

2.0 Fundamental

Prime Rating Report V2.0

Protocol: Index Coop

Version: 2

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

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Disclaimer 1: I am a community contributor to the Index Coop. Hence, my answers are obviously biased. However, I did my best to remain critical nonetheless.

Disclaimer 2: When it comes to [Index Coop](#) (IC), the lines between IC and [Set Protocol](#) (aka tokensets) can sometimes be a bit blurred. For this analysis, I'm only focusing on Index Coop with some mentions of Set if appropriate.

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: [Index Coop](#) (IC) is an asset manager building financial primitives on top of [Set protocol](#). In other words, IC uses the infrastructure provided by Set to build their tokensets. The project was founded in late September 2020, by tokensets together with DeFi Pulse (DFP). In that sense, the IC has not introduced any novel technologies.

What is new though, is the organizational structure that IC represents. As the name suggests, the Index Coop is a cooperative, meaning that they rely on external partners (i.e. methodologists and

platform providers) to build their indices. Basically the main efforts of the IC revolves around maintaining existing indices and acquiring partners (i.e. methodologists) for new products as well as product distribution, marketing, BD and product maintenance.

Set Protocol and the first methodologist DeFi Pulse built the first product in September 2020 - the [DeFi Pulse Index](#).

In the meantime, however, several other partners and methodologists, as well as lots of community members have joined the Coop, to support the building and maintenance of crypto indices.

In summary, while not introducing any ground-breaking new technologies, the IC did innovate in terms of organizational structure and they created a few innovative products.

Score: 11

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: To the best of my knowledge, the [DeFi Pulse Index](#) (DPI) was the first index built on Ethereum representing ownership of DeFi blue chips. Since the release of DPI in late September 2020, the product has found good market fit, now being the undisputed [leader](#) and often quoted metric to reflect the well-being of the DeFi ecosystem.

The IC has released a suite of other products, e.g the flexible leverage index for ETH and BTC ([ETH-2x FLI](#) and [BTC-2x FLI](#)). Both tokens provide the user a 2x leveraged exposure to the underlyings, without having to worry about liquidation, plus buying a FLI token is generally more gas-efficient than doing it manually (e.g. on Compound). Both products are the only ones in their category, they are targeted towards traders, and usually have daily trading [volumes](#) in the millions (going as high as \$48M on May 19th, 2021 for ETH-2x FLI).

Another unique product is the [Metaverse Index](#) (MVI), that represents exposure to metaverse tokens such as gaming, NFT, arts, or music projects. This product is still rather small compared to DPI which, in part, is also due to low liquidity levels of the underlyings.

The newest addition is the [BED](#) index together with Bankless. This was just released a week before writing this report, so commenting on its success is not possible yet.

In summary, the protocol has clearly found good market fit for DPI, the same is true for the FLI suite and the MVI is in a good position to become the leader for the metaverse market sector.

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 market for indices in traditional finance is huge. According to [CNN](#) the ETF market is

over \$15 trillion. Passive ETFs had a meteoric [rise](#) in the past decade. The biggest asset managers are companies like Blackrock, Vanguard or Statestreet. They all have trillions assets under management (AuM) and own roughly 88% of the S&P 500.

Even though the crypto index market is still very young, the best products already have over \$100M AuM. And this market is seen by many as a very promising market segment of DeFi.

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 indicated above, some of Index Coop's products are clear market leaders, or the only products in their category.

According to this Dune [dashboard](#), IC is the clear leader in terms of TVL. DeFi Pulse confirms this, where IC is currently ranked #10 under the asset category, with the closest follower being PieDAO on #25. However, this list does not include BasketDAO, which did a vampire attack on the DPI, creating their own yield-bearing version of the index. Mostly due to very high liquidity mining incentives, BasketDAO's DeFi index (BDI) came close to competing with DPI's market cap in early April. However, they lost most of their market share since, and [BDI](#) is currently at a market cap of \$12.7M (in comparison, [DPI's](#) market cap is ~10x higher at \$128M).

Score: 10

e) Integrations & Partnerships (15 points)

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

Answer: As mentioned in the first question, the Index Coop is built around partnerships. So far they partnered with:

- [DeFi Pulse](#) for the creation of the [DPI](#), [ETH-2x FLI](#) and [BTC-2x FLI](#). At least two other products are currently in the pipeline
- [CoinShares](#) for the creation of the CGI (deprecated)
- [Bankless](#) for the creation of the [BED](#) index (Bitcoin, Ethereum and DPI)
- Other partnerships (e.g. with Llama) are currently in discussion phase

Besides these partnerships with methodologists, Index products are available on a few protocols. For instance, on Impermax, Cream, Alpha Finance, and Rari's Fuse.

However, to fully answer the question, so far the Coop has not created a "money lego" that is an irreplaceable part of DeFi (or the wider crypto ecosystem), which others have built upon.

Score: 8

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: The initial token [distribution](#) is displayed below:

- 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

The initial distribution has led to some internal discussion around autonomy and distribution of decision making power. The argument is that the community does a lot of the work, but they are underrepresented when it comes to decision making power (i.e. governance token ownership). The initial distribution is highly skewed towards Set Labs. And the 7.5% methodologist program has not worked out as planned, since basically all of the tokens went (and are going) to DeFi Pulse. Essentially, a large majority of [tokens](#) are currently held (and vested) by two parties, that is DFP and Set.

Moreover, the community share is further diluted, as it is being used for LM incentives. However, except for the community share, other stakeholders such as founders, methodologists, liquidity providers and investors, the token distribution seems to align incentives quite well.

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: The Index token is a governance token. It provides the holder the right to vote on governance and therefore represents decision-making power.

Besides this, the Index token is used to vote on [meta-governance](#) votes. These are votes that take place in the underlying tokens of the DPI. Currently meta-governance is activated for Aave, Uniswap, Compound, Balancer, and Yearn. At the time of writing, DPI [holds](#) ~1.6M UNI tokens, which is ~0.3%

of the circulating supply. For Aave and Compound it's ~0.7% of the circulating supply. The Index token therefore also represents decision-making power over some of the biggest DeFi projects. There is currently no revenue going to token holders.

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: There are two major distribution channels for users: Liquidity incentives and contributions. A large portion (9%) of the initial token supply went to liquidity providers of the DPI/ETH Uniswap pair within the first 60 days. This has supported the initial growth phase and laid out a solid base to grow further. LM rewards are still live for DPI/ETH and MVI/ETH, but the first is now under discussion to be stopped.

In addition, the token can be earned by [contributing](#) to the DAO. While a few contributors have agreed to 2-year contracts with a fixed monthly salary and vested tokens, most community contributors earn tokens by participating in one of the many working groups active in the IC. This has led to a strong pull of talents to the IC community.

Another main distribution channel is the methodologist program, which is set up to distribute 7.5% of all tokens to methodologists within the first 18 months. This program, however, has not worked out as planned. As mentioned before, DeFi Pulse has been the only methodologist since the start (~10 months at the time of writing). CoinShares joined the party as well, however, their CGI was depreciated not long after launch, due to lack of market fit. Since the end of July 2021, Bankless DAO is on-boarded as a methodologist that will participate in the program.

Score: 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: Each of the 5 products has a streaming and/or a minting fee as value capture mechanism. For instance, DPI has a 0.95% yearly fee that gets directly deposited into the Index treasury. Both ETC-2x FLI and BTC-2x FLI have a 1.95% streaming fee plus a 0.1% mint/redeem fee.

This fee model results in daily revenues of 5 to 10k, adding up to a [total revenue](#) of over 940k since launch of the Coop.

This income is held in the IC treasury. There is currently no distribution mechanism to create a dividend-like value distribution to token holders.

Score: 6

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 [Index token](#) is only available on major DEXes such as Uniswap, Sushiswap or Balancer and on one CEX (Bilaxy). The overall liquidity in these pools is just short of \$1M, which is very little compared to major DeFi tokens.

Score: 2

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 cannot be used anywhere in the DeFi ecosystem, except for liquidity-providing on the DEXes (Uni/Sushi/Balancer).

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: Many core-contributors as well as the Set and DeFi Pulse team are public or semi-anon and credible.

The Set team can be seen [here](#). It has to be noted that only three team members are actually highly active in the IC (i.e. Greg, Dylan and Punia).

DeFi Pulse has no official team page, but many of them can be found on Twitter, e.g. [Scott Lewis](#) (the [godfather of TVL](#)) co-founder of DFP (and one of the brains behind the DPI methodology and the FLI

products).

Further, the community attracted many talents. Below is a non-exhaustive list of long-time and core contributors:

- [Overanalyzer](#) (Product Working Group Lead)
- [DarkForestCapital](#) (MVI methodologist and community leader)
- [BigSky](#) (Business Development Working Group Lead)
- [AG/ Verto](#) (MVI methodologist and community leader)
- [Lemonade Alpha](#) (Growth Working Group Lead)
- [JD](#) (Analytics Working Group Lead)
- [Matthew Graham](#) (Treasury Working Group Lead)
- [DevonDeFi](#) (Design Working Group Lead)
- [Peperoni Joe](#) (Community and People Working Group Lead)
- [Fallow8](#) (Institutional Business Lead)
- [Mike Taormina](#) (Institutional Business & Investor Relations)
- [Gavin](#) (Language Ops)
- [MrMadila](#) (Growth)
- [Thomas Hepner](#) (DATA Index Methodologist)
- [Kiba](#) (DATA Index Methodologist and Meta-Governance Committee)
- [Mringz](#) (BD & Partnerships)
- [Regan Bozman](#) (Growth & Investor Relations)
- [Ncitron](#) (Engineering & Meta-Governance Committee)
- [David Silverman](#) (BD & Partnerships & Meta-Governance Committee)
- [0xModene](#) (Engineering)
- [CryptoTexan](#) (Community Engagement/ Partnerships)
- [Mestigoit](#) (Design)
- [DeFi Jesus](#) (Engineering)
- [Cedrick](#) (Meta-Governance Committee)
- [Lavi](#) (Meta-Governance Committee)

The official contributor list has more than 50 people.

Score: 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: Yes, the Set team, DFP and the IC contributors combined represent a melting pot of highly experienced TradFi, DeFi, engineering, marketing, BD and other skill sets required to navigate the IC.

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: Many core-contributors are active Twitter posters, but their Twitter presence is not yet comparable to other DeFi founders and influencers. Some individuals (e.g. [BigSky](#)) have participated in a number of podcasts/interviews or keynotes and panels. Some core-contributors were recently featured in a [Bankless podcast](#).

Score: 2

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

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

Answer: As indicated in the tokenomics section, all IC products have a revenue stream through some sort of fee, creating a constant stream of income to the IC treasury.

Regarding investments, the IC successfully closed a [strategic treasury diversification](#) round, raising \$7.75M from well-known VC's and investors (incl. [1kx](#), [DeFiance Capital](#) and [GalaxyDigital](#)).

This raise was closed only a few weeks after Set also announced a successful [Series A](#) round, raising \$14M.

However, when it comes to coordinating resources internally, the process is sometimes rather cumbersome, since most of the decisions need to be run by (or are decided by) Set, which regularly leads to discussions around autonomy and efficient decision-making.

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 IC is heavily relying on Set, as they are the providing entity of the underlying technology. Furthermore, with Set being the founding team of the Coop, they still hold all the keys to treasury or voting execution. They use a 3-of-5 multisig and have strict security processes in place.

Score: 14

b) Extent of Governance capabilities (15 points)

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

Answer: The Index token holds quite significant decision-making power. Governance votes regularly take place to decide various things, such as:

- on-boarding of new products
- creation and funding of working groups
- employment of full-time contributors
- depreciation of products
- Liquidity mining incentive de-/increase
- Meta-governance
- and other rather technical changes (e.g. supply increase of FLI products)

In summary, all major decisions are done via Snapshot voting. Only minor decisions are done through forum sentiment check.

Most decision-making regarding products is done by the methodologists (except for technical maintenance). In other words, the IC does not decide which tokens to include/exclude from any index. The community only decides whether to accept a new product, and with it the methodology laid out by the respective methodologist.

Score: 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: The IC has a very active community with good participation in most votes. The only votes that regularly miss to reach quorum are on meta-governance (which is why the community established a meta-governance committee to step in and take over the decision-making, if quorum is not reached).

Votes typically have between 60 and 100 participants, with usually above 100k tokens voting. However, it is mainly the community that participates, so far DFP and Set have rarely or never participated in governance votes.

Score: 4

d) Governance technology/infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer: All votes are done via [Snapshot](#). Discussions on proposals take place in the [forum](#) and on [Discord](#). To avoid paying gas and since there are basically no on-chain changes to vote for, there is no on-chain governance infrastructure used.

Score: 8

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: Like most other DeFi/ crypto projects, the Coop also used improvements proposals (IIP) to implement changes. The process for most changes is described step-by-step in the [docs section](#). There is also an [IIP template](#).

However, it has to be noted again, that most positions within the IC that represent some kind of "soft-gatekeeper" are held by the Set team. Even though in theory, the governance process is completely open and permissionless, Set does hold key positions and has strong influence.

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: Index Coop is a DAO and does not have a legal entity.

Score: X

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: No legal jurisdiction

Score: X

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	11 / 15
b) Market fit/demand	14 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	10 / 10
e) Integrations & Partnerships	8 / 15
Total Points - Value Proposition	53 / 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?	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?	3 / 10
Total Points - Tokenomics	32 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	15 / 15
b) Does the team have relevant experience?	9 / 10
c) Does the team participate and help shape the public debate?	2 / 5
d) Is the team able to effectively attract and coordinate resources?	7 / 10
Total Points - Team	33 / 40
4. Governance	Points
a) Admin Keys	14 / 20
b) Extent of Governance capabilities	15 / 15
c) Active Governance contributors	4 / 5
d) Governance infrastructure	7 / 10

e) Robustness of Governance process	8 / 10
Total Points - Governance	48 / 60
5. Regulatory	Points
a) Does the protocol have any legal accountability?	X / 15
b) What is the quality of the legal jurisdiction?	X / 10
Total Points - Regulatory	X / 25
Total	166 / 225

Author: [Lavi](#), I'm a steward/ core contributor to PrimeRating and community contributor to Index Coop. I wrote previous ratings (e.g. Compound, Kyber, Ren Protocol) and performed quality checks on multiple reports from other raters.