

Article Information

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Blockchain Bites: LeBron James jamming blockchain knowledge out to the next generation, DAO Regulation Roundtable, Citizen Blockchain: The 'Rosebud' of NFTs up for sale in CityDAO, SEC attempts to cast its net too wide to include Automatic Market Makers into exchange definitions

Michael Bacina, Jade McGlynn, Luke Misthos and Jordan Markezic of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

LeBron James jamming blockchain knowledge out to the next generation

NBA mega-star LeBron James has teamed up with [Crypto.com](https://crypto.com) to teach children about cryptocurrencies and blockchain technology. The partnership between the LeBron James Family Foundation (**LJFF**) and the exchange promises to provide educational tools and resources to children in Akron, Ohio – LeBron's home town.

The resources will be provided through LeBron's 'I Promise School', an institute LeBron started for at-risk students in Akron in 2018. [LeBron praised](#) the benefits of blockchain technology in society:

Blockchain technology is revolutionizing our economy, sports and entertainment, the art world, and how we engage with one another. I want to ensure that communities like the one I come from are not left behind.

The multi-year partnership is set to provide a range of capabilities for students of the I Promise School and allow families to build foundations within Web 3 and blockchain technology. [Crypto.com](https://crypto.com) recently purchased the naming rights of the stadium where LeBron plays for the Las Angeles Lakers, [Crypto.com Stadium](#) (formerly Staples Centre). This means that two of the biggest NBA stadiums in the USA are now sponsored by crypto exchanges, with the home of Miami Heat [now known](#) as "FTX Arena".

Web3, which is some consider to be the equitable evolution of the internet, will allow students and families to create, control and understand the technology as it becomes more mainstream.

[Crypto.com](https://crypto.com) CEO, Kris Marszalek gave a brief insight to the support offered:

We couldn't be more proud to join LJFF in providing opportunities to increase educational and workforce development while delivering the tools and access that will empower the next generation to build a better and more inclusive future.

The precise tools and resources for students are not yet available, yet we hope they will be public to allow other schools to leverage LeBron's generosity to help spread blockchain education.

DAO Regulation Roundtable

At the invitation of Senator Andrew Bragg, a who's who of Australian crypto and blockchain talent assembled this week to discuss how a company DAO could be regulated under Australian law. With Senator Hume's office represented at the meeting as well, the Australian politicians most actively engaged in bringing Aussie regulation into alignment with this ground-breaking technology were present.

Senator Bragg chaired the recent Senate Select Inquiry into Australia as a Technology and Financial Centre and Recommendation 4 in the [Final Report](#) included:

The committee recommends that the Australian Government establish a new Decentralised Autonomous Organisation company structure.

After being adopted by the Treasurer in December 2021 and enduring [comments from the Chairman of ASIC](#), work is now underway to implement and establish a framework for DAOs pursuant to this Recommendation.

The group had a wide ranging discussion and some guiding principles emerged which will be further refined over the coming weeks and may inform the shape of regulation / policy. Those principles included:

1. The urgent need for Australia to give DAOs legal status so they can enter into contracts and participants can have certainty about their dealings and treatment, with the possibility of licensing and insurance and property ownership tied to legal personhood;
2. Considering a light touch DAO framework but leaving out of that framework DAOs which are purely code launched - without voting governance at the code level (exclude capture of public blockchains like Bitcoin which are 'governed' by miners and nodes);
3. Conditions attaching to legal personhood, but the need to keep that flexible so as not to become rapidly outdated;
4. The need to consider retail consumer protection, but also not to lose sight of the benefits of innovation from the fear of consumer risks given consumers can access blockchain systems and tokens offshore in any event;
5. That the current forms of director duties and fiduciary duties owed to shareholders don't reflect the DAO model (at least on public blockchains) where the lack of transparency in a company is not a feature in DAOs;
6. That any law will need transitional and retrospective effect to ensure a smooth transition;
7. That the benefit of legal recognition under Australian law will likely need some standards, such as plain English audit and explanation of code and governance within a DAO so participants don't need to be code-literate to understand a DAO they are joining;
8. But, conditions of legal recognition cannot require identification of DAO participants in the way shareholders are published in a database now, and that collection of personal information from members or those elected or fulfilling decision making roles needs further consideration; and
9. That DAOs should be treated as a flow through entity for tax purposes, that is the holders of tokens should be the parties subject to tax. The corporate tax base in Australia is eroding and DAOs may benefit from an automation of tax collection.

Attendees at the Roundtable included remarkable individuals such as:

1. Senator [Andrew Bragg](#)
2. Amelia Hamer, Financial Services Policy Lead Adviser to [Senator Jane Hume](#), Minister for Women's Economic Security, Minister for Superannuation, Financial Services and the Digital Economy.
3. Joni Pirovich of BADASL
4. Hannah Glass of KWM
5. Natasha Blycha of Stirling & Rose
6. Susannah Wilkinson from Digital Commerce Committee, Law Council of Australia
7. Mark Bland of Mills Oakley
8. Ass Prof Chris Berg and Dr Aaron Lane of RMIT Blockchain Innovation Hub
9. Scott Chamberlin of ANU
10. Martin Gray of Afterpay
11. Michael Harris and Ryan Parsons of Swyftx;
12. Pat McNab from Mycelium Ventures; and
13. the author.

Please note that any errors in the above summary are partner of Piper Alderman's Michael Bacina's as a result of his own interpretation of the event.

Citizen Blockchain: The 'Rosebud' of NFTs up for sale in CityDAO

Decentralised autonomous organisations – or DAOs – are continually evolving our understanding of the interaction between physical and crypto environments. One such DAO – [CityDAO](#) – is seeking to re-define land ownership.

CityDAO takes advantage of a [new Wyoming law](#) which gives [legal personhood to DAOs](#) and became the registered proprietor of 40 acres of land near the Yellowstone region in northern Wyoming.

CityDAO's vision is for a collectively governed blockchain city offering citizenship and governance tokens in exchange for the purchase of a 'land NFT' that grants the purchaser rights to a plot of real land. Notable citizens of the CityDAO currently include Vitalik Buterin – a founder of the Ethereum network. Buterin has previously praised the CityDAO model of voting rights attaching to each land NFT and has suggested that future governance tokens akin to the Citizen NFTs would be ['soulbound' and only available to real-world citizens of the city](#) to avoid power-hungry, wealthy investors accumulating an undue proportion of tokens.

The first Citizen NFT in the CityDAO community has recently gone up for auction, per its original owner Justin Kalland. [Kalland has said:](#)

My decision to sell First Citizen comes from a position of gratitude and planning for the future. I immediately fell in love with CityDAO and jumped straight in as the first "investor". The vision combined with the calibre of people joining fueled a lot of enthusiasm.

The CityDAO community was unfortunately [recently subject to an attack](#) via their Discord (chat) server. A hacker gained access to one of CityDAO's co-founder's accounts and issued an announcement for a fake land drop of NFTs. The hacker's wallet received ~30 ETH within 24 hours.

The CityDAO's co-founder in question was quick to accept responsibility and concern over blockchain city-building and noted [the Discord server was the weakest link that led to the attack](#). Despite this small set-back, CityDAO remains one of the only crypto projects which is both legal and has real land represented by tokens, which has been a dream of many crypto projects to date, and so will be one to keep an eye on.

SEC attempts to cast its net too wide to include Automatic Market Makers into exchange definitions

The SEC has [published](#) a proposal to amend alternative trading systems regulation, followed fast-behind by an [exacting dissent](#) from Commissioner Hester Pierce. The proposed change would expand the scope of what constitutes a securities exchange and aims to address misconduct and promote transparency in the securities based swap markets. In the proposals position summary the SEC states:

The Commission is proposing to amend a rule which defines certain terms used in the statutory definition of "exchange".. to include systems that offer the use of non-firm trading interest and communication protocols to bring together buyers and sellers of securities.

While the proposal totals 654 pages, it's ambition to expand the definitions of securities "exchange" has been criticised for lacking careful consideration of the impact it would cause on Blockchain and DeFi. According to Commissioner Pierce:

The proposal is certainly not sloppy, but at the same time it is too wide-ranging and, given its length, too unwieldy to facilitate careful consideration.

The proposed rule does not expressly reference blockchain or DeFi but [crypto experts suspect](#) the SEC has proposed the broad definition to bolster its currently weak argument that automated-market makers are securities exchanges under the ambit of its authority. An automated market maker (**AMM**) is a type of decentralized exchange (DEX) protocol which removes the need for a counterparty (or other trader) to make a trade by relying on a mathematical formula to price assets instead. In other words, in contrast to a peer to peer trading platform where a seller is connected with an interested buyer to make a trade (and vice versa), an AMM algorithmically generates the market for a trader, allowing them to buy and sell from liquidity pools through smart contracts instead.

At the crux of major criticisms of the proposal is its absence of methods of registration and reporting which individuals who allegedly "make available" a AMM protocol or other DeFi systems, could follow if the definition is accepted to include AMMs.

As a result, crypto-expert Gabriel Shapiro [describes](#) the rule as:

at a minimum irresponsible and thoughtless as regulation, and...may also be unconstitutional as a restraint on free speech.

Describing the SEC's proposal as "rushed rule making", Commissioner Pierce [agrees](#) the SECs rule lacks sufficient foresight, explaining:

Any efforts to reform this market must take into account the potentially cataclysmic risks of inadvertently making things worse through sloppy or rushed rulemaking that introduces uncertainty for market participants or that deprives the public and the Commission of the opportunity to devote careful attention to thinking through the full implications of the proposed rules.

In sum, while the proposed rule is unlikely to be introduced on the basis of it's impractical and contested implications, the SEC's massively broad move contains lessons for regulators in being careful of unintended consequences when regulation is pushed through.