

Introduction

Messari's mission is to bring transparency to the crypto-economy. As such, we have developed many [existing solutions](#) for transparency and are constantly discussing new ones. As DAOs continue to adopt legal wrappers to conduct their operations, Messari has observed that many token-holders and investors feel these entities should uphold greater financial and operational transparency standards for the DAOs they serve. In an unregulated world, transparency is paramount.

Per the Arbitrum constitution, the Arbitrum DAO is responsible for governing the Arbitrum Foundation. As such, many stakeholders feel that the Foundation is obliged to provide transparency and accountability to its stakeholders. We were excited to see the community ratify the establishment of the Foundation in [AIP 1.1](#) and applaud the expansive transparency provided by the Arbitrum Foundation. We also heard some community concerns regarding transparency standards and the initial [transparency report](#).

Arbitrum has the unique opportunity to set industry standards for transparency and reporting in DAO-governed Foundations. This forum post aims to initiate this discussion. We invite any community member, delegates, and the Foundation to express their interest in finding a collaborative solution. We are happy to coordinate among parties and provide regular updates here over the next few weeks. This exercise is meant to allow the Foundation to communicate its continued alignment to serve the Arbitrum community while respecting its sovereignty as an independent entity.

Below are some general observations, considerations, and recommendations on where the DAO might start. These are directional ideas that we expect to change as we canvas the community and the Foundation to find an optimal transparency solution:

Exploring Foundation Transparency Standards

AIP 1.1 commits the Foundation to publish semi-annual progress reports and a comprehensive annual report. The reports aim to achieve the following objectives:

[Proposal: AIP-1.1 - Lockup, Budget, Transparency](#)

better understanding of the Foundation's expenditures, balance sheet and its pursuit of ecosystem growth opportunities alongside partnership developments, as well as the various internal and external committees and stakeholders that are involved in the decision making process.

[Proposal: AIP-1.1 - Lockup, Budget, Transparency](#)

provide the community with a better understanding of the Foundation's expenditures, balance sheet and its pursuit of ecosystem growth opportunities alongside partnership developments, as well as the various internal and external committees and stakeholders that are involved in the decision making process.

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a breakdown of operational costs incurred while running the Foundation, including infrastructure spending for the Arbitrum chains, events, community building efforts, grants, etc.

Operational Disclosures

The Foundation kindly offered to provide insight into operational expenditures. It is important for the DAO and the Foundation to be aligned on the expected deliverables. Some suggestions:

- Governance and Decision-making:
- Composition and structure of the Foundation's internal committees, and management and disclosure of the Foundation's organizational structure. This could include the number of employees, roles, and responsibilities.
- Conflict of interest policies and procedures that ensure transparency and fairness and hold violators accountable.
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- Strategy and Objectives:
- The Foundation's mission, vision, strategic priorities, and progress towards achieving them.
- Key performance indicators (KPIs) to measure the Foundation's success and the outcomes of its initiatives (see [Uniswap Foundation](#)).
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- Statement of Functional Expenses:
 - Classification of expenses by function (e.g., infrastructure spending, events, community building, etc.). The goal here is to help the community understand how resources are being allocated to achieve strategic goals. Nonprofits and NGOs often provide similar disclosures.
 - An overview of projects, initiatives, and grants supported by the Foundation, including their objectives, budgets, timelines, and status.
 - Outcomes and assessments for completed projects, initiatives, and grants (see [LEGO Quarterly Reporting](#) and [Transaction Disclosure](#), [Osmosis Grants Reporting](#)).
 - The criteria and process for grant evaluation and awards.
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Financial Disclosures

The Foundation has committed to providing insight into its financials. Establishing explicit deliverables between the DAO and Foundation might help set expectations for the annual report.

For example, an annual disclosure could include:

- Balance Sheet.
- Income Statement.
- Cash Flow Statements.

Final Considerations and Concerns

Ultimately, the DAO should respect the Foundation's autonomy, and the Foundation should respect the DAO's need for transparency, especially considering the controversies surrounding [AIP 1](#).

Open-Source Standards

: The DAO could start by observing the disclosures of Foundations that support similar open-source software projects ([Python Software Foundation](#), [Ethereum Foundation](#)). While Foundations encompass many legal entities and varying standards, they represent similar objectives. Both the Foundation and the DAO may find that reviewing existing precedents inform the standards that these annual reports adopt.

Return on Financial Investment

: The costs and resources associated with implementing and maintaining reporting, especially for a new organization like the Arbitrum Foundation, could be considerable. We'd argue that the return on these types of reporting is invaluable to the DAO and community. If the Foundation has significant reservations, one alternative could be to initially adopt a simplified financial reporting framework and transition to full compliance as the Foundation matures.

Operational Disclosures

: The DAO understands that a reluctance from the Foundation's perspective might be the disclosure of strategic and organizational data. We believe these types of reports can be generated while acknowledging potential sensitivities.

Third-Party Audits

: Should discrepancies arise, the DAO could request the right to implement a third-party audit, it also may be the Foundation's preferred route to engage external auditors to perform annual audits proactively, irrespective of any perceived negligence.

Cadence

: Some community members expressed that a quarterly disclosure cadence would be more appropriate than an annual/semi-annual cadence. A compromise could be detailed financial disclosures annually and quarterly Function Expense disclosures.

Budget Forecasting

: Many DAO Foundations have provided transparency around their financial expenses and forecasted expenditures ([Balancer Foundation](#), [Uniswap Foundation](#)).

Next Steps

- Facilitate healthy community discourse around transparency standards.
- Collect and summarize feedback from the community, delegates, and the Arbitrum Foundation.
- Collaborate with the Arbitrum Foundation and stakeholders of the Arbitrum DAO to articulate clear guidelines and deliverables and establish formal transparency standards.