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STRATEGIC SELECTION: A PRACTICAL GUIDE TO CHOOSING THE RIGHT MARKET MAKER

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OVERVIEW

In crypto markets, where liquidity drives both perception and performance, market makers play a critical but often poorly understood role. While professional market makers are essential for maintaining orderly, liquid markets, the lack of transparency around their practices has made it difficult for projects to evaluate partners effectively. This report serves as a practical guide for token foundations and exchanges looking to navigate that decision with greater confidence.

The right partner can reduce slippage, dampen volatility, and help maintain tight spreads and deep order books across key trading venues. These conditions support organic trading activity and fair price discovery, while also signaling that the market is stable, well-functioning, and free from manipulation. This helps build trust among investors and encourages sustained participation over time. At the same time, poor market making, whether due to misaligned incentives, insufficient capital, or predatory practices, can damage investor confidence and undermine ecosystem growth. As such, selecting a market maker is one of the most consequential infrastructure decisions a token project can make.

This third report in our series provides a practical framework for choosing a liquidity provider to partner with. While the first report introduced market making fundamentals and the second examined liquidity's quantitative impact on token performance, this report focuses on the selection process itself. Based on interviews with exchange operators, market makers, and token projects, we examine how to assess liquidity providers across five critical areas: reputation, technical capability, market specialization, operational discipline, and cost structure. This framework helps projects set realistic expectations, avoid common pitfalls, and structure effective long-term relationships.

We start by examining the strategic benefits market makers provide, including liquidity provision and broader ecosystem support. We then detail evaluation criteria for assessing providers, followed by a systematic due diligence process covering information requests, verification methods, and candidate screening. We provide specific frameworks for assessing liquidity capabilities and end with practical advice on structuring agreements and negotiating contracts.

GLOSSARY

AMM (Automated Market Maker): A decentralized protocol that provides liquidity through algorithmic pricing curves (e.g., constant product formula) rather than traditional order books, enabling permissionless trading through liquidity pools.

Call Option: A derivative contract granting the market maker the right, but not obligation, to purchase project tokens at a predetermined strike price within a specific timeframe, often included in compensation structures to align incentives with token price performance.

Depth: The aggregate quantity of buy and sell orders available within a specified price range from the mid-market price (e.g., within 1% or 2%), representing the market's capacity to absorb large orders without significant price impact.

DLOB (Decentralized Limit Order Book): An on-chain or hybrid order book system that maintains limit orders on a blockchain or decentralized infrastructure, combining traditional order book mechanics with decentralized custody and settlement.

Gamma Scalping: A delta-hedging strategy in which a market maker holds an options position and continuously rebalances by buying the underlying asset as prices fall and selling as prices rise, capturing profits from realized volatility. In crypto market making, this technique allows providers to monetize price fluctuations in moderately liquid tokens while maintaining a hedged overall position.

Inventory: In the context of token market making, the holdings of both the project's token and the quote asset (e.g., USDT or USDC) that a market maker maintains in order to quote buy and sell orders on both sides of the order book. Effective inventory management requires balancing sufficient token and stablecoin reserves to provide continuous liquidity while minimizing exposure to adverse price movements.

Inventory Risk: The financial risk a market maker assumes from holding a position in an asset whose value may change unfavorably. Because market makers must continuously hold tokens to quote both sides of the book, they are inherently exposed to price declines (on long inventory) or opportunity cost from price increases (on short inventory). Managing inventory risk is a central challenge in token market making, often addressed through

hedging strategies, position limits, and dynamic spread adjustments.

Market Share: The percentage of total trading volume on an exchange or across venues that is attributable to a specific market maker's activity, used as a performance metric to assess relative liquidity provision

Retainer: A fixed, recurring fee paid to a market maker for providing liquidity services over a specified period, typically structured as monthly or quarterly payments independent of trading volume or performance.

Spread: The difference between the highest bid (buy) price and the lowest ask (sell) price in an order book, typically measured in basis points or percentage terms. Tighter spreads indicate more efficient markets and better liquidity.

Token Loan: An arrangement where a project temporarily provides tokens to a market maker to facilitate liquidity provision, with the tokens returned at the end of the engagement period. The loan enables the market maker to quote both sides of the order book without requiring an upfront token purchase.

Uptime KPI: A key performance indicator measuring the percentage of time that a market maker maintains active quotes in the order book, typically requiring >90-95% uptime during agreed trading hours to meet contractual obligations.

SECTION 1:

STRATEGIC BENEFITS OF MARKET MAKER PARTNERSHIPS

The first two reports in this series explored the mechanics of market making and the quantitative impact of liquidity on token performance. This section briefly summarizes the strategic benefits that should serve as the baseline for evaluating any market making partner.

Liquidity and Market Quality

The core deliverable is a liquid, orderly market: tighter spreads, deeper order books, reduced slippage, and more stable price action during unlocks, news events, and broader market stress. Strong liquidity also aligns pricing across fragmented venues and makes manipulation more expensive, reinforcing market integrity. These outcomes were covered in depth in our earlier reports, but they remain the baseline against which any market maker should be measured.

“...liquidity drives everything, spreads and depth refine it, responsiveness and tech enable it, and compliance keeps it safe.”

- Tika Lum, Kucoin

Exchange Access and Distribution

The best market makers extend a project's reach beyond trade execution. Their relationships with exchange listing teams can reduce friction during onboarding, and their track record can serve as informal validation of a project's readiness.

“If you're listing with a good market maker, you're borrowing their reputation to reach larger exchanges.”

- Yoann Turpin, Wintermute

Some firms also provide OTC execution services that allow early investors and large holders to enter or exit positions without moving the market, particularly valuable during unlock events or funding rounds when large trades risk disrupting price dynamics.

"Effective liquidity isn't confined to order books. OTC and on-exchange activity need to work in tandem - that's how you avoid fragmentation and deliver stability during high-impact events.."

-Alain Balandras, Auros

Ancillary Support

Several forms of support don't appear in a quote sheet but often distinguish a transactional relationship from a long-term partnership:

- **Token design feedback.** Market makers can flag how unlock schedules, emissions, or liquidity mismatches will affect secondary market dynamics, issues teams often overlook when designing tokenomics from a product or incentive perspective.
- **Reporting & communication infrastructure.** Some firms help produce data-driven market activity summaries (spreads, depth, venue coverage) that can be shared with exchanges, investors, or the community. For teams without internal trading expertise, this bridges the gap between market performance and stakeholder communication.
- **Contingency planning.** The best partners help teams prepare playbooks for adverse scenarios: unlock events, volatile news cycles, investor liquidations, or sharp downturns. This ensures the response is coordinated rather than reactive.

"Top-tier firms don't just provide liquidity; they provide the data-driven accountability needed to prove market health."

- Shunyet Jan, Bybit

SECTION 2: KEY CRITERIA FOR SELECTING A MARKET MAKER

The differences between market makers often become clear only after the relationship is underway, when switching costs are high. Rather than relying on brand recognition or anecdotal endorsements, projects should assess partners across five critical dimensions: reputation, technical capability, market specialization, operational discipline, and cost structure.

“A market maker must be more than a source of liquidity - they must be a strategic partner that delivers technical sophistication, operational discipline, and transparency.”

— Jason Atkins, Auros

2.1. REPUTATION & TRACK RECORD

Why Reputation Matters

A market maker's reputation directly impacts a token project's credibility and market perception. Exchanges favor reputable liquidity providers, helping projects secure listings more smoothly and quickly. Investors and institutional partners similarly gain confidence when they see trusted and recognizable market makers supporting a token. Conversely, association with a market maker having questionable practices or a weak reputation creates indirect reputational risk that can undermine the project's standing in the market.

“Market makers who can commit long-term and adhere to good practices are crucial. We consider this market to be regulated, at least in terms of market behavior. If people can't trust the price, it's only a small leap to them not trusting the project itself.”

— Yoann Turpin, Wintermute

Key Factors to Evaluate

- **Historical performance** is critical to assess, reflecting the firm's ability to consistently fulfill commitments and provide stable liquidity across varying market conditions. This includes their track record during both bull and bear markets, because market makers who perform well only when conditions are favorable may leave clients without adequate liquidity support during market stress.
- **Regulatory standing**, encompassing compliance records, licensing status, and any past regulatory actions or warnings. Market makers vary significantly in their approach to compliance: some proactively engage with regulatory frameworks, while others operate in less regulated jurisdictions or maintain ambiguous compliance track records.
- **Professional reputation**, evidenced through references from exchanges, other token projects, and market participants, offers additional insights into reliability. This includes responsiveness, transparency, and alignment during real-world engagements.

How to Assess Reputation

Evaluating a market maker's reputation requires gathering input from multiple perspectives, as reputation in crypto is largely shaped through informal networks and personal relationships. Speaking directly with teams that have worked with a market maker can reveal insights into how responsive, transparent, and aligned a firm has been in actual partnerships. It's important to seek feedback from both exchanges and token projects, as these groups often have different experiences with the same firm. A market maker might be highly regarded by exchanges for strong volume and connectivity, while token projects view them less favorably due to poor communication or misaligned incentives. When gathering this feedback, focus on recent experiences and similar use cases to your own situation, as market maker performance can vary significantly across different scenarios such as initial listings versus ongoing support, high-volatility periods versus stable markets, or tokens of varying size and complexity. Key personnel changes can also

impact service quality, so understanding whether the team that delivered past results is still in place provides important context.

“At Kraken, it’s imperative we work with reputable market makers who can maintain robust liquidity in fast-moving markets. It ensures we’re able to provide a best-in-class experience for all exchange participants.”

– Kamyar Khaledi, Kraken

Common Pitfalls

One common misperception is equating market presence or brand size directly with reliability when evaluating reputation. Larger firms are not necessarily more trustworthy, and smaller, specialized firms may be more responsive to a project's unique needs and offer more consistent delivery. Trustworthiness should stem from a track record of performance, accountability, and professional rigor, not from visibility or brand marketing. Another frequent mistake is accepting surface-level endorsements or testimonials without digging deeper into the specific experiences behind them. A positive reference might mask issues that weren't relevant to that particular partnership but could be critical for your project. It's equally important to avoid dismissing negative feedback too quickly, especially if it comes from sources with credible experience. While reputation can be subjective, patterns of criticism around specific operational areas often signal real problems that deserve attention.

2.2. TECHNICAL CAPABILITY & CAPITAL STRENGTH

Why Technical Strength Matters

A market maker's technical infrastructure, risk management systems, and capital strength form the foundation of their service delivery. During token unlocks, unexpected news events, or broader market stress, firms with resilient infrastructure, sophisticated risk controls, and sufficient deployable capital can continue providing stable quoting and

deep liquidity. Adequate capital allows them to support larger positions, absorb volatility without withdrawing, and defend markets against disorderly moves. Conversely, firms with weaker systems or limited balance sheets may widen spreads significantly, pull liquidity, or fail to respond adequately, leading to market disruption and loss of investor confidence. Together, technical capability and capital strength determine a market maker's reliability, consistency, and ability to maintain orderly markets.

“A market maker must pair advanced technology with robust risk management to deliver competitive pricing and strong liquidity.”

– Chris Knight, LMAX Digital

Key Factors to Evaluate

- **Infrastructure quality** encompasses the foundational systems that enable market making operations. These interconnected systems include quoting engines that generate bid and ask prices, trading algorithms that execute transactions, and inventory management systems that track positions across multiple venues. The connectivity speed and uptime reliability of these systems are critical, as even brief outages can disrupt trading and create price gaps that harm token liquidity.
- **Capital adequacy and deployment** determine a market maker's ability to provide meaningful liquidity and weather market stress. Sufficient capital enables larger position taking, sustained operations during volatile periods, and the ability to step in when markets become disorderly. Firms with limited capital may be forced to reduce positions or withdraw liquidity precisely when it's needed most, while well-capitalized providers can maintain consistent market presence and absorb unexpected trading flows without compromising their operations.
- **Risk management** practices include automated hedging techniques that offset exposure, inventory controls that prevent excessive position accumulation,

and safeguards like circuit breakers or emergency trading halts. These controls determine whether a market maker can protect both themselves and the token from runaway losses during extreme market conditions.

How to Assess Technical Capability

Evaluating technical capabilities involves requesting specific performance metrics and documentation, including uptime statistics, average response times during high-volume periods, and examples of system performance during recent market stress events. Additionally, assess capital strength through indicators such as typical inventory sizes, maximum position limits, and evidence of financial backing or reserves. Quality market makers can provide concrete data about both their infrastructure capabilities and capital deployment, demonstrating how they maintained operations during known market events like major token unlocks, regulatory announcements, or broader crypto market crashes. Look for patterns in spread widening, liquidity withdrawal, or position reductions that reveal how their systems and capital resources actually behave under pressure. Understanding risk management frameworks means requesting details about automated controls, position limits, emergency procedures, and capital allocation strategies, as firms with sophisticated risk management can explain their hedging strategies, inventory controls, capital buffers, and the specific triggers for their safeguard mechanisms.

"During volatile patches, market makers on decentralized venues have been able to provide immediate technical liquidity support... That combination - steady liquidity and clear communication - has kept sentiment intact even when markets have been turbulent."

- Timo Lehes, Swarm

Common Pitfalls

When evaluating technical capabilities, it's easy to be impressed by headline metrics like execution speed or daily trading volumes without understanding how systems perform during actual market stress. Beyond focusing on the wrong metrics, another common

mistake is evaluating technical infrastructure in isolation rather than understanding how it integrates with the market maker's overall operations. Impressive technology means little if the firm lacks the trading expertise or risk management discipline to use it effectively.

2.3. MARKET AND ASSET SPECIALIZATION

Why Specialization Matters

Market maker specialization directly impacts the effectiveness of liquidity provision. A firm with strong centralized exchange coverage but limited infrastructure for decentralized exchanges may struggle to support a token that depends on significant on-chain trading or ecosystem integration. Conversely, a firm focused on low-liquidity or decentralized assets may be less effective in managing large-scale institutional order flow or derivative hedging. Selecting a market maker whose specialization aligns with the token's venue coverage, liquidity profile, and growth trajectory is essential for achieving stable and efficient market conditions.

Key Factors to Evaluate

- **Venue coverage** differentiates market makers based on their proficiency in managing liquidity across centralized exchanges and decentralized exchanges. The capabilities and technologies required to provide liquidity on automated market makers or other decentralized venues differ substantially from those required for order-book-based centralized exchanges.
- **Asset-class expertise** varies significantly between firms. Market makers experienced in high-cap, highly liquid assets often rely on derivatives markets, whereas smaller or less liquid tokens demand specialized inventory management strategies and different risk approaches. For example, a market maker skilled in ETH or BTC trading may find that microcap tokens call for a different skill set, involving more hands-on inventory management and limited hedging options through derivatives.

- **Lifecycle specialization** refers to whether a firm focuses primarily on initial listings, growth phases, or mature tokens with more stable market conditions. Each stage requires distinct capabilities and strategic approaches to liquidity provision.

How to Assess Specialization Fit

“There are meaningfully better MMs depending on size, stage, and vertical. A one-size-fits-all approach is inefficient and often value-destructive.”

- Giancarlo Cudrig, Immutable

Evaluating a liquidity provider’s market and asset specialization requires going beyond broad claims of expertise and identifying where the firm has actually delivered strong results. Ask for concrete examples of tokens they have supported that share characteristics with yours, including liquidity profile, volatility patterns, and venue mix. Request performance data segmented by asset type, such as high-cap tokens, microcaps, or early-stage launches, and by venue type, such as centralized exchanges or decentralized liquidity pools. Review how they adapted strategies to different market environments, from initial listings with minimal historical data to mature markets with deep order books and active derivatives trading. Speak with past clients who operated in similar contexts to assess whether the market maker’s claimed strengths translated into measurable outcomes. Look for patterns that indicate genuine specialization, such as consistently tight spreads in low-liquidity assets, effective on-chain liquidity incentives, or strong arbitrage performance across multiple venues. The goal is to verify that their real-world track record aligns with your token’s specific market and trading conditions, rather than assuming general competence will apply equally across all asset types.

Common Pitfalls

Token teams often assume that a well known or highly visible market maker will perform equally well across all asset types and trading venues. In practice, most firms have specific areas of strength and notable blind spots. This gap is not always obvious because

performance is often presented through aggregated metrics that look impressive overall but hide weaknesses in the exact conditions your token will face. To uncover these differences, request segmented data that reflects your particular market profile and trading environment. Avoiding these pitfalls means testing claims against your token’s actual venue mix, liquidity characteristics, and available resources before engagement.

2.4. OPERATIONAL DISCIPLINE

Why Operational Discipline Matters

Operational discipline underpins every aspect of a market making partnership, influencing execution quality, responsiveness, and long term reliability. Even with strong technical capabilities, a market maker that lacks discipline can react too slowly to changing conditions or allow avoidable mistakes to damage a token’s liquidity and reputation. Transparency is the foundation that makes discipline effective, as timely and accurate information enables token teams to read market conditions, adjust strategies before problems escalate, and verify that commitments are being met. Firms that combine discipline with openness allow performance to be tracked against commitments, enable rapid adjustments, and maintain alignment throughout the partnership, which is essential for sustaining effective liquidity support over time.

“Market making is a client focused business. Projects should ask about service orientation - frequent performance reports, support team, availability to answer to questions/concerns.”

- Rich Rosenblum, GSR

Key Factors to Evaluate

- **Reporting quality** reflects how clearly, regularly, and thoroughly a firm shares key performance metrics such as average spreads, liquidity depth, slippage, and uptime across venues. Quality reporting provides actionable insights rather than superficial summaries.
- **Accountability structures** can be assessed through the presence of structured performance reviews, escalation channels, and defined service-level agreements. These frameworks demonstrate a firm's commitment to measurable performance standards.
- **Communication consistency** includes timeliness, clarity, and accuracy in ongoing interactions. Strong communication signals effective internal coordination and professional client management practices.

How to Assess Operational Discipline

Evaluating operational discipline means focusing on a firm's actual practices rather than its stated policies. Some market makers deliver detailed, scheduled reports that make performance easy to track, while others provide only high-level summaries that limit meaningful evaluation. Communication approaches also differ: the best firms flag and resolve issues proactively with clear, responsive dialogue, while weaker ones respond defensively, avoid transparency, or rely on jargon that obscures results. Ask to see examples of their standard reports, performance review procedures, and communication protocols to confirm how they operate in practice.

“Transparency is a governance principle, not a marketing choice. The same discipline that governs financial reporting - auditability, consistency, scrutiny - must govern how a market maker accounts for its performance. This is where credibility is won or lost.”

- Jason Atkins, Chief Commercial Officer at Auros

Common Pitfalls

Token teams sometimes mistake quick responses for genuine operational discipline. A firm that answers messages promptly or fixes issues on the fly may still lack the processes to prevent those problems from recurring. This surface-level impression can also come from focusing only on interactions with senior contacts, while overlooking the execution standards of the trading and operations staff who handle daily activity. Finally, complexity should not be confused with sophistication. Overly intricate reports or workflows can create the impression of advanced systems while potentially masking issues such as inconsistent execution or poor follow-through.

2.5. ECONOMIC ALIGNMENT & COST STRUCTURE

Why Economic Alignment Matters

Economic alignment determines whether the market maker's interests remain synchronized with the project throughout the relationship. When incentives are well matched, the partnership is more likely to deliver sustained engagement and performance in service of the token project's long-term goals. Misalignment, by contrast, can lead to short-term behavior, reduced support, or underperformance as the partnership progresses. Assessing alignment means looking beyond headline fees to understand how compensation, risk

sharing, and incentive structures are designed to reinforce mutual commitment rather than encourage opportunistic behavior. The cost of service is often influenced by the maturity of the asset, which affects the trading risks, the opportunity cost of capital, and the operational overhead the market maker must manage.

Key Factors to Evaluate

- **Compensation structure** varies widely, from fixed retainers and fee-for-service models to incentive-based arrangements involving token options, profit-sharing, or performance-linked bonuses. The structure reveals whether the market maker benefits primarily from upfront payments or long-term token success.
- **Capital commitment** reflects the market maker's financial investment in the relationship. Some firms contribute substantial proprietary liquidity, reducing reliance on token loans, while others depend heavily on project-provided inventory, shifting risk and operational burden.
- **Contract flexibility** and duration encompass how terms adapt to changing conditions. Some firms offer milestone-based agreements that adjust over time, while others follow fixed contracts regardless of performance or market evolution, affecting responsiveness and partnership durability.
- **Asset maturity** should guide the expected business model and cost structure. For example, very liquid, mature assets like ETH that have active derivatives markets often require less remuneration because market makers can monetize positions through existing hedging tools; in such cases, a loan-and-call-option model may suffice. In contrast, new illiquid assets without derivatives expose the market maker to full directional risk, making fixed retainers or higher compensation structures more appropriate. For mid-maturity assets with moderate liquidity and some exchange presence, hybrid approaches such as token loans combined with active trading strategies like gamma scalping are common.

How to Assess Economic Alignment

Start by examining whether the agreement ties compensation to results that matter for the token's long-term success. Outcome-driven agreements often link rewards to sustained liquidity, market stability, or token appreciation, creating shared incentives for consistent performance. Misaligned structures may rely on front-loaded payments that reward the market maker before meaningful results are achieved, reducing the incentive for ongoing engagement. Risk-sharing mechanisms, such as the market maker committing their own capital or holding inventory in addition to project-provided tokens, can strengthen alignment by ensuring both sides are exposed to the same market conditions and motivated to maintain healthy liquidity. When reviewing proposals, assess how the market maker plans to monetize the asset given its maturity and market profile, the extent of their own capital commitment alongside project-provided inventory, how performance metrics are tied to compensation, and whether the agreement balances upfront and ongoing incentives while adapting to changing market conditions or project milestones.

Common Pitfalls

Many token teams focus too narrowly on the high-level cost when evaluating a market maker arrangement. Low fees can mask weak incentive alignment, limited risk taking, or minimal ongoing commitment, while higher costs may reflect deeper engagement and the resources needed to sustain effective support. Another risk lies in how performance is defined. If metrics are vague or easy to manipulate, such as measuring only raw volume without factoring in spread quality or market depth, the incentives may drive trading behavior that looks active but does little to improve market health. This focus on starting terms also leads many teams to overlook how the agreement adapts to changing conditions. Economic terms that seem fair at launch can become misaligned if the trading environment changes in ways that affect the market maker's costs or potential returns. For example, a sharp drop in trading activity can reduce the market maker's earnings below sustainable levels, while sudden spikes in required liquidity provision can increase costs and operational strain without additional compensation. Embedding clear, relevant KPIs and mechanisms that adjust fees or responsibilities to market conditions helps keep both parties committed over the full life of the partnership.

SECTION 3:

MARKET MAKER EVALUATION FRAMEWORK

This section translates the evaluation criteria from Section 2 into a systematic due diligence process including what to ask, what to request, and how to verify the responses.

3.1 INITIAL SCREENING

Before diving into detailed due diligence, projects should apply initial filters to narrow the field to serious candidates. This screening process focuses on fundamental compatibility and eliminates providers that clearly don't meet basic requirements, saving time and effort for more thorough evaluation of qualified firms.

Basic Qualification Filters

time on genuinely viable candidates. Each project should customize these filters based on their unique requirements and available time. Teams with more time can afford to cast a wider net at the outset and evaluate more firms through a detailed due diligence process. However, since due diligence is highly time-intensive, time-constrained teams should apply stricter filters here to create a smaller, more focused list for deeper evaluation. Essential information to gather includes:

Criterion	Key Question	What to Research	Where to Find it
Market & Asset Specialization	Do they specialize in your project size, maturity, and sector?	Typical client market cap range, sector focus, project stage	Public client lists, case studies, press releases
Geographic & Regulatory Coverage	Can they effectively serve your target markets?	Primary operating regions, exchange partnerships, regulatory status	Exchange integrations, compliance disclosures, company websites
Technology Focus & Infrastructure	Do their technical capabilities align with your trading infrastructure needs?	CEX vs DEX coverage, blockchain support, cross-chain capabilities	Service descriptions, technical documentation, integration lists

Capital Scale & Capacity	Do they have sufficient resources for meaningful liquidity?	Typical inventory sizes, maximum project scale, estimated AUM	Client portfolio analysis, public statements, team size indicators
Firm Credentials & Reputation	What's their track record and operational credibility?	Team background, regulatory history, years in operation	LinkedIn profiles, regulatory databases, company websites
Service Model Compatibility	Do their services match what you actually need?	Basic liquidity vs full-service offerings (listings, advisory, OTC)	Service pages, client testimonials, case studies

Creating Your Shortlist

The number of candidates to advance depends on your project's specific circumstances and constraints. Projects with limited time or straightforward liquidity needs may focus on 5-8 top candidates for efficiency. Those seeking a highly competitive selection process or with complex requirements can evaluate 12-18 firms for broader comparison. However, 8-12 candidates represent a balanced approach that provides meaningful choice while keeping the due diligence process manageable.

Remember, this screening identifies firms worth deeper investigation, not final selections. Once you have your target list, you're ready to begin systematic information gathering and due diligence with each qualified candidate.

3.2 INFORMATION GATHERING & DUE DILIGENCE

With your shortlist of 8-12 qualified candidates identified, the next phase involves systematic outreach and information gathering to evaluate each firm's capabilities in detail. This requires market makers to provide specific documentation and evidence to support their claims.

The following framework provides a structured approach to requesting, collecting, and

evaluating the information needed to make an informed selection. This due diligence process focuses on verifying operational capabilities, validating performance claims, and assessing true alignment with your project's requirements.

Phase 1: Due Diligence Request List

The foundation of effective due diligence is a comprehensive information request list that standardizes submissions across all prospective partners. This ensures you can make meaningful comparisons and prevents market makers from selectively highlighting only their strongest areas. Below, we provide some examples of standard information requests.

1. Business Overview

- a. Current ownership table and entity organizational chart
- b. Copies of all regulatory licenses, registrations, and compliance certifications
- c. Detailed bios of key personnel (CEO, CTO, Head of Trading, Head of Risk, Head of Compliance)
- d. List of office locations with operational capacity and staffing at each location

2. Client Portfolio & Experience

- a. List of current clients by sector, project stage, and approximate market cap (anonymized if necessary)
- b. Three detailed case studies demonstrating relevant experience with similar projects
- c. Client reference contacts with permission to speak directly
- d. Average relationship duration and reasons for client departures
- e. Breakdown of trading volume by client size and geographic region

3. Technical Infrastructure & Capabilities

- a. System architecture diagram and technology stack overview

- b. Monthly uptime statistics for the past 12 months
- c. Average and 95th percentile latency measurements across key exchanges
- d. Maximum daily trading volume capacity and current utilization rates
- e. List of exchange APIs and connectivity infrastructure

4. Risk Management & Controls

- a. Detailed description of automated risk management systems and controls
- b. Position limit frameworks and inventory management procedures
- c. Historical risk metrics and any significant loss events (past 3 years)
- d. Compliance monitoring systems and reporting capabilities

5. Operational Process & Service Delivery

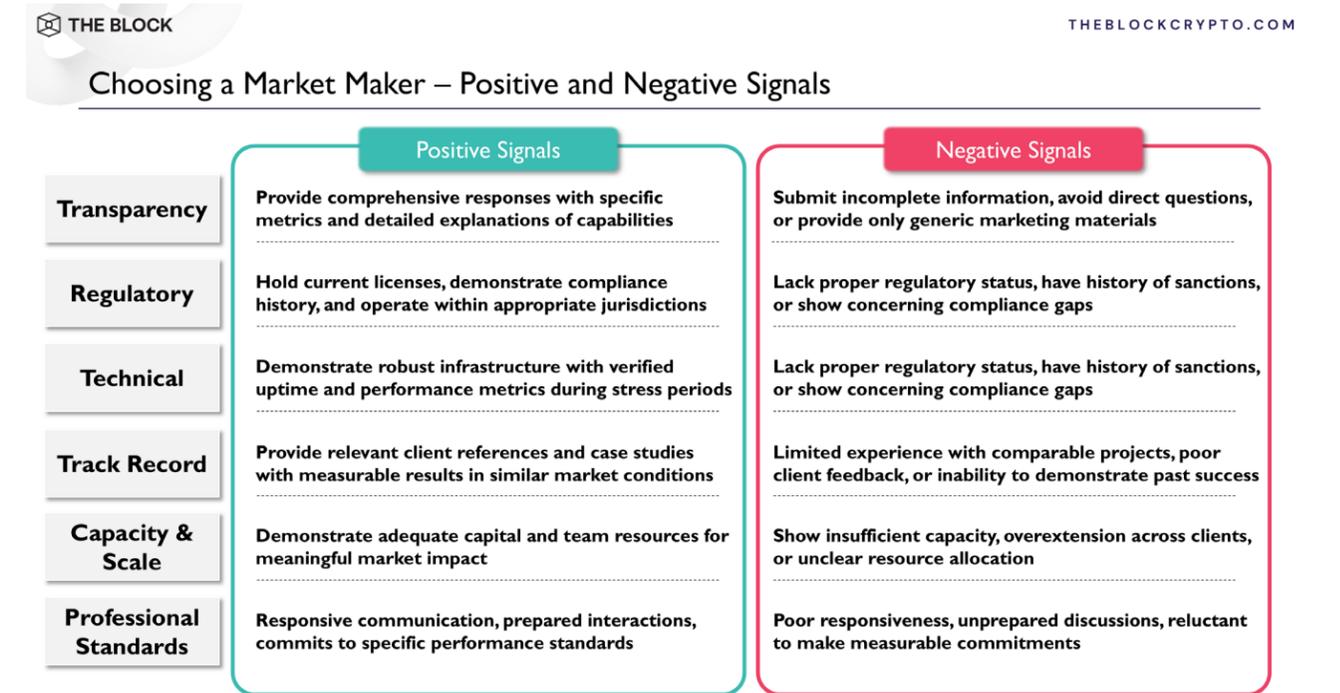
- a. Sample client reporting formats and performance dashboards
- b. Escalation procedures for technical issues or performance concerns
- c. Account management structure and primary contact assignments

Once you've sent your due diligence requests, market makers will typically respond with varying levels of completeness and detail. Some may provide comprehensive documentation while others might submit incomplete responses or attempt to deflect certain requests. The next phase focuses on systematically reviewing these submissions, identifying gaps, and ensuring you have sufficient information to make informed comparisons.

Phase 2: Information Collection & Evaluation

This phase involves organizing the information received and beginning to eliminate

weaker candidates. Start by setting up a structured data room for easy comparison, then focus on identifying the strongest candidates for deeper evaluation.



	Positive Signals	Negative Signals
Transparency	Provide comprehensive responses with specific metrics and detailed explanations of capabilities	Submit incomplete information, avoid direct questions, or provide only generic marketing materials
Regulatory	Hold current licenses, demonstrate compliance history, and operate within appropriate jurisdictions	Lack proper regulatory status, have history of sanctions, or show concerning compliance gaps
Technical	Demonstrate robust infrastructure with verified uptime and performance metrics during stress periods	Lack proper regulatory status, have history of sanctions, or show concerning compliance gaps
Track Record	Provide relevant client references and case studies with measurable results in similar market conditions	Limited experience with comparable projects, poor client feedback, or inability to demonstrate past success
Capacity & Scale	Demonstrate adequate capital and team resources for meaningful market impact	Show insufficient capacity, overextension across clients, or unclear resource allocation
Professional Standards	Responsive communication, prepared interactions, commits to specific performance standards	Poor responsiveness, unprepared discussions, reluctant to make measurable commitments

Once the data is organized, begin eliminating candidates with clear disqualifiers such as regulatory issues, insufficient experience, or incomplete responses that suggest lack of seriousness or capability. This filtering should reduce your pool to 5-8 of the strongest candidates who warrant deeper investigation through additional direct conversations and reference checks.

Phase 3: Direct Engagement & Reference Checks

Schedule structured calls with each remaining candidate to clarify details from their submissions, probe areas where their materials were vague or generic, and understand their specific approach to challenges your project might face. Pay attention to how well they prepare, whether they ask thoughtful questions about your project, and how responsive they are throughout the scheduling and follow-up process.

Conduct reference checks by speaking directly with current and former clients. Focus on operational reliability, responsiveness to issues, and actual performance metrics rather than general satisfaction. Ask specifically about how they handled market stress events and whether they delivered on commitments. Where possible, seek out industry contacts beyond the provided references for unfiltered perspectives.

Verify key technical and performance claims through targeted follow-up questions and, where appropriate, request demonstrations of critical capabilities. Cross-reference regulatory status and team backgrounds against public databases and professional networks.

Document your findings to create detailed profiles of each candidate's strengths, weaknesses, and risks. This process should narrow the field to 2-3 firms positioned for final selection.

Phase 4: Final Selection & Decision Making

With due diligence complete, the decision centers on comparing trade-offs between your 2-3 strongest candidates. Create comparison profiles that summarize each finalist's key strengths, weaknesses, and unique value propositions, focusing on areas where candidates differ significantly, such as geographic expertise, technical specialization, service breadth, or cultural alignment. Consider how each firm's capabilities map to both your current needs and future growth plans.

A key structural decision is whether to engage multiple market makers or focus on a single provider. Multiple market makers can provide significant advantages through risk diversification and competitive dynamics. If one provider fails to meet commitments, others maintain liquidity and prevent market disruption. Additionally, when multiple providers operate with similar service level agreements, their different algorithms and midpoint calculations can result in tighter effective spreads than any single provider could achieve alone.

“A strong market maker welcomes competition - exclusivity has no place in fair markets.”

- Stef Wynendaele, Keyrock

However, managing multiple relationships adds coordination complexity and may not be cost-effective for smaller projects. Document your final decision rationale, including key factors that influenced the selection and any areas requiring ongoing monitoring. This preparation ensures smooth transition into contract negotiations and establishes clear expectations for the partnership's success metrics and performance standards.

3.3 DEEP DIVE ON LIQUIDITY

“Narrow spreads lower costs for traders and signal confidence in pricing. It's the clearest measure of a functioning, active market.”

- Shunyet Jan, Bybit

Liquidity provision is the core deliverable and warrants its own evaluation framework, covering capability assessment, performance standards, and ongoing monitoring.

Understanding and Demanding Good Liquidity

- Infrastructure & Capabilities:** Verify uptime exceeding 99.5%, quote adjustments within 2-5 seconds, and inventory equivalent to 10-30 days of trading volume.
- Performance Standards:** Establish KPIs for maximum 2% spreads (3% during volatility) and minimum depth of \$50K-\$500K within 2% of mid-price.
- Market Presence:** Monitor for 10-50% market share during contract period. Providers below 5-10% may lack sufficient resource commitment.
- Timeline Expectations:** Expect meaningful improvements within 30-60 days, with spreads tightening from 2-5% initially to 0.5-2% after 3-6 months.
- Monitoring & Reviews:** Implement weekly reporting, monthly formal reviews, and quarterly assessments. Watch for spreads above 5% or depth below 25% of commitments.
- Contractual Protections:** Measure KPIs over rolling 7-day periods with escalation procedures for underperformance and transparency requirements for trading activities.
- Multiple Providers:** Consider engaging multiple market makers for redundancy, competition, and potentially tighter effective spreads through algorithmic differences.

Setting Liquidity Expectations

Establish realistic expectations about what market makers can and cannot achieve. Market makers excel at maintaining tight spreads, providing consistent order book depth, and facilitating smooth trading during normal market conditions. However, they cannot guarantee specific price levels, create organic demand, or prevent natural market volatility during broader market stress.

Building robust liquidity is a gradual process requiring sustained effort over six to twelve months. Credible market makers will establish realistic milestones such as progressively tightening spreads and deepening order books rather than promising immediate dramatic results. Be cautious of providers who promise unrealistic outcomes like achieving massive daily volumes within weeks, as such claims often rely on artificial or unsustainable practices.

Evaluating Liquidity Capabilities

Assess technical infrastructure and operational track record to ensure providers can

deliver consistent liquidity provision. Look for sophisticated trading engines, proven performance during volatile market conditions, and sufficient capital resources to support meaningful liquidity across multiple trading venues. Verify claims through client references and independent data sources where possible.

Market presence provides a key indicator of effectiveness. Strong market makers typically capture 10-50% of trading volume or order book presence in your markets, demonstrating active spread maintenance and trade absorption. Providers consistently maintaining less than 5-10% market share may not be committing sufficient resources.

Evaluate scalability and responsiveness, particularly if you anticipate rapid growth or major exchange listings. Effective providers should have sufficient capital in both your token and base currencies, technical capacity for high-volume periods, and flexibility to quickly support new trading pairs or market launches.

Contractual Protections and KPIs

Establish specific, measurable commitments through service agreements with concrete performance standards. Include maximum spread requirements such as 2% during normal market conditions and 3% during high volatility periods, measured over rolling 7-day periods to account for natural market fluctuations. Specify minimum order book depth requirements, typically maintaining \$50K-\$500K within 2% of mid-price depending on your token's trading scale.

Consider uptime and responsiveness standards such as 99.5% minimum system availability and quote updates within several seconds of significant market movements. Market share targets can provide additional accountability, with expectations of maintaining 15-40% of trading volume depending on market competition and project size. Structure KPI measurement windows that balance accountability with market reality. Weekly performance reporting with monthly formal reviews and quarterly comprehensive assessments provides sufficient oversight without creating unrealistic short-term pressure. Include escalation procedures for consistent underperformance and graduated penalties for sustained KPI failures.

Ensure market makers operate ethically by maintaining market neutrality rather than attempting price manipulation. Contractual provisions should require transparency in trading activities and prohibit practices that could harm market integrity. As industry practitioners note, market makers who hesitate to formalize their capabilities in binding agreements may lack genuine commitment to performance delivery.

Ongoing Monitoring and Performance

Track performance against your contractual KPIs on a rolling basis. Key warning signals include spreads consistently above 5% or order book depth dropping below 25% of committed levels. A cadence of weekly performance reports, monthly strategic reviews, and quarterly comprehensive assessments balances accountability with market reality. Section 3.4 covers how to formalize these standards in your contract.

“A project should be able to see in real time how spreads, depth, and liquidity evolve across venues. Without this, it is impossible to hold the market maker accountable.”

- Julius Walkenhorst, Enflux

3.4 CONTRACT NEGOTIATION & TERMS

With your market maker selection complete, the focus shifts to structuring an agreement that protects your interests while enabling effective liquidity provision. This process involves understanding different deal structures, negotiating key terms, and establishing performance standards that create accountability and alignment between parties.

Understanding Deal Structures

Market making agreements typically follow one of several commercial models, each with distinct risk and cost profiles that impact both parties differently.

- **Retainer-Based Model:** Projects pay monthly or quarterly fees for guaranteed liquidity provision services. This model provides predictable costs and typically includes specific performance commitments such as maximum spread requirements and minimum order book depth. Retainer agreements often favor projects that want cost certainty and clear service level expectations, though they may result in higher upfront costs compared to other structures.
- **Loan + Call Option Model:** Projects loan tokens to the market maker for inventory purposes, often combined with call options that allow the market maker to purchase a portion of loaned tokens at predetermined prices. This structure reduces upfront cash costs but creates potential dilution risk if token prices appreciate significantly. The model works well for projects with limited capital but requires careful structuring to prevent misaligned incentives.
- **Revenue Sharing Model:** Market makers earn compensation through a percentage of trading fees generated or price appreciation captured during the contract period. This model aligns market maker incentives with trading activity and token performance but can create complications around fee calculation and performance attribution. Revenue sharing arrangements require robust reporting and transparency mechanisms.
- **Hybrid Arrangements:** Many agreements combine elements from multiple models, such as reduced retainer fees plus token loans, or base fees with performance bonuses. Hybrid structures can optimize cost and risk allocation but require more complex contract terms and ongoing management.

Key Contract Terms

Regardless of the commercial model chosen, several critical terms require careful negotiation to protect project interests and ensure service quality.

- **Performance Standards and KPIs:** Formalize the liquidity benchmarks from Section 3.3 (spread limits, depth floors, uptime targets) as binding contractual commitments. The key addition at the contract stage is defining measurement

methodology including how spreads are calculated, what constitutes downtime, and how performance is averaged, along with penalty and incentive mechanisms.

- **Token Handling and Custody:** For arrangements involving token loans, specify custody arrangements, wallet management protocols, and insurance requirements. Define permitted uses of loaned tokens, restrictions on lending or staking activities, and procedures for token returns upon contract termination. Establish clear audit trails and reporting requirements for all token movements and holdings.
- **Reporting and Transparency:** Contractualize the reporting standards you evaluated during diligence (Section 2.4), specifying format, frequency, metric definitions, and dashboard access. This ensures the reporting quality you assessed during selection becomes a binding commitment.
- **Term Length and Termination:** Structure contract terms that provide sufficient time for market makers to establish effective operations while preserving project flexibility. Include provisions for early termination due to performance failures, material breaches, or changing project requirements. Define notice periods, transition procedures, and asset return processes to minimize disruption during provider changes.
- **Exclusivity and Competition:** As discussed in the selection phase, avoid exclusivity clauses. Ensure the agreement accommodates multiple provider relationships and doesn't restrict your ability to engage additional market makers, exchanges, or other liquidity sources as your project evolves.

Negotiation Strategies

Effective contract negotiation requires understanding market standards while advocating for terms that serve your project's specific needs and constraints.

- **Benchmarking and Market Research:** Research standard terms and pricing across multiple providers to establish negotiation baselines. Understand typical

performance standards, fee ranges, and contract structures in your market segment. Use competitive intelligence to identify negotiation leverage and alternative options if discussions stall.

- **Risk Allocation and Mitigation:** Negotiate risk allocation that reflects each party's ability to manage specific types of exposure. Ensure market makers assume responsibility for technical failures, compliance breaches, and operational errors while acknowledging that broader market conditions remain outside their control. Structure insurance requirements and liability limitations that provide meaningful protection without creating unreasonable burdens.
- **Performance Incentives and Accountability:** Create incentive structures that reward exceptional performance while penalizing consistent underperformance. Consider bonus payments for exceeding KPIs, graduated fee reductions for service failures, and performance-based contract renewals. Ensure accountability mechanisms are practical to implement and proportionate to the service issues they address.
- **Flexibility and Adaptation:** Build contract flexibility that accommodates changing project needs, market conditions, and regulatory requirements. Include provisions for service scope adjustments, pricing modifications based on changed circumstances, and technology updates that improve service delivery. Ensure agreements can evolve with your project's growth and development.

The contracting process represents the final step in selecting market making partners who can support your token's long-term success. Well-structured agreements create clear expectations, appropriate incentives, and mutual accountability that foster productive partnerships and effective liquidity management.

SECTION 4:

CONCLUSION

Throughout this report, we have provided a comprehensive framework for evaluating and selecting market making partners in the crypto ecosystem. Our goal was to move beyond superficial assessments and brand recognition to establish a systematic approach for identifying providers who can deliver meaningful liquidity and strategic value. By offering concrete evaluation criteria, due diligence processes, and negotiation guidance, we aim to help token projects make more informed decisions and build more effective partnerships.

Our analysis has revealed several key insights about the current market making landscape:

1. **Strategic Value Beyond Liquidity:** The most effective market makers operate as strategic partners rather than mere service providers, offering exchange access, ecosystem connectivity, and operational guidance that compounds over time. This expanded role makes partner selection even more consequential for long-term project success.
2. **Specialization as a Competitive Advantage:** Market makers increasingly differentiate through specialization in specific asset classes, trading venues, or token maturity. Generic approaches are giving way to targeted expertise that aligns with particular market segments and technical requirements.
3. **Importance of Systematic Evaluation:** The complexity of modern market making operations requires structured due diligence processes that verify capabilities rather than accept claims. Projects that invest in thorough evaluation consistently achieve better outcomes and avoid costly misalignments.
4. **Contractual Discipline and Performance Management:** Well-structured agreements with specific KPIs and accountability mechanisms significantly improve partnership outcomes. The most successful relationships combine clear expectations with ongoing monitoring and adaptive management.



The market making industry continues to mature as crypto markets evolve toward greater institutional participation and regulatory clarity. This professionalization creates both opportunities and challenges for token projects. While the availability of sophisticated providers continues to expand, the stakes for making the right choice have also increased as markets become more competitive and investor expectations rise.

For token projects navigating this landscape, the framework presented in this report provides a foundation for making strategic decisions that support long-term success. However, effective market maker partnerships require ongoing attention and management. The initial selection process, while crucial, represents only the beginning of what should be a dynamic, performance-driven relationship focused on sustainable market development.