NAVIGATING A NEW FRONTIER: THE LEGAL STATUS OF DAOS AND THE CHALLENGES OF DECENTRALIZED GOVERNANCE

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Abstract

This paper examines Decentralized Autonomous Organizations (DAOs) through a philosophical lens, specifically focusing on the need for legal recognition and the ensuing difficulties. We explore the concept of legal personhood, questioning whether DAOs, governed by code rather than human actors, can qualify as legal entities. The paper delves into legal theories of rights, comparing the Hohfeldian framework (focusing on legal powers and duties) with the interest theory of rights (emphasizing protected interests). This analysis helps us understand how legal recognition can ensure DAOs operate within established frameworks while protecting the interests of stakeholders. Moving beyond theory, the paper then presents real-world applications of DAOs. We examine how these organizations are fostering innovation in areas like venture capital, philanthropy, and community governance. However, the lack of legal recognition creates significant hurdles. Difficulties arise in areas like liability limitations. Who is accountable if a DAO makes a mistake? Furthermore, token-related rights remain ambiguous. Does token ownership translate into legal ownership of assets? The jurisdictional maze poses another challenge. DAOs, by their nature, are often global entities. Determining which legal jurisdiction applies to their operations can be a complex and uncertain process. This research relies heavily on an empirical methodology. We analyze existing DAO projects, case studies, and legal opinions to understand the practical challenges faced. This empirical approach allows us to identify recurring issues and develop a framework for addressing them. The paper concludes by calling for a nuanced discussion on legal recognition for DAOs. While recognition offers advantages, it also necessitates establishing clear guidelines around liability, token rights, and jurisdictional oversight. By reconciling philosophical concepts with real-world applications, this paper aims to pave the way for a future where DAOs thrive within a secure and efficient legal framework.

Keywords: Decentralized autonomous organization, legal status, DOA, Philosophy, Jurisdiction issue.

Introduction

The digital landscape is witnessing a paradigm shift with the emergence of Decentralized Autonomous Organizations (DAOs). These novel entities operate on blockchain technology, eschewing traditional hierarchical structures and central authorities. This paper delves into the revolutionary potential of DAOs, their diverse applications, and the challenges they face in achieving widespread adoption.

DAOs leverage smart contracts, self-executing code on a blockchain, to automate decision-making and governance. This fosters a transparent and community-driven approach, empowering members to propose and vote on proposals using cryptocurrency tokens. This groundbreaking approach holds immense promise across various sectors. From fostering innovation in Decentralized Finance (DeFi) to facilitating collaborative creation in artistic communities, DAOs disrupt traditional models by offering a more inclusive and democratic framework for collaboration.

However, the very foundation of DAOs - their decentralized nature - presents a formidable challenge: the lack of a clear legal framework. Across the globe, legal systems grapple with how to classify and regulate these entities. Questions around liability, taxation, and regulatory compliance remain largely unanswered. This ambiguity creates uncertainty for potential members and hinders the mainstream adoption of DAOs.

This paper focuses on the intricate legal labyrinth surrounding DAO governance. It explores the challenges posed by the absence of a recognized legal status for DAOs. Current legal frameworks often struggle to accommodate the unique characteristics of these organizations. For instance, how do we attribute liability in a DAO where decisions are made collectively? Can DAOs be classified as traditional legal entities like corporations or LLCs?

The paper then delves into potential solutions for tackling the legal status of DAOs. It examines ongoing efforts by governments and regulatory bodies to develop frameworks for DAOs.

Additionally, it explores how the DAO community itself is innovating solutions, such as the creation of novel legal structures specifically designed for DAOs.

By critically analyzing these challenges and potential solutions, this paper aims to contribute to the ongoing conversation surrounding DAOs. As this groundbreaking technology continues to evolve, a clear legal framework is essential to unlock its full potential and ensure its responsible integration into the global economic landscape.

Decentralized Autonomous Organizations

Imagine a digital agreement that automatically executes when predefined conditions are met. That's the essence of a smart contract: self-verifying code stored on a blockchain, ensuring trust and transparency.Decentralized Autonomous Organizations (DAOs) leverage this power. DAOs are internet-native communities without central authority. Smart contracts act as their rulebook, automating decision-making and treasury management based on community voting.

Think of a DAO as a club with a self-executing constitution written in code. Members, holding governance tokens, vote on proposals. The smart contract then facilitates actions based on the majority's decision, removing the need for intermediaries.This synergy between smart contracts and DAOs fosters a new governance model: transparent, community-driven, and potentially revolutionary for various applications.

Smart contracts are like self-executing computer programs that can automatically perform certain actions when specific conditions are met. They can also hold funds and assets, making them capable of managing money on their own. When these smart contracts are combined in various ways, they can create complex systems that operate without much human intervention. These systems, known as Decentralized Autonomous Organizations (DAOs), are essentially organizations run by people but managed largely by automated processes. VitalikButerin, a prominent figure in the cryptocurrency space, distinguishes DAOs from other types of organizations by highlighting that in DAOs, automation is at the core of their operation, while human involvement tends to be more on the periphery or edges. In essence, DAOs are like digital entities that can handle tasks and finances on their own, with people overseeing but not necessarily directly controlling every aspect of their operation.[1]

In simpler terms, there's another way to categorize DAOs, which involves distinguishing between algorithmic and participatory types. Algorithmic DAOs rely heavily on automated processes, to the point where they could almost be considered artificial intelligence (AI) systems, especially since the term "organization" typically suggests some form of human involvement. On the other hand, participatory DAOs involve more direct human participation in decision-making and operation. Now, having understood these distinctions, let's break down what the name "Decentralized Autonomous Organizations" actually means. "Decentralized" means that these organizations don't have a central authority controlling everything; instead, they operate on a distributed network. "Autonomous" emphasizes their ability to act independently based on predefined rules and conditions, often encoded in smart contracts. And finally, "Organizations" suggests that they function as structured entities with goals and operations. So when we talk about DAOs, we're referring to entities that operate without a central authority, make decisions based on preset rules, and function similarly to traditional organizations, albeit with varying degrees of human involvement.

In simpler terms, when we talk about "decentralization" within the context of DAOs, it actually refers to several different aspects. Firstly, it involves the underlying technology platform on which a DAO operates, typically a blockchain. This platform is decentralized, meaning it isn't controlled by a single entity but rather exists across a network of computers. Secondly, decentralization extends to the nodes, which are the individual computers or hardware that make up the blockchain network. These nodes are also decentralized, spread out across various locations and operated by different people or organizations. Thirdly, decentralization applies to governance within the DAO. Instead of decisions being made by one central authority, they're typically made collectively by participants in the DAO. Additionally, decentralization can relate to the data and operations of the DAO itself. The data involved and the actual functioning of the DAO can be decentralized, often through the use of smart contracts deployed by different

[1] VitalikButerin, 'DAOs, DACs, DAs and More: An Incomplete Terminology Guide' (Ethereum Foundation Blog, 6 May 2014).

entities[2]. These aspects of decentralization can be categorized into three main types: architectural, political, and logical decentralization, each contributing to the overall decentralized nature of DAOs.[3]

Legal theories of Decentralized Autonomous Organizations

DAOs involve some level of human participation, but this involvement can be quite fluid and undefined. They don't necessarily require a central governing body; instead, they rely on a fluctuating group of individuals or entities who hold governance tokens at any given time. This raises the question: is a DAO simply a dynamic collection of people, or does it have its own independent existence? Like traditional organizations, DAOs typically have clear goals, own assets, enter contracts, and share profits, giving them legal standing to act on their own behalf[4]. However, these legal actions aren't directly tied to specific members; instead, they're held separately by the DAO itself. This leads to the question of their legal status—specifically, whether DAOs can be considered legal entities in their own right. While some regulatory efforts aim to provide legal frameworks for DAOs, many already exist and operate without formal recognition. For instance, even Bitcoin functions as a DAO, yet it isn't acknowledged as such by any jurisdiction [5]. This highlights the gap between the practical operations of DAOs and their legal recognition within existing regulatory frameworks.

The legal landscape surrounding Decentralized Autonomous Organizations (DAOs) is complex and evolving. Several legal theories are being explored to understand how DAOs function and interact with existing legal frameworks. These theories delve into the question of who or what a DAO is, and the rights and obligations it may possess.

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[2] Ganado et al. 'Mapping the Future of Legal Personality' (2020) MIT Computational Law Report 3

[3]VitalikButerin, 'The Meaning of Decentralization' (6 February 2017).

[4]VitalikButerin, 'DAOs, DACs, DAs and More: An Incomplete Terminology Guide' (6 44 May 2014).

[5] 'Wyoming Passes DAO Supplement Recognizing Decentralized Autonomous O r g a n i z a t i o n s (D A O s) a s L L C s ' (1 3 S e p t e m b e r 2 0 2 1) < https:// content.next.westlaw.com/practical-law/document/ Ib2ed750711a311ecbea4f0dc9fb69570/Wyoming-Passes-DAO-SupplementRecognizing-Decentralized-Autonomous-Organizations-DAOs-as-LLCs? viewType=FullText&ppcid=a1a4b409052049e9b4a7e5cde6e6620e&originationContext= knowHow&transitionType=KnowHowItem&contextData=(sc.DocLink)&firstPage=true>

One theory is **Legal Personhood**. This explores whether a DAO can be recognized as a legal entity distinct from its members, similar to a corporation. This would grant the DAO rights and responsibilities separate from its individual members.According to Black's Law Dictionary, '[s]o far as legal theory is concerned, a person is any being whom the law regards as capable of rights and duties[6].the concept of legal personhood, which involves having rights and responsibilities, became widely accepted during the early modern period, though its roots trace back to the Roman Empire. This traditional view clashes with certain commonly held beliefs about who or what should be considered a legal person. When viewed through contemporary legal theories like Hohfeldian frameworks, which analyze rights, these conflicting beliefs emerge. Some theories assign rights to entities that aren't typically seen as legal persons, such as unborn babies or animals, while others deny rights to entities that are usually considered legal persons, like children. The Orthodox view tends to categorize entities strictly as either persons or non-persons, which might not fully capture the complexities of modern legal situations. This suggests that the traditional understanding of legal personhood may not adequately explain the nuances of legal circumstances today.[7]

Another approach is the **Hohfeldian Theory of Rights**. This framework examines the various legal relationships associated with a DAO. For instance, who has the right to propose changes within the DAO, and who has the duty to implement those changes as dictated by the smart contracts. This theory analyzes the legal relationships between the DAO, its members, and external parties. It considers who has the "right" to do something (claim), who has the "duty" to refrain from doing something (correlative duty), who has the "power" to take action (privilege), and who is subject to that power (liability). In a DAO context, it helps define member voting rights, decision-making power, and potential liability for DAO actions.Example: DAO token holders might have a "claim" to participate in governance votes, but not the "power" to unilaterally change DAO rules. This distinction is crucial for understanding member rights and limitations within the DAO structure.

The **Interest Theory of Rights** and **Will Theory of Rights** further explore the concept of rights within a DAO. The Interest Theory focuses on the economic and social benefits associated with

[6] Black's Law Dictionary.
[7] DECENTRALIZED AUTONOMOUS ORGANIZATIONS AS LEGAL PERSONS, HTTPS://WWW.UTUPUB.FI/BITSTREAM/HANDLE/10024/154669/LYBECK_HENRIK_THESIS.PDF?SEQUENCE=1.

DAO membership, while the Will Theory emphasizes the collective decision-making power of DAO participants. This theory focuses on the protected interests underlying legal rights. In a DAO, it helps determine whose interests the organization serves. Is it solely the token holders, or does it encompass a broader community or purpose for example: An artistic DAO might prioritize the creative freedom of its members (interest in artistic expression), while a charitable DAO might prioritize the interests of its beneficiaries.

The **Bundle Theory of Legal Personhood** breaks down a DAO into its constituent parts, analyzing the rights and obligations associated with ownership of DAO tokens and participation in the organization.This theory emphasizes the importance of intention in defining legal rights. It asks who has the will to assert a right and whether the DAO's code can be considered an expression of collective will. For Example: A DAO's smart contracts could be viewed as an embodiment of the collective will of its members, defining rights and obligations related to governance and resource allocation.

Finally, some legal scholars propose that DAOs may be considered **beneficiaries of special rights**. This suggests that DAOs, while not necessarily legal entities themselves, can hold and manage assets through smart contracts, with specific rights attached to those assets.is theory views legal personhood as a collection of legal capacities, such as owning property or entering contracts. A DAO could be recognized as a legal person even without a centralized structure, as long as it possesses these key capacities through its smart contracts. For example: A DAO for venture capital investment could be considered a legal person under this theory, allowing it to hold investment funds and manage them through its coded rules.

Special rights, as defined by H. L. A. Hart, are rights that come into existence through specific agreements or relationships between individuals[8]. These rights are unique because they only apply to the people involved in those particular transactions or relationships. In other words, both the individuals who hold the rights and those who have corresponding obligations are restricted to the parties directly involved in the special transaction or relationship. These rights are tailored to the specific circumstances and participants involved, setting them apart from more general rights that apply to a broader range of situations and people.

[8] H. L. A. Hart, 'Are There Any Natural Rights?' (1955) 64 The Philosophical Review 71 175.

There are two key elements that contribute to the ability to be part of special rights and the ability to own property. The capacity to own property is crucial because many aspects of legal personhood rely on it. For example, if someone is entitled to special rights that involve financial transactions, they must have the ability to own property to receive payments. Ownership itself can be divided into different aspects, including active and passive incidents. Active ownership involves the ability to manage, transfer, and use property, while passive ownership involves only enjoying the benefits of property, such as possession, income, and security.

Additionally, legal personhood typically entails not being subject to ownership by others, although there isn't necessarily a contradiction if a legal person can own property and be owned themselves. For instance, corporations are entities that both own property and are considered property in certain contexts.

Another aspect of passive legal personhood is standing, which refers to the ability to bring a lawsuit to court based on one's stake in the outcome. This involves demonstrating a sufficient connection to and harm from the law or action being challenged. Kurki distinguishes between the invested aspect of standing, which concerns whether an entitlement is legally recognized and enforceable, and the competence-related aspect, which involves one's legal ability to pursue a case in court.

Finally, legal personhood in criminal law typically only recognizes other legal persons as victims of harm, excluding entities like animals from being considered victims in cases of animal welfare crimes.

<u>Real world application of Decentralized Autonomous Organizations</u>

The rise of blockchain technology has fostered a new wave of organizational structures: Decentralized Autonomous Organizations (DAOs). These internet-native communities operate without a central authority, relying on smart contracts and token-based governance to achieve shared goals. This innovative approach presents exciting possibilities across various industries, fundamentally changing how we collaborate and manage resources.

One compelling application of DAOs lies in **decentralized finance (DeFi)**. Take MakerDAO, a prominent example. It's a DAO-governed platform built on Ethereumblockchain, allowing users to borrow and lend cryptocurrencies without traditional intermediaries like banks. The system utilizes a stablecoin, DAI, pegged to the value of the US dollar. MakerDAO token (MKR) holders govern the platform, voting on critical parameters like interest rates and collateral requirements. This fosters transparency and community ownership, potentially offering an alternative financial system less prone to centralized control[9].

Beyond finance, DAOs are making inroads into the **creative realm**. Imagine a DAO for filmmakers, where token holders decide on script selection, funding allocation, and profit distribution. This disrupts traditional Hollywood models, empowering creators and fostering more diverse content production. Similarly, artistic DAOs could allow patrons to directly support artists, bypassing traditional galleries and auction houses.

Philanthropy is another area ripe for DAO disruption. Charity DAOs could streamline donation processes, ensuring greater transparency and direct contribution of funds to causes. Token holders could vote on which charities to support and track the impact of their contributions. This empowers donors and fosters trust in the philanthropic process.

Decentralized media also benefits from DAOs. News outlets could be governed by DAOs, ensuring editorial independence and community-driven content curation. Token holders could vote on stories to be published and hold editorial teams accountable, fostering a more transparent and democratic media landscape.

Investment and venture capital are being reshaped by DAOs. Investment DAOs pool funds from token holders to invest in startups or other ventures. Decisions on investments and allocations are made collectively, potentially democratizing access to capital and fostering innovation.

[9]DECENTRALIZED AUTONOMOUS ORGANIZATION (DAO): THE CASE OF MAKERDAOSAGE JOURNALS , https://journals.sagepub.com/doi/abs/10.1177/20438869231181151.

However, DAOs are not without their challenges. Legal frameworks surrounding these entities are still evolving, creating uncertainty for mainstream adoption. Additionally, security vulnerabilities in smart contracts can pose risks. Furthermore, achieving consensus within a large and diverse community can be difficult, potentially hindering decision-making and project execution.

Despite these challenges, DAOs represent a significant step towards a more decentralized and collaborative future. Their real-world applications have the potential to disrupt traditional models across various industries. As the technology matures and legal frameworks adapt, DAOs are poised to revolutionize the way we organize, collaborate, and manage resources, ushering in a new era of collective action and shared ownership.

Legal status

The idea behind DAOs revolves around independence from traditional legal systems, it's evident that numerous legal challenges must be addressed for DAOs to become widely accepted and functional. This section highlights several key legal issues, including liability limitations, governance concerns, and defining the rights of token holders within DAOs[10]. These issues mirror longstanding corporate governance challenges, such as resolving conflicts between majority and minority stakeholders, determining developers' responsibilities to token holders, and deciding on acceptable governance structures. Essentially, the experience gained by corporate governance experts over the years in resolving such issues shouldn't be ignored by DAO developers and practitioners. Despite the innovative nature of DAOs, they still encounter similar legal hurdles that have plagued traditional corporate structures, requiring careful consideration and adaptation of existing legal knowledge and practices.

1. Liability limitations

One critical aspect remains a subject of debate: the potential for unlimited liability for DAO members. Unlike traditional corporations where personal assets are shielded, DAO structures

[10] Chris Brummer, Rodrigo Seira, "Legal Wrappers and DAOs" (2022).

might expose members to personal financial risks for the organization's actions. This raises concerns about the viability and widespread adoption of DAOs.

Let's delve deeper into this concept with an illustrative example, Imagine a DAO formed to invest in real estate. Through its smart contracts, the DAO purchases a property with funds pooled from members. Unfortunately, the investment goes sour due to unforeseen market fluctuations. The DAO struggles to meet its financial obligations.

In a scenario with unlimited liability, depending on the specific DAO structure and jurisdiction, members' personal assets might be at risk. Creditors could potentially hold them accountable for the DAO's debts, jeopardizing their financial security. This creates a significant deterrent for potential DAO participants, hindering the growth and innovation potential of these organizations.

The concept of DAOs being self-sufficient from a legal standpoint, as advocated by the "code is law" mantra, implies that these decentralized entities can operate independently without the need for intermediaries or traditional legal frameworks. This confidence stems from the idea that smart contracts, which are self-executing pieces of code on the blockchain, can ensure agreement performance without relying on traditional judicial enforcement[11].

However, this approach overlooks a crucial aspect: the lack of legal entity recognition for DAOs could deprive them of certain advantages, particularly the protection of personal assets enjoyed by directors and owners of legally recognized entities. Despite similarities to corporations in terms of governance structures and token-holder rights, DAOs do not automatically qualify for limited liability status.

Without legal recognition, DAO participants could be considered as operating under a general partnership, exposing them to unlimited liability towards the organization's creditors. While well-designed DAOs may include compensation mechanisms for on-chain transactions, they still face legal risks. For example, if a court orders compensation from an unregistered DAO, the

[11] M. Raskin, 'The Law and Legality of Smart Contracts', (2017) 1 Georgetown Law Technology Review 305, at 306, DOI http://10.2139/ssrn.2842258; P. Cuccuru, 'Beyond Bitcoin: An Early Overview on Smart Contracts', (2017) 25 International Journal of Law and Information Technology 179, at 185, DOI http://10.1093/ijlit/eax003.

release of financial resources would be subject to the organization's blockchain rules. If members refuse to comply, individual liability could fall on all participants.

While existing DAOs may have communities willing to accept risks, scaling up beyond crypto-enthusiasts could expose them to financial vulnerabilities. Under unlimited liability, creditors can pursue payment from any accessible DAO member, often targeting those perceived as having deeper pockets. This risk discourages participation from individuals and entities with significant assets, such as institutional investors and financial institutions.

In summary, while DAOs offer autonomy from traditional legal systems, their lack of legal entity recognition exposes participants to potential liabilities, discouraging broader adoption and support from entities with substantial assets.

2. **The struggle towards decentralized governance.**

the struggle towards decentralized governance. Unlike traditional organizations governed by a central authority and established legal frameworks, DAOs operate on a distributed network with community-driven decision-making. This lack of a central entity creates legal uncertainties regarding accountability, liability, and regulatory compliance.

Consider a DAO formed to develop a new open-source software platform. Through its smart contracts, the DAO raises funds and allocates resources for development. However, a bug discovered in the software leads to unintended consequences, causing financial losses for users. In this scenario, who is legally responsible? The code itself? The DAO's token holders? These questions remain unanswered within current legal frameworks, creating a barrier to wider DAO adoption. As DAOs navigate this complex legal landscape, establishing clear governance structures and addressing potential liabilities will be crucial for their long-term success.

In a deeper analysis, DAOs, facilitated by blockchain-based smart contracts, offer the promise of enhancing voting mechanisms and involving a broader range of participants in decision-making processes. This aligns with the cryptocurrency community's aspiration for decentralized entrepreneurial governance, aiming to reduce reliance on centralized management. However, despite the excitement surrounding decentralized governance and streamlined decision-making, these factors alone cannot replace the need for traditional corporate governance structures[12].

Indeed, the ideal of complete transparency and decentralization within business organizations may not always be desirable, especially when considering incentive frameworks. While participatory DAOs aim to engage token-holders in management decisions, the reality is that many token-holders may lack the time or expertise to meaningfully contribute. Direct voting requires continuous alignment between token-holders and the DAO, potentially leading to social tensions and inefficiencies, akin to issues seen in traditional direct democracy models.

To address these challenges, various approaches have been proposed. Some DAOs weight votes based on the duration of a token-holder's support for a proposal, aiming to account for individual conviction. Others explore "quadratic voting," where members indicate the importance of an outcome by their willingness to pay. Additionally, developers have experimented with replicating traditional corporate law mechanisms like proxy and quorum voting.

However, these solutions may fall short of the disruptive decentralization promised by crypto-enthusiasts. An alternative approach involves algorithmic DAOs, where governance relies on fully trusting the underlying code. This approach assumes that the code is capable of autonomously managing the organization, potentially leading to truly self-driven companies. Yet, it necessitates confidence in the code's functionality and the ability to address technical disruptions through forks or updates to the underlying software.

In summary, while DAOs offer exciting prospects for decentralized decision-making, the complexity of governance requires a nuanced approach that may blend traditional corporate governance practices with innovative blockchain solutions.

3. **Defining token-related rights**

A critical legal challenge lies in defining token-related rights and their implications. Unlike traditional securities with established legal frameworks, DAO tokens represent a novel asset

[12] Edoardo Martino and Simone Spijkerman, "How Decentralized are 'Decentralized Autonomous Organisations' (DAOs)?" Oxford Business Law Blog (5 November 2021).

class. This ambiguity creates uncertainty regarding the rights and responsibilities associated with token ownership within a DAO.

Let's explore this challenge through an example, Imagine a DAO for a music streaming platform. The DAO utilizes a token, "Melody," granting its holders voting rights on platform features, artist selection, and revenue distribution. However, legal questions arise. Do Melody tokens constitute voting rights in a legally recognized entity, or simply access rights to a platform feature? Do token holders have any claim to underlying DAO assets? These uncertainties create confusion for potential participants and raise concerns about investor protection. Establishing clear legal definitions for token-related rights within DAOs will be critical for ensuring transparency, fostering trust, and ultimately enabling the widespread adoption of this innovative organizational model.

4. The Jurisdictional Maze

Decentralized Autonomous Organizations (DAOs) operate on a global scale, leveraging the borderless nature of blockchain technology. However, this very characteristic presents a significant legal hurdle: the question of jurisdiction. Unlike traditional organizations with a physical headquarters and a defined legal domicile, DAOs exist on a distributed network. This raises complex questions about which legal system governs their activities and holds them accountable.

Consider a DAO for scientific research funding. The DAO is formed with members located across different countries, and its smart contracts are deployed on a global blockchain network. The DAO raises funds in cryptocurrency and invests in research projects worldwide. Here's the legal conundrum: if there's a dispute regarding the use of funds, or if the DAO's activities violate regulations in a specific country, which legal system applies? Jurisdictional ambiguity makes it challenging to enforce legal rulings and hold DAOs accountable. Establishing clear jurisdictional frameworks for DAOs will be crucial for fostering trust and ensuring compliance with international regulations.

Conclusion

DAOs offer a revolutionary model for collaboration, but their potential is hindered by unresolved legal issues. This paper explored key challenges surrounding **unlimited liability, decentralized governance, token-related rights, and jurisdiction**. While the "code is law" philosophy promotes autonomy, the lack of legal recognition exposes DAO participants to financial risks.

Finding solutions requires a multi-pronged approach:

1. **Limited Liability Frameworks:** Regulatory bodies can explore establishing new legal structures for DAOs that provide limited liability protection for members. This could involve creating a specific "DAO legal form" with established governance requirements and liability limitations.

2. **Hybrid Governance Models:** DAOs should consider adopting hybrid governance structures that combine decentralized voting with elements of traditional corporate governance. This could involve incorporating mechanisms like tiered voting based on token holdings or expertise, along with establishing clear roles and responsibilities for core developers and community leaders.

3. **Standardized Token Rights:** Regulatory bodies and industry experts can collaborate to develop standardized definitions for token rights within DAOs. This would clarify the rights and responsibilities associated with token ownership, such as voting power, profit sharing, and potential claims to underlying assets.

4. **DAO-Specific Jurisdictional Frameworks:** International cooperation is crucial to establish clear jurisdictional frameworks for DAOs operating across borders. This could involve developing conflict-of-laws principles specifically tailored to the decentralized nature of DAOs, ensuring accountability and regulatory compliance.

By addressing these legal challenges, we can pave the way for the widespread adoption of DAOs. A future with a robust legal framework for DAOs holds immense potential, fostering innovation, collaboration, and a new era of decentralized governance.