

H O
D L



yearn

Abstract

After the successful implementation of Bitcoin as a peer-to-peer payment system, the demand for additional decentralized financial services grew. As a result, Decentralized Finance (DeFi) was born. DeFi offers similar services to traditional finance, but the use of cryptocurrencies grants its users self-custody over their funds. Financial services such as borrowing, lending, and providing liquidity were assembled for the cryptocurrency market.

The rise of financial services allowed users to gain positive returns in the form of interest. To optimize returns (yield), a process called “Yield Farming” was introduced. Yield farmers develop strategies that can produce higher yields for their users. However, finding a trustworthy and adequate platform in the DeFi sector can be an endeavor.

Yearn Finance, the world’s first and biggest yield aggregator operates on the Ethereum and Fantom blockchains and aims to provide its users with access to the highest yields on their deposits. The protocol searches for the best yield strategy for the tokens at that time and can also move tokens between different strategies. Creating a one-stop-shop for DeFi where users can easily navigate to different yield optimizing strategies for their tokens.



‘When we talk about a digital world, necessarily we need to have digital money and we also need digital investment alternatives..’

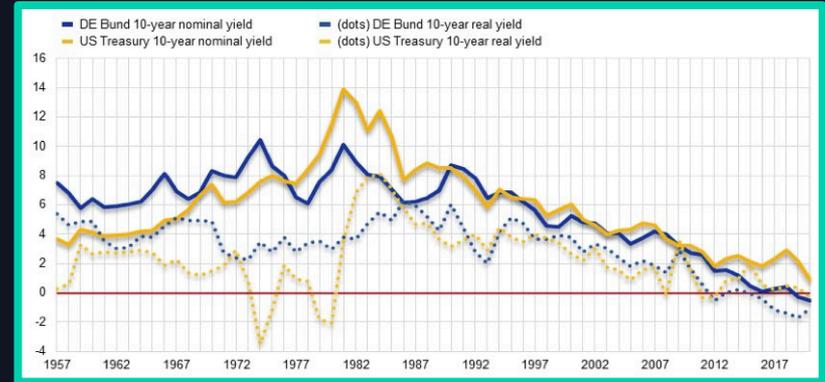
- Yearn Finance

Preface

Before cryptocurrencies, providing financial services were exclusively reserved for financial institutions. In return for using these services, account holders receive interest over their deposited funds.

Storing your funds in these accounts has its risks such as the declining interest rate environment which has punished savers over the years. The elitist nature of some institutions has also negatively affected individuals due to their ability to block accounts, freeze funds, and decline users from participating.

Declining interest rates over time

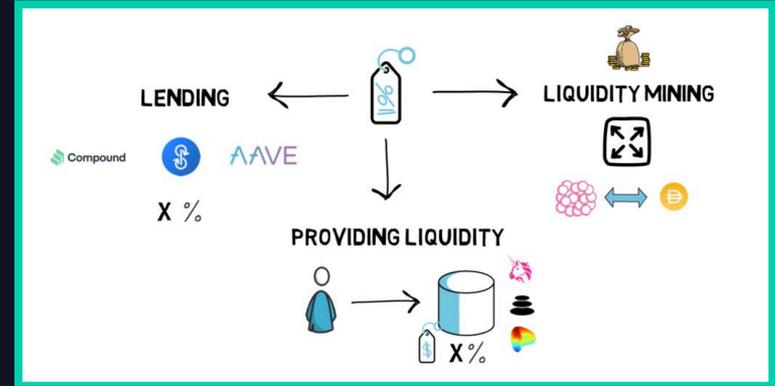


Source: VOX EU

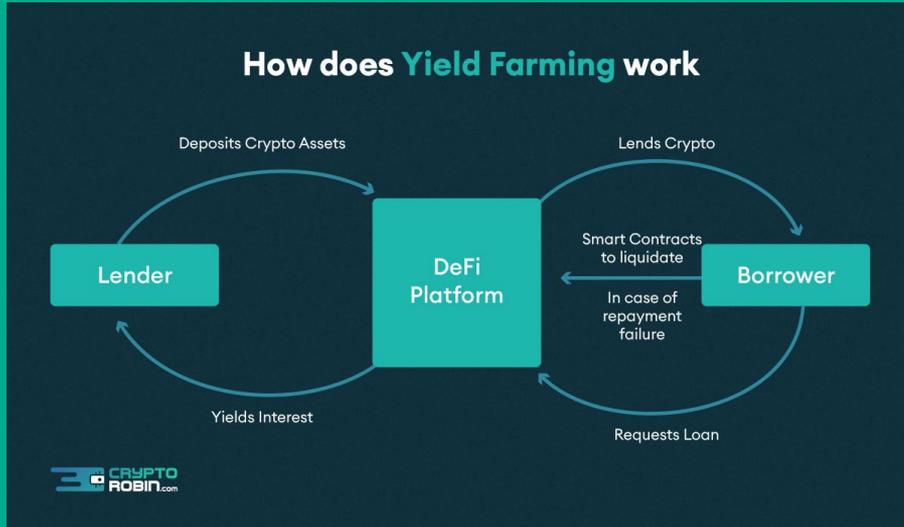
Preface

The quest for a decentralized alternative with better yield led to the integration of cryptocurrencies which evolved into the Decentralized Finance (DeFi) sector. DeFi removes the middleman by automating financial products through Smart Contracts (written code). This allows users to retain self-custody over their funds, participate freely, and receive interest.

One of the ways to generate returns on your funds is through yield farming. [Yield farming](#) is an umbrella term for [lending](#), [liquidity providing](#), and the staking of cryptocurrency to earn yield in the form of transaction fees or interest. It has proven itself as a profitable alternative for cryptocurrency users, although they should be aware of the possible risks.



Source: Finematics.com



Preface

Yield farming can be done individually but this requires technical knowledge and a deep understanding of DeFi in order to optimize returns. Therefore, users often turn to a yield farming service. Yield farmers provide several ready-to-use strategies through a user-friendly interface. To limit the risk of lost funds, it is important to find a trustworthy platform that offers these services.

Yearn Finance, founded in 2020, is a DeFi platform that offers multiple financial services in order to generate yield for its investors. Through its user-friendly interface, users can deposit and withdraw their funds with a simple click-of-a-button to one or multiple vaults. Each vault follows its own strategy in order to maximize yield for its investors.

Overview

Yearn Finance offers multiple yield generating financial services to its investors. The core products of Yearn Finance are their yield farming vaults. The vaults can be seen as a fund that follows a predetermined investment strategy, for instance, staking, in order to generate yield for the participants of the fund. Contributors continuously work on optimizing these strategies to increase the yield for their investors.

Yearn highly benefits from its first-mover advantage and has grown to become the market leader, currently holding \$2.87B within its Smart Contracts. Due to this advantage, the protocol has established a leading role within the DeFi community and currently functions as a [Decentralized Autonomous Organization \(DAO\)](#).

A DAO enables the creation of an open community which, in turn, invites its participants to optimize the existing yield strategies as well as introduce new ones.

	Curve stETH	4.30%	\$ 517,126,401
	ETH	1.36%	\$ 402,844,873
	DAI	1.99%	\$ 364,708,886
	USDC	2.48%	\$ 347,798,724
	Curve Iron Bank	1.93%	\$ 327,284,979
	Curve FRAX	3.42%	\$ 131,490,937
	USDT	1.30%	\$ 106,212,667

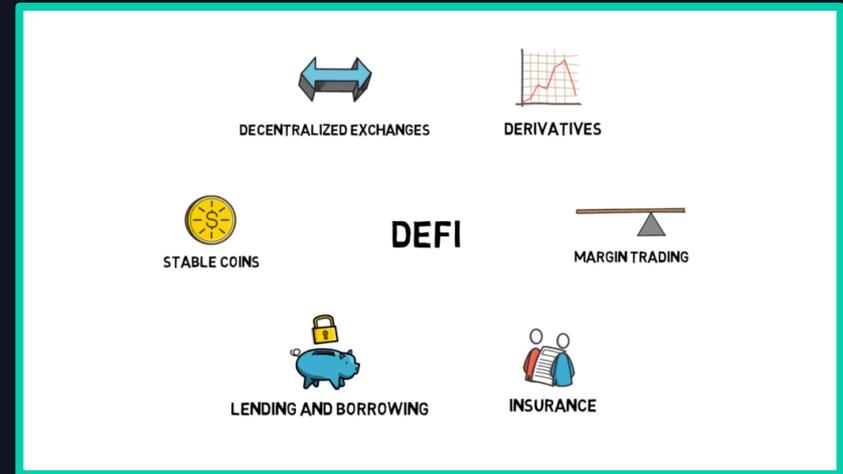
Yearn Finance: Available Vaults
Source: yearn.finance

DeFi Basics

Yearn Finance combines several aspects of the DeFi ecosystem under one platform. It is therefore relevant to be familiar with certain concepts beforehand.

DeFi platforms integrate Smart Contracts which are pre-programmed instructions regarding a certain set of actions. This enables DeFi to function as these Smart Contracts will link buyer and seller, lender and borrower or user and platform. This enables a big range of applications, each with a varying degree of complexity.

Yearn Finance uses lending and borrowing, liquidity providing, yield farming, and combinations of these services using Smart Contracts. [In the Appendix](#), you can find a more detailed and step-by-step explanation of how each of these concepts is executed and how they generate yield.



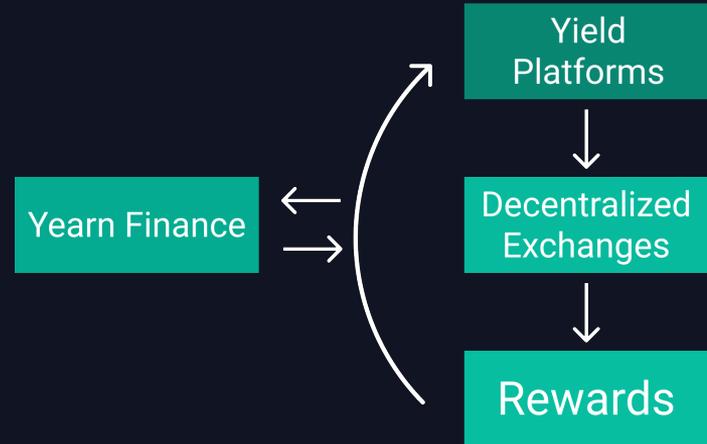
Source: Finematics.com

Yield Vaults

Vaults are Smart Contracts that accept deposits from clients and distribute those assets across several strategies that employ the capital to generate yield. These returns are collected and deposited back into the same strategies to enable a compounding effect on the depositors' assets in order to realize maximized yield (APY).

Yearn Finance's core product is the vault which provides automated yield generation across different crypto assets, using one or multiple strategies.

This can include any combination of the strategies covered in [DeFi Background](#) which includes borrowing and lending, staking, or providing liquidity to liquidity pools. The performance of each individual strategy is monitored, and funds are allocated in a manner that enables them to achieve the highest APY.



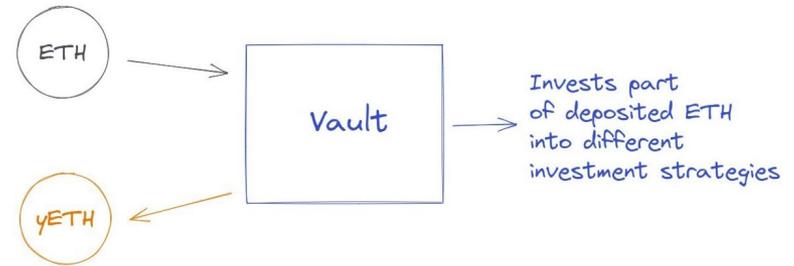
Yearn Vaults

Yearn Vaults, are compounding saving accounts in which you can deposit your crypto assets. Each vault is geared towards maximizing yield on a specific crypto asset. If you do not own the specific cryptocurrency for a given vault, Yearn's integrated technology allows you to deposit another currency which will then be exchanged to the correct currency of the vault.

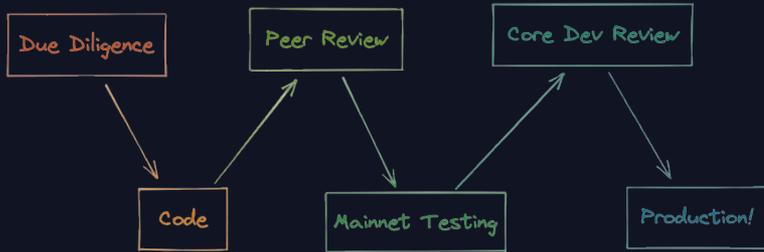
In return for the deposit, the user receives a share for the vault ownership, in the figure represented as 'yETH'. This token represents a proportional share of the vault which simplifies the withdrawal process as all the funds are combined. As strategies accumulate returns in the vault, the returns are divided by users proportionally to their vault shares.

It is also worth mentioning that there are no withdrawal and deposit fees charged for the user, disregarding the typical gas fee you must pay on the blockchain.

Yearn Vaults



Yearn Strategy Vetting Process



Strategy Vetting Process

- Anyone can create a strategy for a vault however it first needs to go through a thorough admission process known as Strategy Vetting Process. The yield generating strategy is first formalized, coded, and peer-reviewed by at least two other strategy coders.
- Afterwards, the strategy is tested with real funds and after a few successful runs, it is submitted to Yearn's Safe Farming Committee for approval. An internal auditor performs a complete review of the strategy.
- After all feedback is addressed and the code is reviewed, the strategy will be added to one of the existing vaults. Individuals are incentivized to create a successful strategy by a performance fee that will be rewarded to them. As the strategy becomes more popular, additional precautions are taken such as establishing a committee that monitors the strategy 24/7 and subjecting the strategy to external audits.

Audit

Within the DeFi space, Yearn Finance is very well known to prioritize safety over speed. The complexity of the strategies requires several layers of reviewing and examination from internal or external parties. Since 2020, there are over twenty publicly available audits on the Smart Contracts used by Yearn Finance and its vaults from competent auditing companies such as Trail of Bits.

A very detailed report on Yearn can be found [here](#), provided by DeFiSafety which gave an overall score of 93%. Considering all the safety protocols and the detailed examination that goes into creating a strategy through the Strategy Vetting Process, such a high score provides a sensible representation.

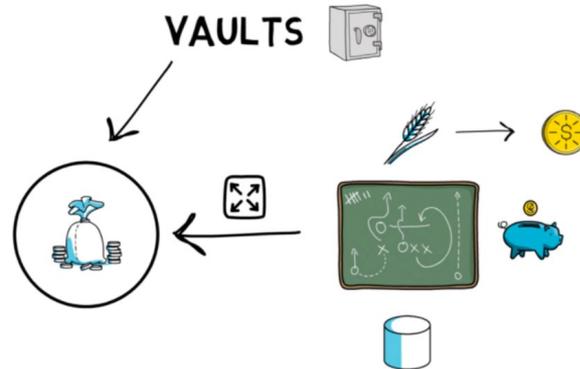


Use Cases

Yearn Finance offers investment strategies to its investors in order to create higher returns on their deposits. The vaults are the core product of Yearn Finance. Each vault follows different investment strategies and consists of different cryptocurrencies and tokens. This enables investors to explore multiple strategies and choose the one that suits them best.

Yearn Finance currently offers more than fifty vaults on its platform. Individuals are allowed to propose a yield farming strategy and if the community agrees with the created strategy, it will be offered on the platform.

Holder of the Yearn Finance token also decide on key changes to the protocol. Through the community voting-rounds, the DeFi platform remains decentralized, and the token holders can decide how the platform should operate and evolve over time.



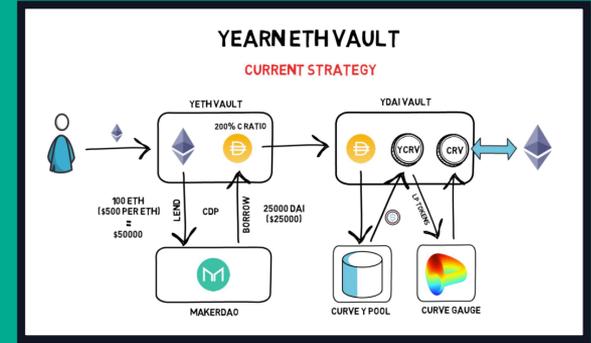
Source: academy.moralis.io

ETH Vault

One of the biggest vaults of Yearn Finance is the Ethereum (ETH) Vault. In order to join the vault, investors need to deposit ETH. The participants of the vault maintain their exposure in ETH due to the vault's mechanisms, always holding and accruing more of the underlying asset. Investors can inform themselves about the vault's investment strategy, which currently consists of two forms of staking. It currently holds approximately \$400M worth of ETH. The current strategy yields 1.49% APY with total earnings of \$5M in less than a year.

USDC Vault

Another vault with a high number of assets under management is the USDC Vault. USDC is a stable coin that is pegged to the U.S Dollar, so one USDC is always worth one dollar. The vault investment strategy consists of providing USDC to various liquidity pools. The vault currently holds approximately \$350M in assets, with individuals who allocate USDC into the vault earning 2.48% APY. The total earning of the USDC vault is \$3.2M in less than half a year.



Source: finematics.com





Partners

Yearn Finance was the first yield farmer in the DeFi sector. The rise of DeFi has attracted many individuals, who are looking for investment alternatives. Yearn's partnerships consist of many organizations that operate in the DeFi ecosystem. These partnerships include the decentralized exchange SushiSwap, which offers Yearn custom prices for certain cryptocurrencies to enhance its investment strategies.

Another recently announced partnership is the DeFi platform Akropolis, which aims to offer Yearn's products to institutional clients. Other notable partnerships include Iron Bank and Pickle Finance, for lending and yield management, respectively.

Lastly, some of the offered yields are generated through close synergies with Curve, a decentralized exchange focused on stablecoin assets.

Community

Yearn Finance has created a big and involved following throughout its multiple communication channels. Twitter is their leading engagement platform with approximately 180,000 followers. The involvement of the community is clearly illustrated in the community-voting rounds and governance forum.

During the past years, there have been a total of 67 proposals in order to improve the Yearn Finance. Individuals close to the development of the protocol are prominent characters in the DeFi space, though sometimes anonymous. Together with the strategy creators and safety specialists, the protocol has gathered an outstanding number of competent contributors relative to its competition.

The involved and knowledgeable community keeps improving Yearn Finance, which will keep attracting more users, and arguably, strategy creators to the protocol.

Social channels

-  **Website:** yearn.finance/#/home
-  **Whitepaper:** docs.yearn.finance
-  **GitHub:** github.com/yearn
-  **Twitter:** twitter.com/iearnfinance
-  **Telegram:** t.me/yearnfinance
-  **Discord:** discord.com/invite/yearnfinance
-  **LinkedIn:** linkedin.com/iearn-finance
-  **Reddit:** reddit.com/r/yearn_finance
-  **Medium:** medium.com/iearn



Team

Andre Cronje is the founder of Yearn Finance and has broad experience in the cryptocurrency market. Before founding Yearn Finance, Andre was a technical advisor at the Fantom foundation, which is the world's first DAG-based smart contract platform that solves the issue of scalability and confirmation time of the existing blockchain technology. His blockchain experience extends to a multitude of projects. Recent publications revealed involvement in 25+ projects.

His passion for blockchain was driven by his history in technology. Before taking this path, he for example has been working as a software architect at Full Facing, which develops innovative data-driven platforms that combine custom-engineered hardware and software to help businesses solve problems.

However, recently, Andre has announced to discontinue his efforts into the active projects. Starting April 3rd, he will terminate his involvement and hand over the projects to others willing to take over. Because these projects and the underlying code are deployed on a blockchain, it is easy for other developers to proceed his endeavors.



Andre Cronje
Founder

Experience



- Chair, Technological Council at the Fantom Foundation



- Software Architect at Full Facing



Developers in the Yearn community are known as Contributors. An example of a contributor is Arthur S. Arthur has been a contributor to the Yearn Finance protocol since September 2020. He joined the Ethereum foundation in 2015, where he still is a blockchain developer. In the meantime, he also worked at big multinationals such as IBM and Microsoft, where he was a Blockchain Developer Consultant and a Blockchain Researcher.

After working at IBM, Arthur joined Yearn Finance and is currently working on experimental vaults. He is also working on a new project to allow everyone to value their social content, The company called "Gallerri" aims to turn social media posts into a wonderful art gallery with the Ethereum blockchain.

Because of the development of Yearn into a fully functioning DAO, the impact of Andre's abandonment will be short-lived. His involvement had already significantly declined, and the protocol was mostly guided by its 150 full-time and part-time contributors. They will proceed with the development of the protocol and its yield farming strategies.



Arthur S.
Contributor

Experience



- Blockchain researcher at Microsoft



- Blockchain Developer Consultant at IBM



- Blockchain Developer at Ethereum



Ticker: YFI

General

Token type	ERC20
Rank	105
Market cap	\$ 748,997,158
Full diluted Market cap	\$ 769,423,090
Cap	Low
Circulating supply	35,692 \$YFI
Total supply	36,666 \$YFI
Max supply	36,666 \$YFI
Reported volume 24H	348,556,394

ICO

ICO price	N/A
ICO Start Date	N/A
ICO End Date	N/A
Soft Cap	N/A
Hard Cap	N/A
Total USD raised	N/A

On-chain data 2022

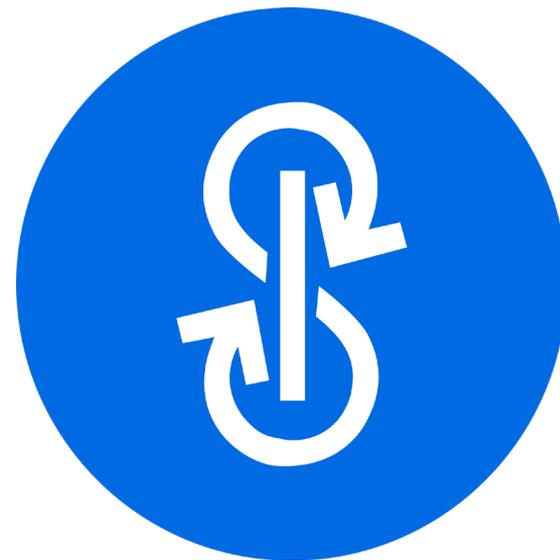
Holdings	46,788
Top 100 Holders	82.25%
Avg txs 7-Day	974 txs
Avg addresses 30-Day	41.300
Total Value Locked (TVL)	\$3,071,449,965
Active Vaults	73

Pricing

Price in USD	\$ 20,931.52
All time high in USD	\$ 90,786.89
All time low in USD	\$ 31.65
Price in BTC	0.53749947 \$BTC
Price in ETH	8.10508208 \$ETH
Decimals	18

Calculations

Average supply inflation	N/A
Average inflation rate	N/A
Estimated supply deflation	N/A
Estimated percentage deflation	N/A
Volatility (30-day avg.)	N/A
Liquidity (30-day avg.)	N/A

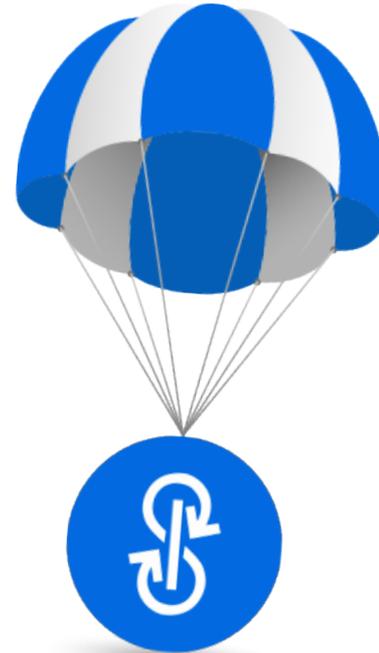


Distribution

The founder (and ex-lead developer) behind Yearn Finance, Andre Cronje, created the YFI token for governance purposes for the ecosystem. Andre himself decided to take zero tokens which led the token distribution to be purely community-based.

The YFI token was launched with no pre-mine for the team or early-stage investors. Instead, 30,000 tokens were distributed to anyone who had deposited tokens to a liquidity pool within the platform – a process within crypto referred to as a fair token launch.

Thus, early users of the Yearn Finance platform had the right to claim YFI tokens, leading to a purely distributed community which lead to an engaged and vibrant ecosystem, governed entirely by its users.

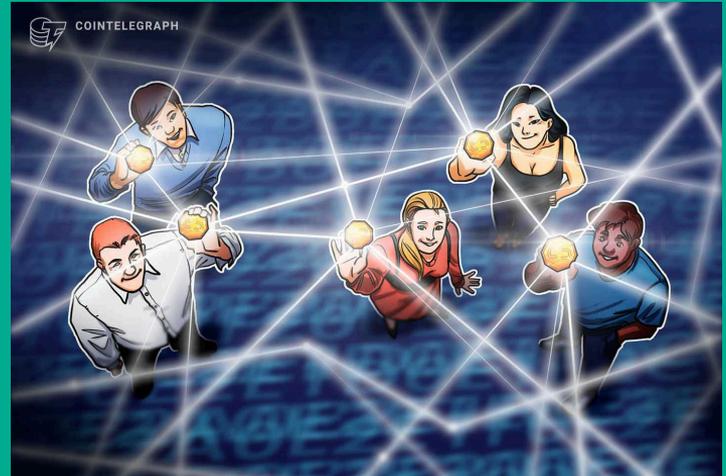


Token Release

In January 2021, community members and contributors composed a proposal to increase the token supply by 6666 tokens, at the time representing a 22% increase in token supply worth \$225 million.

Since Yearn's token launch in 2020 was very exceptional due to its fair token launch nature, it did not provide persistent incentives for existing and future contributors as there was no capital to fund activities. This number was considered the minimum viable amount to provide a healthy backing against other protocol competition.

In its community-voting round, the proposal was accepted by the majority. One-third of the minted tokens were given to contributors, while the rest of the tokens went to the Yearn DAO Treasury through which the DAO can now perform several capital incentivized initiatives to improve its ecosystem.

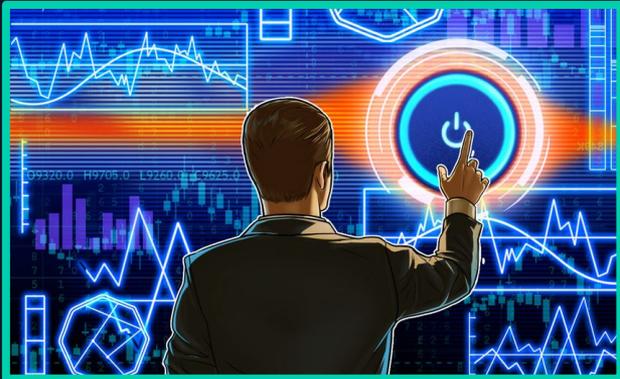


Source: Cointelegraph

Token utilities

Within the Yearn Finance platform, the YFI token is a tool for governance that enables coordination between the platform's contributors, community, and associated protocols.

Previously, users were incentivized to provide liquidity for Yearn Finance's aggregated liquidity pool. In return, they would earn additional yield in YFI tokens, however, this token minting mechanism has been stopped.



Source: Cointelegraph

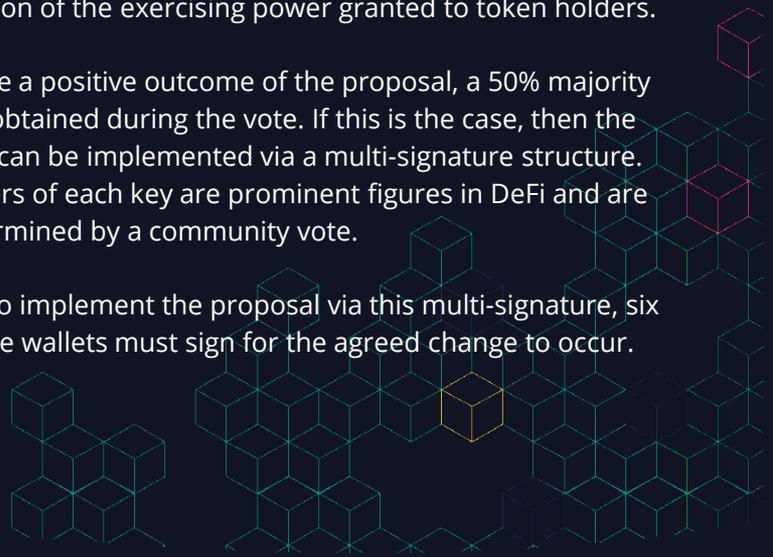
Governance

Yearn Finance contributors help build the future of DeFi. The Yearn Finance platform is controlled by YFI token holders who create and vote on off-chain proposals that drive the development of the platform and its ecosystem.

Proposals made to the Yearn Finance platform are called Yearn Improvement Proposals (YIPs). These proposals are a direct visualization of the exercising power granted to token holders.

To achieve a positive outcome of the proposal, a 50% majority must be obtained during the vote. If this is the case, then the proposal can be implemented via a multi-signature structure. The owners of each key are prominent figures in DeFi and are also determined by a community vote.

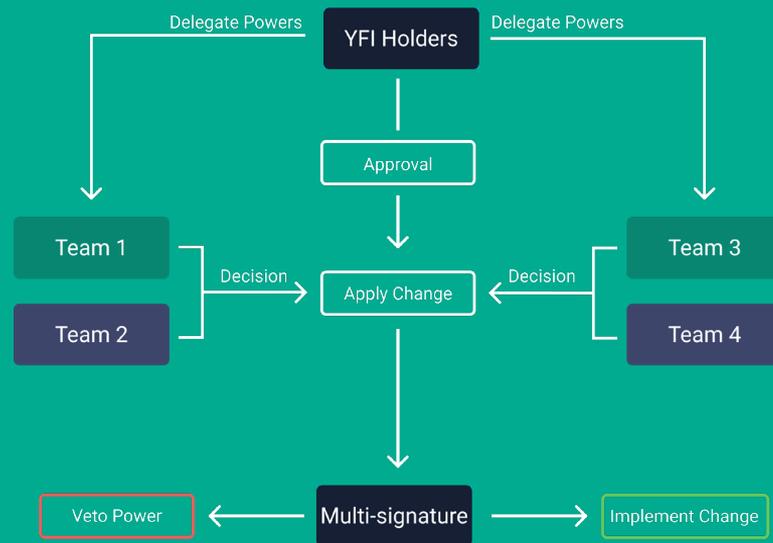
In order to implement the proposal via this multi-signature, six of the nine wallets must sign for the agreed change to occur.



Governance 2.0

Due to the extremely engaged community and the specialized teams which function as a department in a traditional organization, Yearn Finance began to transition into a multi-DAO structure managed by a constrained delegation. This created an organization with divided responsibilities and separated incentive structures between the YFI token holders, the specialized teams, and the multi-signature.

YFI token holders delegate their governance powers to autonomous groups such as the multi-signature or one of the many teams. This empowers those teams to be creative and gives them the space to execute fast. At the same time, YFI holders have the ultimate control over the protocol as the delegated tokens can always be transferred away if parties behave against token holders' interests.



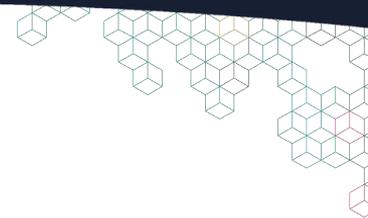
Coin Metrics

With a total supply of 36,666 YFI tokens and a circulating supply of 35,692, the great majority of the tokens are already in circulation in the open market which decreases future inflationary pressure on the token price.

When analyzing the distribution of the YFI token holders, the top 50 holders collectively own 71.84% of the YFI supply. At first, this might appear as an extremely centralized token distribution, however, the great majority of these 50 holders are not individuals, instead, they are Smart Contracts or exchanges.

Tokens held in Smart Contracts have set rules to hit the market freely which should be respected by the key holders of the multi-signature as well as the community. Currently, approximately 30% of the YFI tokens are held in some sort of Smart Contract. At the same time, 14% of all YFI tokens are on centralized exchanges and 4% is held on decentralized exchanges which indicates a healthy volume profile of the project.

The remaining tokens (50%) are held in private wallets. As long as there is no strong demand for the use of the YFI token, chances are high that less convicted token holders slowly keep exiting their positions, resulting in a slow downwards trend in the price of the YFI token.



Token allocation

The launch of Yearn Finance was done in a unique way. Early users of the platform were rewarded and had the right to claim tokens, with a total of 30,000 being distributed from the start. This gave rise to a fully community-owned protocol which is seen as very positive in crypto, as there are no early insiders in the project nor does the team get a very large token allocation. Currently, there are 46,880 YFI token holders.

Value of the YFI token

Since HODL is an investment fund, the main lens through which we evaluate a project is through the use of the project's token within its economy. The current difficulty faced with DeFi protocols is the fact that there is a strong mismatch between the success of the product versus the value accrual for the token.

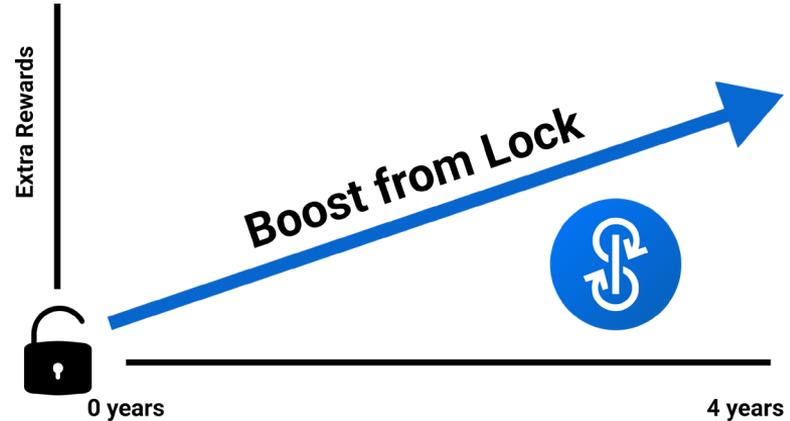
The main use case of the token is strictly for governance purposes which leaves the token holder with limited options on how to use the YFI token. Therefore, the created value of owning the token is low as there is little use of the YFI token within the products of Yearn Finance and because of that, little incentive for the tokens to change hands (little token circulation).

Future roadmap

In the near future, Yearn Finance aims to increase the utility of its token via a token lock mechanism. When users lock tokens, they will be entitled to additional rewards and will be the only ones able to participate in the governance of the protocol.

Depending on the duration of the token lock, users are entitled to different shares of additional rewards, with a maximum lock-up of four years.

This mechanism reduces the amount of YFI tokens on the open market and increases the interest to own the token. The rewards will be distributed via the votes decided through governance.

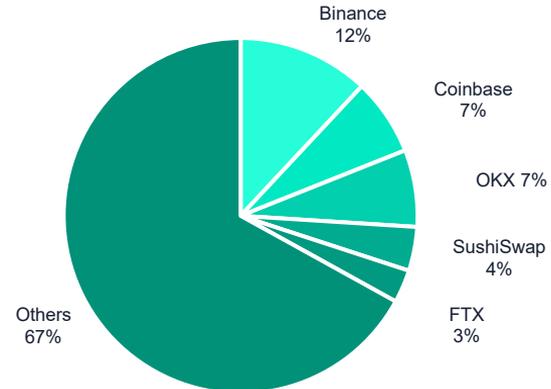




Listing

The Yearn Finance Token launched in Q3 of 2020 at the price of approximately 900 dollars. The token became extremely popular and the value of the token soared to \$40,000 only two months after the initial listing. A large portion of the trading volume goes through the centralized exchange Binance. The largest trading volume on decentralized exchanges takes place on Uniswap. The token can be found on more than 40 exchanges.

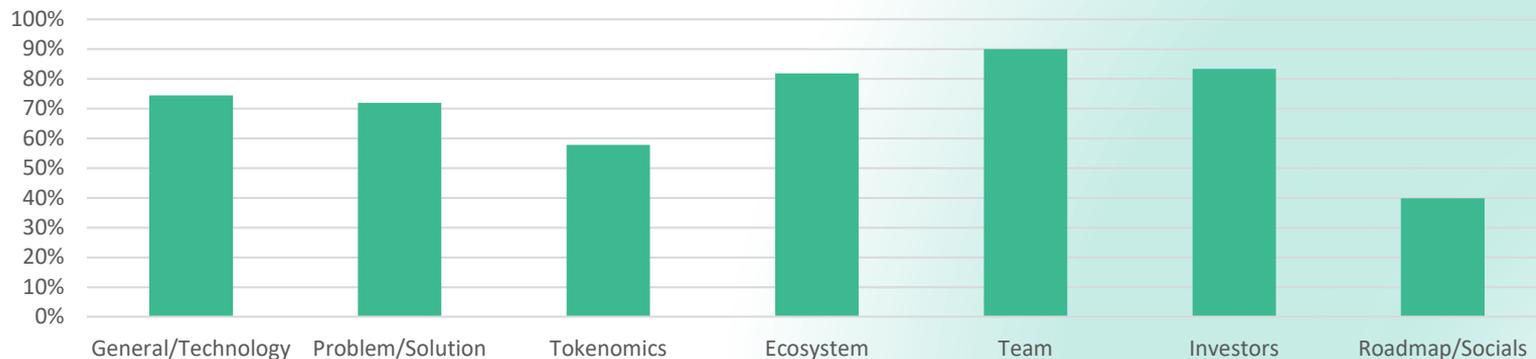
Volume on exchanges



Yearn Finance | Hodl Score

H O
D L

Final
Hodl
Score
68%



*Categories differentiate in weight measurements to determine the final Hodl score

General remarks

DeFi protocols are becoming increasingly complex and hard to understand for the general public. Yearn Finance delivers a much-needed answer, as well as solid returns on investment with relatively low risk. Within the DeFi space, the project is regarded as a blue-chip. Yearn's market grasp in the DeFi world has grown significantly as a result of major mergers with other DeFi protocols such as SushiSwap, Akropolis and Iron Bank. Yearn Finance has a fairly simple, yet effective product and is still providing a great product-market fit.

Long term investment

As a long-term investment, Yearn Finance presents a shaky value proposition for investing in its token. On the positive front, Yearn Finance's vaults generated an average of \$18.7M per quarter in 2021 which shows that the business idea is profitable. Also, almost all YFI tokens are in circulation which implies low incoming inflation. Moreover, Yearn Finance had a fair launch, which meant that the project is fully owned by its community.

On the other hand, it is not clear that this product's success adds value to the token price. This disconnect happens because the YFI token is not needed to use Yearn Finance's vaults or any other Yearn product. Thus, there is no natural demand coming from the use of Yearn's products which makes it an unreasonable long-term investment.

Risks and threats

Token minting function built in:

Despite a fair token launch and an engaged and transparent community, the code of Yearn Finance still contains the ability for new YFI tokens to be created. This function has been used in the past, where 6,666 tokens were minted after Yearn Improvement Proposal 57 was accepted by the community. Although representing the support from the majority and assumed not to be recurrently used, there might be instances in the future where this situation occurs again. Naturally, the creation of new tokens dilutes the current holders of the token.

DeFi projects getting hacked/compromised:

It should be noted that there have been a total of 129 Defi exploits, representing a total loss of approximately \$2.9B at the time of writing. Some of these projects include prominent names in crypto like Badger DAO, Compound and Venus. Like with any DeFi project, where the user is ultimately responsible, there's always a risk of a certain project getting compromised and investors losing their funds.

Founder leaving:

As of the 6th of March, Yearn's founder Andre Cronje has left the crypto space completely. As a very prominent developer in the DeFi ecosystem, this was a major setback. The propagation of the news led to a 14,5% price drop. This should leave a short-term mark on Yearn Finance as Andre has not been contributing to Yearn for over a year and new, more engaged team members have since joined the protocol.

HODL | “Hold On for Dear Life”

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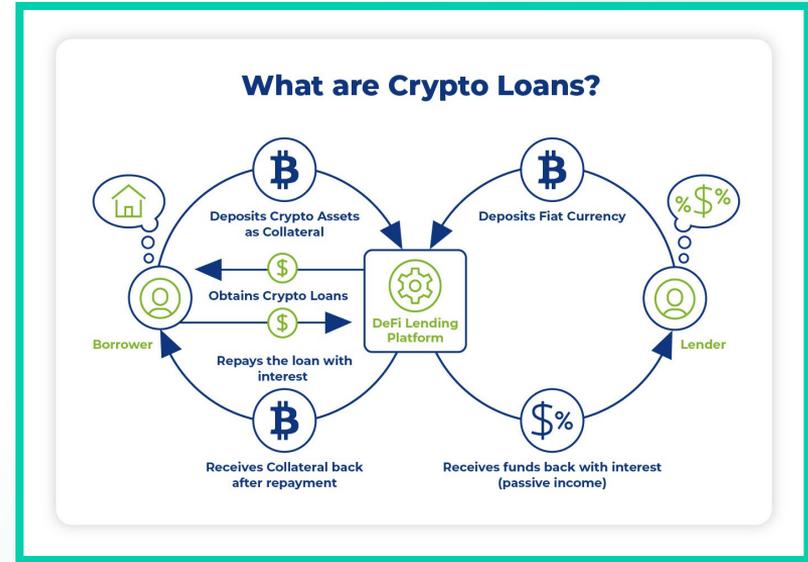
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Borrowing and Lending Contracts

One of the first financial services in the cryptocurrency market was borrowing and lending, which has been decentralized by the incorporation of Smart Contracts. These contracts follow pre-programmed instructions regarding the lending and borrowing. The lender deposits his funds through a smart contract. Once there are funds available, a borrower can request a loan through the smart contract. The smart contract ensures that the interest and repayments are automatically processed, earned and paid.

When a borrowing party wants to loan assets, they are required to put collateral upfront. This ensures that the borrowing party will repay the loan including the charged interest. When the due date of the loan has been reached and the debt has not been repaid, the contract will pay out the collateral of the borrowing party to the lender. In case the debt has been repaid, the contract will pay out the lender and release the collateral of the borrower.

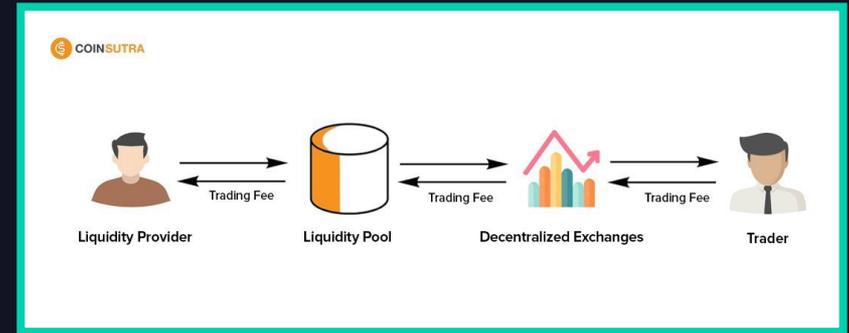


Source: yield.app

Liquidity Providing

After borrowing and lending, Liquidity Providing was introduced to DeFi. When trading cryptocurrencies on a centralized exchange, the initial availability of these currencies is provided by the exchange itself. In a decentralized exchange or swap, the availability is provided through liquidity pools. A liquidity pool can be seen as a bucket of two cryptocurrencies, which allows these two assets to be traded against each other. Everyone can provide liquidity by depositing one or the two currencies into the pool.

Whenever a trader swaps assets on a decentralized exchange, the trade is carried out by a smart contract. Each trade is subject to a conversion fee and this fee is being rewarded to the liquidity providers, proportional to their share of the pool. The earnings will remain in the pool until the liquidity provider decides to withdraw its funds.



Source: coinsutra.com

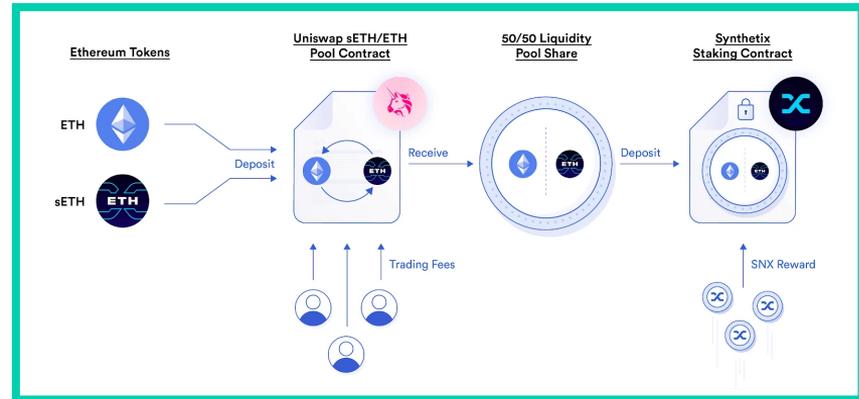
Yield Farming

The previously mentioned financial services created the ability to generate a yield on one's assets. The combination of these different strategies resulted in yield farming where investors create optimized investment strategies in order to maximize their yield.

The yield rate is typically separated into two categories; Annual Percentage Rate (APR) & Annual Percentage Yield (APY). APR reflects the fixed yield rate over a year, while APY describes the rate with the effect of compounding (interest on interest).

Yield farming rates can differ due to changing circumstances within the sector as the use of these products is market driven. For example, Borrowing and Lending pools are driven by supply & demand, which could result in an APY of 3% in the first month, and a declining APY of only 2% in the next month.

Due to the continuously changing yield, yield farmers are constantly seeking new yield farming opportunities and DeFi platforms in order to increase their earnings.



Source: blog.chain.link

How DAOs work

Yearn Finance functions as a DAO. A DAO is an organization whose decisions are made by the token holders of the protocol. To eliminate a central decision-making process and leader, the DAO's governance functions via smart contracts. This creates an organization whose voting rounds let the community decide on the future of the protocol.

Token-holders can vote on proposals by interacting with Smart Contracts. Token holders can register their vote in the contract, which calculates the votes and guarantees that there was no tampering with the proposal. The voting power of token-holders is proportional to the number of tokens held.

All community members can make a proposal on the Governance Forum. Once a proposal creates enough traction within the community, it will be voted on through a community voting round. To implement the proposal, the majority of the voters should be in favor of the decision.



Source: yield.app