they are in a top-tier jurisdiction with applicable laws that they must comply with. They are based in San Francisco, California, United States.

Score: 10

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