



## **Crypto Asset Evaluation Forum – Long Primer**

### **Background and price history**

In terms of what details we want to see for the background of the project you're working on there are several key factors. In essence we are looking for a general overview of the project showcasing your understanding of key elements such as:

- What led to the project's creation?
- What are the general functions of the project?
- How long has the project been in existence for?
- Who are the key individuals? (you can refer to the project's website for further information)
- Is there anything unique you find about this project that stands out to you?
- Is it a for profit project? Is the project fully decentralised?

In terms of price history this can be found on websites such as <https://www.coinbase.com/price> or <https://finance.yahoo.com/quote/BTC-USD?p=BTC-USD&.tsrc=fin-srch>

Please indicate any significant price fluctuations you see ? What do you think caused this? There is no need to list the price of each day just include quarterly figures.

### **Regulatory and Legal Outlook**

For this section, due to the lack of regulation in the crypto space, it may be quite difficult to find specific regulatory information however, we want to see that the analyst is aware of impending regulation, which regulation type applies to their asset, and what impact it may have on their project.

Here are the main laws in existence currently. Please understand the following laws and apply the relevant law to your asset.

#### **Financial Action Task Force (FATF)**

The Financial Action Task Force (FATF) is an international and intergovernmental body that provides a set of standards gathered in recommendations that aims to align international regulations on anti-money laundering and terrorism financing within its member states in order to combat such crimes. As the blockchain ecosystem is known for being used for criminal activities due to the anonymity of its users, particularly regarding money laundering, the FATF reacted with guidelines to be applied by governments and crypto businesses in order to prevent criminal activity.

Crypto businesses fall within the scope of these recommendations as Virtual Asset Service Providers (VASPs), which are defined as businesses that conduct activities or operations for or on behalf of other natural or legal persons, such as the exchange between virtual assets and fiat currencies, or one or more forms of virtual assets, transfer of virtual assets, safekeeping and/or administration of virtual assets.

Two of the FATF recommendations apply specifically to crypto-assets. Recommendation 15 requires that countries apply a risk-based AML/CFT approach to

those assets, regulate, monitor, and supervise VASPs, and share information between authorities. These service providers must be licensed and perform standard AML/CFT processes, such as customer due diligence (CDD), know your customer (KYC), reporting, and record keeping. Besides, Recommendation 16 brings the so-called “Travel Rule clause”, which applies to wire transfers and states that countries must make sure that “beneficiary VASPs obtain and hold required originator information and required and accurate beneficiary information on virtual asset transfers, and make it available on request to appropriate authorities”. The idea is to subject VASPs to the same information exchange requirements of traditional financial institutions in order to create an audit AML/CTF trail. In order to comply with such regulations, however, businesses in the blockchain industry are required to identify some personal information of users, which goes against the privacy principle that governs blockchain-based technologies. However, one may argue that the privacy of DeFi combined with AML/CFT regulations common in centralised institutions can result in faster and more secure transactions and mitigate financial crimes.

## **AMLD 5**

The 5th AML Directive is the first one to mention and regulate VASPs. Its Recital 9 highlights the misuse of cryptocurrencies for criminal purposes due to the anonymity users enjoy. Therefore, the Directive aims towards more transparency by regulating VASPs that perform exchanges between virtual currencies and fiat currencies, and custodian wallet providers, which are “an entity that provides services to safeguard private cryptographic keys on behalf of its customers, to hold, store and transfer virtual currencies.” According to the Directive, these VASPs are understood as “obliged entities”, thus they must perform CDD/KYC duties, which creates the same conflict with the right of privacy mentioned in the topic above. Besides, these service providers must be registered with each EU member state’s competent authorities.

## **MiCA**

The Regulation on Markets in Crypto Assets (MiCA) is part of the EU’s Digital Finance Strategy and will impact the operation of the crypto market in the EU. The first thing we must know is that the regulation applies only to cryptocurrencies that do not qualify as financial instruments, which include utility tokens and payment tokens, and aims to mitigate crypto-specific risks, such as fraud, cyber-attack, or negligence. The regulation sets as a legal obligation for crypto projects to publish a whitepaper that must be submitted to the competent authorities to inform customers about the details of the project, helping investors to make an informed decision. The whitepaper, however, is declaratory and the authorities do not have the power to accept or reject the projects, except for the ones concerning stablecoins. Nevertheless, it is a requirement for projects to be established as legal persons in one of the EU member states.

The regulation has been criticised for overregulating stablecoins, subjecting them to strict standards of transparency, operation, and governance. Besides, regulatory institutions must authorise the trade of stablecoins within the EU, and the regulation prohibits the issuance of interest, which might be seen as an intrusion to financial autonomy that will prevent EU citizens from an attractive investment option.

On the other hand, the MiCA regulation brings an “Elon Musk” clause, which prohibits market influencers to use social or conventional media to create an increase or decrease in the price of cryptocurrencies, as Elon Musk did with Tesla’s stance

Regarding Bitcoin. The rule aims to decrease inequality in the distribution of wealth and prevent market manipulation by such actors.

## **MiFID II**

According to the European security and market authority, cryptoassets are private assets, which rely heavily on cryptography and DLT technology. MiFID II applies to all transferable securities, which in essence ensures the decision makers are in fact licensed by their own regulator to minimise the likelihood of fraud. Certain DAOs fall under the scope of MiFID II due to the use of their tokens initially as a financial instrument; this is based on the definition that a financial instrument can be interpreted as “units in a collective investment undertaking”. Additionally, this renders most Synthetic token DAO / Yield farming DAO as falling under the security token category.

## **Use Cases/Value Proposition/Functioning products**

- What is the selling point of the project?
- Why would someone use the proposed project over another?
- What benefit does it bring that you cannot find or replicate yourself?
- How does the project provide a unique and sustainable competitive advantage to its users? Are the products faster? More efficient? Cheaper? More scalable? etc.

An example of a detailed use case is shown below.

## **Fuse Token**

The recent listing of FUSE on the Bitmart exchange makes it a promising candidate for exponential growth in the next period. The initial trading pair of FUSE/USDT will create more trust and help drive the organisation towards their goal of mass adoption and becoming a real threat to traditional payment/finance platforms such as Stripe and Visa. The functionality behind Fuse tokens consists of a relatively simple system essentially Fuse tokens are provided as payment to approve transactions. Fuse tokens are used to incentives (pay) validators for providing the computing aspect of each transaction. When a block is created on the Fuse chain new Fuse tokens are created to award the validators this facilitates a 5% yearly inflation rate of all the fuse tokens in circulation.

Service providers around the world such as Transak, GoodDollar and Ramp all avail of the Fuse network. The Fuse Network enables consumers to Exchange/Pay or avail of any other financial service utilising the consumers preferred currency. In return for validating these transactions service providers pay the network validators a fee in the form of fuse tokens which is divided amongst delegates and their validators. Additionally, there are many features available on the fuse network for the more inquisitive user. Fuse Cash allows you to create your very own token which will hold monetary value and can be used towards future payments on the network further from that Fuse Studio simplifies the oversight aspect for payments made within your community.

## **Advantages**

- Faster transaction speed
- Ease of international currency transfer
- Cheaper transaction fees

- Access to relevant additional features

## **Key risks and competition | Peer Comparison:**

In this section we take a look at how we can assess a project's viability in comparison to other projects of a similar nature.

Like the previous section where we learned how to figure out the "use case" of a project, useful key metrics to focus on when comparing two projects are the following:

- Launch Date
- Circulating Supply
- Maximum Supply
- Current Mining/release rate
- Maximum Transactions per second
- Network
- Block Time
- Ease of conversion between crypto and fiat currencies

We will go further in depth on these metrics as well as others at a later stage. Individual research would be highly advised.

## **Reliability**

This section will be a paragraph summarising your opinion on the reliability of the asset. You will take into account the following metrics and feel free to explore yourself and include any you deem important.

- Has the protocol been hacked?
- How safe are your funds when using the protocol?
- How long has the project been around?
- Are there any concerns about the native tokens or project teams?
- Do the fee's maintain a fixed rate?

## **Fee structure / cost of use**

We are looking for the explanation of the transaction fee process for the protocol/project you are researching.

Fee structure is important to consider when analysing a blockchain project i.e if the fee charge is too high the protocol won't be used.

We want to see brief explanation of key terms native to protocol being explained for example with Ethereum ETHER (ETH) is the native currency and the gas price (fee) is denoted in "gwei" which is 0.000000001 ETH (10<sup>-9</sup> ETH). Gwei stands for giga-wei

**How are the fee's of the Ethereum network calculated? (formula)**

$$\text{Gas unit (limit)} * (\text{Base fee} + \text{Tip}) = \text{Gas}$$

### **Example**

Jordan has to pay Taylor 1 ETH. In the transaction, the gas limit is 21,000 units and the base fee is 100 gwei. Jordan includes a tip of 10 gwei. Using the formula above we can calculate this as  $21,000 * (100 + 10) = 2,310,000$  gwei or 0.00231 ETH. Therefore, Jordan pays 1.00231 ETH

### **Developer Activity/Talent Attraction/Team Involved:**

When analysing a blockchain company or project, you may see buzz words such as “Fantastic core-team”, “Skilled developers”, “amazing community”, etc.

However, more times than not, this is not really the case and there never really was a team to begin with. Therefore, being able to assess the quality and presence of a team and community for a project can greatly assist you in determining a good project out of a shady bunch.

We would recommend examining:

- GitHub activity.
- Developer’s socials media accounts e.g. vitalik.eth (@VitalikButerin) (Twitter 3.2 million followers)
- The project’s website
- How active the community is – i.e. are applications being built on Ethereum?

All this information and links to the pages can be found on the webpage [www.coinmarketcap.com](https://www.coinmarketcap.com) for your specific project

### **Level of centralisation vs decentralisation:**

Decentralisation is the main selling point of a crypto project or asset. Developers and creators may claim that they have achieved decentralisation however most likely control lies in the hands of those making the claims. If a project is not decentralised then there really is no reason to choose it over centralised platforms such as Google, Amazon or Meta.

A few topics to look at when analysing if a project is decentralised?

1. First make yourself aware of what decentralisation really means.
2. Search for records of censorship on the platform, i.e. applications being removed by creators.
3. Look at the governance of the project. (How decisions are made, how votes are cast, is it one token, one vote?)
4. If the project is using Proof of Work mining, how much mining power lies in one country?

5. Distribution of tokens. How much do the developers own?
6. Has the project been forked in the past to fix an error to the chain

[8 Steps to Decentralisation. Introducing a clear path for projects... | by Eric Arsenault | MetaCartel Ventures | Medium](#)

## **Consensus Mechanism:**

A consensus mechanism is a fault tolerant way that blockchain systems agree on the state of the network among all the distributed nodes which guarantees synchronisation.

Remember that the blockchain is essentially a ledger but one that is distributed across multiple nodes across the world. In a centralised system, the ledger would need a central database administrator that would be tasked at adding/deleting/updating information about people e.g. a hospital database (ledger) holding patient information.

For public decentralised ledgers (blockchain) that are receiving 1000s of transactions, there is no single person or centralised entity that maintains it, so blockchains uses consensus mechanisms to ensure that all transactions on the network are genuine and all participants agree on a consensus on the status of the ledger which automates the process.

- Proof-of-Work (PoW) and Proof-of-Stake (PoS) are two of the most prevalent consensus mechanisms.

## **Resources:**

Consensus Mechanism (Cryptocurrency) - Investopedia

<https://www.investopedia.com/terms/c/consensus-mechanism-cryptocurrency.asp>

8 blockchain consensus mechanisms you should know about - Allerin

<https://www.allerin.com/blog/8-blockchain-consensus-mechanisms-you-should-know-about>

Blockchain Mining: Types and Uses - analytics steps

<https://www.analyticssteps.com/blogs/blockchain-mining-types-and-use>

## **Tokenomics:**

Tokenomics covers the economics and game theory behind a project's token. It covers all aspects from the coin's creation, distribution, supply, management and even removal from the network. For projects to become self-sustaining, they need to figure out how tokens should work within their ecosystem. An example of poor tokenomics might be Shiba Inu who sent 50% of their supply to one holder - Vitalik Buterin, who then burned the tokens.

**Resources:**

Etherscan allows users to view the assets held on any public Ethereum wallet address.

<https://etherscan.io/>

Tokenomic Metrics

<https://www.coingecko.com/en/coins/solana>

Tokenomics: Difference Between 100x & Getting REKT!! - Coin Bureau (cont 3:00)

<https://www.youtube.com/watch?v=ftCagG7wckg>

**Scalability:**

Blockchain scalability is the expansion of a network in digital space in terms of transaction processing speeds and processing power to accommodate the addition of new applications and the increase in user operations. From a technical standpoint, “scaling” refers to an increase in the throughput rate, measured in terms of the number of transactions per second. When a blockchain can’t process the demand for transactions the network becomes congested slowing down transactions and amplifying gas fees.

In your analysis, investigate a blockchain’s ability to scale through the context of the “Blockchain Trilemma”. Is the trade-off of scalability for greater decentralisation worth it, is greater throughput worth it at the cost of decentralisation, etc.

**Resources:**

<https://www.gemini.com/cryptopedia/blockchain-trilemma-decentralization-scalability-definition#section-what-is-the-blockchain-trilemma>

**Open/closed source (Transparency)**

Is the project open source or not? Open source is source code that is made freely available for possible modification and redistribution. Products include permission to use the source code, design documents, or content of the product. The open-source model is a decentralised software development model that encourages open collaboration.

Note: I think all the major layer 1s are open source so I’m not sure this category is relevant

**Authenticity and Security**

How secure is the blockchain? For example, look at the blockchain’s consensus mechanism. Proof of stake blockchains are less secure than proof of work so take that into account. Look into any other security issues you think are relevant. For authenticity look at how original the blockchain is i.e., what did it do first or pioneer?\_

## **Marketing strategy and Network effect**

What are they doing to promote their blockchain over the others? Some blockchains prefer to spend more time making their blockchain efficient from a technical standpoint while others create a lot of hype to onboard users. **Discuss these aspects and make an evaluation on their marketing strategy.**

MySpace was the first proper social media site but it didn't capitalise on its first mover advantage and got overtaken by Facebook. Ethereum is the first layer 1 to allow for programmable business contracts called smart contracts, will it retain its first mover advantage or be overtaken like Myspace. Look at aspects which may hinder or aid the blockchain's network effect.