

Decentralised Autonomous Organisations: A legal revolution on the horizon?

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As the global legal landscape evolves to accommodate ground-breaking technologies, Decentralised Autonomous Organisations (DAOs) have garnered significant attention, prompting several jurisdictions to explore their legal recognition.

It is conceivable that Jersey, known for its progressive approach to legislation and regulation, could contemplate the recognition of DAOs as legal entities in the foreseeable future. In this article, we examine the potential implications, benefits, and challenges of introducing DAOs into Jersey's legal framework, while also analysing the adoption of DAOs in other jurisdictions.

Understanding Decentralised Autonomous Organisations

DAOs represent a new class of self-governing, decentralised organisations that operate based on pre-defined rules and protocols. Enabled by smart contracts on blockchain networks, DAOs function without centralised control or management. DAOs encompass various purposes, such as project financing, asset management, and decentralised decision-making platforms.

Global Adoption of DAOs: A legal overview

Several jurisdictions have already made strides in incorporating DAOs into their legal systems. In 2021, Wyoming became the first US state to recognise DAOs as limited liability companies, thereby affording them legal protection and corporate structure. This pioneering decision has prompted other states to contemplate similar legislation. In 2022, Tennessee amended its corporation code to include provision for “decentralised organisations”.

Switzerland, a country renowned for its progressive stance on cryptocurrency and blockchain regulation, has also investigated the prospect of granting DAOs legal status. The Swiss Federal Council has considered the creation of a new type of legal entity specifically for DAOs, enabling their recognition under Swiss law.

Jersey LLC

Jersey has recently debuted a novel hybrid entity – the Jersey Limited Liability Company (LLC) – inspired by Cayman and Delaware LLC models. Notably, LLCs are gaining traction as DAO wrappers, expertly merging decentralised organisational structures with conventional legal frameworks. This innovative fusion enables DAOs to leverage the well-established LLC model while capitalising on the benefits of blockchain technology and smart contracts. Consequently, a Jersey LLC may be the ideal choice for those seeking a jurisdiction known for robust regulation, exceptional banking and corporate services, and a relatively flexible legal framework compared to civil law jurisdictions.

The Law Commission: Projects on emerging technologies

On 16 November 2022, the UK government entrusted the Law Commission with the task of examining DAOs. With growing prominence in crypto-token and decentralised finance sectors, DAOs differ from traditional organisations in aspects such as transparency and governance. The 15-month scoping study aims to assess DAOs' characteristics, elements, and legal treatment under English and Welsh law, while considering implications for UK company law and financial service regulations. Stakeholders were invited to share information on DAOs' structure, operation, integration into legal frameworks, and potential barriers within English and Welsh law. The deadline for evidence submission was 25 January 2023. The examination seeks to clarify DAO's legal status within the UK, aligning with the broader ambition to establish the UK as a global epicentre for crypto-asset technology.

Potential Benefits of DAO Legal Recognition in Jersey

1. **Economic Expansion:** By embracing DAOs, Jersey could attract innovative businesses and investments, bolstering its reputation as a leading offshore financial centre. Furthermore, the island could establish itself as a hub for blockchain and DAO innovation.
2. **Legal Clarity and Security:** Recognising DAOs as legal entities would provide clear guidelines and regulations for their operation, reducing the potential for fraudulent activities and ensuring a transparent and secure environment for DAO participants.
3. **Enhancing Jersey's International Standing:** As more jurisdictions acknowledge the legal status of DAOs, Jersey's early adoption could reinforce its position as a forward-thinking and influential player in the global financial and legal landscape.

Challenges of Introducing DAOs as Legal Entities in Jersey

1. **Regulatory Complexities:** DAOs' decentralised nature may present regulatory challenges, particularly concerning Anti-Money Laundering and Combating the Financing of Terrorism. To address these concerns while fostering innovation, Jersey must develop comprehensive

regulatory frameworks.

2. Navigating Legal Precedent: The limited legal precedent surrounding DAOs requires Jersey's States Assembly to carefully define and classify these entities under local law, while also taking into account international legal developments.
3. Fraud and Mismanagement Risks: Although DAOs offer increased transparency and efficiency, they are potentially susceptible to fraud, hacking, and mismanagement. To provide adequate protection for DAO participants and mitigate potential risks, Jersey must ensure its legal framework addresses these concerns.

Conclusion

The integration of DAOs as legal entities in Jersey, as well as the fusion of DAOs with traditional legal frameworks, presents both opportunities and challenges. By adopting DAOs, the island has the potential to emerge as a global leader in the realm of DAOs and blockchain technology, drawing new businesses and investments. However, the recognition of DAOs as legal entities necessitates careful consideration and the establishment of comprehensive legal and regulatory frameworks to address potential risks and concerns.

By learning from the experiences of other jurisdictions and critically evaluating the legal implications of DAOs, Jersey can develop a robust and progressive approach to embracing the future of decentralised organisations. The process of recognising DAOs as legal entities might be intricate, yet it holds immense potential benefits for Jersey's legal landscape and the wider realm of law.

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