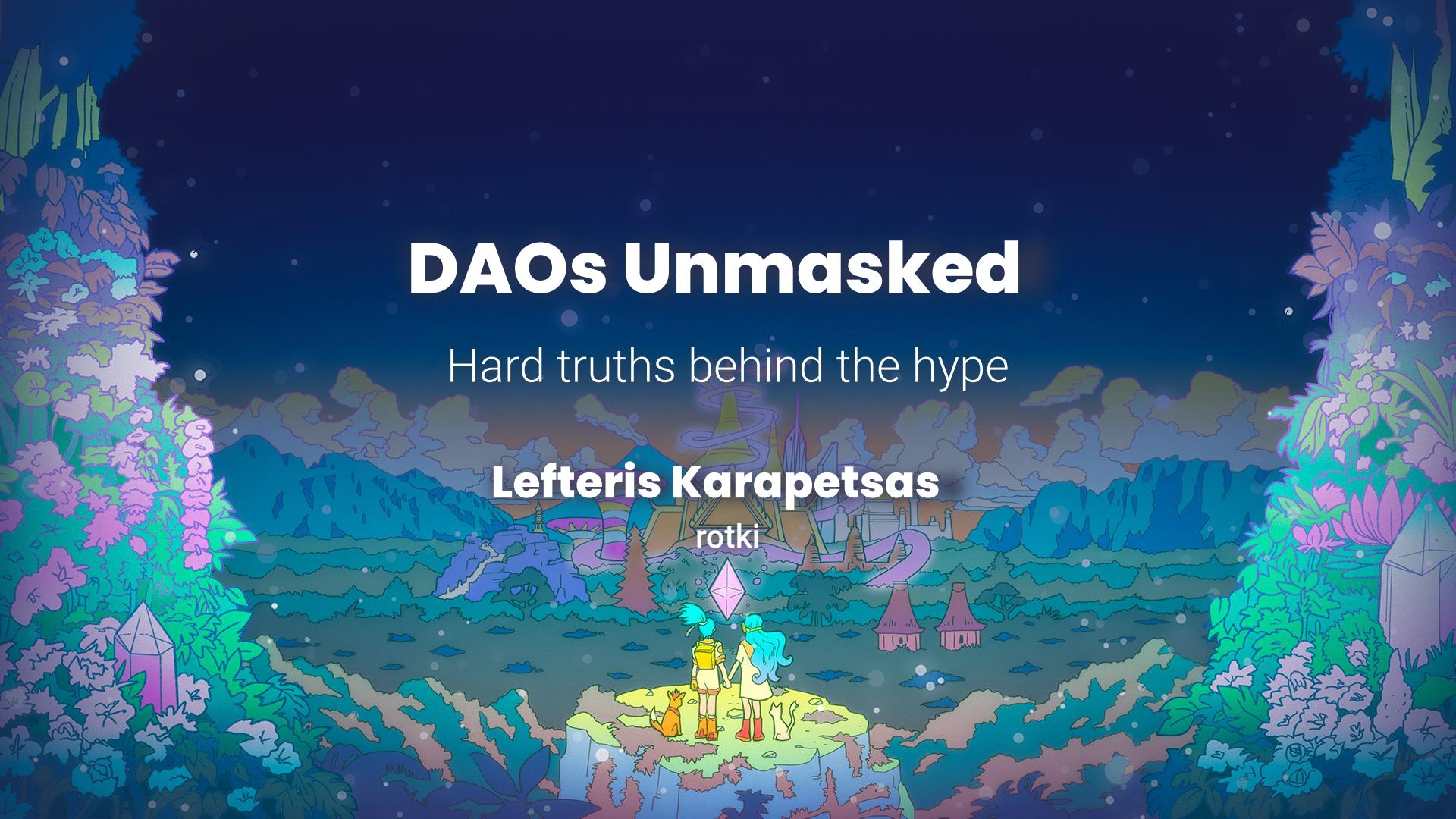


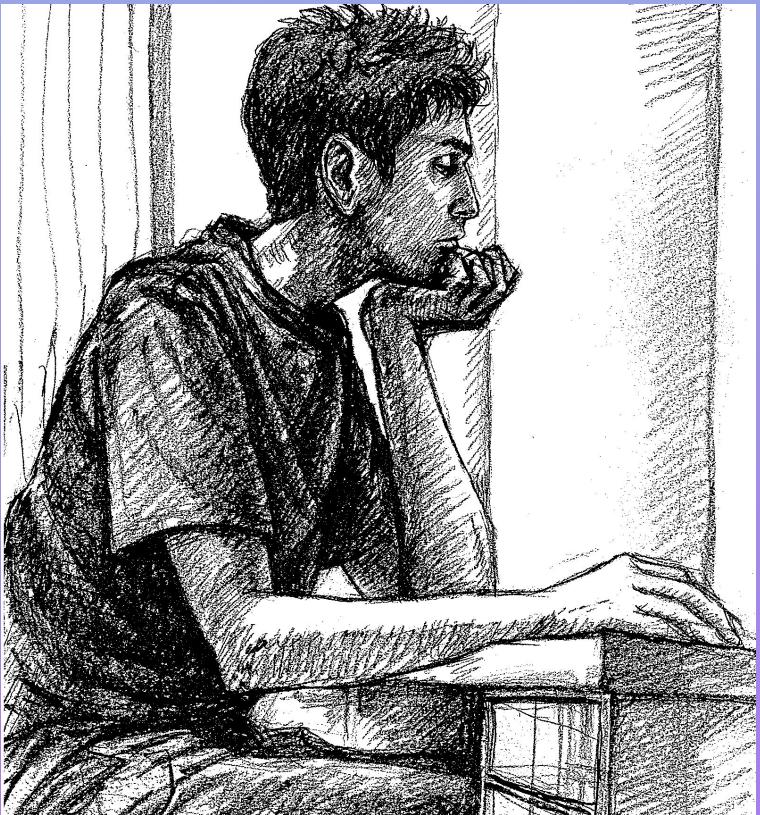
DAOs Unmasked

Hard truths behind the hype

Lefteris Karapetsas

rotki





Lefteris Karapetsas

- ❖ Ethereum dev since 2014
- ❖ Worked on Solidity compiler and C++ ethereum
- ❖ Created and then helped cleanup the DAO
- ❖ Dev lead of the Raiden network
- ❖ Founder of rotki

Section 1

Definitions

What is a DAO?

- ❖ Group chat with a bank account
 - ❖ Crypto co-op
 - ❖ Financial flash mob
 - ❖ Blockchain organization
- Many definitions ...



Benefits of DAOs

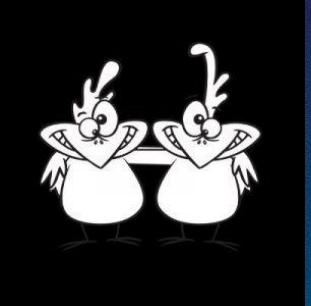
- ❖ Auditability
- ❖ Transparency
- ❖ Ease of use / setup
- ❖ Accessible to everyone worldwide

DAO challenges

- ❖ Coordination
- ❖ Regulatory unclarity
- ❖ Decentralisation theater
- ❖ Participation Incentives

DAO examples

- ❖ The DAO
- ❖ Yearn
- ❖ PleasrDAO
- ❖ ENS
- ❖ Friends With Benefits
- ❖ Optimism
- ❖ Constitution DAO



Section 2

Hard truths 1 – Regulation

DAO deployment liability

Who is liable for what a DAO does?

- ❖ Is it its deployer?
- ❖ Is it the author of the code?
- ❖ Is it the participants?

In the end it may not matter.

After the release of the Framework code version 1.0, multiple DAOs were immediately deployed to the Ethereum Blockchain by several individuals. One address was chosen at random by the community, and the creation of what will be known as “The DAO” began.



DAO deployment liability

Who is liable for what a DAO does?

- ❖ Is it its deployer?
- ❖ Is it the author of the code?
- ❖ Is it the participants?

In the end it does not matter.

On or about April 29, 2016, Slock.it deployed The DAO code on the Ethereum Blockchain, as a set of pre-programmed instructions.¹⁷ This code was to govern how The DAO was to operate.

To promote The DAO, Slock.it's co-founders launched a website ("The DAO Website"). The DAO Website included a description of The DAO's intended purpose: "To blaze a new path in business for the betterment of its members, existing simultaneously nowhere and everywhere and operating solely with the steadfast iron will of unstoppable code."¹⁸ The DAO Website also described how The DAO operated, and included a link through which DAO Tokens could be purchased. The DAO Website also included a link to the White Paper, which provided detailed information about a DAO Entity's structure and its source code and, together with The DAO Website, served as the primary source of promotional materials for The DAO. On The DAO Website and elsewhere, Slock.it represented that The DAO's source code had been reviewed by "one of the world's leading security audit companies" and "no stone was left unturned during those five whole days of security analysis."¹⁹



Working for a DAO

- ❖ Who is your counterparty?
- ❖ You have issued an invoice, right? To whom then?
- ❖ In which jurisdiction is your DAO employer/customer located?
- ❖ Do you need to include any extra taxes, like VAT in EU depending on country of origin of your client?
- ❖ How do you prove all this when questioned?

DAO participation liability

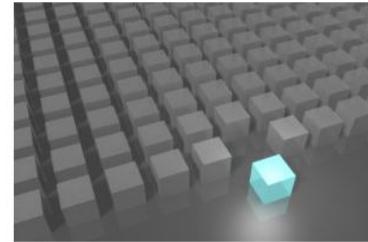
- ❖ If there is legal action against a DAO in which jurisdiction does it take place?
- ❖ Who is responsible?
- ❖ If a DAO is a general partnership is there personal liability?
- ❖ Are token holders responsible?
- ❖ Are governance participants responsible?

The viability of DAO structures draws attention after a judge declares that a decentralized autonomous organization is a “person” under the law.

By Nima H. Mohebbi, Yvette D. Valdez, Stephen P. Wink, Douglas K. Yatter, Peter Trombly*, Adam Zuckerman, and Deric Behar

On June 8, 2023, the US District Court for the Northern District of California **granted** the Commodity Futures Trading Commission (CFTC) a default judgment against Ooki DAO, a decentralized autonomous organization (DAO) that the CFTC **charged** in September 2022 with three violations of the Commodity Exchange Act (CEA).

- Engaging in unlawful off-exchange leveraged retail commodity transactions
- Engaging in activities that can only lawfully be performed by a registered futures commission merchant
- Failing to implement anti-money laundering and know-your-customer procedures.



Ooki DAO did not respond to the CFTC's complaint, and failed to appear in court for any scheduled hearings, a move described in the judgment as "strategic nonparticipation."^[1]

DAO participation liability

- ❖ If there is legal action against a DAO in which jurisdiction does it take place?
- ❖ Who is responsible?
- ❖ If a DAO is a general partnership is there personal liability?
- ❖ Are token holders responsible?
- ❖ Are governance participants responsible?

Judgment

The **judgment** requires the Ooki DAO to pay a civil monetary penalty of \$643,542; orders permanent trading and registration bans and enjoins any further violations of the CEA by the Ooki DAO; and orders the Ooki DAO (as well as any third party providing it with web-hosting or domain-name registration services) to shut down the Ooki DAO's website and remove its content from the internet.

Notably, the court held that the Ooki DAO is a "person" under the CEA and thus can be held liable for violations of the law. The CEA assigns liability to "[a]ny person" that takes particular actions, and defines "person[s]" to include "individuals, associations, partnerships, corporations, and trusts." The CFTC alleged, and the court ultimately agreed, that the Ooki DAO was an unincorporated association under California law and therefore falls within the ambit of the CEA.

Enforcement

How and whether the CFTC will seek to enforce this judgement remains to be seen. The CFTC is expected to first seek to collect the fine from the Ooki DAO itself. This prospect, however, raises a number of interesting questions about how and whether this might occur:

- How will the CFTC coordinate with the DAO to make such a payment?
- Would a token-holder vote be necessary to designate or release assets to make such a payment?



Jurisdiction and taxes

- ❖ DAOs operate and the legality of actions (or inaction) depends on jurisdiction
- ❖ DAOs make money. That money is not taxed. Where and how do they pay taxes?
- ❖ DAOs interact with physical people and orgs. How do they do AML?
- ❖ The big question: Which jurisdiction does a DAO fall under?

Section 3

Hard truths 2 - Decentralization Theater

**Most DAOs
today are
not ... DAOs**



Discord Administered Organizations

How to make a DAO?

- ❖ Create a discord server.
- ❖ Deploy a 4/7 multisig.
- ❖ Deploy a token. Multisig is the owner
- ❖ You (and maybe a friend or 2?) own all 7 signing addresses.
- ❖ “Give it to the community”

Double dipping

Why not create a second organization, a “DAO” and raise 2 rounds?

- ❖ Two different cap tables!
- ❖ Raise double amount of money for the same thing!
- ❖ Promise nothing, have retail invest due to proximity to your product/brand.
- ❖ VC investors to the original company now have exit liquidity



REGULATIONS SIDESTEPPING LESSON



JUST DAO IT!

Regulation avoidance

- ❖ Worry about liabilities?
- ❖ Pesky regulations?
- ❖ Taxes?
- ❖ Legal questions?
- ❖ AML/KYC

The solution is simple. Just DAO it! (with a British Virgin islands foundation)

Attract “Governance” participants

You can legitimize your “DAO” by attracting governance participants.

- ❖ Airdrop “responsibility” to your users
- ❖ Ask well known people to be delegates!
- ❖ Make it look like they are deciding
- ❖ In truth you plan and execute everything, they rubber stamp.

IT'S DAO GOVERNANCE



ALL THE WAY DOWN

"DAO LABS LLC" FOUNDER'S FRIENDS



imgflip.com

Plutocracy & Centralization

- ❖ Token voting -- iow plutocracy
- ❖ Most tokens held by founder
- ❖ Or by investors or founder's friends
- ❖ Decisions are centralized
- ❖ Founders split delegation to friends/employees to appear decentralized

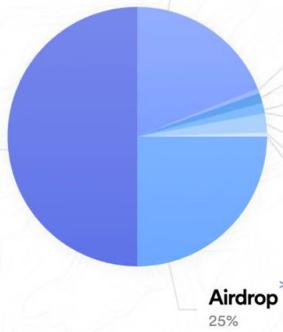
Case studies

- ❖ ENS
- ❖ MakerDAO
- ❖ Optimism



Distribution

Community Treasury
50%



ENS

- ❖ 25% (25m \$ENS) was allocated to core contributors, ecosystem partners, and community members
- ❖ 25% (25m \$ENS) was available to be claimed as an airdrop
- ❖ 50% (50m \$ENS) was distributed to the DAO's treasury.

ENS Foundation

- ❖ Cayman islands non-profit
- ❖ Represents the DAO in the real world
- ❖ Directors appointed by DAO governance

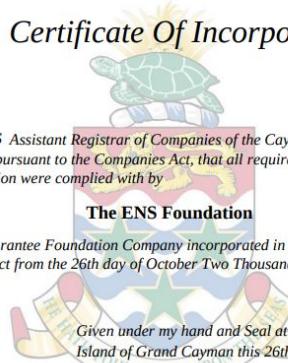
WC-382554

Certificate Of Incorporation

I, MELANIE E. RIVERS Assistant Registrar of Companies of the Cayman Islands DO HEREBY CERTIFY, pursuant to the Companies Act, that all requirements of the said Act in respect of registration were complied with by

The ENS Foundation

an Exempted Limited Guarantee Foundation Company incorporated in the Cayman Islands with Limited Liability with effect from the 26th day of October Two Thousand Twenty-One



Given under my hand and Seal at George Town in the Island of Grand Cayman this 26th day of October Two Thousand Twenty-One

A handwritten signature in black ink, appearing to read "M.E.R." or "Melanie E. Rivers".

Assistant Registrar of Companies,
Cayman Islands.

ENS Foundation

- ❖ Provides limited liability to DAO participants for the actions of the DAO. Without it, DAO participants may be individually held liable
- ❖ Capable of complying with taxation requirements. Without it DAO participants may be held liable for a proportion of the DAO's income
- ❖ Capable of entering into contracts with other "real world" entities, of holding assets (including IP rights), and so forth.

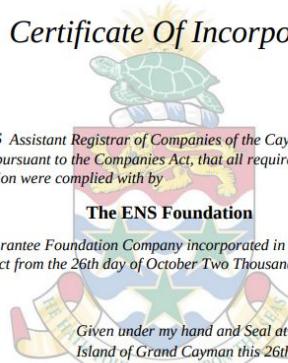
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Assistant Registrar of Companies,
Cayman Islands.



About Team Jobs

About ENS Labs Ltd

Founded in 2018, ENS Labs Ltd is a Singapore-based non-profit organisation and is responsible for the core software development of the Ethereum Name Service (ENS). This includes the ENS app, open source libraries, and core smart contracts.

ENS Labs

- ❖ For-profit company
- ❖ Develops and maintains the protocol
- ❖ Consists of the founding team and most ENS affiliated people

ENS Governance

- ❖ Dominated by big delegates
- ❖ Has a security council
- ❖ Treasury managed by Karpatkey
- ❖ All proposals executed onchain.
- ❖ The DAO does indeed have control.
- ❖ ENS labs has strong presence in the DAO

Delegates

Rank	Delegate	Votes	Actions
1	veto.ensdao.eth	4.39M	Delegate
2	coinbase.eth	180.61K	Delegate
3	Fire Eyes DAO	180.37K	Delegate
4	scratch.ricmoo.eth	138.51K	Delegate
5	Lefteris Karapetsas ...	135.97K	Delegate
6	5pence.eth	134.63K	Delegate
7	Griff Green 🌱💡❤️	127.78K	Delegate
8	nick.eth	127.71K	Delegate
9	brantly.eth	123.19K	Delegate
10	imtoken.eth	116.84K	Delegate

Who are the delegates?

Delegates create and vote on proposals. Token holders can update their delegate at any time.

Learn more ↗

Top Delegates

Total Supply 100M

Delegated Tokens 8.24M

Quorum 1M

Proposal Threshold 100K

Delegate	Percentage
veto.ensdao.eth	4.3%
coinbase.eth	0.1%
Fire Eyes DAO	0.1%
scratch.ricmoo.eth	0.1%
Lefteris Karapetsas Hiring for @rotkiapp	0.1%



**Kind of a DAO,
Has issues,
but Sufficiently
decentralized**

Maker DAO



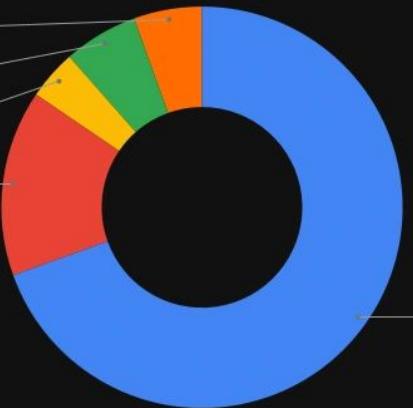
MakerDAO

- ❖ Founded in 2015 by Rune Christiansen who made the maker foundation to develop the protocol
- ❖ Same year the MKR token was launched and along with it the DAO (developed by the foundation)
- ❖ In 2017 SAI was launched
- ❖ In 2019 MC-DAI was launched
- ❖ In 2021 foundation is dissolved by Rune
- ❖ In 2022 he comes back in force to lead the DAO to the "endgame"
- ❖ In 2024 he pushes the rebrand to sky and then regrets it

MKR Allocation

Seed Round 3
5.5%
Seed Round 2
6.0%
Seed Round 1
4.0%

Team
15.0%



MakerDAO

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MakerDAO

- ❖ Rune is essential to MakerDAO (now Sky)
- ❖ He takes on everything to himself
- ❖ There is “DAO governance” but it’s not a DAO and it’s not governance
- ❖ Rune does all the planning and holds the vision
- ❖ Rune owns the most MKR and delegates it to people he trusts and will do what he asks
- ❖ Delegates are paid by how much they have delegated so they are incentivized to do what rune says.



**Can Maker's Rune
Christensen Fix the Sad
State of DAO
Governance?
- Ep. 534**

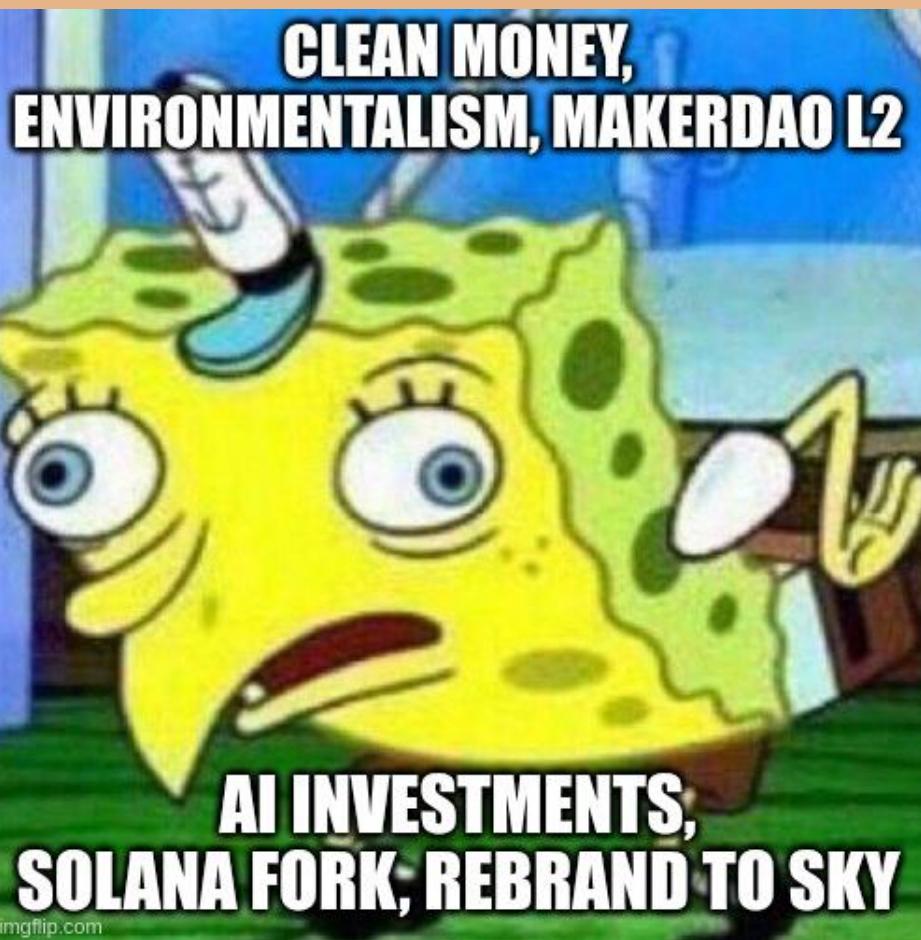
Rune Christensen

MakerDAO

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Voting By Address

ADDRESS	OPTION	VOTE %	MKR	VERIFY
 Cloaky	Yes	24.3%	18,012 MKR	 Arbiscan ↗
 JuliaChang	Yes	20.2%	15,000 MKR	 Arbiscan ↗
 vigilant	Yes	20.0%	14,800 MKR	 Arbiscan ↗
 BONAPUBLICA	Yes	19.4%	14,404 MKR	 Arbiscan ↗
 Byteron	Yes	11.9%	8,851 MKR	 Arbiscan ↗
 0x593c4..5bb5	Yes	2.2%	1,603 MKR	Etherscan ↗
 PBG	Yes	1.2%	900.78 MKR	 Arbiscan ↗
 UPMaker	Yes	0.7%	500.0 MKR	 Arbiscan ↗
 Shadow Delegate	Yes	0.0%	33.05 MKR	 Arbiscan ↗
 Shadow Delegate	Yes	0.0%	5.46 MKR	 Arbiscan ↗
 Skynet	Yes	0.0%	3.64 MKR	 Arbiscan ↗
 0x03c82..8a8c	Yes	0.0%	2.05 MKR	 Arbiscan ↗
 0x70134..1774	Yes	0.0%	1.17 MKR	 Arbiscan ↗
 dapriddle.eth	Yes	0.0%	0.13 MKR	 Arbiscan ↗

A meme featuring SpongeBob SquarePants looking shocked and sweating. The text "CLEAN MONEY, ENVIRONMENTALISM, MAKERDAO L2" is overlaid at the top, and "AI INVESTMENTS, SOLANA FORK, REBRAND TO SKY" is overlaid at the bottom.

**CLEAN MONEY,
ENVIRONMENTALISM, MAKERDAO L2**

**AI INVESTMENTS,
SOLANA FORK, REBRAND TO SKY**

Rune“Dao”

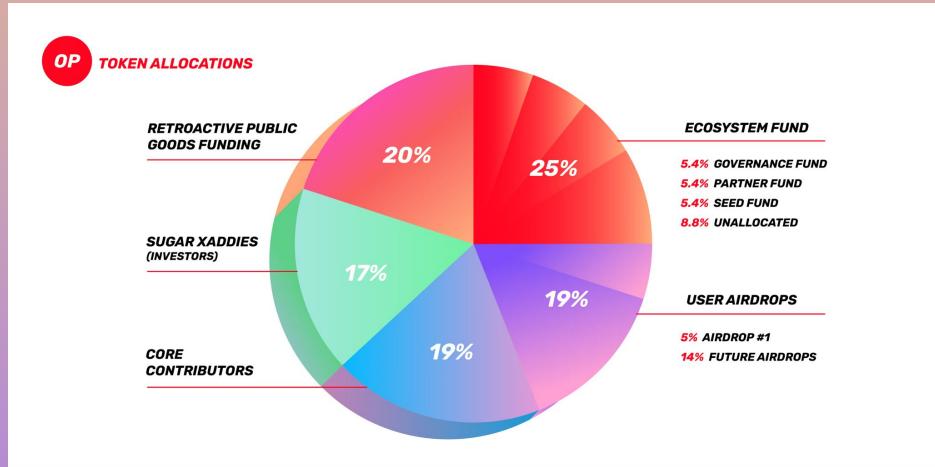
- ❖ Says delegates should only be anons due to fears of physical safety.
- ❖ Talks about the collapse of industrial society and how Maker can save it via renewable energy
- ❖ Decides to and executes a ~\$50m rebrand from Maker/DAI to Sky/USDS
- ❖ Within a week regrets it and asks the community (which abandoned the project long time ago) for paths to revert the rebrand



No idea what that is.
Definitely not a DAO
Perhaps a cult?

Optimism

- ❖ DAO launched April 2022
- ❖ Kept part for RPGF, later changed to RF
- ❖ Partner fund managed by foundation.
- ❖ Investors and team also got a big allocation





Optimism Foundation

- ❖ Cayman Islands entity foundation
- ❖ Allows the DAO to interact with real world entities
- ❖ Stewards the evolution of the collective Governance
- ❖ Has 4 years mandate but hopes to decentralize before that

Governance

- ❖ Bi-cameral governance. Token house + Citizen house
- ❖ Big name and active delegates
- ❖ Quite well organized in seasons and committees
- ❖ Neither house owns governance or token. Just signals and foundation executes.

The image displays a grid of 12 cards, each representing an active delegate on a blockchain governance platform. Each card includes the delegate's profile picture, address, OP balance, a short bio, and a 'Delegate' button.

- 0x3e...1466** (10.96M OP): "The Anticapture Commission (ACC) is a key tokenholder group, mandated to..."
- delegate.l2beat.eth** (6.327M OP): "Intro to L2Beat L2BEAT is an independent, public goods company who..."
- 0xf1...c06b** (5.216M OP): (No bio provided)
- 0xef...71f1** (5.02M OP): (No bio provided)
- delegate.testinprod-io.eth** (4.679M OP): "Test in Prod is a core development team of Optimism Collective. TIP has been an acti..."
- mattgov.eth** (4.678M OP): "Optimism and the Superchain will help to bring many new users and protocols to..."
- olimpio.eth** (3.532M OP): "As a strong believer in the power of decentralization and the importance of..."
- lindaxie.eth** (3.374M OP): "I want to further support the important work that Optimism is doing on scaling. I'm also..."
Note: This voter has stepped down. If you are currently delegated to them, please select a new voter.
- polynya.eth** (3.201M OP): "Update: It's now been over a year, and I've enjoyed my time as an active delegate. I've..."
- lefteris.eth** (3.037M OP): "I have considerable experience on DAO governance, being an active delegate in 2..."
- gfxlabs.eth** (2.281M OP): "We look forward to leveraging our learnings from other protocols and the deep..."
- jackanorak.eth** (1.974M OP): "Delegates have a primary job: direct Optimism's capacity to support the..."



Superchain

- ❖ Collective of chains building on the OP-stack
- ❖ Examples are: Optimism, Base, Ink, Zora, Unichain etc.
- ❖ Completely negotiated by the foundation and paid for by the partners fund
- ❖ Idea is to create a network of interoperable layer 2s

R(PG)F

- ❖ Originally envisioned as a way to direct sequencer fees towards public goods
- ❖ Each superchain sequencer is required to direct % towards it
- ❖ In reality almost all of it comes from the initial 20% allocation for PGF
- ❖ Decision of the process/es lies completely with the foundation





Decentralization Theater

- ❖ The DAO does not own anything
- ❖ Governance is simply rubber stamping suggestions by the foundation
- ❖ Onchain transactions are executed by the foundation
- ❖ Governance structure is suggested by the foundation
- ❖ RPGF structure, change to RF, rules and everything is decided by the foundation
- ❖ There are promises of decentralization but it takes forever.



OP

That is a well run company
Not a DAO

Section 4

Is it all bull... ?



Constitution DAO

- ❖ Bunch of people teamed up in November 2021.
- ❖ Original copy of the US constitution was on sale.
- ❖ They wanted to collectively own it
- ❖ Raised \$47m in ETH
- ❖ Lost to a \$43.2m bid
- ❖ Disbanded and issued refunds

Yearn

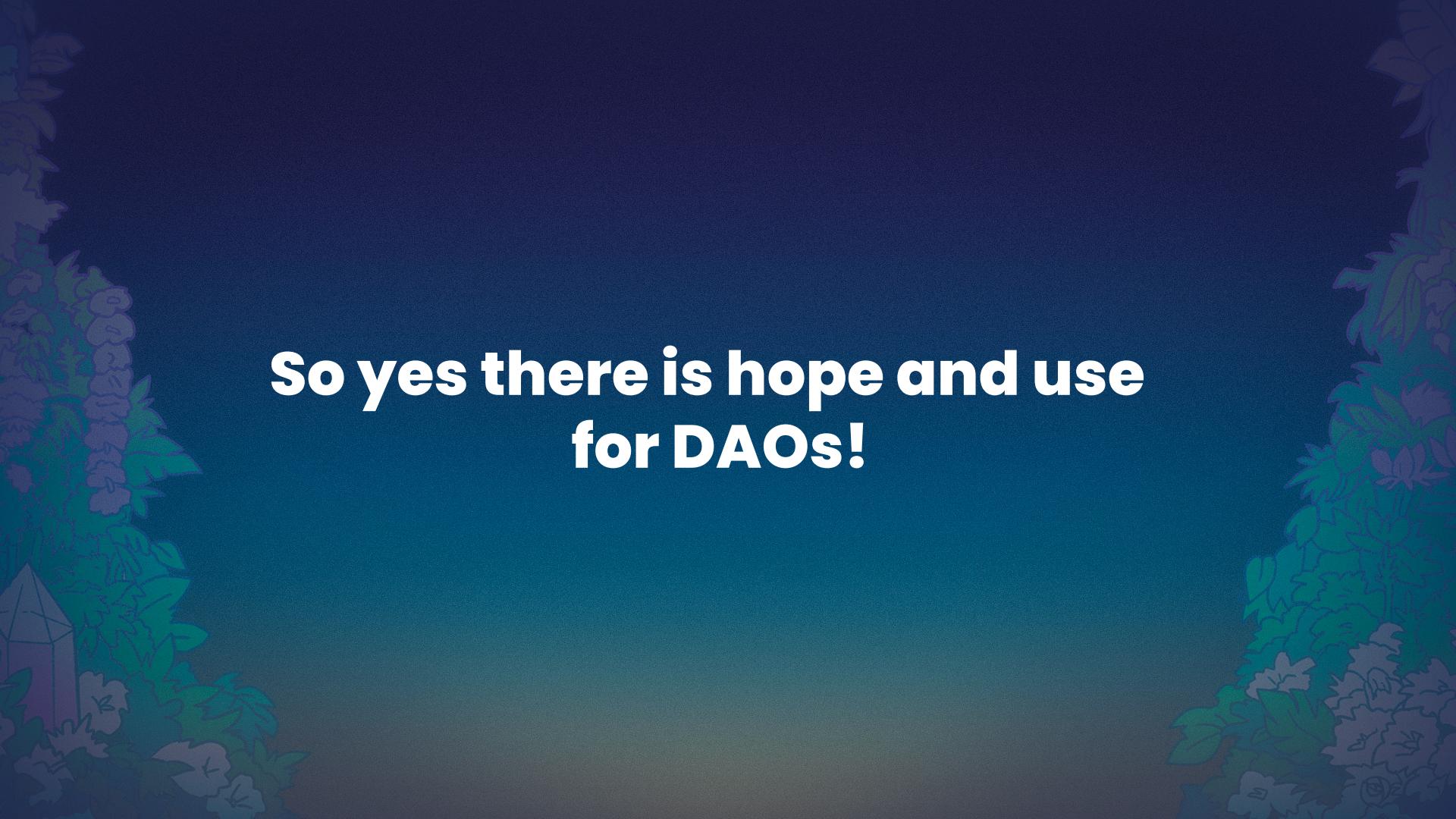
- ❖ Collection of Defi smart contracts deployed in 2020
- ❖ Token deployed via fair launch at the same time. Equal opportunity for all users to get it (including founders)
- ❖ Minimal governance, all focused on improving the protocol via YIPs
- ❖ Just a small team building awesome stuff





Moloch DAO

- ❖ Bunch of people banding together to pull funds for ethereum ecosystem grants
- ❖ Summoned 14/02/2019 by Ameen Soleimani
- ❖ Gave over \$1.4m in ecosystem grants
- ❖ Recipients include projects like flashbots, trueblocks, ethereum cat herders and more
- ❖ Members coordinate on what to fund and make collective decisions
- ❖ Open Source code and simple mechanism of rage quitting ensures fairness



**So yes there is hope and use
for DAOs!**

Take-home messages

A DAO is not:

- A company
- A way for you to shift liability to your users
- A way for you to avoid regulations
- A theatrical stage to pretend you are decentralized
- A way to lure community participants to your project with fake promises

A DAO is:

- A quick way to band together for a cause
- A way to coordinate in a permissionless manner
- Not necessarily forever

Thank you!

Lefteris Karapetsas

Founder @ rotki

lefteris@rotki.com

[@lefterisjp](https://twitter.com/lefterisjp)