PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Balancer
Version: v2
Date: 28/03/2022
Previous Report: [Link to previous report]

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Season/competition:

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	15 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	8 / 10
e) Integrations & Partnerships	15 / 15
Total Points - Value Proposition	**60 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	13 / 15
b) What is the extent of the token's capabilities?	9 / 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?	9 / 10
e) Is the token sufficiently liquid to enable active use and trade?	5 / 5
f) Are there any extrinsic productivity use cases?	6 / 10
Total Points - Tokenomics	**52 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	13 / 15
b) Does the team have relevant experience?	10 / 10
c) Does the team participate and help shape the public debate?	5 / 5
d) Is the team able to effectively attract and coordinate resources?	10 / 10
Total Points - Team	**38 / 40**

4. Governance	Points
a) Admin Keys	18 / 20
b) Extent of Governance capabilities	12 / 15
c) Active Governance contributors	4 / 5
d) Governance infrastructure	8 /10
e) Robustness of Governance process	7 / 10
Total Points - Governance	**49 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	15 / 15
b) What is the quality of the legal jurisdiction?	8 / 10
Total Points - Regulatory	**23 / 25**
Total	**222 / 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:

Balancer is a decentralized exchange (DEX) platform based on an automated market-making (AMM) protocol with weighted liquidity pools that can contain two or more tokens with different ratios, which allows it to act as an automated portfolio manager for liquidity providers. Balancers weighted pools use a generalized version of Uniswaps constant product market-making formula (x * y = k) called N-dimensional invariant surface - which defines a cost function for the exchange of any pair of tokens held in a Balancer Pool. This approach increases the level of customizability for liquidity providers, reduces the exposure of their assets to impermanent loss, and allows them to collect trading fees, while their portfolio is continuously rebalanced.

With Balancer V2, the protocol introduces a new innovation in protocol architecture, a core piece of it is The Vault - a smart contract that holds and manages all tokens in each Balancer pool and acts as a portal for all protocol operations (swaps/joins/exits). The Vault architecture separates the token accounting and pool logic, and simplifies pool contracts by reducing their function only to the calculation of swaps, joins, and exits. Separated functions allow customizable AMM logic, which means that users can launch a new style of trading pools and focus on high-level concepts without worrying about low-level operations. This has led to the creation of more types of liquidity pools. Asset managers are external smart contracts nominated by pools that have full power over the underlying tokens the pool has deposited into the vault. The asset manager can follow any arbitrary investment strategy thus increasing capital efficiency (i.e. lend tokens). The balancer has an integrated Smart Order Router (SOR) - a mechanism that finds the best prices for Balancer traders across multiple pools, thus any custom pool built on Balancer benefits from all protocol liquidity.

In close collaboration with Aave lending protocol, Balancer team launched boosted pools as a solution for better capital efficiency of tokens in Balancer liquidity pools. Aave Boosted Pools allow for the unused liquidity in the pools to be directed to Aave lending pools and capture additional yields. Aave presents the first iteration, but technology allows integration for a wide range of Defi protocols.

Balancer also provides a BCP (Balancer CoW protocol) trading interface that uses CoW (Coincidence of wants) solvers integration which allows traders to make a gasless swap with an efficient price-discovery mechanism, MEV protection, and improved liquidity level.

Although not one of the first AMM DEXes, Balancer is the first protocol that acts as a hybrid, structured as AMM for decentralized exchange and portfolio (fund) managers. Also, Cow protocol integration makes Balancer the first AMM which significantly reduced gas fee costs for traders. Balancer introduced novelty solutions in a relationship with protocol forks also called "friendly forks" which can be best described as a Franchise model in traditional business.

Score: 15

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:

Balancer protocol is - in addition to Ethereum mainnet - deployed on EVM sidechain Polygon and layer2 chain Arbitrum with many protocol friendly forks: Embr finance on Avalanche, Symmetric DEX on Gnosis chain and Celo, and Beethoven X on Fantom. The coverage of most EVM chains indicates that exists a demand for Balancer native product/service. On the image below are listed all Balancer forks:

All | Uniswap | Compound | Saddle Finance | Aave | Olympus DAO | Curve | Bunny | Yearn Finance | Balancer | Impermax Finance | Solidly | SushiSwap | Others

	Name	Chains	1d Change	7d Change	1m Change	TVL	Mcap/TVL
	Balancer (BAL)		-0.29%	+3.28%	-5.84%	$2.97b	0.04446
1	Beethoven X (BEETS)		+3.07%	+18.03%	-15.81%	$309.8m	0.16909
2	Darkness (NESS)		-1.35%	+62.81%		$25.52m	0.16407
3	CreamSwap (CREAM)		+0.09%	+11.24%	+11.28%	$8.85m	
4	Symmetric (SYMM)		-1.45%	+8.77%	+17.31%	$5.66m	
5	Yogi Finance (YOGI)				+0.04%	$4.19m	
6	Nileriver (NIL)		0%	0%	0%	$758.98k	
7	Embr Finance (EMBR)		-1.73%	-9.12%	+15.72%	$612.3k	
8	Swarm Markets (SMT)		-7.99%	-4.98%	-5.20%	$427.72k	3.96637
9	Value Liquid (VALUE)		-0.06%	+6.67%	+12.75%	$300.49k	

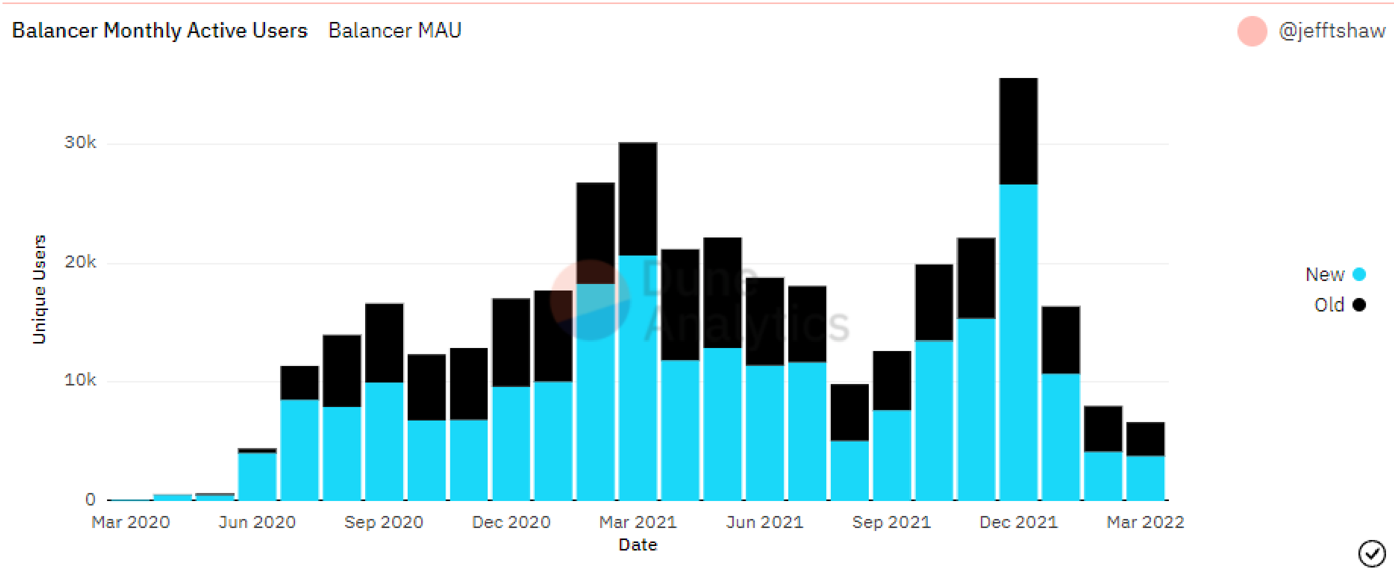
(source: DefiLlama)

Balancer protocol has 2.63b Total Value Locked (TVL), which makes it the fourth-ranked protocol by that metric in the category of the decentralized exchanges on Ethereum. With that TVL, Balancer takes ~3.80% share of overall DEX TVL on Ethereum ($67.61b).

Name	Chains	1d Change	7d Change	1m Change	TVL	Mcap/TVL
1 Curve (CRV)		-1.19%	+14.34%	+8.49%	$18.74b	0.04777
2 SushiSwap (SUSHI)	+5	-0.78%	+2.20%	-14.71%	$9.44b	0.07124
3 Uniswap (UNI)		-1.84%			$7.15b	0.62536
4 Balancer (BAL)		-1.06%	+5.31%	-5.92%	$2.63b	0.0492
5 Bancor (BNT)		-1.64%	+9.71%	+7.02%	$1.08b	0.58208

(source: DefiLlama)

Measuring Dex protocols across all chains (385 DEX protocols) Balancer is fifth-ranked (while on Polygon is fourth-ranked and on Arbitrum is fifth-ranked). In the last 30 days, Balancer counted 8,575 users which is ~2.44% of overall DEX monthly users (350,154). If we divide the structure of the protocol by monthly active users on new and old users, we can see that each month the Balancer protocol has more new than old users:



(source: DuneAnalytics)

AMM protocols are mostly focused on creating the best offers for liquidity providers and exchange conditions for traders and arbitrators. Balancer takes a different approach, positioning itself in the market as a developer-friendly solution which in combination with the flexible liquidity pools architecture and the protocol "friendly forks" feature makes it a competitive protocol for the inter-protocol (protocol-to-protocol) market segment. Balancer with customizable liquidity pools allows users to create pool parameters with limitless flexibility. Protocol offers different types of pre-made pools for wide-range of use-cases:

- Weighted pools - highly configurable pools for general cases, enable users to build pools with different number of assets and weightings
- Two token weighted oracles pools - weighted pools with two tokens that act as on-chain price oracle
- Stable pools - 2-5 token pools with Stableswap equation
- MetaStable pools - an extension of Stable pools, contain tokens with known exchange rate
- Liquidity bootstrapping pools (LBP)- pools that can dynamically change token weighting, have great use-case for token launch events
- Investment pools - LBP pools with additional features like public liquidity providing, fee management and support higher number of tokens
- Convergent Curve pools - designed to support two assets that converges in price

Balancer offers a wide range of products that are more suitable for developers (builders) and less for end-users, which is best described by Fernando Martinelli's statement on governance forum: "..., *Balancer Labs is not focused on pursuing products that are directly aimed at end users: we want other teams to come up with their own product ideas and succeed by bringing in their own users, communities, bizdev and marketing efforts."*

Balancer protocol attracted a respectable TVL and user base with a market strategy that differentiates it from other protocols in the niche. However, at the moment, market demand requires to focus on end-users due to the still undeveloped DAO-to-DAO (protocol-to-protocol) market and more effective monetization, therefore the score is reduced by (-3).

Score: 12

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:

Due to still insufficiently developed infrastructure at the level of the entire DeFi sector, Balancer target markets can be divided into short-term and long-term time horizons. The advantages offered by blockchain technology will certainly improve the traditional finance sector, but at the moment there are obstacles in the field of regulation and security and it will take some time to develop them.
In the long term, Balancer's target market includes global asset exchange and portfolio/asset management sectors, but because of its flexible infrastructure Balancer has the potential to capture more market segments. Global equity exchange value for 2021. is $37.7 trillion and the value of the portfolio management sector is ~$4.5 billion in 2020.
In the short term, the protocol target market is to the greatest extent decentralized exchange and portfolio/asset management sub-sectors across all EVM chains. Market cap of decentralized exchanges has $23 billion and asset management has a $1.9 billion market cap.
Protocol target market size is measured in trillions, with the protocol due to its flexible design has the potential to enter multiple segments of the financial market.

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:

Balancer with 7-day trading volume of $357,449,912 takes 2.38% share of overall DEX trading volume ($15b), while the TVL of 2.19b makes up 8.84% of the total DEX TVL. Significantly higher TVL share than trading volume share indicates that the protocol has lower efficiency of creating trading activities than the DEX sector average. The protocol supports

53 assets for trading and 65 trading pairs according to CoinGecko but if we take into account The Vault smart contract feature we can assume that 53 supported assets are tradeable between each other directly without hops. Protocol annualized total revenue (total fees paid) is $77.7m and it all relates to supply side participants (liquidity providers) while token holders do not participate in revenue sharing (this proposal will change that). In the table below are presented 5 AMM protocols with compared metrics that are relevant for the DEX AMM business model: TVL, daily volume, 7-day average revenue, number of tradeable assets, and number of trading pairs. From the given metrics are calculated capital efficiency and daily ROI on volume:

DEX Protocol	TVL	Volume (daily)	Revenue (7 days avg)	Tradeable assets	Trading pairs	Volume/TVL (velocity)	Revenue/Volume
Balancer	$2.19b	$42.1m	$91,912	52	64*	1.9%	0.22%
Uniswap	$7.2b	$1.57b	$3,560,000	2030	3575	21.8%	0.22%
SushiSwap	$1.57b	$131.4m	$460,000	401	775	8.3%	0.35%
Curve	$10.7b	$128.4m	$35,686	26	63	1.2%	0.02%
Bancor	$1.84b	$16.2m	$53,300	141	145	0.9%	0.3%

(source:DefiPulse, DuneAnalytics, Cryptofees, CoinGecko - 24.03.2022)

Uniswap is a leader in the AMM DEX market in terms of trading volume, revenue, trading offer and capital efficiency. SushiSwap market strategy is based on multi-chain activity with implementation on 15 different chains. Curve finance specializes in trading between highly correlated pairs, mostly stablecoins. Balancers' low-velocity rate only reflects the fundamental purpose of the protocol, which in addition to AMM for exchange is also a highly customizable automated portfolio manager. The high degree of customization in pool creation (trading fees) results in the protocol having less control in offering competitive trading quotes.

The competitiveness of the Balancer protocol in the AMM sector will largely depend on the demand for liquidity provider solutions that are not exclusively related to yield maximization. The score is lower for (-2) due to significantly lower productivity and market share compared to Uniswap and SushiSwap.

Score: 8

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:

Since the initial distribution of BAL tokens with the allocation of 5,000,000 BAL to the Balancer ecosystem fund, Balancer has indicated the development of ecosystems as one of the most important goals of the protocol. In addition to several strategic partnerships with other protocols, Balancer is largely focused on developing a collaborative ecosystem consisting of protocols and DAOs built through Balancer ecosystem grants, Balancer "friendly forks" protocols, and protocols that used Balancer protocol products (such as LBP).

The most important strategic partnerships have been concluded with Aave - the leading lending protocol and CoW protocol - meta aggregator which is built by Gnosis DAO. With Aave, Balancer built the first Balancer v2 asset manager to allow idle assets in V2 pools to earn a yield on Aave. Aave also uses the Balancer pair AAve/ETH as a protocol safety module. The partnership with the CoW protocol resulted in the launch of the Balancer-Cow-Protocol trade interface with some significant benefits like gasless trading, MEV protection, matching best on-chain prices, and no-cost for failed transactions. Partnership with OlympusDAO will initiate its own token $OHM as a liquid asset within the Balancer ecosystem.
Balancer "friendly forks" are protocol forks supported by Balancer DAO and operate on EVM chains where the original protocol isn't deployed: Symmetry DEX on Gnosis chain and Celo, BethoweenX on Fantom, Hexagon, and Embr on Avalanche.
Projects built on Balancer v2 architecture:

- PrimeDAO 9 and Copper 8 developing token launch platforms using LBPs
- PowerPool 9 building meta-governance and smart indices
- Indexed Finance 8 developing passively-managed crypto index funds
- Element Finance 12 enabling fixed-rate yield through the exchange of Principal tokens and Yield tokens using the YieldSpace AMM design
- Gyroscope Finance 13 creating a new all-weather stablecoin with a primary-market AMM

(Source: Balancer governance forum)

Balancer with protocols that realize deeper collaboration often make token swaps which in addition to evidence of connectivity in development has a positive impact on the diversification of protocol treasury. Balancer has made native tokens swaps with Prime DAO (D2D), mStable (MTA), Gnosis DAO (GNO) and Fei DAO (FEI, TRIBE).
Balancer has a large number of partnerships and a large number of protocols use its services.

Score: 15

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)?

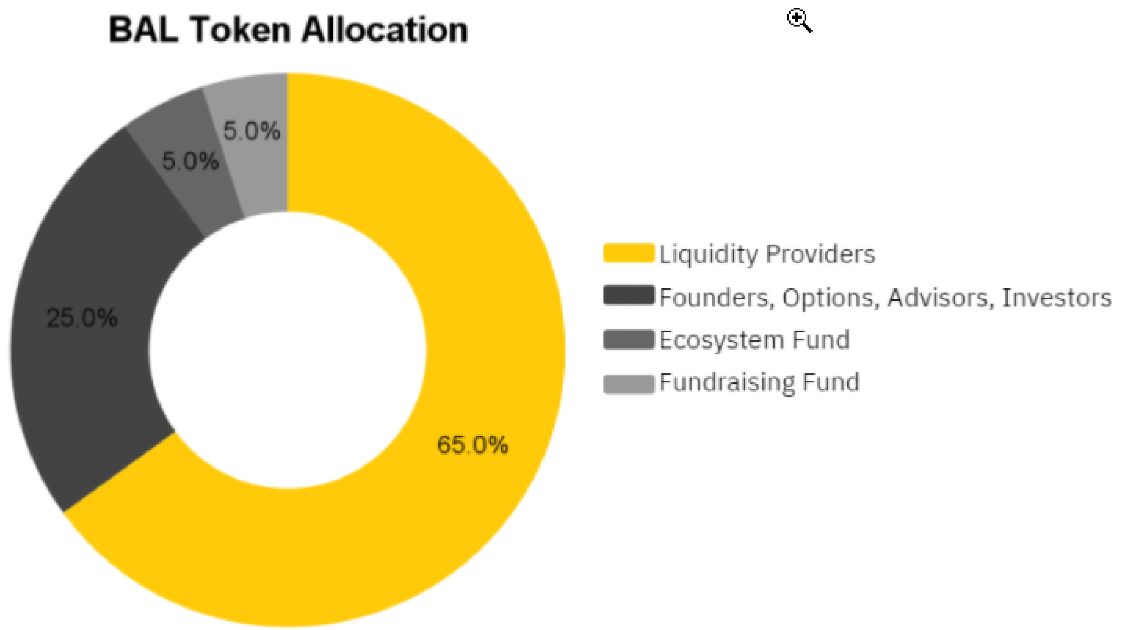
Answer:

Total supply of BAL tokens is capped at 100,000,000 with following allocation:

- 25,000,000 BAL were initially allocated to founders, stock options, advisors and investors with vesting period
- 5,000,000 were allocated for the Balancer ecosystem fund - with the goal to attract and incentivize strategic partners who will help in the growth of Balancer ecosystem
- 5,000,000 were allocated for the fundraising fund - this fund will be used for future fundraising rounds to support Balancer Labs' operations and growth

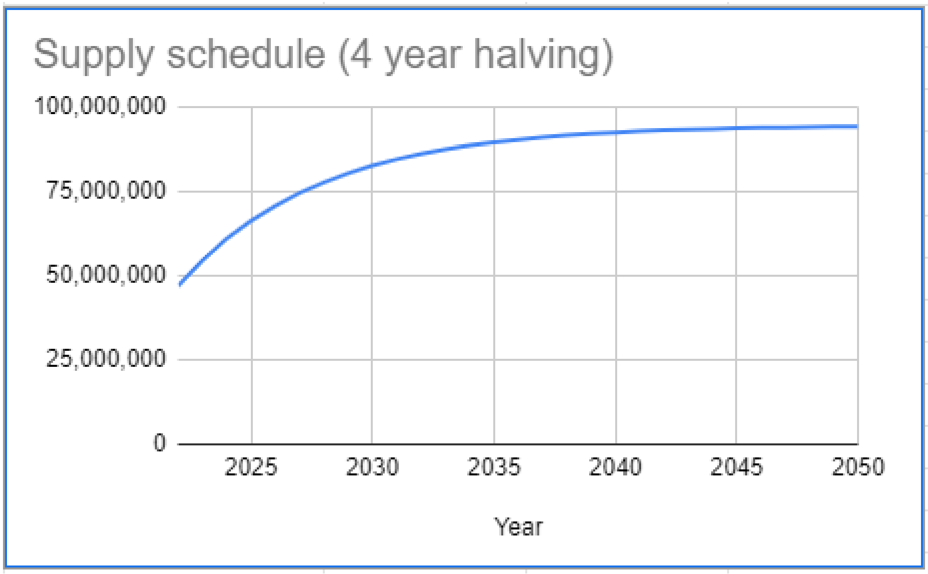
- 65,000,000 BAL tokens are intended for distribution as a reward for liquidity providers in the coming years.

BAL Token Allocation



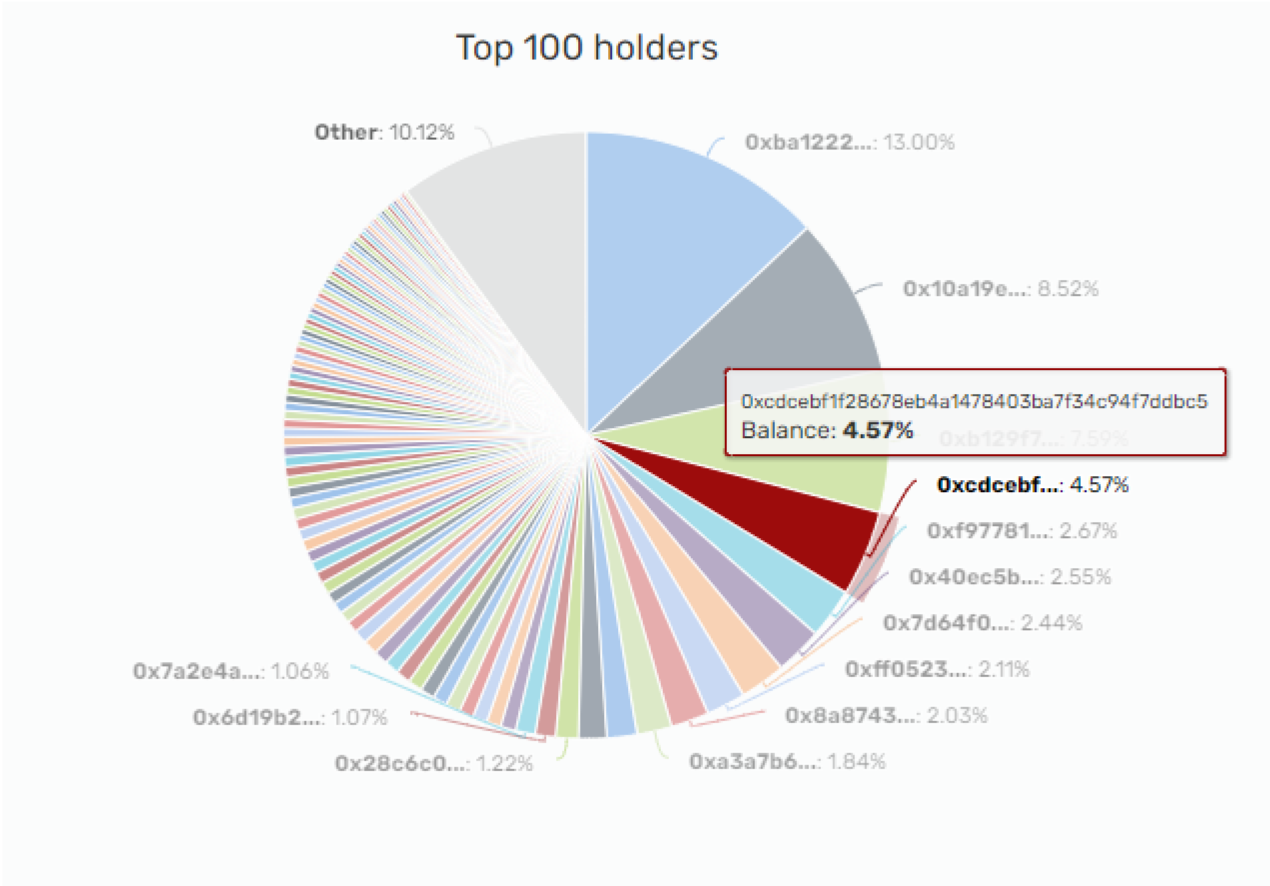
(Source: coin98insights)

Distribution is set up on 145,000 BAL weekly to liquidity providers, and the amount will be sufficient for 8.666 years. However, the distribution (issuance schedule) is changeable by Balancer DAO. With a new proposal - veBAL activation, issuance is changed in order to make the Balancer token-economics more sustainable. Every 4 years the inflation will be halved with gradual steps every year starting with the launch of the new token-economics model. The new BAL issuance model will be immutable. A more detailed calculation of veBAL model can be found in this spreadsheet.



(source: veBAL model spreadsheet)

According to [CryptoRank](), the top 100 holders collectively own 89.88% BAL tokens:



Excessive concentration of BAL tokens in the top 100 wallets is a consequence of setting distribution and incentive mechanisms flows to one group of participants - liquidity providers without capturing value mechanisms for protocol and BAL holders. However, BAL holders (DAO) in these two (1) (2) proposals voted for changes in the protocol's token-economics model and a different allocation of protocol revenue. The initial distribution and allocation of BAL tokens are very well performed however the score will get -2 points because of the one-side incentive set-up (only liquidity provider side) that lasts ~1 year. In that period, the opportunity cost for the protocol was incurred in the amount of uncollected protocol fees.

Score: 13

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:
BAL token serves as

- Governance token that allows token holders to vote on proposals about changes in the protocol.

- Mechanism for distribution of protocol captured value through staking mechanism and with token lock period. This token capability will be enabled with the implementation of the veToken model. Implementation of model passed governance voting and currently is currently in the process
- Incentive mechanism for liquidity providers with the intention to transfer part of the protocol governance power to users who provide liquidity.
- Funding tool for partnering with other protocols and decentralized autonomous organizations through treasury swaps and other ecosystem grants

Score is lower for (-1) because existing token capabilities have not significantly affected the competitiveness of protocol and certain capabilities are not yet fully implemented.

Score: 9

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 initially set BAL issuance model was focused only on incentivizing liquidity providers, but protocol DAO (BAL holders) initiated two important changes: capturing value from protocol fees and implementing the vesting escrow token economics model (veToken model). After capturing a share of trading and flash loan fees, the protocol is able to accumulate some funds in the treasury and with that improve further operations. The implementation of the veTokenomics model can hardly be a worse solution than the original model, and with a 1-year BAL lock function, it will very likely align all interest groups in the Balancer ecosystem. New weekly distribution should be based on gauge type with the following types and weights proposed:

- Liquidity mining committee: 10% (14,500)
- veBAL: 10% (14,500)
- Ethereum mainnet pools: 56% (81,200)
- Polygon pools: 17% (24,650)
- Arbitrum pools: 7% (10,150)

With the initial distribution of BAL tokens, Balancer took a long enough “minimum sustainable period” of 8,666 years - a period that the protocol can function relying solely on native token inflation (issuance). With a sufficiently long issuance period, significant allocation of tokens in the fund (liquidity providers), and enabling BAL holders to make tweaks in the token-economic model through the governance process, it makes the Balancer issuance model sufficient for improving the coordination of the protocol. After veBAL model activation, new BAL issuance will be implemented - as already mentioned in answer 2a).

Balancer maybe didn't have a clear plan for overall protocol coordination and issuance allocation when the token was launched but after new model adoption and changes made on captured fees, this is no issue anymore.

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:

From the launch of BAL token till Balancer governance proposal (Activate the Protocol Fee) in December 2021. BAL token didn't have a value capture model. Weekly 145,000 BAL token is used as an incentive mechanism only for liquidity providers which results in creating only supply-side revenue. Proposal activated the collection of protocol fees in the amount of 10% of the collected trading fees on the protocol with a possible range from 0-50% in the future. DAO governance decided that earned fees go to the DAO treasury and the funds will be distributed by the decision of the BAL holders in the governance process. Protocol fees come from two sources:

- trading fees paid by traders for using Balancer pools and
- flash-loan fees paid by arbitrageurs

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In order to improve the token-economics model, a forum post was created for the proposal for the implementation of the veToken model on Balancer. With the new "Curve-like" token-economics implementation, the protocol will start accruing more value through fee collecting and improving further distribution to veBAL holders. Statement from proposal:

"75% of protocol revenues collected by the protocol fee collector will be distributed to veBAL holders. The other 25% of the fees will be kept by the DAO treasury as a reserve."

The veToken model will probably create a "positive value loop" with a so-called "bribing mechanism" but the question remains whether the model can be effective as in the Curve case. The proposal has just been voted on and it remains to be seen how the model will work on the Balancer protocol, and because of that uncertainty, the score will get -1.

Score: 9

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:

Native token Balancer BAL is sufficiently liquid with the deepest liquidity on Balancer DEX of $ 897,835 with a daily trading volume of $ 2,142,829. BAL token is supported by the two most popular centralized exchanges - Binance ($ 123,856 liquidity and $ 2,536,036 volume) and Coinbase ($ 111,423 liquidity and $ 1,228,446 volume), and a maximum volume of $ 2,536,063 was reached on HitBTC with $ 199,162 liquidity.

1	Balancer (v2)	BAL/ETH	$12.57	0.6%	$897,835	$895,137	$2,142,829	10.32%	Recently	●
2	HitBTC	BAL/USDT	$12.58	0.23%	$313,048	$199,622	$2,536,063	12.21%	Recently	●
3	Binance	BAL/USDT	$12.58	0.08%	$74,729	$123,856	$2,326,340	11.20%	Recently	●
4	BKEX	BAL/USDT	$12.54	0.26%	$110,540	$118,762	$745,888	3.59%	Recently	●
5	Balancer (Polygon)	BAL/USDC	$12.50	0.6%	$147,598	$147,155	$520,614	2.51%	Recently	●
6	Coinbase Exchange	BAL/USD	$12.57	0.08%	$65,950	$111,423	$1,228,446	5.92%	Recently	●

Score: 5

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:

BAL token can be lent and borrowed on Aave (on Ethereum and Polygon networks) and Cream finance lending protocols.

On Rari Capitals' lending protocol FUSE, BAL token can be deployed productively as part of the pool created by Balancer DAO.

BAL token can be used on a few protocols with limited productivity.

Score: 6

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:

Balancer Labs are behind the development and management of Balancer protocol. The team is credible and mostly public (lack of information about all team members).

Balancer team:

Fernando Martinelli -CEO, co-founder, LinkedIn

Jeremy Musighi - Head of Growth, co-founder, LinkedIn

Meghan Gardler - Director of Marketing & Communications, LinkedIn

Daniel Martin Fernandez - Blockchain Engineer, LinkedIn

Evgeny Boxer - Senior Front-end Engineer, LinkedIn

Greg Taschuk - developer, LinkedIn

Megan Moran - Marketing and Communications Manager, LinkedIn

Maria Magenes - Marketing Lead , LinkedIn

Nicolas Venturo - Blockchain Engineer, LinkedIn

Luuk Weber - Balancer Grants Lead, Twitter

Jeff Bennett - no info

Score will get (-2) because isn't possible to find public information about all team members.

Score: 13

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:

Looking at the LinkedIn profiles of the Balancer labs team members, it can be seen that this is a well-balanced team that covers all relevant fields of expertise when it comes to the open blockchain protocol. The two co-founders are business development experts with experience in the blockchain space, and the rest of the team has the working experience and skills in accordance with the working position. In protocol documentation is described the connection between team and protocol.

Score: 10

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

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

Answer:

Balancer team members are often guests on podcasts, AMAs, Summits, Conferences, and other events publicly talking about the DeFi sector from the perspective of Balancer protocol. Two co-founders, Jeremy Musighi and Fernando Martinelli are most active in public discussions:

Jeremy Musighi - Based Space, MicoBits Blockchain, Octaloop Events, Mimo podcast, Dystopia Labs
Fernando Martinelli - bFresh, Epicenter podcast, LongHash Venture AMA, EconomicDesign podcast

Jeff Benett - Bankless, ETHGlobal

Score: 5

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

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

Answer:

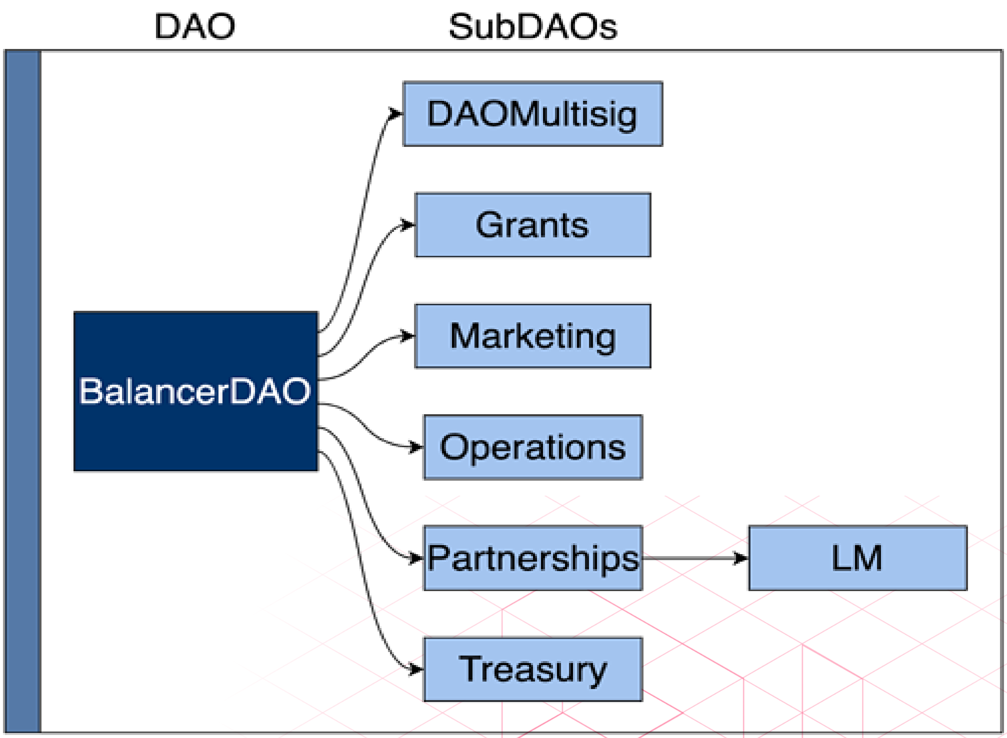
Balancer labs **raised** $3 million in funding through a seed round led by Accomplice and Placeholder in March of 2020. With 3 more funding rounds by selling BAL tokens from team treasury:

In November 2020, Pantera Capital and Alameda Research invested ~$4 million

In February 2021, Three Arrow Capital and DeFiance Capital made a combined investment of $5 million

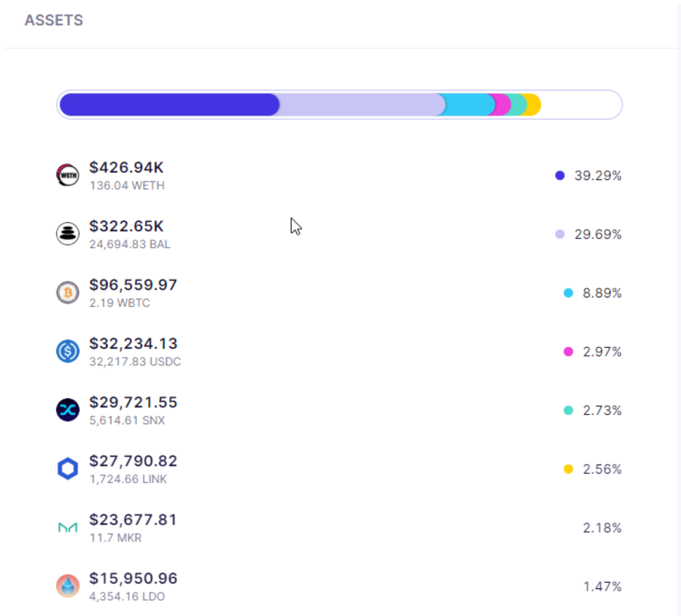
In May 2021, VCs led by Blockchain Capital made an investment of $24.25 million.

The Balancer team is currently working on protocol transition to a decentralized governance model and full control over the protocol should be taken by the Balancer community (veBAL holders). Balancer community has an organizational structure created through subDAO formation:



Grants DAO and Multisig DAO have already existed before the formation of this organizational structure. Within a subDAO operates three types of contributors - signers (executives), members and observers. Every subDAO operates as an organizational unit for budget allocation, reporting, setting goals but with alignment across DAO. Such an organizational structure is conductive in the coordination of DAO contributors, decisions, budgeting, on-boarding and other activity inside DAO.

According to the Boardroom application Balancer DAO treasury has over $1 million with a high level of token diversification.



(source: Boardroom)

The team has attracted resources through several funding rounds, efficiently coordinates resources from the beginning, and successfully coordinated the protocol transition to the DAO model.

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:

Balancer DAO has deployed Gnosis Safe multi-signature wallet but without decision-making power, its role is to enact on-chain the decision expressed by BAL holders via off-chain voting. Multi-sig n-of-m configuration is set as follows:

6-of-11 for Ethereum mainnet, address: 0x10A19e7eE7d7F8a52822f6817de8ea18204F2e4f

3-of-5 for Polygon, address: 0xd2bD536ADB0198f74D5f4f2Bd4Fe68Bae1e1Ba80

3-of-5 for Arbitrum, address: 0x6207ed574152496c9B072C24FD87cE9cd9E17320

Balancer's multi-sig signers are a diverse set of widely respected community members. Signers for Ethereum mainnet are:

Signers

- Alexander Lange (Inflection)
- Ash Egan (Accomplice)
- Solarcurve (Baller)
- Fabien (Snapshot Labs)
- Jake Brukhman (CoinFund)
- Kain Warwick (Synthetix)
- Kevin Owocki (Gitcoin)
- Mariano Conti (Ethereum)
- David Hoffman (Bankless)
- Trent McConaghy (Ocean Protocol)
- Cooper Turley (Fire-eyes)

(source: [Balancer documentation])

Signers for Polygon and Arbitrum are:

Signers

- Fabien (Snapshot Labs)
- Solarcurve (Baller)
- Bakamoto (Baller, Liquidity Mining Committee)
- jnapier (Baller)
- justwanttoknowathing (Baller)

(source: [Balancer documentation])

Information about Balancer DAO admin keys are publicly and clearly explained in [Balancer documentation] together with explained [signers duties]. Although the long-term vision of Balancer DAO is that the protocol will be [fully governed by BAL token holders], there is currently a multi-signature wallet and therefore the score will get (-2).

Score: 18

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:

Anyone can be part of the Balancer governance and anyone with BAL voting power can vote on proposals. In order to be eligible to vote on Balancer proposals, you need to satisfy at least one of the following:

- Hold BAL tokens
- Hold BPT tokens for pools that have BAL in them
- Have someone delegate their voting power to your address

After activation of veToken model anyone that hold veBAL tokens can vote on proposals (transition to veToken model started after this proposal).In order to be eligible to vote on the Balancer proposal, the user needs to stake BPT of the 80/20 BAL/ETH pool - liquidity providing position and lock it between 1 week and 1 year. The longer the lock period user chooses, the more voting power users get.

Balancer governance makes decisions about new features around protocol and directions where protocol should go by deciding about strategic questions, budgets, and protocol fees set-up. Governance presents the ultimate decision body for the Governance protocol so only governance voting can activate a proposal but it is launched on-chain and through the mediation of multi-sig wallet signers.

Because governance voting doesn't make on-chain changes directly, the score is lower for (-1), and because Balancer DAO hasn't full governance control (-2).

Score: 12

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:

According to the data from Boardroom, Balancer governance created overall 95 proposals, cast 30,540 votes, and 6,662 voters participated. From the last 10 proposals that go to governance voting, 4 didn't reach the quorum.

Balance governance discussions take place on the Discourse governance forum and Discord. Activity stats on the governance forum is shown in the image below:

Site Statistics

	Last 24 hours	Last 7 days	Last 30 days	All Time
Topics	2	5	10	388
Posts	13	80	180	5.2k
Users	1	14	37	1.5k
Active Users	30	64	99	—
Likes	36	193	347	3.6k

(source: Balancer Governance Forum)

Voting participation rate is 17% - from a total of 39,188 token holders6,662 are active voters. On average, votes get between 39k and 1.3m BAL from a total number of 48,982,143 minted BAL tokens.

Some topics have attracted more governors with active debate, while some topics that are more formal do not have an open discussion. The Balancer community is very active in the governance process with a sufficiently diverse group of governors. Score is lower for (-1) because the participation of BAL holders needs to be higher, which should probably happen by switching to the veBAL model.

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:

For thegovernance process, Balancer uses mostlybasic infrastructure that is used by almost all DAOs. Discussion takes place on the Discord and Discourse forum, voting on the Snapshot and Notion is used for organizing all information about DAO. DAO weekly reporting is done on a substack.

The protocol has a useful governance infrastructure that is sufficient to carry out the basic governance process. Score gets lower for (-2) because the protocol does not have a developed infrastructure for open contributions.

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:

Balancer governance process is well documented in Balancer protocol documentation.

- Post request for comment (RFC) on forum (using template)
- Facilitate preliminary discussion on governance forum and discord
- Update and refine RFC to become a proposal
- Snapshot vote
- Executing results if voting on proposal fails or don't reach quorum, next try can be done in 30 days. If the vote succeeds multi-signature signers need to activate the proposal

Governance process is transparent and open but is formal and "minimum viable" for reaching consensus, without more complex categorizations of importance for different topics, and because of that the score gets lower for (-2).

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:

In Balancer documentation is stated: "Balancer Labs is the organization founded to start implementation and evolution of Balancer Protocol." Balancer Labs headquarter is located in Estonia, at Rousikrantsi Street 2-1200 Tallinn, 10 119. In Balancer forum "terms of services" under section Disputes is stated: "*Estonia will govern any dispute related to these terms or your use of the forum. You and the company agree to seek injunctions related to these terms only in state or federal court in Tallin. Neither you nor the company will object to jurisdiction, forum, or venue in those courts.*"

A legal entity is connected to the protocol and public information about the entity is available.

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:

Estonia is relevant jurisdiction with applicable law. Estonia is the first country to offer e-Residency, a government-issued digital identity, and status that provides access to Estonia's transparent business environment. With e-residency program, Estonia has attracted a large number of entrepreneurs, and the trend has continued to grow with popularity of cryptocurrencies and blockchain technology. Estonia was one of the first jurisdictions in the world to provide a framework that facilitated crypto entrepreneurship and because of that was a very popular destination for establishing Defi businesses. But new legislation with AML requirements will probably change Estonian crypto-friendly status.

Score: 8

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