

# PAYWARD LTD

## CRYPTO ASSET RISK DISCLOSURE

### Uniswap (UNI)

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#### Disclaimer

***Please note that this risk disclosure is not exhaustive of all risks associated with trading UNI. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the [Risk Summary](#) for additional discussion of general risks associated with the assets made available in the platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this risk disclosure is based on publicly available information that may be inaccurate, incomplete, or change at any time.***

#### What is Uniswap?

Uniswap is a set of decentralized exchanges operating on the Ethereum blockchain, Polygon and several others. Rather than maintaining a central order book where orders from buyers and sellers are matched by market makers, brokers, OTC desks, auctions, or a matching engine, Uniswap uses a collection of liquidity pools powered by an automated market maker (AMM) protocol to facilitate trading.

Similar to protocols like Balancer and Curve, liquidity providers deposit assets into Uniswap pools, which enables users and traders to trade in the pool. For example, Uniswap's DAI/ETH liquidity pool consists of equal values of DAI and ETH deposits. A user wishing to buy DAI and/or ETH can use Uniswap's DAI/ETH pool to acquire the asset they want for a fee. In exchange for maintaining liquidity in these pools, providers are rewarded with newly minted UNI and a portion of the trading fees. Naturally, the liquidity provider's position would reflect changes to the amounts of each token after a trade.

From Q3 2022, users can also purchase NFTs on Uniswap. Uniswap aggregates several major marketplaces including OpenSea and LooksRare to offer better prices.

#### Who is behind the project?

Uniswap was released in 2018 by founder Hayden Adams with funding from major Venture Capital funds following.

#### How does it work?

The Uniswap protocol is now in its third iteration but its foundational mechanics and operating principles are consistent across each version.

Each liquidity pool contains two assets and each pool aims to keep the value of each asset in equilibrium with the other. Asset reserves in pools and their prices are updated automatically every time someone trades for an asset against the pool in order to maintain the asset pair's equilibrium. An asset traded out of a liquidity pool pushes the price of that asset in the pool higher. Conversely, an asset being traded into a pool pushes its price down. This pricing mechanism moves asymptotically meaning larger order sizes lead to larger price movements for an asset.

When liquidity providers add assets to a pool, they're given tokens representing their portion of the pool and are entitled to the fees generated by each trade. In the first two iterations of the Uniswap protocol, LP tokens for specific pools were ERC-20 tokens because every liquidity provider's position was used equally by the pool. However, because of the changes to the Uniswap protocol brought on by concentrated liquidity, LP tokens in the latest version are ERC-721 tokens, a non-fungible token standard. With the introduction of concentrated liquidity, users now need to pick the price range in which they want to provide liquidity to. When the assets they provided are trading within their designated price range, LPs earn trading fees just like before. But if the asset pair is trading outside an LP's chosen price range, the LP does not earn trading fees.

Across the protocol, the word "swap" is used interchangeably with the word "trade."

### **Tokenomics of UNI**

UNI holders are responsible for governing the Uniswap protocol.

The UNI token was launched in September 2020 with a total supply of 1 billion tokens that was distributed as follows:

- 60% of the total supply went to the community
- 21.27% was distributed to the team and future employees
- 18.04% was allocated to investors
- 0.69% was allocated to advisors

According to CoinGecko, as of September 2023, the circulating supply of UNI is ~754 million tokens.

### **General Risks**

Like all other digital assets, there are some general risks to investing in UNI. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken's Risk Statement.

### **Risks specific to UNI**

#### **Competition**

Uniswap faces competition from the other decentralized exchanges such as Curve, Balancer, Pancakeswap, and many others. UNI's value derives from Uniswap's broader adoption in the market. If Uniswap fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of UNI.

## Developer Dependence

Although there are many developers working on the Uniswap exchange, there are no guarantees that they will continue to contribute. UNI could be negatively affected by an inability to retain and/or attract developers to continue to maintain and build out its decentralized exchange.

## Regulatory Scrutiny

A regulatory crackdown on DeFi such as the Digital Commodities Consumer Protection Act (DCCPA), which could regulate decentralised exchanges similar to their centralised counterparts, would effectively ban DeFi. This could have a negative impact on the value of UNI.

## Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on UNI and determined that Kraken was permitted to make UNI available for trading to UK users, in compliance with UK law. This process generally consists of reviewing publicly available information on the following:

- The creation, governance, usage and design of UNI, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created UNI;
- The supply, demand, maturity, utility and liquidity of UNI;
- Material technical risks associated with UNI, including any code defects, security breaches and other threats concerning UNI and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with UNI, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of UNI, and (ii) consideration of statements made by any regulators or securities regulatory authorities in the UK, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to UNI about whether UNI, or generally about whether the type of crypto asset, is a security and/or derivative.

**Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you should not expect to be protected if something goes wrong. [Take 2 mins to learn more.](#)**

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