Protocol: Balancer
Version: v2
Previous Report: Link to previous report

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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 follow the process as laid out in the Medium announcement and submit the report through the form.

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: Balancer is a decentralized exchange (DEX) who also serves as a "self balancing weighted portfolio and price sensor"([Martinelli and Mushegian 2019](#)). The Dex and portfolio management functions are a consequence of weighted pools. Weighted pools use a generalized version of Uniswaps equation x*y = k in order to allow [pools](#) to hold more than two assets (in contrast to most other AMMs where a liquidity provider can only provide two assets to a liquidity pool). This adds an extra layer of customizability to liquidity providers as they can create their own pools or join any with whichever combination of assets they want exposure to. Whereas on Uniswap this rebalancing is thought of in a negative light as impermanent loss Balancer harnesses this to mitigate risk across widely diversified portfolios (like an index fund would do). V2 Further innovated by introducing [The Vault](#). In most AMMs liquidity is held in different smart contracts for each pool. The Vault contains all of the liquidity on Balancer in a single contract, which handles the token management and accounting for each the entire system. Meanwhile the AMM logic is in a separate contract and remains individual

to each pool. This separation increases gas efficiency in several ways: 1) Reduces the gas cost of multi-hop trade by avoiding the movement of tokens from contract to contract (UNI -> ETH -> BAL is done internally without having to interact with other contracts other than the initial AMM logic) 2) Since all assets are in one vault users can easily use vault for [Flash loans](), thus increasing capital efficiency 3) Allow users to maintain internal balances enabling high frequency traders to reduce there gas costs immensely 4) Arbitrageurs can make profit without needing the capital to do so with [FlashSwaps]() between pools inside the Vault. Capital efficiency is further increased through their [Asset Managers]() a service users can opt into where their liquidity in pools is partially used to execute strategies that their chosen asset managers choose.

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: Balancer is the 5th biggest DEX by total value locked (TVL) with [$694.8 million]().

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: As the ethereum ecosystem continues to grow so will the need for exchanges, as long as Balancer keeps innovating they will continue to eat up the market share of their much larger centralized competitors (binance, coinbase, kraken).

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).

Answer: Balancer is a top alternative to Uniswap, which is a top [alternative]() to the centralized exchanges. As gas prices increase Balancer's gas efficiency could propel it to the top of the DEX chart, however with ETH 2.0 and L2 solutions becoming more popular this might not be the competitive advantage that puts them ahead of the competition. As the ETH ecosystem grows Balancer could also appeal to risk averse investors who want a balanced and diversified portfolio.

Score: 6

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: Balancer has integration with several different protocols due to the level of customizability it gives to its users (most notable example element and aave). Most notably Balancer has partnered with Aave to allow users to simultaneously provide liquidity on Balancer and lend on Aave.

Score: 10

2. Tokeneconomics

The Tokeneonomics section of the review 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: BAL has a cap of 100 million token that are distributed as such:

> 65% (65 million) for Liquidity Providers

> 25% (25 million) for Founders, Options, Advisors, Investors
> 5% (5 million) for Ecosystem fund
> 5% (5 million) for Fundraising

92% of the token is held in the top 100 wallets, which is very centralized compared to ethereums 62%..

Score: 12

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

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

Answer: The token gives governance rights to holders including the ability to create a protocol fee.

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 behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer: The distribution model gives most of its issuance to liquidity providers who are the cornerstones of AMMS. Balancer further incentivizes the advancement of the protocol by incentivizing integrations (ecosystem fund), and a fund for future fundraising needs (fundraising).

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: There is no value capture model for the BAL token, however there is potential. With V2 also came the [option](#) for governance to activate a protocol fee. Flash Loans done through the vault is the only form of protocol fee that Balancer currently charges, however that fee is [not](#) distributed to holders (it goes to treasury), although it could be.

Score: 1

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: BAL is available on most major [CEXs](#) (coinbase,binance, kraken), but the only DEX that has enough liquidity for functionality is Balancer.

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: BAL can be used for lending on Aave.

Score: 2

3. Team

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

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

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

Answer: The team is publicly identified, reputable and trackable through [github](#) and [linkedin](#).

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: All members of the team are trackable through linked in

Co- Founder and CEO [Fernando Martinelli](#) has accumulated all his DeFi experience by working on Balancer since its inception almost three years ago. His previous experiences revolve around founding companies, but his contributions to Balancer alone make him a highly skilled member.

[Greg Taschuk](#) is a software engineer who's been at Balancer for a year. Previously he worked for Truset and consensys.

[Dean Martin Fernandez](#) is a blockchain engineer who's been at Balancer for a year. Previously he founded dexdex and was a founding member of POAP.

Many of the other employees can be found on the linked in page and have comparable and adequate experiences.

Score: 8

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

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

Answer: Head of Operations [Jeremy Musighi](#) actively and frequently comments on the public debate both on twitter and in [public talks](#). CEO and co Founder Fernando Martrinelli also engages in the

public debate on [podcasts](#) and [q&a's](#).

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 has previously acquired necessary capital through pre- seed and [seed](#) rounds. There is also a future fundraising wallet set aside.

Score: 10

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: Balancer has a 6 - 11 [multisig](#) deployed using gnosis safe. All 11 members are widely respected members of the crypt community. There is no time lock.

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 multisig enacts proposals that pass on Snapshot, [specifically](#) the multisig does not have decision making power. Similar to Uniswap the smart contracts that make up the protocol are mostly immutable and created by the development team, therefore governance has and will continue to mainly focus on BAL distribution.

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: On [snapshot](#) balancer ranges from 400 - 1600 voters, which is some the highest vote totals the author has seen. Given the size of the project relative to its competitors it has an immensely diverse group of governors.

Score: 5

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: Governance is discussed on the [forum](#) and discord. Voting is done on Snapshot which is widely used (it was originally built by the balancer team for balancer).

Score: 8

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 governance process is clear and robust, but vague in terms of norms and language for governing the protocol. Unlike many projects there's no templates for proposals.

Score: 8

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: Balancer has a legal entity in the form of Balancer labs, who is legally registered in [Portugal](#).

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: Portugal has applicable [laws](#) and is in the EU,which most would consider top-tier jurisdiction.

Score: 10

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	15 / 15
b) Market fit/demand	12 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	6 / 10
e) Integrations & Partnerships	10 / 15
Total Points - Value Proposition	**53 / 65**

2. Tokeneconomics	Points
a) Is the token sufficiently distributed?	12 / 15
b) What is the extent of the token's capabilities?	6 / 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?	1 / 10
e) Is the token sufficiently liquid to enable active use and trade?	5 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	**34 / 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?	8 / 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?	10 / 10
Total Points - Team	**35 / 40**

4. Governance	Points
a) Admin Keys	13 / 20
b) Extent of Governance capabilities	11 / 15
c) Active Governance contributors	5 / 5
d) Robustness of Governance process	8 /10
e) Governance infrastructure	8 / 10
Total Points - Governance	**45 / 60**

5. Regulatory	Points
a) Does the protocol have any legal accountability?	14 / 15
b) What is the quality of the legal jurisdiction?	10 / 10
Total Points - Regulatory	**24 / 25**
Total	**191 / 250**

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