PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Uniswap
Version: Version 3
Date: 11/04/2022
Previous Report: Here

Author: Squidbit
Reviewed by: OriginalSK
Season/competition: Off-Season

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	11 / 15
b) Market fit/demand	15 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	8 / 10
e) Integrations & Partnerships	14 / 15
Total Points - Value Proposition	**58 / 65**

2. Tokeneconomics	Points
a) Is the token sufficiently distributed?	8 / 15
b) What is the extent of the token's capabilities?	5 / 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?	0 / 10
e) Is the token sufficiently liquid to enable active use and trade?	5 / 5
f) Are there any extrinsic productivity use cases?	9 / 10
Total Points - Tokenomics	**33 / 60**

3. Team	Points
a) Is the team credible and public?	15 / 15
b) Does the team have relevant experience?	9 / 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?	8 / 10
Total Points - Team	**37 / 40**

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4. Governance	Points
a) Admin Keys	15 / 20
b) Extent of Governance capabilities	11 / 15
c) Active Governance contributors	3 / 5
d) Governance infrastructure	10 /10
e) Robustness of Governance process	10 / 10
Total Points - Governance	**49 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	11 / 15
b) What is the quality of the legal jurisdiction?	10 / 10
Total Points - Regulatory	**21 / 25**
Total	**198 / 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: Formally established in 2018, Uniswap is one of the original decentralized exchanges/AMMs and currently is the largest DEX by total volume with coverage for Ethereum and three related L2's/side chains–Polygon, Optimism, and Arbitrum. While Uniswap's core contribution was it's novel introduction of a trustless, peer-to-peer exchange mechanism for ERC20 tokens, several new DEX competitors (i.e. Curve, Balancer, etc.) have emerged in recent months and have the potential to erode a portion of Uniswap's market share. This does not yet appear to be the case as Uniswap has continued to dominate DEX trading activity (see section 1b).

Over time, Uniswap has successfully implemented three versions of its dapp:

- Version 1 implemented Uniswap's initial concept with support for ERC20-ETH swaps;
- Version 2, launched in 2020, introduced single swaps for ERC20-ERC20 pairs; and
- Version 3, launched in 2021, introduced dynamic liquidity for custom price ranges (i.e. concentrated liquidity) along with several other features.

Although the core technology powering Uniswap is "non-upgradable", the protocol can continue to scale by expanding its compatibility with other layer 2's and supporting swaps/pools for more tokens. So far, Uniswap has demonstrated

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an ability to successfully retain market leadership across several iterations of its product and is given a score of 13 for this category.

Score: 11

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer: According to CoinGecko, combined market capitalization for major DEX's is roughly $24 billion at the time of writing. In volume terms, total DEX activity stands at roughly $18 billion and Uniswap accounts for 80% of this total. Additionally, Uniswap's share of total DEX trading volume has increased steadily since its initial release (see below). Furthermore, average weekly fees paid on Uniswap are $3.3 billion−second only to Ethereum. Each of these factors points solidly to Uniswap having established product-market fit, resulting in a score of 15 for this category.
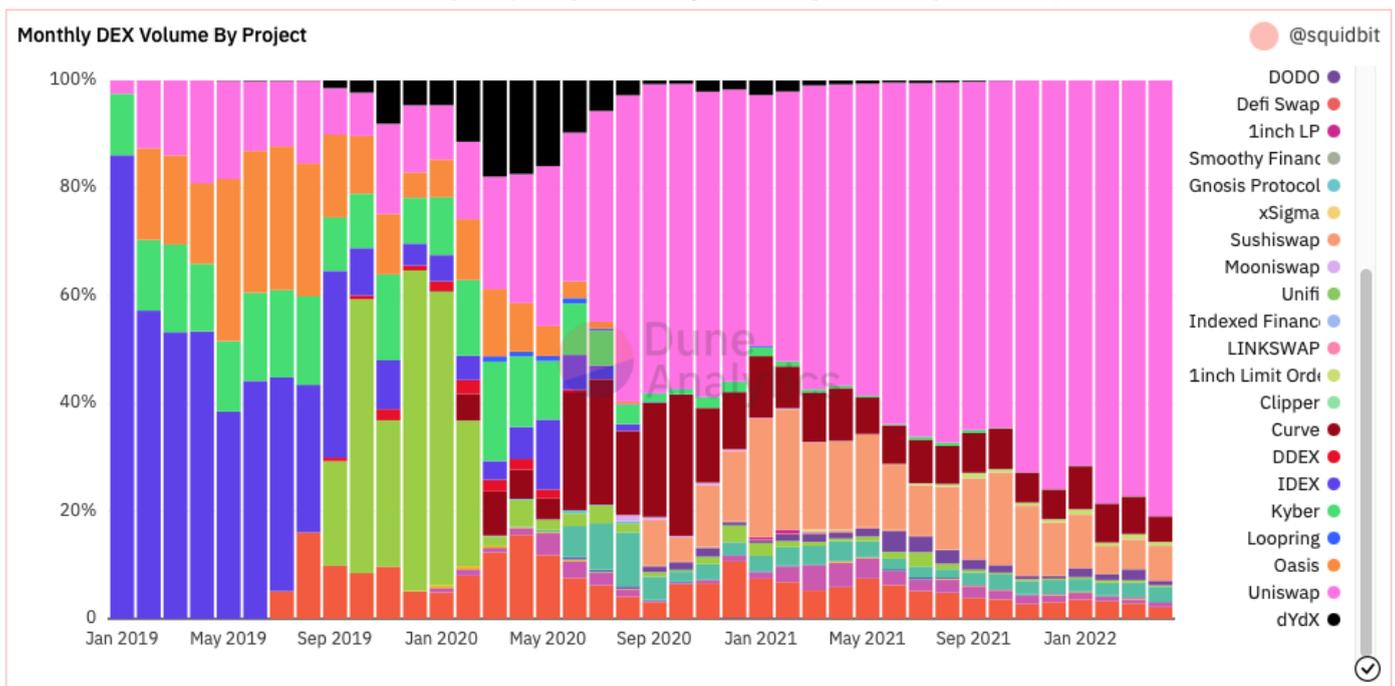
Score: 15

c) Target market size? (10 points)

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

Answer: As mentioned previously, volume on Uniswap accounts for a substantial share of total DEX activity, however

there remains opportunity for Uniswap to grow in TVL terms. The protocol only accounts for roughly 3% of total DeFi TVL, according to DeFi Llama. In comparison, combined centralized exchange volume routinely approaches $1 trillion per month, suggesting additional scale for Uniswap's potential market. As the broader digital asset ecosystem expands, so will the need for proven swapping applications. For context on this point, there are more than 73 million Ethereum addresses with a non-zero balance as of the time of writing (see below) and address growth has averaged 31% per year since 2019. With this amount of activity and market growth potential, a score of 10 is appropriate for this section.

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: Despite Uniswap's dominant market position from a volume perspective, the protocol currently lags Curve in terms of total value locked (see below). This can be partially explained by Curve's focus on stablecoins versus Uniswap's broader coverage of more esoteric ERC20 pairs. Uniswap's TVL is more than 3x that of Balancer even though Balancer arguably provides users with greater LP flexibility by accommodating up to 8 pairs in a pool. Additionally, Uniswap's TVL is more than 4x that of SushiSwap, a famous direct fork of the project.

It should be noted that a growing number of decentralized exchanges have come online in the past few months and AMM aggregators are also gaining steam. Uniswap retains an advantage as a tried-and-true DEX solution for traders and liquidity providers, but new entrants do pose a threat to Uniswap's core user base. As mentioned in section 1a), Uniswap has successfully added features and improved its product over time and should be able to continue doing so given its current team and breadth of resources (more detail on this point can be found in section 3). A score of 8 is given for this category.

#	NAME	CHAIN	SECTOR	TVL (USD) ⌄	1 Day %
3 🥉	🌈 Curve Finance	Ethereum	DEXes	$10.52B	0.32%
5	🦄 Uniswap	Ethereum	DEXes	$7.04B	3.76%
9	⚖ Balancer	Ethereum	DEXes	$2.19B	-1.68%
10	⊛ Bancor	Ethereum	DEXes	$1.84B	-0.05%
11	🍣 SushiSwap	Ethereum	DEXes	$1.68B	0.39%

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: Uniswap claims integrations with more than 300 dapps and other tools. Regardless of the exact number, any DeFi user can attest to Uniswap being accessible from a wide variety of sites and protocols including wallet providers (Metamask, Coinbase, Argent, Zerion, etc.), AMM aggregators (Kyber, Matcha, ParaSwap, etc.) and DeFi applications (i.e. Maker, Augur, PoolTogether, etc.). Because the list of DeFi dapps is growing significantly (see below), Uniswap will need to continue expanding its reach in order to retain competitiveness. Thus, a score of 14 is given for this category.


New DApps per Month – DeFi

Score: 14

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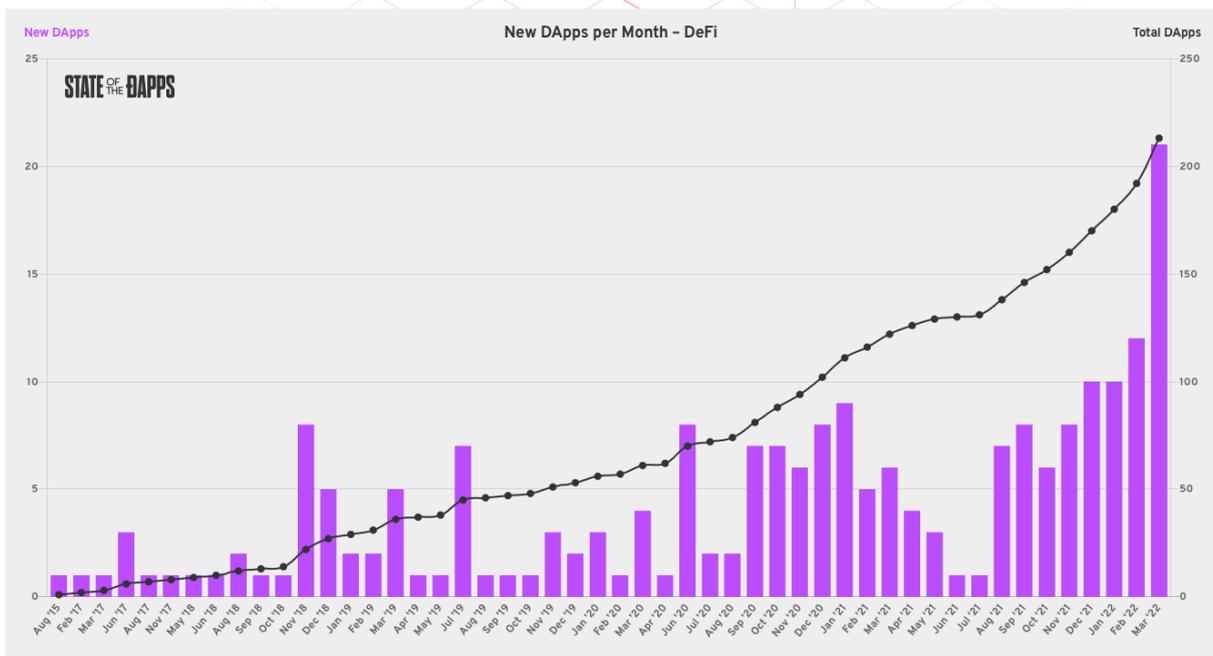
The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

## 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: Uniswap's original token distribution (UNI) occurred on September 16, 2020 and included 1 billion total tokens minted with 60% being distributed to community members, 21.51% to founders and employees, 17.8% to investors, and the remainder to advisors. Tokens distributed to founders/employees, investors, and advisors incorporate a 4-year vesting schedule. After 4 years, UNI will inherit an annual 2% perpetual inflation rate (subject to governance approval). After 10 years, it is anticipated that the share of UNI tokens distributed to community members will grow from 60% to 67.2%.
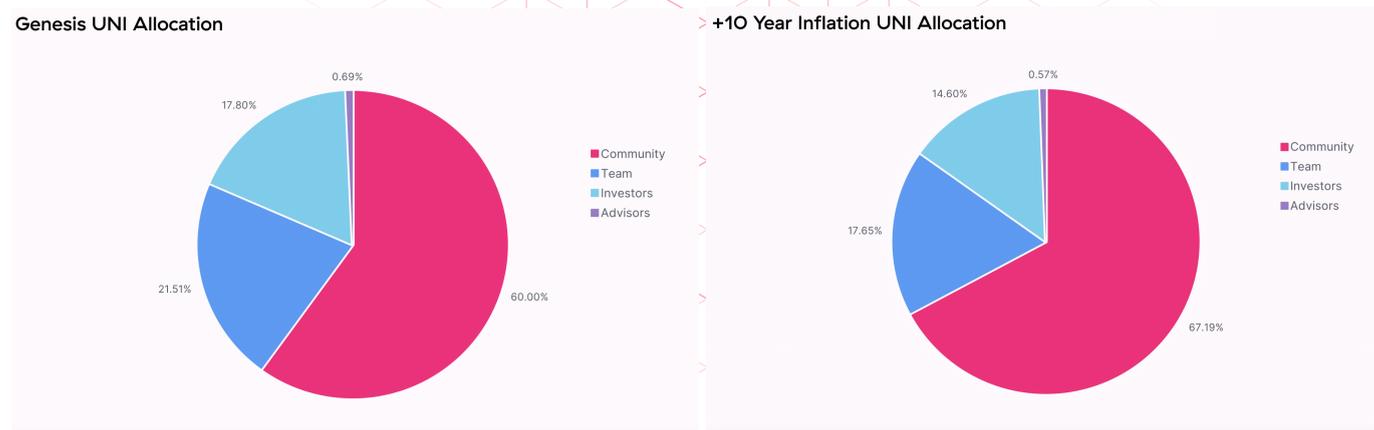
Approximately 46% of UNI tokens are currently in circulation with the remainder coming online gradually as vesting is released. The top 10 holdings of UNI currently account for 53% of total supply. The top 25 and 100 holders of UNI account for 67% and 87% of total supply respectively.

Because a significant portion of UNI have not yet been issued, top holders include several addresses controlled by the Uniswap treasury (including several vesting contracts). Despite a fairly significant downturn in token price (-65% over the past year at the time of writing), large holders appear to have retained their positions over the same period, according to data from IntoTheBlock.
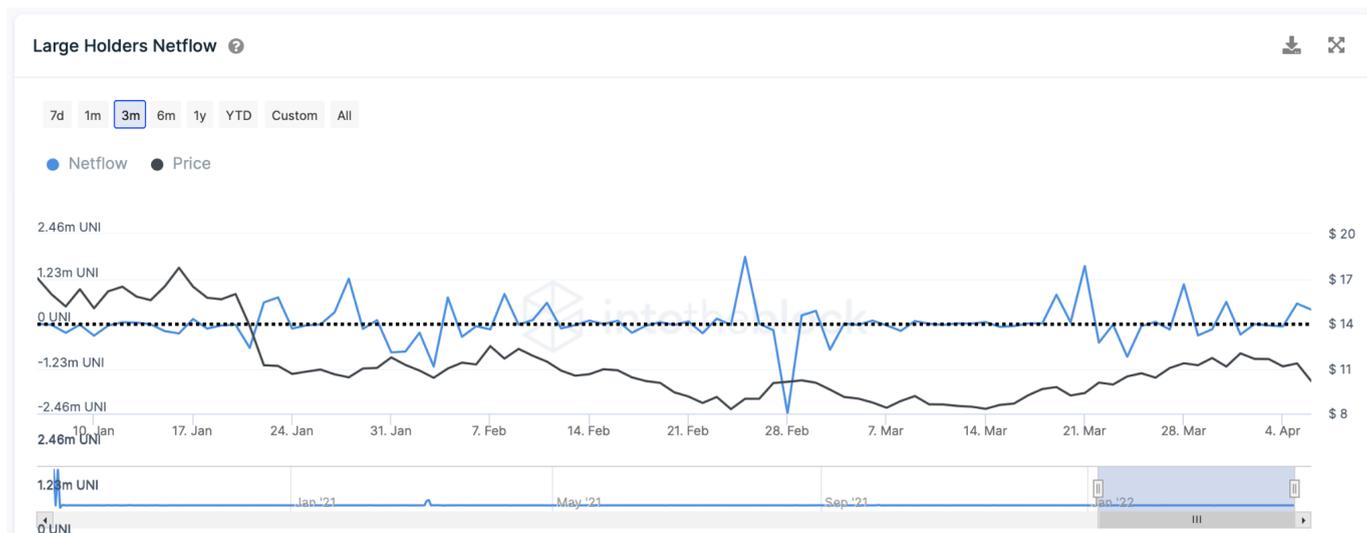
Compared to other large DeFi protocols, Uniswap's overall token distribution appears to be fairly allocated though it does favor founders and investors relative to other projects. Curve, Quickswap, and Loopring all have token allocations that favor community members more than Uniswap; however, Uniswap's emission schedule is expected to tilt the scales gradually towards community members over time (though no specific information was easily discoverable on the allocation of Uniswap's planned 2% annual emissions). As a result of all the aforementioned factors, a score of 8 is given in this category.

Token Distribution Comparison
Largest DeFi Protocols

Protocol	TVL	% of Total Supply in Circulation	Token Distribution (% of Total Supply)	
			Community	Founders/Investors/Other*
Curve	$10.36 billion	12%	67%	33%
Uniswap	$7.04 billion	46%	60%	40%
Balancer	$2.19 billion	11%	65%	35%
Bancor	$1.84 billion	100%	20%	80%
SushiSwap	$1.57 billion	77%	--	--
Quickswap	$528.1 million	36%	90%	10%
Loopring	$366.3 million	91%	80%	20%
Saddle	$244.2 million	--	51%	49%
Kyber	$71.1 million	45%	2%	98%
Average		**52%**	**54%**	**46%**

As of 4/8/22

* Includes ICO and other fundraising participants, which could encompass community members or team members.
Sources: TVL = DeFi Pulse; % of Total Supply in Circulation = CoinGecko; Token Distribution = project docs/websites.

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: UNI is primarily a governance token that enables holders to participate in the evolution of the Uniswap protocol. Token holders must own a minimum of 1,000 UNI to participate in off-chain governance discussions and 2.5 million to make a formal on-chain proposal. Additionally, UNI can be utilized in multiple DeFi applications (see section 2f). The UNI token currently does not accrue a portion of the revenue generated by the protocol, though with the introduction of V2, Uniswap added the potential for a 0.05% protocol fee that may be implemented in the future through a governance vote. This fee would be netted from existing swap fees, which are currently distributed fully to liquidity providers. A score of 5 is given in this category.

Score: 5

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: As mentioned previously, only 46% of UNI tokens are currently in circulation with the uncirculated supply residing in various Uniswap controlled vesting/treasury addresses. After four years from September 2020, the UNI token will have a 2% annual inflation rate (subject to governance approval). According to Uniswap, this is expected to ensure "continued participation and contribution to Uniswap at the expense of passive UNI holders". Although the issuance model employed by Uniswap is not uncommon, specific details about how continued issuance will be allocated are not easily discoverable. The project's forecasted 10+ year UNI allocations do increase the share of tokens distributed to community members, however, there is still some uncertainty over Uniswap's specific justification for its tokenomics model and issuance plans. Thus, a score of 6 is given in this section.

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: The UNI token does not directly accrue value outside of the right it grants holders to participate in protocol governance. As mentioned previously, with the introduction of Uniswap V2, the concept of a 0.05% protocol fee was introduced into the codebase, but is currently not utilized. If this feature were to be utilized in the future, the score for this section could be improved.

Score: 0

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: UNI is freely tradeable on [many](#) centralized and decentralized exchanges with between [$40 million](#) and [$180 million](#) of total 24-hour volume at the time of writing. This represents significant depth for the token's marketability and a score of 5 is justified for this section.

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: UNI can be productively deployed as lending collateral on Maker, Compound, Aave, and other dapps. Additionally, UNI can also be contributed to liquidity pools on Curve, Balancer, and others (including its own protocol Uniswap). Given the widespread usage and availability of UNI in many (but not all) protocols, a score of 9 is given in this section.

Score: 9

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 core team behind Uniswap Labs—the corporate entity that originally developed the Uniswap protocol—is public and highly credible. [Hayden Adams](#) (Founder and Chief Executive Officer), [Mary-Catherine Lader](#) (Chief Operating Officer), [Marvin Ammori](#) (Chief Legal Officer), and [Chad DePue](#) (VP of Engineering) are all senior members of the leadership team with public profiles and quality backgrounds. Uniswap Labs is based in New York, NY USA.

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: Each of the senior members of the Uniswap Labs team has lengthy backgrounds at high quality institutions including Siemens, BlackRock, Snap, Protocol Labs, Harvard University, Columbia University and others. The team's backgrounds are publicly available via sources like LinkedIn and others.

Score: 9

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

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

Answer: Many senior team members are vocal on social media and in Uniswap's governance processes. A simple Google search returns many results for public appearances by Hayden Adams (CEO) and other Uniswap team members covering discourse related to Uniswap specific issues as well as industry-wide topics. Additionally, conversations on Uniswap's official governance forum include posts and responses by core contributors.

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: Uniswap currently has the largest treasury of all DAO's tracked by DeepDAO and is actively recruiting for multiple roles to further build out its team. Treasury funds were raised primarily from the UNI token launch in September 2020. As mentioned previously, investors were allocated a significant portion of the token launch and include prominent VCs like Paradigm, Andreessen Horowitz, and Union Square Ventures. Despite the potential for skewed incentives between investors and community members, the presence of well-known external third-parties adds esteem to the project. Additionally, UniSwap very recently launched its own venture platform demonstrating its ability to attract, retain, and grow resources beyond its core product offering.

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: Uniswap [does not utilize](#) admin keys. However, core developers and the Uniswap Labs team are able to implement significant changes to the system without wider community or governance support. For example, the recent upgrades to the project in V3 were implemented [outside](#) of a governance proposal. A score of 20 in this section is not justified despite Uniswap not explicitly using admin keys. Given the Uniswap Labs team's ability to enact significant changes outside of the community governance framework, a score of 15 is warranted.

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: The [governance mechanisms](#) for Uniswap include both off-chain and on-chain processes. Historical on-chain governance proposals have included major changes, including fee tier amendments and the disbursement of treasury funds, but have not included larger version upgrades, like the introduction of v3 made in 2021.

UNI holders participate in governance in three primary phases:

1. A **temperature check** determines if there is sufficient desire from the community to enact a change. Voters use Snapshot to indicate their interest and link to the vote from a governance forum post.
2. A **consensus check** then establishes formal discussion around a proposal through a follow up Snapshot proposal (a 50k UNI yes-vote quorum is required for a consensus check to pass).
3. A formal **governance proposal** is then made based on the winning outcome from the consensus check. Governance proposals are submitted on Uniswap's [voting app](#).Any addresses with more than [2.5 million](#) UNI may propose governance actions. When a proposal is created, the community can cast their votes during a 3 day voting period. If a majority, and at least 4 million votes are cast for the proposal, it is queued in a timelock mechanism and may be executed after a 2 day waiting period.

Steps 1 and 2 are performed off-chain and not necessarily required in order to proceed to step 3. Version upgrades and other changes are possible to implement outside of this governance framework by the core team at Uniswap Labs. Given community governance is a significant—but not the only—part of administration of the Uniswap project, a score of 11 is given for this section.

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: At the time of writing, Uniswap has many active discussions taking place on the community's governance

forum, but has only executed 16 total governance proposals and retains a voting body of 3,480 individuals. The most recent proposals have seen between 10-50% participation from voters. Recent discussions on the Uniswap forum have garnered hundreds to thousands of views and multiple comments from community participants. Uniswap governance activity can be publicly observed via the protocol's voting app or via Boardoom. Overall, Uniswap's community governance discussions appear active, but the number of formal proposals approved is low relative to other projects.

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: Uniswap uses industry standard governance technology tools such as a discussion forum and voting app. Governance proposal activity and voting itself is recorded on-chain and is publicly viewable from multiple additional apps. The project's docs explain its governance process clearly.

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: As mentioned previously, Uniswap employs a transparent and procedural governance model that follows the below steps referenced in section 4b. There is significant history of successful governance proposals and observable engagement from community members. Proposals have led to significant improvements to the project including changes to fee tiers, and reductions to the number of UNI required to submit governance proposals. Uniswap's governance model is explained clearly in the protocol's documents.

Score: 10

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: Universal Navigation, Inc. is the legal entity behind Uniswap Labs and the core Uniswap team. Universal

Navigation, Inc. is a limited liability company that was incorporated in Delaware, USA in 2018. Universal Navigation, Inc. would have the same legal liability as any other entity incorporated in the United States. Public information on Universal Navigation, Inc. is available, but relatively limited. Notably, the legal accountability for Uniswap has been the subject of recent regulatory and civil action including an [investigation](#) by the United States SEC and a [fraud suit](#) filed by a Uniswap user.

Score: 11

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: Universal Navigation, Inc. is incorporated in the United States, a country with one of the most established and effective legal systems in the world.

Score: 10

About the Author: [Squidbit](#)