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Blockchain Bites: JPMorgan tokenizes collateral settlements, MetaMask making scam recovery simpler, DAO Wrapper Whitepaper Review

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.

TradFi convergence: JPMorgan tokenizes collateral settlements

Investment bank JPMorgan Chase has announced that it is now using blockchain for collateral settlements, the latest convergence of the traditional finance (**TradFi**) and Wall Street.

The bank's first transaction of this kind in May, when two of its entities transferred tokenized versions of shares in BlackRock money market fund as collateral on its private blockchain. New York-based JPMorgan says that part of the appeal in this kind of transaction is the effort its the opportunity it presents to investors to pledge a wider range of assets as collateral and use them outside of the traditional market's trading hours.

JPMorgan's global head of trading services, Ben Challice said:

> What we've achieved is the friction-less transfer of collateral assets on an instantaneous basis

While BlackRock wasn't a counterparty in the experimental transaction, "*they have been heavily involved since Day One, and are exploring use of this technology*", the head of trading continued.

Today, Blockchain-based collateral settlement can be used for transactions such as derivatives and repo trading, as well as securities lending. Tomorrow, the bank plans to continue experimenting with the use case of blockchain in the trading of traditional financial assets with aims expand the token representations of collaterals to soon include equities, fixed income and other financial asset types.

MetaMask making scam recovery simpler

Victims of scam, fraud and phishing attacks have been offered a helping hand by popular Ethereum wallet provider, MetaMask. The browser wallet, used to interact with the Ethereum blockchain, has engaged Asset Reality, a London-based company that specialises in investigating and recovery of stolen crypto.

Asset Reality will handle cases reported to MetaMask and help users investigate the nature of the attacks and track, trace and attempt to recover funds. Users are required to fill out a form on the MetaMask website, once filled out recovery strategies will be offered by Asset Reality.

The news by MetaMask comes during an important time for the crypto industry. While innovative projects blossom, the looming uncertainty of digital security remains. Notwithstanding the transparency of blockchain technology, it remains paramount that prudent attention is given to potential scams, such as the attack on Yung Labs.

With 30 million active monthly users, MetaMask has encountered a range of attacks which support product lead Alex

Herman thinks should be addressed:

We wanted to offer something to users beyond a handshake and good luck at the end of our interaction. So, partnering with Asset Reality gives users a way to start an investigation to try and track down their stolen funds and possibly lead to a recovery down the line. It means there's at least some light at the end of the tunnel.

According to Asset Reality, the average amount lost in a crypto scam is USD$25,000 but can also exceed millions in aggregate, as was seen when the US Department of Justice seized USD$28 million of cryptocurrency from a hacker.

The partnership aims to provide customers with an assurance that even if their wallet is compromised, there may be recourse for recovery. Although this safety net exists, it is vital to remember the importance of being vigilant online and not engaging in anything suspicious.

DAO Wrapper Whitepaper Review

A recent paper published by Chris Brummer of Georgetown University and Paradigm, and Rodrigo Seira of Paradigm has offered the first comprehensive overview and explanation of the legal wrappers that are available to Decentralised Autonomous Organisations (**DAOs**). The paper looks to the qualitative features of DAOs, specifically focussing on their dispersed and fluid memberships and blockchain-based governance.

The paper argues that more is needed to establish a DAO than mere coding. The paper argues that in order to establish a DAO, founders must engage in:

> *thoughtful legal engineering to enable the DAO to operate in the real world and protect builders and contributors.*

Brummer and Seira note that many DAOs choose to launch without any legal wrapper, and although this is not strictly speaking contrary to any regulations, it exposes the DAO to several legal consequences. Choosing to launch a DAO without a legal wrapper, the paper argues, exposes the DAO to complications when hiring employees, contracting with service providers, opening bank accounts and meeting their tax obligations.

The paper argues that whilst corporate structures negate the decentralised and democratic purpose of DAOs, DAOs are able to utilise corporate wrappers for discrete parts of their overall legal structure. Brummer and Seira note that DAOs have traditionally tended to create sub-DAOs – or groups focussed on specific projects. Brummer and Seira also argue that employing a corporate wrapper assists the DAO in corporate fundraising and subsequently meeting the obligations placed upon them by regulation.

The paper continues by looking at how limited liability companies may assist as a legal wrapper. Brummer and Seira note that the limited liability company is able to avoid double taxation as well as offering the same liability shield available to corporation wrappers. Importantly, the paper notes that DAOs may benefit from a limited liability company wrapper as they are, in many ways, built for decentralised governance:

> *In contrast to corporations, which require boards of directors and centralized management that are afforded discretion to make the day-to-day operational decision of the company, LLCs can be run by a board of directors like a corporation (a "manager managed LLC") or they can enable all owners of the business to participate equally in the management (a "member managed LLC").*

Consideration is further given to DAO LLCs under Wyoming state legislation, allowing the DAO to be algorithmically managed and able to defer many functions to its smart contract, and have its results prevail in the event of a conflict with its articles for organisation.

The paper then turns to overlooked not-for-profit wrappers available under US state laws, including Unincorporated Nonprofit Associations, Limited Cooperative Associations as well as Cayman Foundation Company and Guernsey Special Purpose Trusts.

The paper argues that not only do not-for-profit legal wrappers offer DAOs protection from liability, but also offer the prospect of tax exempt status for donations they receive or even the ability for donors to deduct their donations from their federal and state income tax returns. Brummer and Seira note that private foundations and public charities are the most visible and familiar not-for-profit wrappers and look to the procedural requirements for establishing these types of entities.

The paper also looks to the Unincorporated Nonprofit Association (UNA) – which in many ways is similar to an unincorporated association under New South Wales legislation – which is not required to make any state filing in order for formation, and can arise from general oral agreement between participants.

The paper then concludes with a variety of fact scenarios and hypotheticals to illustrate how legal wrappers might be employed with protocol, media, collector, social and philanthropic DAOs. Brummer and Seira draw upon the examples of Protocol, Social, Investment and Venture, Collector, Media , Philanthropic, and Lobby DAOs. Brummer and Seira conclude with the following insight into where DAOs ought to turn their minds to when considering potential legal wrappers and consequences:

> *The coming work for researchers, regulators and venture professionals will be to think through how the existing universe of wrappers, and new legal tools, can better fit the features of DAOs in ways that serve the people that use and depend on them, and the broader public.*