Token Opinion Paper
Methodology and Ethical Principles

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1 Token Opinion Paper

A risk profile rating is our opinion of the general riskiness of a particular DLT-based project, based on relevant risk factors. It does not constitute a recommendation to purchase, sell or hold a particular token (be it its function profile of utility, security or a currency). A rating does not constitute a comment on the suitability of an investment for a particular investor.

2 Value Add of Token Opinion Paper

The token opinion paper seeks to provide additional information for the risk level of the token ecosystem. It comes from a research perspective and the opinion seeks to remain academic and neutral, with a level of conservatism.

As it is easy to be incentivised by short-term financial incentives, thus, this paper seeks to outline the methodology and ethical code that will always be upheld by the report analysis.

2.1 Who Is It For

The token opinion paper is for investors — both institutional and retail. For institutional investors, this adds as an independent research piece to substantiate the risk profile of the token ecosystem. For retail investors, this helps to do a level of due diligence, where one might find it challenging to conduct.

3 Risk Analysis

The analysis looks at 2 categories of risk profile to determine the current rating. It looks at the internal risk profile of token ecosystem design, which stems from academic research in the field of token economics. This is important, because

unlike traditional startups, token-based ecosystems can be designed and engineered to achieve the desired objectives. This mechanism needs to be taken into due diligence consideration.

It also looks at the external risk profile of the team, business idea and growth potential. The metrics are gathered from interviews with venture capital firms, investment companies, traders and retail investors. They also form the basic measures of success criteria for companies and projects.

4   Methodology

The analysis uses both fundamental (internal) and quantitative (external) investment techniques to assess the risk level. The level of token engineering can be sophisticatedly designed for a specific outcome, that builds the internal risk. The external risk is based on investment 101 and success metrics of investors, VCs and funds.

4.1   Overall Risk Rating

External Risk Profile	Internal Risk Profile					
	1 Minimal	2 Modest	3 Intermediate	4 Significant	5 Substantial	6 Aggressive
1 Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 Weak	bb+	bb+	bb	bb-	b+	b/b-
6 Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Figure 1: Overall Risk Rating Score

Taken together, the internal and external risks balances both data-driven approach and human-behaviour approach to evaluate the risk profile. They are then charted to determine the risk rating (AAA to B-).

A token opinion report comes with projects of BBB- and higher. It covers the general opinion, the pros and cons of internal and external risk individually and a "Future Catalyst" section. The future catalyst section is recommendations that an investor could note, to see a jump in risk rating and/or token prices.

4.2   Internal Risk

Internal risk uses fundamental investment approach. To decide which project can provide the best returns, we look at how the project designs its primary and internal market. This seeks to measure the intrinsic value of the ecosystem to its users, based on economics design principles.

The metrics to predict how well the project ecosystem is designed is divided into three sections:

- Design of the environment where these participants will interact with one another

- Design of the incentive mechanisms and rules of the ecosystem (both coded rules and dynamic rules that can be changed by the participants)

- Design of the incentive itself (if any). They are usually tokens or points that exist in the primary market

There are three segments in each section, with ten variables in each segment. Each segment is scored on an importance level (one to ten), based on the project's objective and design. Each segment is scored on how risky it is (one being very risky, ten being not risky). The scores are weighed against the importance level and averaged out by the total possible score. Then, a rating is given for the internal risk: one ($>90\%$) being excellent, six ($<40\%$) being vulnerable.

4.3 External Risk

External risk uses quantitative investment approach. For projects that are listed and traded, the financial statement and data will be analysed to evaluate the market sentiments. For projects that are at a fundraising stage, it represents the various risks in numerical form. Some form of statistical modelling can also be taken into the evaluation.

The metrics analyse variables in the investment universe and are divided into four sections:

- Team risk: background of team, ability to follow through with the roadmap

- Business risk: product market fit, financial risk, etc

- Technology risk: technology stack, system design, etc

- Environment risk: regulatory and industry risk

Similar to internal risk, there are various segments in each section and variables in each segment. The segment are weighted with a score (one to ten), based on what investors focus on. Each segment is also scored on how risky it is, based on the variables. The scores are weighed against the importance level and averaged out by the total possible score. Then, a rating is given for the internal risk: one ($>90\%$) being excellent, six ($<40\%$) being vulnerable.

5 Recommendation

Possible recommendations:
                Strong buy - Buy - Neutral/Hold - Underweight - Sell

The risk rating does not reflect the recommendation to buy, hold or sell. Risk rating can be high (AA+) and plans are great on paper. However, due to circumstances like its level of implementation, market sentiment, industry trends, a recommendation to hold might be more sound at the moment.

6 Ethical Principles

Above all, a clear moral compass and ethical principles are the guiding code that governs the responsibility of the token opinion paper.

- It is not the duty of the token opinion paper to please the motives of investors, exchange or projects. This means that risk ratings and recommendations will always be an independent opinion that is not influenced by any secondary motives.

- The objective of the token opinion paper is to provide a report to increase quality informational available, for investors to make an educated decision. Lack of quality information and information asymmetry has been a problem and the token opinion paper seeks to reduce the problem.

- The risk ratings and recommendations are an opinion that will remain as objective as possible. The opinion is an end inself, and not a means to an end of an interested party. Thus, recommendations (buy/hold/sell) will be based on the current situation and facts that are in place.

- Future catalyst of the project are recommendations that are not fully implemented yet. Thus, the recommendation (buy/hold/sell) is not based on plans that are not in place yet. However, it will be taken into consideration as how likely it will happen (e.g. 1% vs 90% into the full implementation of the plans).