What are DAOs?

10.10.2022 4 min read

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Before examining the legal challenges involving DAOs, it is important to initiate by conceptualizing what may be understood as a DAO and what characteristics are relevant to this new kind of organization. Foremost, it must be cautioned that a DAO, in practice, is nothing more than an algorithm: a sequence of defined instructions and executable actions written in a programming language. At this moment, DAOs are represented by one or more smart contracts, written on blockchains such as Ethereum, for instance.

DAO is the acronym for the conjunction of three words: Decentralized Autonomous Organization. Each one of these words brings important meanings to the concept and its practical applications.

The first of them, *Decentralized*, at first glance is demonstrated by the blockchain technology itself, which is, by its nature, a decentralized ledger of information, kept at the same time by several different computers connected to the network, avoiding the problem of a central point of failure that, if compromised, may impact the whole network, as well as removing the necessity of intermediaries. Through another view, the concept of decentralization can also be seen in DAO's governance, which, in contrast to traditional organizations, does not have a vertical hierarchy in which people conduct key positions to guide the organization's activities (as CEOs, CFOs, etc.), in a way that all members may vote in any proposal made by them following the rules stipulated in the DAO itself, in a decentralized manner.

The second of them, *Autonomous*, may also represent different meanings. Firstly, the idea of an autonomous organization may designate that there is no need for intermediaries in order to create a DAO given that it literally represents code in a programming language, executed by a computer regardless of any governmental approval nor register in a Secretary of State to regulate its functioning. Secondly, DAOs may have fully autonomous character – when they are algorithmic DAOs –, or, when member-managed, they may own an autonomous condition of functioning after determined proposals have been approved, in a manner that its execution would be automatic, hence autonomous, since the executable actions are stipulated in the smart contracts themselves.

The third of them, *Organization*, designates a collective of people with a common objective, a group of individuals with a unified purpose, to conclude certain conducts in favor of a shared goal – a vision chosen by the respective people to guide the actions that will be collectively promoted. In this sense, a DAO usually gathers two or more individuals (and potentially thousands across the world), organizing the work to be carried out by themselves to achieve the common objective of the organization.

DAOs may be classified into different categories, depending on their central objective. Among the categories most known and used are: (a) Protocol DAOs; (b) Investment or Venture DAOs; (c) Philanthropic DAOs; (d) Collector

DAOs; (e) Media DAOs; and (vi) Social DAOs.

Protocol DAOs: created to undertake the governance of a determined protocol, as a Decentralized Finance (DeFi) application. Among the most popular are MakerDAO and Uniswap, which, jointly, own a treasury of more than US$ 3 billion.

Investment DAOs: structured to raise funds for subsequent investment in companies, and may have a specific focus on certain segments or types of business. MetaCartel Ventures, for instance, is a DAO aiming to invest in decentralized applications in the early stages of development. In Brazil, AlmaDAO has announced itself as an Investment DAO focused on the democratization of Web3.

Philanthropic DAOs: created with philanthropic objectives, such as supporting specific social projects. The UkraineDAO, for instance, was created to facilitate the sending of donations to Ukrainian soldiers and assist the Come Back Alive foundation.

Collector DAOs: designed to serve as a pool of resources to be used in the purchase of collectibles, such as rare NFTs, whose members may have a share of them according to their personal investments. The most famous examples are the FlamingoDAO, which owns a collection of NFTs, and the ConstitutionDAO, which tried to buy one of the scarce copies of the first edition of the United States Constitution.

Media DAOs: focused on the creation of content for the community itself as a way to rethink the traditional media platforms existing, ensuring that the members themselves are the creators of content. BanklessDAO is one of the most known in the market.

Social DAOs: created with the aim to build communities, gathering people with similar ideas that are willing to exchange experiences and participate in social activities. One of the most active Social DAOs is called Friends With Benefits and admits members pursuant to the acquisition of its tokens.

Although a DAO may be classified in more than one category at the same time, these organizations usually have a greater focus on one of the categories listed above, even to avoid more complexity to the smart contracts supporting the DAO.

Bearing in mind this introduction about what are DAOs, the next articles of this e-book will approach the legal challenges to be faced during the building and functioning of a Decentralized Autonomous Organization.

>>> This content belongs to our e-book "DAOs: Legal Challenges for Decentralized Autonomous Organizations". Click here to read more articles.

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