

# Policy Position Paper

## **TOWARDS A COHERENT EUROPEAN FRAMEWORK FOR DAOs**

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## Towards a Coherent European Framework for DAOs

This policy paper is part of the Blockstand project implemented by Mariana de la Roche W (BlackVogel) on [Advancing Decentralized Autonomous Organizations \(DAO\) Standardization](#). It builds upon two reports: the [Comparative Analysis Report: Legal Frameworks for DAOs](#), published in December 2024, which provides an in-depth exploration of various legal frameworks and their impact on DAOs globally; and [DAOs and the Legal Wrapper Dilemma: The Voices of the Industry](#), released in January 2025, which brings the voices of the industry into the conversation by gathering firsthand insights from DAOs operating with and without legal wrappers.

DAOs are transforming innovation, governance, and finance—yet they continue to be constrained by legal frameworks tied to specific geographic regions. This fragmented legal regime stands in stark contrast to the inherently borderless nature of DAOs and cutting edge technologies. Drawing from our comparative analysis of global DAO legal frameworks and firsthand industry insights, this paper highlights key lessons learned. It outlines what works, what to avoid when regulating DAOs, and offers actionable recommendations for a European framework that not only supports local innovation but also contributes to a coordinated international effort.

### Review of our Previous Reports: From a legal review to DAO experiences

#### Overview of the first report: Comparative Analysis Report: Legal Frameworks for DAOs

During our first report, we examined how a variety of global jurisdictions recognize and regulate Decentralized Autonomous Organizations (DAOs). Specifically, we reviewed frameworks in the Abu Dhabi Global Market (ADGM), the Cayman Islands, Estonia, Japan, Liechtenstein, Malta, the Marshall Islands, Singapore, Switzerland, the United Arab Emirates (UAE), the United Kingdom (UK), and several U.S. states (including Wyoming, Vermont, and Tennessee). This comparative study highlighted both the innovative legal forms that certain jurisdictions have created expressly for DAOs (e.g., Wyoming's "DAO LLC" and ADGM's "DLT Foundations") and the ways in which other regions adapt existing entities (like associations in Switzerland or private limited companies in Estonia) to fit the decentralized model.

## Commonalities

1. Limited Liability and Entity Status: Nearly all jurisdictions offer DAOs some form of legal wrapper—LLCs, foundations, associations—with liability protections for members.
2. AML/KYC Requirements For DAOs engaged in financial or asset-based activities—such as issuing tokens with monetary value or actively managing digital assets—most jurisdictions require registration, disclosure of beneficial owners, and adoption of Anti-Money Laundering (AML) and Know Your Customer (KYC) procedures. This helps align such DAOs with mainstream financial norms.
3. Token Governance: In most of the jurisdictions reviewed, decentralized decision-making is enabled through token-based or smart-contract governance. While the governance model is partly shaped by the type of legal wrapper, in most places there are no specific fiduciary duties for token holders—this absence is often the prevailing rule. However, some jurisdictions do require an oversight board or council, reflecting a more traditional approach to liability and compliance within certain legal entities.

## Differences

1. Legal Forms: Jurisdictions like Wyoming and the Marshall Islands have launched bespoke DAO LLC statutes. Others, such as Switzerland and Singapore, simply modify existing foundations, associations, or companies.
2. Reporting & Costs: Some, including ADGM and the Cayman Islands, impose significant compliance and reporting demands—especially for DAOs active in token issuance—whereas others (e.g., nonprofit associations in Switzerland) may demand minimal disclosures.
3. Taxation: There is no uniform tax approach. The Cayman Islands remain largely tax-neutral, while Liechtenstein, Malta, and Estonia levy moderate rates or grant exemptions for nonprofit DAOs or reinvested earnings.

## Key Findings

During our comparative analysis of these legal frameworks, several overarching themes emerged that shape how DAOs navigate compliance, governance, and cross-border operations. Below, we summarize the key findings that stand out across the jurisdictions examined:

1. Legal Clarity Attracts DAOs: Clear formation processes and predictable rules encourage more participation.
2. Balancing Oversight and Innovation: Locations explicitly tailoring their laws to DAOs (Wyoming, ADGM) streamline decentralized governance yet still insist on AML/KYC. Others focus more on protective oversight for consumers and traditional enterprises.
3. Cross-Border and Global Harmonization Challenges: Even where individual jurisdictions address DAOs, aligning rules for seamless, multi-country operations remains difficult. Variations in AML/KYC requirements, token classification, and auditing standards create challenges for maintaining consistent compliance and impede cross-border expansion. Given DAOs' inherently international nature—and the wide differences in definitions, entity types, and compliance thresholds—a more unified global framework, covering issues like liability, governance, and tax rules, is necessary to reduce friction and encourage global collaboration.

Altogether, our review suggests that legal certainty and flexible governance structures are vital to the success of DAOs. While there is no universal “one-size-fits-all” approach, the jurisdictions we examined offer valuable models and lessons for future regulatory developments worldwide. It is also important to recognize that DAOs cannot simply opt for a “friendly” jurisdiction to avoid legal obligations, as multiple jurisdictions may assert authority based on where DAO members reside or where regulated activities take place. Instead, the complexity arising from the rules of private international law must be taken into account, as these rules determine how various legal obligations may concurrently apply. This dynamic creates additional layers of complexity and underscores the need for coordinated global standards.

### **Overview of the second report: DAOs and the Legal Wrapper Dilemma: The Voices of the Industry**

This report changed the focus from examining the regulatory frameworks themselves to capturing the firsthand perspectives of DAO communities. Building upon our first study (Comparative Analysis Report: Legal Frameworks for DAOs), this next phase set out to discover how DAOs actually experience the “wrapper vs. no-wrapper” dilemma in practice. To do so, we launched a survey that received 11 responses from DAOs of varying sizes, governance styles, and developmental stages—some operating under formal legal entities, others intentionally remaining “unwrapped” for greater decentralization.

We also held in-depth discussions with two key DAO use cases: the Polkadot Community Foundation (PCF) and Powerhouse. These conversations helped illustrate how DAOs balance

day-to-day operational needs with the desire to remain as decentralized as possible. In particular, both organizations highlighted a trend toward modularity, in which only certain parts of a DAO's operations are placed under a legal structure—whether for contracting, fundraising, or intellectual property management—while core governance remains primarily on-chain and community-driven.

Two of the surveyed DAOs, H.E.R DAO and Socious, have chosen to operate without a legal wrapper. H.E.R DAO embraces a borderless digital community model, relying on individual agreements and separate entities only when absolutely necessary; this approach facilitates streamlined collaboration and underscores their commitment to decentralization. Socious, by contrast, sees being unwrapped as a temporary decision. While they currently rely on a purely decentralized model, the complexity of Japan's tax regulations has prompted them to explore legal options, suggesting that incorporation may become essential as their organization scales. Both groups acknowledged that forgoing a legal wrapper provides agility and simplicity, though it can increase liability risk and complicate third-party interactions.

In contrast, nine surveyed DAOs do employ legal wrappers and generally cite liability control and contractual clarity as key motivators. Several teams highlighted that a formal entity helps them access grants, secure partnerships, or manage on- and off-chain assets with greater confidence. However, the process of forming such entities—whether through crypto-friendly jurisdictions like the Cayman Islands or Switzerland, or more traditional structures such as a German GmbH—has often been time-consuming and costly. Many DAOs found that the absence of standardized templates or clear procedural guidelines complicated registration, necessitating significant workarounds or reliance on specialized legal counsel. While they view these trade-offs as necessary for legitimacy and risk management, most remain eager for more streamlined approaches that reduce administrative overhead.

The interviews with PCF and Powerhouse expanded on the concept of modularity, demonstrating how DAOs can wrap only specific functional areas while keeping their broader governance decentralized. PCF, for instance, adopted a Cayman Islands Foundation Company to handle tasks beyond the capacity of on-chain governance, such as contracting and managing real-world assets. Powerhouse chose a Swiss Association for its core governance but is creating additional legal entities for revenue-based activities and intellectual property protection. By taking a modular approach, these DAOs strive to preserve community-driven decision-making and tokenized voting, while mitigating liability and facilitating interactions with traditional legal systems. Some key characteristics of the modularity approach include:



1. On-Chain Governance: Core decisions—protocol parameters, treasury allocations, community proposals—are made via decentralized voting systems on-chain (e.g., token-weighted or delegated voting).
2. Selective Wrapping: High-stakes or off-chain engagements (hiring, commercial deals, asset management) flow through a legal entity capable of signing contracts, holding assets, or issuing invoices.
3. Dual or Multiple Entities: Some DAOs see value in forming additional, separate legal structures over time—for example, nonprofits for community work, private companies for revenue-driven ventures, or foundation companies for managing protocol IP.

Collectively, the survey and conversations reveal that DAOs benefit when they carefully tailor legal structures to their actual operational needs. Many with wrappers find they can attract funding and reduce legal uncertainties, but they also bear higher administrative burdens. Meanwhile, unwrapped DAOs remain maximally flexible yet face greater liability and compliance risks. Across these differing approaches, the idea of selectively implementing legal wrappers for particular processes—rather than wrapping the entirety of a DAO—emerged as a promising strategy for balancing decentralization with real-world practicalities.

## Towards a Coherent European Framework for DAOs

### Lessons Learned:

In this part we synthesized insights from our two previous reports—a comprehensive review of global DAO legal frameworks and an industry survey capturing voices from the DAO community. Together, these studies reveal both the strengths and the shortcomings of current legal regimes designed for decentralized organizations. By examining diverse regulatory approaches from around the world and integrating feedback from DAOs, whether they have legal wrappers or not, we now have a clearer picture of best practices and pitfalls to steer clear of when crafting a legal framework for DAOs.

Key findings indicate on one hand that tailored legal wrappers, modular models, and standardized, template-driven processes are essential to provide clarity on liability and compliance without sacrificing the decentralized ethos of DAOs and on the other hand, overly rigid legal models and fragmented regulatory environments impede innovation and cross-border scalability.

These lessons form the foundation of our actionable policy recommendations aimed at shaping a European framework that not only supports local innovation but also serves as a blueprint for international harmonization in the evolving landscape of decentralized governance.

## What Works

### **1. Tailored Legal Wrappers Increase Legitimacy**

Jurisdictions that have introduced DAO-specific legal structures (e.g., Wyoming’s DAO LLC, Cayman Islands’ foundation companies, and ADGM’s DLT Foundations) demonstrate that creating bespoke legal forms can provide clarity on liability and compliance. This approach makes it possible to create a framework of adequate legal certainty. On the one hand, this legal certainty makes it easier for projects that choose these legal wrappers to operate in the market, and on the other hand, it provides supervisors and legal operators with greater clarity of this status for liability and compliance purposes. However, the assimilation of DAOs to traditional legal forms may cause some misalignment.

Additionally, it is important to note that even if a DAO chooses to register in a particular “friendly” jurisdiction, other countries may still claim jurisdiction if the DAO’s founders or activities are located within their borders. For instance, founders operating entirely from within one or more EU Member States who register a DAO in Wyoming or the Cayman Islands could still be viewed under certain national laws as forming an unincorporated partnership or similar entity. This potential “multiple jurisdiction” effect is one of the major risks for DAOs, as it may undermine the legal certainty that the wrapper is intended to provide.

### **2. Flexibility Through Modular Models**

Insights from industry case studies (such as Powerhouse and the Polkadot Community Foundation) reveal that a modular approach—using legal wrappers only where necessary (e.g., for contracts, IP rights, funding, or regulatory compliance)—can preserve decentralization while ensuring legal certainty. Under this model, a DAO selectively “wraps” specific operational units that must interact with existing legal systems, such as those requiring the ability to sign enforceable contracts or hold assets. Meanwhile, the broader community and governance processes remain token-driven and on-chain.

A key strength of modularity is that it does not seek to replace or overtake the types of legal entities already available. Rather, it serves as a targeted way to add layers of legal legitimacy



where needed—creating what is often referred to as a “hybrid” structure. The DAO itself can continue to operate autonomously across decentralized networks, while a separate legal wrapper manages real-world engagements (e.g., opening bank accounts, entering partnership agreements, or protecting intellectual property). The ethos of decentralization, value generation, and equitable governance that DAOs represent thus remains intact at the core, with the legal wrapper(s) functioning as supplemental tools rather than comprehensive replacements.

### **3. Standardization and Template-Based Processes**

DAO members interviewed in the second report emphasized that standardized, template-driven incorporation processes and governance documents can accelerate registration, reduce administrative burdens, and enhance predictability within individual jurisdictions. Meanwhile, broader cross-border alignment—through recognized best practices or international standards—could further facilitate international operations and regulatory harmonization.

### **4. Alignment with AML/KYC and Tax Compliance**

Successful frameworks balance decentralized governance with robust AML/KYC and tax reporting requirements. This balance builds trust with investors and traditional financial institutions, ensuring DAOs can operate effectively within the existing legal landscape.

In addition to requiring robust AML/KYC and tax reporting, effective frameworks must clearly identify who can represent the DAO legally, establish how decision-making authority is exercised, and determine ultimate beneficial ownership. Addressing these issues builds trust with investors and traditional financial institutions, ensuring DAOs can operate effectively within the existing legal landscape.

### **Pitfalls to Avoid**

#### **1. Overly Rigid Legal Models**

Traditional legal entities (e.g., standard corporations or associations) may impose centralization and inflexible governance structures that conflict with the decentralized ethos of DAOs.

Legislators originally created these entities—often decades or centuries ago—to suit conventional organizational needs; they never designed them with DAOs in mind, nor did they deliberately set out to force DAOs into rigid frameworks. The mismatch arises when a DAO chooses (or is obliged) to function under a legal form that was never intended for decentralized structures, thereby stifling innovation and undercutting the defining attributes of a DAO.

## **2. Fragmented Regulatory Approaches**

A patchwork of national and regional rules creates complexity for DAOs operating across borders. Divergent requirements—especially regarding reporting, token classification, different AML regimes, and liability—can hinder scalability and discourage participation from international stakeholders. Although these jurisdictional inconsistencies affect nearly all cross-border activities, they pose an even greater challenge for decentralized organizations that often lack a centralized corporate presence or clearly defined leadership structures.

## **3. Excessive Administrative and Compliance Burdens**

High registration fees, extensive documentation requirements, and complex compliance processes (as noted in some jurisdictions like the Republic of the Marshall Islands or certain EU member states) risk deterring smaller or early-stage DAOs from formalizing their status. While it may appear that DAOs can simply choose friendlier jurisdictions, the reality is more complicated. Once they engage in real-world activities or have members in specific locations, they often become subject to local regulations, which reduces the practicality of “jurisdiction shopping” and can still leave them facing significant administrative hurdles and costs.

## **Actionable Policy Recommendations**

Drawing on insights from our comparative analysis of global DAO legal frameworks and firsthand industry perspectives, we propose the following actionable recommendations for creating a coherent European framework for DAOs:

### **1. Develop General Guidelines and Minimum Standards**

Based on lessons learned from jurisdictions worldwide and direct industry feedback—highlighting both the advantages of tailored legal wrappers and the drawbacks of overly rigid models—we propose convening a specialized, multi-stakeholder working group under the auspices of a recognized standard-setting organization (e.g., UNIDROIT or a similar

international/regional body). This group would develop common guidelines that establish minimum standards for DAO regulation, including:

- **Limited Liability:** Define clear rules to ensure DAO members are protected from personal liability beyond their financial contributions, drawing inspiration from successful models such as Wyoming's DAO LLC. Establish the basis for designing clear criteria for attributing liability to the DAO and within the DAO, allowing, where appropriate, for the establishment of limited liability of token holders
- **Taxation:** Clarify the tax treatment for DAOs by developing proportionate tax protocols that recognize their unique operational models. Given the complexities of EU tax law, the consortium should work closely with tax authorities to ensure that these protocols encourage innovation and growth while aligning with EU tax principles.
- **AML/KYC:** Implement tailored, cross-jurisdictional AML/KYC requirements that reflect the decentralized nature of DAOs without imposing undue burdens.
- **Societal Objectives:** Establish criteria that encourage DAO activities support broader social and economic goals. These standards should be flexible enough to apply to both non-profit and profit-oriented DAOs—drawing on models like the UK's Community Interest Companies (CICs) for social impact—to set appropriate minimum requirements for public benefit.
- **Smart Contract Certification:** Develop a framework for smart contract certification that sets minimum technical and security standards. This certification should ensure that the underlying smart contracts governing DAO operations are robust, transparent, and resilient against vulnerabilities, therefore enhancing trust and legal certainty for both DAO participants and external stakeholders.

Once an appropriate legal entity or framework is established, the consortium should develop a toolkit of standardized templates and modular frameworks for incorporation, Articles of Association, and internal governance documents. These templates must be grounded in the specific provisions and requirements of the chosen entity. At the same time, they should draw on best practices from jurisdictions like the Cayman Islands and ADGM, as well as industry-led innovations in modularity and templarization—such as those pioneered by Powerhouse in Switzerland—to ensure a robust and flexible foundation for DAOs.

Finally, in consultation with experts, some have suggested exploring a dedicated EU-level DAO legal entity—similar to the European Company (SE)—or even an international framework comparable to the UN Convention on the International Sale of Goods. While these proposals

remain under discussion, they underscore the potential benefits of a cohesive, cross-border approach that could streamline liability protections, tax clarity, and regulatory alignment for DAOs operating across multiple jurisdictions.

## 2. Establish a European Regulatory Sandbox for DAOs

Recognizing the challenges highlighted in our research—such as the friction between decentralized operations and traditional legal regimes—Europe is uniquely positioned to leverage its integrated market. A cross-jurisdictional regulatory sandbox within the EU would allow DAOs to test innovative governance models and operational frameworks in a controlled environment. This sandbox should:

- Facilitate real-time testing of new legal frameworks and regulatory approaches.
- Establish structured feedback loops between regulators, the DAO community, and industry experts.
- Enable iterative improvements based on practical insights and evolving technological standards.

Inspired and similar to the EU EBSI Regulatory Sandbox model, this initiative would mitigate risks and refine regulatory tools before broader implementation, much as has been successfully done in fintech and other emerging tech sectors.

## 3. Propose an EU Directive for DAO Regulation

With the outcomes and learnings from the sandbox, the next step is to formalize these learnings into a cohesive EU legal framework for DAOs. While one approach could be issuing a Directive—which would require each Member State to transpose it into national law—some experts consulted for this paper advocate for a directly applicable EU Regulation, ensuring uniform standards across the Union. Others even suggest creating a dedicated EU-based legal entity, similar to the European Company (SE), specifically designed for DAOs.

- Harmonize DAO legal frameworks across the EU, ensuring consistent rules on liability, taxation, and AML/KYC. For full harmonization, an EU Regulation may be preferable, as it applies uniformly across all Member States without the need for national transposition.
- Set a benchmark for international standards in decentralized governance by positioning the EU as a dynamic testing ground—a playfield—for innovative regulatory approaches.



- Encourage global cooperation providing a cohesive framework that addresses the inherently cross-border nature of DAOs. While our primary recommendation focuses on an EU-level legal structure or regulation, some experts have also suggested exploring a multilateral instrument—akin to the UN Convention on Contracts for the International Sale of Goods—to create an international legal jurisdiction for DAOs.

This directive would serve as a pioneering model that other jurisdictions could follow, reinforcing the EU's leadership in digital innovation and decentralized governance.

The fundamental challenge facing DAOs is that their decentralized, borderless nature clashes with traditional, geographically limited legal regimes. In practice, multiple jurisdictions may assert authority over a single DAO, resulting in overlapping and potentially conflicting legal obligations. This multiplicity of claims underscores the need for an international, coordinated effort to harmonize regulatory approaches and provide DAOs with a clear, unified legal framework. By embracing tailored legal wrappers, modular models, and standardized processes, Europe can pave the way for a legal framework that not only supports local innovation but also contributes to a globally harmonized solution. With the unique advantage of the European Union, we have the perfect opportunity to explore cross-border applications within the Union's borders. The EU can serve as a dynamic testing ground—a playfield—to set an international example for decentralized governance. It is imperative that policymakers recognize these challenges and work toward streamlined, adaptable regulations that empower DAOs while ensuring transparency, accountability, and legal certainty. This framework will serve as a cornerstone for digital innovation and set a precedent for international cooperation in the evolving landscape of decentralized governance.

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