Fundamental

Prime Rating Report V2.0

Protocol: Perpetual Protocol
Version: V2.0
Previous Report:
https://gateway.pinata.cloud/ipfs/QmVFdYYFfz7G63D5g7ECk3d69W8zdVtBsniZdFVRTG6PEN

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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: Perpetual protocol innovates on the Automated Market Maker (AMM) concept by introducing a virtual AMM [1]. While the protocol uses the same x*y=k constant product formula as Uniswap, there is no real asset pool (k) stored inside the vAMM itself (i.e. hence the virtual). The real assets are stored in a smart contract vault that manages all of the collateral backing the vAMM. This is done to price the trading positions of users, while preventing impermanent loss because the amount required to close a position is equal to the original order. Any difference in the asset's vAMM price is credited or debited from the user's deposit as Profit and Loss, or PnL [8]. In this sense, $Perp provides a technical innovation.

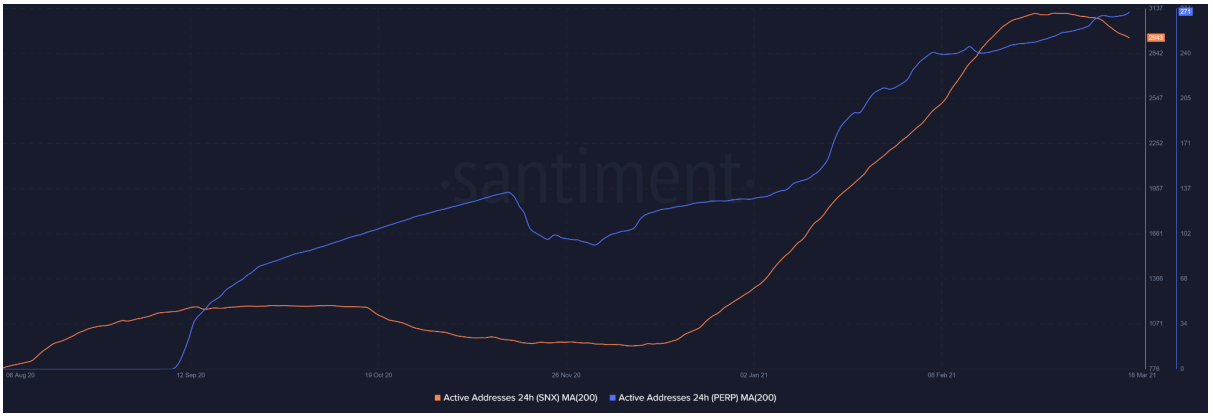
Score: 10

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: Financial derivatives platform currently have a market capitalization of $4,857,931,208 [2]. Perpetual protocol takes the second place behind the DeFi bluechip synthetix. Interestingly when comparing Volume, the chart on 90d time frame for $Perp consistently achieves 15 to 25% of the volume of Synthetix. A closer look at the onchain metrics confirm this perception with $Perp approximately having 10% of Synthetix Daily Active User (DAA) (see 1). This suggests that there is a consistent user base, which however is still small to medium in case of $Perp.

Figure 1: 200 Day Moving Average of Daily Active Addresses. Note the two different axis. Perp approximately at 10% percent of Synthetix.



Score: 10

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: With the professionalisation of cryptocurrency, trading of more complex financial products is a promising market, considering that the TradFi derivatives market is “often estimated at more than $1.2 quadrillion” (Stankovska, 2016, p.82) [3].

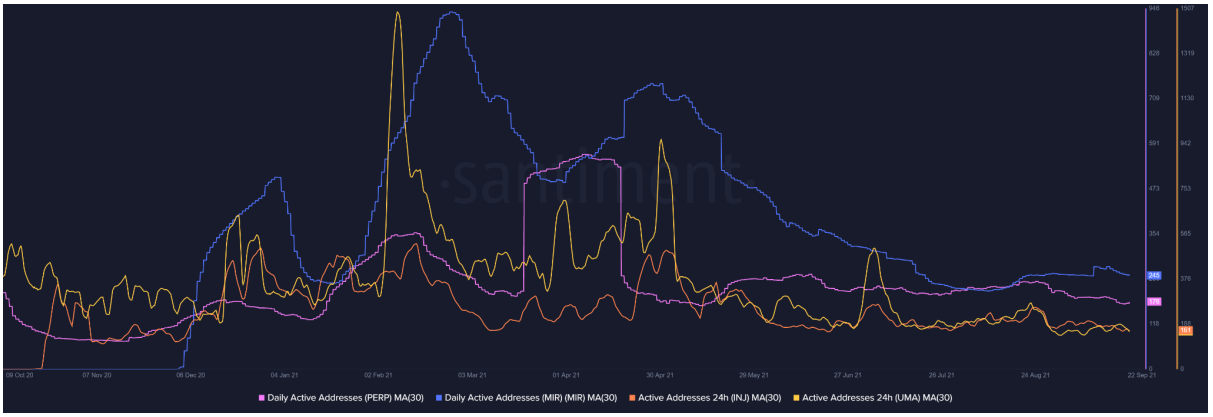
Score: 10

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: As already indicated in b) it takes second place in volume but is closely followed by UMA. Onchain comparison of Daily Active Addresses (DAA) reveal it is used by less users than its competitor, however it is heavily fluctuating over time. It thus suggests fierce competition between the alternatives with no clear winner at the time of writing (Refer to Figure 2). In addition there is dydx, which only recently has received a token and thus is not included in the on-chain analysis. But certainly is a strong contender to take second place. Interestingly, at time of writing, the usage is varied in terms of DAA.

Figure 2: PERP, UMA, MIR, INJ in 30MA DAA comparison. No clear winner suggesting fierce competition for second place.



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: Only some projects have integrated with $PERP (e.g. Perp Terminal, Apex Win, Hal, Parsec & Hummingbot) [4]. Yet given that financial derivatives are a standalone application a limited set of

integration is to be expected to some extent.

Score:9

2. Tokeneconomics

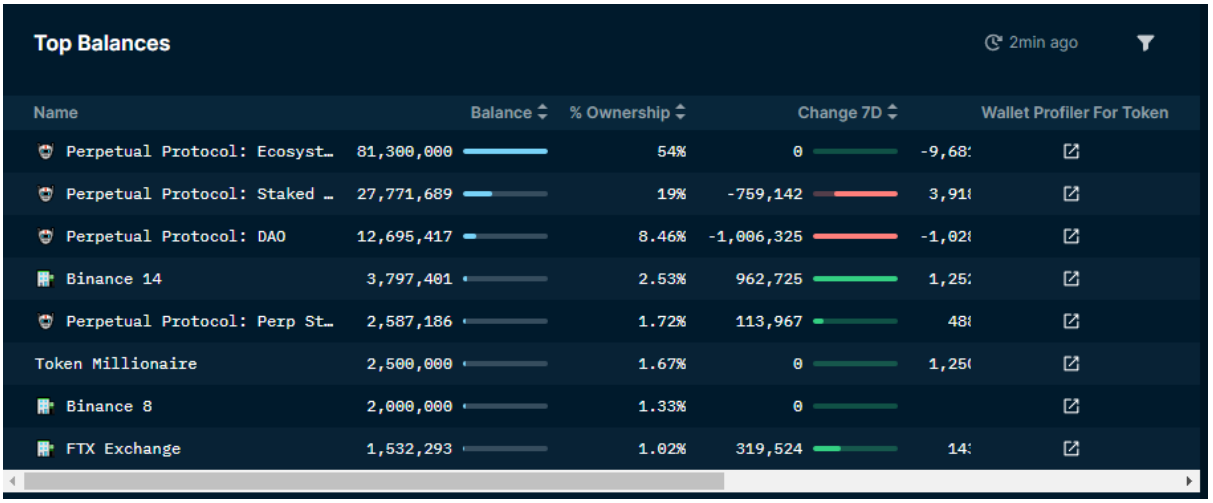
The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

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: $PERP has a unique holder count of approximately 8,500 according to Etherscan [4]. Less than dydx (~17000 [5]), less than Injective protocol (~12 000 [6]), less than UMA (~15 000 [7]). Yet it can be considered sufficiently decentralised. Comparatively speaking the supply held by top addresses is still relatively centralised with more than 90%, relatively speaking this is quite high when comparing with UMA (~70%) or MIR (~50%). Closer investigation reveals that a large portion of $PERP token supply is in control of the Perpetual Protocol Ecosystem & Rewards, PERP DAO or in the Staking Contract (Refer to Figure 4, Appendix).

Figure 4: Explanation for Skewed Token distribution



Score: 10

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 PERP stakers the right to 50% of the revenue share generated by the protocol, the other 50% go to the insurance fund. Perpetual DAO participants use the ERC-20 token to vote. In extreme circumstances, if the insurance fund should be depleted, $PERP acts as exchange backstop. [1]

Score: 10

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:

$PERP Tokenholders: The Perpetual DAO uses staking to control $PERP supply and demand. Stakers earn $PERP token rewards according to their share of the $PERP pool. Given that stakeholders in the protocol can stake $PERP tokens, there exists a strong direct financial incentive to increase the usage of the protocol in order to generate more revenue. [1]

In addition, trading fees incentivise staking since the Staked $PERP controls the inflation rate and overall liquidity. So for instance, as trading fees increase, more revenue is paid to stakers which in turn should attract additional $PERP into the staking pool. This limits the $PERP supply available for trading and hence leads to increased upward pressure of $PERP price.[3]

Note that all staking withdrawals are subject to a 14 day cooling period, which disincentives removing $PERP from the pool during short term price fluctuations.[3]

Developer community: Lastly the large ecosystem fund of the DAO treasury enables the active development of the ecosystem by providing funding for approved projects.

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: As outlined above staking $PERP enables holders with direct incentive to earn protocol

revenue. This provides a financial incentive to care and pay at least attention to the protocol. Given the open community direct participation to steer and contribute the project is possible and hence some may be willing to actively contribute to the protocol.[1]

Score: 10

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: The token is widely available across centralised and decentralised trading venues [2].

Score: 4

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: There are few to one use cases outside of the protocol (LPing on Uni/ Sushi). [2].

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 credible and public [1]. The founders have public appearances for instance in industry podcasts and generate education content. The protocol and founders [2].

Score: 11

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: Yenwen Feng has prior experience in DeFi options protocols (1inch Network) and is a serial entrepreneur [3]. Shao-Kang Lee seemed to share the same experience as Yenwen Feng suggesting cohesion and relevant prior experience [4]. Nicholas Tong has strong experience in product management [5]. Weiting Chen brings marketing and operational management skills into the team [6]. There are 15 additional members listed within the team.

Score: 7

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: To some degree through public appearance [2].
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 protocol seems to have sufficient funding [7]. it already exists since December 2019, suggesting they are well capable of managing their funds. In addition, there is still a large share of funds available in the ecosystem fund (refer to Section 2c).

Score: 10

4. Governance

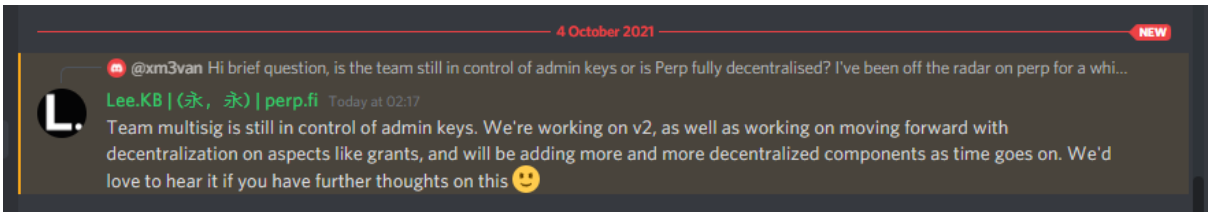
The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the 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: After investigation, no clear answer can be given who is in control of admin keys. However, the protocol outlines clear plans to decentralise and has a roadmap for which, at the time of writing, should commence its final stages [1]. Further investigation through reaching out in discord confirmed that the protocol is still in control by a team multisig (Refer to Fihure 5, Appendix). In addition the roadmap suggests that decentralised governance is in progress and actively being worked on [2]. This is further confirmed by this newsletter report form the Bankless DAO [4].

Figure 5: Discord conversation regarding admin keys



Score: 8

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: Votes only influence some function within the operations of the protocol, such as adding new markets. This was confirmed when visiting their governance dashboard [3] and the conversation in discord (see Reference 5, Appendix).

Score: 10

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: Bankless analysed the Governance participation and notes that “1.2% of the current circulating supply” voted on a given proposal [4]. This is low but not uncommon in decentralised protocols. While there is discussion on the governance forum, debate is limited.

Score: 2

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: PERP utilizes a governance dashboard, snapshot, discord predominantly to facilitate voting [1]. Given the current phase of the decentralisation process, this seems like a reliable and useful governance infrastructure.

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: As noted in the Bankless report [4], proposals are actively supported and effectively managed. When independently reviewing the docs, some material was available but more should be made available (for instance see limited post in knowledge base on the governance forum [5]). The only proposal template available, is a framework to launch a new market [6].

Score: 6

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: At present the protocol has legal accountability and has Terms of Service listed in their documentations [1]. However, there is limited information available to the listed legal entity Strike Co. Ltd.

Score: 8

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 applicable laws are governed under the republic of Seychelles [2].

Score: 4

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	**10 / 15**
b) Market fit/demand	**11 / 15**
c) Target Market Size	**10 / 10**
d) Competitiveness within market sector(s)	**5 / 10**
e) Integrations & Partnerships	**9 / 15**
Total Points - Value Proposition	**35 / 65**

2. Tokeneconomics	Points
a) Is the token sufficiently distributed?	**10 / 15**
b) What is the extent of the token's capabilities?	**10 / 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?	**10 / 10**
e) Is the token sufficiently liquid to enable active use and trade?	**4 / 5**
f) Are there any extrinsic productivity use cases?	**3 / 10**
Total Points - Tokenomics	**45 / 60**

3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	**11 / 15**
b) Does the team have relevant experience?	**7 / 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	**31 / 40**

4. Governance	Points
a) Admin Keys	**8 / 20**
b) Extent of Governance capabilities	**10 / 15**
c) Active Governance contributors	**2 / 5**
d) Robustness of Governance process	**8 /10**
e) Governance infrastructure	**6 / 10**
Total Points - Governance	**34 / 60**

5. Regulatory	Points
a) Does the protocol have any legal accountability?	**8 / 15**
b) What is the quality of the legal jurisdiction?	**4 / 10**
Total Points - Regulatory	**12 / 25**
Total	**156 / 250**

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References:

Section 1: Value Proposition
[1] https://docs.perp.fi/library/litepaper
[2] https://www.coingecko.com/en/categories/decentralized-derivatives
[3] Stankovska, A. (2016). Global derivatives market. Seeu Review, 12(1). Available at: https://sciendo.com/pdf/10.1515/seeur-2017-0006
[4] https://www.perp.fi/all-projects
[5] https://etherscan.io/token/0xbc396689893d065f41bc2c6ecbee5e0085233447#comments
[6]https://etherscan.io/token/0x92d6c1e31e14520e676a687f0a93788b716beff5
[7] https://etherscan.io/token/0xe28b3B32B6c345A34Ff64674606124Dd5Aceca30
[8] https://messari.io/article/perpetual-protocol-takes-flight?referrer=asset:perpetual-protocol

Section 2: Tokeneconomics
[1] https://docs.perp.fi/getting-started/perp-tokens#perp-distribution
[2]https://www.coingecko.com/en/coins/perpetual-protocol#markets
[3]https://messari.io/article/perpetual-protocol-takes-flight?referrer=asset:perpetual-protocol
[4]https://etherscan.io/token/0xbc396689893d065f41bc2c6ecbee5e0085233447#comments
[5]https://etherscan.io/token/0x92d6c1e31e14520e676a687f0a93788b716beff5
[6]https://etherscan.io/token/0xe28b3B32B6c345A34Ff64674606124Dd5Aceca30
[7]https://etherscan.io/token/0x04Fa0d235C4abf4BcF4787aF4CF447DE572eF828

Team
[1] https://www.linkedin.com/search/results/people/?currentCompany=%5B%2242765960%22%5D&origin=COMPANY_PAGE_CANNED_SEARCH&sid=_yY
[2] https://www.youtube.com/results?search_query=perpetual+protocol
[3]https://www.linkedin.com/in/tempofeng/
[4]https://www.linkedin.com/in/shaokanglee/
[5] https://www.linkedin.com/in/tongnicholas/
[6] https://www.linkedin.com/in/weitingchentw/

Governance

[1]https://docs.perp.fi/getting-started/governance-plan
[2]https://docs.perp.fi/library/roadmap
[3] https://gov.perp.fi/c/proposals/10/none
[4]
https://newsletter.banklesshq.com/p/is-perp-undervalued?token=eyJ1c2VyX2lkIjoxMzk3OTAwLCJwb3N0X2lkIjozOTA0NzczNSwiXyI6IitrN3VtIiwiaWF0IjoxNjI3MjMwMTkzLCJleHAiOjE2MjcyMzM3OTMsImlzcyI6InB1Yi0xNjAxNSIsInN1YiI6InBvc3QtcmVhY3Rpb24ifQ.283Lo0iBDAwct0Mp328amxTtv0
[5] https://gov.perp.fi/c/start-here/knowledge-base/7
[6] https://gov.perp.fi/t/template-new-market-proposal-template/186

Regulatory

[1] https://docs.perp.fi/library/terms-of-service
[2] https://docs.perp.fi/library/terms-of-service#15-governing-law