



Compound Treasury Overview

January 2022



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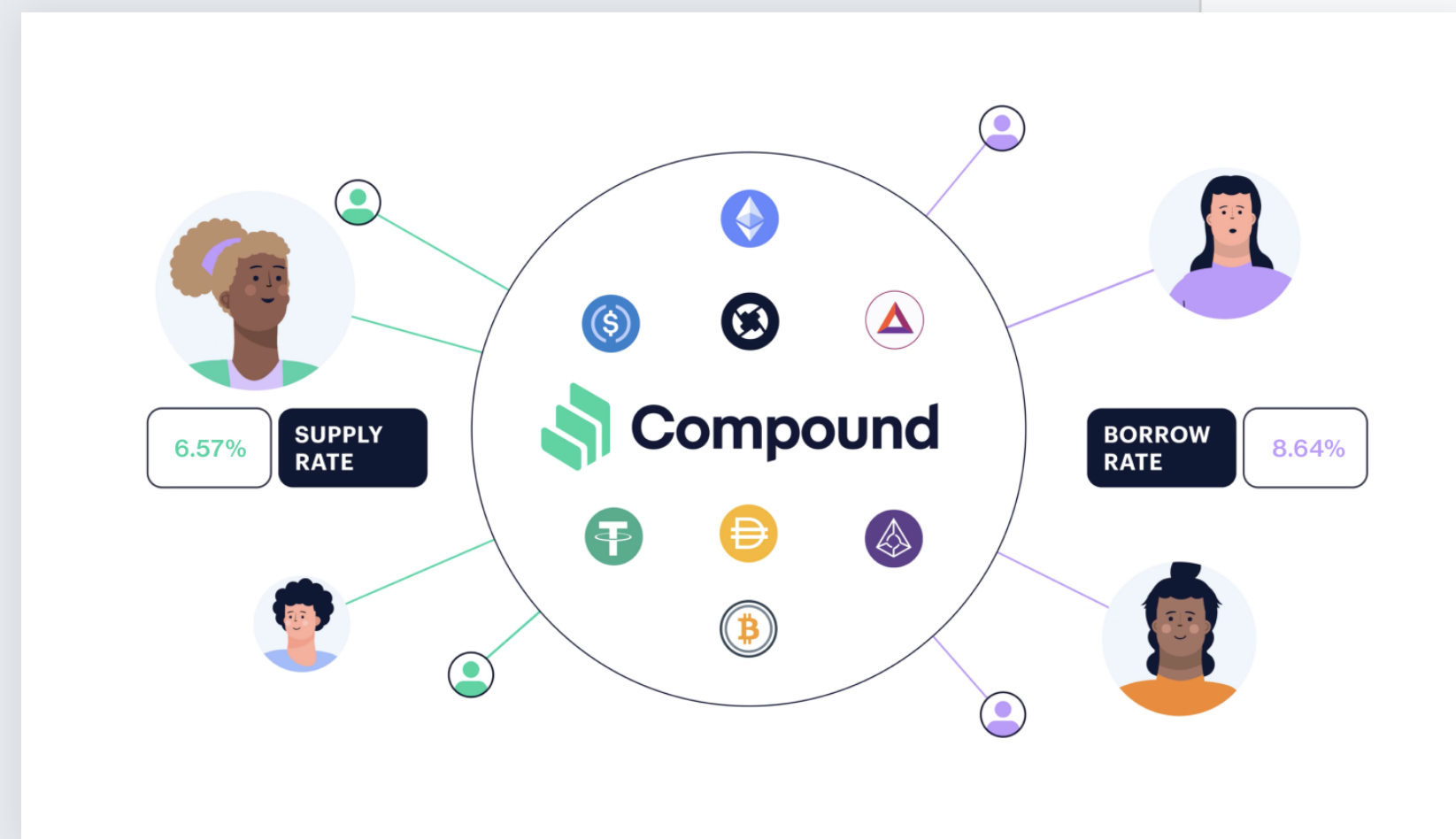
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Protocol Background

Compound Treasury

Compound: An Interest Rate Protocol

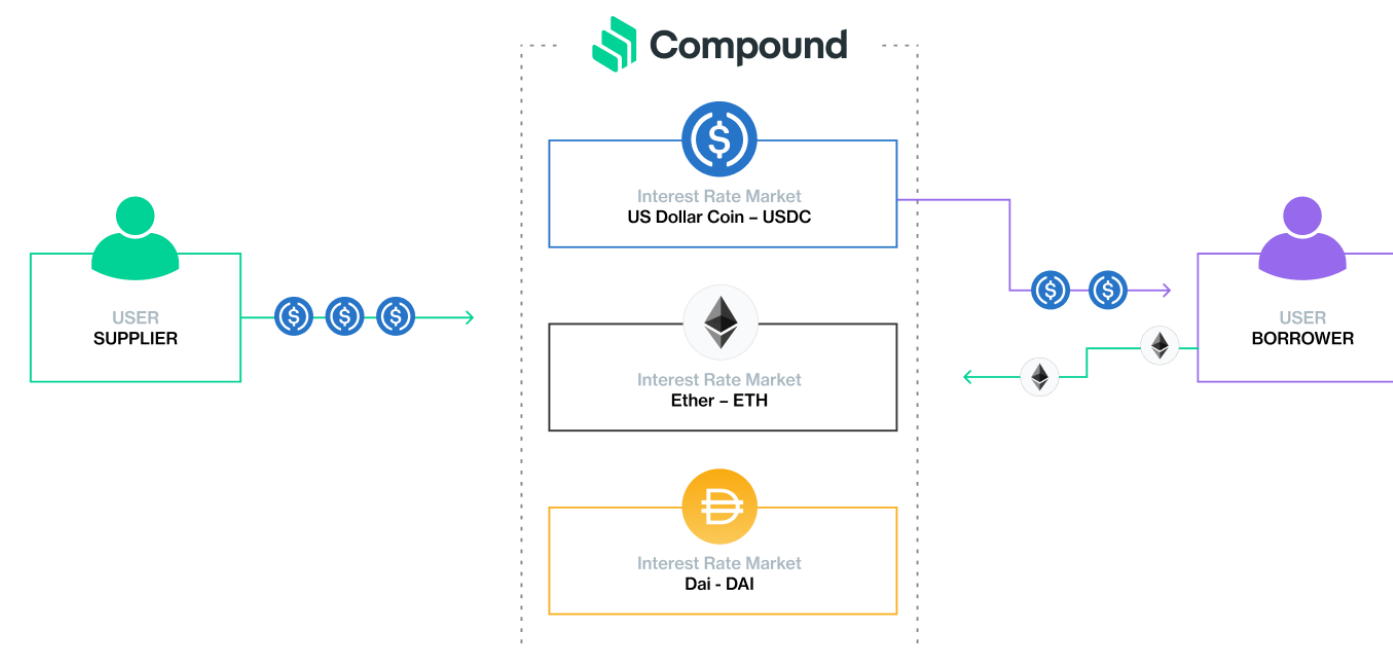
- The Compound protocol is **a set of globally accessible, open-source interest rate markets** for Ethereum-based assets.
- Anyone who holds digital assets can **safely and freely earn an interest rate on their idle assets** and use them as collateral to borrow other assets.
- The protocol was created and launched by Compound Labs, Inc., but is **a decentralized protocol owned and governed by its users**, just as Bitcoin and Ethereum have no central governing authority.
- **The Compound protocol is fully open and interoperable.** This means any financial institution, software developer, or other company can integrate the protocol into its own products and services, just like any company can build a new website using HTTP.



How the Compound Protocol Works

OVERVIEW

Protocol Diagram

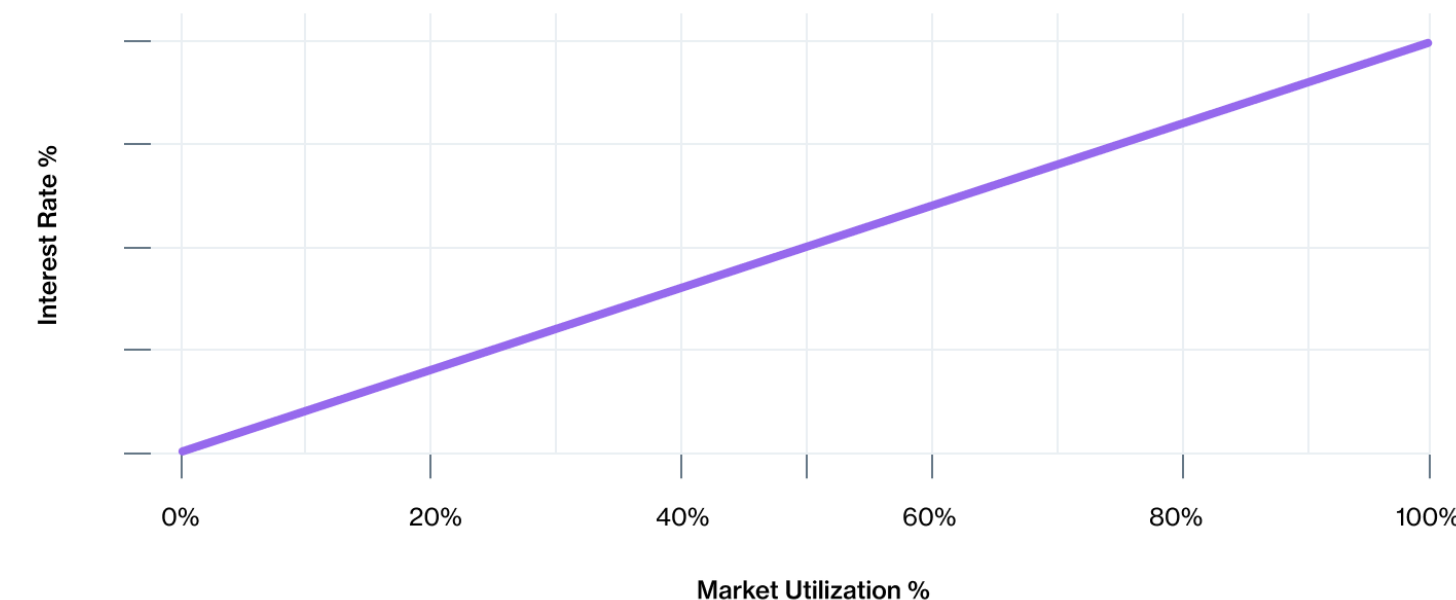


- Users **supply assets to the protocol to earn interest**. Supplying assets may look and feel somewhat like depositing money into a bank account, except there's no third party with custody over those assets. Users maintain exclusive control at all times and can freely move funds in or out.
- Users can **use their supplied assets as collateral to borrow other assets** from the protocol up to a certain limit. The limit is always less in U.S. dollar value than the amount of collateral that they supplied. In this way, all borrowing positions in the protocol are “over-collateralized.”
- If market conditions change so that a user's borrowing position exceeds their limit—such as if the value of their collateral falls, or the value of their borrowed assets rises—**their position is liquidated**. Liquidation occurs when a third party repays a portion of the user's borrowed assets and takes the user's collateral as a reward at a discount.
- This combination of over-collateralization and liquidation prevents a situation where suppliers can't recover their assets because borrowers failed to pay them back.

Interest Rates Derived by Algorithm

COMPOUND'S DYNAMIC INTEREST RATES

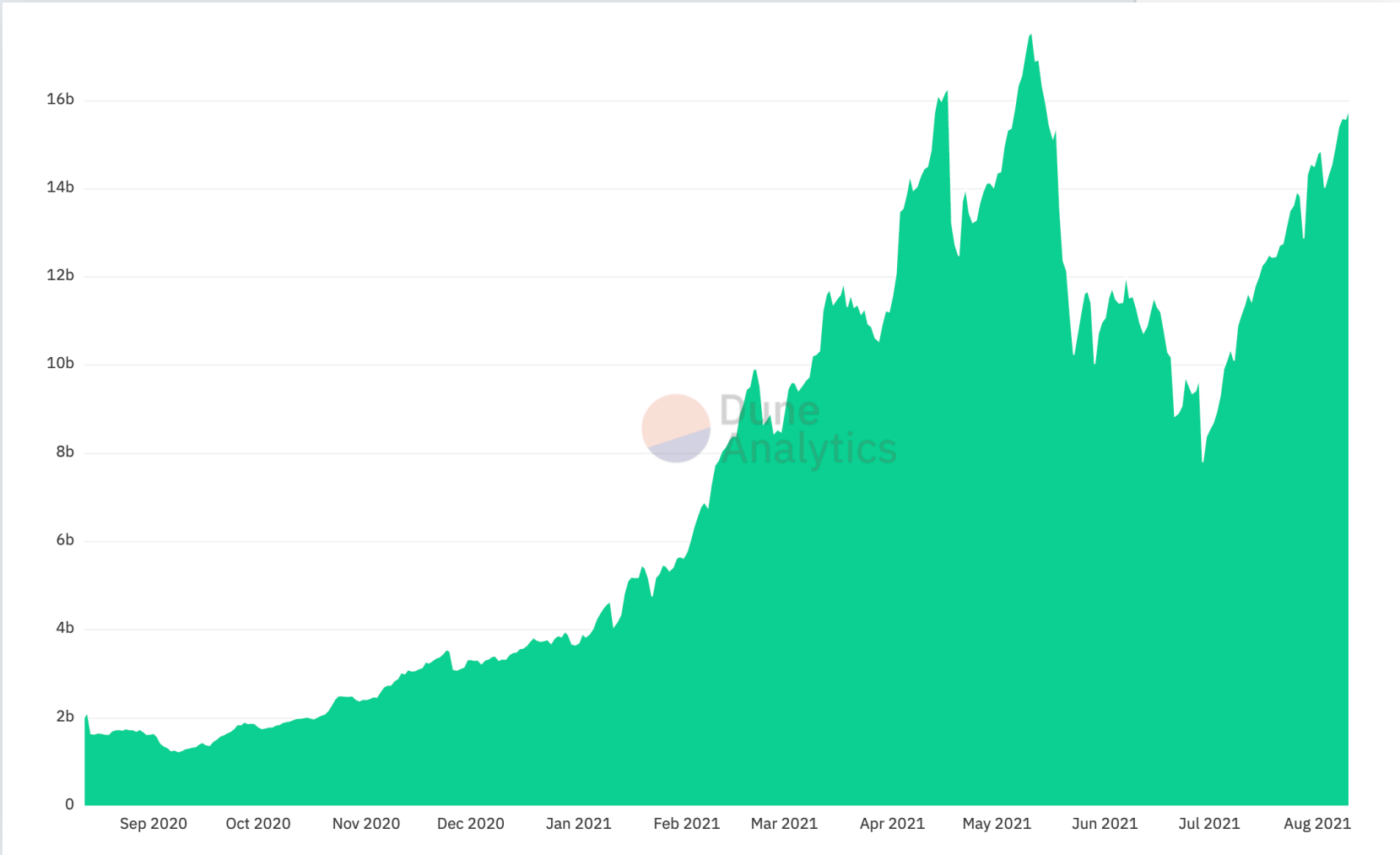
Interest Rate Model Against Utilization



Source: [Compound Whitepaper](#)

- The protocol generates an interest rate by requiring **borrowers to pay interest to suppliers** of liquidity.
- Interest rates are floating. Users can earn interest or borrow for any duration of time (15 seconds or 15 months) and **interest accrues and settles in real-time**.
- Each market has an interest rate model that **algorithmically and automatically adjusts interest rates** based on supply and demand. E.g., as borrowing demand increases, interest rates increase.
- Borrowing stablecoins, ("digital dollars") like USDC, USDT, and DAI, is extremely attractive to digital asset holders who want **liquidity** out of their holdings, and traders who want to take **margin** long or short positions. This demand for digital dollars creates an attractive supply yield on top of which businesses can build innovative and attractive savings rate products.

Compound By The Numbers



Data: Current Assets Supplied Over Time

Source: [Dune Analytics](#)

TOTAL ASSETS SUPPLIED

\$227B

TOTAL ASSETS BORROWED

\$79B

CURRENT ASSETS SUPPLIED

\$14.3B

CURRENT ASSETS BORROWED

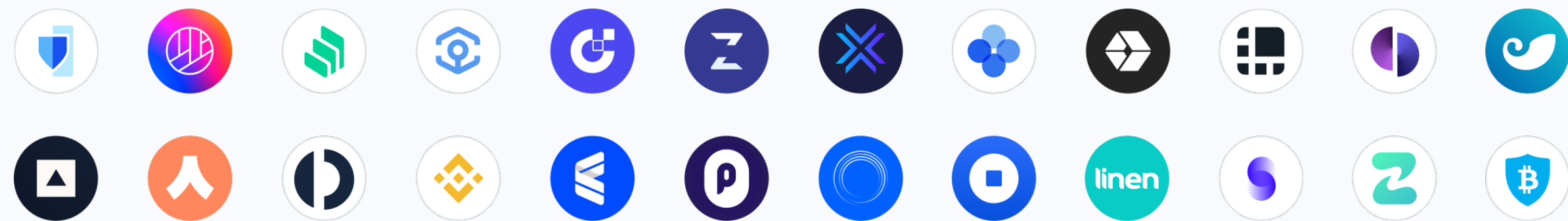
\$5.8B

ACTIVE USERS

299K

PRODUCT INTEGRATIONS

50+



Some of businesses that have integrated the Compound protocol.

About the Founding Team

The logo for a16z, featuring the text "a16z" in a dark blue, serif font.The logo for BainCapital VENTURES, featuring a blue and red geometric icon to the left of the text "BainCapital" in a bold, sans-serif font, with "VENTURES" in a smaller, all-caps font below it.The logo for Coinbase, featuring the word "coinbase" in a blue, sans-serif font.The logo for Paradigm, featuring a green geometric icon to the left of the word "Paradigm" in a bold, sans-serif font.

Our investors include a16z, Bain Ventures, Paradigm, Coinbase, and more

- Compound Labs is an open-source software development company building tools, products, and services for the decentralized finance (DeFi) ecosystem.
- Compound Labs built and launched the Compound Protocol in 2018 and has raised \$30+ million from leading investors including A16Z, Bain Capital Ventures, Coinbase Ventures, and Paradigm.
- Many of the concepts that are now commonplace in the DeFi industry, including **algorithmic interest rate models** and **decentralized governance**, were pioneered by the Compound Labs team while building the protocol.
- Compound Treasury is offered by Compound Prime, LLC, a subsidiary of Compound Labs.

Treasury Overview

Compound Treasury



Compound
Protocol

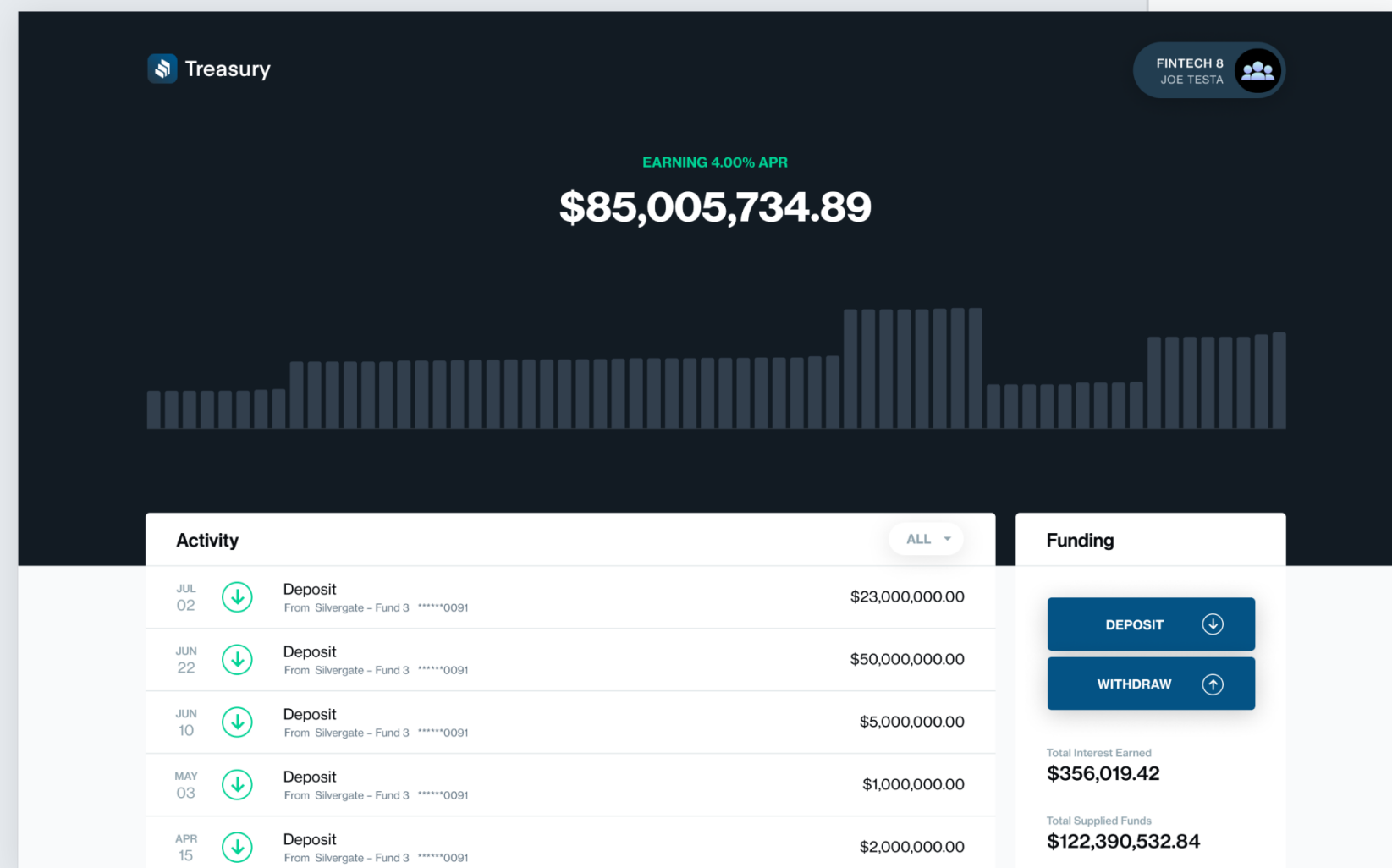
**Open, intermediary-free infrastructure for digital asset
interest rate markets.**



Compound
Treasury

**US dollar access to high yield, powered by the
Compound protocol.**

Treasury Introduction



- Treasury Accounts provides you with access to the benefits of the Compound Protocol while abstracting away the operational complexity of private key management, crypto-to-fiat conversion, and interest rate volatility.
- Treasury manage these back-office operations for you, and provides you with a simple experience for supplying USD, earning 4.00% APR, and withdrawing at any time.
- Behind the scenes, Compound Treasury converts your U.S. Dollars to digital dollar stablecoins (USDC) using Circle and Fireblocks, two industry-leading, licensed financial services partners, and supplies them to the **Compound protocol to generate yield.**
- **Compound Treasury takes the variable interest rate from the protocol, and guarantees the fixed rate of 4.00% APR to the customer.**

Treasury Terms and Conditions

Interest	4.00% APR, Accrued and Compounding Daily
Interest Offer Term	1 Year from Signing Account Agreement
Liquidity	Daily Funding and Withdrawals
Availability	Monday - Friday, 9am - 6pm PT
Account Maximum	\$1B
Account Minimum	\$100,000
Transaction Minimum	\$10,000
Currencies Accepted	USD
Fees	None
Funding Method	Wire Transfers
Customer Eligibility	US-based Accredited Institutions
Regulatory Structure	Exempt Securities Offering under Rule 506(c)
Access Methods	User Interface and API
Custodian	Fireblocks LLC

How to use Treasury - Account Funding

Treasury

FINTECH 8
JOE TESTA

Deposit Funds

You can only deposit funds via a Wire Transfer at this time. See transfer details below:

Wire Transfer Details

Recipient Name	Compound Finance Ltd	
Recipient Address	1000 10th St, Suite 100, New Providence, NJ 07097	
Account Number	1000000000000000	
Routing Number	100000000	
Bank Name	Silvergate	
Bank Address	1000 10th St, Suite 100, New Providence, NJ 07097	
Bank Country	United States	
Memo	New Company Memo	

Activity

JUL 02	Deposit	From Silvergate - Fund 3 *****0091	\$23,000,000.00
JUN 22	Deposit	From Silvergate - Fund 3 *****0091	\$50,000,000.00
JUN 10	Deposit	From Silvergate - Fund 3 *****0091	\$5,000,000.00
MAY 03	Deposit	From Silvergate - Fund 3 *****0091	\$1,000,000.00

Funding

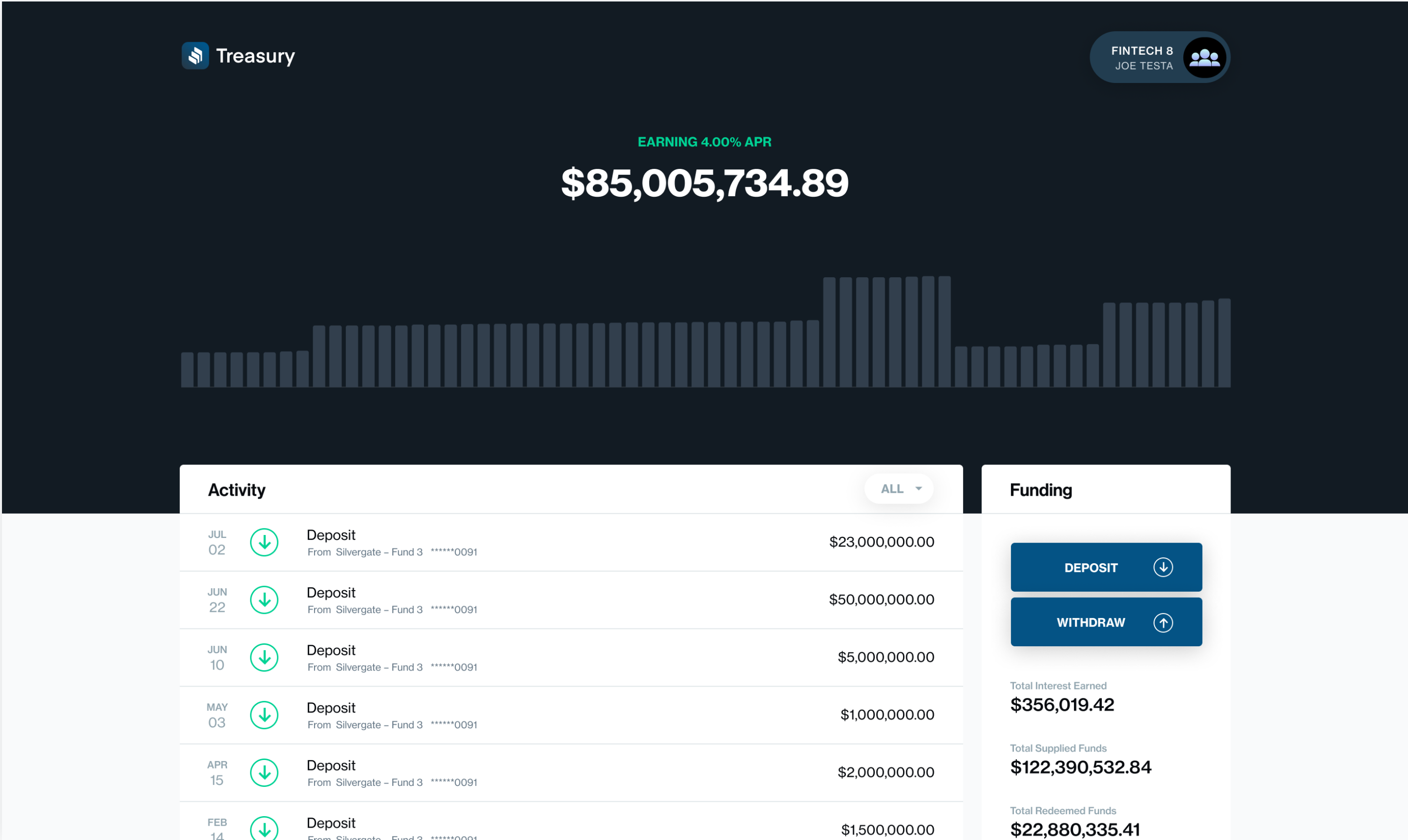
DEPOSIT

WITHDRAW

Total Interest Earned
\$356,019.42

- Fund your Treasury Account by sending a wire from your bank, and separately messaging our team with the desired amount. Funds begin earning interest the full day after they are received by our team.

How to use Treasury - Monitor balance



- Use the interface and API to track your account balance, accrued interest, and transfer activity. Download activity and balance history as a CSV directly from the interface.

How to use Treasury - Withdraw Funds

Treasury

FINTECH 8
JOE TESTA

Withdraw Funds

\$1,000,000 MAX

Select Bank Account

Silvergate - Fund 3 *****0092

Estimated Arrival Date
July 9th 2021

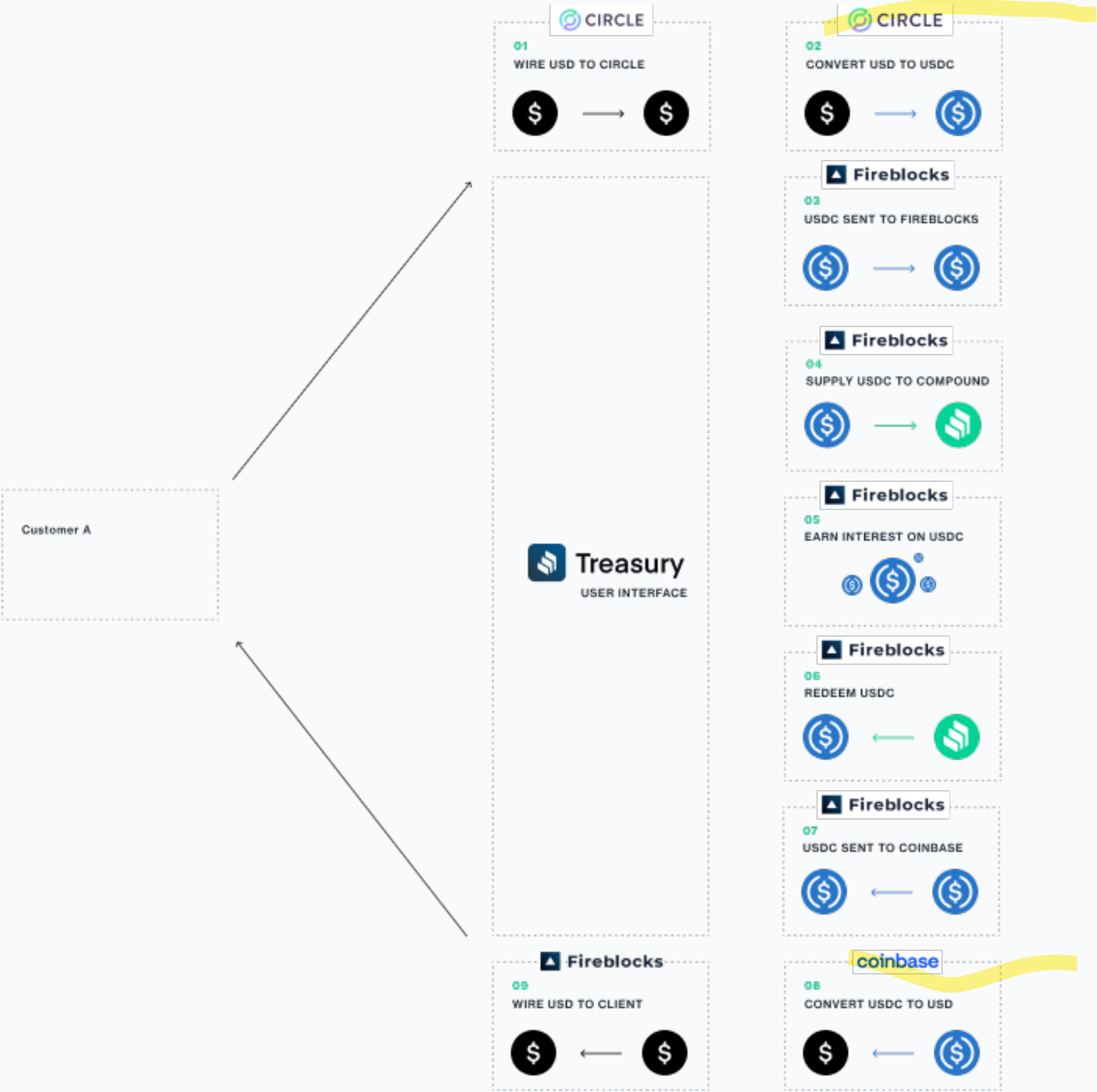
Withdraw \$1,000,000

Activity		
JUL 02	Deposit	From Silvergate - Fund 3 *****0091
JUN 22	Deposit	From Silvergate - Fund 3 *****0091
JUN 10	Deposit	From Silvergate - Fund 3 *****0091
MAY 03	Deposit	From Silvergate - Fund 3 *****0091
APR 15	Deposit	From Silvergate - Fund 3 *****0091
FEB 14	Deposit	From Silvergate - Fund 3 *****0091

Funding	
DEPOSIT	↓
WITHDRAW	↑
Total Interest Earned \$356,019.42	
Total Supplied Funds \$122,390,532.84	
Total Redeemed Funds \$22,880,335.41	

- Withdraw your funds any business day to the bank account on file. Outgoing wires will be sent within 24 hours of being received by our team.

How Treasury works (Flow of Funds)



Onboarding Process

Opening Your Treasury Account

1. Upload required documents (below) to shared Google Drive
2. Sign and return Account Agreement
3. Complete Accredited Investor Verification
4. Properly set up authorized account user(s)
5. Follow wire instructions to fund account
6. Begin generating interest within Compound Treasury

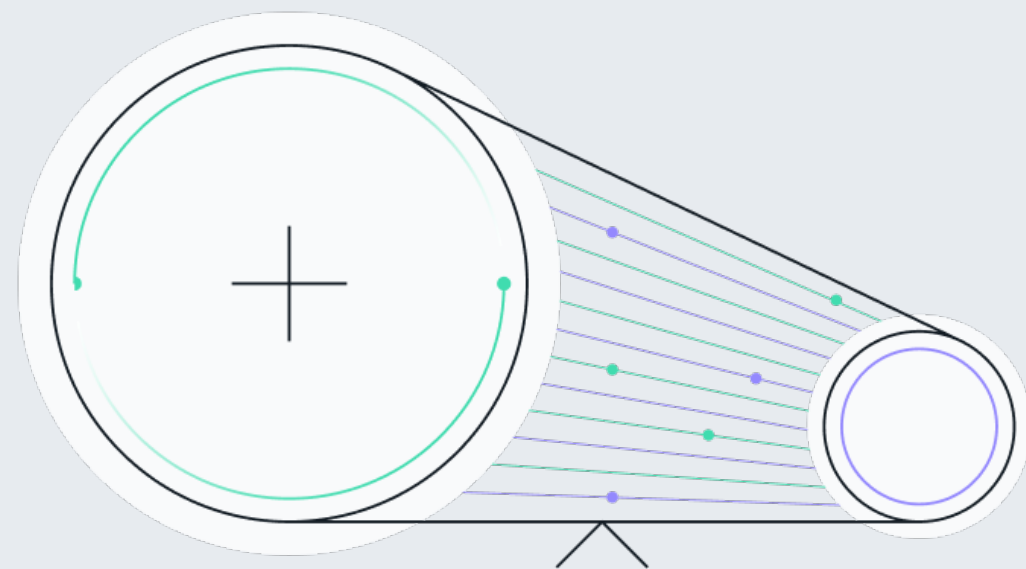
Required Documents

- Account Application
- Certificates of Formation/ Articles of Incorporation
- Tax ID Number Letter
- Certificate of Good Standing
- Proof of Address (utility bill, lease agreement, etc.)
- AML/CTF and OFAC Compliance
- Authorized User(s) Government Issued ID
- W-9
- Accredited Investor Verification

Risks & Considerations

Compound Treasury

Compound Treasury Risk Assessment



- **Flow of Funds risk** is the risk that funds are sent in the wrong quantities or to the wrong destinations during the movement of assets from client accounts to the Compound Protocol. This risk is mitigated by requiring pre-approved templates for funding notices and withdrawal requests, frequently tested API automation, multiple checks by members of the Compound Treasury and Fireblocks team, adherence to a robust Transaction Approval Policy, and transaction maximums.
- **Custodial risk** accompanies the act of holding a client's assets. These risks include vault hacks, key loss or theft, and intentional misappropriation of funds. These risks are mitigated by consistent security reviews, strict internal controls, key back-ups, multi-party computation signatures, and a SOC 2 Type II technology platform (Fireblocks) which has securely transferred over \$400B of digital assets.
- **Counterparty risk** is the risk that a party in the transaction jeopardizes client funds by failing to perform their contractual obligations. For Compound Treasury, this is the risk of being unable to pay the client's principal and accrued interest. Treasury will maintain interest payable in a buffer account to prevent accrued interest shortfall upon a customer withdrawal.

Who owns the risk?

is there insurance?

Treasury Risk Assessment Detail - Vault Set-Up

Vault Set-Up	Risk	Mitigation
1. Fireblocks creates a sub-vault in Compound Prime's workspace, named for each onboarded customer.	<ul style="list-style-type: none">• Vaults are renamed / re-mapped so that mapping to actual customer ID is lost• Vault is vulnerable to hacking.	<ul style="list-style-type: none">• Vault names are simply text strings. Changing of names has no impact on funds inside the vault or transfers. Naming is just for ease of use, accounting and tracking on end-customer basis. Compound can lookup or track the ethereum addresses for each of the accounts.
2. Fireblocks holds key shares for signing transactions.	<ul style="list-style-type: none">• Fireblocks loses its key shares; keys are stolen	<ul style="list-style-type: none">• Soft recovery in case of loss of mobile key shares.• The workspace private key is backed up with Fireblocks in an offline safe and can be restored with an offline recovery kit.
3. Fireblocks has admin (non-signing) and operator (approver role) access and initiates all transactions in the workspace.	<ul style="list-style-type: none">• 1 or more Fireblocks employees initiate a transaction inappropriately	<ul style="list-style-type: none">• Only the operator (one user currently) is configured to be able to initiate transactions. Non-signing admins are there for further approvals, and for risk of someone to add external addresses.
4. Compound has viewer only access to the workspace.	<ul style="list-style-type: none">• Compound requests a transaction without client approval	<ul style="list-style-type: none">• Compound will not be able to request transactions with the user role they have as the feature will be greyed out.
5. Fireblocks defines and manages transaction authorization policy.	<ul style="list-style-type: none">• Transaction Authorization policy is abused to misappropriate client funds	<ul style="list-style-type: none">• This policy is applied globally, not locally, which means that it can not be edited by the fireblocks OPS team• Only LLC Operator can initiate transfers, supply or redeem operations• For transfers, approval from LLC Approver 1 is always required (< 500k) .• For >\$500K, Approval from LLC Approver 1 + LLC Approver 2/Approver 3 is required.• Coinbase to Vault Account - Allowed for all sizes• Policy can be changed by two users (External Administratives). These users can not initiate or approve and transactions, make new connections or add users.
6. Workspace connected to Fireblocks' Silvergate, Signature, Coinbase Pro, and Circle accounts.	<ul style="list-style-type: none">• One or more “on and off ramps” between Fiat and Crypto goes down	<ul style="list-style-type: none">• Silvergate and Signature Bank will be handling the FIAT, incoming and outgoing. They serve as back-ups to each other• Circle and Coinbase are the exchange venues for USD -- USDC conversion. They serve as back-ups to each other.

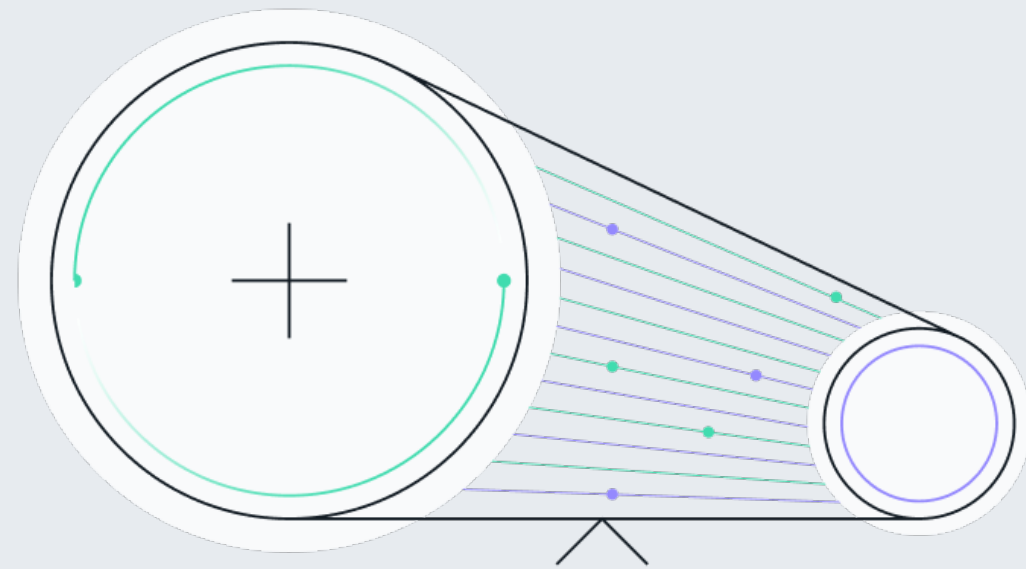
Treasury Risk Assessment Detail - Funding

Funding Action	Risk(s)	Mitigation
1. Customer wires \$ to Circle account (Silvergate)	<ul style="list-style-type: none">• Customer wires to wrong account (human error)• Silvergate does not credit wire to Circle account, either timely or at all• Silvergate goes down or fails	<ul style="list-style-type: none">• Wire details available both in web app, via email text, and via emailed PDF.• Customer should notify Compound via web app when wire transfer is initiated, and Compound will be in direct contact with Circle/ Silvergate until the wire is received.• There could be delays if the funds have been sent and the relevant bank is facing downtime.
2. \$ Settles at Circle as USDC	<ul style="list-style-type: none">• Circle is down• An incorrect amount of USDC is minted	<ul style="list-style-type: none">• There could be delays if the funds have been sent and the service provider is facing downtime.• Circle uses automated APIs to mint USDC, the policies guiding the automation are such that the exact dollar amount of USD is minted into USDC. Compound's accountants perform monthly reconciliations to ensure these policies are accurate.
3. Circle sends USDC to Fireblocks' customer sub-vault in Compound Prime workspace	<ul style="list-style-type: none">• Circle sends an incorrect amount of USDC or to the wrong destination• Ethereum is extremely slow or expensive• USDC is frozen for compliance/regulatory issues (whether facing USDC, or by USDC)	<ul style="list-style-type: none">• The amount of funds moved out of the Circle account, as well as the destination account, are automated and driven by APIs which automatically move all newly minted funds into the Fireblocks' account.• Funds may only move from Circle account to pre-whitelisted addresses. Compound will also have visibility in customer accounts.• Compound acknowledges blockchain delays may affect transfer times.• Any compliance or regulatory issues will be handled on a case-by-case basis.
4. Fireblocks operator supplies USDC from customer sub-vault to Compound protocol	<ul style="list-style-type: none">• Fireblocks' integration is buggy• Fireblocks operator supplies an incorrect amount of USDC (not all of it). Not really a risk; could supply the rest later.	<ul style="list-style-type: none">• Compound Prime has view access to the Fireblocks platform, and the ability to track actual balances and transfers on the underlying Ethereum blockchain. Fireblocks can initiate new transaction with remaining amount; Risk is limited to loss of interest rate accumulation due to delayed supply.

Treasury Risk Assessment Detail - Withdraw

Withdrawal Action	Risk	Mitigation
1. Customer requests withdrawal via Treasury app; Treasury operations team conveys request to Fireblocks, which initiates the redemption transaction of cUSDC for USDC	<ul style="list-style-type: none">• Fireblocks redeems wrong amount or to wrong destination	<ul style="list-style-type: none">• Compound uses a predetermined template for requesting withdrawals, this will be cross-referenced during the withdrawal process; Redemption only happens to the account where the funds were supplied from; Transaction approval policy in place for redemption actions; Risk limited to delay in completing the right redemption amount or loss of interest due to early redemption.
2. Fireblocks operator sends USDC from customer vault to Fireblocks' Coinbase Pro account	<ul style="list-style-type: none">• Fireblocks sends wrong amount or to wrong destination	<ul style="list-style-type: none">• Transaction Approval Policy; Vault to Vault transfers are blocked; Operator can not add any external addresses; Compound Prime has view access to the Fireblocks platform, and the ability to track actual balances and transfers on the underlying Ethereum blockchain.
3. Fireblocks operator uses Coinbase Pro to convert USDC to USD 1-1 for free	<ul style="list-style-type: none">• Fireblocks operator performs some other transaction with the USDC	<ul style="list-style-type: none">• Funds may only move from Coinbase account to pre-whitelisted addresses. Compound will also have visibility in customer accounts.
4. Fireblocks operator transfers USD from Coinbase Pro to Fireblocks' Signature/Silvergate account	<ul style="list-style-type: none">• Fireblocks operator sends to incorrect destination.	<ul style="list-style-type: none">• Currently being handled through wire transfer from Coinbase Pro account; Withdrawals may only be directed to whitelisted bank accounts from Coinbase Pro, the whitelisted accounts have to have had sent funds to the Coinbase account before.
5. Fireblocks operator initiates wire from Signature/Silvergate to Treasury customer.	<ul style="list-style-type: none">• Signature/Silvergate is unresponsive (does not turn around wire request within 1 business day)• Fireblocks operator sends to incorrect destination.	<ul style="list-style-type: none">• While banking being unavailable may cause delays, Compound will be in direct contact with Fireblocks/Silvergate until the wire is sent.• See Risk #1

Compound Protocol Risk Assessment



- **Default risk** is defined as the risk that the protocol fails to liquidate inappropriately collateralized borrowers, such that they become under-collateralized, i.e. what they owe is worth more than what they have provided as collateral. A lengthy analysis of default risk and the liquidation system is available in [Gauntlet Network's Compound Market Risk Assessment report](#).
- **Liquidity risk** is defined as the risk that a **market's supply is completely borrowed out, and suppliers, who usually are able to supply and withdraw funds at will, are not able to withdraw all of their funds on demand**. This risk is mitigated by the algorithmic interest rate models, which ratchet up rates at high utilization to encourage new suppliers of liquidity to enter the market.
- **Code Security Risk** is defined as the risk that the protocol's **codebase has a bug** or exploit that a malicious actor could use to improperly withdraw value from the system. The Compound protocol has been audited to the highest standard in the cryptocurrency industry -- no other project meets the security bar set by Compound.

Legal Disclosures

- The Compound Treasury Overview (the “**Overview**”) is not investment advice, does not constitute investment research, or a solicitation or offer to purchase or sell any securities, or other financial products or services, and does not take into account the investment objectives or financial situation of any particular person or enterprise. The Overview is merely a summary of the Compound protocol, Compound Treasury and certain risks and other considerations and does not purport to be complete. Moreover, the risks described in the Overview are not the only risks facing the Compound protocol, Compound Treasury or that may impair your investment. All views, opinions, estimates, terms, and other information expressed herein (i) may change without notice and will not be updated and (ii) are intended for discussion purposes only. No warranty is made as to the accuracy or reliability of any projects, estimates, opinions, conclusions or recommendations (which may change without notice) and, to the maximum extent permitted by law, we disclaim all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this material. Prior to entering into any investment, you must determine, without reliance upon us, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the tax, legal and accounting characterizations and consequences of any such decision. Neither Compound Prime, LLC, Compound Labs, Inc, nor their affiliates are providing tax, legal, investing or accounting advice. The Overview has been prepared for discussion purposes only, and is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. You must consult your own tax, legal, investment and accounting advisors before engaging in any transaction. The products and services contained within the Overview are not registered with the Securities and Exchange Commission, federal or state financial regulators or any other regulatory or governmental authorities. Investments in financial instruments carry significant risk, including the possible loss of the principal amount invested. No liability is accepted for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from the Overview. Furthermore, any projections or analyses provided to assist the recipient of this material in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one or more alternative methodologies that produce different results. Accordingly, any projections or analyses should not be viewed as factual and should not be relied upon as an accurate prediction of future results. No representation is made that an investor will or is likely to achieve results similar to those described herein. There can be no assurance that the operations described herein will meet objectives generally, or avoid losses, and investment results may vary on a quarterly, annual and/or other periodic basis.

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