Protocol: Vesper Finance (VSP)
Version: 2.0
Previous Report:
https://gateway.pinata.cloud/ipfs/QmNbxjThsBkDB6Vt45weQjkoxH52ofF45u74D2KTQ5jCrQ

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Reviewed by: 🐸 a Rating Pepe
Season 1

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: Vesper Finance is basically a yield optimizer/aggregator building on top of existing borrowing and lending protocols like Maker, Compound and Aave. Vesper offers interest-bearing "Grow Pools" with different strategies. Currently two strategies are live, i.e. Aggressive and Conservative.

Vesper strategies work similar to other yield optimizers (e.g. Yearn strategies): An asset which is deposited into Vesper is used as a collateral on Maker to borrow Dai, which is then deposited into either Compound or Aave (whichever has higher yields) and the interest earned is redeposited. Other strategies are purely shifting deposits between lending protocols, to whoever has the higher interest rate.

On top of the interest collected through these strategies, Vesper distributes its own governance token to users of their Growth Pool, thus increasing the yield.

Since other Yield Optimizers such as Yearn, BadgerDAO or Harvest apply similar strategies and existed before Vesper, we cannot state that Vesper has introduced any groundbreaking technical or organizational innovations. The only recognizable difference is the much "cleaner" or more beginner-friendly UI of Vesper, when compared to similar DeFi projects.

Besides traditional yield aggregation, Vesper is expanding their product suite by adding new features. E.g. [Vesper Earn](#) will allow users to deposit a token and earn interest in another token. [Vesper Lend](#) is a lending platform, both products are still in beta. In a recent [exploit](#) Vesper Lend Beta was attacked and 735 ETH were stolen.

Score: 6

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 this [Dune Dashboard](#), Vesper has between 200 and 2140 users per pool. The USDC Grow Pool has the highest number of depositors with 2140 at the time of writing. It's not clear whether these are the same or unique users across all pools, but assuming they are not the same depositors, Vesper has somewhere around 5300 users.

This appears to be a decent user base for a protocol building in a market with lots of competitors (see [other protocols](#) monthly active users).

Score: 9

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: The target market for yield optimizing protocols is probably as large as the lending/borrowing market itself, as there will always be demand for increasing efficiency when it comes to depositing assets to earn interests.
The market for lending is already a billion-dollar market that is expected to grow substantially with more adaptation and better access to DeFi services. In comparison, the global lending market in TradFi is worth [trillions](#).

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: According to DeFi Pulse, Vesper has 5 competitors with more TVL (counting Convex as competitor):

- Convex $9.2B TVL
- Yearn $4.6B TVL
- BadgerDAO $894M TVL
- Harvest Finance $410M TVL
- Vesper $296M TVL

Note: TVL on DFP deviates slightly from what Vesper reports on their own homepage (i.e. $304M TVL).

TVL of around $300M is a decent sign of having competitive capabilities. Furthermore, Vesper used to have a much higher TVL of over $1.6B in April 2021, which was reached after a meteoric TVL increase of over 45x in just a few weeks. However, TVL has decreased by over 80% in the past months, providing evidence that much of the capital inflow earlier this year was not sustainable.

Score: 5

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: As indicated above, Vesper is not deemed an irreplaceable money lego within DeFi. There are other protocols providing a similar service (e.g. Yearn, Harvest, Idle Finance, etc.). Given that the business model of most of these protocols is pretty much the same (i.e. shift capital for best returns, plus add own governance token as reward on top), a clear differentiator or unique selling point through integrations or partnerships cannot be identified.

Vesper is mostly built on top of other DeFi protocols (e.g. Maker, Aave, Compound, Rari Capital, Curve, etc.). According to their [ecosystem](#) overview on the homepage, some protocols have also integrated with Vesper to benefit from their rewards (e.g. Yearn, Alpha Finance). Vesper is also integrated into some interfaces (e.g. Zapper, Zerion, InstaDapp). In summary, there are some integrations, but hardly any partnerships mentioned (except for [strategic partnerships](#) which are basically their investors). However, a sign of recognition was the [inclusion](#) of Vesper's VSP into the DeFi Pulse Index.

Score: 8

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: The initial token supply reserved 65% of all tokens for the "community" and 35% for the Vesper team, advisors and their investors (with vesting over 12 months). Whereby the "community part" covers all yield farming rewards such as LP rewards for providing VSP liquidity to Uniswap, Sushiswap, or Loopring and incentivizing deposits into grow pools. Token distribution for users was highest in the first three months of Vesper going live (which might explain the high TVL drop after roughly 3-4 months).
There are over 6400 holders of VSP at the time of writing. The most tokens are currently held in the staking contract (35%) and in their treasury (35%).

In summary, the token distribution is skewed a bit towards the team and investors (35%) with a very short vesting period of only 12 months. Plus, many tokens went out in the first 3 months. There is evidence that most of this went to whales that withdrew their capital after rewards dropped. All in all this points to a rather short-sighted token distribution schedule with no plan for the future.

Score: 6

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: VSP is a governance token that grants voting rights and can be used for staking to earn more VSP.

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: As mentioned above, a big portion of the token was distributed to early users of the protocol, and another large amount went to the team and investors. However, there is still a good amount of tokens left in their treasury (35%), which is currently mostly used to incentivize depositors of their Grow Pools. Moreover, liquidity providers are incentivized to provide VSP on several DEXes. In addition, staking VSP is incentived as well (see below). On the other hand, no information about community contributor rewards, bug bounties, or any other possibility to earn VSP besides depositing,

LPing or staking could be found.

Score: 7

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: Yes, Vesper has [two kinds of fees](#). A 0.6% withdrawal fee and a 15% platform fee on yield. 5% of both of these fees go to the strategy developer, while 95% of the fees are used to buy back VSP tokens via the treasury, and distribute these VSP back to the vVSP pool, which is the staking pool. Therefore, Vesper increases VSP demand twofold, by incentivizing staking and by market-buying the token.
However, a fee split that also benefits the community, for instance through a community-controlled treasury for long-term development of the protocol (or something similar) does not exist today.

Score: 8

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: VSP has some decent liquidity (~$5M) in Uniswap V3 and Sushiswap (~$3M). The token is also available on Loopring as well as on Poloniex and Bittrex.

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: Besides LPing VSP to DEXes, the token can be deposited into a Rari Capital FUSE pool.

Score: 3

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 is public on their [website](#) and highly credible. Co-Founder [Jeff Garzik](#) has worked as a Bitcoin core developer at BitPay and has founded/co-founded several other projects. Co-founder and CEO [Jordan Kruger](#) also has several years of experience in the crypto space.

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: The track record of the team and especially the founders indicates the team is skilled and combines relevant experience. The third co-founder [Matthew Roszak](#) also brings several years of experience as a founder and of the crypto space onto the table. The rest of the team is mostly focused on engineering and community.

However, it is not clear who the strategists are that create the yield optimization strategies. Therefore, it is hard to tell whether they have relevant experience.
Another point of critique is the low community participation (see next section). According to the [team page](#), three people are responsible for community & growth, but there seems to be hardly any community contributions since they launched (besides participation in competitions).

Score: 6

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 does participate in many public appearances as shown on their [Twitter](#). In addition, co-founder Jeff Garzik has a large [twitter](#) following (93k) through which he communicates quite often.

Score: 3

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 raised $2.5M in a strategic partnership [round](#) earlier this year. Compared to other fund raises, this does not seem like a big round. However, looking at the [team page](#) indicates that resources are used to attract a team capable of building the protocol.

Score: 6

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: According to their documentation, the team still holds the admin keys that control the VSP supply. 12 months after launch, the community shall vote whether the admin keys are burned and therefore the supply of VSP tokens is capped at $10M.

The other [admin keys](#) to the protocol's smart contracts are held by the founding team and external partners. The docs also provide a [decentralization plan](#) that includes the launch of a governance module.

Score: 13

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 extent of governance capabilities seem to be encompassing a wide range of decisions from adding new "community-created-strategies", to whitelisting new tokens, upgrading VSP token emission, to actually defining the supply cap of the VSP token. Some of the existing votes also include engagement of external parties for on-chain risk management (Gauntlet) as well as giving a grant to an external party.

Score: 13

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: Contributions seem to be quite low compared to other protocols. At the time of writing, only 6 proposals were created, with the last one being live back in August. Since then, not a single proposal was added to Snapshot. However, according to their latest newsletter, five votes will go live mid November 2021.

Moreover, with the absence of a forum, it seems that most proposals actually come from the core team, not from the community. There is also no channel within their Discord to discuss any proposals, the "governance" channel is only used to announce the votes it seems.

Score: 0

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: As laid out in their decentralization plan, Vesper will build an on-chain governance module and use Snapshot for signal voting. However, the on-chain module is not live yet and Snapshot is the only tool being used.

And there is no other infrastructure for the community to actually participate in governance, besides a Discord chat. There is no forum, no dedicated channel on Discord to discuss potential proposals and the Telegram chat seems to be mostly used for price and discussions.

Score: 3

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: There are clear high-level [instructions](#) for how the governance process will look like (i.e. what is required to create a vote, quorum requirements, etc.). There is also a template for [VIPs](#) (Vesper Improvement Proposals).
However, there is no clarity and no instructions for how and where to create and discuss VIPs. The process seems to be only used by the team, rather than community members.

Score: 5

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: According to Vesper's Github the company behind the development of Vesper is called Vesper Brewing Co Ltd. which is incorporated in the British Virgin Islands. In their [terms and services](#) it is stated that the company is only managing the interface to the decentralized protocol. They also clearly limit their liability to basically none. On the other hand, they state that the governing law in case of dispute is that of the state of Delaware (USA).

Score: 12

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 for resolving disputes seems to be Delaware in the US, while the company is located in the British Virgin Islands.

Score: 7

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	6 / 15
b) Market fit/demand	9 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	5 / 10
e) Integrations & Partnerships	8 / 15
Total Points - Value Proposition	**38 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	6 / 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?	7 / 10
d) Is the value capture model able to accrue and distribute value?	8 / 10
e) Is the token sufficiently liquid to enable active use and trade?	3 / 5
f) Are there any extrinsic productivity use cases?	3 / 10
Total Points - Tokenomics	**34 / 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?	6 / 10
c) Does the team participate and help shape the public debate?	3 / 5
d) Is the team able to effectively attract and coordinate resources?	6 / 10
Total Points - Team	**28 / 40**
4. Governance	**Points**
a) Admin Keys	13 / 20
b) Extent of Governance capabilities	13 / 15
c) Active Governance contributors	0 / 5
d) Governance infrastructure	3 /10

e) Robustness of Governance process	**5 / 10**
Total Points - Governance	**34 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**12 / 15**
b) What is the quality of the legal jurisdiction?	**7 / 10**
Total Points - Regulatory	**19 / 25**
Total	**153 / 225**

About the Author: Lavi, I'm a steward and core contributor to PrimeRating, and a community contributor to Index Coop. I wrote previous ratings (e.g. Compound, Kyber, Ren Protocol, Aave) and reviewed multiple reports from other raters.