Protocol: Element Finance
Version: 1
Previous Report: n/a

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Season Rate-athon #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.

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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:
Element Finance is an interest yield protocol with fixed interest rate defi vaults as their hallmark financial product.[1] Element is also developing a governance model for their community, and as a product to other DAOs.

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[1] https://www.element.fi

Element is developing a marketplace akin to Certificates of Deposit (CDs) in legacy banking.[2] In other words, for a fixed amount of time, you can deposit crypto tokens into a vault and be guaranteed a fixed rate in returns. In contrast to a CD, however, Element's fixed rate vaults are liquid at any time. There is no obligation to leave the money in the vault for the entire duration. The organisational innovation is in the uniqueness of the defi product, and it's improvement over traditional banking. Their target customer is a casual investor.

Technically, Element finance utilizes a custom curve built from Balancer V2. Essentially, the customer purchases a discounted future token that can be redeemed with accrued interest any time within the stated term.[3] Details of the curve are described in a paper published by employees of Yield, Paradigm, and Dapp.org.[4] Element's core technology is a fork of Yield Protocol's custom curve with small modifications to enable fixed interest rate returns.

> "The main modification is in the way that the fees are calculated. Instead of calculating by changing the curvature, we calculate them by inferring the remaining yield from the curve price and then taking a percentage of that yield as a fee. This method is easier to calculate and analyze."[5]

Element Finance's governance model is based on basic governance with some key custom aspects.

1. Voting can be customised any way the DAO or treasury decides fits their purpose. This allows for many variations of who is allowed how many votes.
2. A protocol's governance can have any number of custom quorums designed around the type of decision being made. For example, the quorum needed for any decision could scale with the importance of the decision.
3. Element Finance's governance is designed to allow for interest accrual even during voting, and for governance tokens to not need to be migrated after systems upgrades.[6]

To break down scoring on novelty, I divided the total 15 points for Novelty organizational innovation (product) and technical innovation, equally weighted at 7.5 points

> *Organizational*: Element Finance introduces a new type of product into defi with fixed-rate interest, which appears to be the first of its kind. Further, their governance solution appears to address some shortcomings of previous governance systems. This product still has to compete with many other high-yield products available between liquidity pools, staking, and the wide range of options newly available. Organizational score - 7 out of possible 7.5.

> *Technical*: Element Finance's technical innovation for yield is a small modification of existing technology developed with Yield protocol to allow for fixed rate interest accrual. However, the customizations in their governance system appear to be fundamental shifts from current governance smart contracts. Technical score - 6 out of a possible 7.5.

Score: 13

[2] https://medium.com/element-finance/fixed-rate-interest-markets-a-casual-users-journey-through-fixed-rate-interest-using-element-50f420df1859
[3] https://paper.element.fi/
[4] https://yield.is/YieldSpace.pdf
[5] https://github.com/element-fi/elf-contracts/blob/main/SPECIFICATION.md
[6] https://www.youtube.com/watch?v=wZj9HgwXel4

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:

Element Finance is situated within a market size of 253 billion USD locked in the total defi market. Moreover, Artem Tolkachev's CoinTelegraph article predicts that this industry will inevitably grow 100x within the next 5 years.[7] Moreover, Element finance is situating itself within an emerging submarket of defi with its emphasis on a fixed interest product.

Defi appears to be hitting a turning point. Early adopter growth is slowing, while the industry is still striving to gain a foothold in the mainstream. Element Finance appears to be betting on defi onboarding more casual investors that would be weary of volatile interest rates. Competitors in their market include 88MPH, Notional, Pendle Finance and Aave Arc.[8]

As of 12/5/2021, Element Finance has $209,635,790 in total value locked (TVL), $213,569,451 total liquidity, $150,122,019 total trading volume, and 19,640 total users. For comparison:

	Element Finance[9]	88MPH[10]	Notional[11]	Pendle Finance[12]	Aave Arc
Total value locked ($)	209,635,790	55,810,324	798,269,612	34,961,127	TBD

Regarding market fit, Element appears to have found a solid footing. They don't stand out as the clear leader for fixed interest returns in defi, and it's yet to be determined how already established protocols like Aave might impact this market. As it currently stands, though, Element seems to be solidly positioned, so I've granted 12 points for beginning to show signs of fit within the promising market of defi, specifically in terms of fixed-rate yields.

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:

Overall, the future market for fixed interest in defi is set to continue to grow. Some variables to consider for this market are:

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[7] https://cointelegraph.com/news/defi-can-be-100-times-larger-than-today-in-5-years
[8] https://thedefiant.io/the-lowly-fixed-income-interest-rate-is-the-magical-motor-defi-needs/
[9] https://dune.xyz/DarenMatsuoka/Element.fi
[10] https://www.coingecko.com/en/coins/88mph
[11] https://dune.xyz/PierreYves_Gendron/Notional-V2-Dashboard
[12] https://www.coingecko.com/en/coins/pendle

1. *Increased adoption of defi specifically and crypto-currency more generally:*
Defi currently occupies .24% of the overall capital market, which is a $100+Trillion USD market. Within that total market, consumer banking occupies 2 trillion USD (i.e., ~2%). The current low to no interest rates in the consumer banking market is ripe for disruption.[13] Interest rates in defi solutions are positioned to displace traditional consumer banks. Element Finance and other providers of fixed-rate yields will provide a product for casual investors that desire stability and guaranteed returns.

2. *Increased usability of defi products to the general public:*
Usability is one of the primary liabilities to the defi market. The most basic requirement of choosing, installing, and funding a crypto wallet is a larger task than the average consumer wants to complete. Defi requires that step, then utilizing a Web3 browser to connect to a defi app and deposit funds from wallet into a vault. "Usability problems, including messy crypto exchange fees, are the primary hurdles holding back traditional investors."[14]

   Every user has some degree of learning curve that they must overcome to reach the point of earning interest on the crypto holdings. So while Element's fixed interest rate vaults simplify the process of not needing to transfer money here and there to chase the highest returns, simpler Web3 experiences and more public education of the benefits of defi over traditional banking will need to occur to support the potential market growth.

3. *Favorable environmental factors, particularly around government regulation of crypto and defi markets:*
Another liability in the defi market is regulatory uncertainty. The U.S. jurisdiction is still vague and unclear on how defi and cryptocurrencies will be classified and regulated. More legal processes will occur to continue to define this market, both within the U.S. but also internationally.

Factor #1 represents the potential in growth of the overall defi market, and also Element Finance's fixed interest market specifically. Factors #2 and #3 are the reasons that the market has yet to fulfill that potentiality. Element Finance should strive to support the user's experience of their product as well as the usability of defi on the whole to support realizing the market potential. I believe there is a critical mass behind these technologies. Usability is a known issue that many projects are attempting to solve, and with time unresolved legal issues will become more clear. For these reasons, I believe Element Fianance's market outlook is positive for the long term.
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 answer to this question depends on how you categorize Element Finance. In terms of fixed-rate yields they appear to be setting the benchmark. In the broader context of defi's higher interest yields, they are more of an alternative to the benchmark. In other words, Element Finance does not stack up in comparison to the bigger names: Aave, Compound, Maker, Curve, and Yearn. In the future, however,

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[13] https://cointelegraph.com/news/defi-can-be-100-times-larger-than-today-in-5-years
[14] https://decrypt.co/84575/the-problem-with-decentralized-exchanges-and-how-to-solve-it

Element Finance is positioned well to leverage the next generation of crypto adopters looking for stable, guaranteed returns.

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:
Element Finance has clear intentions for vertical integration. On their homepage: "Whether it's a new feature that you want to build on top of Element or a completely new product, we love to see our community utilizing our SDK." Moreover, an article on the project's Medium page poses ideas for collaborators to build off.[15]

Medium lists an integration with Component, which has built a yield compounding tool on top of Element's tech.[16] Without further evidence of other current integrations, I took to discord. A core team member quickly responded to my question, "Pods Finance allows using USDC PTs from the Dec 17 term to use as collateral for European-style Put Options on ETH."[17] Furthermore they are listed as a partner on Commonwealth's (governance protocol) discord server.

Additionally other partners listed on the website are "investors," including: Polychain, a16z, Republic, Balancer, and Placeholder. Thus, the integrations and partnerships score falls strongly within the category of "some protocols are using its services and it has partnerships with well-known entities", granting it 12 out of 15.

There is some speculation that Element Finance will become a future cornerstone in defi. For example,

> Polychain Capital co-founder and CEO Olaf Carlson-Wee called Element Finance "a breakthrough financial primitive that has quickly become a cornerstone of DeFi, and soon we think will be a core piece of our global financial infrastructure."

Keeping in mind that this project is only a few months old -- officially launched on ethereum mainnet 30 June 2021 -- I believe that with time, this score will likely increase as other products will likely utilize or copy similar strategies, particularly for fixed-rate products.

Score: 12

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[15] https://medium.com/element-finance/building-on-element-product-ideas-for-developers-to-explore-4528062dfbf
[16] https://medium.com/element-finance/component-launches-yield-token-compounding-tool-built-on-element-finance-ea6da04bdf98
[17] Element Finance discord chat with MazyGio in Product Channel. 12/6/21: https://discord.gg/MKEv9dXa

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:
n/a, this project currently has no token

Score: n/a

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:
n/a

Score: n/a

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:
n/a

Score: n/a

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:

n/a

Score: n/a

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:
n/a

Score: n/a

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:
n/a

Score: n/a

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:

Will Villanueva - CEO and Co-Founder[18] [19] [20]

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[18] https://www.linkedin.com/in/williamvillanueva/
[19] https://twitter.com/wjvill
[20] https://medium.com/@william.j.villanueva/about

Jonny Rhea - CTO and Co-Founder[21][22]
Charles St. Louis - COO[23][24][25]

All three of the Executive team are active on LinkedIn and Twitter. The CEO and COO are additionally active on the company's Medium blog. The CEO and CTO both worked in research and development at ConsenSys. The COO worked on governance at MakerDAO, and was a core contributor at Ethereum. All have solid professional backgrounds in tech, development, engineering, and/or research.

While I did not remove points for this, if I were consulting with Element Finance, I would suggest they include company and team information on their website. They are publicly active, and for the sake of credibility, transparency, and access to information, I think that could only benefit the platform.

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:
The core executive team has strong backgrounds in tech, defi, and crypto altogether, as indicated in answer to 3(b). Furthermore, other Element Finance employees have strong backgrounds in FinTech. From engineering, Sarah Mackey has worked at VenMo and PayPal,[26] Ryan Goree has worked with H&R Block and USAA.[27] Pau Vienhage has direct crypto experience as a research engineer with 0x protocol.[28] Defi Strategist (and new hire), Mihai Cosma has several years experience working with the Bank of Canada as a portfolio manager.[29]

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:

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[21] https://www.linkedin.com/in/jrhea/
[22] https://twitter.com/JonnyRhea
[23] https://www.linkedin.com/in/charlesstlouis/
[24] https://twitter.com/CharlieStLouis
[25] https://cpstl.medium.com
[26] https://www.linkedin.com/in/smmackey/
[27] www.linkedin.com/in/ryangoree/
[28] www.linkedin.com/in/paul-vienhage-441166139/
[29] https://www.linkedin.com/in/mihai-cosma-1873465/

The team is very active on medium and Twitter particularly. I found lots of evidence that they are discussing across the defi space, participating in twitter spaces and conversations about fixed-rate yields in defi, and governance in particular. Their governance model was also presented at 2021 EthCC[4] in July.[30] Also, they are presenting an upcoming event on fixed rate yields on treasury assets.[31]

With all this activity, there isn't as much cross platform discussion as I personally would like to see. Most of what is available is self-promotional. When discussing other products not related to Element, there is typically a comparison of why Element is better. I think it would demonstrate more commitment to the collective community if the team discussed and interacted with projects they like, regardless of Element's institutional relationships with them. From my point of view, that would earn them the full 5 points for this section.

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:

Element Finance announced the closing of their Series A in October, which raised a total of $32M.[32] Furthermore, the team has attracted investors quickly after launch, given their $209M in TLV. I'm leaving room in the score for it to increase if the governance model proves to be effective, and they are able to attract more vertical integrations.

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

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[30] https://www.youtube.com/watch?v=wZj9HgwXel4
[31] https://twitter.com/0xCoinshift/status/1467131148518133762
[32] https://medium.com/element-finance/element-finance-raises-32m-series-a-at-a-320m-valuation-6622fab5fb40

misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer:

The Element Finance core team have admin keys on a multisig wallet with limited and temporary powers. The three powers are:

1. The ability to set a governance fee on trading which is at most 30% of the LP fees.
2. The ability to collect fees from trading.
3. The ability to pause a contract that holds user allowances.

The admin keys have no power to: stop the protocol, access users' funds, interfere with interactions with the protocol, change yield term lengths, or update contracts. The plan is to transfer those admin keys to the governance system and community upon launch.[33]

As far as scoring, the keys are held by the "core team" in a multi-sig wallet. The team is credible inasmuch as credibility has been established in section 3 above. However, no further details on who those specific holders are is available, and how or when they might utilize the limited powers the keys possess.

Score: 9

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:

Currently the governance mechanism is not in action. However, Element Finance is intending to move toward a decentralized governance model. As described in the novelty of the solution is their governance model: "Council does not have a single security threshold to make a call, instead, various actions can be given different security threshold requirements."[34] In other words, a key feature of their governance model will be the variability on quorum related to different votes that will be held.

Additionally, contracts are already documented and available for core voting, vaults, timelock, treasury, spender, optimistic grants, optimistic rewards, simple proxy, storage, and history. As it is still yet to be determined how much influence or affect the governance model will have, I point the reader to the documentation for details on the mechanism designed.[34][35]

Score: n/a

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?

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[33] https://docs.element.fi/developers/security/admin-keys
[34] https://docs.element.fi/governance-council/council-protocol-smart-contracts
[35] https://medium.com/element-finance/an-introduction-to-elements-governance-model-efea13d1c7ee

Answer:

n/a, governance has not launched to this date

Score: n/a

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:

Technology and infrastructure are in place, but not yet enacted. I am unable to comment on how reliable and usable the mechanisms are.

The main Element Fi community is discord, and a governance channel is available on discord.[36] I was able to locate a commonwealth forum already set up by going directly to forum.element.fi.

Score: n/a

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:

Governance is not launched. I am unable to comment on the robustness of the process.

Score: n/a

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:

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[36] https://discord.gg/qUFbxjVjSz

Element Finance has a for profit entity registered in the state of Delaware, United States. Information is publicly available on the SEC registration website[37] and Crunchbase.[38] No information on the company, team members, business structure, org structure, etc., is available on Element Finance's website or document.

Score: 15

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

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

Answer:

Legal jurisdiction is the United States.

Score: 10

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[37] https://sec.report/CIK/0001850643
[38] https://www.crunchbase.com/organization/element-finance

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	13 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	7 / 10
e) Integrations & Partnerships	12 / 15
Total Points - Value Proposition	**54 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	n/a / 15
b) What is the extent of the token's capabilities?	n/a / 10
c) Is the issuance model able to improve the coordination of the protocol?	n/a / 10
d) Is the value capture model able to accrue and distribute value?	n/a / 10
e) Is the token sufficiently liquid to enable active use and trade?	n/a / 5
f) Are there any extrinsic productivity use cases?	n/a / 10
Total Points - Tokenomics	**n/a / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	15 / 15
b) Does the team have relevant experience?	10 / 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	**37 / 40**
4. Governance	**Points**
a) Admin Keys	9 / 20
b) Extent of Governance capabilities	n/a / 15
c) Active Governance contributors	n/a/ 5
d) Governance infrastructure	n/a /10

e) Robustness of Governance process	**n/a / 10**
Total Points - Governance	**9 / 20**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**15 / 15**
b) What is the quality of the legal jurisdiction?	**10 / 10**
Total Points - Regulatory	**25 / 25**
Total	**125 / 150**

About the Author: MattJ is a whole-person coach, UX student, and enthusiastic about designing and developing high quality Web3 community experiences.