**Protocol:** Index Cooperative (INDEX)
**Version:** 1
**Previous Report: [Initiating coverage Prime Rating Season 1]**

**Date:** 20 October 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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# Note to readers

Index Cooperative (referred to as Index Coop or Coop in this report) is a Decentralized Autonomous Organization (DAO) offering several investment products to the retail and institutional market. The scope of our due-diligence here is on the Index Cooperative and token specific sections make reference to their native governance token INDEX. While their products are referenced in certain parts of this report, our focus has been on evaluating the broader Index Cooperative.

# 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.
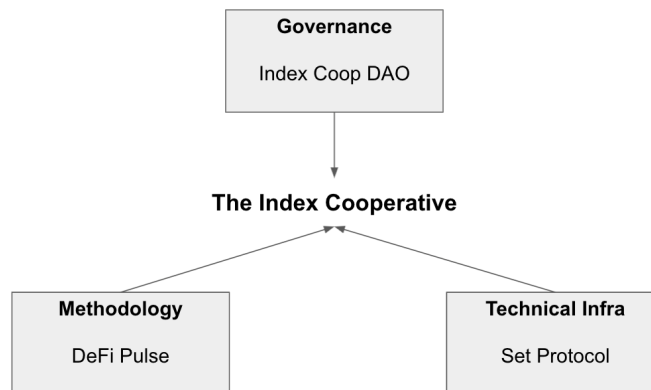
## a) Novelty of the solution (15 points)

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 Index Cooperative is an asset management protocol built on Ethereum that launches and maintains crypto-linked index vehicles for retail and institutional investors. While the protocol is referred to as Index Cooperative, it is in reality a sum of three distinct components under the hood: (i) The Index Coop Decentralized Autonomous Organization (DAO) which governs, maintains and grows the protocol; (ii) The technical infrastructure built on Set protocol's V2 infrastructure (which is a hard-fork of Uniswap & Compound with minimal changes) which provides index creation and rebalancing backbone; and (iii) The index building methodology and dataset from DeFi Pulse (for the DeFi Pulse index) which provides the investment expertise to the protocol. This tripartite relationship can be visualized below in Illustration A to show initial relationship between governance, technical infrastructure and methodologists.

**Illustration A (Source: Sant + mm3729 analysis)**

```
                    ┌─────────────────┐
                    │   Governance    │
                    │                 │
                    │  Index Coop DAO │
                    └─────────────────┘
                             │
                             ▼
                   The Index Cooperative
                          ↗    ↖
         ┌─────────────────┐    ┌─────────────────┐
         │   Methodology   │    │  Technical Infra│
         │                 │    │                 │
         │    DeFi Pulse   │    │   Set Protocol  │
         └─────────────────┘    └─────────────────┘
```

While Index Cooperative uses an existing crypto protocol built on Set, showing a lack of technical innovation on the protocol front (minus 2 points in our scoring), it has brought together three distinct parts of the crypto universe into a unique solution making crypto index-vehicle investing possible for retail and institutional clients. This modular way of capturing and delivering value is the important innovation by Index Coop. We believe such modular product creation can spark other areas of experimentation and innovation in the space.

Next, just as Blackrock Index funds provide investors with a share of their underlying assets, Index Cooperative's index vehicles provide investors with a share of the underlying DeFi assets. The advantage for investors, similar to TradFi indices, is diversification across DeFi themes at a lower cost than if they were to do so themselves. Given current high ETH gas prices, the automated monthly rebalancing by Index Cooperative is a significant advantage, especially at fees of 0.95% per annum (current streaming rate for unlevered index vehicles). Index Cooperative also provides on-chain ETF products that would be difficult for investors to manually replicate with the ETH-2x or BTC-2x products which give 2x ETH/BTC exposure versus the investor managing a margin long position.

Finally, in a unique value proposition from TradFi, Index Cooperative allows permissionless access to the governance of their index vehicles through the INDEX token (native token of Index Cooperative

DAO). This brings much greater transparency to decisions around rebalancing, new index launches, etc. versus TradFi where such decisions occur behind closed doors in a centralized setting.

There are other index providers that are outlined in Illustration G, however the DeFi Pulse Index from Index Coop was one of the earliest (2nd) and so evidently well structured that it remains the dominant leader in this product category.

For all the above reasons, we assign Index Cooperative a novelty score of 13.

**Score: 13/15**

Source: Index Cooperative Introduction Call, Index Cooperative Community [Handbook](#), Index Cooperative [Governance Forum](#)

# 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:** Since launching in October 2020, Index Cooperative has drawn in 25.9k unique users (as measured by ERC-20 addresses) with a Total Value Locked (TVL) of US$ 391MM. Most of this has come from their flagship index fund, DPI, at 16k unique users and TVL of US$ 201MM. In April 2021, four new funds launched--ETH2x, BTC2x, MVI and BED. These can be seen accelerating both the user acquisition and TVL for Index Cooperative. See Illustration B and C.

Index Cooperative has taken a clear market leader position as measured by AUM in the crypto-linked index vehicle market, managing a value of 61.9k ETH (vs. 3.6k ETH by Indexed Finance, it's closest competitor). We anticipate this market growing rapidly in the next 2-3 years (see Section 1c in this report) and score Index Cooperative highly for establishing this early and distinct market leader position.

Next, we also see the Index Cooperative leveraged products--ETH2x and BTC2x--providing a unique value proposition in the market at the tokenised index vehicle route for investors. ETH2x in particular can be seen providing a healthy boost in new users and TVL to Index Cooperative (see Illustration B and C). We score the protocol highly for innovating at the product level to meet this user requirement and to launch it to market.

Finally, in terms of market timing, we see Index Cooperative entering the space early. Regulations for institutional investments in crypto are presently unclear worldwide, and there is some regulatory risk that early investors would be taking on by locking value into Index Cooperative's vehicles. This could explain why a majority of TVL growth in the fund has so far has come from retail investors. On the other hand, an early entry provides Index Cooperative with the opportunity to establish product/market fit, build out an institutional sales team (currently main focus of the team as per their DAO introductory call), collect data with existing investors, and setup strategic moats around their

business. The index investing route also provides investors with diversification around regulatory risks of single projects. For these reasons, we see an early entry to the space as a strategic advantage and in favour of future growth.

**Illustration B: Index Cooperative Unique Address Exposure (Source: Dune Analytics, Oct 10 2021)**
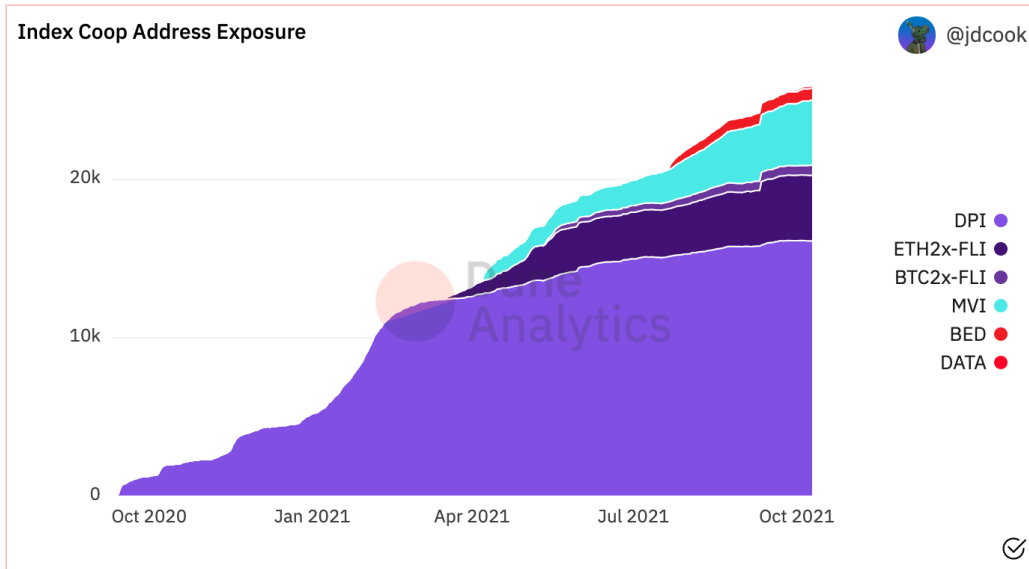


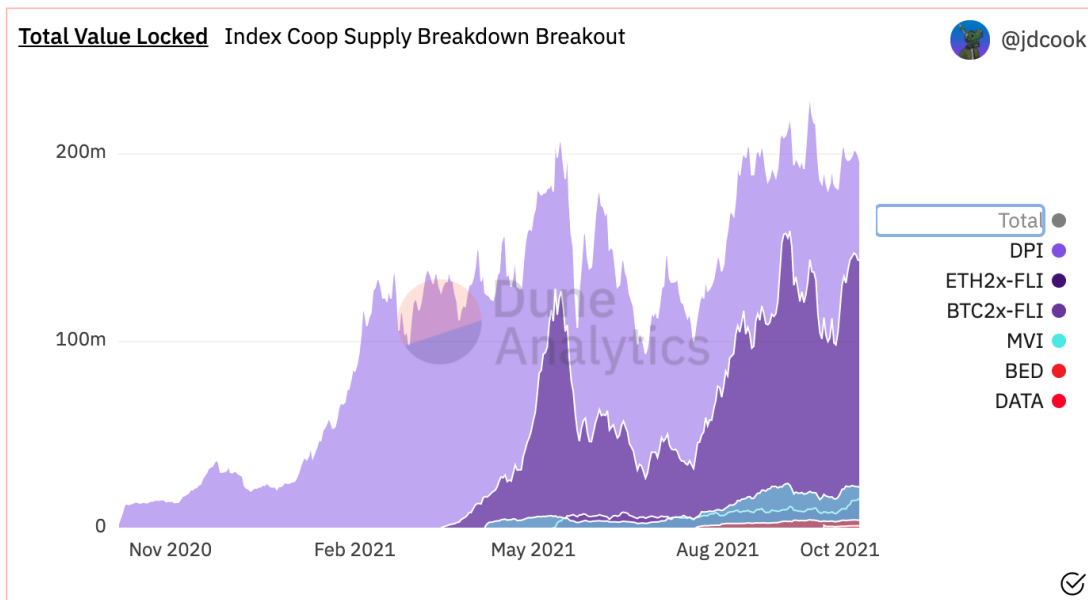**Illustration C: Index Cooperative TVL in US$ (Source: Dune Analytics, Oct 10 2021)**

**Illustration D: Products by target market (Source: Index Coop)**

| | Investor Products | Trader Products |
|---|---|---|
| Products | Market weighted indices, smart beta, equal weighted indices, bond ETPs | Leverage / inverse tokens, volatility indices, structured products |
| Users | Retail Investors; DAOs; Institutions | Traders |
| Holding Length | > 3 months | < 3 months |
| Primary Growth Metric | Total Value Locked ("TVL"), user retention, unique holders | Exchange Volume |
| Secondary Growth Metric | Exchange Volume | TVL |
| Predominant Fee Model | Streaming Fees, Intrinsic Productivity | Creation / Redemption Volume, Streaming Fees |

**Score: 15/15**

Source: Dune Analytics, Index Coop KPI dashboard, Index Cooperative Introductory Call

# 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:**

Index tracking mutual funds currently hold USD8.8 trillion in assets. As of 13 October 2021, Index Coop currently has just over USD380 million in assets amongst its different crypto index products.

**Illustration E: Net assets for global ETFs (Source: Morningstar)**



**Trillions**
ETFs world-wide hit more than $9 trillion in assets last month.

Total net assets for global ETFs, annually
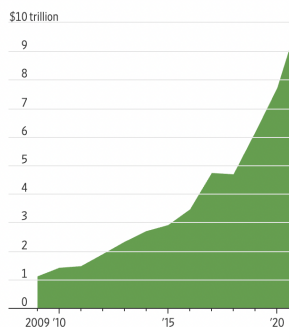
Note: Data for 2021 through July
Source: Morningstar

The growth of traditional index investing in recent years has been staggering (see Illustration E), as investors understand that passive investing on the whole outperforms active investing. Because active investing is generally more expensive (you need to pay research analysts and portfolio managers, as well as additional costs due to more frequent trading), many active managers fail to beat the index after accounting for expenses—consequently, passive investing has often outperformed active because of its lower fees.

By looking at the relative comparison below, one can easily identify that there is an enormous opportunity for indices in cryptocurrency markets. INDEX Coop is in a great position as market leader to capitalize on this opportunity. As the first mover with high profile partnerships and meaningful liquidity, they are still the preferred choice for both investors and traders. The proportion of TVL in DeFi indices is less than 1% compared to the 18% of value in traditional market indices as per Illustration F, indicating large market potential for INDEX products.

**Illustration F: Proportion of TVL in DeFi indices vs global stock markets (Source: Index Coop)**
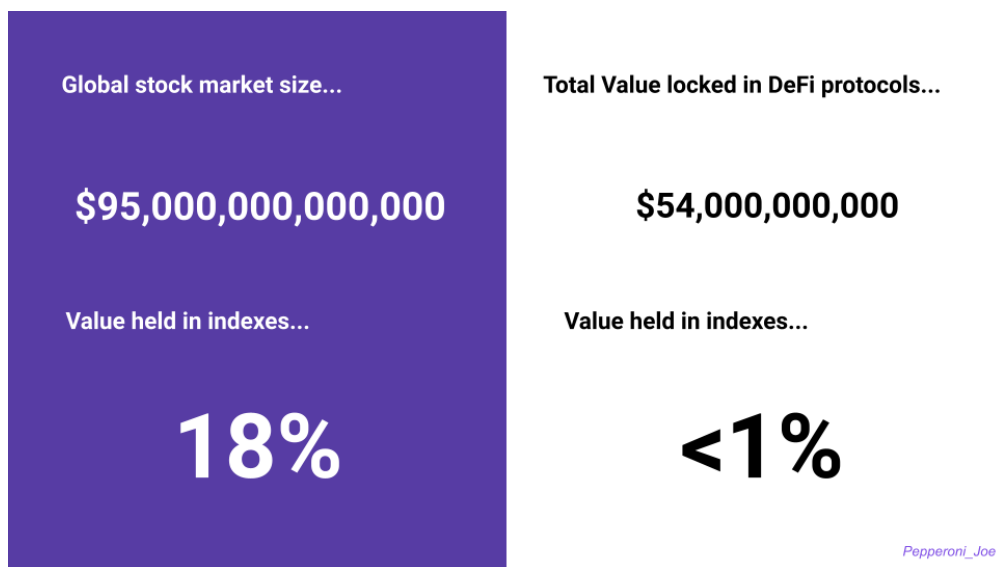


As the crypto market matures, it too requires easy to use products that serve as benchmarks and entry points into crypto. Reputable, sustainable and trusted index products will be a key feature of cryptocurrency investing in future and be an important part of portfolios going forward. Index Coop has a clear plan to provide this.

The sheer size of this potential opportunity coupled with their market leading position gives them a full score.

**Score: 10/10**

Source: Morgan Stanley, Index Coop, Morningstar

# 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:**

The key competitors to INDEX Coop as an index provider for ethereum assets are listed below in Illustration G.

**Illustration G: Leading decentralised index providers (Source: DeFi Llama, company websites)**

| Name | Description | Total # products | TVL (USDm) |
|------|-------------|------------------|------------|
| INDEX Coop | Index Coop is a Decentralized and Autonomous Asset Manager governed, maintained, and upgraded by INDEX token holders. It provides market leading index and leverage products for cryptocurrency markets. | 6 | 415.5 |
| Indexed | Indexed Finance describes itself as a project focused on the development of passive portfolio management strategies for the Ethereum network | 5 | 15.2 |
| PowerPool | PowerPool is a DAO manager of non-custodial structured investments offering a family of thematic pooled Ethereum tokens. | 6 | 21.7 |
| PieDAO | PieDAO is an Ethereum based asset management platform and a decentralized autonomous organization (DAO) for governing tokenized portfolio allocations. DOUGH is the token that governs the platform. The DAO is focused on tokenizing asset allocations called PIEs where weights are collectively governed by DAO members | 5 | 14.4 |
| Amun | Amun simplifies crypto investing by offering 2 indices to investors at low fees. Amun's Index tokens are composed of the top eight DeFi tokens in the Ethereum ecosystem by market capitalization for (DFI) and on price momentum for (DMX). The index's components are equally weighted and rebalanced monthly. Holders own fractions of the underlying tokens, which can be redeemed by burning the index token. | 2 | 0.6 |
| Synthetix | Synthetix is an Ethereum-based protocol for the issuance of synthetic assets. They are a leader in providing liquidity for various derivative products across crypto and forex. They offer one index product that tracks DeFi called sDEFI which has a small | 14 | 1870 |

| | | | |
|---|---|---|---|
| | market cap of USD4m, limited trading volume and low liquidity. | | |
| BasketDAO | BasketDAO is creating an ecosystem of financial products around DeFi indices. It has 2 key products which are the BasketDAO DeFi Index (BDI) and the Basket DAO Money Market Index (BMI). BMI is particularly interesting as it is an **index of interest-bearing USD stablecoin exposure**, initially made up of yVault tokens from Yearn. | 2 | 7.4 |

**Illustration H: AUM for IndexCoop and selected competitors over time (Source: Dune Analytics)**
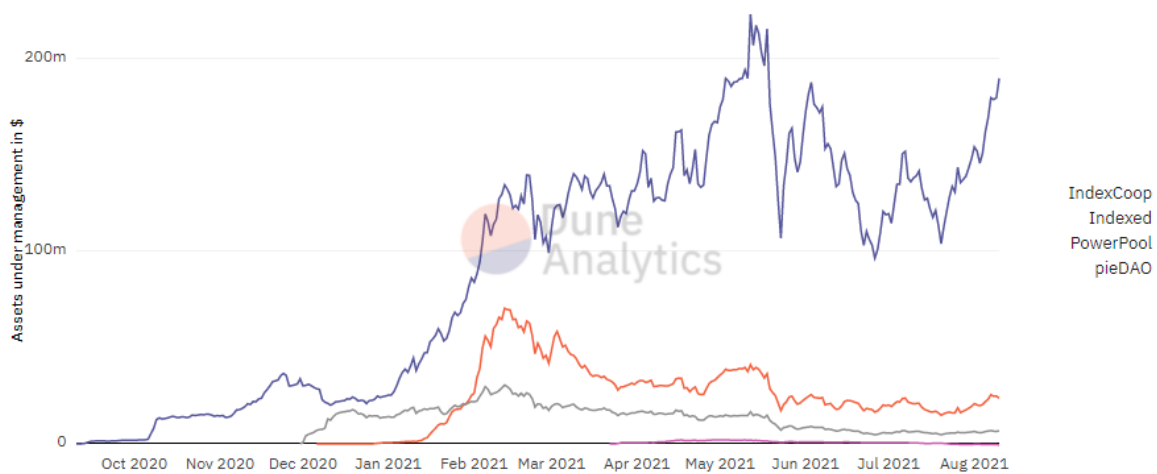


The Defi Pulse Index (DPI) is the flagship product from Index Coop and currency has approximately USD192m in TVL. We put together Illustration I to better depict DPI's market leading position in the DeFi index space.

The DeFI Pulse index is a market capitalization-weighted index that tracks leading Decentralised Finance (DeFi) protocols across the entire market. The methodologist for the Index is DeFi Pulse.

Also, other factors are decisive in the selection and weighting of individual cryptocurrencies. Among other things, weighting is based on the following criteria:

- Descriptive characteristics of the token
- The token's supply
- Traction of the project
- Security of the token

**Illustration I: Comparison of leading DeFi indices (Source: Coingecko)**

| Name | Ticker | Provider | Market Cap (USDm) | 24 hr trading vol (USD) | Inception | Number Holdings |
|---|---|---|---|---|---|---|
| **Defi Pulse Index** | DPI | Index Coop | 192.6 | 1,357,057 | 14 Sep 2020 | 10 |
| **Defi Index Token** | DFI | Amun | 0.3 | 1,184 | 1 Jul 2021 | 8 |
| **DEFI TOP 5 TOKENS INDEX** | DEFI5 | Indexed | 12.8 | 127,574 | 18 Jan 2021 | 5 |
| **sDEFI** | sDEFI | Synthetix | 4.0 | 89,226 | 15 July 2020 | 12 |
| **PieDAO DEFI Large Cap** | DEFI+L | PieDAO | 2.8 | 12,363 | 8 Oct 2020 | 7 |

Index Coop's DFI is the clear market leader in the defi index space, based on market capitalization and trading volume - key indicators for an investable index.

**Illustration J: Index products by trading volume vs AUM (Source: Index Coop)**
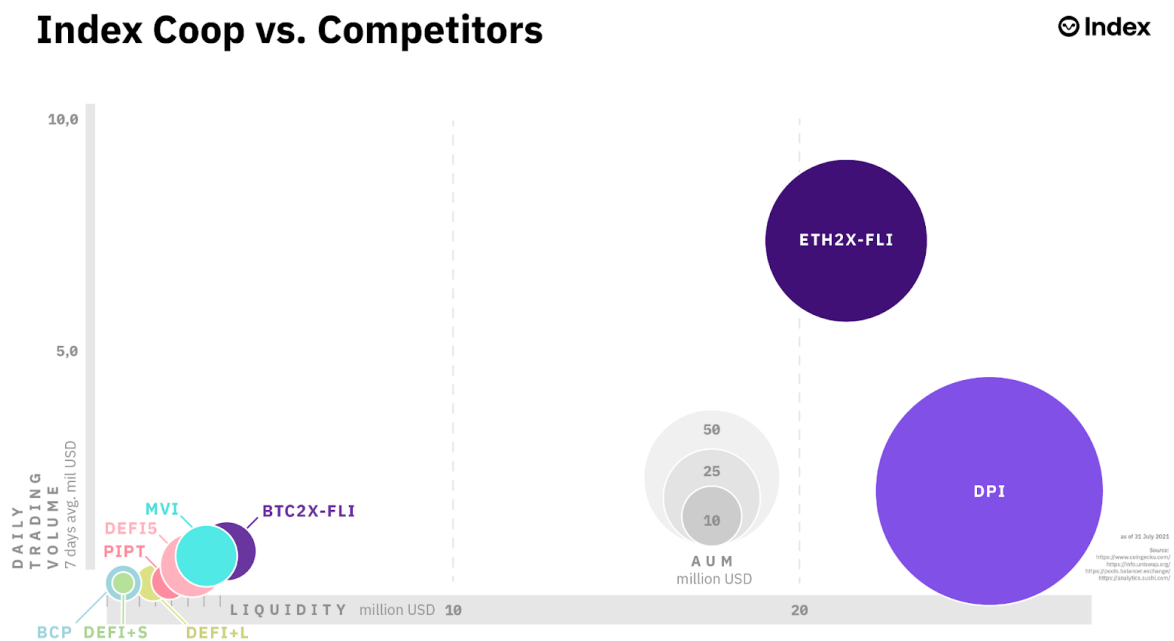


Full score for having market leading positions and strong inertia to grow.

**Score: 10/10**

Source: Coingecko, DeFi Prime, Messari, PowerPool, DeFi Llama

# 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 2 primary partners of the INDEX Coop DAO are Defi Pulse (methodologists on the flagship index - DPI) and Set Labs, who provide the infrastructure that underpins the indices creation, maintenance and rebalancing. These early stage partnerships and incentive alignment are reflected in the token vesting distribution.

Going forward, Index Coop has outlined a partnerships strategy that aims to grow their AUM to an eventual USD10 billion over time. This is focused on the following 3 key pillars, from their docs:

*Three segments will drive our AUM growth; DeFi Partnerships, Wallet Partnerships, and Exchange Listings. Each partnership further entrenches us as a leading player in the space and exposes even more investors to blue-chip DeFi returns.*

1. *DeFi Partnerships: Interoperability and composability drive ERC-20 protocol growth. Strong partnerships create novel opportunities for investors to earn from their $DPI holdings while exposing new investors to our asset. Interactions with the EVM drive DeFi token ownership. Tokens that offer a compelling way to interact with DeFi will prosper, while tokens with limited use cases will falter.*
   *Our Business Development team will focus on developing these partnerships. We will exhibit a bias for collaboration and establish lasting productive relationships with the leading DeFi protocols.*
2. *Wallet Partnerships: The primary way that DeFi users interact with the EVM is through their wallets. Ensuring that $DPI is prominently featured and easily accessible on leading wallets brings more users to $DPI and expands our AUM. Users check their wallets daily. These daily check-ins create an excellent opportunity to place the $DPI token front and center in their minds.*
3. *Exchange Partnerships: Significant technological, cultural, and legacy obstacles currently exist that keep even technologically savvy individuals from fully migrating to DeFi. As long as those obstacles exist ( and they will continue to exist even with the advent of multiple sophisticated L2 AMMs) we need fiat exchange exposure.*

To date they have effectively established partnerships and integrations with the following:

Yield pools:

- Alpha Homora
- Moonswap

- Sushiswap

Wallets:

- Zerion
- Argent
- Rainbow
- Dharma

Lend and borrow:

- Cream Finance
- SushiSwap
- Rari
- Aave

Exchanges (currently only decentralized which could be limiting their liquidity):

- Uniswap
- 1Inch
- Sushiswap
- Balancer

Price and analytics:

- Dune Analytics
- DeFi Pulse
- Coingecko
- CoinmarketCap

Other:

- Methodologists:DeFi Pulse,  Bankless
- Call and put options: Opyn
- Smart contract cover: Nexus Mutual

The products would ideally be listed on centralized exchanges too, providing an avenue to be accessed directly with fiat. This would drive liquidity and currently limits adoption. In addition, to make them irreplaceable, they could be referenced as the benchmark for active portfolios to beat.

**Score: 12/15**

Sources: [Index Coop Partnerships Strategy](#)

# 2. Tokeneconomics

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

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

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

**Answer:**

The Index Cooperative (INDEX) token is the native governance token of the Index Cooperative. Holders of the INDEX token can participate, propose, and vote on changes to the Cooperative's smart contract, indices, treasury and more. It aims to facilitate community driven ownership and governance, promoting the long-term growth and sustainability of the organization.

**On-chain metrics...**

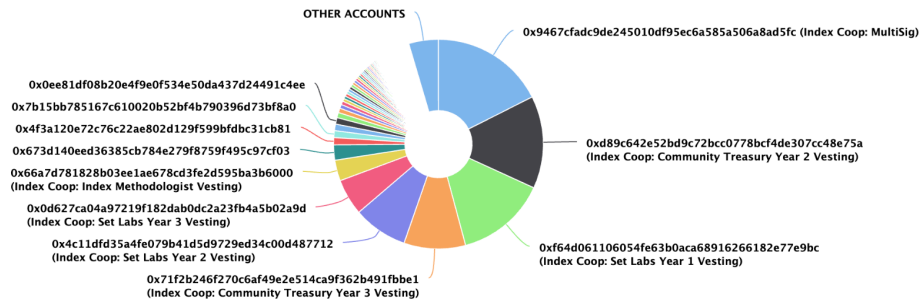**Illustration K: Number of active INDEX addresses (Source: Glassnode)**

**Illustration L: Current concentration of holders (Source: Coingecko)**

The top 100 holders collectively own 95.42% (9,542,036.70 Tokens) of Index | Token Total Supply: 10,000,000.00 Token | Total Token Holders: 4,184

Index Top 100 Token Holders
Source: Etherscan.io



OTHER ACCOUNTS

0x0ee81df08b20e4f9e0f534e50da437d24491c4ee
0x7b15bb785167c610020b52bf4b790396d73bf8a0
0x4f3a120e72c76c22ae802d129f599bfdbc31cb81
0x673d140eed36385cb784e279f8759f495c97cf03
0x66a7d781828b03ee1ae678cd3fe2d595ba3b6000
(Index Coop: Index Methodologist Vesting)
0x0d627ca04a97219f182dab0dc2a23fb4a5b02a9d
(Index Coop: Set Labs Year 3 Vesting)
0x4c11dfd35a4fe079b41d5d9729ed34c00d487712
(Index Coop: Set Labs Year 2 Vesting)
0x71f2b246f270c6af49e2e514ca9f362b491fbbe1
(Index Coop: Community Treasury Year 3 Vesting)

0x9467cfadc9de245010df95ec6a585a506a8ad5fc (Index Coop: MultiSig)

0xd89c642e52bd9c72bcc0778bcf4de307cc48e75a
(Index Coop: Community Treasury Year 2 Vesting)

0xf64d061106054fe63b0aca68916266182e77e9bc
(Index Coop: Set Labs Year 1 Vesting)

(A total of 9,542,036.70 tokens held by the top 100 accounts from the total supply of 10,000,000.00 token)

**Illustration M: Breakdown of top 10 current holders of INDEX (Source: Coingecko)**

| Rank | Address | Quantity | Percentage | Value |
|------|---------|----------|------------|-------|
| 1 | Index Coop: MultiSig | 1,758,658.508506398331360271 | 17.5866% | $60,805,923.97 |
| 2 | Index Coop: Community Treasury Year 2 Vesting | 1,425,000 | 14.2500% | $49,269,622.97 |
| 3 | Index Coop: Set Labs Year 1 Vesting | 1,399,994.36199898528665652 | 13.9999% | $48,405,048.69 |
| 4 | Index Coop: Community Treasury Year 3 Vesting | 950,000 | 9.5000% | $32,846,415.32 |
| 5 | Index Coop: Set Labs Year 2 Vesting | 840,000 | 8.4000% | $29,043,146.17 |
| 6 | Index Coop: Set Labs Year 3 Vesting | 560,000 | 5.6000% | $19,362,097.45 |
| 7 | Index Coop: Index Methodologist Vesting | 320,500.803755144032921814 | 3.2050% | $11,081,371.06 |
| 8 | 0x673d140eed36385cb784e279f8759f495c97cf03 | 235,499.87 | 2.3550% | $8,142,448.99 |
| 9 | 0x4f3a120e72c76c22ae802d129f599bfdbc31cb81 | 110,783.337889102768375234 | 1.1078% | $3,830,353.19 |
| 10 | 0x7b15bb785167c610020b52bf4b790396d73bf8a0 | 107,188 | 1.0719% | $3,706,043.75 |

**State of INDEX Token distribution as of August 26th, 2021:**

There were 10MM tokens created at genesis:

- ~8MM (80%) of them are locked up in vesting contracts, known non-voting contracts, and the Index Treasury, and are not participating in governance
- ~2MM (20%) are out of vesting contracts, circulating, and able to vote.

Of the 2MM circulating INDEX:

- ~400k (~20%) are held in VC/OTC wallets & vesting contracts
- ~50k (~2.5%) are held in liquidity pools, which can still be used for voting
- ~40k (~2%) are held by contributor accounts. A total of 74k INDEX has been handed out to contributors as compensation, so if we assume that contributors didn't sell any INDEX and

are holding all that 74k INDEX in privacy accounts, that would mean contributors have 3.7% of circulating INDEX.
- ~1.5MM (~75%) are held by other wallets we don't recognize, including but not limited to:
  - Whales farming INDEX using DPI
  - OTC trades of INDEX by DefiPulse and Set
  - True believers in the mission who just bought INDEX at market
  - Privacy wallets
  - Everyone else

**Illustration N: Key token indicators (Source: Coingecko)**

Rank #506

🦉 **Index Cooperative (INDEX)**

**$34.57** **2.9%**

0.00059961 BTC -1.3%↓
0.00924764 ETH -4.3%↓

⭐ 4,612 people like this

| $33.40 | 24H Range | $37.14 | | |
|---|---|---|---|---|
| Market Cap ⓘ | | $76,139,165 | Circulating Supply ⓘ | 2,181,385 ⓘ |
| 24 Hour Trading Vol ⓘ | | $160,413 | Total Supply ⓘ | 10,000,000 |
| Fully Diluted Valuation ⓘ | | $349,040,442 | Max Supply ⓘ | 10,000,000 |
| Total Value Locked (TVL) ⓘ | | $410,305,703 | | |
| Fully Diluted Valuation / TVL Ratio ⓘ | | 0.85 | | |
| Market Cap / TVL Ratio ⓘ | | 0.19 | | |

The relatively low circulating supply (only 21.8%) compared to fully diluted could put downward pressure on the price however this could be offset with the transparent vesting schedule. In addition, the high concentration of INDEX tokens being owned by Set (28% over full vesting) could raise governance concerns. The team is aware that due to faster than expected growth of the community, a reevaluation of the token distribution should be considered. As a DAO that aims to have decentralized governance through a well distributed governance token, there is still a very high concentration of a few parties and this needs to be rectified. And therefore receives a score of 8.

**Score: 8/15**

**Source: Etherscan, Coingecko, Glassnode, Index Coop docs**

## 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 that also participates in the metagovernance of the underlying constituents.

The common methods to acquire INDEX tokens are:

1. Purchasing them from an exchange
2. Participating in Index Cooperative's liquidity mining program
3. Contributing to the DAO
4. Participate in impression mining (marketing the Coop on social media and garnering impressions)

Holders of the INDEX token can participate, propose, and vote on changes to the Cooperative's smart contract, indices and treasury. It facilitates community driven ownership and governance, promoting the long-term growth and sustainability of the organization.

Currently INDEX derives value by being a governance token used for voting on improvement protocols for the Index Coop (IIPs), deciding how the treasury is spent, and for meta-governance proposals relating to underlying tokens held in $DPI (and future index products).

These are relatively limited use cases given that other governance tokens can be staked and / or earn revenues generated from their products' success. A longer comparison on mature DeFi governance tokens can be found here. Given the relative limitations, we give a score of 6.

**Score: 6/10**

**Source: Multi.io Medium**

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

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

**Answer:**

The distribution model has a 3 year vesting period and aims to properly incentivise the right stakeholders to act in good faith for the DAO. The allocation of 28% of the tokens to Set is a cause for concern. If we use the analogy that INDEX Coop aims to be the 'Blackrock' of crypto, it needs a prime broker, which is Set. Set have been emphatic that they will not create products that compete with Index's - they aim to be the software that serves developed strategies. However even as a prime brokerage providing a service, having almost 30% of the voting rights can be seen as a risk. It is imperative for the COOP to do a deeper analysis on the relationship with Set and their token allocation.

**Illustration O: Index token release schedule (Source: Index Coop)**



**INDEX Token 3 Year Release Schedule**
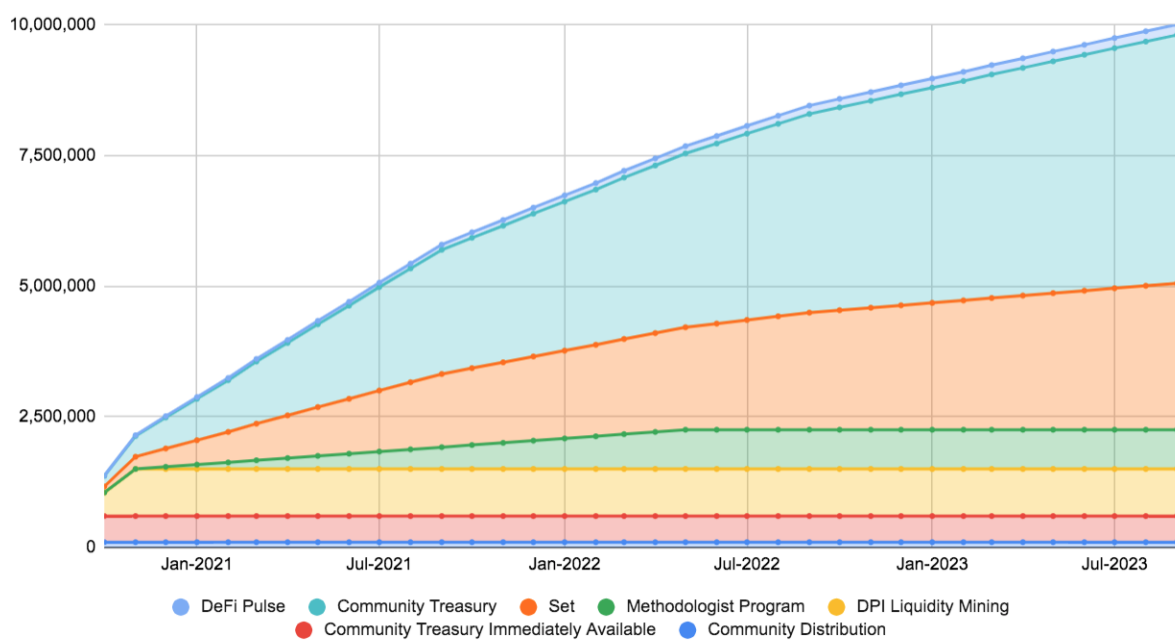
Break down of the token distribution:
- 1% allocated to the historical airdrop for DPI holders
- 7.5% allocated to the Index Methodologist program over a period of 18 months (starting 60 days after launch)
- 9% allocated to the 60 day liquidity mining program
- 52.5% community treasury (with 5% available immediately and 47.5% vested over 3 years)
- 28% allocated to Set Labs Inc
- 2% allocated to DeFi Pulse

2 goals outlined for the Index Coop through the INDEX governance token

1. Increase Assets Under Vault (AUV)
2. Widely distribute the INDEX token

And the COOP understands that there are three major groups of stakeholders that currently make up the community:

1. Set team
2. Methodologists (currently primarily DeFi Pulse with [Index Coop Product WG](#) looking to expand this)
3. Index Coop core contributors and token holders

To date, the following flywheel has enabled them to maintain orderly governance and achieve continued growth. Illustration P is a flywheel of how token usage and distribution can be used to increase the value. A more detailed explanation of how the flywheel works piece-by-piece can be found [here](#)

**Illustration P: Index treasury and token flywheel**
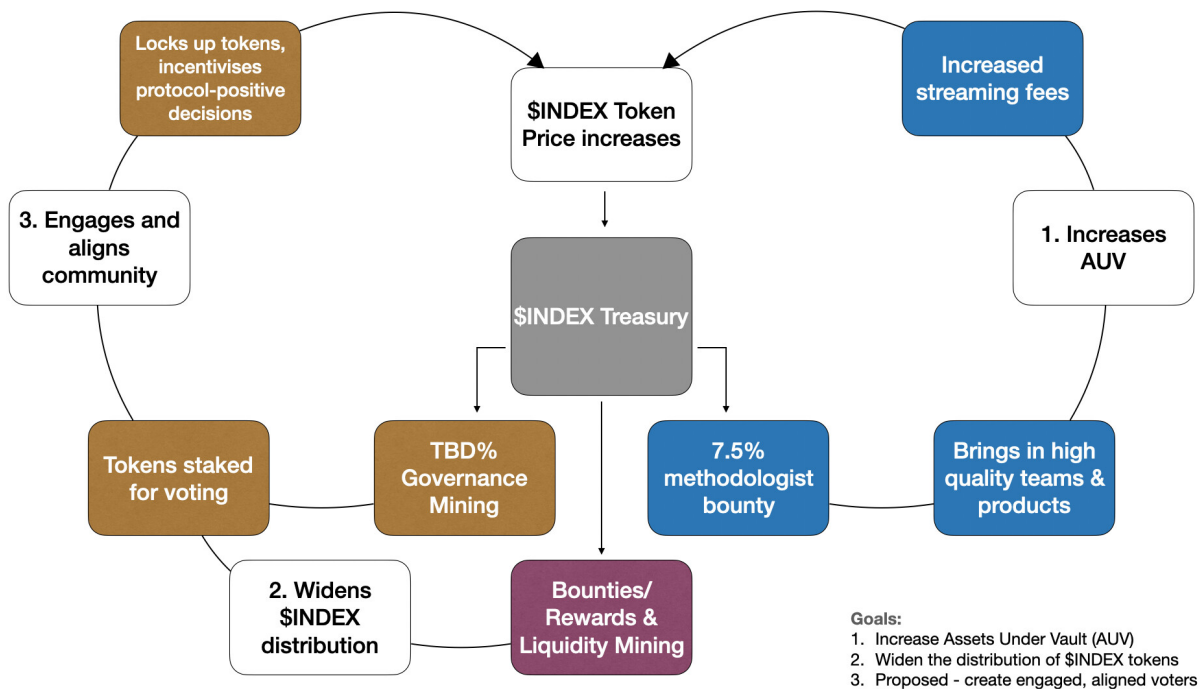


The DAO has put thought into the issuance and distribution model in an attempt to incentivise the right people. DAO's are operating pioneering models that adjust over time. Some that may be good in theory, can be susceptible to corruption in practice. Some interesting possible governance attack vectors are outlined [here](#). Counterarguments to these attack vectors can be made; including the idea that the token itself could quickly lose value due to lack of buyers and liquidity. These potential risks are highlighted by experienced members of COOP and have been taken into consideration (signs of a healthy, critical community).

Contributor rewards are currently decided by working groups and not smart contracts. Although pros and cons of each can be debated, this is an area which could be improved by automation when they are able to allocate the right resources for determination.

The distribution model has a clear plan to incentivize key participants, however we feel that the concentration of Set having 28% is something that needs further evaluation. Therefore gets a rating of 6.

# 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 Index Cooperative generates income from charging streaming fees, which are set off against various expenses, the biggest of which is liquidity mining and therefore running at a 'loss'. More financial detail for 3Q 2021 can be found here. Net proceeds are stored in the treasury which is governed by Index token holders. Ultimately the Index token holders determine the spend of the treasury.

The streaming fee details for various products are as follows, from here

- DPI streaming fee is 0.95%. This is split 70/30 between the Index Coop and DeFi Pulse. The total streaming fee has been shown within Revenue within the income statement, and the DeFi Pulse share is shown as a cost.
- ETH2xFLI and BTC2xFLI, the Flexible Leverage Index series, each have a streaming fee of 1.95% (195 basis points). The revenue generated from the streaming fee is split 60/40 between the Index Coop and DeFi Pulse respectively. Similar to DPI income, revenue has been shown in totality, with the DeFi Pulse portion shown as a cost.
- MVI streaming fee is 0.95%

Referring to Illustration P above, the Index token flywheel, there is a plan to accrue value through the token distribution. And the increase in value over time is testament to the fact that this appears to be working. However since there are currently no rewards / returns currently accruing directly to Index token holders, they are only awarded 6 points. Even a nominal fee accrual may have a significant difference especially as the index products grow, the DAO scales and a limited supply of Index tokens is maintained.

**Score: 6/10**

# 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 token is traded regularly on all major decentralized exchanges. However trading volume is relatively low compared to other governance tokens and it is not listed on centralized exchanges. A change to both these areas could significantly improve trading opportunities and metrics. Therefore it gets a score of 2.

**Illustration Q: Markets for INDEX token (Source: Coingecko 18 October 2021)**

| # | Exchange | Pair | Price | Spread | +2% Depth | -2% Depth | 24h Volume | Volume % | Last Traded | Trust Score |
|---|----------|------|-------|--------|-----------|-----------|------------|----------|-------------|-------------|
| * | eToroX Sponsored | | | | | | | | | × |
| * | Crypto.com Sponsored | | | | | | | | | × |
| 1 | Sushiswap | INDEX/WETH Info | $30.04 | 0.6% | $20,790 | $20,727 | $80,828 | 91.88% | Recently | ● |
| 2 | Uniswap (v2) | INDEX/WETH Info | $30.76 | 0.6% | $11,066 | $11,032 | $7,142 | 8.12% | Recently | ● |
| 3 | Hoo.com | INDEX/USDT | $29.95 | 0.01% | $208 | $2 | $7,189 | 8.17% | Recently | ● |
| 4 | Balancer (v1) | INDEX/ETH Info | $31.77 | 0.6% | $11,558 | $11,523 | $22,242 | - | **22 hours ago | ● |
| 5 | Loopring AMM | INDEX/ETH | $35.40 | - | - | - | $440 | - | **7 days ago | - |

**Illustration R: Markets for INDEX token (Source: CoinMarketCap on 18 October 2021)**

| #▲ | Source | Pairs | Price | +2% Depth | -2% Depth | Volume | Volume % | Confidence | Liquidity | Updated |
|----|--------|-------|-------|-----------|-----------|--------|----------|------------|-----------|---------|
| 1 | Uniswap (V2) | INDEX/WETH | $30.67 | - | - | $7,121 | 2.70% | High | - | Recently |
| 2 | Sushiswap | INDEX/WETH | $29.90 | - | - | $80,457 | 30.45% | N/A | - | Recently |
| 3 | Uniswap (V3) | INDEX/WETH | $30.17 | - | - | $48,969 | 18.53% | N/A | - | Recently |
| 4 | Hotbit | INDEX/USDT | $31.64 | - | - | $40,688 | 15.40% | Low | 1 | Recently |
| 5 | Hotbit | INDEX/ETH | $31.50 | - | - | $40,071 | 15.17% | N/A | - | Recently |
| 6 | Hotbit | INDEX/BTC | $30.78 | - | - | $40,009 | 15.14% | N/A | - | Recently |
| 7 | Hoo | INDEX/USDT | $29.95 | $106.71 | - | $6,915 | 2.62% | High | 25 | Recently |
| 8 | Balancer | INDEX/WETH | $30.78 | - | - | ** $21,547 | 0.00% | High | - | 8 hours ago |
| 9 | 1inch Exchange | INDEX/ETH | $34.12 | - | - | ** $101,155 | 0.00% | High | - | 58 hours ago |

**Score: 2/5**

**Source: [Coinmarketcap](#), [Coingecko](#)**

# 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 INDEX token is primarily used for governance and metagovernance. There are currently no extrinsic productivity use cases for the INDEX governance token itself and there gets a score of 0.

*As an aside, it is worth noting that the DPI token can be used in the following applications:*

- *Liquidity provision (LP) — Becoming a market maker by providing DPI and ETH liquidity for trading activity*
- *Yield farming — Staking your LP position in a platform to earn an additional yield*
- *Borrowing and Lending — Providing lending collateral for borrowing demand*
- *Collateral Debt Position (CDP) — Taking a loan against your crypto asset on Aave and Compound*

**Score: 0/10**

**Source: [INDEX Coop Medium](#)**

# 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:** In theory, Index Cooperation is supposed to be organized and run entirely as a DAO. In reality, though, Set Labs + DeFi Pulse can be seen playing a behind the scenes role in kick-starting the DAO community and building up the flywheel towards eventual decentralization. An example of this is the hiring of Greg Docter, the DAO community manager for Index Cooperative, by Set Labs. According to his [LinkedIn](#) profile, Greg is the key person to manage the DAO community and to coalesce Set Labs' agenda to the community. Apart from Greg, there are 6 other Set Labs members and 2 DeFi Pulse members part of the DAO.

The Set Labs team is public and consists of Felix Feng (CEO, Co-Founder), Inje Yeo (CPO, Co-Founder), Abhishek Punia (Ops & Strategy) and Anthony Sassano (Marketing manager/Advisor) in key roles. The team appears credible having worked in the technology space before, mostly in the Silicon Valley area. From the public profile, Set Labs is the first entrepreneurial venture for Felix Feng. On the DeFi Pulse side, the team consists of Etienne Royole (CEO) and Nassim Ghorayeb (Partnerships Head), both of whom have relevant background experience.

On the Index Cooperative DAO itself, there are more than 50 core contributors with public or semi-anon status. These members can be seen actively driving the DAO's governance, community matters and growth.

We award 12/15 points to Index Cooperative for team. While they have a vision to govern as a DAO, we see enough influence at the moment from Set Labs to make them more centralized, showing a gap vs. plan (at point in time when this report is published)

Source: Index Cooperative Discord channel, LinkedIn, Crunchbase

**Score: 12/15**

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

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

**Answer:** Both the Set Labs and DeFi Pulse leadership teams have public track records on LinkedIn. There is enough evidence to showcase backgrounds in tech, product, partnerships, marketing and entrepreneurship. Especially for DeFi Pulse, there is a strong track record by Etienne and Nassim. Our minus points in this section are for (i) Set Labs CEO Felix Feng who has a background in investment banking but lacks any previous entrepreneurship or leadership role; (ii) No prior experience in the DLT space for the Set Labs leadership team (Felix and Inje). While these are not red flags, they raise questions on the ability to execute on the growth vision for the company in this space.

Within the Index Cooperative DAO, given the semi-anon presence of the core contributors, it is challenging to determine how relevant the experience is for the team. At the moment though, one year post launch, Set Labs is playing a major role in steering the DAO, and we are therefore giving less weightage to the experience within the DAO. This will surely become more relevant as the community matures and takes off on its own in the near future.

Source: Index Cooperative Discord channel, LinkedIn, Crunchbase

**Score: 6/10**

# c) Does the team participate and help shape the public debate? (5 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

**Answer:** All Set Labs and DeFi Pulse team members identified above are public and active on Twitter. They can be seen mostly promoting their organizations/products vs. the larger industry. There is some participation by them all in various discussions (e.g. Felix attending Mainnet 2021 in NYC) in the industry. We could not find evidence in the public domain of any participation in public debates or industry shaping conferences by the team.

Greg Docter, the DAO community manager, engages heavily with local regulators (calls to local Senators, supporting crypto friendly regulations, etc.) as evidenced from his Twitter communications. This is our main rationale to assign 2 points to Index Cooperative on this rating. They get an extra

point for thoughts and opinions that they raise on their [Medium](#) and [YouTube](#) channels, which do well to raise awareness of their products and its use cases in the industry.

Source: Index Cooperative Discord channel, [LinkedIn](#), Twitter

**Score: 3/5**

# d) Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when needed?

**Answer:** As mentioned previously, the DAO component has so far been managed actively by Set Labs' leadership and staff. That said, there is a clear uptrend in the new employees being added (see Illustration T) especially in the areas of business development and engineering. The DAO also raised US$ 7.7MM in funding in Q2-2021 in a funding round led by Galaxy Digital and 1kx with the goal of hiring more in-house staff and expanding their outreach. This, along with the hiring trend we are seeing now, is a positive sign for Index Cooperative. Our only negative point here was on the co-ordination of resources which is so far still being led by Set Labs and is a bit cumbersome on the DAO. Because of the positive uptrends we are seeing in hiring and the monetary resources available, we deduct a point for this. From conversations with the team, a clearer retention strategy needs to be implemented to retain talent over time and another point is deducted for this.

**Illustration S: Employee Growth (Source: Apollo)**



**Score: 8/10**

# 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:** Admin keys are managed by Set Labs with a 2 out of 3 multisig hardware wallet setup. Though this is far from an ideal, decentralized setting, Set Labs wrote on [their blog ](#)(date: 05-2020) that this arrangement helps them maintain some level of control that is needed in the early days of setting up the DAO. There were no plans identified when admin keys would be decentralized or implemented in a time-delay function that reduces admin key risk. Recent requests by us to both Set Labs and Index Cooperative (on Discord) for more up-to-date information were not answered.

We assign Index Cooperative 6/20 points in this section. We could have considered a higher score if multiple stakeholders (DeFiPulse, community members, etc.) were involved in the holding and operation of the admin keys.

**Score: 6/20**

**Source:** Set Labs [blog](#), [DYOR Wiki](#)

## 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:** Nearly all decisions of the Index Cooperative, from index rebalancing to strategic changes can be seen actively discussed and voted on the governance [forum](#). Further, the INDEX token allows holders to participate in the meta-governance of underlying protocols held by Index Cooperative (e.g. AAVE is a token held by the DPI index-vehicle). These too are discussed in the forum and there is a

well-articulated, written [process](#) on how to make new proposals, vote on them and implement passed proposals.

[Implementation wording](#) from the docs says that passed votes will go to multisig:

*In the early stages of Index Coop, approved IIPs will be executed via multisig where necessary. Otherwise, implementation of the IIP will vary on a case-by-case basis.*

And from [Index Medium](#), there is no on-chain voting yet, just [vote signalling from Snapshot](#):

*For now, the multi-sig will implement changes that reach both voter quorum and minimum threshold (which will eventually be moved to on-chain token voting)*

3 points deducted for not having on-chain voting yet

**Score: 12/15**

# 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:** Voters are seen actively posting new proposals and debating them. We award Index Cooperative full-points for community participation and engagement. Our concern here, which is a **red-flag**, is the presence of one influential voter in almost all Index Protocol votings. Our research using Snapshot and passed Index Cooperative proposals shows that this one voter commands 40-50% of the voting power in all votes. See example [here](#). It can be seen how voter with public wallet ID ending -0857 holding 187.9k INDEX tokens, 54% of the total INDEX tokens participating in the voting, holds complete control of the outcome of the vote. We therefore give only 2 points here.

**Score: 2/5**

Source: Snapshot, Index Cooperative [Governance forum](#)

# 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:** Index Cooperative has a well documented governance process. Through a combination of

Discord + Forum (for sentiment checking), Snapshot voting and community discussion, Index Cooperative moves forward on its decision making. There is robust documentation outlining past votes, open proposals and comments/discussion points being made by the community. We therefore award full points here.

**Score: 10/10**

Source: Index Cooperative Governance [Gitbook](#), Discord, Snapshot, Past Governance [Gitbook](#)

# 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 described above in Section 4b and 4d, Index Cooperative has a clear and robust governance process that can be seen working in practice. Our concern here, as expressed in 4c, is how the presence of a large, influential voter with concentrated power affects the ethos of strong, decentralized governance. We award 8/10 points for this section on balance.

**Score: 8/10**

# 5. Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

# a) Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

**Answer:**

The protocol is not connected to any legal jurisdiction and hence has no legal accountability. They understand that this is an aspect that they need to potentially change. In July 2021, the Wyoming State Bill 38 took effect, which provides a legal framework to register DAO LLCs - more information [here](#).

We have mentioned before and worth reiterating here that there is a strong mutual relationship between Set and Index. Set's largest structured products by AUM (Assets Under Management) have been built using the Set Protocol, including the DeFi Pulse Index ($DPI) and ETH 2x Flexible Leverage Index.

It is also worth noting that Set Labs is registered in San Francisco, USA. With their influence over Index Coop, there may be some legal recourse however we would argue that this would be difficult to prove in a court of law that has no understanding or precedent of on chain agreements in smart contracts. Theoretically, there also cannot be a legally binding contractual relationship with a juristic entity that doesn't exist.

Our view is that Set, as an entity or its employees, may be held accountable in a situation of gross misconduct or bad action, however this may be challenging to prove. And the probability is likely very low, especially since Set and Index share a symbiotic relationship. Here INDEX receives a score of 0, in light of no action taken on their part to register and hold any legal entity.

**Score: 0/15**

# 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:**

It is not registered anywhere and gets a score of 0

**Score: 0/10**

## Scorecard

| 1. Value Proposition | Points |
|---|---|
| a) Novelty of the solution | 13 / 15 |
| b) Market fit/demand | 15 / 15 |
| c) Target Market Size | 10 / 10 |
| d) Competitiveness within market sector(s) | 10 / 10 |
| e) Integrations & Partnerships | 12 / 15 |
| **Total Points - Value Proposition** | **60 / 65** |
| **2. Tokeneconomics** | **Points** |
| a) Is the token sufficiently distributed? | 8 / 15 |
| b) What is the extent of the token's capabilities? | 6 / 10 |
| c) Is the issuance model able to improve the coordination of the protocol? | 6 / 10 |
| d) Is the value capture model able to accrue and distribute value? | 6 / 10 |
| e) Is the token sufficiently liquid to enable active use and trade? | 2 / 5 |
| f) Are there any extrinsic productivity use cases? | 0 / 10 |
| **Total Points - Tokenomics** | **28 / 60** |
| **3. Team** | **Points** |
| a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public) | 12 / 15 |
| b) Does the team have relevant experience? | 6 / 10 |
| c) Does the team participate and help shape the public debate? | 3 / 5 |
| d) Is the team able to effectively attract and coordinate resources? | 8 / 10 |
| **Total Points - Team** | **29 / 40** |
| **4. Governance** | **Points** |
| a) Admin Keys | 6 / 20 |
| b) Extent of Governance capabilities | 12 / 15 |
| c) Active Governance contributors | 2 / 5 |
| d) Governance infrastructure | 10 /10 |
| e) Robustness of Governance process | 8 / 10 |
| **Total Points - Governance** | **38 / 60** |

| 5. Regulatory - Santosh | Points |
|---|---|
| a) Does the protocol have any legal accountability? | 0 / 15 |
| b) What is the quality of the legal jurisdiction? | 0 / 10 |
| **Total Points - Regulatory** | 0 / 25 |
| **Total** | **155 / 250** |

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Mayank works as a personal coach for people wanting to find greater personal freedom and to transition out of the 9 to 5 life. He is a former JPMorgan hedge funds due-diligence analyst and writer for the Wall Street Journal India. Mayank has 10+ years experience as an entrepreneur and Web 2.0 product builder for companies such as Amazon and Get Your Guide. When not hiking in the woods, he can be found slow-travelling, writing and spending time with family. Learn more and get in touch on his LinkedIn profile.

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