Protocol: Anchor Protocol
Version: 1
Previous Report: None

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Season/competition: Season 2

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: Simply put Anchor Protocol is not a fork of any previous protocol. The mission statement of Anchor Protocol is one shared by many, however Anchor Protocol's operational structure separates itself from its competitors. From their Gitbook

"ANC is designed to **capture a portion of Anchor's yield**, allowing its **value to scale linearly with Anchor's assets under management (AUM)**. Anchor distributes protocol fees to ANC stakers pro-rata to their stake, benefitting stakers as adoption of Anchor increases -- stakers of ANC are incentivized to propose, discuss, and vote for proposals that further merit the protocol."

 The idea of blockchain lending is not novel, but interest rates on stablecoin staking protocols

normally fluctuate according to supply & demand, whereas Anchor protocol claims to sustain a 20% interest rate.

On top of this Anchor Protocol provides its users with a variety of third party insurance solutions for both smart contract exploits as well as stablecoin volatility. (see photo)
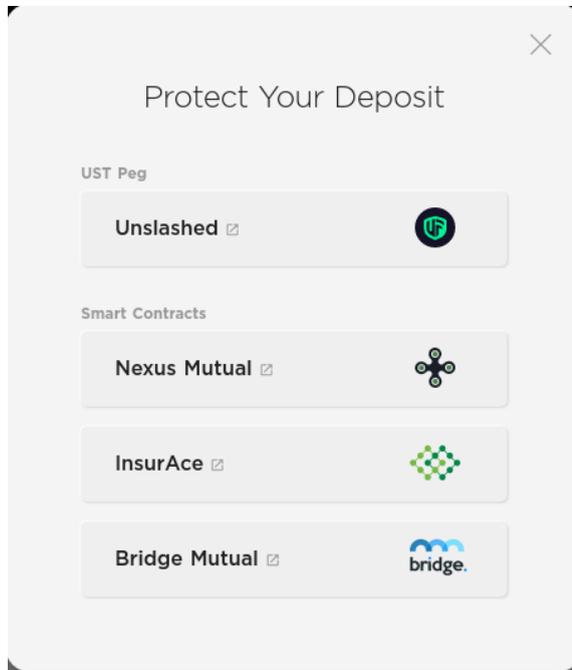
Score: 14

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: With Terra hitting a record $20 billion TVL, it has now surpassed the Binance Smart Chain. This already shows the market demand for a protocol such as Anchor is prevalent. Stable coin staking with high rewards and minimal risk is the core mission of Anchor Protocol, and the market demand is high whilst Anchor Protocol simultaneously satisfies the market fit. Another point to make here is the extra layer of security by offering third-party insurance on deposits made to the Anchor Protocol from companies such as Nexus Mutual, Bridge Mutual, and InsurAce.
Score: 14

c) Target market size? (10 points)

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

Answer: According to [PRNewswire](#):

"The global lending market is expected to grow from $6036 billion in 2020 to $6932 billion in 2021"

This is a huge target market size. And because DeFi is by nature open and unregulated (for now) we expect it to continue to [grow exponentially](#) due to the infancy of crypto currency at this time.

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 competitiveness of the protocol within its market sector is prominent, however according to an article written on [Purple Stats](#), Anchor Protocol is lacking in transparency surrounding certain crucial metrics. See quote,

> Given that Anchor is a protocol for savings and borrowing, supplementary metrics to accompany TVL should center around user and activity growth. Here, I would like to propose 3 categories of metrics Anchor can adopt to track these growth.
>
> 1. Platform users: Total users and daily/monthly active users
>
> 2. Daily anchor activity: growth of collateral added (by amount) and daily UST deposit change
>
> 3. Growth of UST deposited by address

Since the ANC token is not required for use of the Anchor Protocol, trading volumes of this token are not a good indicator of protocol usage. This leaves us with comparing Anchor Protocol's TVL with its biggest competitor within the lending sector which is Aave. Aave has a current TVL of $11.17 billion. Anchor Protocol is a very close second sitting at $10.9 billion TVL.

It is very difficult to find a comparison to Anchor Protocol due to its innovative approach of a lending platform offering high rewards (~20%) on stablecoin (UST) staking. Comparing Anchor Protocol to other lending platforms such as [Aave](#), is not a fair assessment to either protocol, as the fundamental
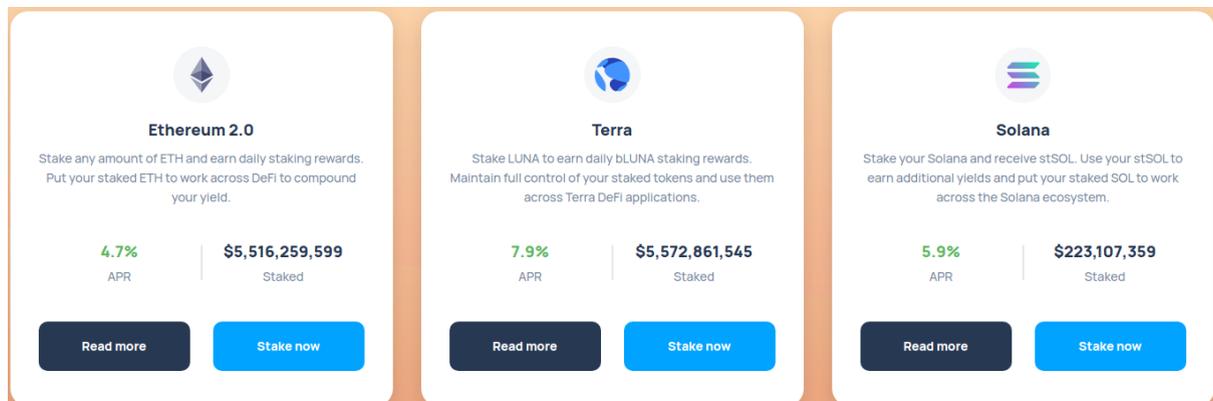
goals of each platform are different. Anchor Protocol's mission is to provide high rewards on low risk investments, where as something like Aave is to offer rewards on a wide variety of projects regardless of market volatility and risk.

Score: 7

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: Anchor Protocol has a number of different integrations and partnerships surrounding the protocol. Anchor Protocol's biggest partnership is Lido Finance, which allows users to bond their Luna or Ethereum on Anchor Protocol, which allows for the stable ~20% APY on UST. Lido Finance currently secures ~$5.5 billion USD in bonded ETH (bETH) and ~$5.6 billion USD in bonded Luna (bLuna).

Ethereum 2.0	Terra	Solana
Stake any amount of ETH and earn daily staking rewards. Put your staked ETH to work across DeFi to compound your yield.	Stake LUNA to earn daily bLUNA staking rewards. Maintain full control of your staked tokens and use them across Terra DeFi applications.	Stake your Solana and receive stSOL. Use your stSOL to earn additional yields and put your staked SOL to work across the Solana ecosystem.
4.7% APR $5,516,259,599 Staked	**7.9%** APR $5,572,861,545 Staked	**5.9%** APR $223,107,359 Staked
Read more Stake now	Read more Stake now	Read more Stake now

Abracadabra Money's Degenbox is a vertical cross-chain integration built on Anchor Protocol. Degenbox is an Ethereum Dapp that allows users to leverage their Anchor UST positions on Ethereum using the Ethereum<->Terra shuttle bridge. However this is not without concern to Anchor Protocol depositors, as DegenBox is causing a rapid depletion of the Anchor Protocol treasury.

**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 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: When searching for token distribution we need to consider that there is wrapped ANC on the Ethereum mainnet which is mainly used to supply multiple CEX's like Kucoin and recently Binance, and then we have the actual ANC holders on the native Terra blockchain. We will start with the wANC.

ANC tokens are currently held by ~1400 unique addresses, a number that seems to be growing slowly and steadily:
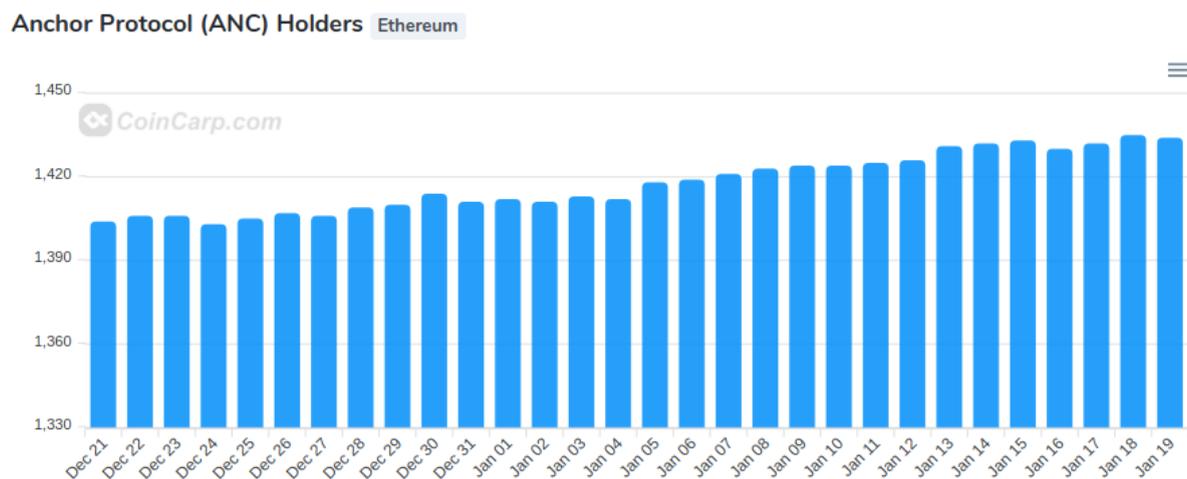
The ANC rich list shows us that by far the largest wallet is KuCoin currently holding 41% of wrapped ANC on the Ethereum mainnet:

Top 100 Richest Anchor Protocol (ANC) Addresses Ethereum

#	Address		Quantity	Percentage	7d Change
1	0xd6216fc19db775df9774a6e33526131da7d19a2c	KuCoin 6	2,719,574	41.33%	600,844
2	0x738cf6903e6c4e699d1c2dd9ab8b67fcdb3121ea		1,103,578	16.77%	102,733
3	0xf16e9b0d03470827a95cdfd0cb8a8a3b46969b91		773,414	11.75%	125,643
4	0x0d0707963952f2fba59dd06f2b425ace40b492fe	Gate.io	734,400	11.16%	623,902
5	0x167a9333bf582556f35bd4d16a7e80e191aa6476	Coinone	213,755	3.25%	-11,540

Although the ANC tokens in this wallet are technically owned by many different KuCoin users, it does create a central point of failure. Another KuCoin hack could result in all these tokens ending up in the hands of a single malicious entity. Please bear in mind that these wallets are referring to wrapped ANC (wANC) on the Ethereum mainnet, not accounting for Terra ANC. When looking at total supply of wANC on the ETH main net, there is 6,345,731.062303 wANC, which when compared to the circulating supply of ANC on Terra (213,538,202 ANC) is only .029% of the circulating supplies.

As for the Terra ANC holders we can see that there are ~40,000 unique addresses with the top individual wallet holding 1.22% of the circulating supply. This is a relatively normal percentage for the top holder, allowing for minimal impact if sold.

Score: 8

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer: The main purpose of the Anchor token (ANC) is its governance capabilities, explained below.

"The Anchor token is the **$ANC**, Anchor Protocol governance token. ANC tokens can be deposited to create new governance surveys. ANC is designed to capture a portion of Anchor's performance, allowing its value to scale linearly with Anchor's assets under management (AUM)." Source

This essentially means that when you are staking your ANC token, you can create governance surveys on anything surrounding the protocol. This allows for ultimate governance surrounding the protocols future decisions and allows for amendments to previous decisions made within the protocol.

However the extent of ANC's capabilities do not end there. ANC holders can receive ~%20 percent APR rewards by staking the ANC token on Anchor Protocol, paying rewards in the native ANC token allowing holders to accumulate voting rights as voting strength is determined proportionally to each

wallets ANC amount.

Users can also provide liquidity into the ANC-UST LP resulting in a ~%61 APR paid in ANC token to once again increase voting power for the provider. However some ANC holders are [questioning the overall utility of the ANC token](#), requesting more incentives to increase buy pressure and sustainability.

Score: 7

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

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

Answer: [ANC issuance](#) goes to the following parties:

- **Borrower incentives**: 400M (40%) tokens are linearly released to be used as borrower incentives over a period of 4 years.

- **ANC LP staking rewards**: 50M (5%) tokens are linearly distributed to the ANC-UST pair liquidity providers over a period of 1 year.

- **Community fund**: 100M (10%) tokens will be reserved for the Anchor Community Fund.

As you can see above, these different issuance models allow for the protocol's advancement and function, however a very important issuance model that is not listed above is the governance staking rewards system in place to incentivize voter turnout. To the contrary, this does create the opportunity for stakers to vote for the sake of voting, which can incentivize stakers to vote on polls without fully

understanding the goal of each individual poll.

Score: 6

d) Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the utility of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer: Users of Anchor Protocol are required to pay [fees](#) in UST. Anchor Protocol then automatically uses this UST to buy back ANC on [terraswap](#) which is then distributed pro-rata back to ANC stakers. This way ANC stakers directly benefit from a larger Total Value Locked (TVL) in Anchor Protocol.

Score: 7

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: ANC token is easily acquired across multiple CEX's such as [Bitfinex](#), [KuCoin](#), and [Gate.io,](#) with sufficient liquidity to support the trading volume generated on most of these exchanges. However for decentralised exchange options it seems as it is only available for purchase on [TerraSwap](#), with [TerraSwap accounting for 26.47% of the total trading volume.](#)

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: Outside of Anchor Protocol the ANC token can currently only be used for LPing on [TerraSwap](#).

Score: 2

3. Team

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

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

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

Answer: The team behind Anchor Protocol is Terraform Labs, which has 63 employees on their [LinkedIn](#) page. [Terraform](#) is a very credible company consisting of a wide variety of employee's based in Seoul, South Korea, led by Stanford University alumni, [Do Kwon.](#) With team members attending multiple top tier universities such as Princeton and Stanford, the team is public and credible within the sector.

The only "negative" I can find with the Terraform team is that out of the 63 employees on their Linkedin, roughly half do not have public profiles on said Linkedin page. Outside of that the team is top notch.

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: In terms of relevant experience, the creators of Anchor Protocol at Terraform Labs are highly experienced within the development sector. Scanning through the public Linkedin profiles, I found team members with relevant experience at major companies such as [Amazon](#), [Algorand](#), and even [Uber](#). Led by [Forbes 30 under 30, Do Kwon,](#) the Terraform team is adequately experienced. Based on the success of Terraform Labs over the past year, I consider the team to be adequately experienced to push the protocol in the direction of success and sustainability.

Score: 8

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: The Terraform Labs team is actively and effectively spearheading public education on the benefits of cryptocurrency. Founder Do Kwon has actually publicly spoken out against the SEC and openly discusses decentralised finance in [interviews with major financial news outlets](#), such as Yahoo Finance. The [discord](#) is relatively active with adequate moderators and admins willing to help out for all questions asked within the server, albeit slow response time, at least the questions get answered eventually.

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: Terraform Labs has raised a total of $58,000,000 USD according to [crunchbase](#), which implies that there are mechanisms in place to attract resources when needed such as a strong marketing and sales team devoted to raising funds for the protocol. [Major investors like Coinbase Ventures, Pantera Capital, and Arrington Xrp Capital](#) are among the Terraform supporters.

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: From their documents

 "Development and maturization of Anchor Protocol is driven by the Anchor community through democratic governance. Anchor does not contain any admin keys with privileged access. Anchor governance is configured to be the sole authority allowed to apply protocol changes or upgrades.

The only reason this is not a 19-20 score is due to the lack of information on the voting time window.

See photo below from their documents.

Poll Lifecycle
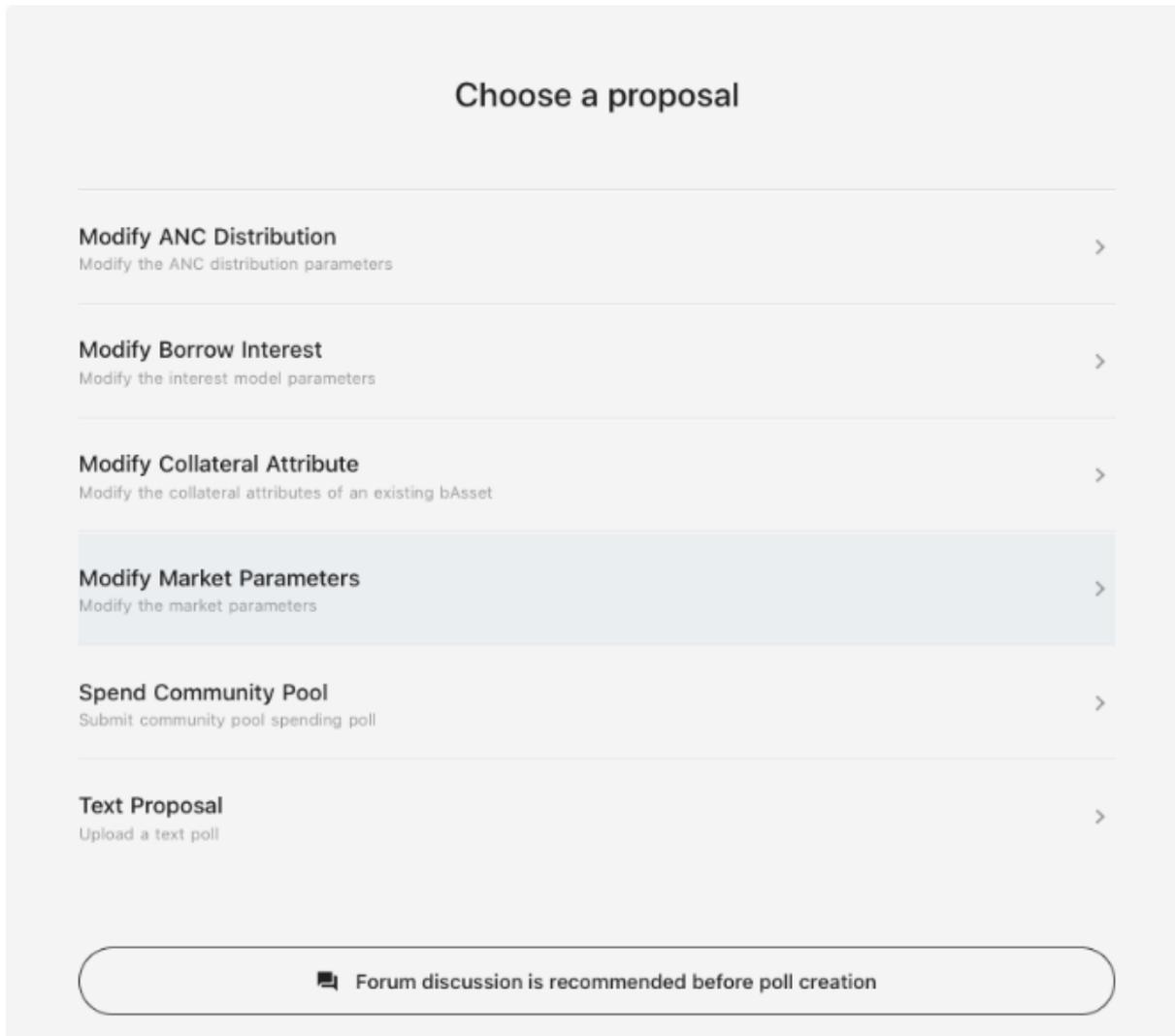
Governance polls in Anchor follow the below procedure:

1. A new poll is created with an initial ANC deposit of `Proposal Deposit`
2. The poll enters the voting phase, where it can voted for by anybody with a staked ANC position. Users can vote `yes` or `no`, and can assign how many of their staked ANC to use for voting.
3. The total amount of staked ANC can be snapshotted to the poll within a time window of `Snapshot Period` before the poll's end. This value is used to calculate the poll's quorum.
4. The voting period ends after `Voting Period` has passed.
5. The poll's votes a tallied. The poll passes if both quorum (minimum participation of all staked ANC, value snapshotted at step 3. used in calculation) and threshold (minimum ratio of `yes` to `no` votes) are met.
6. If the poll passes, its contents can be executed after `Timelock Period` blocks have passed. The poll must be executed prior to the `Expiration Period`, otherwise it will automatically expire and no longer be considered valid.

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: All of Anchor Protocol's parameters are subject to a DAO vote:

Choose a proposal

Modify ANC Distribution
Modify the ANC distribution parameters

Modify Borrow Interest
Modify the interest model parameters

Modify Collateral Attribute
Modify the collateral attributes of an existing bAsset

Modify Market Parameters
Modify the market parameters

Spend Community Pool
Submit community pool spending poll

Text Proposal
Upload a text poll

💬 Forum discussion is recommended before poll creation

Voting takes place on-chain and is therefore automatically enforced by the Terra blockchain.

Score: 15

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practised by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer: The voting mechanism for Anchor protocol works only for *stakers* of ANC token. Your voting power is directly correlated to how much ANC token you stake. The ratio of circulating ANC token compared to total amount staked is roughly ~24.5%, with a total circulating supply of 220 million, with 54 million staked for governance and rewards.

When searching the native [block explorer for ANC, Terra Finder](), unfortunately it does not yield any

results.

Score: 3

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: The governance technology for Anchor Protocol really goes above and beyond. There are multiple outlets for voters to create votes or debate on the protocols future decisions. These include the ANC user forum, as well as the ANC voting dApp, which allows an extremely wide variety of options for ANC stakers to create, manage, or vote on different poll types.

Poll Types

Poll Type	Description
Modify Collateral Attributes	Propose for changes in the Max LTV of a whitelisted collateral
Modify Market Parameters	Propose for parameter changes in Anchor money market
Modify Liquidation Parameters	Propose for parameter changes in Anchor's Liquidation Contract
Modify ANC Parameters	Propose for parameter changes in the Anchor Token
Modify Governance Parameters	Propose for parameter changes in Anchor Governance
Modify Borrow Interest	Propose for changes in the stablecoin borrow interest formula
Modify ANC Distribution	Propose for changes related to Anchor token distribution
Community Grants	Propose for Anchor community funded development work
Text Proposal	Submit a text proposal

Score: 10

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: Proposals in Anchor Protocol require users to make a [Proposal Deposit](#) in ANC which is lost when a proposal doesn't reach enough voter turnout. This is to ensure that governors consult the [Anchor Protocol Forum](#) before they make an actual proposal. The entire voting sequence looks as follows:

1. A new poll is created with an initial ANC deposit of `Proposal Deposit`

2. The poll enters the voting phase, where it can voted for by anybody with a staked ANC position. Users can vote `yes` or `no`, and can assign how many of their staked ANC to use for voting.

3. The total amount of staked ANC can be snapshotted to the poll within a time window of `Snapshot Period` before the poll's end. This value is used to calculate the poll's quorum.

4. The voting period ends after `Voting Period` has passed.

5. The poll's votes a tallied. The poll passes if both quorum (minimum participation of all staked ANC, value snapshotted at step 3. used in calculation) and threshold (minimum ratio of `yes` to `no` votes) are met.

6. If the poll passes, its contents can be executed after `Timelock Period` blocks have passed. The poll must be executed prior to the `Expiration Period`, otherwise it will automatically expire and no longer be considered valid.

Score: 6

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: With a team as public as Anchor is, it goes without question that they are legally accountable by the regulations of the company's native country, [South Korea](#).

More specifically surrounding the latest crypto regulation, see photo below.

> The amended Act forces all Korean crypto businesses to meet the following requirements.
>
> 1. They must register an authorised company bank account and provide customers with their own real-name accounts with the same bank.
> 2. They must establish expanded AML/KYC procedures using a risk-based approach, which includes customer due diligence and suspicious transactions reporting. This also requires a technical solution, which permits the exchange of customers' personal data with transaction counterparties (FATF's R.16 "travel rule").
> 3. They must acquire an Information Security Management System (ISMS) certificate at the Korea Internet & Security Agency (KISA).
> 4. They must submit the company's details (company name, the name of its representative, location of the place of business and contact information) and the details of its bank account to the financial intelligence unit.

Beyond that, Anchor Protocol offers third party insurance for all stakers as well as an active bug bounty program for the smart contracts within the protocol.

Score: 13

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 jurisdiction of Anchor Protocol falls under South Korean rules and regulations.

Score: 7

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	14 / 15
b) Market fit/demand	14/ 15
c) Target Market Size	10/ 10
d) Competitiveness within market sector(s)	7/ 10
e) Integrations & Partnerships	9 / 15
Total Points - Value Proposition	**54 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	8 / 15
b) What is the extent of the token's capabilities?	7/ 10
c) Is the issuance model able to improve the coordination of the protocol?	6/ 10
d) Is the value capture model able to accrue and distribute value?	7 / 10
e) Is the token sufficiently liquid to enable active use and trade?	3 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	**33 / 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?	8 / 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	**33 / 40**
4. Governance	**Points**
a) Admin Keys	18 / 20
b) Extent of Governance capabilities	15/ 15
c) Active Governance contributors	3/ 5
d) Governance infrastructure	10 /10
e) Robustness of Governance process	6/ 10
Total Points - Governance	**52 / 60**

5. Regulatory	Points
a) Does the protocol have any legal accountability?	13 / 15
b) What is the quality of the legal jurisdiction?	7 / 10
Total Points - Regulatory	**20 / 25**
Total	**192 / 250**

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