Course IV:

DeFi Risks and Opportunities

2. Governance, DNS, Oracle Risk, DEX and Custodial Risks

(i) Governance Attack

Risks: Governance risk

What is governance risk?

- For some protocols, such as Uniswap, programming risk is the sole threat to the protocol because the application is autonomous and controlled by smart contracts.
- Other DeFi applications rely on more than just autonomous computer code.

Risks: Governance risk

What is governance risk?

- For example, MakerDAO, the decentralized credit facility described earlier, is reliant on a human-controlled governance process that actively adjusts protocol parameters to keep the system solvent.
- Many other DeFi protocols use similar systems and rely on humans to actively manage protocol risk.
- This introduces a new risk, *governance risk*, which is unique to the DeFi landscape.

Risks: Governance risk

Protocol governance

- Protocol governance refers to the representative or liquid democratic mechanisms that enable changes in the protocol.
- To participate in the governance process, users and investors must acquire a token that has been explicitly assigned protocol governance rights on a liquid marketplace.
- Once acquired, holders use these tokens to vote on protocol changes and guide future direction.

Risks: Governance risk

51% (or less)

- Governance tokens usually have a fixed supply that assists in resisting attempts by anyone to acquire a majority (51%), nevertheless they expose the protocol to the risk of control by a malicious actor.
- The founders often control traditional fintech companies, which reduces the risk of an external party influencing or changing the company’s direction or product.

Risks: Governance risk

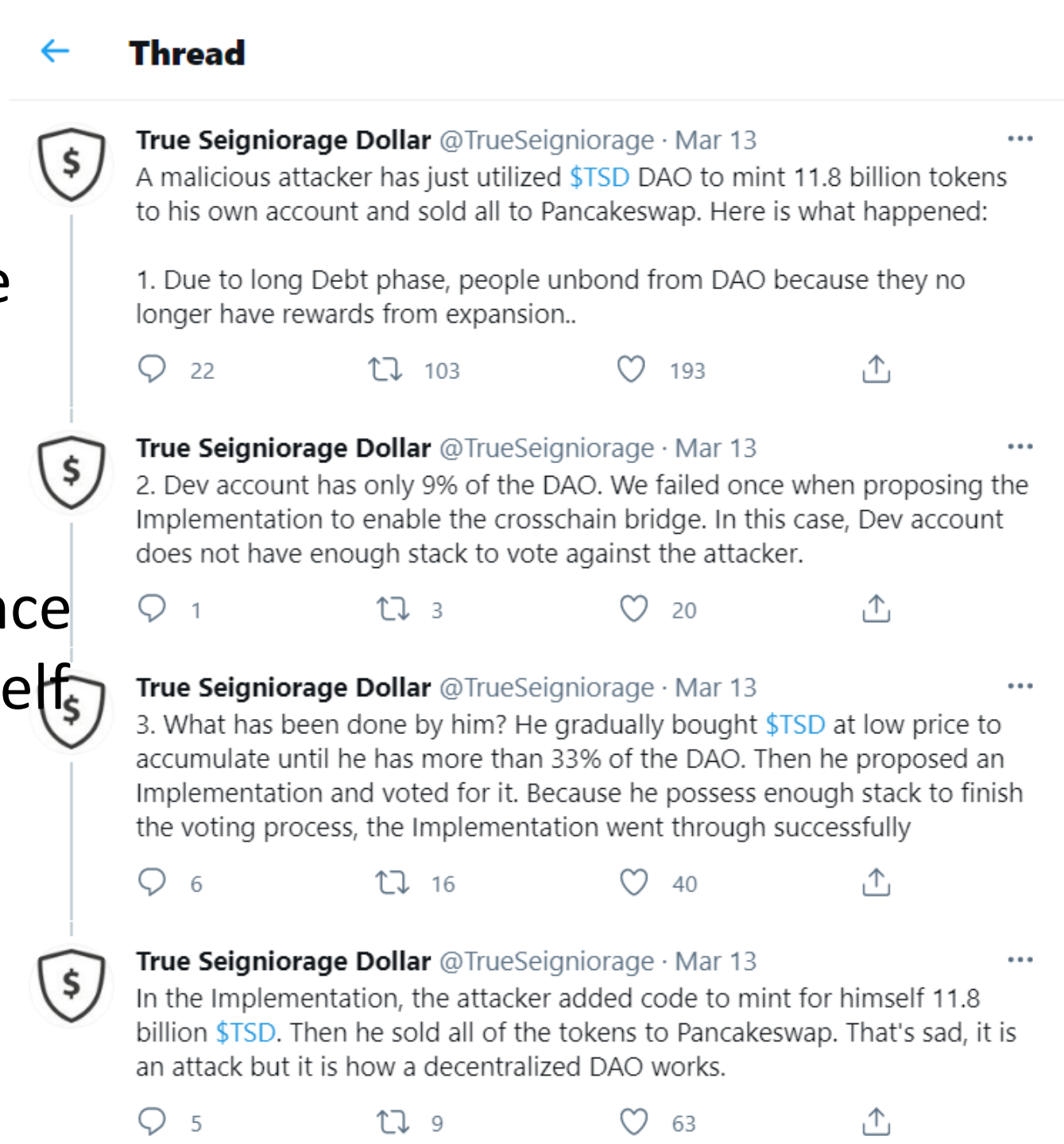
51% (or less)

- DeFi protocols, however, are vulnerable to attack as soon as the decentralized governance system launches.
- Any financially equipped adversary can simply acquire a majority of liquid governance tokens to gain control of the protocol and steal funds.
- A financially equipped adversary can attack a protocol if the potential profit exceeds the cost of attack.

Risks: Governance risk.

March 13, 2021 $TSD governance attack

- Hacker amasses governance token
- Devs held only 9% of governance
- Hacker votes to mint him/herself 11.5 quintillion $TSD
- Hacker dumps 11.8 billion on Pancakeswap DEX



https://twitter.com/trueseigniorage/status/1370956726489415683?lang=en

True Seigniorage Dollar (TSD) Price Chart

Price | Market Cap | TradingView

24h | 7d | 14d | 30d | 90d | 180d | 1y | Max

Logarithmic | Linear

From Jan 3, 2021 To Jul 17, 2021