

CIP:

title: Establishing a Legal Defense Reserve.

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## Simple Summary

This CIP proposes establishing a Legal Defense Reserve that will accrue value up to 5 million USD in stablecoins. The reserve will function as a self-insurance to fund the defense or prosecution of legal processes and proceedings of CoW DAO and its contributors directly related to activities of CoW DAO.

## Motivation

Self-insurance is a widely recognized risk management technique where funds are set aside to cover potential future expenses, acting as a tool for retaining and managing risks. It is especially useful for novel or complex risks that traditional insurance cannot cover or as a complement to existing insurance.

Since DAOs like CoW DAO are new organizational structures, CoW DAO and its contributors may face novel legal risks. Establishing this Legal Defense Reserve will help protect CoW DAO and its contributors.

## Specification

### I - Legal Defense Framework

#### 1. Scope and Eligibility

The Legal Defense Reserve is designed to cover legal defense expenses incurred by CoW DAO and its contributors in cases of legal or regulatory actions directly related to their activities within the DAO.

For the purposes of this reserve, a 'contributor' refers to any individual or entity that directly or indirectly contributes to the operations, governance, objectives, or ecosystem of the CoW DAO. This includes, but is not limited to:

##### 1. Direct Contributors

: Those directly involved in the DAO's operations, governance, and decision-making processes, such as token holders actively participating in governance by submitting proposal and engaging on a frequent basis in discussion related to DAO's operations and activities, developers and service providers working on the DAO's codebase and/or directly supporting CoW DAO's operations.

##### 1. Indirect Contributors

: Individuals or entities that contribute to or support the DAO's objectives and ecosystem without directly participating in its operations or governance through Direct Contributors service providers.

Funds from the Legal Defense Reserve will be allocated, where appropriate, specifically for legal defense, prosecution and representation purposes of CoW DAO and its contributors.

#### 1. Claim Process

##### a. Claim by Contributors

- Contributors will cover their own legal expenses initially and, if eligible, can submit a claim to the Legal Defense Reserve for reimbursement.
- Claims must include supporting documentation and will be submitted to the Committee.
- All claims will be reviewed and verified by the Committee.

i. The Committee will assess eligibility, evaluate supportive documentation, and issue a reasoned decision within ten (10) working days.

ii. In the event the claim is approved the Committee will execute payouts or request additional information if needed.

- By way of exception, if the estimated initial costs or payment on account for the legal defense of the contributor exceed USD 10,000, the Committee may, based on a written fee estimate from a law firm in good standing, with a recognized reputation for expertise in the required field, and with all supporting documentation, agree to initially cover such costs.

## **b. Claim by CoW DAO**

In the event that CoW DAO, as a collective entity, faces legal challenges or regulatory actions directly related to its operations, governance, or ecosystem, the Legal Defense Reserve Committee may allocate funds for the DAO's defense.

- The Committee will assess the nature and scope of the legal challenge affecting CoW DAO.
- If deemed necessary for the protection of the DAO's interests, operations, or members as a whole, the Committee may approve the allocation of funds from the Legal Defense Reserve.
- Such allocations will follow a process similar to that outlined for individual contributor claims, including:

i. Submission of supporting documentation detailing the legal challenge and proposed defense strategy.

ii. Review and verification by the Committee within ten (10) working days.

iii. Approval of fund allocation based on a reasoned decision by the Committee.

- Funds allocated for DAO defense will be managed by the Committee and disbursed directly to approved legal representatives or service providers.
- The Committee will provide regular updates to DAO members on the use of funds for collective defense, ensuring transparency while maintaining necessary legal confidentiality.

## **• Legal Defense Reserve Committee**

The Defense Reserve Committee (the "Committee") will consist of CoW DAO multisig signers, as well as the risks and the legal functions signers.

This Committee will be structured as a Safe multisig wallet that requires approval from at least 3 out of the 7 (3/7) of the signers for any transaction.

The Members of CoW DAO multisig are:

- 0x (to be completed before phase 2)
- 0x (to be completed before phase 2)
- 0x (to be completed before phase 2)
- 0x (to be completed before phase 2)
- 0x (to be completed before phase 2)

The Risk function is:

- 0x (to be completed before phase 2)

The Legal function is:

- 0x (to be completed before phase 2)

# **II - Reserve Establishment and Management**

## **1. The Reserve**

The Legal Defense Reserve shall be a Safe multisig wallet that requires approval from at least one-third (1/3) of the signers for any transaction.

The signers controlling this multisig will be the Legal Defense Reserve Committee Safe, the CoW DAO Treasury Safe, and the CoW DAO Safe.

## **1. Accruing Funds**

2. The Legal Defense Reserve will accrue value through periodic contributions from CoW DAO's treasury or other revenue sources until it reaches a total of 5 million USD.

3. Contributions will occur weekly or monthly, and the multisig signers will approve each installment to ensure gradual accumulation and transparency.
4. Contributions will be based on 20% of accumulated revenue from all CoW DAO products, which should be streamed to the Defense Reserve as they are received.
5. CoW DAO reserves the right to add any amount to the reserve at any time to meet the targeted amount.
6. Once the total amount of 5 million USD is reached, periodic contributions will cease.
7. If a claim is approved and a payment is made from the reserve, periodic contributions will resume until the reserve again reaches the total amount of 5 million USD.

## 8. Fund Management

9. The Treasury is authorised to passively invest assets up to 90% of the Reserve in yield farming protocols, being acceptable the usage of other treasury safes for pursuing said activities.

# Rational

1. From the Perspective of the DAO

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- Legal Protection: Shielding against lawsuits and ensuring regulatory compliance.
- Operational Continuity: Ensuring uninterrupted operations during legal challenges.
- Member Assurance: Building trust and mitigating perceived risks among contributors.
- Asset Protection: Safeguarding the DAO's treasury from being depleted by legal costs.
- From the Perspective of Contributors

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- Personal Liability Protection: Reducing individual liability concerns and boosting confidence in participation.
- Community Stability: Providing collective assurance and promoting a secure, stable environment.
- Overall Strategic Benefits

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- Attracting High-Quality Contributors: Drawing in skilled and experienced participants.
- Competitive Advantage: Enhancing the DAO's reputation and reliability.
- Resilience and Adaptability: Preparing the DAO to handle changes despite regulatory uncertainty.

# Execution

- Mandate the Core Team and Treasury team to redirect 20% of CoW DAO revenue to the build up of the Defense Reserve at 0x (to be completed before phase 2).
- Mandate the Treasury team to passively invest assets up to 90% of the Reserve in yield farming protocols, being acceptable the usage of other treasury safes for pursuing said activities.
- Mandate the Committee as decision makers for this Reserve until liquidation.