

Fundamental

Prime Rating Report V2.0

Protocol: LidoDAO (LDO)

Version: 2.0

Previous Report: n/a

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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.

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: Lido offers a service for staking ETH to the new proof-of-stake beacon chain before the full transition to ETH2.0. Lido tries to solve three issues: (1) ETH needs to be locked until the transition happens (which could take years), (2) ETH locked in staking is illiquid and (3) one can only stake multiples of 32 ETH. LidoDAO solves all these issues by allowing staking/unstaking any time, secondly, in return for staking ETH with Lido the user gets stETH tokens (an ERC-20 representing staked ETH), plus Lido allows for any amount of staking (not only 32 ETH).

According to their blog, once transactions are enabled on the beacon chain, users will be able to redeem stETH for unstaked ether together with accumulated rewards directly.

In the meantime, Lido allocated the staked ETH to node operators via a smart contract, allowing for a smooth staking experience without having to go through all the hassle of actually operating a node.

All this is done in a decentralized manner managed by the LidoDAO.

Besides Ethereum, Lido is also expanding to other PoS blockchain solutions and currently offers their services on Solana as well.

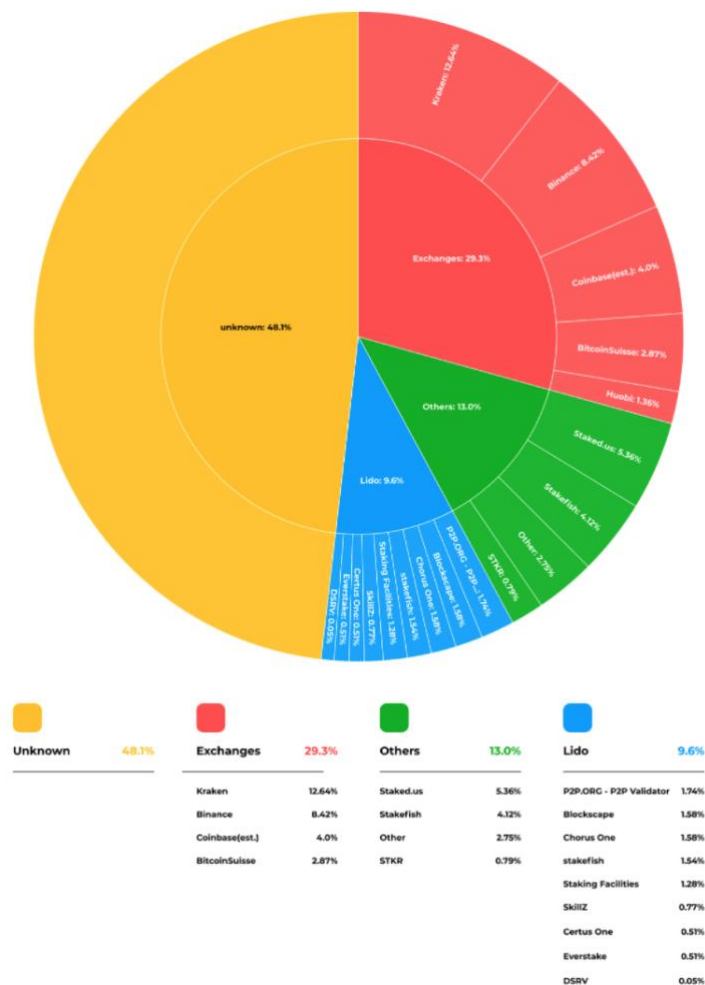
In summary, Lido has introduced quite a few technical innovations and solves a user problem while operated as a DAO.

Score: 14

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: Lido is currently the number one staking service provider on Ethereum for everyone that is not operating its own node. The protocol has clearly found market fit, which is evident in the market cap of stETH at \$6.6B (number 37 on [Coingecko](https://www.coingecko.com/) at the time of writing). The image below depicts the state of Ethereum [staking services](#) of which Lido has an almost 10% market share.



Moreover, there are over 31'500 [holders](#) of stETH and over [1.4M ETH](#) staked on the platform, which represents roughly 1.2% of the overall ETH supply.

Score: 15

c) Target market size? (10 points)

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

Answer: The target market for staking is very difficult to evaluate, as it's always dependent on the success of Proof-of-Stake as a consensus mechanism and currently also on the success of Ethereum as an L1 blockchain solution.

Ethereum is clearly the market leader and therefore the target market size is quite high (ETH market cap at \$545B atow). Additionally, Lido's services can be enabled for other PoS L1 solutions as well, like Solana for instance. However, competition on L1s is fierce and therefore the future success of PoS is hard to predict.

Score: 7

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: Lido is currently the market leader for PoS service solutions on Ethereum. As mentioned above, over 1.4M ETH are staked with Lido, market cap of stETH is over \$6.6B and according to [tokenterminal](#) Lido's TVL is even over \$10.4B, which is one of the highest TVLs in DeFi.

Other staking providers such as StakeHound were exploited and seized [operations](#) and Stakewise is far behind Lido when comparing [TVL](#) (\$172M) or Ethereum staked ([26.4k ETH](#)).

The dominance of Lido is also evidently shown in this [Dune](#) graph, a 87% market share is clearly making Lido the benchmark of this market segment.

Honorable mention: It will be interesting to see if [Rocketpool](#) can shake up the market once they release on mainnet (given that they were the first to tackle decentralized staking).

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: While maybe not completely irreplaceable, Lido is definitely an important part of the DeFi ecosystem, as it enables staked ETH to be liquid and therefore used as collateral, for trading, or other [use cases](#). A few of these use cases exist today, for instance stETH has a liquidity pool on [Curve](#) and

other DEXes. stETH or the LP tokens of stETH/ETH can be used as collateral to lend against, for instance on CREAM.

Moreover, Lido has a rather extensive list of partnership announcements, for instance with [Unslashed](#) for an insurance solution, [Bancor](#) for trading wstETH, [Balancer](#) for liquidity mining, or with [Anchor](#) to expand to the Terra ecosystem to name a few. And the latest integration is a big one, finally Maker allows stETH as [collateral](#) to borrow DAI. Besides partnerships within DeFi, the protocol also has an extensive list of [validators](#) that work with Lido.

Overall, there are many potential integrations of stETH within DeFi and some already exist and Lido has a good amount of relevant partnerships. The only thing missing to award highest points are integrations of stETH on major blue chip lending/borrowing protocols such as Compound or Aave.

Score: 14

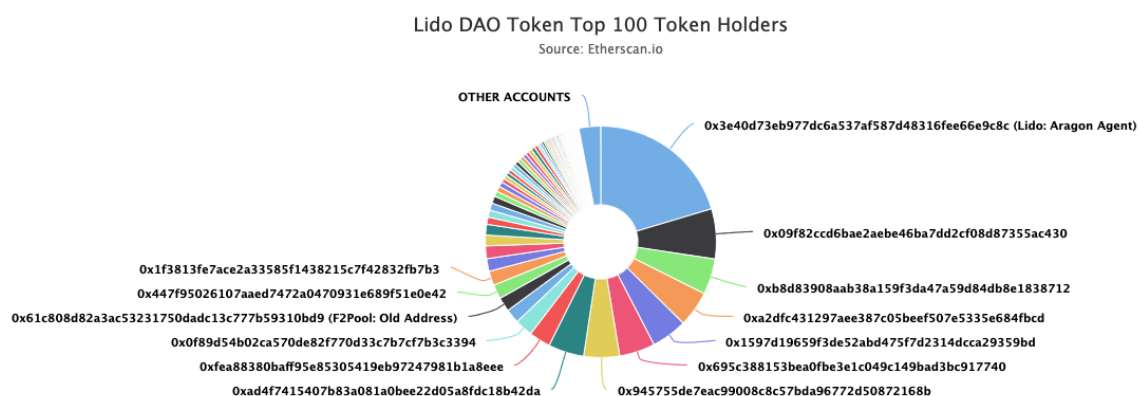
2. Tokenomics

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

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

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

Answer: LDO is the governance token of Lido. At first glance, the token distribution looks fair when looking at the pie chart (see picture below). Plus there are over 10k of holders which is a lot. On the other hand, the top 100 holders control almost 97% of LDO tokens, according to [etherscan](#).



The impression of a rather centralized and exclusive circle of token holders is amplified, as the overall distribution is rather complicated and does not follow a strict schedule. Already the initial allocation

is somewhat skewed towards the team, angel investors and VCs, which can be seen in this introductory [article](#) of the token, where the following genesis distribution was presented:

The allocation of these tokens is as follows:

- DAO treasury - 36.32%
- Investors - 22.18%
- Validators and signature holders - 6.5%
- Initial Lido developers - 20%
- Founders and future employees - 15%

On top of that, Lido conducted 3 strategic treasury diversification rounds, whereby a significant amount of the tokens were sold again to strategic partners and investors. The [first round](#) allocated 10% to Paradigm and other VCs, the [second round](#) allocated 3% to a diverse range of angel investors and VCs, and the [third round](#) was to accommodate 3 angels who missed the second round. In conclusion, with another 13% of the treasury going to angels and VCs, investors and the founders/developers have by far the largest allocation of tokens.

Score: 6

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: LDO is a governance token used for voting. The token has currently no utility or revenue.

Score: 4

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

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

Answer: Lido does not have an emission schedule or a concrete strategy for distributing LDO. Most changes or new use cases for LDO are decided via Snapshot voting. However, most LDO is used to attract liquidity on different platforms. For instance, on Curve when providing stETH/ETH, on [1-inch](#) for LPing to the DAI/stETH pool, or on a similar pool but with [Sushiswap](#).

Besides liquidity incentives, Lido also introduced a referral [reward program](#), whereby referring people to stake their ETH with Lido would result in LDO rewards. This is a rather unique and quite successful program to attract new ETH for staking.

Furthermore, Lido also has a [bug bounty](#) program in place where the rewards can be received in LDO.

Score: 7

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: Lido has a value accrual mechanism, the protocol applies a 10% fee on staking rewards. The fee split is between node operators, the DAO treasury and a coverage fund. There is currently no mechanism or plans to distribute value to token holders.

One could argue that node operators and coverage funds are the more critical participants of the DAO and therefore fee distribution to these stakeholders (and not token holders) is more reasonable, therefore higher points are justified.

Score: 8

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: LDO is available on some DEXes (Uni, Sushi, and 1-inch) with decent liquidity. The token is also listed on a few smaller CEXs. Furthermore, LDO is listed on Coinbase Custody for institutional investors (usually a good first step to get listed on Coinbase).

Score: 3

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: Besides LPing LDO on DEXs, the only known use case is lending to Rari Capital's Fuse, where LDO can be deposited.

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: There is no information about the team on the Lido website. But according to this [article](#), the team is spearheaded by members from [P2P Validator](#) including CTO [Vasiliy Shapovalov](#) and CEO Jordan Fish (aka [CryptoCobain](#)). The latter has resigned from Lido and according to some tweets from July 2021 does not work for Lido anymore.

These two are well known and respected people within the DeFi industry, however, due the lack of information of the entire team, a full score cannot be given.

Score: 10

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: Referring to the answer above, it can be said that the two leading figures have the relevant experience, but nothing is known about the rest of the team.

Score: 7

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

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

Answer: Vasiliy participates in public [key notes](#) from time to time and CryptoCobain is a very well known figure in the space. Given that the latter does not work for Lido anymore and no more info

besides one talk of Vasily could be found, the score will be lowered.

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: As indicated previously, the team conducted several strategic funding rounds and on top had a [Seed round](#) of \$2M in December 2020 and the [round led by Paradigm](#) in May 2021 raising over \$70M and including some well-known VCs.

Score: 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: According to this [bankless article](#) and a Lido [blog post](#), the protocol is not fully trustless and has the keys to the deposited ETH operated by a 5-of-11 multi-sig. The Lido team identified three points where users currently still need to trust the company. These include deposits, withdrawals and becoming a node operator.

Handing over the keys to a DAO and making the protocol fully trustless is planned, but not yet possible due to some technical limitations explained in this [blog post](#). In this scenario, the current set-up seems to be the best alternative.

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: According to an initial [blog post](#), the LidoDAO has a wide variety of responsibilities, including:

- Set fees and other protocol parameters;
- Deploy protocol smart contracts
- Select the threshold signature scheme participants among reputable individuals or organizations willing to provide the service;
- Facilitate the multi-party computation ceremony to create the threshold signature account for staking rewards;
- Assign initial DAO-vetted node operators.
- Approve incentives for parties that contribute towards DAO's goals (e.g., stETH liquidity providers) and more

LDO holders can participate in governance via [Snapshot](#) vote where they can influence a variety of decisions. Other examples include adding new validators, distributing LDO tokens (e.g. to incentivize liquidity), or strategic diversification rounds on-boarding angel investors.

In conclusion it can be said the governance influences many operations and strategic decisions of the protocol.

Score: 13

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is 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: While Snapshot votes with LDO do not attract many voters (only between 17 and 20 in most recent votes), the Lido [forum](#) is a very busy place with many participants, discussion and proposals. This is evident in the high number of posts/threads and in the very high number of views per forum post.

Moreover, Lido has a Discord server with over 9k members, indicating high activity of the community. Last but not least, they were able to attract a good amount of well-known and influential people within the DeFi ecosystem through their second [treasury diversification](#) round.

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: Lido uses [Aragon](#) to govern the LidoDAO (e.g adding node operators, treasury). However, for voting Lido relies on Snapshot as the governance tool. As with most other protocols, Lido also has a [forum](#) for discussions and creating proposals, plus a Telegram chat and a Discord server for the community.

Score: 7

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: In this [forum post](#), Lido clearly defined the governance structure including voting process, roles and responsibilities, as well as tools used. From looking at Lido Aragon and Snapshot, it seems the process is clear and used by the community as well as the founding team.

Score: 8

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: According to their "[privacy notice](#)", [terms of use](#), and [pitchbook](#), the company associated with Lido Finance is called DeFi Ltd and situated in the Cayman Islands. However, as indicated in the terms of use, this company is merely providing the user interface. In any case there is no information available about the DeFi Ltd or how it's legally accountable for Lido Finance.

Score: 6

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: The company is located in the Cayman Islands.

Score: 4

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	14 / 15
b) Market fit/demand	15 / 15
c) Target Market Size	7 / 10
d) Competitiveness within market sector(s)	10 / 10
e) Integrations & Partnerships	14 / 15
Total Points - Value Proposition	60 / 65
2. Tokenomics	Points
a) Is the token sufficiently distributed?	6 / 15
b) What is the extent of the token's capabilities?	4 / 10
c) Is the issuance model able to improve the coordination of the protocol?	7 / 10
d) Is the value capture model able to accrue and distribute value?	8 / 10
e) Is the token sufficiently liquid to enable active use and trade?	3 / 5
f) Are there any extrinsic productivity use cases?	3 / 10
Total Points - Tokenomics	31 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	10 / 15
b) Does the team have relevant experience?	7 / 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?	10 / 10
Total Points - Team	28 / 40
4. Governance	Points
a) Admin Keys	14 / 20
b) Extent of Governance capabilities	13 / 15
c) Active Governance contributors	4 / 5
d) Governance infrastructure	7 / 10

e) Robustness of Governance process	8 / 10
Total Points - Governance	46 / 60
5. Regulatory	Points
a) Does the protocol have any legal accountability?	6 / 15
b) What is the quality of the legal jurisdiction?	4 / 10
Total Points - Regulatory	10 / 25
Total	175 / 250

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