



Fundamental Report

Prime Rating Report V2.1

Protocol: Compound
Version:
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Previous Report: <https://www.prime.xyz/prime-rating-dashboard/compound>

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Season/competition: No Season

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	12 / 15
b) Market fit/demand	13 / 15
c) Target Market Size	9 / 10
d) Competitiveness within market sector(s)	7 / 10
e) Integrations & Partnerships	14 / 15
Total Points - Value Proposition	55 / 65
2. Tokenomics	Points
a) Is the token sufficiently distributed?	7 / 15
b) What is the extent of the token's capabilities?	8 / 10
c) Is the issuance model able to improve the coordination of the protocol?	8 / 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?	9 / 10
Total Points - Tokenomics	46 / 60
3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	14 / 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?	9 / 10
Total Points - Team	37 / 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	9 / 10
e) Robustness of Governance process	9 / 10
Total Points - Governance	52 / 60
5. Regulatory	Points
a) Does the protocol have any legal accountability?	14 / 15
b) What is the quality of the legal jurisdiction?	9 / 10
Total Points - Regulatory	23 / 25
Total	213 / 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: Compound, alongside Aave and Maker, is one of the first and leading decentralized lending protocols. Since its launch in 2018, Compound has introduced several new innovations to the space such as offering permissionless lending pools as well as offering liquidity incentives or yield farming. The introduction of yield farming along with their governance token COMP gave them a large success in what is known now as the "2020 DeFi Summer". In fact, after just 5 days since launch their COMP token had already doubled in value. They were also innovators in the domain of governance as they have introduced "Governor Alpha" and then ameliorated it and introduced "Governor Bravo" which are being implemented by other DAOs as well. Additionally, Compound is currently working on their own blockchain called Compound Chain.

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: Compound is one of the leaders amongst the lending protocols. It is the second only after Aave, standing at \$4B outstanding loans and \$10B deposited. Compound currently boasts around 188K token holders, 370K total unique lenders and 26K total unique borrowers.

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: In the last couple of years, the lending markets in DeFi has grown exponentially becoming a multi-billion dollar market. Its lead competitor Aave currently has a TVL of around \$18B while Compound has around \$10B. Even though both their TVLs are remarkable, both protocols still have a lot of space to grow and a lot of ground to conquer as they are still far behind the billion-dollar transitional lending and borrowing market. Moreover, Compound is currently only on the Ethereum chain while other lending/borrowing protocols start to migrate towards other blockchains or even become deployed on several blockchains. This will likely positively influence the lending/borrowing market size expanding it to users within other blockchains. Thus, the direct target market is the DeFi lending market, and on the longer term it is the financial lending market.

Score: 9

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: As mentioned before, Compound is the second largest lending and borrowing protocols in DeFi and has been a leader in this domain alongside Aave and Maker. Aave has a TVL of around \$18B and Maker has a TVL of around \$15B, whereas Compound has a TVL of approximately \$10B. Moreover, we see that Aave brings in more revenue at \$1.79M in the last 30 days while Compound brings in \$1.29M in the last 30 days. However, we see that Compound leads in the number of unique number of daily borrowers and lenders, standing at 27 and 124 respectively (in the last 30 days), while Aave boasts around 18 (in the last 30 days).

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: Compound's latest partners are Coinbase wallet, Zerion and Oryn. Compound has amassed a long list of partnerships that distinguishes it from other lending and borrowing protocols. Moreover, there is a long list of community-built interfaces that integrate the protocol. Last, they also have several successful protocols such as yearn.finance which is built on top of Compound.

Score: 14

2. Tokenomics

The Tokenomics 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: The token is distributed in a way such that the capability to upgrade the protocol is shared by a group of Compound's most essential stakeholders such as the protocol's creator, Compound Labs Inc., has distributed 2,396,307 COMP to its shareholders, the founders and crew will receive 2,226,037 COMP, which will vest over four years, the future team members will receive 372,707 COMP, 4,229,949 COMP which are reserved for protocol users and finally, 775,000 COMP that have been set aside for the community to use in other ways to promote governance, which will be announced at a later date. This indicates that the majority of the tokens are held by a small number of people or groups. The first token distribution is biased towards a small group of people, with investors and the founding team receiving roughly 46% of all tokens. Looking on etherscan, we notice that there are around 188K COMP holders but the first top 100 hold around 42% of the tokens. Only around half of the funds were set aside for the community, with the remainder (42 percent) flowing to protocol users via liquidity incentives.

Score: 7



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: COMP is Compound's governance token. It is used to participate in governance voting, and having 25k COMP tokens is required to submit a proposal. 100 COMP can also be locked by an address to generate an Autonomous Proposal. Moreover, the token can be used to earn interest within the protocol and used for revenue flow (however, this function is not active).

Score: 6

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 issuance of the token (which is currently only through yield farming and lending and borrowing on Compound) ensures that the team and contributors are able to vote and implement updates that are needed for the protocol. Moreover, since the tokens are distributed to users and contributors instead of sold, this means that the holders are more invested in the protocol. Thus, the token is distributed in such a way that the capability to upgrade the protocol is shared by a group of Compound's most essential stakeholders such as the protocol's creator and the team. This is of course in the early stages in order to ensure a successful advancement of the functioning of the protocol before complete decentralization. However, the distribution of the token can be ameliorated by being extended to attain other contributors such as community and governance contributors as well as developers that contribute to the code on Github.

Score: 8

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 reserve factor, which is analogous to a fee charge, is a value accrual method. Currently, Compound has amassed around \$100K in protocol revenues per day. However, Compound lacks a value distribution mechanism, which means that there is no dividend-like function allowing passive token holders to earn a portion of the protocol's revenue.

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: Currently, the COMP token is traded on most centralized platforms such as Coinbase, Binance, Kraken and GEMINI and has very liquid pairs on decentralized exchanges such as Sushiswap and Uniswap.

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: Currently, there are a lot of productivity use cases for the COMP token. Notably its use in the protocols built on top of Compound such as Yearn.finance for yield farming amongst others.

Score: 9

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: Robert Leshner and Geoffrey Hayes, serial entrepreneurs, established Compound. Andressen Horowitz, Coinbase Ventures, Paradigm, Polychain Capital, Dragonfly Capital, and BainCapital Ventures are among the main investors in Compound, which has a team of 14 individuals.

Score: 14



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: Compound is not the first tech company established by its current team. The CEO, Robert Leshner, is a Chartered Financial Analyst, former economist, and founder of two software startups and the CTO, Geoffrey Hayes, is a maintainer of Ethereum, technology founder of two startups, led Core Services at Postmates. They have also recruited a well developed and professional team to help them.

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: The team is quite active and responsive, notably on [Twitter](#) and on [Discord](#). In particular, [Robert Leshner](#) and Geoffrey Hayes, the company's founders, are some of the most active DeFi users on Crypto Twitter and attend conferences and interviews on a regular basis.

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: The team was very successful at onboarding investors and influential VCs and angels in particular. Amongst the main [investors](#) in Compound we can find a16z, Andreessen Horowitz, Coinbase Ventures, Paradigm, Polychain Capital, Dragonfly Capital, and BainCapital Ventures. However, we do not know of the distribution and coordination of such resources in the protocol.

Score: 9



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: Compound uses a governance framework consisting of a module known as “Governor Bravo” and a Timelock. This governance module ensures the decentralization of the protocol by distributing the COMP tokens to active users and contributors instead of selling it. Currently, the token distribution is in a way such that the team and several others retain a large portion of the COMP tokens and thus of the governance voting power. However, with further distribution of the COMP tokens, the governance will become more decentralized. This acts as a substitute for admin keys. The Comptroller contract specifies a Pause Guardian address that can be used to turn off protocol functionality. The Pause Guardian has only one ability: to deactivate a chosen set of functions: Mint, Borrow, Transfer, and Liquidate. It is only used in the event of an unforeseen vulnerability. The Pause Guardian will never be able to unpause an activity or prevent users from calling Redeem or Repay Borrow to close positions and exit the protocol.

Score: 20

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 module used by Compound, Governor Bravo, lets COMP holders vote on proposals (yes, no and abstain), delegate their votes, make governance proposals, add comments on on-chain votes amongst other options which signal the desires of the holders to the team. Currently, most proposals on the governance forum discuss oracle and parameter updates while some others discuss security engineering and possible migrations.

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 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: Compound has an active community, be it on their discord or on their [governance forum](#). We currently see that there are around [1.8K](#) voting addresses on the Compound governance forum. Currently, the last proposal that was passed has accumulated over 1M votes through 42 addresses with some votes being delegated to some of the biggest COMP holders.

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: Compound uses “[Governor Bravo](#)” and a [Timelock](#). This lets users vote yes, no and abstain on proposals which are found on the [governance forum](#). The uses can also delegate their votes and add comments on on-chain votes. There is also an active community and countless discussions on the Compound Discord.

Score: 9

e) Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer: The procedure is well-documented and extremely reliable. Compound provides detailed [documents](#) and other instructions as well as articles on [Medium](#). The details of the Governance and a detailed explanation into the COMP governance token is provided [here](#). In short, this explains that the COMP tokens are equivalent to the number of votes that the user holds. Users can vote themselves or delegate their votes to others. The holders of the tokens then have a certain Timelock or time period to vote yes, no or abstain for each proposal.

Score: 9

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: Compound Finance's General Counsel, Jake Chervinsky, is an adjunct professor at Georgetown University Law Center. He's also recognized for his opinions on crypto legislation, such as the SEC vs. Kik lawsuit, stablecoins, and BitMEX's email breach. Furthermore, Compound Labs Inc., one of the largest token holders and the protocol's developer, is a corporation based in San Francisco, California. A Google search will yield public information on the company (for example, the SEC report).

Score: 14

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 legal jurisdiction is filling that of the US as Compound Labs Inc. is a corporation based in San Francisco, California.

Score: 9