



## **Introduction**

In the dynamic landscape of decentralized finance and blockchain technology, the advent of Decentralized Autonomous Organizations (DAOs) has ushered in a new era of collaborative innovation and community-driven governance. These blockchain-native entities operate on the principles of decentralized decision-making and shared outcomes, allowing participants to actively shape the trajectory of projects and initiatives.

ConstitutionDAO, which gained prominence in 2021 by mobilizing a community to collectively attempt to acquire an original copy of the United States Constitution, exemplifies the power of DAOs in facilitating shared ownership and participation, even if the endeavor was ultimately unsuccessful. Other notable projects, such as MolochDAO, known for pooling funds for Ethereum development, and MakerDAO, with its decentralized stablecoin governance, showcase the diverse applications and adaptability of these structures. As pioneers in reshaping traditional organizational models, DAOs challenge conventional norms, offering a glimpse into the future of business models built on transparency, inclusivity, and decentralized decision-making.

However, as we evaluate DAOs, the popular web3 philosophy, “code is law”, faces limitations since it fails to account for the complexities of real-world legal systems and jurisdictional compliance. Thus, a need to scrutinize the legal foundations of DAOs becomes apparent as we attempt to tether them to existing real-world frameworks to meet compliance and regulatory requirements, minimize legal risks, and establish foundations for resolving disputes.

In the pursuit of establishing web3 as a transformative force, we are confronted with the imperative to address three fundamental principles within any chosen framework. These principles encompass the need for:

- 1) transparent, decentralized technology,
- 2) durable game incentives with aligned economics,
- 3) an unchangeable ethos of benevolence toward all stakeholders.

Throughout our exploration of various legal structures for DAOs, we continually circle back to these core tenets as we feel they are core to sustainable success in the DAO landscape over the long-term.

Our comparative analysis lays bare the shortcomings of alternative structures in regard to these tenets, casting a spotlight on the path that becomes increasingly evident: the legal framework of Limited Cooperative Associations (LCAs). LCAs emerge as the keystone that harmonizes with the fundamental principles of sustainability, aligned incentives, and a benevolent ethos, constituting essential ingredients as a linchpin for an inclusive and sustainable flourishing evolution of web3.

In the pursuit of practicality, our analysis also goes beyond theoretical exploration; it aspires to be a repeatable “how to” playbook for those seeking to establish DAOs within a legal framework in the United States. By examining various legal structure examples, we aim to distill insights that can be applied to formulate a pragmatic formula for the LCA legal model.

Let us embark on this journey as we unravel the legal intricacies, address regulatory concerns, and unlock the transformative potential of DAOs in our collective quest for a more inclusive and enduring future.



## **Opolis - Digital Employment Cooperative**

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

### *Table of Contents*

- History
  - Milestones in DAO Evolution: From Early Challenges to Legal Recognition
  - Community Ownership, Idealism, and Pragmatism in DAO Dynamics
  - Our Hypothesis
- Current DAO Legal Framework Options
  - C-Corporations (C-Corps)
  - General Partnerships (GPs)
  - Limited Liability Corporations (LLCs) & DAO LLC Structures
  - The Marshall Islands DAO (MIDAO)
  - Unincorporated Nonprofit Associations (UNAs) or Foreign Foundations
- The Case for Limited Cooperative Association Wrapped DAOs (a.k.a. Digital Cooperatives)
  - Limited Cooperative Associations (LCAs)
  - Patronage: Profit Distribution & Community Tokens
  - Addressing Jurisdiction Challenges & Regulatory Concerns
    - For U.S. Jurisdictions Across States
    - For International Teams
  - Example Use Cases
    - The Employment Commons (Opolis)
    - SporkDAO
- How to: LCA Setup & Tokenomics
- Conclusion
- Contributors
- Definitions
- References & Reading



## **History**

### **Milestones in DAO Evolution: From Early Challenges to Legal Recognition**

The trajectory of decentralized autonomous organizations is punctuated by several significant milestones, reflecting both challenges and advancements in their development. Some consider [Bitcoin](#) and Ethereum to be the first DAOs due to their [protocol-driven interactions of property](#) within the infrastructure layer, with communities playing essential roles in governance and development. However, "[The DAO](#)" is more commonly acknowledged as one of the earliest decentralized autonomous organizations, representing an ambitious project built on the Ethereum blockchain that experienced a [high-profile exploit in 2016](#). This incident led to a contentious hard fork in the Ethereum blockchain to reverse the effects of the hack, [highlighting early challenges](#) and [risks](#) associated with DAOs.

Following a relatively quiet period in the DAO ecosystem, a [groundbreaking presentation](#) by Ameen Soleimani and Cassandra Shi at [ETHDenver 2019](#), a pivotal event in the blockchain space, breathed new life into the concept. The two took the main stage to introduce MolochDAO, envisioning it as a catalyst for collaboration, transparency, and community-driven decision-making within the Ethereum ecosystem.

The unveiling, or as they aptly described it, "summoning" of MolochDAO at this transformative juncture sought to address challenges associated with financing [public goods](#) and infrastructure projects within the Ethereum ecosystem. At its core, MolochDAO was conceived as a decentralized and efficient funding mechanism, operating seamlessly as a smart contract on the Ethereum blockchain. Its objective was to streamline and simplify the decision-making process for funding proposals and alleviate the complexities associated with coordinating financial support from various sources.

The environment for DAOs continued to evolve that year with [Wyoming's blockchain legislation](#), recognizing DAOs and providing essential legal clarity. This legislation marked a crucial step forward in the United States, creating a conducive environment for DAOs to operate [within established legal frameworks](#).

In 2020, Aragon, a platform for creating and managing DAOs, launched the [Aragon Court](#), introducing a decentralized [dispute resolution mechanism](#) for DAOs. This innovation significantly enhanced governance and legal structures within the DAO ecosystem.

The subsequent years, 2020-2023, witnessed a global shift as jurisdictions around the world began implementing legal frameworks for DAOs, fostering their recognition as legitimate entities. These developments collectively reflect the ongoing evolution of DAOs and the growing acknowledgment of their importance within the broader legal and regulatory landscape.

### **Community Ownership, Idealism, and Pragmatism in DAO Dynamics**

Community ownership, a pivotal element in the DAO landscape, inherently aligns with the first principle: transparent, decentralized technology. In DAOs, participants, or [token holders](#), not only contribute value but actively shape the trajectory of the organization through transparent decision-making processes on-chain. This participatory governance ideally fosters a collaborative ecosystem where individuals are empowered based on merit and contribution.

But a delicate balance emerges between idealism and pragmatism, necessitating a nuanced examination of inherent tensions. This duality is encapsulated most in the dichotomy between the pursuit of public goods and the imperative for sustainability. DAOs, rooted in idealistic visions of community collaboration and shared resources, often grapple with the pragmatic challenge of maintaining financial viability and ensuring lasting impact. This intricate interplay highlights the crucial role of sustainable transparency and the need for durably aligned economic incentives between stakeholders. The strain between governance



ideals and decisive actions further underscores the importance of addressing DAO incentives with a sustained internal economic engine in order to achieve impactful operations.

Furthermore, there is the underlying question of benevolence. Governance mechanisms, essential for decentralized decision-making, grapple with the paradox of fostering spirited debates while avoiding zero-action scenarios. The concept of "rage quitting" introduces an additional layer to this dynamic, as members may withdraw from the DAO in response to disagreements or perceived misalignments. This sophisticated interconnection between idealism, pragmatism, and governance within DAOs emphasizes the challenges and opportunities inherent in navigating public goods provision, sustainable operations, and the delicate balance between passionate engagement and potential disengagement, all of which can impact the fundamental ethos of benevolence.

## Hypothesis

As we explore alternative models and challenge the relevance of traditional industry concepts, the central question emerges: *What organizational structure optimally catalyzes the mass adoption of next-generation business and economic models, embodying the three fundamental principles crucial for establishing a DAO with web3 principles of:*

- 1) transparent, decentralized technology,
- 2) durable game incentives with aligned economics,
- 3) and an unchangeable ethos of benevolence toward all stakeholders?

This examination of traditional mechanisms for accruing value in organizations and contrasting shareholder-centric models, unveils misalignments with the principles of long-term durability, sustainability, and growth—fundamental aspects encompassed by the first two principles. It also searches for an elemental ethos of benevolence, and aims to identify a structure conducive to fostering inclusive and sustainable organizational success while remaining resilient against potential disruptions from malicious or misaligned actors.

Our analysis posits that the co-op DAO structure, particularly utilizing the Limited Cooperative Association model, not only aligns with the ethos of web3 technology but presents a legal vehicle that, when paired with the technology, allows for the tectonic redesign of commercial lives and the transformation of commercial and organizational landscapes in the digital age.

## Current DAO Legal Framework Options

DAOs have faced legal ambiguity, with the absence of specific regulatory frameworks tailored to their unique characteristics. Currently, DAOs have a range of legal framework options available for operation within the United States and notably outside its jurisdiction as follows:

### **C-Corporations (C-Corps)**

While most would argue that a centralized C-Corporation (C-Corp) structure is antithetical to the vision of DAOs, there are *many* teams who have chosen to use it. C-Corps traditionally represent a corporate model with shareholders, a board of directors, and officers. Key features include:

- **Limited Liability:** Shareholders in a C-Corp enjoy limited liability, meaning their personal assets are generally protected from the company's debts and legal liabilities. In the context of DAOs, this could provide protection for individual members.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

- **Separate Legal Entity:** A C-Corp is considered a separate legal entity from its owners (shareholders). This legal separation can be advantageous for organizational and liability purposes for DAOs.
- **Centralized Management:** C-Corps typically have a centralized management structure, with a board of directors making major decisions and overseeing company operations. This structure contrasts with the decentralized decision-making used by DAOs.
- **Transferability of Shares:** Shares in a C-Corp may be transferable (subject to contractual restrictions and applicable securities laws), providing liquidity for investors. In a DAO context, this could facilitate the buying and selling of interests.
- **Perpetual Existence:** A C-Corp has perpetual existence, meaning it can continue its operations regardless of changes in ownership or management. This contrasts with some DAO structures that may dissolve or evolve based on community decisions.
- **Taxation:** C-Corps are subject to corporate income tax. Profits are taxed at the corporate level, and shareholders may also be subject to taxes on capital gains if they sell shares or on dividends when they receive profits from the corporation. While this tax structure allows entities like DAOs to be more tax compliant ensuring payment at the corporate level, there can be dual taxation layers with individual shareholder taxes to navigate with this structure.
- **Fundraising:** The common vehicle for raising venture capital, C-Corps make it easier for investors to understand the landscape of their investments. This, however, will come at the cost of benevolence toward other stakeholder groups as investors will most certainly act in a way that maximizes profit for their benefit.
- **Profit Maximization:** By law, C-Corps and their Directors/Officers are mandated to “maximize profits”. This extractive mentality is in sharp contrast with the ethos of DAOs which are more focused on alignment of economic incentives, scaling for profit, and stakeholder benevolence.

While C-Corps offer benefits like limited liability and centralized management, they fall short in key areas prioritized by DAOs, such as decentralized decision-making, transparency, and durable alignment with community values. DAOs adopting traditional C-Corp structures encounter challenges arising from the divergence of interests influenced by a “tragedy of the boardroom” mentality, which tends to prioritize stock prices and market share over community-driven decision-making. This gamified approach can lead to extractive practices, compromising the long-term incentives for value creation that DAOs emphasize.

Additionally, regulatory pressures and jurisdictional challenges pose further hurdles, as the decentralized nature of DAOs clashes with traditional corporate frameworks. Integrating technological advancements with community-centric governance becomes a unique challenge within the C-Corp structure, reinforcing the need for DAOs to explore alternative frameworks that align with decentralized principles. This analysis highlights that applying traditional corporate structures to DAOs may introduce conflicts and hinder the fulfillment of the three fundamental principles crucial for web3-based DAOs.

### General Partnerships (GPs)

General Partnerships present a legal structure where DAOs form associations of individuals sharing responsibilities and liabilities equally. This framework establishes equal authority and joint personal liability among partners, fostering collaborative decision-making. It has also been used by teams in the industry like the late Ooki DAO. Notable characteristics of a GP include:

- **Equal Responsibility:** All partners share both responsibilities and liabilities, with each having an equal say in decision-making. While equal responsibility promotes inclusivity, DAOs must carefully navigate potential challenges such as decision deadlock or disagreements that could impede swift and effective decision-making.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

- **Informal Structure:** General Partnerships often operate with a more informal structure, providing flexibility but potentially lacking in formalized governance. The informality may, however, pose challenges in terms of governance. DAOs need to strike a balance between flexibility and establishing sufficient governance mechanisms to ensure transparency, accountability, and prevent a deadlock in decision making. Note that partnership agreements can be created that overcome this lack of formality.

In the pursuit of suitable organizational structures, some early-stage or smaller DAOs might initially find appeal in the simplicity and equal participation offered by GPs. However, as DAOs mature and require more sophisticated governance, GPs reveal challenges that impede seamless integration into the decentralized and autonomous landscape. Equally shared liability is a major concern in GPs, where partners assume joint and several liability, exposing personal assets to legal claims. The case of Ooki DAO underscores the risk exposure inherent in GPs for DAOs, where shared liability can jeopardize personal assets, as seen in Ooki DAO's enforcement proceedings.

Furthermore, while the commitment to equal decision-making within GPs is intended for inclusivity, it can paradoxically hinder swift and effective decision-making for DAOs. This limitation becomes more pronounced as streamlined governance gains importance in our rapidly changing industry. These challenges emphasize the unsuitability of GPs for DAOs prioritizing sophisticated governance structures aligned with autonomy, transparency, and scalability.

### Limited Liability Companies (LLCs) & DAO LLC Structures

Some DAOs opt for the traditional Limited Liability Company (LLC) wrapper, seeking liability protection for members while maintaining organizational flexibility. However, a new wave of legislation tailored specifically for DAOs, the DAO LLC framework, has emerged in states like Wyoming, Tennessee, and Vermont. The LLC DAO legislation provides additional legal clarity and protections tailored to the unique needs of decentralized autonomous organizations. The intentional adoption of the DAO LLC structure signifies a strategic emphasis on legal liability protection for members involved in blockchain and cryptocurrency activities. This framework has been recommended for investment, collector, charitable, and social DAOs. Key LLC characteristics include:

- **Liability Protection:** LLCs provide members with limited liability, safeguarding personal assets from the company's debts and legal liabilities. This feature is critical for risk mitigation and aligns with the decentralization ethos of many DAOs.
- **Flexible Management Structure:** LLCs offer flexibility in the governance structure, allowing members to choose a member-managed structure. This adaptability contributes to a flat governance structure for DAOs.
- **Operating Agreement:** LLCs are governed by an operating agreement, a legal document outlining the rights, responsibilities, and operating procedures of the members. This document is customizable to accommodate the specific needs and governance mechanisms of a DAO and can point to on-chain governance.
- **Pass-Through Taxation:** LLCs typically opt to benefit from pass-through taxation, meaning profits and losses pass through to individual members, avoiding double taxation at both the entity and individual levels. This allows for the avoidance of double taxation, a consideration that aligns with the decentralized and often collaborative nature of DAOs. It's worth noting that LLCs can also elect to be taxed as C-Corps, S-Corporations, or T-Corporations (cooperative corporations) providing flexibility in tax treatment based on the member's election. This feature benefits individual members by directly passing profits and losses to them, promoting tax efficiency and transparency.



Still, the LLC structure still presents challenges, especially in certain contexts. Firstly, the informality of governance and customization in operating agreements within LLCs may result in varying levels of transparency, potentially hindering the achievement of sustainably transparent technology.

Furthermore, while providing financial flexibility, the LLC model may not inherently align with the broader incentives sought by community-based DAOs operating on the principles of shared ownership and collective benefit. The LLC would need to be member-managed to effect DAO-style governance, and the fluidity of DAO membership doesn't necessarily agree with the LLC structure, even in the cases of DAO LLCs.

### The Marshall Islands DAO LLC (MIDAO)

The Marshall Islands DAO LLC operates with options for either for-profit or nonprofit DAO LLC structures, showcasing versatility in catering to a range of DAO goals. This legal framework raises questions about its classification, specifically whether it falls under the category of LLC only or if it accommodates other designations. The key features of MIDAO include:

- **Mixed Legal System:** The jurisdiction provides a mixed legal system incorporating elements of both U.S. and English common law.
- **Minimal Founding Members:** MIDAO requires only three founding members for the DAO, offering flexibility in its initial setup.
- **Quick Setup Process:** The entity setup process is relatively swift, taking up to approximately 3 weeks for the company and an additional 2 weeks to obtain a special license.
- **Affordable Setup Costs:** Compared to other options, the cost of setting up an entity in the Marshall Islands is considered affordable.
- **Close Association with the U.S.:** The Marshall Islands maintain a close association with the U.S., potentially influencing its legal and regulatory environment.

While it may sound simple for setup, the MIDAO structure faces challenges, notably in its tax implications. If U.S. citizens are involved in funding and controlling foreign trusts like a MIDAO LLC, these trusts could be treated as though they were created for tax purposes. As such, the usual tax benefits of this structure may be nullified, subjecting U.S. citizens involved to all setup and continuing tax obligations.

Another challenge is jurisdiction, with regulatory uncertainties potentially hindering compliance and legal standing. Limited legal precedence and case law specific to DAOs in this jurisdiction may complicate dispute resolution and the handling of unique issues. The perceived lack of credibility in less mainstream jurisdictions, like the Marshall Islands, can also create questions around legitimacy, trust, reputation, and global recognition, thus limiting international engagements and investments.

### Unincorporated Nonprofit Associations (UNAs) or Foreign Foundations

The appeal of Unincorporated Nonprofit Associations or Foreign Foundations for DAOs that prioritize charitable initiatives and community-driven projects is evident through platforms like Giveth. Giveth, a decentralized platform dedicated to charitable donations and community-driven projects within a DAO structure, strategically aligns with the nonprofit-oriented nature of UNAs. The intentional selection of the UNA or Foreign Foundation framework by these DAOs highlights their unwavering commitment to charitable and community-centric goals. Recommended for charitable DAOs, UNAs or Foreign Foundations serve crucial roles within these structures. Key characteristics are:

- **Nonprofit Nature:** UNAs inherently operate as nonprofit entities, aligning with the charitable and collective goals of certain, but not all, DAOs.





## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

- **Minimal Formalities:** UNAs often have fewer formal requirements compared to other legal structures, offering simplicity and flexibility.
- **Community-Oriented:** The focus on collective or charitable activities resonates well with DAOs accentuating community and social impact.

Despite the advantages that UNAs and Foreign Foundations bring to DAOs emphasizing charitable initiatives and community-driven projects, it is crucial to acknowledge the accompanying challenges, specifically economic sustainability and long-term stakeholder incentives. A lack of economic incentives inherent to the UNA wrapper make engagement more difficult in the long-term. Without a business model that “shares the spoils” with stakeholders, DAOs have a tendency to lose contributorship over time to other more prosperous adventures.

Recognition and credibility also present potential hurdles for UNAs, particularly within traditional legal and financial systems. The absence of formal legal recognition may well create uncertainty regarding liability protections, exposing members to legal risks. The fundamental ethos of benevolence faces challenges related to regulatory ambiguity as well, since the lack of standardized regulations introduces uncertainties in compliance may make it difficult for DAOs to adhere to a benevolent ethos. Thus, while UNAs or Foreign Foundations offer appeal for charitable efforts, challenges surface in sustaining aligned economic engines with unclear liability protections, and navigating regulatory ambiguities.

### The Case for Limited Cooperative Association Wrapped DAOs (a.k.a. Digital Cooperatives)

The culmination of our analysis points to the cooperative DAO structure as the best suited legal model of choice, specifically leveraging the Colorado Limited Cooperative Association Act. From our view, this approach not only aligns with web3 principles, it also proposes a legal framework that, when combined with decentralized technologies, proper stakeholder incentives, and thoughtful governance can reshape commercial landscapes.

The Uniform Limited Cooperative Association Act (ULCAA), enacted in 2007, created a new form of business entity, the limited cooperative association, as an alternative to other cooperative and unincorporated structures. The LCA framework acts as a catalyst for inclusive, sustainable success, enhancing financial resilience and ushering in a transformative evolution in organizational environments.

In platform or digital cooperatives, which most closely resemble DAOs, members optimize technology, such as protocols, to own and collectively and democratically control the operations of their company. Members assume finance and operational roles, adapt conflict resolution principles and make decisions about deploying new products and services. Unlike traditional tech companies, platform cooperatives are driven by shared ownership and democratic governance, meaning they can scale equality without a fiduciary duty to maximize profits for shareholders. Further, assets, like know-how and intellectual property, are collectively owned by the members.

### **Limited Cooperative Associations (LCAs)**

The LCA's principles such as democratic control, voluntary membership, and concern for the stakeholder incentives positions it as a promising legal framework for DAOs. Here are key features of the model:

- **Hybrid Structure:** LCAs merge cooperative, LLC, C-Corp, and public benefit corporations concepts, allowing for a combination of member-ownership and limited liability. This hybridity is crucial for DAOs as it enables a unique balance, combining member-driven decision-making with the protection of limited liability.





## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

- **Member Ownership:** Similar to traditional cooperatives, LCAs are owned and governed by members, fostering active participation and decision-making. In a DAO setting, member ownership ensures a decentralized and community-driven approach, aligning with the ethos of DAOs and ensuring participatory democratic principles.
- **Limited Liability:** LCAs provide members with limited liability, shielding them from personal responsibility for the association's debts and obligations. For DAOs, limited liability is vital in mitigating risks for members, allowing them to engage in collective endeavors without undue personal liability.
- **Flexibility in Governance:** LCAs offer the ultimate flexibility in governance structures, enabling members to engage in decision-making through voting and tailoring the operational structure to their specific needs, situation, and ethos. This flexibility is essential for DAOs, allowing them to adapt decentralized and on-chain governance tools to the dynamic and evolving nature of decentralized organizations.
- **Financial Structure:** Similar to LLCs, limited cooperative associations have the ability to be taxed as partnership, C-corporations and S-corporations. But the most useful and popular tax structure for LCAs which minimizes corporate double taxation and provides for patronage allocations based on patronage is the Subchapter T tax structure.
- **Profit Distribution:** If taxed under Subchapter T, profits earned by LCAs can be distributed among members based on agreed-upon formulas, aligning with the cooperative principle of benefit sharing based on patronage contribution. In a DAO context, this aligns with the principles of shared ownership and collective benefit, fostering a sense of community and collaboration.
- **Scaling.** Scaling is efficient—can scale democracy because cooperatives can be decentralized through crypto networks.
- **Legal Recognition:** Available for registration in 7 U.S. states and the District of Columbia, LCAs operate under specific regulations that vary across state statutes but generally conform to ULCAA. Note that LCAs are not recognized in some states as an entity that can be registered in the particular state (New York being a prime example).
- **Cooperative Principles:** LCAs adhere to cooperative principles such as democratic control (usually one member, one vote), voluntary and open membership, shared member economic participation, autonomy, and concern for the community. These principles resonate with the foundational values of DAOs, reinforcing democratic decision-making, community involvement, and shared economic benefits.
- **International Membership:** Some LCA frameworks have limitations on international membership, however, Colorado's does not. A foreign entity or person can become a full member of a Colorado LCA with full rights of any other member class as defined by the cooperative in its organizational documents. This proves useful when thinking about the global community that DAOs attract. There are also cooperative systems outside of the U.S. where legal development is underway.

### Patronage: Profit Distribution & Community Tokens

Patronage emerges as a foundational concept within the framework of Limited Cooperative Associations for DAOs, embodying a fusion of for-profit principles with community-driven values inherent in web3 ethos. Generally, patronage can be defined as a member's "use" of the cooperative, such as providing services, purchasing or selling goods through the cooperative or otherwise using the cooperative. There are many definitions of patronage, all specifically tailored to the operations of a particular cooperative. Defined in this paper as any member-accepted contribution of value, patronage allows members who own and govern the DAO utilizing the LCA model to provide various forms of value as quantifiable patronage to the DAO. This could involve attending events, organizing meetups, sponsoring community initiatives, purchasing and/or consumption of goods/services, fulfilling tasks/roles within the DAO, or any other method by which the cooperative chooses to define as "contribution of value".



## **Opolis - Digital Employment Cooperative**

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

In contrast to traditional shareholder-centric, profit maximization models, patronage redirects focus towards the community itself, empowering members to contribute value beyond seeking returns on investment. This redefined concept of contribution within cooperative mechanisms underscores the essence of patronage, accentuating activities and behaviors considered valuable to the community. This approach enables communities to devise systems that sustainably reward and incentivize valuable contributions, fostering growth and aligning technology, benevolence, and economics within the community.

Integral to cultivating the internal economic framework of the LCA DAO is the community patronage token. Serving as an internal unit of account for member patronage, it is awarded to members based on their patronage activities. The use of tokens not only incentivizes membership contribution and activity, but also ensures that distributions are directly attributed to active participation and contribution.

Patronage tokens represent a novel approach within the DAO landscape, operating on a distinct model that diverges from traditional securities. Unlike securities, which hinge on the expectation of profit from the efforts of others, patronage tokens derive their value directly from member contributions to the DAO ecosystem. This intrinsic link between token value and active participation may shield patronage tokens from being classified as securities for members of cooperatives, as their worth is tied to tangible contributions rather than speculative, passive returns.

By embracing patronage as a fundamental principle, LCAs transcend conventional models, offering a pathway towards sustainable growth and community-centric governance. In essence, LCAs represent a paradigm shift in DAO structuring, where patronage becomes the cornerstone of a vibrant and sustainable ecosystem, embodying the principles of cooperation, benevolence, and shared prosperity.

### **Addressing Jurisdiction Challenges & Regulatory Concerns**

Amidst the legal structures explored, the Limited Cooperative Association stands out as a distinctive model elegantly integrating a for-profit ethos with the intrinsic value of community contribution and social good. However, this innovative framework is not without its challenges. LCAs must navigate a complex and untested legal environment, subject to state-specific rules and regulations, presenting hurdles for DAOs operating across multiple jurisdictions. To tackle this navigation, we offer a few suggestions:

#### **For U.S. Jurisdiction Across States**

Engaging legal experts well-versed in state-specific requirements and establishing a robust compliance management system becomes crucial for the U.S.-based teams adopting the LCA model. Working closely with a legal team to ensure a clear understanding of cooperative principles and legal aspects among members and stakeholders is crucial for the successful implementation.

#### **For International Teams**

LCA's permit foreign ownership, so teams outside of the U.S. can still consider utilizing this framework around their DAO by working with state-specific legal experts.

### **Example Use Cases**

#### **The Employment Commons (Opolis)**

The Employment Commons of Opolis is a pioneer in the LCA DAO class as a cooperative employment platform providing a multi-stakeholder shared-services cooperative. This DAO cooperative, having a membership structure including Employee and Coalition members, redefines employment practices by functioning as Employer of Record, negotiating benefits, and providing common administrative services for members.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

The innovative incentive mechanism, where both classes of members receive \$WORK tokens tied to payroll volume growth, fosters a collaborative and sustainable work ecosystem. By emphasizing member-centric benevolence and aligning incentives, the Employment Commons serves as a progressive model within the LCA framework, revolutionizing traditional employment structures like Paychex or Gusto.

*Membership Structure:* The Commons thrives on a diverse membership structure consisting of two key classes: Employee Members and Coalition Members.

Employee Members are members who actively consume payroll services through the cooperative. They join via a pre-established legal entity, typically an LLC, C-Corp, or S-Corp which employs its owners through their entity.

Joining the Employment Commons allows Employee Members eligibility for crucial benefits such as payroll processing and comprehensive health insurance coverage together as a group.

Coalition Members are members who earn patronage in the cooperative by making referrals of new Employee Members. They do not actively consume services themselves, but have an interest in growing the community both economically and philosophically. Common examples of Coalition Members are other DAOs, trade associations, insurance brokers, etc.

***Revolutionizing Employment Practices:*** Functioning as Employer of Record (EoR), the Employment Commons entity provides critical infrastructure and compliance activities for its members. This strategic role empowers negotiation on behalf of its members, ensuring the acquisition and provision of a broad spectrum of employee benefits and other commercial benefits. This approach introduces a paradigm shift in the conventional employment sector, fostering growth incentives alignment amongst stakeholders without concern of profit exploitation.

***Incentive Mechanism:*** Both classes of Members, Employee and Coalition, receive community patronage tokens called \$WORK, which are only granted to active LCA members. These tokens, which are tied to payroll volume growth, serve as a unit of account for patronage activity. Each Member earns \$WORK for their contributions of value to The Employment Commons, which allows them to share in profits, access services like healthcare together as a group, and participate in decision making. The design of \$WORK ensures that it functions as a rewarding mechanism for all member patrons actively participating in growing the ecosystem of the Commons. The Employment Commons stands as a testament to progressive employment practices under the LCA wrapper, intertwining innovative technological frameworks with member-centric benevolence, thereby redefining the contours of sustainable and collaborative work ecosystems.

### **SporkDAO**

SporkDAO serves as another example of a Limited Cooperative Association DAO due to its embodiment of community-driven ownership and governance overseeing the ETHDenver ecosystem. Established in 2018, SporkDAO, an extension of ETHDenver, actively involves \$SPORK holders in shaping events, investments, and community interests. With a foundation rooted in blockchain, decentralization, and community empowerment, SporkDAO operates as a member-owned community, emphasizing transparency, aligned incentives, and active participation of members in steering the trajectory of the organization. Through initiatives such as Bufficorn Ventures and the ColoradoJam Incubator, SporkDAO showcases a commitment to year-round support, fostering innovation, and collaboration within the broader Ethereum ecosystem. The model exemplified by SporkDAO represents a departure from centralization, facilitating the transition of ownership to its community.



**Foundation and Recognition:** Founded in 2018, ETHDenver has become synonymous with blockchain technology, decentralization, education, community, and culture. The renowned [BUIDLathon](#) and festival events have propelled it to the forefront of web3 initiatives. SporkDAO operates as an extension of ETHDenver, actively engaging \$SPORK holders in community governance.

**Community Governance and \$SPORK:** SporkDAO functions as a member-owned community event and education community where \$SPORK holders play a crucial role in shaping the trajectory of events and investments. With a promise of future patronage distributions and a primary focus on community governance, \$SPORK holders actively perpetuate the legacy of ETHDenver. Members are able to earn \$SPORK through their patronage, defined by event contributions which can include things like attending ETHDenver, serving as an ETHDenver volunteer or Steward, speaking, submitting a project to the BUIDLathon, purchasing merchandise, and more.

**Year-Round Support Initiatives:** Beyond steering events and investments, SporkDAO extends its support year-round through initiatives such as Bufficorn Ventures and the ColoradoJam Incubator. These initiatives showcase the commitment of SporkDAO to fostering innovation and collaboration within the broader Ethereum ecosystem.

**Community-Owned Ecosystem:** SporkDAO exemplifies the ethos of community-driven ownership, reinforcing ETHDenver's position as a dynamic hub for Ethereum and blockchain innovation. \$SPORK holders actively contribute to the vibrancy of the ecosystem, aligning with the principles of transparency, aligned incentives, and benevolence. This model made way for what was once centralized to exit to its community.

## **How to: LCA Setup & Tokenomics**

Setting up a Limited Cooperative Association (LCA) for your DAO involves several considerations and steps to ensure legal compliance and operational efficiency. Here's a guide to help you consider if this framework will work well for your decentralized autonomous organization:

### 1. Consider Your Jurisdiction Selection:

- Consider establishing your LCA in one of several states. The uniform law, revised to fit state statutes, has been adopted in Colorado, Kentucky, Nebraska, Oklahoma, Utah, Vermont, and Washington, as well as the District of Columbia. While Indiana, Minnesota, New Hampshire, Texas and Wisconsin offer similar statutory structures, they do not specifically call them LCAs, more often as simply unincorporated cooperative associations. Some of the states only have nonprofit cooperative association laws, so choose your state carefully.
- Colorado specifically offers a state-level securities exemption and a welcoming regulatory environment given the open support of web3 enabled legal structures, particularly using the LCA entity form.
- LCAs in many states permit foreign ownership and participation, so you do not have to be a U.S. citizen to use this model.

### 2. Assess Your Operational Model:

- Understand that the LCA framework emphasizes cooperative principles over traditional corporate structures, a key feature of this model.
- Determine if your DAO grants members governance rights and financial obligations based on their patronage or some other form as provided in the statutes. Patronage is a key feature of the LCA model, and is defined as a member's contribution of value to the organization.
- Consider effective game design principles to create structures that will foster long-term sustainability and success. Game theory considerations are fundamental to determining patronage, and the relationship between tokens, value accrual, and distribution incentivizes stakeholders to behave in ways that ultimately will contribute to the accumulation and equitable distribution of value within the DAO.



3. Consider Your Membership Structure:

- Assess whether your DAO operates on a cooperative basis where members' engagement, or patronage, defines their membership. Remember that you can have multiple groups of membership with different qualifications, rights and responsibilities for each group. If your DAO operates on a cooperative basis, adopting a "1 member, 1 vote" style system, this is a good fit for a patronage-based LCA structure. Many LCA statutes allow for voting based on patronage as well as the standard voting structure.
- Consider whether your DAO has investor or non-patron members, who can also participate in an LCA in both governing and sharing of net margins.

4. Understanding Legal Considerations:

- Seek securities exemptions if necessary for token issuance for both patron and investor members equally.
- Establish legal liability shields to protect members and the board from personal liability through contractual means in the bylaws, membership agreements, or indemnification agreements.
- Elect a board and conduct at least annual membership meetings to ensure proper, democratic governance and transparency.
- The Corporate Transparency Act (CTA), effective from January 1, 2024, requires certain businesses to report details about their owners to the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN). Businesses covered by the CTA need to submit a Beneficial Ownership Information Report (BOI report) according to specific deadlines. The CTA applies to "reporting companies," which include any U.S. or foreign corporations, limited liability companies, or similar entities, including cooperatives, that are registered to operate in the U.S. by filing with a state or tribal office. Check with FinCEN to see if your organization will be required to report.

5. Defining Tokenomics:

- Consider how patronage tokens will be designed to ensure alignment of incentives among stakeholders with diverse interests. Document how you define membership and patronage as part of your business plan.
- Use patronage tokens as a unit of account to track inputs and outputs of the entity.
- Explicitly define economic and governance rights of investor and patron members.
- Keep investor and patron memberships separate, though consider whether investors can also be patron members.
- Address logistical challenges related to "rage quitting" and token membership logistics.
- Consider how you want to build the social implications of staking member tokens within the organization.

6. Resources for LCA Setup:

- Analyze dissolution cases and tax implications to inform your DAO's structure and operations. Consult with cooperative developers, legal experts, and state-specific resources like the Rocky Mountain Employee Ownership Center (RMEOC) or state-specific Employee Ownership Offices (here is Colorado's) for help. Many states will have a cooperative development center that can be contacted for more information.
- Ensure compliance with business planning requirements before proceeding with DAO setup.

7. Reporting and Compliance:

- Understand KYC requirements for compliance with and potential tax implications for members.
- Comply with reporting requirements for ownership changes and operational decisions.





## Web3 DAO Cooperative Canvas

A tool developed by [start.coop](https://start.coop), has proven useful to assist those looking for guidance on how to think through their organizational design. We recommend starting here to distill your thinking as you proceed on the steps in the previous section.

Below is an example of ideas that can be developed by using the tool. *This is for illustrative purposes only.*

<b>1. Purpose</b> Consider whether DAO has public benefit purpose. <i>What does your project hope to achieve? Why does it exist?</i>				
<b>2. Stakeholders</b> <i>Who are your member-owners, those with long-term interests?</i>  Core Team Members (may also be Users) Developers Investors (retail & institutional) Protocols  <i>Who are your non-owner stakeholders?</i>  Non-Member Users Developers Networks Application Layer	<b>3. Benefits</b> <i>What benefits do your member-owners get?</i>  Patronage share of gross margins  Community/network  Economies of scale  Patronage token utility  Voting rights  Right to guide direction of coop	<b>4. Responsibilities</b> <i>What financial and non-financial (e.g., labor) inputs are required for member-owners?</i>  Investment Development Protocol partner recruitment Node operation Participation in governance	<b>6. Governance Rights</b> <i>Which key decisions are made, through which processes, and by which stakeholders?</i>  Founding team makes most decisions in initial phases  Progressive decentralization  Sociocracy form of governing  Weighted voting based on patronage or standard coop voting: 1 member, 1 vote  Delegation	<b>7. Financial Rights</b> <i>What determines if/how you distribute surplus profits (dividends) to member-owners?</i>  Governing team generally determines when surplus is allocated  Share in profit and patronage distribution  Distributions based on membership class and patronage within the class  Relationship of DAO to any sub-DAOs in network
<b>5. Guidance</b> <i>Who are your advisors, and which stakeholder groups do they represent? If you have a board of directors, how many board seats go to each stakeholder group?</i>  Consider whether sub-DAO's will hold board or committee seats. You can have non-patron members in the cooperative.		<b>8. Investment</b> <i>How much money do you need to be viable over the next year? How much can you raise from member-owners vs other sources?</i>  If raising from passive investors, need to seek an applicable exemption from securities registration. Investors can belong to both an investor and member class. There are statutory restrictions on governance and economic distributions to investors.		

By following these steps and considerations, you can navigate the setup and tokenomics of your LCA DAO effectively, ensuring both necessary legal compliance and operational success. A blank version of the tool can be found [here](#).

## Conclusion

Establishing a DAO requires thorough and meticulous planning, emphasizing the need for advanced considerations before embarking on this journey. Governance decisions should not be taken lightly, and deep contemplation and foresight are essential to mitigate potential challenges in the future. While the process may become more streamlined with time, it remains a serious endeavor that demands careful attention to detail. Our comprehensive analysis highlights the depth of considerations required, serving as a guide for those venturing into the realm of DAOs.

From tracing their evolutionary milestones and challenges, to exploring the legal frameworks that tether their real-world existence, together we have witnessed the dynamic interplay between community ownership, idealism, and pragmatism that exist within decentralized autonomous organizations.

Throughout our analysis, we have delved into various legal options for DAOs, including C-Corporations, General Partnerships, Limited Liability Companies, Limited Partnerships, and even unconventional entities like the Marshall Islands DAO and Unincorporated Nonprofit Associations or Foreign Foundations. Our hypothesis, grounded in the conviction that DAOs can flourish within a legal framework that prioritizes sustainability, durable aligned incentives for stakeholders, and structural benevolence, has ultimately guided us towards advocating for Limited Cooperative Association structures.



Central to the success of LCAs is the concept of patronage, which has emerged as a defining feature within this legal structure. Patronage not only fosters community engagement and participation but also ensures a fair and equitable distribution of rewards based on contributions. Moreover, addressing jurisdictional challenges and regulatory concerns is essential for the widespread adoption of DAOs, necessitating collaborative efforts and innovative solutions to navigate the complex legal landscape for both domestic and international teams.

As we reflect on current use cases like the Employment Commons and SporkDAO, it becomes evident that DAOs have the potential to revolutionize traditional organizational models, empowering communities and driving collective action towards shared goals. Moving forward, the key lies in effectively handling LCA setup and tokenomics, leveraging the principles of transparency, inclusivity, and sustainability to guide our actions and build robust internal economic engines for aligned incentives.

In closing, our exploration of DAOs and their legal frameworks serves as a testament to the transformative power of decentralized governance. By embracing the ethos of web3 and embracing legal structures that uphold principles of sustainability and community-driven decision-making, we pave the way for a more inclusive and enduring future in the realm of decentralized finance and blockchain technology. As we continue on this journey, let us remain steadfast in our commitment to harnessing the potential of DAOs for the betterment of their members and society at large.

## **Contributors**

1. John Paller (Founder, Executive Steward, Opolis & ETHDenver) - [john@opolis.co](mailto:john@opolis.co)
2. Yev Muchnik (Legal Advisor, Launch Legal) - [yev@launch-legal.com](mailto:yev@launch-legal.com)
3. Hannah Oreskovich (Board Member, SporkDAO) - [hannah@ethdenver.com](mailto:hannah@ethdenver.com)
4. Linda Phillips (Legal Advisor, Jason Wiener, P.C.) - [linda@jrwiener.com](mailto:linda@jrwiener.com)
5. Jacqueline Radebaugh (Legal Advisor, Jason Wiener, P.C.) - [jacqueline@jrwiener.com](mailto:jacqueline@jrwiener.com)
6. Felix Machart (Partner, Greenfield Capital) - [felix.machart@greenfield.xyz](mailto:felix.machart@greenfield.xyz)

## **Definitions**

**\$SPORK**: \$SPORK is a native token associated with SporkDAO, a decentralized autonomous organization that operates within the Ethereum ecosystem. \$SPORK serves various functions within the SporkDAO community, including governance, participation incentives for patronage (see Patronage), and potentially revenue sharing. Holders of \$SPORK tokens typically have voting rights within the DAO, allowing them to participate in decision-making processes related to events, investments, and other community matters. Additionally, \$SPORK tokens may also grant holders access to certain benefits or privileges within the SporkDAO ecosystem. The specific utility and features of \$SPORK may vary depending on the design and governance mechanisms implemented by SporkDAO.

**\$WORK**: The \$WORK token is a token associated with the Opolis platform, providing a means of accessing membership benefits, participating in governance, earning rewards, and facilitating transactions as patronage (see Patronage) within the ecosystem.

**Aragon Court**: Aragon Court is a decentralized dispute resolution platform that operates on the Aragon network. It allows users to create and settle disputes through a peer-to-peer arbitration system.





**Blockchain Technology:** Blockchain is a distributed ledger technology that records transactions across multiple computers in a secure, transparent, and tamper-resistant manner. It forms the underlying technology for most cryptocurrencies.

**Beneficial Ownership Information Report:** Many companies are required to report information to FinCEN about the individuals who ultimately own or control them. FinCEN began accepting reports on January 1, 2024. [Learn more about reporting deadlines.](#)

**Bitcoin:** The first peer-to-peer electronic cash system developed by Satoshi Nakamoto.

**Bufficorn Ventures:** Bufficorn Ventures is a venture capital fund associated with ETHDenver, one of the largest Ethereum-focused hackathons and conferences. Bufficorn Ventures aims to invest in projects and startups within the Ethereum ecosystem, particularly those that have participated in or are aligned with the ETHDenver community. The name "Bufficorn" is a combination of "buffalo" and "unicorn," symbolizing strength and rarity, reflecting the ethos of the Ethereum community. The fund seeks to support innovative projects and initiatives that contribute to the growth and development of the Ethereum ecosystem.

**BUIDLathon:** BUIDLathon is an event, often a hackathon, focused on building and developing projects within the blockchain and cryptocurrency space. The term "BUIDL" is a play on "HODL," emphasizing the act of building rather than just holding assets. The term emerged at ETHDenver (see ETHDenver).

**ColoradoJam Incubator:** ColoradoJam Incubator is an initiative associated with ETHDenver, focusing on fostering innovation and collaboration within the broader Ethereum ecosystem. It serves as a platform for nurturing early-stage projects and startups that are aligned with the values and goals of the Ethereum community. The incubator provides support, resources, mentorship, and networking opportunities to help these projects grow and succeed. ColoradoJam Incubator aims to accelerate the development of decentralized applications (dApps), blockchain solutions, and other innovative projects within the Ethereum space, contributing to the overall advancement of the ecosystem.

**Corporate Transparency Act:** The bipartisan Corporate Transparency Act, enacted in 2021 to curb illicit finance, requires many companies doing business in the United States to report information about the individuals who ultimately own or control them.

**ConstitutionDAO:** ConstitutionDAO was a decentralized autonomous organization formed to collectively bid on a copy of the United States Constitution. It gained attention for its community-driven approach, even though the bid was ultimately unsuccessful.

**Contribution of Value:** Contribution of value refers to the act of adding meaningful contributions or resources to a project or community. In the context of DAOs, it may involve providing skills, funding, or effort to support the DAO's objectives. Also known as [patronage](#).

**Cooperative Organization:** Cooperatives are people-centered enterprises owned, controlled and run by and for their members to realize their common economic, social, and cultural needs and aspirations.

**DAO LLC:** A DAO or Decentralized Autonomous Organization is a type of limited liability company (LLC) in which there is no single commanding body behind decisions. All decisions are made by majority vote by either those who have invested in the organization or through a computer algorithm, depending on the type of DAO.

**Decentralized Applications (dApps):** Decentralized applications, or dApps, are software programs that run on a blockchain or peer-to-peer network of computers instead of on a single computer. DApps (also called "dapps") are thus outside the purview and control of a single authority.

**Decentralized Autonomous Organization (DAO):** A decentralized autonomous organization (DAO) is an emerging form of legal structure that has no central governing body and whose members share a common goal to act in the best interest of the entity. Popularized through cryptocurrency enthusiasts and blockchain technology, DAOs are used to make decisions in a bottom-up management approach.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

**Decentralized Finance (DeFi):** Decentralized finance (DeFi) is an emerging financial technology based on secure distributed ledgers similar to those used by cryptocurrencies.

**ETHDenver:** ETHDenver is one of the largest Ethereum community events, featuring a hackathon (BUIDLathon), workshops, and presentations. It serves as a gathering for developers, enthusiasts, and industry professionals in the Ethereum space.

**Ethereum:** Ethereum is a network of computers all over the world that follow a set of rules called the Ethereum protocol. The Ethereum network acts as the foundation for communities, applications, organizations and digital assets that anyone can build and use.

**Financial Crimes Enforcement Network (FinCEN):** FinCEN is a bureau of the U.S. Department of the Treasury. The Director of FinCEN is appointed by the Secretary of the Treasury and reports to the Treasury Under Secretary for Terrorism and Financial Intelligence. FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

**Foreign Foundation:** A foreign foundation typically refers to a charitable organization established in a jurisdiction outside of one's home country.

**General Partnership:** A general partnership is a business arrangement by which two or more individuals agree to share responsibilities, assets, profits, and financial and legal liabilities of a jointly-owned business.

**Giveth:** Giveth: Giveth is a decentralized platform that facilitates charitable giving and community-driven philanthropy using blockchain technology. It aims to create transparency, accountability, and efficiency in charitable donations by enabling donors to track their contributions and ensure they reach their intended recipients.

**Governance Token:** A governance token is a cryptocurrency token that grants holders the right to participate in the governance of a decentralized organization or platform. Holders of governance tokens typically have voting rights and can influence decision-making processes related to protocol upgrades, funding allocation, and other governance matters within the ecosystem.

**Gusto:** Gusto's all-in-one people platform puts the tools you need to hire, pay, and manage your team at your fingertips.

**KYC:** Know Your Client (KYC) is a standard in the investment industry that ensures advisors can verify a client's identity and know their client's investment knowledge and financial profile.

**Limited Cooperative Association (LCA):** An LCA is an unincorporated association of individuals or businesses that unite to meet their mutual interests by creating and using a jointly owned enterprise.

**Limited Liability Company (LLC):** An LLC is a flexible form of business organization that combines elements of a corporation and a partnership. It provides limited liability to its owners (members).

**MakerDAO:** MakerDAO is a decentralized autonomous organization (DAO) and platform built on the Ethereum blockchain. It facilitates the creation and management of the stablecoin Dai, which is pegged to the value of the US dollar.

**Marshall Islands DAO LLC (MIDAO):** The Marshall Islands DAO LLC refers to a decentralized autonomous organization registered in the Marshall Islands. It operates based on smart contracts and blockchain technology.

**MolochDAO:** MolochDAO is a decentralized autonomous organization designed for pooling Ethereum resources to fund public goods and development projects. The name is inspired by a mythical Canaanite deity associated with sacrifice.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

Ooki DAO: Ooki DAO was a decentralized autonomous organization (DAO) involved in a legal case with the Commodity Futures Trading Commission (CFTC). Originally known as the bZx DAO, it was alleged to have violated the Commodity Exchange Act (CEA) by operating as an unregistered futures commission merchant and offering leveraged and margined retail commodity transactions in digital assets. The case brought attention to the legal status and liabilities of DAOs under existing regulatory frameworks.

Opolis Employment Commons: The Employment Commons is a Limited Cooperative Association registered in the State of Colorado. Its purpose is to provide benefits, payroll and shared services for independent workers. Opolis, Inc. is the elected "Trustee" which provides services (administrative, marketing, technology) to the Commons and its Members. Together these are the Opolis Employment Commons.

Patronage: Defined in this work as a contribution of value.

Paychex: Paychex, Inc., headquartered in Rochester, New York, is a provider of human resources, payroll, and employee benefits outsourcing services for small- to medium-sized businesses.

Public Goods: In economics, a public good refers to a commodity or service that is made available to all members of society. Typically, these services are administered by governments and paid for collectively through taxation.

S-Corp: S corporations are entities taxed under Subchapter S of the Internal Revenue Code that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes.

SporkDAO: SporkDAO is a decentralized autonomous organization associated with ETHDenver (see ETHDenver), focusing on community-driven initiatives and governance within the Ethereum ecosystem.

Staking: Staking involves locking up a certain amount of cryptocurrency in a wallet to support the operations of a blockchain network. In return, participants may receive rewards, such as additional tokens.

Subchapter T Corp: These are cooperatives taxed under Subchapter T (also called T-corporations) of the Internal Revenue Code that benefit from minimizing taxation at the company level, passing through allocations of profits and losses to members based on their patronage in the cooperative.

The DAO: The DAO (Decentralized Autonomous Organization) was a crowdfunding project on the Ethereum blockchain. It aimed to be a venture capital fund governed by token holders but faced a critical exploit, leading to a controversial hard fork.

Token Holder: A token holder is an individual or entity that holds cryptocurrency tokens representing ownership or participation rights in a blockchain project or decentralized organization.

Tragedy of the Boardroom: The tragedy of the boardroom refers to the potential for misalignment of incentives and conflicts of interest among decision-makers within traditional corporate structures. In Web3, it can occur when platforms or networks scale, which shows the tendency for the platform or network to lose benevolence toward users and collaborators when there is a centralized, exclusively shareholder-focused entity as the market maker.



Uniform Limited Cooperative Association Act (ULCAA): ULCAA provides for a new and unique form of cooperative organization that provides for the organization of unincorporated limited cooperative associations, or "LCAs," that can have outside investors admitted as members of the organization. What makes ULCAA different from other cooperative entity statutes in Colorado and other states where it has been adopted is the ability of a limited cooperative association to admit outside investors as members with voting rights and participation in the financial gains or losses from the operations of the LCA. This is a significant change from traditional cooperatives of all kinds and from the cooperative models on which much federal case law related to cooperatives has been developed. To what extent federal laws relating to cooperatives will apply or be available to LCAs organized under an ULCAA-type state statute will only be determined as LCAs come into wider use. These federal laws include, among many others, cooperative provisions in the Internal Revenue Code (Subchapter T) and limited exemptions from federal antitrust laws for agricultural cooperatives.

Unincorporated Nonprofit Association (UNA): A group of individuals or entities organized for nonprofit purposes without undergoing formal incorporation, often characterized by an informal structure and shared goals. UNAs typically lack separate legal status, and members may have personal liability for the association's activities.

Venture Capital (VC): Venture capital is a form of private equity funding provided to early-stage, high-potential companies with growth potential in exchange for ownership equity.

Web3: Web3 represents the next generation of the internet, characterized by decentralized protocols, blockchain technology, and the ownership and control of data by users.

Wyoming Legislation for DAO LLCs: Wyoming legislation for LLCs refers to the legal framework and regulations governing limited liability companies (LLCs) in the state of Wyoming, known for its blockchain-friendly approach for DAOs.

## **References & Reading**

a16z Crypto. (2022, June). DAO Legal Framework Part 2. Retrieved on January 29, 2024, from <https://api.a16zcrypto.com/wp-content/uploads/2022/06/dao-legal-framework-part-2.pdf>. Written by Jennings, Miles (Head of Decentralization & General Counsel at a16z crypto), and David Kerr (Principal at Cowrie, LLC and Head of Research at the DAO Research Collective).

Baker, McKenzie. "United States: Highlights of Legal and Tax Differences of Statutory and Contractual Limited Liability Companies (LLCs)." Baker McKenzie, [2022], <https://www.bakermckenzie.com/-/media/files/people/lyubomir-georgiev/tt-article--united-states--highlights-of-legal-and-tax-differences-of-statut.pdf>.

Baker, Paddy. "DAO Platform Aragon Begins Recruiting Jurors for Tokenized Court." CoinDesk. Published January 7, 2020. Accessed January 7, 2020. <https://www.coindesk.com/tech/2020/01/07/dao-platform-aragon-begins-recruiting-jurors-for-tokenized-court/>.

Bufficorn Ventures. Accessed January 2024. <https://bufficorn.ventures/>.

Buterin, Vitalik. "DAOs, DACs, DAs and More: An Incomplete Terminology Guide." Ethereum Blog, posted by Vitalik Buterin on May 6, 2014. Available at: <https://blog.ethereum.org/2014/05/06/daos-dacs-das-and-more-an-incomplete-terminology-guide>

Cardozo, Benjamin. (2015.) Deconstructing the DAO: The Need for Legal Recognition and the Application of Securities Laws to Decentralized Organizations [PDF File]. Cardozo Law Review, pp. 1-35.

Cambridge Dictionary. "Blockchain." Cambridge Dictionary, Cambridge University Press. Accessed on [insert access date]. Available at: <https://dictionary.cambridge.org/us/dictionary/english/blockchain>

Charity Lawyer Blog. "Unincorporated Nonprofit Association." Charity Lawyer Blog, [2021, November 22], <https://charitylawyerblog.com/2021/11/22/unincorporated-nonprofit-association/>.



Chen, J. (2024, January 15). Know Your Client (KYC) Definition. Retrieved from <https://www.investopedia.com/terms/k/knowyourclient.asp>

CoinMarketCap. (n.d.). Governance Token. Retrieved from: <https://coinmarketcap.com/academy/glossary/governance-token>

Colorado Secretary of State. (2012, April 2). Uniform Limited Cooperative Association Act Overview. Retrieved from [https://www.sos.state.co.us/pubs/business/news/2012/20120402\\_ULCAA\\_Dean.html](https://www.sos.state.co.us/pubs/business/news/2012/20120402_ULCAA_Dean.html)  
James B. Dean, Chair of Colorado ULCAA Drafting Committee, Reporter for NCCUSL ULCAA Drafting Committee.

ConstitutionDAO. "ConstitutionDAO." Wikipedia. Accessed January 2024. <https://en.wikipedia.org/wiki/ConstitutionDAO>.

Delaware Inc. "LLC vs. Limited Partnership." Delaware Inc., <https://www.delawareinc.com/llc/llc-vs-limited-partnership/>.

ETHDenver. (n.d.). Retrieved from: <https://www.ethdenver.com/>

ETHDenver. "What is the ETHDenver BUIDLathon and how do I enter?" ETHDenver Support Center. Accessed January 2024. <https://support.ethdenver.com/hc/en-us/articles/16969445714843-What-is-the-ETHDenver-BUIDLathon-and-how-do-I-enter>.

Ethereum. (n.d.). What is Ethereum? Ethereum Foundation. Retrieved from: <https://ethereum.org/what-is-ethereum>

FinCEN. (n.d.). U.S. Beneficial Ownership Information Registry Now Accepting Reports. Retrieved from <https://www.fincen.gov/news/news-releases/us-beneficial-ownership-information-registry-now-accepting-reports>

FinCEN. (n.d.). What We Do. Retrieved from <https://www.fincen.gov/what-we-do>

Giveth. (n.d.). Retrieved from: <https://giveth.io/>

Hayes, Adam. "Venture Capital: What Is VC and How Does It Work?" Investopedia. Last updated on January 27, 2024. Reviewed by Cierra Murry and fact-checked by Hans Daniel Jasperson. Accessed on [insert access date]. Available at: <https://www.investopedia.com/terms/v/venturecapital.asp>

International Cooperative Alliance. "What Is a Cooperative?" International Cooperative Alliance. Accessed January 2024. <https://ica.coop/en/cooperatives/what-is-a-cooperative>.

JD Supra. "Vermont Passes New Blockchain Legislation." JD Supra, [2018, July 10], <https://www.jdsupra.com/legalnews/vermont-passes-new-blockchain-53037/>.

Investopedia. "Basics of Forming a Limited Liability Company (LLC)." Investopedia, Updated December 20, 2023, reviewed by Jefreda R. Brown, fact-checked by Prableen Bajpai, <https://www.investopedia.com/articles/investing/091014/basics-forming-limited-liability-company-llc.asp>.

Investopedia. "C Corporation." Investopedia, Updated August 14, 2023, reviewed by Khadija Khartit, fact-checked by Kirsten Rohrs Schmitt, <https://www.investopedia.com/terms/c/c-corporation.asp>.

Investopedia. "Decentralized Applications (DApps)." Investopedia, Updated April 16, 2023, reviewed by JeFreda R. Brown, fact-checked by Michael Logan. Accessed January 2024. <https://www.investopedia.com/terms/d/decentralized-applications-dapps.asp>

Investopedia. "General Partnership." Investopedia, Updated August 14, 2023, reviewed by Thomas J. Catalano, fact-checked by Amanda Jackson, <https://www.investopedia.com/terms/g/generalpartnership.asp>.



## Opolis - Digital Employment Cooperative

Navigating DAO Legality: Unpacking Legal Frameworks and Proposing Limited Cooperative Associations (LCAs)

Investopedia. "Public Good Definition." By Jason Fernando, Updated March 20, 2022, Reviewed by David Kindness, Investopedia, <https://www.investopedia.com/terms/p/public-good.asp>.

Investopedia. "What Is a DAO (Decentralized Autonomous Organization)?" Investopedia. Accessed January 2024. <https://www.investopedia.com/tech/what-dao/>.

Internal Revenue Service (IRS). "Foreign Foundation." IRS.gov. Accessed January 2024. <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations>.

Internal Revenue Service (IRS). "S Corporations." IRS.gov. Accessed January 2024. <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations>.

"Limited Liability Company Structure and Benefits Defined." Investopedia, Updated September 30, 2023, Reviewed by Lea D. Uradu, Fact checked by Amanda Jackson, <https://www.investopedia.com/terms/l/lc.asp>

MakerDAO. (n.d.). Retrieved from: <https://makerdao.com/en/>

MIDAO (Marshall Islands DAO). (Accessed on February 1, 2024). Retrieved from: <https://www.midao.org/>

Mohebbi, N. H., Valdez, Y. D., Wink, S. P., Yatter, D. K., Trombly, P., Zuckerman, A., & Behar, D. (2023, July 13). What's Next for DAOs in the Wake of the Ooki Decision? [Blog post]. Retrieved from <https://www.fintechanddigitalassets.com/2023/07/whats-next-for-daos-in-the-wake-of-the-ooki-decision/>

Morris, David Z. "CoinDesk Turns 10: How the DAO Hack Changed Ethereum and Crypto." Consensus Magazine, May 9, 2023. Accessed May 9, 2023. <https://www.coindesk.com/consensus-magazine/2023/05/09/coindesk-turns-10-how-the-dao-hack-changed-ethereum-and-crypto/>.

Nakamoto, Satoshi. (2008, October 31). Bitcoin: A Peer-to-Peer Electronic Cash System. Retrieved from: <https://bitcoin.org/bitcoin.pdf>

Napolitano, E. (2023, June 9). CFTC Wins Lawsuit Against Ooki DAO. CoinDesk. Retrieved from: <https://www.coindesk.com/policy/2023/06/09/cftc-wins-lawsuit-against-ooki-dao/>

Opolis. (2022, November). Opolis: The Employment Commons. A Next Generation Employment Ecosystem for the Self Sovereign Worker [White paper]. Retrieved from <https://opolis.co/wp-content/uploads/2022/11/White-paper.pdf>  
Authors: John Paller, Hannah Oreskovich, Eddie Pastore, Wesley Kay, Dustin Goodwin, Jonathan Kestenbaum, Dana Look-Arimoto, Yev Muchnik, Eric Kintner, David Perry, Derek Razo, Nathan Schneider.

Opolis. (n.d.). Rewards. Opolis. Retrieved on January 29, 2024, from <https://opolis.co/explore-opolis/rewards/>

Orrick. (2023). "Cooperatives: Path to Compliance for Web3." Retrieved from: <https://media.orrick.com/Media%20Library/public/files/insights/2023/cooperatives-path-to-compliance-for-web3.pdf>

Ostrom, E. (1990). Governing the Commons: The Evolution of Institutions for Collective Action. Cambridge University Press.

Radebaugh, Jacqueline, & Muchnik, Yev. (2023). "Solving the Riddle of the DAO with Colorado's Cooperative Laws" [Online Report]. *The Defiant*. Retrieved from: <https://jrwiener.com/the-defiants-exclusive-report-solving-the-riddle-of-the-dao-with-colorados-cooperative-laws-by-jacqueline-radebaugh-and-yev-muchnik/>

Rikken, Olivier & Janssen, Marijn & Kwee, Zenlin. (2019). Governance challenges of blockchain and decentralized autonomous organizations. *Information Polity*. 24. 1-21. 10.3233/IP-190154.  
Stinson LLP. "Decentralized Autonomous Organization Laws Across the US." Stinson LLP, [2023, October 4], <https://www.stinson.com/newsroom-publications-decentralized-autonomous-organization-laws-across-the-us>.



Sandor, Krisztian. "Crypto Staking 101: What is Staking?" CoinDesk. Updated February 21, 2023. Accessed February 21, 2023. <https://www.coindesk.com/learn/crypto-staking-101-what-is-staking/>.

Scholz, Trebor. "Stuck in the gig economy? Try platform co-ops instead | TED." TED. Uploaded [Date the Video was Published], <https://youtu.be/4OXhOXULEbA?si=Qc1mwNghB455ggze>

Secretary of State, Wyoming. "Frequently Asked Questions: Decentralized Autonomous Organizations (DAOs)." Wyoming Secretary of State, [2022, March 9], [https://sos.wyo.gov/Business/Docs/DAOs\\_FAQs.pdf](https://sos.wyo.gov/Business/Docs/DAOs_FAQs.pdf).

Sharma, Rakesh. "Decentralized Finance (DeFi)." Investopedia, Updated December 05, 2023, reviewed by Amilcar Chavarria, fact-checked by Jiwon Ma. Accessed January 2024. <https://www.investopedia.com/decentralized-finance-defi-5113835>.

SporkDAO. "Governance." Accessed January 2024. <https://www.sporkdao.org/governance>.

SporkDAO. "\$SPORK" Accessed January 2024. <https://www.sporkdao.org>.

Stackpole, T. (May 10, 2022). *What Is Web3?: Your guide to (what could be) the future of the internet*. Harvard Business Review. Retrieved on January 29, 2024, from <https://hbr.org/2022/05/what-is-web3>

Start.coop. Tools for cooperatives. Retrieved from <https://www.start.coop/>

Tennessee General Assembly. "House Amendment 0748 to House Bill 112." Tennessee General Assembly, [2023, April 6], [<https://www.capitol.tn.gov/Bills/112/Amend/HA0748.pdf>].

The European Commission. (n.d.). European Cooperative Society (SCE). Retrieved from [https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/cooperatives/european-cooperative-society-sce\\_en](https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/cooperatives/european-cooperative-society-sce_en)

"Token Holders Definition" Law Insider. Accessed January 29, 2024. URL: <https://www.lawinsider.com/dictionary/token-holders>

U.S. Securities and Exchange Commission (SEC). (2017). Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO. Retrieved from: <https://www.sec.gov/files/litigation/investreport/34-81207.pdf>

Wolters Kluwer. "Compare Types of Partnerships: LP, LLP, GP." Wolters Kluwer, [2020, August 4], <https://www.wolterskluwer.com/en/expert-insights/compare-types-of-partnerships-lp-llp-gp/>.

Wyoming LLC Attorney. "What is a DAO?" Wyoming LLC Attorney Blog, Accessed February 2024. <https://wyomingllcattorney.com/Blog/What-is-a-DAO>.

Wyoming State Legislature. "Senate File 0038." Wyoming State Legislature, [2021, April 21], <https://www.wyoleg.gov/Legislation/2021/SF0038>.

YouTube. "[Ameen Soleimani and Cassandra Shi~ Moloch Rises Moloch DAO]." YouTube, [2019, February 16], <https://www.youtube.com/watch?v=abTRJZcmPwI>.