PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: UMA
Version: 1
Date: 11/04/2022
Previous Report: Link to previous report

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Season/competition:

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	12 / 15
b) Market fit/demand	10 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	10 / 10
e) Integrations & Partnerships	9 / 15
Total Points - Value Proposition	**51 / 65**

2. Tokeneconomics	Points
a) Is the token sufficiently distributed?	10 / 15
b) What is the extent of the token's capabilities?	8 / 10
c) Is the issuance model able to improve the coordination of the protocol?	10 / 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?	5 / 10
Total Points - Tokenomics	**44 / 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?	4 / 5
d) Is the team able to effectively attract and coordinate resources?	8 / 10
Total Points - Team	**36 / 40**

4. Governance	Points
a) Admin Keys	**15 / 20**
b) Extent of Governance capabilities	**11 / 15**
c) Active Governance contributors	**2 / 5**
d) Governance infrastructure	**9 /10**
e) Robustness of Governance process	**8 / 10**
Total Points - Governance	**45 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**15 / 15**
b) What is the quality of the legal jurisdiction?	**4 / 10**
Total Points - Regulatory	**19 / 25**
Total	**195 / 250**

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:

UMA is an open-source protocol and decentralized derivative platform that provides infrastructure for the creation, maintenance, and settlement of "priceless" financial contracts on the Ethereum blockchain (EVM). The protocol system consists of three core elements:

- A framework for creating synthetic tokens
- decentralized oracle service which consists of Optimistic Oracle and Data Verification Mechanism (DVM). Optimistic Oracle allows contracts to quickly request and receive price information, while DVM acts as a dispute resolution system for requested disputed proposals and contract liquidations.
- Protocol governance system controlled by UMA token holders who have a responsibility to vote on requested disputes and changes to UMA protocol

The UMA protocol with the mentioned infrastructure enables users (sponsors, developers) to create and deploy priceless financial contracts - ERC-20 synthetic tokens which can track the price of underlying assets and are backed by proper collateral. After a synthetic token is minted, it can be traded freely on exchanges such as Balancer and Uniswap until its expiry date. Holders of that synthetic asset (traders) don't actually hold the underlying asset but only have exposure to it.

To keep the system stable, the protocol provides a liquidation mechanism that allows anyone to liquidate an under-collateralized position and an Optimistic Oracle mechanism (DVM) which protects the mechanism from price manipulation. Optimistic oracle forwards price requests and dispute requests (proposed by one of the counterparties) to the Data Verification Mechanism(DVM). After the DVM receives the dispute request, the UMA token-holders vote on it, and the process is resolved in a maximum of 48 hours. For price request, the requester calls requestPrice() contract, and once request exists, the proposer can reference off-chain price feed as a response to the request. A price request is made only if the requested price identifier is whitelisted by UMA voters. If Disputers do not refute the price submitted by the Proposer within the proposal liveness period, the price is sent to the Requestor. If a proposal is disputed, disputePrice is called and the price will be submitted to UMA's DVM and be resolved after a 48-96 hour voting period (docs).

UMA token-economic system is crucial for protocol security and is structured in 3 step process:

1. Create a system to measure the Cost of Corruption (CoC)
2. Create a system to measure the Profit from Corruption (PfC)
3. Design a mechanism to keep CoC > PfC and prove it will work

Dispute requests are very rare because they represent a "win-lose" game and brings a significant loss to one of the counterparties. On the other hand, other proposals in the UMA voting app vary between 4 and 10 per month.
UMA protocol is currently deployed on Ethereum mainnet, Polygon, and Boba network.

The system of creating synthetic assets by over-collateralization and secured by a human oracle solution is definitely a novelty approach from an organizational standpoint. From the technical side, code is original (isn't forked) so it can be considered an innovation, however, the use of UMA products and specifically their adoption by the target market did not fully justify the innovation status, and therefore the score was reduced by -3.

Score: 12

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:

Although UMA is a platform for creating and securing all kinds of synthetic assets, the protocol is specialized in providing services and solutions for protocols and DAOs. The real value that UMA delivers to these users is a robust human oracle system based on the UMA protocol token-economics design. UMA oracle system is activated only in case of dispute requests which should be a less frequent event since this event creates a win-lose situation between two counterparties. Such a system allows the development of a wide range of derivative products and because of its flexibility market demand for new derivative products can be satisfied more efficiently.

UMA offers several "template products" and solutions intended for protocols and DAOs such as Web3 oracle solution, Key Performance Indicators (KPI) options, Success tokens, Range tokens, Call/Put options and Long Short Pair.

Market success of the protocol can best be estimated by the number of integrations and products, and the TVL in those integrations. UMA protocol has ~66m TVL:

- Integrations (Across, Sherlock, Polymarket) - ~59m TVL
- KPI Options (Jarvis Network, PoolTogether, VolatilityDAO) - ~$735k TVL
- Range Tokens (SushiSwap) - ~$700 TVL

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- Success Tokens (ShapeShift, Perpetual, SushiSwap) - ~5.2m TVL
- Synthetic Assets (Domination Finance) - ~92k TVL
- Yield dollar (Domani protocol) - 0 TVL

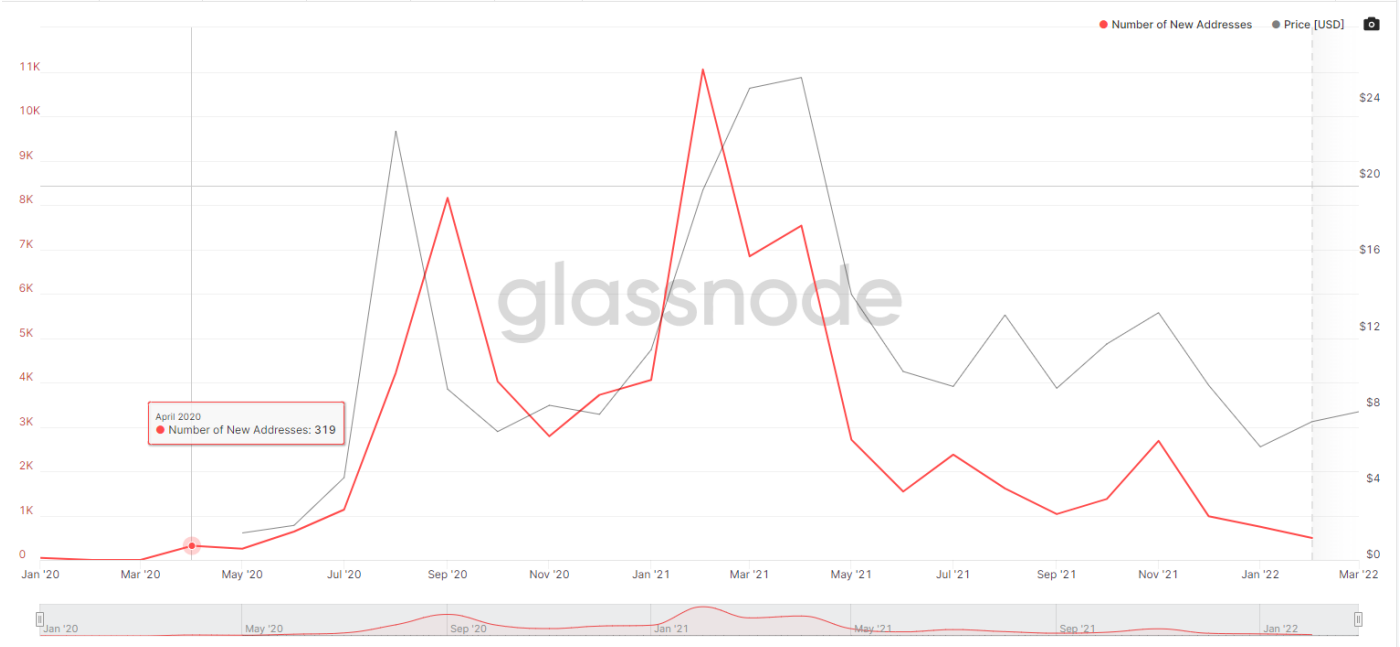
According to Def Llama, 5 protocols use UMA Optimistic oracle (probably filter ones with significant TVL):

Name	Chains	1d Change	7d Change	1m Change	TVL	Mcap/TVL
1 UMA Protocol (UMA)		+2.72%	-5.02%	+13.25%	$49.92m	9.75612
2 Across		+2.32%	+2.82%	+19.49%	$43.39m	
3 Sherlock		+64.09%	+56.94%	+22.13%	$20.48m	
4 Jarvis Network (JRT)		-3.09%	+0.61%	+3.27%	$9.46m	0.87604
5 Polymarket		+0.92%	-12.39%	+12.61%	$4.69m	
6 Domination Finance		+13.31%	+12.93%	+2.40%	$1.29m	

(source: DefiLlama)

Protocol revenue comes from charging on-going fees from integration's (sponsors) TVL, so that the earnings of the protocol are correlated with protocol's TVL.

At the moment, the adoption of UMA products is quite weak, mostly because of other Defi protocol building structures, which can be described as a "product-first" approach, while the UMA protocol has "composability-first" products. It is very likely that the growth of the DAO-to-DAO market will increase the demand for the UMA protocol solutions. According to Glassnode, there is an increase in new addresses with UMA token:



(source: Glassnode)

The UMA protocol has a market fit in the promising market with great potential which can be deduced from current integrations. The score is lower by -3 because the market for which UMA products are intended (inter-protocol/DAO) is much smaller than the "end-user" (retail) Defi market at present, and -2 because at this moment UMA protocol solution isn't suitable for integrations with higher TVL.

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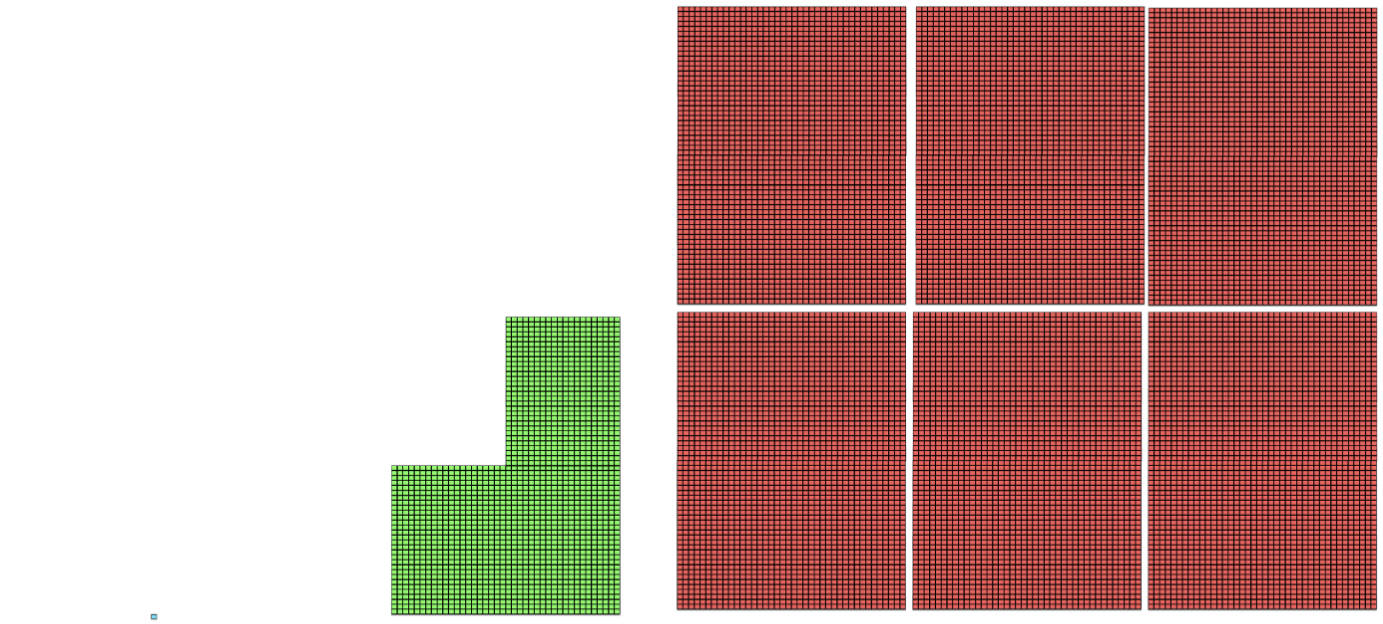
Score: 10

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:

UMA protocol has a target market of $610 trillion which represents the global derivative market size according to the Bank of International Settlement. The size of the derivatives market in relation to other assets is best seen from this website visualization.



(source: Futureswap Medium blog)

The global derivative market presents the UMA protocol target market in a long-term time horizon, because the derivatives market in traditional finance is highly regulated and it will certainly take time for regulations to be determined for blockchain protocols as well.
In the medium-term, the UMA target market can be estimated as the size of the derivatives market inside the Defi sector whose size is $4.16 Billion. Another way is an estimation based on demand for derivatives from the inter-protocol market (protocol-to-protocol). The UMA protocol infrastructure seems suitable for use in partnerships between two DAOs or protocols, where the UMA protocol would act as an arbitrary tool between two sides with KPI options, Range, and Success tokens. Since this market is still in the experimental phase, it is difficult to determine its size. (Examples - Balancer treasury swaps and friendly forks, DAO liquidity providing, treasury management).
In the short term, UMA target market is mostly based on outsourcing services for in-protocol relationships between protocol and community or contributors. So far, UMAs products have proven useful in this area, where the protocol also acts as an arbitrary tool with respect to the objectives set inside the protocol ecosystem.

UMA protocol is currently deployed on 3 chains: Ethereum mainnet, Polygon, and Boba network, so even from that position there is the possibility of expanding in that direction.

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). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer:

The UMA protocol has completely different infrastructure mechanisms, purpose, and target market than other Defi protocols, which is very well described in this article. It is common to compare UMA optimistic oracle with other oracle solutions like Chainlink, Band, and DIA:

Name	Protocols Secured	TVS
1 Chainlink	155	$56.71b
2 Internal	17	$15.39b
3 Maker	2	$15.35b
4 TWAP	30	$8.17b
5 WINkLink	2	$3.08b
6 Band	18	$2.9b
7 Pyth	17	$1.88b
8 DIA	12	$529.19m
9 Flux	2	$495.56m
10 UMA	6	$132.74m
11 Ubinetic	1	$27.58m

(source: DefiLlama)

However, in practice, the UMA protocol is actually complementary to other oracle solutions because they can be used as a price identifier for UMA financial contracts. The real value of the UMA optimistic oracle is in protecting assets with a token-economics mechanism, not necessarily providing relevant information from the “real world” to smart contracts. It is stated in the Open Zeppelin audit: “*The particular funding rate is based on an external price monitoring mechanism. Since the UMA Data Verification Mechanism (DVM) resolves too slowly to be used as a live price feed, the funding rate is introduced into the system through a new “optimistic” oracle.*”

Compared to derivative platforms like Synthetix and Linear finance, it also doesn't make much sense because these platforms are mostly focused on trading activity and use only their own token for collateral (SNX, LINA). The UMA protocol was never intended for trading activities but for creating synthetic tokens with a larger choice of collateral tokens. Comparison of UMA protocol with Chainlink as oracle solutions and Mirror protocol as synthetic issuer and comparison is based on TVL, market cap, and Github activity:

Protocol	TVL	mcap	mcap/TVL(S)	Github contributors	Commits
UMA	~$66m	~$436m	6.6	40	863
Chainlink	~$55.2b	~$6.8b	0.12	99	2738
Mirror Protocol	~$745m	~$245m	0.33	2	13

(source: Defi Llama, CoinGecko, CryptoMiso)

The UMA protocol has far lower TVL than the Chainlink and Mirror protocols, while the mcap / TVL ratio is significantly higher which would usually mean an overstatement of the token with respect to AUM. However in this case it is a specific function of the UMA token within the protocol and a higher mcap / TVL in this context metric is a positive thing (better security). Significant activity is also visible on the UMA Github profile which is a very good indicator considering that the target users of the protocol are developers.

The score is lower by -3 because UMA has significantly less TVL compared to other protocols with similar market cap, and -2 because the protocol has a more complex path to reach the “end-user” market which is quite important because, in the end, it is the market that brings results.

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:

The success of the UMA protocol business model is directly related to the level of TVL of protocol integrations. UMA Integrations and protocols that use UMA products or were built on UMA financial contracts:

- Polymarket has integrated UMA optimistic oracle in its decentralized information markets platforms
- Jarvis Network was built its first protocol Synthereum on UMA priceless framework
- Sherlock has integrated UMA optimistic oracle in its Defi protection protocol
- Domination finance protocol was built on UMA and use UMA optimistic oracle solution
- Across is bridging solution with relayer incentives launched by UMA and uses UMA optimistic oracle
- Potion Lab is a decentralized protocol for the creation of price insurance contracts that is built on UMA contracts
- ShapeShift uses UMA range tokens for treasury diversification
- Sushiswap has built xSUSHI call option on UMA infrastructure
- GYSR is an incentive platform that was used UMA KPI Options

UMA collaborated with Hats finance on product called “Protected Tokens” which enables users to recover funds in the event of a hack, bug or other cause of lost funds.
UMA joins the Blockzero DAO Defi accelerator as the first project and offers $50,000 worth of UMA tokens to Blockzero Index and Accelerator program.
Some of the other notable UMA partnerships are with Polygon DAO and Boba Network.

The UMA protocol is very active in concluding partnerships and has attracted many integrations. But given that the protocol business model is based on integrations, maybe is expected higher number (-1).

Score: 9

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 behaviour 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)

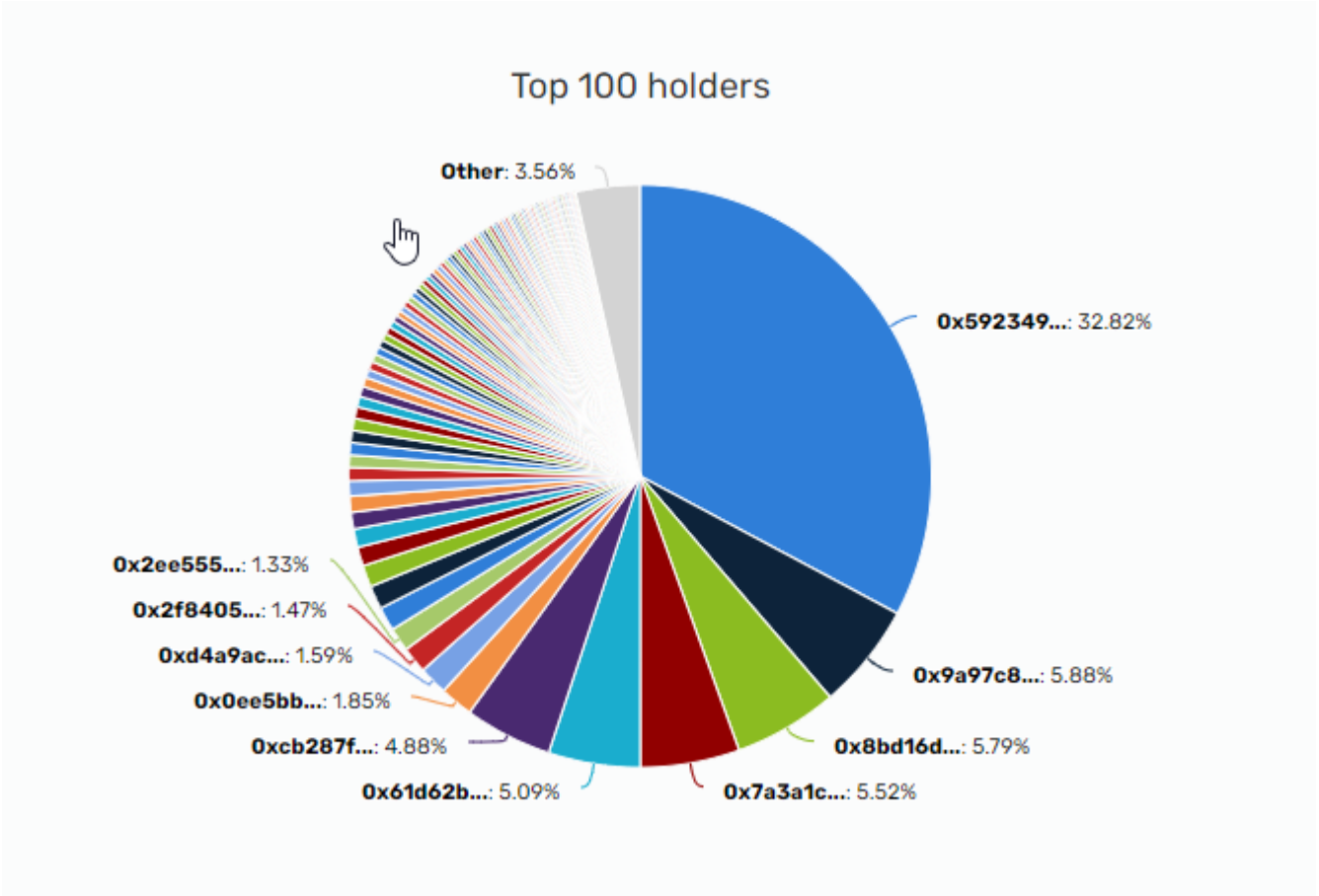
The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution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

Answer:

UMA token was launched in 2018 and on April 2020 UMA had Initial DEX Offering (IDO) on Uniswap by depositing 2,000,000 of its tokens into a Uniswap liquidity pool at an initial listing price of ~$0.26/UMA, which is the same price as on initial seed investment.
The total supply of UMA tokens is 100,000,000 with a current circulating supply of 65,777,465.87 UMA, and token allocation is set as follows:

- 35% - incentives to developers and UMA users
- 15% - to investors
- 33.5% - for founders and early contributors
- 2% tokens into an IDO Uniswap liquidity pool
- 14.5% reserved for future token sale

UMA protocol rewards token holders that actively participate in UMA governance system and respond to price requests. UMA supply is inflated when a vote is resolved with a current inflation rate of 0.05% per vote.
The top 100 holders collectively own 96.44% of UMA tokens:

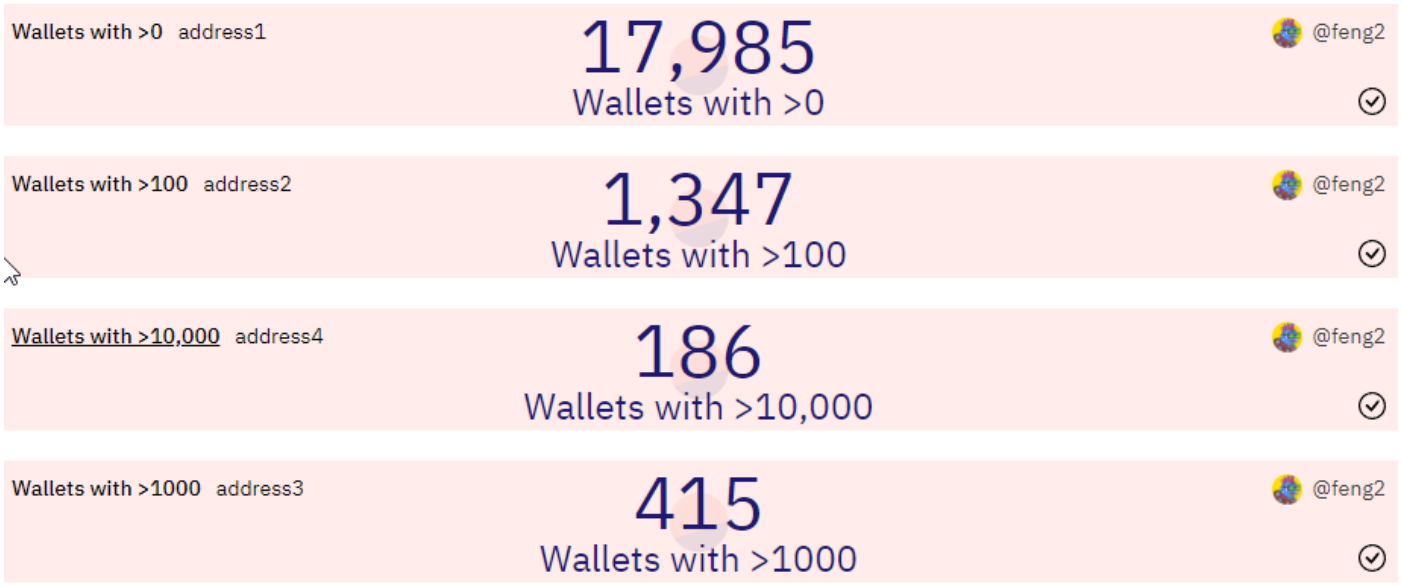


(source: Cryptorank)

However, in the top 10 addresses there are four addresses that are UMA smart contracts:

0x592349f7dedb2b75f9d4f194d4b7c16d82e507dc - 35,000,000 (32.81%) - UMA DAO
0x9a97c80956bce4dd87c2df6a93900dbfcbf0d60a - 6,275,279 (5.88%) - DesignatedVoting
0x61d62b3d530ab8174dbfade1675d856c5c5c9fcd - 5,424,783 (5.09%) - DesignatedVoting
0x0ee5bb3deae8a44fbdeb269941f735793f8312ef - 1,971,970 (1.85%) - ExpiringMultiParty

On the UMA Dune Analytics dashboard one can find the distribution of UMA tokens by wallets based on the number of UMA tokens in 4 categories (> 0,> 100,> 1000,> 10000):



(sources: DuneAnalytics)

Given the impact of the UMA token on the protocol, a too large share of the allocation is distributed among founders, early contributors, and investors (48.5%), and because of that, the score is lower by -3. Additional -2 on score is because of the high concentration of UMA tokens in a small number of wallets.

Score: 10

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 UMA token is a central part of protocol security economics because as a governance token it serves to vote in case of price and dispute requests on DVM service. It also serves to vote on changes to the UMA protocol on UMIPs. In addition to the governance function, UMA serves as collateral for financial contracts.

UMA token is a useful within protocol for voting, security, and as collateral. The score is lower by -2 because protocol security is subject to potential human error for a variety of reasons (subjectivity, following group opinion). According to OpenZeppelin audit: *"The Data Verification Mechanism uses a commit-reveal scheme to hide votes during the voting period. The intention is to prevent voters from simply voting with the majority. However, the current design allows voters to blindly copy each other's submissions, which undermines this goal"*.

Score: 8

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 behaviour? Are all relevant stakeholders benefiting from the issuance model?

Answer:

The UMA token economics model is the main component of the protocol incentive mechanism. The protocol rewards participants in the governance process with 0.05% inflation rewards for votes and developers who build synthetic tokens on top of the protocol. On the other hand, users with malicious behavior are punished by slashing their staked bond (UMA), Coin Bureau: *"If the DVM determines that the Liquidator (the person who called the liquidation) made an incorrect claim, the Liquidator is penalized, and the Disputer earns a reward from that penalty. If the Disputer is wrong, they lose their bond, and Liquidator gets all of the collateral in the smart contract for that token."*

UMA token holders which are active in the governance process have benefits from both, inflation and deflation mechanisms. On the other hand, passive token holders benefit only from the burning (deflationary) mechanism.

The issuance model of the UMA token completely improves the protocol incentive mechanism.

Score: 10

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:

UMA value capturing mechanism is correlated with TVL in protocol integrations and products that use the UMA oracle solution. Value is captured through the UMA issuance model (inflation) and burning mechanism in slashing events (deflation).

Issuance UMA model is set to incentivize active governance token holders through 0.05% staking inflation rewards and developers that build protocols and products on top of UMA protocol (already mentioned in 1a and 1c answers).

From a chat with the UMA community on Discord:

"Regular fees are only activated if the market cap of UMA is less than double the dollar value secured, and are switched off once the CoC>PoC inequality is met through those fees being used to buyback and burn."

In case when a dispute is requested, one of the two parties in the dispute process, Proposer and Disputer, loses its staked bond. The slashed bond is then split into two parts, one half is awarded to the party that voted correctly in the dispute process, and the other half goes to the Store contract which will be burned.

The burning mechanism distributes value to token holders because it causes a deflationary effect, from Defiant: *"The protocol drives this dynamic by embedding a small protocol tax on all of UMA's financial contracts. The tax is then used to buy-back and burn UMA on the open market. Therefore, the more value locked in UMA, the more revenues generated from the tax, and in turn, the more value accrues to the token."*

The score is lower for -2 because the value captured by the buy-back mechanism highly depends on market conditions. Also, rewarding token-holders through voting participation does not contribute so much to the quality of the chosen options. Additional -1 on score because I didn't find a direct protocol value capture mechanism that is associated with protocol / DAO treasury or reserves.

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:

UMA token is very liquid on main centralized exchanges like Binance, AAX, Coinbase, Okex and Huobi:

15	AAX	UMA/USDT	$7.19	0.55%	$23,593	$41,631	$9,539,745	30.50%
5	Binance	UMA/USDT	$7.20	0.03%	$66,138	$112,610	$3,738,655	11.95%
6	OKX	UMA/USDT	$7.19	0.06%	$90,407	$100,296	$2,886,350	9.23%
3	BtcTurk PRO	UMA/TRY	$7.24	0.22%	$218,535	$236,546	$2,641,549	8.44%
10	Bibox	UMA/USDT	$7.18	0.13%	$60,968	$64,225	$2,315,163	7.40%
7	Currency.com	UMA/USD	$7.20	0.78%	$156,761	$155,517	$1,458,405	4.66%
1	Digifinex	UMA/USDT	$7.20	0.04%	$197,068	$296,552	$1,381,524	4.42%
2	Coinbase Exchange	UMA/USD	$7.20	0.12%	$244,188	$290,156	$1,261,755	4.03%
28	XT.COM	UMA/USDT	$7.20	0.08%	$41,774	$7,186	$717,411	2.29%
9	Huobi Global	UMA/USDT	$7.20	0.13%	$93,651	$85,423	$713,842	2.28%

(source: CoinGecko)

The UMA token is more accessible and with higher liquidity at centralized exchanges. On decentralized exchanges, the UMA token is the most liquid on Uniswap with liquidity of ~ $ 50,000 and a volume of ~ $ 211,000, and on Balancer with the liquidity of ~$16,000 and a volume of ~$32,000$.

The score is lower by -2 because of low liquidity on decentralized exchanges.

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:

UMA token currently hasn't any extrinsic value, because of a potential vector attack on protocol security system. From this forum thread can be concluded that community members are cautious when it comes to UMA extrinsic productivity. Reason for caution is a potential attack on UMA security mechanism if someone borrows a large sum of UMA tokens or even exploits the lending platform (in case the UMA token is used for landing only).

Although the UMA token does not have an extrinsic productivity score is 5 (middle score), given the protocol infrastructure it is not a completely negative context.

Score: 5

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favours 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:

UMA team is credible and public on LinkedIn. Below are listed UMA project team members with active LinkedIn profiles.

Hart Lambur - co-founder, CEO, LinkedIn

Allison Lu - co-founder

Alisha Mischele Khare - Talent Aquisition Specialist, LinkedIn

Jesper Gisslen - Design Lead at UMA and Senior Product Designer for Across, LinkedIn

Henry Dada - Community Staff, LinkedIn

Melissa Quinn - Chief of Staff, LinkedIn

Kevin Chan - Treasurer, LinkedIn

Christopher Moree - Full Stack Blockchain Developer, LinkedIn

Mhairi McAlpine - Community Manager, LinkedIn

Clayton Rochee - Head of Community Development, LinkedIn

Hiten Shah - Client Engagement Specialist, LinkedIn

David A, Developer, Github

Jonh Shutt, Developer, Github

Matt Rice, Core Developer, Github

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:

UMA team is highly skilled and all team members have relevant experience. But on the LinkedIn profile of the UMA protocol team, it is not possible to find more detailed information about UMA developers. The only developer with a public LinkedIn profile is Christoper Maree, co-founder of Registree and Ribbon blockchain. But on the UMA Github profile it can be seen that 41 contributors have been active so far, of which the most active are:

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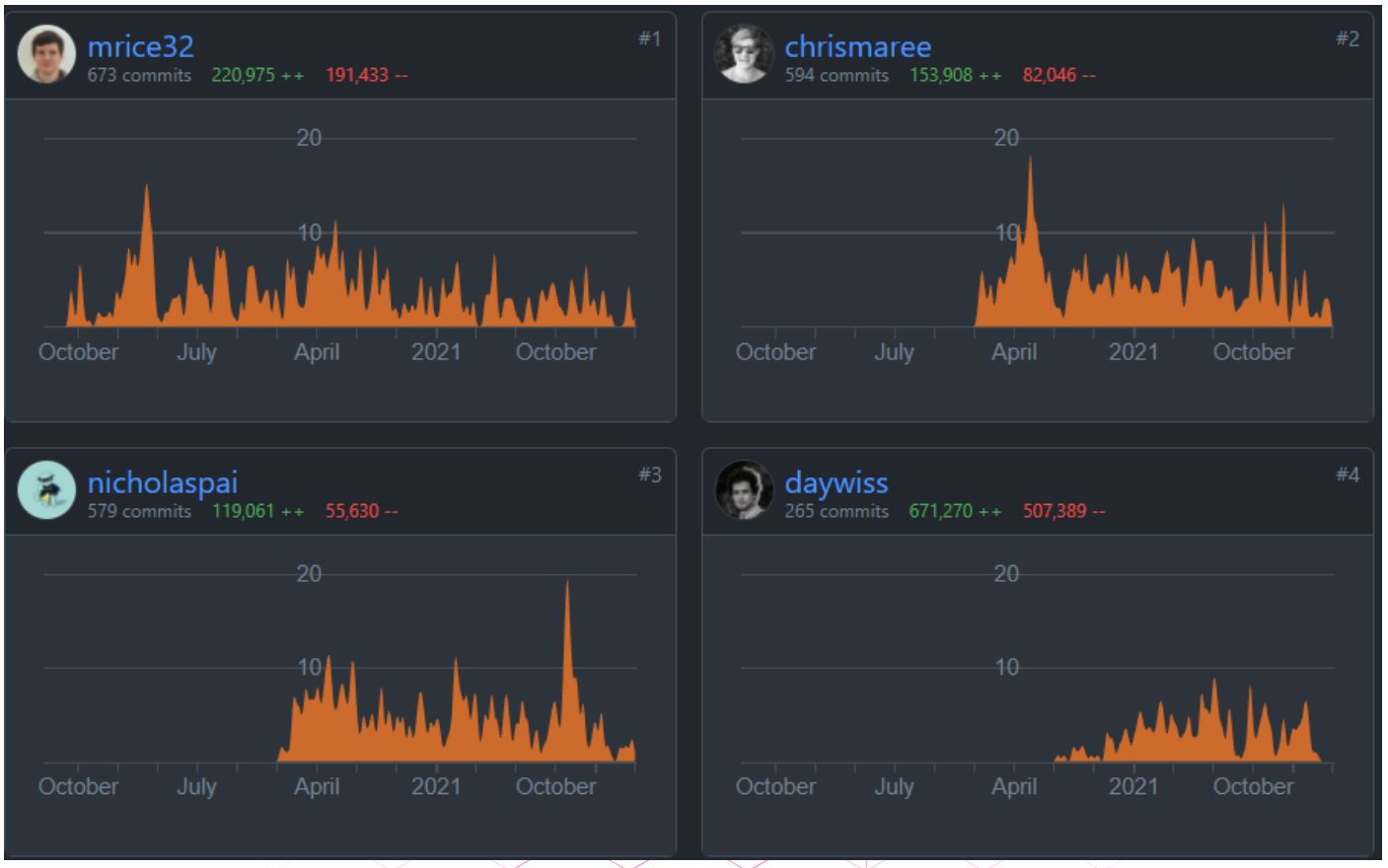


(source: Github)

Two UMA co-founders, Hart Lambur and Allison Lu, and treasurer Kevin Chan are former Goldman Sachs employees, which indicates a strong background in finance and business development.

Jesper Gisslen, Design Lead, is active in the blockchain/Web3 space since 2017, over 2 years as a self-employed

UMA team has many community developers and coordinators, and specialists for hiring:

Alicha Michele Khare, Talent Acquisition Specialist, has working experience as a Corporate recruiter in Apple, Talent partner in Adobe and Channel specialist in Google.

Melissa Quinn, Chief of Staff, has experience working as Director of corporate strategy in Left and Right Mesh.

Henry Dada, Community Staff, was Community moderator in Status.

Mhairi McAlpine, Community Manager, has experience working as a technology consultant in Mhassobi Consulting and Al Azab American School.

Clayton Roche, Head of Community development, was Tokenomics advisor in WindProtocol

Given that the UMA protocol is oriented towards the integration of optimistic oracle and other products with other protocols, it is very important to have team members with technical and inter-personal skills. Inter-personal skills are visible through many community and human-resource focused roles, where team members have adequate experience and skillset. Also, team members with community roles have a very good technical background and knowledge. Based on the data from the UMA Github profile, the activity of the developers on the protocol is visible, however, I was not able to find their public profiles to confirm their experience and skills.

UMA protocol team members have relevant experience and skills for overall protocol development, but the score is lower by -1 because of a lack of public information about the experience and skills of UMA developers.

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:

UMA team members are very active in participation in public debate about decentralized finance, and mostly about blockchain oracle solutions. Some of the more important public events with UMA protocol team members:

Token2049 London - Hart Lambur about “Building Defi protocols”
ETH Lisabon - Clayton Roche talked about “The economics and psychology and community building”
ETH Denver - panel with Hart Lambur about Reward-as-Service for incentivize DAOs
Defi Summit 2019 - Regina Cai talk about “Designing Synthetic Assets”
MarketMake - Chandler De Kock talk about “Solving oracle problems”
Bankless AMA with Hart Lambur
Epicenter podcast with Allison Lu

In this page on UMA documentation can be found more public events. The score is lower by -1 due to the fact that the UMA team does not have much influence in shaping narrative around Defi, although members are quite active in public discussions.

Score: 4

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

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

Answer:

Team raised $520,000 in Initial DEX Offering on Uniswap and $3.9 million in initial seed round from VC funds. In the initial UMA token allocation, an amount of 14,500,000 UMA tokens is reserved for future token sales.

In order to migrate the UMA protocol to a decentralized governance system, the Team has adopted a strategy with a multi-DAO approach. So, now 3 organizations are participating in protocol governance: Risk Labs, UMA DAO, and SuperUMAns DAO. UMA DAO is an organization formed through spontaneous protocol development and an increase in the number of UMA token holders (like almost all DAOs). SuperUMAn DAO on the other hand, is a product of Risk Labs with the aim of a multi-DAO strategy when it comes to governance over protocol. The SuperUMAn DAO was founded after a series of KPI option tokens awarded to the UMA community by Risk Labs and their allocation of $1,000,000 worth of UMA tokens for a new DAO entity. According to the UMA Medium blog: "*SuperUMAn community has met three times a week to discuss 7 distinct DAO topic areas: Mission, Goals, and Values, DAO Structure, Treasury Management, Revenue Management, Membership, Governance and DAO Tooling*". SuperUMAn DAO was created with the aim of increasing flexibility in the operation of the protocol with a focus on small grants and promotional activity.

According to the Clayton Roche statement in UMA Medium post: *"RL(Risk Labs) has diversified its holdings and has over $50M in non-$UMA token assets to provide years of development runway."*

The UMA team has shown a high level of activity when it comes to on-board developers through participation in hackathons: ETH Boston 2019, ETH Waterloo 2019, HackMoney 2021, and on the UMA Gitcoin profile were recorded 9 funded bounties.

The score is lower by -2 because most of the funds are managed by Risk Labs company and it is not possible to fully monitor the coordination of resources.

Score: 8

4. Governance

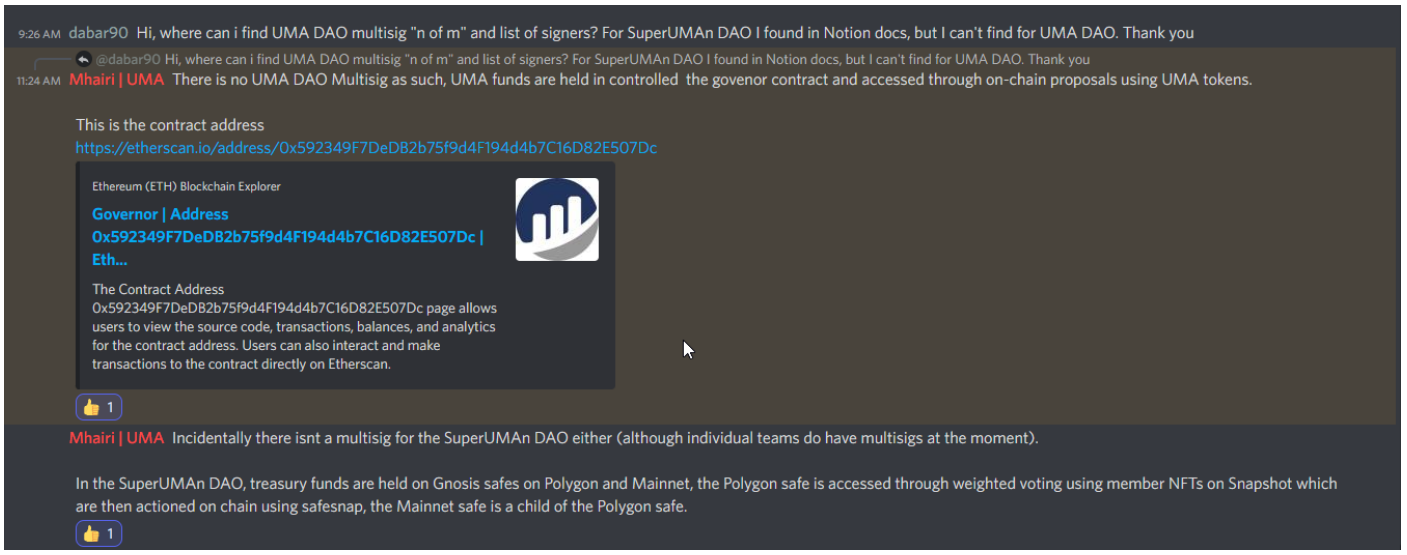
The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the 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 a response from the community in UMA Discord channel, UMA DAO doesn't use admin keys, and UMA funds are held and controlled by the governor contract and accessed through on-chain proposals using UMA tokens.



(source: UMA Discord)

When it comes to the privileged roles in the optimistic oracle system, according to OpenZeppelin audit: "*Risk Labs Foundation controls the wallet that can withdraw oracle fees. They intend to use these fees for the buyback mechanism but this is not currently programmatically enforced. The intention is to encapsulate the buyback logic in a smart contract but until then, token holders must trust the Risk Labs Foundation to perform this function quickly and correctly*".....*"Any action that can be undertaken by the Governor contract must first be proposed by the Risk Labs Foundation and then ratified by the token holders using the oracle voting mechanism.*"

Governor contract manages the system in number of ways:

- It can shutdown or remargin any contract within the system. This is intended as an emergency safety mechanism.
- It can replace the implementation of crucial contracts within the system.
- It can decide which prices are supported by the oracle.
- It can decide which addresses can register new financial contracts (implicitly deciding which financial contracts are supported).
- It can set the oracle fees.
- It can replace the address that can withdraw oracle fees.
- It can set the inflation rate per vote.
- It can set the quorum threshold.
- It can set the rewards expiration timeout.
- It can migrate the whole voting contract to another implementation.

(source: openZeppelin audit)

I found that SuperUMAns DAO treasury funds have 3-of-5 multi-signature wallet:

- Clayton Roache - Community Lead, UMA Core Team
- Mhairi McAlpine - Community Manager UMA Core Team
- EASports - SuperUMAn Community Member
- FruityCup - SuperUMAn Community Member
- Poapster - SuperUMAn Community Member

UMA DAO don't have admin keys, every decision is made through on-chain proposals, but every action with the Governor needs to be proposed by Risk Labs and because of that score is lower by -5.

Score: 15

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:

UMA as a governance token is used for:

- governing over UMA DAO by proposing and voting on UMA Improvement Proposals (UMIPs), and
- securing UMA protocol and its oracle system by voting on price requests and requested disputes

When it comes to changes in the UMA protocol, token holders usually vote for approving price identifiers and collateral currencies for financial contracts.

According to SuperUMAN DAO Notion page: “Voters who participate and vote correctly earn an inflationary reward (currently 0.05% of total network token supply), distributed pro-rata by stake.”

The score is lower by -4 because governance capabilities do not cover all areas of protocol management and most decisions are under the control of Risk Labs company.

Score: 11

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:

On UMA governance forum (Discourse) a certain activity is visible:

Site Statistics

	Last 24 hours	Last 7 days	Last 30 days	All Time
Topics	0	4	14	647
Posts	28	78	129	2.7k
Users	7	36	45	665
Active Users	44	78	81	—
Likes	44	106	141	816

(source: UMA Discourse)

However, governor activity per thread is quite low, due to the fact that most threads refer to UMIPs that are more formal like adding new price identifiers and collateral currencies for financial contracts, and other technical UMIPs.

On UMA voting app in the last 10 voting events participated an average of 64.4 unique addresses, while an average of 38.7 unique addresses (voters) participated in the SuperUMAn DAO Snapshot profile (also last 10 voting).

The score is lower by -2 because for UMA protocol security should involve more UMA token holders, and an additional -1 given that governors are rewarded by activity.

Score: 2

d) Governance technology/infrastructure (10 points)

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

Answer:

For discussions, DAO relies on the Discourse governance forum and Discord app. For on-chain voting for price requests, dispute requests, and UMIPs the UMA voting app is used, while for DAO off-chain voting SuperUMAn DAO uses the Snapshot app. DAO uses the DeWork bounty platform for open contributions, Notion and Google calendar as a DAO information hub (SuperUMAn DAO).

The score is lower by -1 because is expected some analytics for UMA voting app (voting turnover).

Score: 9

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:

UMA governance process consists of 4 stages:

1. Stage - Discord temperature checks
2. Stage - Discourse proposal
3. Stage - Snapshot vote
4. Stage - On-chain vote

According to UMA docs: *"The UMA voting process requires tokenholders to commit and reveal their votes in two separate stages. Each stage is open for 24 hours, so each voting period is 48 hours".* There are also Voting rebates in UMA tokens for active governors: *"Voting requires UMA tokenholders to spend gas in order to submit transactions on Ethereum to commit/reveal votes and claim voting rewards. There is currently a gas rebate for tokenholders who vote. The rebate is designed to ensure voter turnout even during high gas fee spikes and to make it more attractive for voters with smaller UMA token holdings to participate.*

The gas rebate is sent to voters monthly in UMA tokens. You will be rebated the dollar for the dollar amount of gas you spent. For example, if you spent $20 in gas to commit and reveal, you will be rebated $20 in $UMA tokens. Only votes that successfully revealed their vote will receive the rebate. Note - your vote does not have to be correct to receive the gas rebate."

UMA governance process is documented on the protocol documentation page and Medium post, with a tutorial for UMA voting app, and templates for UMIPs from (0x templates).

The score is lower by -2 because Risk Labs still has too much of an impact on the control of the governance process - *ˇFor a proposal to successfully pass and thereby attract Risk Labs assistance in funding the proposal bond…".*

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 SEC, Risk Labs is incorporated in the state of Cayman Islands as "Exempted company", with a principal place of business in the state of New York, under address 259 Bowary, Ap. 6, 10 002 New York.

Score: 15

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

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

Answer:

Legal jurisdiction is in the Cayman Islands. This Case indicates certain problems in the case of separation incorporation and principal place, and because of that score is 4.

Score: 4

About the Author:

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