

# DAO's and Disruption in the Legal Industry

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Recently, our Litigation and Dispute Resolution team provided [an introductory overview](#) of the potential that smart contracts have within the legal sphere and the many ways in which they may impact everyday life. Smart contracts have the power to disrupt and transform sectors as varied as banking and financial services, real estate, power and utilities, industrial and agribusiness. Unsurprisingly, they have also brought into question the necessity for lawyers in the legal industry of the future.

At the end of May, the Decentralised Autonomous Organisation (**DAO**) was the largest crowd funding project ever on the Internet, closing with \$184 million dollars raised in order to create a decentralised corporation. This corporation essentially had no board and no legal rights in any jurisdiction. The DAO is run by way of programming code.

In a DAO, each investor receives voting rights (similar to a shareholder) and purchases tokens which represent their view on how the DAO should operate. Essentially, these investors can program the DAO to do certain things at certain times without the need for a Board of Directors to be the 'acting mind' of the company. There are, of course, inherent risks with this approach should the 'tokens' accumulate towards one source rather than remaining decentralised. Each of these actions would occur by way of a smart contract.

There is still a lot of uncertainty regarding how DAOs will operate, but the idea itself has captured a great deal of attention with 11,000 individuals globally investing in the project.

However, caution should be practised when investing in DAOs. A DAO presently has no rights within the legal system. This prevents those investors behind the DAO from being protected from liability of the organisation in the way that shareholders in a traditional company currently are. The impact of this lack of protection from a litigation standpoint is yet to be tested or provided for within the legal space.

During June, the DAO was hacked and had the equivalent of US\$60 million moved from one account to another, due to a loophole in its programming code. In smart contracts, it is possible to add transactions but, at the moment, they can't be reversed. While those who established the DAO maintain that all of the stolen funds will be retrieved, events like this should not be viewed as one-offs in the industry.

While the idea of transactions being replicated in programming code and overseen by computers is an interesting one, smart contracts cannot, at this time, offer complete protection against incidents that they do not expect or provide for. Lawyers, albeit those with an understanding of programming and smart contracts, will always be needed to navigate and avoid the un-programmable consequences in an ever-changing world.

For more information or discussion, please contact HopgoodGanim Lawyers' [Dispute Resolution](#) team.

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