

Risk Assessment for Governance Action (GA08)

Cardano Constitution to Replace the Interim Constitution

#8c653ee5c9800e6d31e79b5a7f7d4400c81d44717ad4db633dc18d4c07e4a4fd

Date

11FEB2024

ECC Reference

GA08

Scope

This document is a **risk assessment** associated with the “**Cardano Constitution to Replace the Interim Constitution**” governance action that will impact the state of the Cardano network and its associated ecosystem.

The risk assessment is from the perspective of the Eastern Cardano Council (ECC), fulfilling its role as a member of the Interim Constitution Committee.

Management Framework

See the “ECC Risk Management Framework for Cardano Governance” document.

Risk Register

See the [ECC Risk Register for Cardano Governance Sheet](#) for a list of previously identified risks.

Risks are identified and rated using the following matrix based on *Likelihood* and *Consequence*, resulting in a *Risk Rating*.

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CONSEQUENCE					
	Insignificant	Low	Medium	Major	Severe
Almost certain	M-10	H-20	H-30	E-40	E-50
Likely	M-8	M-16	H-24	E-32	E-40
Possible	L-6	M-12	M-18	H-24	H-30
Unlikely	L-4	L-8	M-12	M-16	H-20
Rare	L-2	L-4	L-6	M-8	M-10

E	Extreme risk	H	High risk	M	Medium risk	L	Low risk
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As a guiding principle the ECC will vote yes on governance actions that impact the Cardano ecosystem as constitutional, that contain risks that are:

1. Rated as **"Medium"** or **"Low"**,
2. Rated as **"High"** and have a **contingency plan** to deal with the associated risk should it arise.

Risks can be treated in the following four ways:

- **Accept** - with a contingency plan
- **Reduce** - mitigate the risk with controls
- **Transfer** - move the risk to another organisation
- **Avoid** - remove the root cause of the risk

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Key Risks Relating to this Governance Action

#	Description	Likelihood / Consequence	Rating As-Is without Controls	Treatment Accept, Reduce, Transfer, Avoid
1	Constitution not being approved: Unable to escape from the current Interim Constitution, limiting Cardano growth and decentralisation	Likely / Major	High	Reduce
2	Although the Constitution requires that treasury withdrawals follow an approved ecosystem budget and that funds be kept in separate, auditable accounts, the rules can be open to interpretation. In practice, if the oversight processes (or the roles of designated administrators) aren't crystal clear or enforced, funds might be mismanaged.	Possible / Major	High	Accept
3	The Guardrails on treasury withdrawals (e.g., net change limits) are noted in the document but are flagged with "(x)" in some cases. This means they aren't enforced automatically by the on-chain Guardrails Script. If these limits rely on manual governance actions and voter participation, there's a risk that withdrawals could exceed what's prudent.	Possible / Moderate	Medium	Accept

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4	Treasury funds are released only if a corresponding budget is approved on-chain. Low voter participation or a slow decision-making process could either delay critical spending or, conversely, allow rushed approvals that don't thoroughly scrutinize fund allocation.	Likely / Moderate	High	Accept
5	Every governance action requesting treasury funds must include an allocation for independent audits. However, if the audits aren't frequent, robust, or truly independent, there's potential for funds to be misallocated without early detection.	Possible / Moderate	Medium	Accept
6	Since treasury withdrawals and budgets are executed via smart contracts, any bugs or vulnerabilities in the code could lead to unintended fund movements or expose funds to cyber attacks. The transition from off-chain proposals to on-chain execution adds another layer of risk if the integration isn't seamless.	Unlikely / Major	Medium	Accept
7	The Constitutional Committee plays a key role in flagging unconstitutional withdrawals. If the committee becomes biased, slow, or politicized, it could either block necessary spending or allow problematic withdrawals to slip through.	Possible / Major	High	Reduce

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8	The Constitution treats itself as a living document. This flexibility is important, but it also means that successive amendments (or shifts in interpretation) could gradually erode safeguards around treasury spending.	Possible / Moderate	Medium	Accept
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Continued ...

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Key Risks That Are Outside The ECC Thresholds

Scenarios & Analysis

As part of risk / threat analysis.

See *References* section at the end of this document for supporting information.

Risk #1 (High/Reduce)

Constitution not being approved:

Unable to escape from the current Interim Constitution, limiting Cardano growth and decentralisation.

Risk Analysis

#	Scenario	Description	Comments
A1.1	Governance can not progress beyond interim stage	Cardano stalls and can not progress.	

Risk Controls & Contingency Plans

How to reduce the risk rating level to ECC acceptable level if treatment is "Reduce" or Contingency plan if treatment is "Accept".

#	Description	Controls	Rating With Control or Contingency Plan
C1.1	Allow Governance Framework to Progress	<ul style="list-style-type: none">Approve the Constitution	Low

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Risk #2 (High/Accept)

Although the Constitution requires that treasury withdrawals follow an approved ecosystem budget and that funds be kept in separate, auditable accounts, the rules can be open to interpretation. In practice, if the oversight processes (or the roles of designated administrators) aren't crystal clear or enforced, funds might be mismanaged.

Risk Analysis

#	Scenario	Description	Comments
A2.1	Funds are mismanaged.	Lack of clarity of roles.	

Risk Controls & Contingency Plans

How to reduce the risk rating level to ECC acceptable level if treatment is "Reduce" or Contingency plan if treatment is "Accept".

#	Description	Controls (if Reducing) or Contingency Plan (if Accepting)	Rating With Control or Contingency Plan
C2.1	DReps Govern	<ul style="list-style-type: none">DReps will ultimately be responsible for analysing the risks of this as representatives of the community govern this.	High

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Risk #4 (High/Accept)

Treasury funds are released only if a corresponding budget is approved on-chain. Low voter participation or a slow decision-making process could either delay critical spending or, conversely, allow rushed approvals that don't thoroughly scrutinize fund allocation.

Risk Analysis

#	Scenario	Description	Comments
A4.1	Funding for network & growth is not available.	Funding stalls.	

Risk Controls & Contingency Plans

How to reduce the risk rating level to ECC acceptable level if treatment is "Reduce" or Contingency plan if treatment is "Accept".

#	Description	Controls	Rating With Control or Contingency Plan
C4.1	DReps Govern	<ul style="list-style-type: none">DReps will ultimately be responsible for analysing the risks of this as representatives of the community govern this.	High

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Risk #7 (High/Accept)

The Constitutional Committee plays a key role in flagging unconstitutional withdrawals. If the committee becomes biased, slow, or politicised, it could either block necessary spending or allow problematic withdrawals to slip through.

Risk Analysis

#	Scenario	Description	Comments
A7.1	Constitutional Committee Disfunction	No withdrawals can be made..	

Risk Controls & Contingency Plans

How to reduce the risk rating level to ECC acceptable level if treatment is "Reduce" or Contingency plan if treatment is "Accept".

#	Description	Controls	Rating With Control or Contingency Plan
C7.1	DRep & Community Govern	<ul style="list-style-type: none">• DReps can remove committee members.• DReps can put the committee into "No Confidence" forcing new community elections.	High

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References

For use with risk assessment.

Proposed constitution:

<https://ipfs.io/ipfs/bafkreiazhhawe7sjwuthcfl3mmv2swec7sukvclu3oli7qdyz4uhhuvmy>