

Fundamental

Prime Rating Report V2.0

Protocol: 0x Project

Version: 1

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

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Reviewed by: 🤪 a Rating Pepe

Season/competition: Season 2 / rate-athon #2

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.

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: 0x project was one of the first open source protocols which allowed for decentralized trading in a non custodial manner on Ethereum. It is an open protocol which allows for trustless, low friction exchange of Ethereum based tokens. The 0x protocol is multi-faceted with a main aspect being open API's which allow developers to use 0x as a platform to build exchange applications. Therefore 0x is the infrastructure of a wide variety of user-facing exchange applications.

Fundamentally 0x is an order matching exchange which provides post trade settlement on the blockchain. There are two types of orders one can make on 0x. The first is point to point (like an OTC) and the second is a broadcast transaction (most common, order book) where relayers accept the broadcast transaction and relay them to someone who would

want it. Off chain order relay for on chain settlement keeps the gas costs lower. It combines state channels with finality of on chain order books.

The result is a DeFi equivalent of a NASDAQ as its an open source marketplace, supporting both fungible and non fungible tokens.

The project is all original open source code, and is the first and primary order book style infrastructure on Ethereum.

Details can be found in the [White Paper here](#).

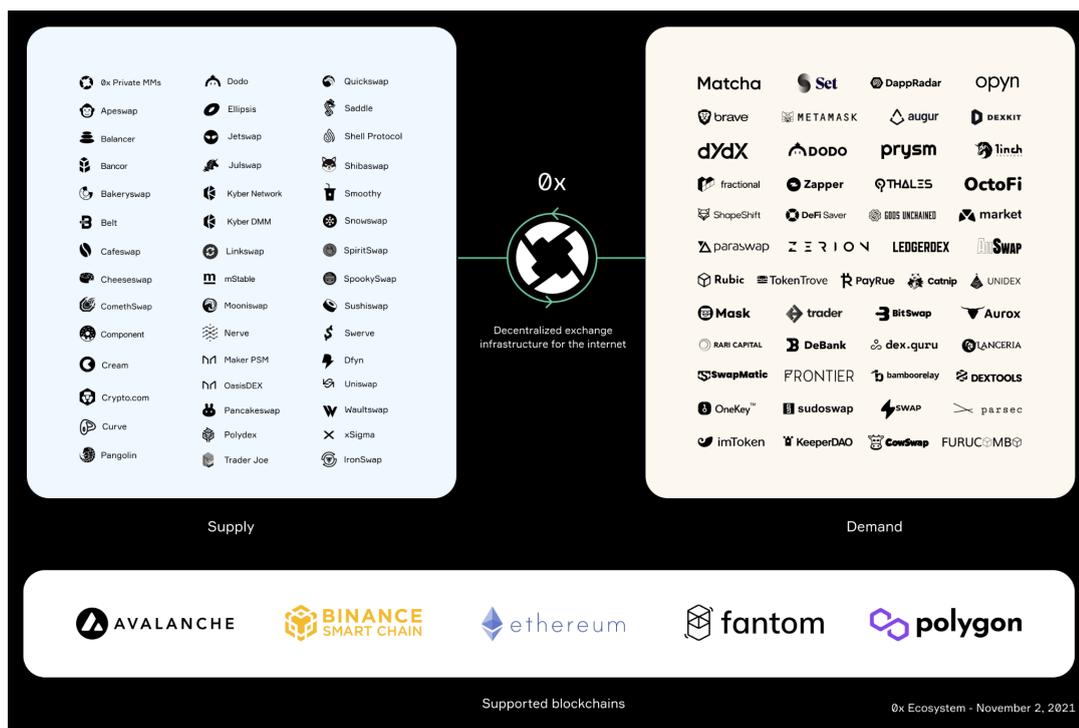
Score: 13

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: The 0x protocol and API has found strong product market fit. Multiple top tier DeFi products use the API in order to facilitate trading (MetaMask, Zapper, Cowswap). The order book matching engine was created before the popularisation of the AMM (UniSwap) and [debates continue](#) as to the pros and cons between the two. Use of the network can be tracked [here](#) on the 0xtracker.

The protocol has done very well in expanding to other EVM chains in order to fulfil market demand. Below is a graphic depicting the large and various markets the protocol has serviced.



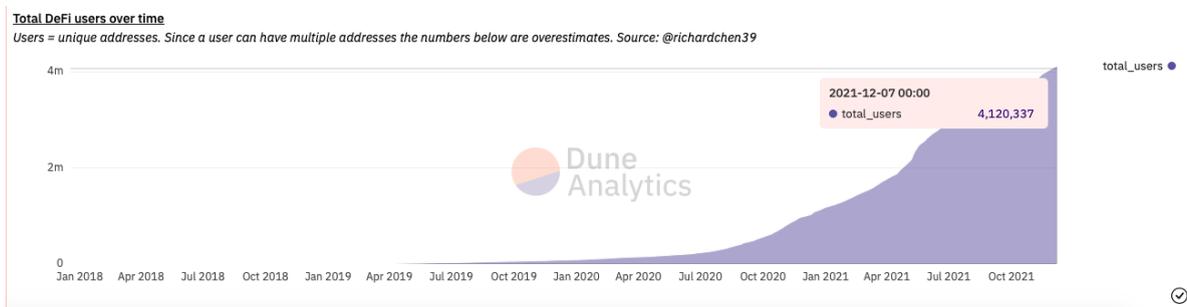
[Link here](#)

Score: 14

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 target market size of all decentralized trading is massive. Also the 0x protocols' ability to be the middleware for trading, not only ECR20 but also ERC721 and 1155, means the market is much larger than just Dex's. Below is a Dune Analytics chart demonstrating the massive growth of total active users in DeFi with over 4 million as of December 2021. Below that are the all time stats from 0x.



0x Protocol All-Time...

\$97b+	19m+	1.8m+
Volume +24%	Trades +118%	Traders +109%

Score:8

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

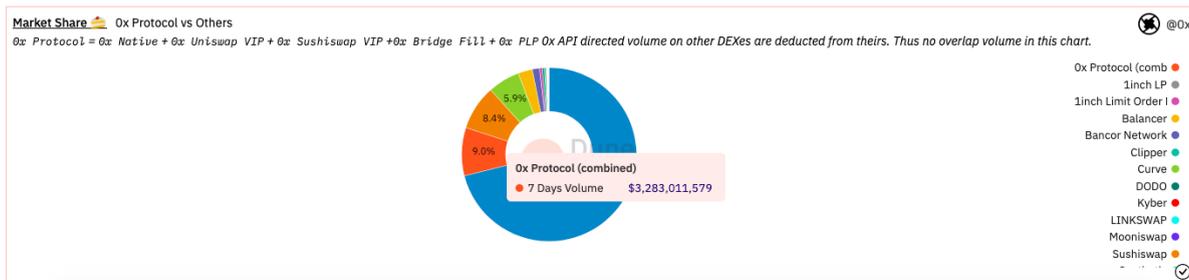
This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer: Uniswap is the clear market leader in this space. However, 0x protocol and those

using its API are number two in weekly users and trading volume. [As seen by the chart below](#), 0x and its API users account for about 55k unique users in the past week (mid december 2021). It is also number 2 in trading volume with about 9% of the total in the space. This leaves 0x as very competitive in the market but not the benchmark.

of Unique Traders, Ranked by 7d Total  @0x
 Count of unique addresses that traded: including maker taker and tx_sender, trailing last 7 days.

Rank	Project	Category	Number of Traders
1	Uniswap	DEX	228,896
2	0x API	Aggregator	49,262
3	Sushiswap	DEX	45,452
4	1inch	Aggregator	41,254
5	Balancer	DEX	12,499
6	Matcha	Aggregator	5,343
7	0x Native	DEX	5,058



Score: 8

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:

0x API is a professional grade liquidity aggregator which functions across 8 chains to allow projects to create a front end dex. As seen in the graphic in 1b, 0x protocol is deeply integrated in the space with many key partners. Despite the code being open source, 0x is not easily forkable as its community is deep and relayers are heavily invested. In 2018 the largest relayer forked the protocol and rolled out “[Hydro Protocol and DDEX](#)”. The protocol appears not active, with no recent tweets or blog posts. [According to coin market cap](#), approx 90% of the tokens are owned by the top ten addresses. This struggling fork demonstrates the resilience of the 0x protocol. 0x is now an irreplaceable part of the crypto ecosystem.

Score: 14

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 token (ZRX) is well distributed with around 190k distinct wallets holding the token and 55% of the token owned by the top 20 wallets and 75% owned by the top 100 wallets. This is a better token distribution than Uniswap and Suisi Swap. (Source CoinMarketCap)

Circulating supply of a total cap of 1 billion (85%). This high level of circulating supply protects people from deflation shocks later.

The 2017 ICO netted 24 million \$ for the protocol and distributed the token to 12,000 buyers. 50% of the tokens were for sale during the ICO. 0x's CEO wrote a blog post on reflections of the ICO [here](#).

Score: 14

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 token is a governance token, a staking tool and an option to pay the fees to the relayers. The main utility is governance and staking with a relayer. In comparison to other dex tokens XRZ does not generate income from fees to the same degree. 1,000 XRZ is [required to participate](#) in a snapshot vote. Therefore governance is not very strong unless you are a large holder and only [25 proposals have been voted on](#). The token does not have extensive utility.

Score: 4

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: Although there is not a token distribution plan made public, 0x provides token rewards based on activity. The protocol raised 24 million in the ICO and kept 50% of the tokens for distribution after. Thus far approximately 85% of the tokens are in circulation with an inelastic supply of 1 billion tokens. Originally the token was designed to be the medium of exchange in order to pay the relayer, but 0x [pivoted away](#) from this model. Instead, the current focus is on staking. Relayers no longer need to hold ZRX tokens nor do traders need it to use the network.

Token holders can participate in governance with an average amount of approx [4 million ZRX Voted Per Proposal](#). This means the token model has limited incentives in place for outsiders, apart from the core team, to improve the protocol.

Score: 4

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: As of December 2021 the 0x community is in debate over this issue. The fees mechanism for the protocol has not produced much value for the token holders. As seen by the number [one thread in their governance forum](#) In fact 0x's fee accrual pales in comparison to any of its [competitors](#). The recent [vote for ZEIP-91](#) is the first step to tinkering with the mechanisms to distribute the value created by 0x. The token promotes coordination as the protocol decentralizes, but has limited value accrual.

Score: 4

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: Yes, the token is traded on most major central and decentralized exchanges, with a

24-hour trading volume of \$91,463,535. Check <https://www.coingecko.com/en/coins/0x> for details.

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 primary extrinsic productive use of the ZRX token is staking. Here is the official staking link to [stake](#) with relayers. Details about staking can be found [here](#): total staked 67,064,755 concentrated into 10 pools.

Lending and borrowing is possible on the major DeFi platforms. More details to be found here: <https://defirate.com/zrx/>

The token can be used on many protocols with a few different use cases.

Score: 6

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: Yes, the team is well known and have worked in the space for a very long time. In addition the backers of the project are some of the biggest names in Crypto investing.

[From this link](#)

- Will Warren, Co-Founder & Co-CEO - Before founding 0x Labs, Will was studying in an engineering PhD program
- Amir Bandeali, Co-Founder & Co-CEO - Before founding 0x Labs, Amir was a trader with DRW Trading
- Director of Operations (open position), who will be responsible for managing day-to-day operations at 0x Labs

- **Rui Zhang, Senior Legal Counsel - Before joining 0x Labs, Rui founded her own blockchain startup in the energy space and was a Senior Legal Counsel at CITIC, a global multinational financial conglomerate**

Score: 13

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

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

Answer: Yes. This highly skilled team were some of the first builders in the DeFi space. Their long lasting work speaks for itself. The 0x protocol is extremely technical in nature, and has only had one hard fork due to security issues discovered in the v3 rollout.

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 core team is not as vocal as in the past, but they are looked to as OG's in the DeFi space. The team has been on the forefront of decentralization, order book matching, and the growth of the entire space through their open source code and APIs. An example of their influence is how the [Saint Louis Fed](#) cited 0x protocol in an official document.

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: This team has raised over [39 million from over 25 investors](#) which include the top in the space. Now as part of the road map to decentralisation the team has funded a DAO with a \$2 million treasury. The DAO has 12 "bootstrap delegators" to build a minimum viable product with 0x labs being the legal entity overseeing the project. The community is strong and well funded. The DAO is too young to have demonstrated how effective they will

be at coordinating efforts for the protocol.

Score: 7

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 protocol is centralized. This [post mortem of the v2 hardfork](#) outlines how the team is able to react quickly to discover exploits. This is not the plan for the future, as seen by [the governance road map](#). Details about the protocol's control over the multi-sigs were not discovered, but it appears the admin team has full control.

The DAO treasury is different. As seen by the discord chat below, the DAO treasury is controlled by the staking voting system not the multi sigs.



nikita Today at 12:31 AM

the DAO treasury is contract-based and controlled by the staking/voting system, not a multisig

all bootstrap delegates have delegated voting power but they are not multisig signers (edited)

the contract for the treasury can be seen at the treasury address

the two multisig wallets are associated with OxEVE, which essentially functions as a grant program

one wallet has only zrx and the other one has zrx and matic

for a treasury vote to pass, it requires a minimum of 10m zrx votes with a simple majority in the affirmative

Score: 10

b) Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer: In reality the newly minted DAO holds a limited role in governance. The highly technical nature of the 0x protocol means that very few outside developers strongly participate in its programming thus far. The voting is only on what to do with the DAO treasury and the team has had three on [chain votes as of December 2021](#).

All upgrades to the 0x protocol are managed by ZRX holders, as a vote needs to be passed for [each soft fork version](#). The DAO decides on protocol upgrades and administers independent funds (to sustain the protocol development and or other initiatives). 0x Labs is just *another* ZRX holder participating in the governance. Governance has some influence on operations.

Score: 7

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: There are 331 members on the Snapshot voting portal. With over 100 voting on [average for many propositions](#). In a binding on chain (requires gas) vote to fund the DAO treasury over [25 wallets voted](#).

When you stake you give 50% of your voting rights to the maker of the pool. This aligns the self interest of the Makers with the interest of the whole thereby promoting the

ecosystem.



[Source](#)

Score: 2

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:

[Here is an outline](#) of how governance will work. This is made in consultation with Aragon, a leader in the DAO space. Debate and active participation is managed through this [governance forum](#) rather than the Discord channel. Things are well documented but the DAO uses simple tools for their liquid democracy voting model.

Score: 6

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 DAO and the protocol are very separate things. As the DAO is newly minted, the [documentation](#) on what it controls is limited.

More important at this time is governance of the protocol by ZEIP's. Documentation on the 0x protocol itself is robust and very technical. Governance is extremely important as the overall protocol is only upgraded through governance votes. As the system is modular,

changes are able to be made as a soft fork without liquidity providers moving funds to the new version.

Governance and voting FAQ:

<https://blog.0xproject.com/0x-protocol-governance-voting-walkthrough-and-faq-3becfd57a370>

Governance overview:

<https://blog.0xproject.com/governance-in-0x-protocol-86779ae5809e>

ZEIPS are how changes to the protocol are voted on:

<https://blog.0xproject.com/0x-roadmap-part-1-zeips-d5cb8458584e>

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: Yes. The protocol is a non profit organisation incorporated in the USA under the official name ZeroEx, Intl. The team has been operating in the US since 2016 without regulatory issues. [Details here at CrunchBase.](#)

Additionally, their website is an [excellent legal resource](#). Which demonstrates their commitment to working legally. [Rui Zhang](#) is their Senior Legal Counsel.

Score: 15

b) What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer: 0x is a non profit based in San Francisco, CA USA. The legal jurisdiction is strong.

Score:10

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	13 / 15
b) Market fit/demand	14 / 15
c) Target Market Size	8/ 10
d) Competitiveness within market sector(s)	8 / 10
e) Integrations & Partnerships	14/ 15
Total Points - Value Proposition	56/ 65
2. Tokenomics	Points
a) Is the token sufficiently distributed?	14 / 15
b) What is the extent of the token's capabilities?	4 / 10
c) Is the issuance model able to improve the coordination of the protocol?	4 / 10
d) Is the value capture model able to accrue and distribute value?	4/ 10
e) Is the token sufficiently liquid to enable active use and trade?	4 / 5
f) Are there any extrinsic productivity use cases?	6/ 10
Total Points - Tokenomics	36 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	13/ 15
b) Does the team have relevant experience?	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?	7 / 10
Total Points - Team	33 / 40
4. Governance	Points
a) Admin Keys	10 / 20
b) Extent of Governance capabilities	7 / 15
c) Active Governance contributors	2 / 5
d) Governance infrastructure	6 /10
e) Robustness of Governance process	7 / 10
Total Points - Governance	32 / 60

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

About the Author: SicarioNonce - Larping all the time.