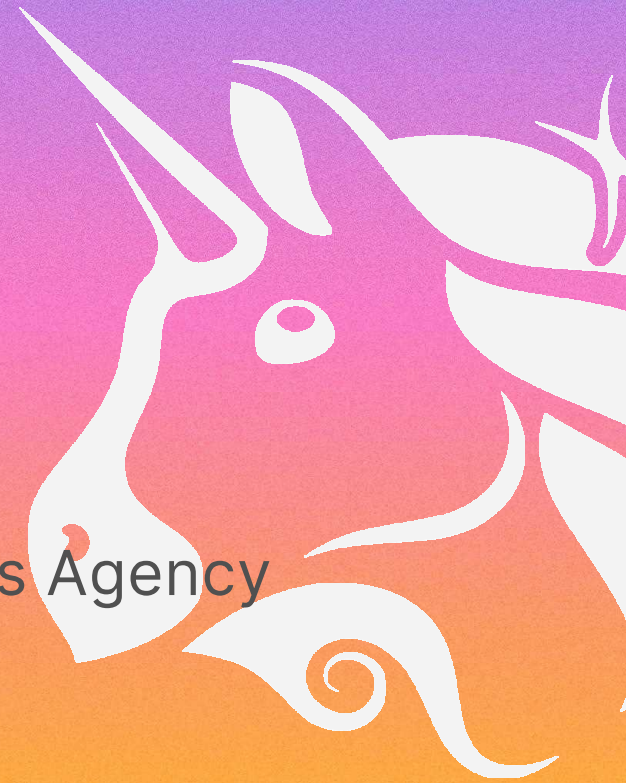


Uniswap Labs & protocol

Presentation for Japan Financial Services Agency
November 14, 2022



Agenda

1. Introduction to Uniswap Labs
 2. Introduction to DeFi
 3. Policy recommendations
- Appendix: reaction to QUNIE research summary

1. Introduction to Uniswap Labs

Uniswap protocol and Uniswap Labs

Uniswap is a **decentralized trading protocol** built first on Ethereum, allowing people to submit assets to liquidity pools without intermediaries governed by a DAO with limited powers to affect the smart contract code (“governance minimization”)

Uniswap Labs developed the **Uniswap Protocol**

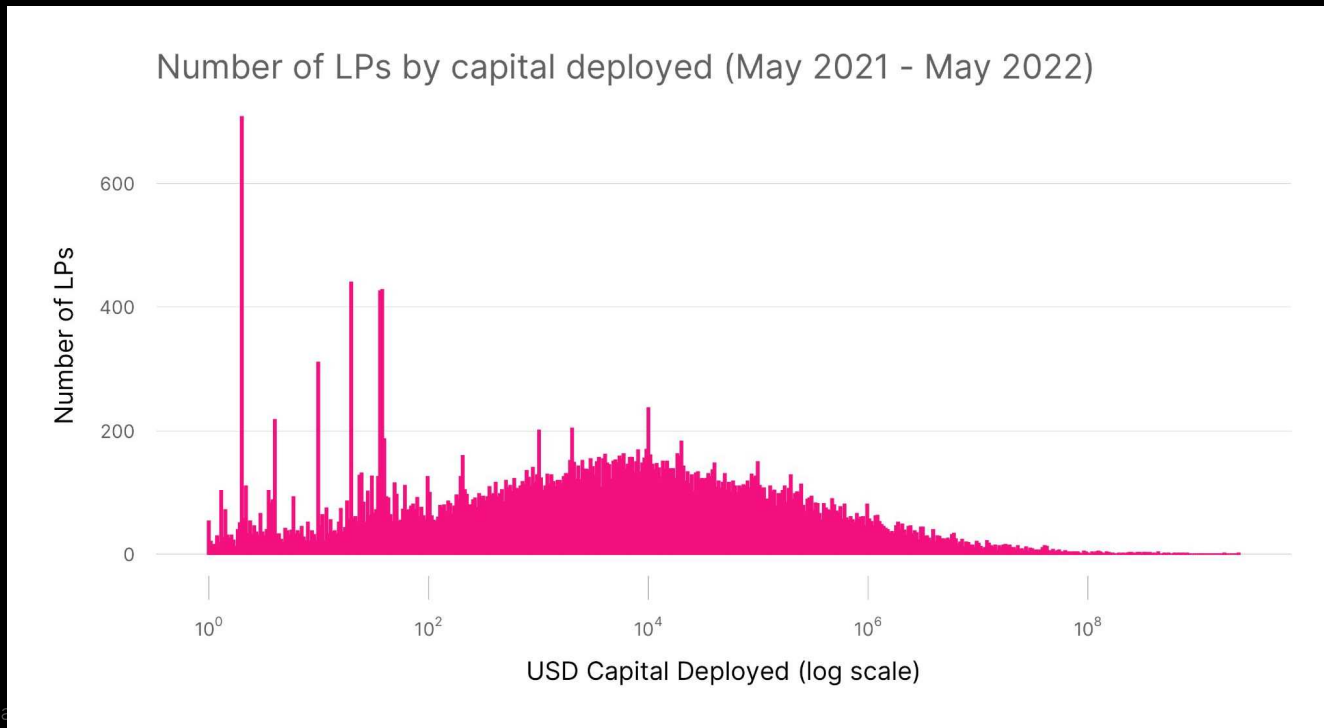
Uniswap Labs also builds products on top of the Uniswap protocol, including **web & mobile apps**, comprising approx. 20% of total protocol volume, and **a trading, widget, and analytics platform**

Six key features of Uniswap protocol

1. Self-custody: there is no custody intermediation
2. Free to use, transparent, openly available source code software executing on EVM
3. Two types of users: liquidity providers (LPs) and traders/investors
4. Liquidity pools aggregate contributions of digital asset pairs from LPs
5. Price set by constant product formula
6. Enables “market maker” economic exposure for LP users



Uniswap protocol represents commoditization and democratization of financial intermediation



2. Introduction to DeFi

TradFi trust supply chain

Self

Broker / Investment
Advisor

Custodian

Exchange

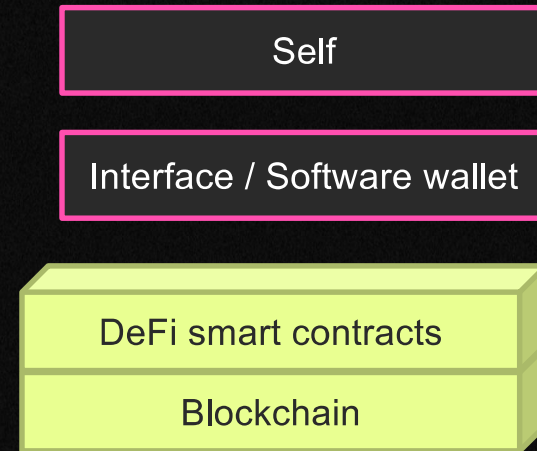
Clearing agency

Transfer agency

Centralized digital asset trust supply chain

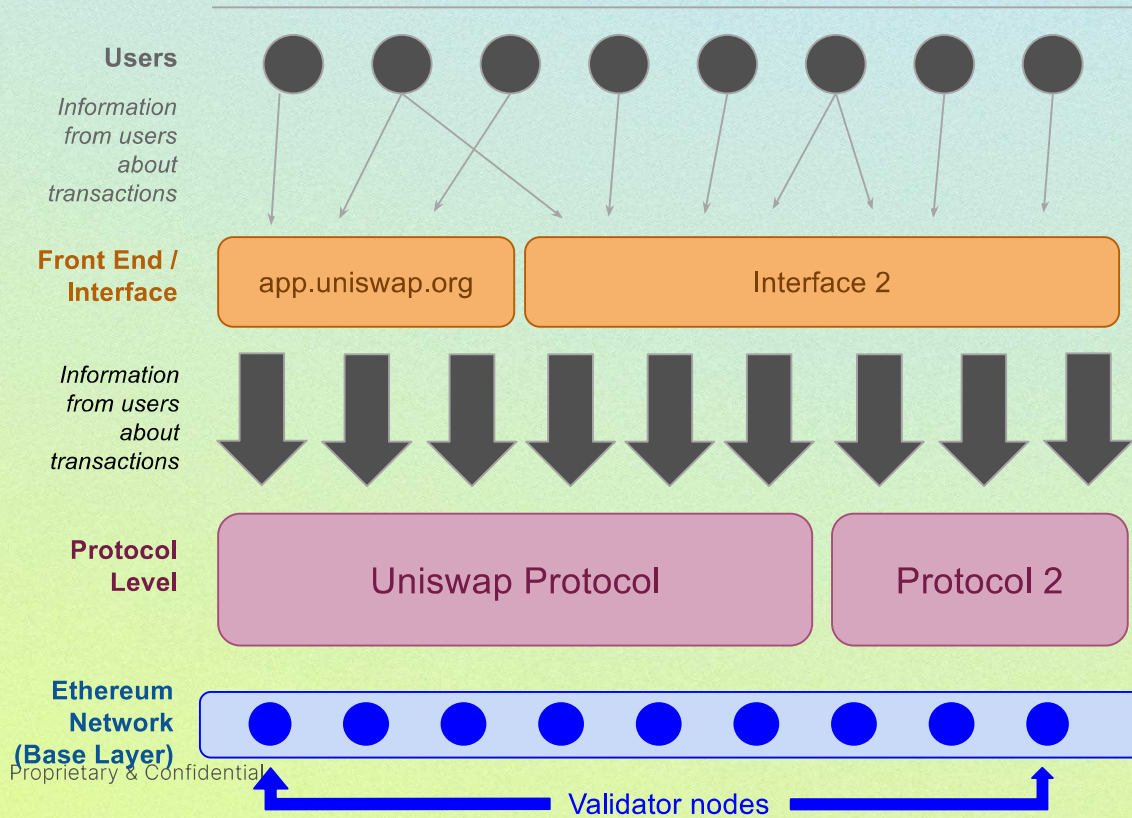


DeFi trust supply chain



DeFi Ecosystem

Ecosystem Map



Layer Functionality

- Transmit info re desired transaction to interface through self-hosted wallets
- Self-hosted wallet can interact with any interface
- Generally hosted by centralized entity, many commercial
- Allows users to access underlying protocol
- Multiple front ends can provide access to the same protocol
- One front end can provide access to multiple protocols
- Made up of smart contracts enabled by base layer
- Non-custodial
- Open source
- No controlling entity or controlled by DAO
- Where transactions are validated
- Run by distributed network of nodes

3. Policy recommendations

General recommendation

To ensure Japan maximizes opportunity, proceed carefully. Moving too prescriptively too quickly means rules that will not be followed outside Japan.

When regulating, focus on risks, i.e. hacks and scams, and start with voluntary compliance and regulated entities. Then centralized service providers.

Voluntary compliance → safe harbors → mandatory rules

Organize pilots with regulated entities to encourage them to innovate, e.g., Singapore Project Guardian

Encourage development of competitive market for compliance and risk management tools, e.g., code auditing, AML/CFT, market surveillance, disclosures, etc.

Look to Europe

MiCA Article 122

- 24 months for initial DeFi policy recommendations reports (2025)
- 48 months for final reports (2027)

European Commission Report
Voluntary compliance framework w/ "new rules specific to DeFi services and a carefully designed set of incentives to make compliance attractable enough."

Don't look to
U.S.

Digital Commodity Consumer Protection Act (DCCPA)

- Would treat DeFi protocol DAOs as “trading facilities”
- Mandates use of central limit order book (at least for trading facilities and perhaps for all digital commodities)
- Would require automated market maker liquidity providers (LPs) to register as “dealers”

SEC: regulation by enforcement + new “exchange” definition

Appendix: response to QUNIE Research

Initial reaction

Slide 17: "It is believed that the development company [Uniswap Labs] has administrative privileges (administrator's private key) to modify the code."

- Not accurate

Slide 21: "Main voters" are mostly delegates, including Monet Supply is not a VC