

FIRST STATE FINTECH LAB

Proposal prepared for



ARAGON

Aragon

US DAO Digital Jurisdiction

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Proposal for Grant

Aragon is a project that aims to disintermediate the creation and maintenance of organizational structures by using blockchain technology. Aragon is structured as a Decentralized Autonomous Organization (“DAO”). A DAO is an organization that is run through rules encoded as computer programs and smart contracts. A DAO financial transaction record and program rules are maintained on a blockchain. The precise legal status of this type of business organization is unclear.¹ The Aragon platform is currently designed to support the creation and growth of DAOs.

Given the nascent legal status of DAOs, there is significant uncertainty of how the US citizens and authorities will view DAOs. This is important as today US authorities have been established to provide US citizens with trust in business and systems. The US authorities achieve public trust by implementing and enforcing regulation and policies. For the purposes of this project, we will consider the US authorities, their respective regulation and policies as “Land Jurisdiction.”

DAOs enable the physical world to interact and transact in a decentralized and autonomous manner. Given these characteristics and the digital nature of a DAO, the traditional Land Jurisdiction does not apply to DAOs. Rather, a parallel digital jurisdiction must exist to bridge the public trust from the physical world to the digital world of DAOs. This digital jurisdiction can be a set of best practices or criteria which must be met when creating DAOs. To bridge public trust to the digital world, US authorities must acknowledge and accept the new form of digital jurisdiction.

To provide clarity, the following is an example of how a legal services transaction would differentiate between a traditional organization and a DAO:

Traditional Organization

A traditional organization maintains a FEIN (US Tax Identification Number). A traditional organization would engage a law firm with the use of an engagement letter. The engagement letter indicates the scope of services and fees for services. The law firm would perform the agreed upon services and invoice the organization. The invoice would then be paid by the organization. The law firm would provide a completed W-9 to the organization for reporting purposes. The organization at the end of the year would provide the law firm a Misc 1099 form which indicates the fees paid to the law firm by the organization. A copy of this Misc 1099 form is submitted to the IRS by the organization. The Law firm will report this income on its tax return.

DAO

A DAO does not have an FEIN. A DAO would engage a legal firm through a proposal mechanism. Meaning, the voting members of a DAO would vote for the need for legal services. Proposals for the legal services will be submitted by many law firms. The voting

¹ Source: https://en.wikipedia.org/wiki/Decentralized_autonomous_organization#cite_note-Popper20160521-5

members will then vote on which proposal will be granted. The law firm will provide the legal services. The voting members will vote to ensure the services were provided as expected. Once consensus is achieved, then payment will be made to the law firm. All of the aforementioned steps are recorded on the blockchain and visible to anyone. Since the DAO is not a legal entity, nor does it have an FEIN, the similar steps to report income are not available. Rather, the related income information is visible to the public on the blockchain. To bridge the land and digital jurisdiction, a best practice can be - the DAO must send an automated email to the IRS which includes a copy of the transaction record. This would need to be accepted by the IRS as an acceptable form of reporting.

The First State Fintech Lab (“FSFL”) will help define and implement the best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions. This will allow DAOs to operate in the physical world with acknowledgment by US authorities.

About FSFL

Founded by Delawareans, Entrepreneurs, and Policy Wonks, the First State Fintech Lab is a partner with the State of Delaware's Financial Innovation Hub. FSFL's primary mission is to ensure that Delaware functions as the FinTech capital of the United States. FSFL's approach is holistic, community driven, and co-enabled by government. It is a collective, highly focused group of industry, government, academic, and community leaders whose purpose is to drive systemic change in order to strengthen and grow the Fintech sector in the First State.

FSFL bridges the gap between financial technology innovation and policy. FSFL achieves this by developing an ecosystem to promote collaboration amongst key stakeholders – fintech companies, regulatory bodies, financial institutions, and professional services organizations.

FSFL maintains relationships with various State and Federal agencies including Delaware's Office of the State Bank Commissioner, Delaware Prosperity Partnership, Office of the Secretary of State of Delaware, the Internal Revenue Service, and many more. These relationships lend to effective navigation through and support of the various policy and regulatory environments. Given its relationships and team's expertise, FSFL is best suited to support Aragon for this proposal.

Scope of Services

FSFL will assist Aragon to define and implement best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions by performing the following:

1. Identify the relevant US requirements for traditional organizations in which Aragon would need to meet if it were a traditional organization.

2. Based on #1, define gaps which would not apply as Aragon is a DAO. Example, no FEIN exists for a DAO.
3. Based on gaps identified in #2, collaborate with regulators and subject matter experts (lawyers, tax accountants, etc.) to define best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions. These could include curated events, thought leadership roundtables, one-on-one meetings, or other methods.
4. Assist Aragon with implementation of best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions.

Plan

Given the novelty of DAOs, there are many unknowns. Below is FSFL's approach to executing on the scope defined above.

Discovery

FSFL will take a two-pronged approach to defining the best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions:

1. Stated Requirements – to date, certain US authorities have provided policy, interpretations, and precedence regarding DAO's, Blockchain and Cryptocurrency. This will be the starting point to define best practices and criteria for a DAO digital jurisdiction.
2. Gaps to bridge land and digital jurisdictions – Given the nature of DAO's there are undefined criteria to enable a digital jurisdiction. FSFL will identify similar businesses if Aragon was a traditional organization and not a DAO. FSFL will understand the various requirements these similar business must meet. The purpose and intent of these requirements would be understood and discussed with the respective US authorities. The purpose and intent of these requirements would then be translated into best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions.

Development

FSFL will directly work with legal, tax, and policy professionals as needed to help determine best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions. Given the lack of precedence and clearly defined policy in the space in which DAOs operate, there will likely be significant effort and time in collaboration with these experts. Given FSFL's profound experience and relationships in this area, FSFL will be able to properly navigate through the unknowns.

Implementation

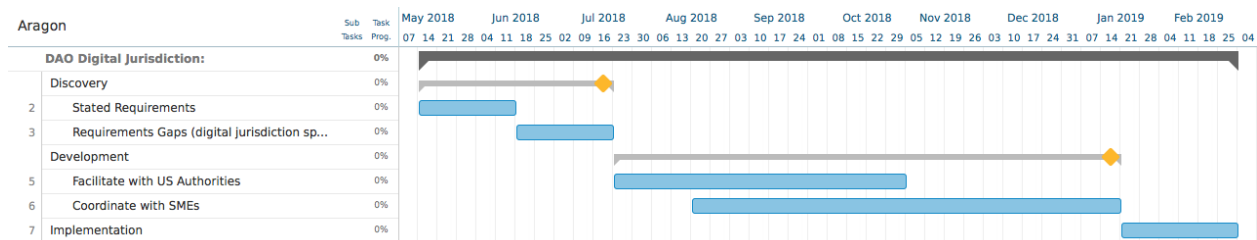
FSFL will assist Aragon to implement the best practices. This will include coordination of discussions with Nest technical team members and subject matter experts and more. As Aragon

is setup to support other DAO's, FSFL will work with Aragon to create a foundation for future DAO's to easily adopt the best practices.

Proposal

Timeline

FSFL approximates 10 months to develop and implement the best practices and criteria for DAOs and a digital jurisdiction to interact with the physical world and land jurisdictions. The best practices will be developed and implemented throughout the project.



Roadmap & Deliverables

1. Discovery (10 weeks)
 - a. Project kick-off and discovery discussions with Aragon team (1 week)
 - b. Identify and consolidate stated critical points (4 weeks)
 - c. Gap analysis between land jurisdiction and digital jurisdiction (5 weeks)
 - d. Deliverable(s):
 - i. Summary of initial discovery report
 - ii. List of stated critical points including proposed action items
 - iii. List of relevant land jurisdiction critical points with supporting gap analysis
2. Development (6 months)
 - a. Facilitate with US Authorities & coordinate with subject matter experts to develop best practices and criteria
 - b. Deliverable(s):
 - i. Consultation reports and analyses from subject matter experts
 - ii. Consolidated findings of reports and proposed best practices and criteria
 - iii. Checklist of Aragon action items based on proposed best practices and criteria
3. Implementation (5 weeks)
 - a. Coordinate with Aragon team to implement actions items per the checklist
 - b. Deliverable(s):
 - i. Testing and go-live of the first interaction/s between a DAO and select land jurisdiction(s)