Bifurcation of Equity & Token in Cryptocurrency Markets

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Abstract

Cryptocurrency markets have developed a distinctive dual-capital structure: traditional equity in operating companies ("OpCo") and native tokens representing participation in onchain ecosystems. While both instruments are often marketed as tied to the same project, their economic and legal claims differ sharply. In many high-profile protocols, value accrues primarily to private equity holders, while governance or utility tokens trade largely on speculative expectations, with weak or nonexistent links to cash flows. This "bifurcation" between equity and token undermines price discovery, erodes community trust, and complicates regulatory analysis.

This paper analyzes the causes and consequences of equity–token bifurcation and argues that tokens and equity should be valued jointly as different claims on a single economic system, rather than as separate, unrelated assets. We review the conceptual foundations of equity and governance tokens, examine how dual-entity structures became standard in crypto, and connect these choices to securities law and regulatory risk. We then develop case studies of Uniswap (Uniswap Labs & UNI), Ethena (Ethena Labs & ENA), and Axie Infinity (Sky Mavis & AXS), illustrating how highly successful businesses can coexist with tokens that capture little durable value. We conclude that this bifurcation has eliminated approximately $200-250 billion in direct value over the last 5 years, and up to $500 billion in unrealized value if institutional capital would have been willing to enter the altcoin market, if this bifurcation didn't exist, which is a valid hypothesis.

Current design approaches aimed at enhancing token value, whether through revenue-sharing mechanisms, fee switches, or wrapper-based architectures, result in heightened securities-law risk or structural fragility within inadequately governed intermediaries. To address these limitations, we propose an integrated valuation framework that treats equity and tokens as complementary claims on shared platform cash flows and governance rights. We then present the ERC-S standard, which establishes an equity-anchored resource allocation structure: equity is held in a shareholder of record SPV/Foundation, while a DAO of token holders governs discretionary ecosystem resource redeployments from that SPV under strict operational, legal, and disclosure safeguards.

The ERC-S approach does not constitute a revenue-sharing mechanism or a security token. Rather, it standardizes the interface between corporate equity and DAO-level governance without granting token holders equity,

dividend, or redemption rights, thereby preserving a non-security token posture while still creating aligned ecosystem-wide incentives.

We conclude with implications for founders, investors, regulators, and communities, and outline an agenda for future empirical research on integrated equity–token valuation.

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1. Introduction

1.1 Crypto's Dual -Capital Problem

Crypto startups rarely rely on just a single capital-raising instrument. Typical web3 projects exhibit multi-layered capital structures, usually comprising of:

- A Delaware or other jurisdictional operating company ("OpCo") that issues equity to founders, employees, and venture investors.
- One or more blockchain-based token contracts that confer governance rights, utility privileges, or other protocol-specific entitlements.
- A non-profit foundation or similar entity tasked with administering treasury resources and grants.

This structure produces two partially overlapping investor bases and two sets of claims on the same underlying economic activity. Venture investors often hold both equity and token warrants; while community participants typically hold only the token.[1]

As a result, there is a recurring pattern: protocol usage and corporate revenues grow, venture equity appreciates, but the token either stagnates, trades purely on speculative narratives, or collapses when enthusiasm fades. Governance tokens with no credible link to cash flows are especially prone to this fate.[2] Conversely, tokens that confer substantial governance authority over key economic parameters effectively align token holder incentives with the platform's performance.[3]

1.2 Research Question and Thesis

This paper explores the following question:

How and why do crypto projects exhibit a systematic bifurcation between equity value and token value, and what kinds of legal and technical structures can better align these claims while respecting regulatory constraints?

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[1] Ryan Weeks, Why Equity Plus Token Warrants Is the New Go-To Formula for Crypto VCs, The Block (Sept. 21, 2022), https://www.theblock.co/post/171609/why-equity-plus-token-warrants-is-the-new-go-to-formula-for-crypto-vcs.

[2] OUTERLANDS CAPITAL, An Evaluation Framework for Governance Tokens (2024), https://www.outerlands.io/researchblog/governance-tokens?

[3] *Id.*

The central thesis is that equity and tokens should be valued together as distinct, complementary claims on a unified economic system, rather than treated as unrelated instruments. Under this view:

- Equity primarily represents legal ownership of the operating company and its residual cash flows.
- Tokens confer governance authority, access rights, and, when appropriately structured, contingent exposure to ecosystem-level resource allocations.
- A well-designed architecture should make explicit *how* corporate outcomes influence token governed resource flows, in a way that is transparent, enforceable, and compliant.

The ERCS standard, originally developed by Street Labs, Inc., a Delaware corporation, is presented as one possible implementation of this equity anchored alignment, operationalizing mechanisms that link corporate performance with discretionary ecosystem resource management, while maintaining a non-security token posture.

1.3 Methodology and Scope

This paper employs a multi-pronged approach to examine the intersection of corporate equity and crypto tokens:

1. Conceptual analysis of the legal, economic, and governance characteristics of equity and token instruments.
2. Doctrinal review from recent securities law- enforcement actions and regulatory statements relevant to token design, such as the SEC's ruling under *SEC v. Terraform Labs Pte. Ltd., 2023 WL 8944860*.[4]
3. Case studies of prominent projects that exemplify equity–token bifurcation and the resulting valuation and governance challenges.
4. Design analysis of ERC-S, drawing upon publicly available documentation to assess how equity-anchored resource allocation can mitigate misalignment between corporate outcomes and token-governed ecosystems.

The objective is not to provide legal advice, but to formalize the analytical framework, identify recurring structural issues, and articulate design patterns that support more coherent valuation, governance, and regulatory alignment in crypto-native projects.

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[4] SEC v. Terraform Labs Pte. Ltd., No. 23-cv-1346 (S.D.N.Y. Dec. 28, 2023) (opinion), https://www.nysd.uscourts.gov/sites/default/files/2023-12/23-cv-1346,%20Opinion%20and%20Order,%20December%2028,%202023.pdf.

Norton Rose Fulbright, Crypto Tokens Held to Be Securities as a Matter of Law in Big Win for SEC (Feb. 8, 2024), https://www.nortonrosefulbright.com/en/knowledge/publications/16178e2d/crypto-tokens-held-to-be-securities-as-a-matter-of-law-in-big-win-for-sec?

2. Conceptual Foundations: Equity, Tokens and Value Accrual

2.1 Equity as a Residual Cash Flow and Control Claim

In corporate finance, equity represents a residual claim on a firm's assets and cash flows after all contractual obligations, such as debt service, wages, and taxes, have been satisfied. Equity holders generally possess certain fundamental rights:[5]

- Governance rights, encompassing voting authority over strategic corporate decisions, such as board composition, mergers, and other transformative transactions.
- Economic rights, through entitlement to dividends or appreciation in share value.
- Information rights, which provide access to corporate records, financial statements, and material disclosures necessary to monitor management performance and exercise their governance rights.
- Litigation rights, rooted in corporate law, fiduciary duties, and shareholder agreements, which collectively constrain managerial discretion and safeguard shareholder interests.

In venture-backed companies, equity ownership is generally concentrated among founders, employees compensated through option-based incentive programs, and institutional investors.[6] Firm valuations in this setting are, in principle, derived from the discounted present value of expected future cash flows or from anticipated strategic exit events such as acquisitions or initial public offerings.[7]

Equity ownership thus combines both economic and governance dimensions, aligning incentives between management and investors while embedding legal and contractual safeguards. Compared to crypto tokens, equity claims are highly standardized, legally recognized, and enforceable, with clearly delineated rights and obligations.[8] This contrast underscores the challenges in creating analogous frameworks for tokenized instruments, where legal enforceability and regulatory treatment remain uncertain, and where value and governance may be decoupled from residual cash flows.

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[5] Velasco, *The Fundamental Rights of the Shareholder*, 40 U.C. Davis L. Rev. 407 (2006).

[6] Lebret, Equity in Startups, (Sept. 1, 2017), SSRN Paper No. 3063860, https://ssrn.com/abstract=3063860

[7] Jonathan Berk & Peter DeMarzo, Corporate Finance (6th ed. 2023).

[8] Velasco, supra note 5.

2.2 Tokens: From Utility to Governance

Crypto tokens constitute a heterogeneous class of digital assets with diverse economic and governance functions. Broadly, they may be categorized as:[9]

- Utility tokens, which allow holders to participate in the project's infrastructure, by providing access to network resources, protocol services, and the ability to pay transaction fees.
- Governance tokens, which confer voting rights on proposals and decisions in a project, such as protocol parameters, treasury allocations, or grant disbursements.
- Hybrid tokens, which combine elements of utility and governance with contingent claims on cash flows or revenue streams.

Empirical and theoretical work in token economics emphasizes that even ostensibly "pure" utility tokens derive value from expectations regarding network adoption, usage, and participation incentives.[10] In this sense, token value is not solely a function of direct economic entitlements but is also influenced by endogenous network effects, protocol growth dynamics, and market perception. However, once tokens begin to incorporate explicit cash-flow rights or contractual mechanisms resembling investment contracts, they increasingly fall under the scope of securities regulation.[11]

Regulatory constraints thus play a critical role in shaping token design. To mitigate the risk of securities classification, many projects deliberately eschew explicit revenue-sharing or dividend-like structures and instead emphasize governance rights, ecosystem participation, or protocol influence, even when informal investor expectations imply potential economic value capture; accordingly, resources such as step-by-step ICO compliance checklists have emerged to guide projects on structuring tokens in ways that reduce regulatory risk.[12] This design equilibrium reflects a tension between regulatory compliance and economic incentive alignment, highlighting the need for integrated frameworks that connect token utility, governance, and residual cash-flow claims in a legally compliant manner.

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[9] CoinGecko, What Are the Differences Between Governance and Utility Tokens? (June 27, 2023), https://www.coingecko.com/learn/governance-vs-utility-tokens.

[10] Jan Bena & Shiqi Zhang, Token-Based Decentralized Governance, Data Economy and Platform Business Model, SSRN Paper No. 4248492 (2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4248492.

[11] Michael Sockin & Wei Xiong, Decentralization Through Tokenization, NBER Working Paper No. 29720 (Feb. 2022), https://www.nber.org/system/files/working_papers/w29720/w29720.pdf.

[12] Step-by-Step Legal Checklist to Launch a Compliant ICO (May 28, 2025), Blockchain App Factory, https://www.blockchainappfactory.com/blog/step-by-step-legal-checklist-launch-compliant-ico/.

From a research perspective, this heterogeneity introduces challenges for valuation, modeling, and market analysis. Tokens cannot be treated as homogeneous financial instruments; their economic properties are shaped by governance mechanisms, network growth, token distribution schedules, and regulatory considerations. Consequently, empirical and theoretical models of token valuation must account not only for cash-flow expectations but also for network dynamics, protocol governance architecture, and legal risk, providing a richer framework for understanding token–equity bifurcation and ecosystem-level incentive alignment.

2.3 The Mechanics of Bifurcation

Bifurcation between equity and crypto tokens emerges from several interrelated structural, regulatory, and informational factors:

1. **Equity and tokens are backed by different cash flows.**
    - Equity typically represents ownership in an operating entity that captures revenues from services, SaaS fees, licensing, or other commercial activities. Tokens, by contrast, often confer governance over an on-chain protocol that may generate fees or other network-level revenues, but these are rarely directed explicitly to token holders. This separation of economic claims inherently creates a divergence in value capture.
2. **Regulatory constraints on explicit value transfer.**
    - To mitigate the risk of being classified as securities, tokens generally avoid mechanisms such as dividends, buybacks, or other revenue-sharing arrangements.[13] These legal considerations constrain the ability of token holders to capture cash flows directly, even when the economic performance of the underlying protocol would justify such distributions.
3. **Information asymmetry between equity and token holders.**
    - Equity holders typically benefit from formal governance rights, board representation, and comprehensive access to financial statements.[14] Token holders, in contrast, rely predominantly on public-facing dashboards, forum discussions, and social media communications to monitor project performance.[15] This asymmetry limits token holders' ability to assess true economic value and exposes them to signaling and narrative effects.

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[13] A. Trozze, Detecting DeFi Securities Violations from Token Smart Contracts (2023), 9 Financial Innovation, Art. No. s40854-023-00572-5, https://jfin-swufe.springeropen.com/articles/10.1186/s40854-023-00572-5.

[14] Velasco, supra note 5, at 3.

[15] NYU Stern School of Business, Initial Crypto-asset Offerings (ICOs), Tokenization and Corporate Governance, https://www.stern.nyu.edu/sites/default/files/assets/documents/Johnson_ICO_governance_MS.pdf

(last visited Nov. 29, 2025).

4. **Marketing conflates "project success" with "token success".**
    - Marketing and community messaging often equate project-level success, which can be measured by metrics such as total value locked ("TVL"), transaction volume, or daily active users, with token performance. Such framing can create implicit investor expectations that are not structurally or legally supported by the underlying economic architecture.

Collectively, these dynamics generate a dual-class ecosystem: a privileged equity class with clearly defined legal and economic rights, and a token holder class that contributes liquidity, early capital, and network engagement but possesses tenuous claims to the project's financial upside. Understanding these mechanisms is critical for analyzing integrated equity–token valuation and designing token structures that align incentives while remaining compliant with existing securities frameworks.

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3. How Dual Capital Structures Became Standard in Crypto

3.1 The Labs/Foundation Playbook

A now-standard organizational pattern in Web3 ecosystems involves the combination of distinct legal entities to separate economic, operational, and governance functions:[16]

- A *for-profit core operating company* (commonly referred to as a "DevLab," "Labs," or "OpCo") that employs the core team, manages intellectual property development, and contracts with external service providers.
- A *non-profit foundation* responsible for administering token treasuries, allocating ecosystem grants, and facilitating governance processes.

Legal practitioners and advisors increasingly advocate for double, or even triple-entity structures (e.g., DevLab + Foundation + TokenCo) to delineate intellectual property development, token issuance, and governance functions, thereby managing securities, tax, and regulatory risk.[17]

Functionally, this multi-entity architecture reinforces a bifurcation of value streams:

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[16] DAO SPV, The DevCo: Understanding the Development Company in Web3 Project Structures (last visited Nov. 29, 2025), https://blog.daospv.com/the-devco-understanding-the-development-company-in-web3-project-structures/.

[17] Nestor Dubnevych, Decentralized AI Projects and AI Node Sale: Legal Structuring Considerations (Aug. 25, 2025), Legal Nodes, https://legalnodes.com/article/decentralized-ai-node-sale-legal-structuring.

- Equity value, primarily associated with the for-profit entity's intellectual property, enterprise contracts, and traditional revenue-generating activities.
- Token value, which accrues from decentralized protocol usage, network activity, and community governance participation.

By structurally decoupling equity and token claims, these arrangements allow projects to allocate incentives to different stakeholder groups while mitigating legal and regulatory exposure. From a research perspective, understanding these architectures is critical for modeling integrated equity–token valuation and assessing the practical implications of bifurcation in Web3 ecosystems.

3.2 Hybrid Fundraising: Equity plus Token Warrants

In the current crypto venture landscape, fundraising structures frequently combine traditional equity with token-based upside.[18] Venture capital investors may acquire:

- Preferred equity, in the DevLab or holding company, securing claims on operating cash flows and governance rights.
- Token warrants, entitling investors to receive a specified allocation of future token supply under preferential terms.[19]

However, from a community perspective, these hybrid structures can introduce several challenges, which can jeopardize the fairness and integrity of crypto projects:

- Token distributions are often disproportionately allocated to insiders and early investors, sometimes coupled with short lockup periods, which results in retail investors absorbing heightened risks.[20]
- Capitalization structures can be complex and opaque, with early private rounds controlling a substantial fraction of token supply.

These arrangements implicitly treat equity as the primary anchor of value, with tokens functioning largely as instruments for marketing, incentive alignment, and community coordination. Understanding this dual-claim structure is essential for evaluating incentive design, governance implications, and the practical mechanics of integrated equity–token valuation within Web3 ecosystems.

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[18] The Block, Why Equity Plus Token Warrants Is the New Go-To Formula for Crypto VCs, supra note 1, at 2.

[19] *Id.*

[20] Asymmetric Risk-Reward in Crypto Financing: How Privileged Investor Terms Undermine Market Fairness and Project Sustainability (Nov. 24, 2025), AInvest News, https://www.ainvest.com/news/asymmetric-risk-reward-crypto-financing-privileged-investor-terms-undermine-market-fairness-project-sustainability-2511.

3.3 Regulatory Pressure and the "Governance-Only" Pivot

Judicial and regulatory determinations have classified certain tokens as securities when marketed with investment-return narratives or when they conveyed interests in common enterprises managed by third parties.[21] Consequently, such regulatory enforcement, particularly in the United States, has incentivized blockchain projects to shift away from explicit revenue-sharing token models toward "governance-only" designs.

Regulators have also flagged decentralized finance (DeFi) tokens that resemble unregistered securities, particularly where tokens confer entitlements to protocol revenues or mirror the characteristics of equity-like investment instruments.[22]

Many teams responded by:

- Eliminating explicit references to dividends, fees, or revenue-sharing from token documentation.
- Framing tokens primarily as non-profit governance tools.
- Designing business models such that economic returns accrue principally to centralized entities rather than directly to token holders.

While these measures help reduce legal and regulatory risk, they also deepen the divide between equity and token claims: the more a project prioritizes compliance, the less its tokens can act as true residual claims on economic value. This tension between following regulations and creating meaningful, economically impactful token governance highlights the need for approaches that balance legal safety with effective incentive design.

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[21] U.S. Securities and Exchange Commission, Framework for "Investment Contract" Analysis of Digital Assets (June 2020), https://www.sec.gov/files/dlt-framework.pdf.

[22] A. Trozze, Detecting DeFi Securities Violations from Token Smart Contracts, 9 Financial Innovation, Art. No. s40854-023-00572-5 (2023), https://jfin-swufe.springeropen.com/articles/10.1186/s40854-023-00572-5.

4. Case Studies of Equity–Token Bifurcation

This section examines three representative cases in which a successful business or protocol coexists with a token whose economic exposure to that success remains limited or indirect. These cases illustrate why the bifurcation between equity and token ownership can create misalignments and structural challenges.

4.1 Uniswap Labs & UNI

4.1.1 Background

Uniswap is the leading automated market maker (”AMM”) protocol on Ethereum and related chains. The open-source protocol facilitates billions of dollars in monthly trading volume.

Uniswap Labs, the development company behind the protocol, raised a $165 million Series B round in 2022 at a valuation of roughly $1.66–1.7 billion, led by Polychain Capital with participation from a16z crypto and others.[23]

The UNI token, launched in 2020, is described as a governance token enabling holders to vote on protocol parameters, treasury usage, and upgrades.[24]

4.1.2 UNI’s Limited Value Capture

Historically, Uniswap’s protocol fees have flowed to liquidity providers (”LPs”) rather than UNI holders. The widely discussed “fee switch” would allow the protocol to retain- a share of pool fees.[25] Early design discussions explicitly emphasized that retained fees would not necessarily be paid out to UNI holders, but would instead expand the toolkit for protocol-level decisions (e.g., funding development, insurance).[26]

For most of UNI’s existence:

- UNI holders had *governance* rights over protocol parameters and treasury funds.
- They lacked a direct, contractual claim to any portion of Uniswap Labs’ corporate revenues or to protocol trading fees.

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[23] Manish Singh, Uniswap Labs Valued at $1.66 B in $165 M New Funding, TechCrunch (Oct. 13, 2022), https://techcrunch.com/2022/10/13/uniswap-labs-raises-165-million-in-new-funding.

[24] Uniswap, UNI Token Overview, Uniswap Blog (Jan. 15, 2021), https://blog.uniswap.org/uni.

[25] Devin Walsh & Ken Ng, UNIfication: Uniswap’s Next Era, Uniswap Blog (Nov. 10, 2025), https://blog.uniswap.org/unification.

[26] Uniswap Governance, Fee Switch Design Space: Next Steps, https://gov.uniswap.org/t/fee-switch-design-space-next-steps/17132.

- Realized protocol revenues largely benefitted LPs and, indirectly, the reputation and deal-making capacity of Uniswap Labs as a company.

This created a situation where:

- Equity value in Uniswap Labs was grounded in venture-style expectations about enterprise products, licensing, and interface revenue.
- UNI token value depended on market perceptions of governance importance and potential future implementation of fee switches or other value capture mechanisms, none of which were contractually guaranteed.

A critical inflection point occurred in March 2024, when a fee switch proposal, allowing the protocol to retain a portion of trading fees, was first introduced and approved.[27] However, shortly thereafter, the team unexpectedly reversed course: implementation stalled, no contractual or governance based rationale was provided, and the DAO received no meaningful updates for approximately 18 months.[28] Public commentary at the time alleged that the reversal may have been influenced by concerns raised by a major equity investor, underscoring the structural vulnerabilities that arise when governance authority and economic control are divided between token holders and a centralized corporate entity.[29]

The most recent "UNIfication" proposal, which contemplates redirecting a portion of protocol fees for UNI buybacks and burns, is notable precisely because it would *retrofit* explicit value capture into a token that was originally designed as purely governance.[30] The long delay between the approved fee switch and its abandonment makes UNIfication even more consequential: it exposes how easily token holder expectations can be overridden when equity and token incentives diverge, while highlighting renewed pressure to align UNI with durable value accrual mechanisms.

4.1.3 Lessons

Uniswap illustrates how:

- A blue-chip DeFi protocol and highly valued company can coexist with a token whose link to economic value is largely *contingent* on future governance decisions.
- Community narratives about "owning the protocol" via tokens can diverge from the actual flow of revenues and legal rights.

The bifurcation is not accidental; it is structurally baked into a design that seeks to avoid securities-law triggers.

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[27] Temperature Check – Activate Uniswap Protocol Governance. Uniswap Foundation (Gov Forum), Feb 23, 2024.

[28] *Id.*

[29] *Id.*

[30] Xangle, Uniswap UNI Research, https://xangle.io/en/research/detail/2357; Uniswap, UNIfication: Uniswap's Next Era, supra note 24.

4.2 Ethena Labs, USDe & ENA

4.2.1 Background: A Synthetic Dollar with Real Revenue

Ethena is a "synthetic dollar" protocol build on Ethereum, its core product is a synthetic dollar *USDe*, backed by crypto assets.[31] Ethena aims to create a crypto-native dollar that can't be blocked or controlled and doesn't depend on traditional bank deposits.[32] Instead of backing USDe with cash or treasuries, the protocol keeps the value of USDe stable using a mix of crypto investments (primarily staked ETH and BTC or liquid derivatives like stETH) while also offseting price risk by shorting an equivalent notional of perpetual or deliverable futures.[33] The combination of spot collateral plus short derivatives is used to keep the overall value near one dollar, while generating yield from (i) staking rewards on collateral and (ii) positive funding/basis in derivatives markets.[34]

Users can also stake their USDe in exchange for sUSDE and earn yield through a combination of staking and derivatives activity.[35] The protocol stakes Ethereum, generating rewards that accrue to users, while simultaneously engaging in delta-hedged derivatives positions to offset price risk.[36] In practice, sUSDe has at times offered attractive yields ranging from 10–19%, driven by a combination of ETH staking yields and positive perpetual funding rates.[37] USDe has seen remarkable growth, to upwards of double digit billions in circulating supply within two years of its launch. Within 24 hours of its Binance listing, circulation exceeded $13 billion, positioning USDe as the third-largest stablecoin by market size.[38] Thanks to the rapid adoption of USDe, protocol-level fees and yield from the delta-neutral strategy have accumulated to hundreds of millions of dollars in revenue.[39]

Ethena Labs, the company that originally developed the protocol, has raised multiple equity and token-linked rounds. In February 2024, it announced a $14 million strategic round at a $300 million valuation,

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[31] Ethena, Documentation, https://docs.ethena.fi/.

[32] *Id.*

[33] *Id.*

[34] *Id.*

[35] Ethena, Staking USDe, https://docs.ethena.fi/solution-design/staking-usde.

[36] *Id.*

[37] ECO, What Is Ethena USDe?, https://eco.com/support/en/articles/11753235-what-is-ethena-usde.

[38] Yahoo Finance, Ethena USDe Stablecoin Surges Over $13B, https://finance.yahoo.com/news/ethena-usde-stablecoin-surges-over-192737230.html.

[39] Yahoo Finance, Ethena Fee Switch Milestone Hits Top Revenue, https://finance.yahoo.com/news/ethena-fee-switch-milestone-top-144856609.html.

structured as a simple agreement for future equity with token warrants.[40] Throughout the course of the year, Ethena continued its successful raise, having raised well over $100 million across several rounds, with backing from several venture investors.[41]

In short, Ethena sits at the intersection of a high-growth, high-revenue protocol and a venture-backed corporate stack, making it a rich case study for equity–token bifurcation.

4.2.2 Capital Structure: Equity, Synthetic Dollars and a Governance Token

Ethena's capital structure is multi-layered and distinctive, even by DeFi standards, comprising of traditional equity, USDe staked claims, and the ENA governance token:

- Equity: Ethena Labs (and related entities such as the Ethena Foundation) hold IP, employ the core team, negotiate centralized exchange integrations, and participate in strategic token sales. Equity rounds have been structured using traditional venture instruments (e.g., SAFE/SAFT style agreements with token warrants), giving investors residual claims on corporate value and substantial governance rights at the company level.
- USDe and yieldbearing sUSDe/iUSDe: USDe functions as the "core product," a synthetic deltahedged digital dollar. Staked versions such as sUSDe or iUSDe represent claims on protocol yield and are marketed as globally accessible "internet bonds." These are dollar-denominated savings products, but instead of earning interest from a bank, their returns come from market-based sources such as crypto staking rewards and derivatives trading.
- ENA Governance Token (and sENA): The ENA token was launched in April 2024 via a large airdrop tied to a "Shard Campaign" that rewarded early USDe users.[42] In its first airdrop, Ethena distributed 750 million ENA, out of a 15 billion max supply, reserving additional allocations for the team, investors, the foundation, and ecosystem incentives.[43]

While USDe has expanded to a multibillion dollar supply and generated multimillions in revenue, the ENA token has lagged significantly during the same period, trading more than 50% below its all time high.[44] These

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[40] The Block, Ethena USDe Stablecoin Funding, Valuation, PayPal, Brevan Howard, Others, https://www.theblock.co/post/277565/ethena-usde-stablecoin-funding-valuation-paypal-brevan-howard-others.

[41] *Id.*

[42] Redstone, Redstone + Ethena USDe: Shard Campaign Airdrop (Apr. 3, 2024), https://blog.redstone.finance/2024/04/03/redstone-ethena-usde/.

[43] The Block, Ethena Labs to Airdrop 750 Million ENA Tokens on April 2, https://www.theblock.co/post/285212/ethena-labs-to-airdrop-750-million-ena-tokens-on-april-2.

[44] The Defiant, USDe Deposits on Binance Hit USD 734 Million as Ethena TVL Tops USD 16 Billion, https://thedefiant.io/news/defi/usde-deposits-on-binance-hit-usd734-million-as-ethena-tvl-tops-usd16-billion.

two assets originate from the same company, yet their stark divergence in success and valuation illustrates how value bifurcation across related assets can create misaligned incentives and significant structural challenges.

4.2.3 Lessons

Ethena demonstrates that:

- A protocol can achieve strong product-market fit, attract significant total value locked, and generate substantial fee revenue, even while its governance token functions primarily as a bet on future design choices rather than as a claim on current cash flows.
    - Dual-class dynamics can emerge within the protocol itself, not just between equity and tokens.
    - At the token level, the split between USDe/sUSDe and ENA mirrors broader corporate patterns in which insiders with privileged claims capture a disproportionate share of upside. Without clear policy, governance tokens risk becoming high-volatility instruments that bear downside risk without a proportional share of upside.
- As the protocol matures, governance pressures often push toward revenue-sharing, which can raise securities-law questions. Large token holders and governance forums increasingly advocate for fee switches and direct token holder revenue, reflecting rational economic incentives. However, these changes can make tokens resemble securities more closely, reintroducing the regulatory risks that early "governance-only" designs were intended to avoid.

In Ethena's case, ENA valuation depends not only on current cash flows (which are minimal) but also on the probability, timing, and size of future fee switches, as well as on competitive and regulatory developments that might constrain such switches. High projected valuations often reflect potential future outcomes, such as the possibility of future fee switches, favorable governance decisions, and eventual alignment between the protocol's revenue and rewards for ENA holders.

As with Uniswap, Ethena's situation underscores the core thesis of this paper: equity and token claims (and, in Ethena's case, multiple token classes) must be analyzed as a unified capital stack. Any serious valuation or risk assessment must trace how cash flows and control rights move among equity holders, stablecoin users, and governance-token holders, rather than treating each stakeholder in isolation.

4.3 Axie Infinity, Sky Mavis & AXS

4.3.1 Background

Axie Infinity, developed by Sky Mavis, became the flagship "play-to-earn" game during the 2021 crypto boom. At its peak, it attracted

millions of players who earned tokens (AXS and SLP) for in-game activity and NFT trading.[45]

In November 2021, the AXS token reached an all-time high around $165. By May 2025, its price had fallen to around $2.86, a drawdown of roughly 98%. Analysts attribute this collapse to an unsustainable economic model, over-reliance on new player inflows, and the impact of a major $620M bridge hack in 2022.[46]

4.3.2 Where Did the Value Go?

Even as token prices collapsed:

- Sky Mavis retained control of core IP, infrastructure, and the ability to launch new titles (e.g., Axie Origins) and sidechains.
- Revenue from NFT marketplace fees, in-game purchases, and partnerships provided ongoing business opportunities.[47]

AXS and SLP holders, in contrast:

- Held tokens whose value depended on continued speculative inflows and a fragile game economy.
- Had limited influence over key business decisions, despite the existence of nominal governance processes.

The stark divergence between the long-term prospects of Sky Mavis as a game studio and the fate of its original tokens exemplifies how:

- Tokens can function as high-beta funding and marketing tools.
- Equity, and studio-controlled IP, remains the durable seat of value.

4.3.3 Lessons

Axie Infinity underscores a more painful form of bifurcation:

- During the boom, token price appreciation encouraged users to treat AXS as an equity-like instrument.
- When growth slowed and the economic loop broke, tokens absorbed the full brunt of adjustment, while the corporate entity retained strategic optionality.

This dynamic is particularly salient for regulators and consumer-protection advocates, as it resembles high-risk equity crowdfunding without the usual protections.

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[45] Cornell Bowers College of Computing and Information Science, What the Crash of a Play-to-Earn Game Reveals About the Future of Web3 (on Axie Infinity), (last visited Nov. 29, 2025), https://infosci.cornell.edu/news-stories/what-crash-play-earn-game-reveals-about-future-web3.

[46] Business Finance, "The Fall of Axie Infinity (AXS): Understanding the Price Crash," (Aug. 22, 2025), https://kayothoughts.com/2025/08/22/the-fall-of-axie-infinity-axs-understanding-the-price-crash/.

[47] Cornell Bowers College of Computing and Information Science, supra note 40.

4.4 Coinbase

4.4.1 A Structural Friction: Coinbase and Ecosystem Tokens

Beyond these direct pairings, equity–token bifurcation also appears *across* ecosystems. For example, Coinbase's equity investors capture upside when the exchange lists or acquires token projects, while token holders may suffer from dilution, contentious acquisitions, or governance arbitrage. Recent commentary on Coinbase's acquisition of a project behind the Tensor NFT marketplace noted that Coinbase shareholders benefit when it acquires valuable technology, even if token holders in the acquired ecosystem are diluted or sidelined.[48]

A prominent example is Coinbase' recent acquisition of Vector.fun, a trading platform built on Solana.[49] Following the acquisition, Coinbase absorbed Vector's core team and technological infrastructure, while the Tensor Foundation was left with control over the NFT marketplace and the TNSR token.[50] As a result, TNSR holders technically retained governance authority, yet the underlying asset and operational footprint that originally anchored the token's utility migrated to Coinbase. In practical terms, the token's economic relevance was substantially diminished, illustrating how token holders can be separated from the value generating components of a project when equity and token structures are misaligned.

This cross-project friction highlights a broader pattern: equity claims in centralized intermediaries can appropriate value that communities had anticipated would remain within token-governed ecosystems. Consequently, affected communities may be left with little to no economic value and tokens that are effectively worthless, producing outcomes that are both economically and socially inequitable, as further detailed below.

4.4.2 BASE Token

A similar dynamic is now emerging in discussions around a potential BASE token. Base is a layer-2 blockchain built and operated by Coinbase**,** and JPMorgan analysts have estimated that a future BASE token could be worth as much as $34 billion.[51] Yet an open issue remains: *who should ultimately benefit from this value creation?* The prospect that a token issued on a chain developed by a centralized, publicly traded intermediary could generate tens

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[48] Gino Matos, How Coinbase's Latest Deal Turned a 10X Token Boom Into a Costly Lesson for Retail Traders, CryptoSlate (Nov. 22, 2025), https://cryptoslate.com/how-coinbases-latest-deal-turned-a-token-boom-into-a-costly-lesson-for-retail-traders.

[49] Matos, G. (2025, November 22). *Coinbase's latest acquisition caused controversial 10X token boom – Who knew?* CryptoSlate. https://cryptoslate.com/how-coinbases-latest-deal-turned-a-token-boom-into-a-costly-lesson-for-retail-traders/.

[50] *Id.*

[51] Gilbert, A. (2025, October 25). *JPMorgan: $34bn Base token, waning DEX threat, could reshape ecosystem dynamics*. Yahoo Finance. https://finance.yahoo.com/news/jpmorgan-34bn-token-waning-dex-165154749.html

of billions in value raises fundamental questions about whether that value ought to accrue to Coinbase's equity holders, BASE token holders, or some shared structure.

This tension underscores how easily centralized corporate equity can appropriate ecosystem level value that communities expect to remain within token governed networks.

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5. Why Existing Token Value Capture Mechanisms Fall Short

5.1 Revenue Sharing and Tokens as "Securities"

A direct approach to aligning token value with project performance is the distribution of revenue to token holders, such as through fee distributions or buyback-and-burn mechanisms. Theoretical and empirical models suggest that tokens conveying explicit cash flows can, in principle, facilitate efficient investment and promote decentralized participation.[52]

In practice, however, several challenges arise:

- Tokens that provide dividends or buybacks tied to a common enterprise are more likely to be classified as securities under legal tests such as Howey.[53]
- Compliance with security token frameworks entails significant infrastructure, including registration, transfer restrictions, and know-your-customer (KYC) procedures, which may conflict with the permissionless ethos of decentralized finance.[54]
- Revenue distributions via buybacks can present an inefficient use of capital, diverting funds away from growth, product development and strategic expansion. In conventional corporate finance, expenditures that drive topline growth are financed through the equity stack and not through instruments analogous to tokens, because reinvestment typically generates higher long term value than distributing cash.

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[52] Michael Sockin & Wei Xiong, Decentralization Through Tokenization, NBER Working Paper No. 29720 (Feb. 2022), https://www.nber.org/system/files/working_papers/w29720/w29720.pdf.

[53] U.S. Securities and Exchange Commission, Framework for "Investment Contract" Analysis of Digital Assets (June 2020), https://www.sec.gov/files/dlt-framework.pdf

; Norton Rose Fulbright, Crypto Tokens Held to Be "Securities" as a Matter of Law — A Big Win for SEC, https://www.nortonrosefulbright.com/en/knowledge/publications/16178e2d/crypto-tokens-held-to-be-securities-as-a-matter-of-law-in-big-win-for-sec.

[54] Duncan Fitzgerald, Adrian Clevenot & Gaven Cheong, When DeFi Meets Securities Laws — A Regulatory Overview, AIMA (Sept. 20, 2022), https://www.aima.org/article/when-defi-meets-securities-laws-a-regulatory-overview.html.

Consequently, many projects either avoid explicit revenue-sharing mechanisms altogether or implement them indirectly, via foundations, off-chain arrangements, or informal expectations. Such approaches, while reducing immediate regulatory exposure, can reintroduce legal and governance risks in more opaque and difficult to manage forms. For example, off-chain agreements and informal understandings may create ambiguity regarding the enforceability of token holder claims, leading to disputes over distributions or voting rights. Reliance on foundations or intermediaries to channel revenue can introduce agency problems, where decision-makers' incentives diverge from those of token holders. Moreover, the lack of transparent, codified mechanisms for revenue allocation can undermine trust, exacerbate information asymmetries, and increase exposure to litigation or regulatory scrutiny if token holders perceive unfair or inconsistent treatment. These dynamics collectively illustrate how attempts to circumvent formal securities classification may inadvertently shift, rather than eliminate, the structural risks associated with economic and governance claims.

5.2 Protocol Fee Switches and Contingent Value Rights

Protocol-level mechanisms, such as Uniswap's fee switch, exemplify a compromise between aligning token value with economic performance and mitigating regulatory risk. These mechanisms allow a protocol to direct a portion of trading fees to a treasury governed by token holders, without creating legally enforceable entitlements to distributions for individual token holders.[55]

This design:

- Creates *optionality* for future value capture, permitting potential upside without creating contractual claims.
- Leaves token valuation heavily dependent on speculative beliefs about future governance decisions, which may be constrained by regulatory optics.

Extended delays or prolonged indecision in activating such fee switches exacerbate valuation uncertainty. In practice, tokens may be priced based on hypothetical future scenarios that the development team may be unwilling, unable, or legally constrained from delivering. This conditionality underscores a structural tension in token design: the attempt to preserve regulatory compliance simultaneously limits the token's capacity to function as a reliable, enforceable claim on economic value.

5.3 Hyperliquid and Buybacks

Hyperliquid represents a very niche case of providing token holder value. It's indisputable that HYPE's assistant-funds mechanism is unmatched in validating a high fully diluted valuation ("FDV") and that no equity-anchoring or direct linkage could come close to matching the scale of daily buybacks it

[55] Uniswap Governance, Fee Switch Design Space: Next Steps, supra note 25.

delivers. However, this model is not widely sustainable, particularly for cryptocurrency startups that prioritize user acquisition over short-term revenue and are therefore unable to sustain the level of cash flow necessary to satisfy token holder demands.

5.4 Wrappers and Synthetic Claims

A fourth class of value-capture mechanisms involves wrapper instruments, which typically take the form of off-chain contracts or additional tokenized claims that entitle holders to revenues or treasury assets, often supported by custody arrangements. While these structures can, in principle, formalize economic entitlements without directly embedding them in the primary token, they introduce a distinct set of risks:

- Liquidity and "bank-run" risk: Wrappers or synthetic claims create implicit redemption expectations. If holders anticipate that the administering entity may not honor these claims, due to operational, regulatory, or solvency constraints, mass redemptions can occur, depleting the underlying treasury. Even absent actual insolvency, negative information or market sentiment can trigger self-fulfilling runs, whereby the perceived risk itself destabilizes the system. This dynamic mirrors traditional bank runs, highlighting the fragility introduced by contingent value arrangements in tokenized environments.
- Counterparty risk: Because the wrapper or synthetic claim is administered by a centralized entity, whether a foundation, trustee, or smart-contract operator, token holders are exposed to principal-agent problems. The incentives of the administering entity may diverge from those of the claimants: for example, the administrator may prioritize operational or strategic objectives that reduce distributions, favor insiders, or allocate resources in ways that do not maximize token holder value. This misalignment is exacerbated when decision-making authority is opaque or poorly governed, and when token holders have limited legal recourse to enforce claims. Moreover, governance mechanisms within wrappers are often informal or discretionary, creating additional uncertainty regarding how economic rights will be exercised and monitored. These structural agency risks mirror classical corporate finance problems, such as those arising in delegated management, but are amplified in tokenized environments by the distributed and cross-border nature of participants, the difficulty of legal enforcement, and the reliance on code-based or quasi-legal arrangements.
- Complex cross-border enforcement and legal uncertainty: Wrapper or synthetic claims often involve assets held across multiple jurisdictions or governed by complex contractual arrangements. In the event of dispute, insolvency, or regulatory intervention, token holders may face significant obstacles in asserting their rights. Legal remedies can be slow, costly, or entirely unavailable, particularly when courts in one jurisdiction do not recognize the governing law or enforce judgments from another. Additionally, regulatory authorities may freeze or restrict access to

underlying assets, creating uncertainty about the ultimate recoverability of tokenized claims. These factors exacerbate the opacity and operational fragility of wrappers, leaving holders exposed to risks that are difficult to anticipate or hedge.[56]

Taken together, these challenges illustrate the trade-offs inherent in current token value-capture mechanisms. Security-like tokens and wrapper instruments expose participants to substantial regulatory and operational risk, while governance-only designs with optional fee switches provide only contingent, non-binding expectations of future value. These dynamics underscore the persistent tension between enforceable economic claims and compliance-conscious token design, highlighting the need for integrated frameworks that can reconcile legal safety, decentralization, and effective incentive alignment.

5.5 Synthetic Securities on Perpetuals

Another attempt of bringing intrinsic value to token holders can be pushing out synthetic securities on platforms like Ventuals or RobinHood and just letting the community trade the synthetic version of these securities on perpetual futures. This direction introduces a new class of problems with its value-capture mechanism. All these issues center around the inability to hold a perpetual contract for a longer period without having to manage the position (collateral, margin-settings, funding rates). Also, the platform risks and hedging dynamics going on behind the scenes introduce a new risk that investors have to consider.

6. Towards Integrated Valuation of Equity and Tokens

6.1 The Platform Wide Balance Sheet

Rather than analyzing equity and tokens in isolation, a crypto project can be conceptualized as a platform comprising of multiple tranches of claims. From this perspective, the platform generates several distinct types of cash flows:

- **Business cash flows:** SaaS fees, licensing, enterprise contracts, fiat revenues.
- **Protocol cash flows:** On-chain transaction fees, MEV capture, and other usage-based charges.
- **Ecosystem surpluses:** Resources allocated to community grants, user rewards, and shared infrastructure.

These flows can be allocated across different stakeholder classes:

[56] Financial Stability Board, The Financial Stability Implications of Tokenisation (Oct. 22, 2024), https://www.fsb.org/uploads/P221024-2.pdf.

- Equity holders of operating companies.
- Token-governed treasuries and DAO-managed reserves.
- End-users, validators, and liquidity providers participating in the network.

An integrated valuation asks:

1. What proportion of the platform's total expected cash flows ultimately accrues to equity holders?
2. What proportion is influenced, governed, or potentially captured by tokens, even if not distributed directly on a one-to-one basis?
3. How credible, enforceable, and operationally robust are the mechanisms linking operating companies to token-governed treasuries?

6.2 Design Principles for Alignment

To mitigate harmful organizational bifurcation while remaining compliant with existing regulatory constraints, several design principles can be articulated. These principles aim to maintain coherence between on-chain governance and off-chain corporate decision-making without collapsing the legal distinctions required for securities regulation.

1. **Establish explicit mappings between corporate events and ecosystem-level decision rights.**
    - Corporate actions, such as capital raises, strategic partnerships, or changes in control, can materially influence the resource environment in which an ecosystem operates. Formalizing ex ante how such events map onto on-chain processes (e.g., whether a major financing event triggers additional ecosystem allocations or adjustments to incentive budgets) reduces ambiguity and curtails opportunistic behavior. This mapping need not create legally enforceable claims; rather, it should specify *procedural responses* and *policy expectations* that guide governance participants.
2. **Maintain separation between legal equity interests and discretionary resource-allocation mechanisms.**
    - Tokenized governance systems should avoid structures that directly or implicitly equate token holdings with equity or profit claims. Instead, resource-allocation authority, over grants, incentives, R&D budgets, or ecosystem reserves, should be framed as a discretionary governance domain, governed by transparent policies rather than contractual entitlements. This separation preserves regulatory compliance while enabling ecosystems to benefit from responsive, community-driven allocation of non-equity resources.
3. **Define a clear and transparent governance perimeter.**
    - Governance participants must understand the boundaries of their authority. This includes delineating which decisions are legitimately subject to token holder governance (such as parameter updates, incentive programs, or treasury disbursements) and which remain

firmly under the purview of corporate boards and shareholders (such as M&A transactions, hiring or firing executives, or negotiating commercial contracts). A well-defined governance perimeter reduces overlap, limits expectations inflation, and lowers the risk of de facto investment-contract interpretations.

4. **Implement operational safeguards and standardized incident-management tooling.**
    - To mitigate bank-run dynamics, governance shocks, and litigation escalation, ecosystems should incorporate robust operational safeguards. These may include rate-limited withdrawals from ecosystem treasuries, circuit-breaker or temporary pause mechanisms for governance actions under abnormal conditions, and structured "evidence binders" that document the factual record during disputes or incidents. Publicly accessible incident status pages and standardized post-mortem protocols can be used to further enhance transparency and serve as effective incident-management tools.
5. **Adopt disciplined *non-equity* communications practices.**
    - Public facing communications, such as whitepapers, blog posts, governance proposals, and investor relations materials, should avoid language that suggests that tokens function as equity, confer rights to dividends, or offer guaranteed claims on corporate profits. Instead, communications should precisely describe the *policy framework* through which corporate success may influence discretionary ecosystem allocations. Such discipline reduces securities law risk while preserving the ability to articulate credible, non-contractual alignment between corporate performance and ecosystem development.

6.3 Implications for Investors and Communities

Under an integrated analytical framework, the distribution of rights, expectations, and control across equity holders, token holders, and founders produce distinct implications for each stakeholder group:

- Venture investors must evaluate equity and token governance as interdependent claim structures rather than isolated instruments. This requires analyzing (i) how corporate financing events, commercialization strategies, and exit scenarios may alter the flow of resources into token-governed treasuries; and (ii) whether governance mechanisms credibly link off-chain corporate performance to on-chain ecosystem development. Due diligence thus extends beyond traditional equity analysis to include assessment of treasury policies, governance safeguards, and the enforceability of cross-entity commitments.
- Community token holders shift value away from short-term market dynamics and speculative price patterns and focuses on the institutional quality of governance. The relevant questions become: Does the token govern a meaningful portion of the platform's prospective surplus? Are

governance processes disciplined, transparent, and resistant to managerial opportunism? To the extent that token holders exercise control over grants, incentives, or protocol-level parameters, the economic relevance of those powers depends on the clarity and credibility of resource flows from associated corporate entities.

- Founders must treat token issuance as a form of capital-structure engineering. Decisions about the allocation of future surplus, whether retained within corporate entities, directed to token-governed treasuries, or distributed across users and validators, constitute foundational design choices with long-term strategic and regulatory implications. Effective design balances decentralization goals, investor expectations, and regulatory constraints while preserving operational flexibility.

Across investors, token holders, and founders, a common theme emerges: traditional corporate equity and on-chain tokens represent *complementary but incomplete* claims on the economic activity of a crypto platform. Each group requires clearer, more credible mechanisms that connect corporate-level decisions with ecosystem-level resource allocation. Investors need predictable mappings between off-chain outcomes and on-chain treasuries; token holders require governance structures with real economic relevance; and founders must design token systems that serve as coherent components of the platform's capital structure rather than purely narrative instruments.

ERC-S provides a standardized framework for making these connections explicit and enforceable, effectively transforming high-level alignment principles into concrete, enforceable infrastructure, bridging the gap between corporate realities and decentralized community governance. This reduces harmful bifurcation and establishes a more credible, institutional-grade foundation for tokenized ecosystems.

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7. ERC-S: Equity-Anchored Resource Allocation without Security Tokens

ERC-S (Equity-Anchored Resource Coordination Standard) proposes an institutional architecture for connecting corporate equity and token-governed ecosystems, without converting tokens into securities or equity-like instruments. The central design principle is to anchor legal equity in a dedicated SPV/Foundation while allowing a DAO to govern discretionary ecosystem resource redeployments from that entity, under strict guardrails. These deployments occur only following predefined corporate events and within strict legal and operational guardrails.

7.1 Architecture: OpCo → SPV/Foundation → DAO

The key components, summarized from the ERC-S standard, are:

1. **Operating Company (OpCo)**
    - Serves as the primary business entity, holding intellectual property, employing personnel, and entering commercial agreements.
    - Issues equity to founders, employees, and investors under conventional corporate law.
2. **SPV/Foundation (Shareholder-of-Record)**
    - Holds a defined block of OpCo equity as a standard shareholder.
    - Becomes the legally recognized counterparty in liquidity events (e.g., M&A, IPO, secondary transactions).
    - Functions as a legally accountable intermediary that receives any proceeds attributable to its equity holdings.
3. **DAO and Non-Equity Tokens**
    - A DAO (either protocol-specific $STARTUP or network-level $STREET) sets policies for how discretionary resources may be redeployed into the ecosystem following defined "Ecosystem Transition Events", such as a sale of the OpCo, an IPO, or a secondary share sale by the SPV/Foundation.
    - Tokens are expressly limited to governance and utility functions; they do not confer ownership, dividends, redemption rights, or contractual claims on OpCo assets.
4. **Transfer Agent & Custodian**
    - Implements dual-key, non-discretionary execution of equity and cash transfers.
    - Executes only on "final or recognized orders," typically defined as New-York–seated arbitration awards or equivalent legally binding instructions.
    - Ensures that the SPV/Foundation's actions remain auditable and insulated from unilateral DAO or founder influence.
5. **Distributor Contract (On-Chain Execution Model)**
    - After a valid DAO decision and legal/compliance checks, the Distributor publishes Merkle roots representing claims on resources allocated for the ecosystem.
    - These resources may include grants, user rewards, incentive programs, or long-term ecosystem investment pools.
    - Public auditability is provided through standardized status pages and evidence binders.

A schematic diagram (referenced on page 6 of the ERC-S standard) illustrates this architecture: proceeds flow from the OpCo to the SPV/Foundation, are released to the Distributor only after passing legal and governance validation layers, and are then claimable on-chain via Merkle proofs, with auditors and a public status page to monitor the process. This

structure ensures procedural integrity, mitigates agency risks, and maintains regulatory separation between equity ownership and token governance.

7.2 Non Security Posture by Design

ERC-S is intentionally constructed to avoid the creation of security-like instruments and this position is validated by Street Labs, Inc. securities lawyers. Rather than treating tokens as equity substitutes, the standard delineates a strict separation between legal ownership claims and governance or coordination rights. In particular:

- Tokens confer no proprietary or financial claims: they are not equity, they do not constitute depositor or creditor claims, and they provide no guaranteed entitlements to profits, redemptions, or distributions.
- Any redeployment of resources from the SPV/Foundation to the ecosystem is discretionary, mission-aligned, and conditioned on both (i) DAO governance approval and (ii) legally supervised execution via custodial and transfer-agent safeguards. These mechanisms ensure that allocations remain policy-driven rather than contractual in nature.
- Corporate counterparties interact exclusively with the SPV/Foundation, which functions as the shareholder-of-record in all M&A, IPO, or secondary transactions. Token holders do not participate in or possess rights within these transactions; they remain structurally outside the corporate deal perimeter.

This architecture is designed to enable startups to direct a portion of exit-related resources toward community or public-good purposes, for example, ecosystem grants, user rewards, or protocol development, without transforming tokens into investment contracts. In effect, ERC-S provides a pathway for aligning corporate success with ecosystem flourishing, while maintaining clear legal boundaries that avoid implicating securities-law regimes.

7.3 Operational Discipline: Pause Protocols, Status Pages, and Evidentiary Governance

A distinctive contribution of the ERC-S framework is its emphasis on standardized operational controls to manage incidents, disputes, and transitional governance events. Rather than relying on ad hoc procedures, which have historically amplified coordination failures and legal exposure in token ecosystems, the standard prescribes a structured set of operational safeguards:

- Automated Pause Triggers: ERC-S specifies predefined conditions under which distributions or resource redeployments must be paused, including smart-contract anomalies, adverse legal notices, KYC discrepancies, governance key compromise, and escrow-related disputes. Each trigger is tied to a designated operational owner (e.g., DevOps, Legal, Compliance, Board), thereby reducing ambiguity and preventing unilateral or unauthorized intervention.

- Standardized Status Page Reporting: The framework includes a public status-page that documents incident states (Inquiry, Dispute, Paused, Cleared), severity classifications, along with timestamps. Template language and RACI matrices institutionalize communication flows, enhancing transparency for token holders, auditors, and external stakeholders.
- Evidence Binder: ERC-S mandates the maintenance of a structured evidentiary archive containing governance proposals, on-chain vote results, transfer-agent attestations, escrow documents, expert-determination reports, arbitration awards, and all associated disclosure updates. This "evidence binder" creates a durable audit trail that can be relied upon by courts, arbitrators, and regulators.
- Wallet Disclosure: Teams should be required to disclose all operational wallets in their whitepapers or any comparable public facing documentation, providing transparent visibility into addresses used for treasury management, expenditures, incentive programs, and ecosystem operations. This disclosure enhances accountability, enables community oversight, and creates a verifiable audit trail consistent with ERC-S's standards for operational discipline.
- T-minus Checklist: A time-bounded pre-launch framework (T-28 to T+14 days) requires teams to finalize documentation, complete incident response dry-runs, publish disclosure packs, and stage escrow and buffer mechanisms. This ensures readiness prior to any resource distribution event.

Collectively, these mechanisms address a central failure mode in existing token ecosystems: the absence of predictable, verifiable, and legally cognizable operational processes. By imposing procedural discipline, ERC-S seeks to mitigate the risk of information cascades, "bank-run" dynamics, governance paralysis, and subsequent class-action exposure. The standard thus reframes operational reliability as a core component of credible, non-security token governance.

7.4 Scenario Library and Risk Management

The ERC-S standard incorporates a structured risk-governance architecture designed to anticipate, categorize, and mitigate failure modes at the intersection of corporate finance and token-governed ecosystems. Pages 2–3 provide a scenario library (S#01–S#20+) that enumerates recurring vulnerabilities observed in venture-backed and tokenized environments. These include, founder equity withdrawal, acquirer demands for simplified or "clean" capitalization structures, exit-valuation manipulation, regulatory or tax authority inquiries coinciding with liquidity events, cross-jurisdictional conflicts of law, and potential class-action claims by token holders. Each scenario identifies preventive controls and remediation pathways, applying a structured approach to risk management similar to that used in conventional financial-market operations.

Complementing the scenario catalog, the risk matrix on page 9 provides a more quantitative assessment of remaining risks after controls are applied. It evaluates the likelihood and severity of events such as acquirer non-payment, leakage from undisclosed side agreements, working-capital or earn-out disputes, unauthorized or erroneous instructions issued by transfer agents, governance capture by concentrated token holders, and token holder-initiated litigation. Each risk is assigned a designated mitigation owner, typically Legal, Finance, Operations, the Board, or Communications, thus embedding accountability directly into the governance architecture.

Collectively, this standardized risk-management framework is critical for rendering equity-token linkages legible, auditable, and institutionally credible. By pre-specifying incident workflows and mitigation ownership, ERC-S reduces the ad hoc, error-prone responses that often characterize token-ecosystem crises. The result is a governance environment in which sophisticated acquirers, regulators, and auditors can place greater reliance on the durability of the equity-anchored resource-allocation pathways the standard seeks to formalize.

7.5 How ERC-S Addresses Bifurcation

While ERC-S does not eliminate the inherent distinction between equity and tokens, it formalizes and standardizes the conduit linking them:

- Equity in the OpCo remains the locus of corporate control and legal residual claims.
- The SPV/Foundation codifies how a portion of economic upside, arising from exits, share sales, or other liquidity events, *may* be redeployed into the broader ecosystem.
- Token holders exercise governance over these redeployments according to transparent, pre-defined rules, but they possess no enforceable legal claim to such resources.

In doing so, ERC-S transforms the system from one governed by implicit, informal expectations (e.g., “the team might allocate some exit proceeds to the community”) to an explicit, auditable architecture for ecosystem-level resource allocation, while preserving a non-security token posture.

From a valuation perspective, ERC-S supports modeling tokens as *optionslike instruments* with contingent exposure to the success of the OpCo, subject to the governance and policy detailed under the ERC-S standard. Token value is therefore anchored, not solely in governance rights or speculative anticipation, but in a clearly defined, policy-mediated linkage to economic outcomes.

8. Policy, Regulatory and Market Implications

8.1 Implications for Regulators

Equity–token bifurcation has two dangerous extremes:

1. Tokens that *quietly* behave like unregistered securities, distributing revenue or promising investment returns, without authorization under the SEC or a comparable regulatory authority, and lacking appropriate disclosure or investor protections.
2. Tokens that are heavily marketed as vehicles for "ecosystem ownership" but lack any credible or enforceable link to the underlying project's economic value.

Both cases pose risks to market integrity, investor protection, and legal clarity. ERC-S exemplifies a structured, compliance-oriented framework that addresses these concerns:

- Tokens are explicitly non-equity and non-redemption instruments.
- Corporate equity and token governance are connected through transparent policies, incident tooling, and legal documentation.
- Regulatory exposure is mitigated ex ante through pause-first mechanisms, pre-agreed arbitration venues (e.g., New York–seated), and standardized disclosure frameworks.

By clearly delineating the rights, responsibilities, and contingencies of both equity and token stakeholders, ERC-S can provide a reference model for emerging legislative frameworks that aim to differentiate payment tokens, utility/governance tokens, and investment contracts, while preserving the functional utility of decentralized ecosystems.

8.2 Implications for Founders

Founders designing new protocols face a strategic choice regarding the structuring of equity and token governance:

- Strict bifurcation: Retain all economic value within corporate equity while positioning tokens purely as governance instruments, often accompanied by vague or aspirational narratives.
- Full security-token approach: Register tokens or impose regulatory constraints, treating them as formal, regulated investment instruments.
- Equity-anchored design: Legally anchor equity in an SPV/Foundation while transparently committing to discretionary, token-governed ecosystem resource allocations.

The third path, exemplified by ERC-S, offers several advantages:

- Enhanced community trust: By constraining opportunistic behavior, such as founders extracting private value or engaging in side deals during exits,

the framework fosters confidence in the fairness and predictability of resource allocation.

- Facilitated transactional clarity: Buyers interact with a clearly defined corporate shareholder (the SPV) rather than an ambiguous DAO perimeter, reducing negotiation friction in M&A or other exit events.
- Credible alignment narrative: ERC-S enables founders to articulate a coherent framework connecting corporate performance with ecosystem development, providing assurance to both venture investors and community participants regarding how value flows between equity and token-governed resources.

8.3 Implications for Investors

Venture capital and liquid-token investors can leverage the frameworks outlined in this paper to conduct more rigorous due diligence:

- Capital structure mapping: Identify all entities within the ecosystem, including the operating company, SPV/Foundation, and any token-governed treasuries. Assess ownership of intellectual property, platform interfaces, and financial reserves.
- Trace the value path: Examine the contractual and policy mechanisms that dictate how, if at all, corporate value generated by the OpCo, through exits, secondary sales, or other monetization/liquidity events, may be redirected to token-governed resources.
- Evaluate governance credibility: Evaluate whether formal operational safeguards exist, such as auto-pause mechanisms, status-page reporting, and evidence binders, as opposed to ad hoc or informal governance practices.

Tokens that rely solely on informal narratives of future distributions, without enforceable structures linking corporate success to ecosystem stewardship, should be discounted in valuation models to reflect the heightened uncertainty and governance risk.

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9. Conclusion

The cryptocurrency ecosystem has evolved into a complex interface where sophisticated venture capital, public equity markets, and highly financialized tokens coexist. Despite this maturation, the relationship between corporate equity and tokens remains undefined in many projects, producing recurring misalignments:

- Tokens are often marketed with narratives suggesting equity-like upside, yet their legal entitlements are generally confined to governance rights and platform access.
- Operating companies and foundations capture the bulk of durable cash flows and exit proceeds, whereas community tokens frequently derive

value from speculative expectations rather than structured mechanisms linking token governance to economic outcomes.

This paper has argued that equity and tokens must be analyzed and designed as interdependent components of a single capital structure, rather than as discrete artifacts. Case studies of Uniswap, Ethena, and Axie Infinity illustrate how both subtle and extreme forms of bifurcation can arise, and how they impact different stakeholders.

Existing solutions, such as revenue-sharing tokens, fee switches, and wrapper instruments, partially address these challenges but often introduce additional regulatory, operational, or counterparty risks. In contrast, equity-anchored frameworks like ERC-S provide a structured approach to reconciling these tensions:

- Real equity is anchored in a legally recognized SPV/Foundation, providing a stable reference point for buyers, courts, and regulators.
- A DAO of non-equity tokens governs discretionary resource redeployments from the SPV under well-defined triggers, pause mechanisms, and disclosure protocols.
- Tokens retain a non-security posture while enabling a transparent and auditable linkage between corporate performance and community ecosystem allocations.

For founders, adopting such frameworks can reduce friction in exit scenarios, strengthen community trust, and support more accurate and credible token narratives. For investors and regulators, ERC-S–like structures clarify where value resides, how it flows under stress, and the credibility of governance commitments.

Future research opportunities include:

- Empirical measurement of how ERC-S like structures affect token valuations, volatility, and governance participation.
- Comparative legal studies across jurisdictions examining the enforceability and regulatory treatment of equity-anchored DAO structures.
- Quantitative models that treat equity and tokens as a joint capital stack and calibrate them to real data from projects with and without such standards.[57]

As crypto infrastructure integrates more deeply with traditional finance and public markets, the projects that endure are likely to be those that treat capital structure, governance, and regulatory alignment as primary design imperatives, not just afterthoughts. Aligning equity and tokens is not only good ethics and good politics; it has become a strategic necessity for creating durable, systemically significant crypto institutions.

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[57] Yukun Liu, Jinfei Sheng & Wanyi Wang, Technology and Cryptocurrency Valuation: Evidence from Machine Learning (Jan. 2021), https://www.herbert.miami.edu/_assets/pdfs/faculty-research/business-conferences/machine-learning/jinfei-sheng.pdf.