

# The place of decentralized autonomous organizations

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**THE BLOCKCHAIN DICTIONARY** from Turkey's Digital Transformation Office defines decentralized autonomous organizations ("DAOs") as: "Autonomous organizational structures and management processes in which decisions are made jointly by all network participants where the rules defined by blockchain protocols or smart contracts guide the decisions of the participants and an automated managerial consensus is established."

The participants in DAOs can be deemed to be similar to investors in a public company, where the tokens held by these participants work as stock shares. Each governance token grants the holder a voting right, thus the ability to take part in the DAO's management. Actions or transactions embedded in smart contracts are automatically carried out following the consensus of the participants' majority. DAOs do not have a corporate body taking part in the DAO's management and every decision is made via a voting process among the participants.

Even though their mechanism is quite clear, the question of DAOs' place in the legal system remains unanswered due to the lack of legislation.

By analogy, DAOs may be associated with ordinary partnerships. Under Turkish Law, ordinary partnership agreements are agreements in which two or more persons undertake to combine their labor and

property to achieve a common goal. Similarly, all participants in DAOs also share the same goal: achieving a common objective through the DAO's activities. The Turkish Code of Obligations stipulates that the partners in ordinary partnerships are to share all the earnings that belong to the company among themselves. DAOs, on the other hand, may automatically use their earnings, if there are any, for another collective cause, such as a charity donation, which does not necessarily nor directly act to the benefit of the participants. Another similarity between the two institutions is that both ordinary partnerships and DAOs do not have legal personalities.

However, in a broader sense, DAOs are much more venturesome compared to ordinary partnerships. One point to think about is that DAOs have a high risk of being attacked by malignant participants. If the malignant participants' number is enough to exceed the consensus limit, they may exploit the system. Having said that, such an act may not be wise since the DAO may stop benefiting the malignant users if all the other participants leave the system after the attack. Alternatively, the smart contract embedded within the DAO may have errors in its code, as was the case in the infamous "The DAO attack" which resulted in over USD 50 million being stolen in 2016.

One may think that DAOs could be deemed similar to commercial companies.

However, for the time being, (i) as DAOs are not legal entities, and (ii) even though they resemble public companies as stated above, since they lack the strict monitoring that public companies are subject to, they cannot be considered to be commercial companies as stated in the Turkish Commercial Code.

All in all, even though DAOs resemble ordinary partnerships, we believe that these similarities will not be enough for the Turkish judicial system to consider DAOs as ordinary partnerships unless explicitly regulated. We further believe that explicitly introducing DAOs to the legal system will be beneficial as, in theory, they have great potential to gather like-minded people together for the pursuit of their collective objective. Provided that the code does not contain any errors, DAOs may well be used for trustless crowdfunding or charity purposes. To illustrate, a DAO may be established for the purpose of donating a sum of money, as soon as the ex-ante money has been gathered by the participants. Following the collection of the projected amount, the money/tokens raised will be automatically transferred to the relevant charity's account.

The convenience of DAOs in crowdfunding is undeniable as any person with an internet connection can easily join the fundraising. However, unless DAOs are very well regulated, elimination of the chance of their smart contracts being faulty or attacked is near-impossible.

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