

2.0 Fundamental

Prime Rating Report V2.0

Protocol: [Convex Finance](#)

Version: v1

Previous Report: None

Date:

Author: 🤪 a Rating Pepe

Instructions

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

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

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

1. Value Proposition

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

a) Novelty of the solution (15 points)

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

Answer: Convex is another yield protocol. "[Convex allows Curve.fi liquidity providers to earn trading fees and claim boosted CRV without locking CRV themselves. Liquidity providers can receive boosted CRV and liquidity mining rewards with minimal effort. Convex has no withdrawal fees and minimal performance fees which is used to pay for gas and distributed to CVX stakers.](#)" This last part has made it attractive compared to its main competitor and also main collaborator, yEarn. It has introduced some tweaks, added its own token inflation for more rewards, but builds on top of other project's their technology.

Score: 5

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: Convex has gained users at a quick pace. From this [thread](#) (1-6-2021):

"Owning \$cvxCRV is so damn juicy that 18.2m \$CRV have been irreversibly locked up in just 2 weeks. For comparison, Yearn has locked up 17.3m \$CRV after ~1 year. Convex crushed Yearn's moat in 2 weeks. It now owns more \$veCRV than Yearn."

As it stands now (5-7-2021), it holds \$4.18b in its contracts. It is clear that there is demand for their lower fee vaults. It is hard to say how much of this yield would stick around when CVX incentives dry up. It is easy to think of another protocol launching, with even lower fees and fresh liquidity mining incentives, taking away the shine of Convex.

Score: 10

c) Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer: The market of yield maximizing has proven to be big during this DeFi period of liquidity mining. Even without these incentives it is to be expected that protocols like these will exist to facilitate users with an easy portal to get yield without having to deal with harvesting and re-investing. With DeFi taking over traditional investing and savings products, the growth of this market will not stop soon.

Score: 10

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

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

Answer: As mentioned above, it is hard to say how much of this yield would stick around when CVX incentives dry up. Its fees are still lower than yEarn's, so it will probably hold some ground. But it is easy to think of another protocol launching, with even lower fees and fresh liquidity mining incentives, taking away the shine of Convex. Besides this, there are already plenty of alternative yield chasing options out there. For now, Convex sits pretty on top, for how long, is to be seen.

Score: 6

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/partnerships without much purpose).

Answer: The super interesting part of the Convex story is that yEarn is both its biggest competitor and biggest partner. [From Bankless](#) (17-6-2021):

"A considerable portion of Convex's TVL comes from [Yearn](#), as 33 of Yearn's Curve LP vaults are utilizing strategies that involve depositing capital into Convex. In fact, Yearn is currently earning over 20% of the total CVX rewards that have been paid out."

The nature of this collaboration is purely financial. If Convex's strategies and incentives become minimal, yEarn will drop them in a heartbeat (and vice-versa). BadgerDAO also makes use of Convex, and has shown [signs](#) of friendly collaboration. Convex has a [working relationship](#) with Elipse Finance, regarding their airdrop to CRV holders. All together, its partnership network is not very impressive and probably would not hold up if yields would go down.

Score: 7

2. Tokenomics

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

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

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

Answer: From the [docs](#) (6-2021):

1. *Max Supply: 100 million*
2. *50% Curve LP rewards Rewarded pro-rata for CRV received on Convex*
3. *25% Liquidity mining Distributed over 4 years. (Incentive programs, currently CVX/ETH and cvxCRV/CRV)*
4. *9.7% Treasury Vested over 1 year. Used for future incentives or other community driven activities*
5. *1% veCRV holders Instantly claimable [airdrop](#)*
6. *1% veCRV holders who vote to [whitelist](#) Convex Instantly claimable airdrop*
7. *3.3% Investors Vested over 1 year. 100% of investment funds used to pre-seed boost and locked forever(no cvxCRV minted).*
8. *10% Convex Team Vested over 1 year*

Convex has done a clever move with aligning itself so closely to CRV holders. Even going as far as airdropping CVX to veCRV holders who vote to whitelist Convex on Curve (which [passed](#)). With 10% to the team and 75% to rewards related to using the protocol, it has a distribution heavily skewed to yield farming. Which, considering what the protocol is all about, is quite fitting. Who better to govern a yield chasing protocol, than yield chasers? This has resulted in [2559 token address holders](#). A magnitude lower than YFI ([37907 holders](#)). But Convex is also a lot younger. The top 8 addresses holding CVX are all smart contracts. Having close to 10% in a treasury which can be voted upon is not a lot, but is still a nice proportion. The project could have done more to incentivize developers and other participants of the future Convex DAO.

Score: 8

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: Let's be real. The CVX token is mainly used to attract users with its 4 year inflation schedule of liquidity mining incentives. Governance is [promised](#), without roadmap dates. Staker receive platform fees (**CRV**), **CVX**, and **veCRV** rewards(**3Crv**). There is no strong utility to the token, but it does give revenue sharing and one day governance rights. These governance rights are voting on things 'such as gauge weights'. Which also does not sound like a wide scope.

Score: 7

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: Most of the issuance goes to stakers and LPs. Stakers do not have any risks associated with staking. Besides a potential supply crunch, there is no added value to granting this many tokens to them. Liquidity mining has 25%, which is considered necessary in today's DeFi world. If the protocol had more of a community based mindset with real DAO ambitions, it would have done well with a bigger treasury, dev mining and other ways of rewarding different participants. It is very likely that when incentives are done, there will not be a community left.

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: Yes. Stakers [earn protocol fees](#). No fees go towards the treasury, so in the long term, development might have to live off of donations or outside investment.

Score: 4

e) Is the token sufficiently liquid to enable active use and trade? (10 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer: CVX has a market cap of [33,398,838](#) with a \$3,580,763 daily trading volume. It is mainly traded on SushiSwap (99%) and 0x [according](#) to CMC. A quick search shows Uniswap and 1inch also have pairs. CVCRV has [more trading](#) and a higher market cap. But in general this is a weird situation. It means that the protocol holds multitudes higher TVL than its own token is worth. You would almost be happy the stakers do not secure anything, since if they would, vaults would be very vulnerable. With marketcap well below even 100M and trading at a couple M, CVX is not a widely liquid token.

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: CVX is being farmed by yEarn and BadgerDAO through their strategies. Outside of this, there are no clear usages of CVX. It is not a known collateral or big in demand token for yield farming schemes.

Score: 3

3. Team

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

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

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

Answer: The team is pseudonymous, has no team page on the website but are clearly indicated within their Discord. There is no clear indication who the investors in Convex are either.

Score: 2

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: Since there is so little knowledge on the team's background, it scores super low. The reason it still gets 1 point is due to it securing billions of TVL without any known exploits or bugs so far.

Score: 1

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: Perhaps the team does, but as a general researcher and follower of the space, I have yet to come across them in debates.

Score: 1

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

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

Answer: The token distribution [mentions](#):

3.3% Investors Vested over 1 year. 100% of investment funds used to pre-seed boost and locked forever(no cvxCRV minted).

This indicates that there has been investment prior to launching. How much this is or by whom it has been is not easy to be found. Not on the website, nor after searching. Due to the unclarity, the low level of development needed (project is running and was basically a fork), it scores halfway.

Score: 5

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: Their docs describe what the admin multisig is [allowed](#) to do. It states that it can upgrade gauge types, the pool manager, can control the arbitrator vault, can change fees, can set treasury address, can vote, can shut down/pause new deposits (while allowing users to withdraw all funds) and says it "does NOT have access to user funds in any way". It does not mention anything about a timelock, or who the multisig holders are.

Score: 5

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: As of today, there is no governance live in the protocol. There is also no governance channel in discord or a forum live.

Score: 0

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: Team handles all. There is a channel in Discord where users can talk about ideas.

Score: 0

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: As of today, there is no governance live in the protocol. There is also no governance channel in discord or a forum live.

Score: 0

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 protocol has no specified governance process and only hints to 1 possible aspect of future voting (on the gauges).

Score: 0

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: There is no knowledge of the company or team behind the procol.

Score: 0

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: There is no knowledge of the company or team behind the procol.

Score: 0

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	5 / 15
b) Market fit/demand	10 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	6 / 10
e) Integrations & Partnerships	7 / 15
Total Points - Value Proposition	38 / 65
2. Tokenomics	Points
a) Is the token sufficiently distributed?	8 / 15
b) What is the extent of the token's capabilities?	7 / 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?	3 / 10
Total Points - Tokenomics	30 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	2 / 15
b) Does the team have relevant experience?	1 / 10
c) Does the team participate and help shape the public debate?	1 / 5
d) Is the team able to effectively attract and coordinate resources?	5 / 10
Total Points - Team	9 / 40
4. Governance	Points
a) Admin Keys	5 / 20
b) Extent of Governance capabilities	0 / 15
c) Active Governance contributors	0 / 5
d) Robustness of Governance process	0 / 10
e) Governance infrastructure	0 / 10
Total Points - Governance	5 / 60

5. Regulatory	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	82 / 250

Author: 🐸 a Rating Pepe