

Report by the Dynamic Coalition on Blockchain Technologies for the Period 01 January - 31 December 2022

1. Background

The primary goal of the Dynamic Coalition on Blockchain Technologies (**DC-Blockchain**) is to educate, inform and disseminate information on current trends and policy developments with regard to blockchain development, policymaking and regulation. The Dynamic Coalition is presently working on the development of “model frameworks” in relation to blockchain technologies, including: (1) application of existing legal and oversight regimes to applications of blockchain; (2) smart contracts or self-executing transactions and interactions between humans and machines or between multiple entities which are automatically enforced by the underlying code of the technology; and (3) Decentralised Autonomous Organisations (**DAOs**) that offer new forms of participatory governance and economic activity. In this regard, the DC-Blockchain seeks to create model rules consistent with international best practices and that could be adopted in different jurisdictions worldwide.¹ The DC-Blockchain also initiated a deep dive into fundamental structures and concepts embedded in traditional governance and social frameworks to inform how the governance, participatory and economic opportunities afforded by blockchain can be designed to better conform to evolving understandings of the moral political economy of today.

2. Work undertaken in 2022

a. *Activities within the IGF (e.g. participation in the annual IGF meeting, relations with other IGF workstreams, if any)*

- i. The DC-Blockchain successfully hosted a session in relation to the thematic area "Addressing Advanced Technologies, including AI" related to the DC-Blockchain current work on the Model Law for Decentralised Autonomous Organisations, which focused on the theme *Towards a Model Law for DAOs* on Monday 28 November at the IGF annual meeting currently which was hosted in Ethiopia in 2022.

b. **Activities Beyond the IGF**

- (i) COALA and the BlockchainGov ERC project convened a Research Workshop on Legitimacy, Confidence and Trust in Blockchain Governance, which was held on May

¹ Further information in relation to the work of the DC Blockchain can be accessed at: <https://coala.global>

17th 2022 at the European University Institute This workshop primarily involved academics and practitioners interested in blockchain governance, with a focus on trust, confidence and legitimacy.

While interrelated, the concepts of trust, confidence and legitimacy are distinct. Trust speaks to a relationship wherein the trustor believes that the trustee will encapsulate their interests. Trust can also exist at the level of systems, such as markets, when it is often referred to as 'system trust' or 'confidence'. Confidence refers to a situation in which, because of previous experience or general knowledge, expectations are established with regard to a particular course of action, without even considering the risk that such outcome might not happen. Legitimacy, in contrast, exists when a person or organisation conforms or consents to a set of rules, typically within asymmetrical power relations. Thus, trust and legitimacy can support one another but are not necessarily co-constitutive.

Because of their decentralised nature, blockchain networks provide particularly interesting examples of the challenges to trust and legitimacy within digital governance. These networks simultaneously try to eliminate the need for trust, by means of an allegedly "trustless" system, and the need for legitimacy, by removing the figure of a centralised authority that could coerce users. Yet, behind the scenes, trust and legitimacy continue to have an important role to play in the governance of these networks.

The purpose of this workshop was to explore how challenges of trust and legitimacy are materialising in the governance of blockchain technology—and how they may be overcome.

The discussion focussed on the following themes:

- Actors - who should be responsible for blockchain governance?;
- Governance – how do trust and confidence relate to blockchain governance?;
- Legitimacy – what legitimacy issues are specific to blockchain governance?
- Tools – what mechanisms can be put into play at the on-chain / off-chain level to promote better blockchain governance ?
- Case studies: Decentralised justice (Kleros), Virtual worlds (Decentraland), Art NFTs (DADA), Maximum Extractable Value, etc.

(ii) Workshop on *What's Governing Web3?*

COALA convened a Workshop in conjunction with RMIT University on What's Governing Web3? from December 16-19, 2022. This event focused on discussions in relation to:-

- The COALA DAO Model Law and its potential for adoption in Australia
- The Extitute
- Validator Commons
- Co-evolution of Web3 technologies and institutions
- Contribution and reward systems
- Extitutional Theory

In particular in-depth discussions were held in relation to the potential for Australia adopting the Model Law for DAOs developed by COALA, open questions in DAO Science /Extitutional Theory, as well as DAO Governance. Working groups undertook an analysis of existing governance structures and their limitations, identified what they consider to be the best governed DAO, and what institutional or extitutional features create this outcome, modelling alternative governance structures for DAOs as well as the application of key extitutional terms and concepts. The outcomes of the Workshop have paved the way for further discussions at the DAO Harvard event which is carded to take place between April 02-04, 2023.

(iii) Updating of DAO Model Law Framework

The DC-Blockchain completed its work on drafting a coherent model law framework for Decentralised Autonomous Organisations. The DAO Model Law Project began when there were far fewer DAOs in existence and the main issue turned on dealing with scams and frauds, and attributing liability, while also not pigeoning in DAOs into corporations, LLCs, or even general partnerships by accounting for their differences with DAO constructs. After the completion of 'version 1.0', future work will involve further refining the attribution of liability within so-called 'unregistered' DAOs, addressing the entity-level and member-level taxation of such DAOs, reflecting on the application of insolvency law and principles to such DAOs, and amending the terminology of the Model Law so that it is more blockchain neutral. In this regard, from the end of 2022, DC-Blockchain has begun working with various jurisdictions in implementing the Model Law and in the process is drawing practical lessons on how such model legislation should be transposed into national legal frameworks.

(iv) **Outputs produced and/or research/studies conducted**

The Development of the Model Law on Decentralised Autonomous Organisations

DAOs can be classified into two (2) distinctive categories: registered DAOs, i.e. DAOs that are organised according to the laws of a State and that are registered in a corporate registry, and unregistered DAOs, i.e., DAOs that are created outside of the legal frameworks defined by state laws and are not registered in a corporate registry. The vast majority of existing DAOs are unregistered DAOs and their legal status is currently uncertain. The result is a great deal of legal uncertainty, which can be detrimental to the development and utilisation of this new model of social and business organisation.

DC-Blockchain stakeholders gathered for an in-person workshop in Paris, France in February 2020 and collaborated together virtually before, in-between, and after these workshops to research, discuss and draft model legislation for unregistered DAOs. Virtual meetings were held on a bi-monthly basis to convene diverse participants within the DC-Blockchain and with other intersecting communities with a interest in fostering development of the global, participatory organisations afforded by blockchain technologies.

The goal of the Model Law is to assist governments in crafting their own DAO laws, so as to recognize the legal personality and limited liability of unregistered DAOs without requiring registration in their jurisdiction. The objective is to endow them with specific legal rights — and obligations — without requiring them to register or conform to traditional corporate law rules, so long as they satisfy the relevant legal provisions through technological means (e.g., “technological guarantees” afforded by Blockchain infrastructure). Those technological means should provide legal protections equivalent to those underpinning traditional corporate legal forms, while taking account of the new opportunities of Blockchain technology. At its core, the Model Law maps the various policy goals underpinning traditional corporate law rules, with a series of technological guarantees that can be regarded as “regulatory equivalents” or “functional equivalents” to those rules.

Since its preparation the DAO Model Law has been circulated to diverse stakeholders in order to stimulate feedback as well as discussion surrounding the core areas encapsulated in the text. Recently, the DC-Blockchain DAO Model Law was endorsed by the Digital Law Association (DLA) in Australia to the Australian Senate as a new type of legal entity under the Australian Corporation Act 2001. The states of Utah and New Hampshire have also expressed an interest in exploring the adoption of the COALA DAO Model Law (in whole or in part) in their respective states over the coming legislative cycles.

During 2022, work has been undertaken to strengthen the Model Law through stakeholder feedback and workshops.

3. Updates on internal processes

The DC-Blockchain has continuously sought to expand its network and membership to diverse stakeholders within and outside of the blockchain ecosystem who have a keen interest in fostering new forms of participatory governance, social and economic activity afforded by blockchain technology. Accordingly, DC-Blockchain has continued to expand its network of participants - both institutional and individual, which has been reflected in new members and collaborations for DC-Blockchain research streams (e.g., trust and confidence, legitimacy and DAOs), as well as ongoing updates to its mailing list and associated websites. The DC-Blockchain has hosted a number of virtual workshops (on a bi-monthly basis) as well as in-person workshops and internal meetings described above, for joint intersectional discussions in order to ensure diverse and multidisciplinary inputs to the DC-Blockchain activities.

4. Priorities/Objectives for the Following Year

The DC-Blockchain will continue its stakeholder engagement initiatives through the ongoing work of the COALA Working Groups. Through open consultations, it is also intended to seek consensus in the updating and refinement of the DAO Model Law, with the ultimate view of its adaptation by governments. To this end, COALA will continue to provide support and input in relation to key governmental initiatives such as the UK Law Commission Call for Evidence in relation to Decentralised Autonomous Organisations as well as other governmental agencies that are desirous of implementing legal frameworks pertaining to DAOs. Another key event planned for the first half of 2023 is a conference on laws and policies concerning DAOs at Harvard University.

In addition to these priorities, DC-Blockchain is proposing the hosting of a session/workshop under the thematic area "Addressing Advanced Technologies, including AI" and subtheme "Blockchain, Digital Assets & Web 3 based Ecosystems" related to the DC-Blockchain ongoing work on ***Implementation of the DAO Model Law: Challenges and Way Forward***, at the 18th annual meeting of the Internet Governance Forum which will be hosted by the Government of Japan in Kyoto from 8 to 12 October 2023.