

*diffusetap*  
Virtual Event Series

# Coding a DAO

*Guest Speaker:*



**Dane Lund**  
Core Contributor  
Alliance DAO

*Hosts:*



**Kenny Estes**  
CEO & Founder  
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## DiffuseTap: Coding a DAO

Last time on DiffuseTap, Dane Lund, Core Contributor of Alliance DAO, talked to us about what differentiates a DAO from a conventional organization structure in terms of technology, areas for opportunity in DAO tools, and how to evaluate an investment opportunity in a DAO project.

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### DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

### Meet the Speaker



Dane Lund is the core contributor of [Alliance DAO](#). Formerly known as DeFi Alliance, Alliance DAO is a Web3 accelerator and founder community that has incubated a number of successful platforms, including [dydx](#) and [Stepn](#). In January 2022, the company made the leap to transition into a full-fledged DAO after raising \$50 million from 300 Web 3.0 leaders.

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### About Diffuse®

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**KENNY ESTES:** Today, we have Mr. Dane Lund. Dane, do you want to tell folks a little bit about yourself?

**DANE LUND:** Sure. Great to meet everyone. My name is Dane Lund. I was trained as an attorney, and I practiced law at Willkie Farr for two years with a focus on corporate governance, litigation, and shareholders rights. I was always eager to see the frontier. And so, I moved to investment banking and spent a few years at Barclays doing mega cap-leveraged buyout financing. Then, I became an investor in several different capacities, moving more toward the frontier of law and finance.

Trying to bring my skills together, I started to build my own business where I advise companies in litigation finance, which you could call the business of law. I'm also a partner of a fund that manages or invests in pre-merger SPACs. But really, what I do with my day is I focus on DAOs. I'm a core contributor of Alliance DAO. Alliance is a very special asset in the web3 community. We run the premier accelerator that used to focus on DeFi, but has expanded to all things web3. We have accelerated protocols like [dYdX](#), [Ox](#), [Synthetix](#), and a host of very interesting [DeFi gaming](#) platforms.

We also have a lot of DAO tooling systems, DAOs themselves, and DAO launchers. What I do there is I focus on decentralization. I help teams think about how to set up their governance systems, how to think about the thesis for decentralization, as well as how to do it ourselves, as we are in the process of decentralizing ourselves. I work very closely with our legal team in thinking about structuring. But generally, I think about the whole game theory of rulemaking, full time.

**AYLA KREMB:** Beautiful. I will kick off with the questions right away. Maybe we should start off with a definition of a DAO in your view and your context, just so we have the definition straight for everybody.

**DANE:** Sure. I want to keep it simple because we see a lot of complicated definitions. A [DAO](#) is a community that is governed by tokenized voting. That can instantiate itself in many different ways, but at its core, a DAO promotes distributed governance, which often relates to the distribution of resources within the community.

**KENNY:** Okay, quick knock-on question for that. How is that different from a company and shareholders? What sets them apart? Because obviously, shareholders also vote. That's kind of similar.

**DANE:** Sure. There are a few things. First is the [transparency](#). If you think about corporations, typically, there's quite a lot of opacity between shareholder and board member, and then between board member and executive. There are a lot of layers of disconnect in communication. But on-chain, you can see all of the activity going on, ideally. You, as a token holder, have real-time access to all of the information that should be available to anyone else in the ecosystem.



The other point is the ethos of participation. DAOs are really focused on everyone having a contribution to the community, versus corporations, which are great vehicles for passive holding. If you were to ask me which structure is better for just holding on to and obtaining value, and not thinking about the whole process, I'd say corporations are just fine. But if you want to have an active role in the outcome, then I think DAOs are a better place.

The concept of decentralization is very important to DAOs as well. I don't think of decentralization as a specific definition, so much as I think of it as a spectrum. That means the level of control can be distributed to the point where there is no clear decision maker that has ultimate authority over what happens with the protocol. Now, there can be delegated discretion and decision making within DAOs. But at the end of the day, the power resides with the token holders, and the decisions are made more frequently than in a corporation. You could say the same about shareholders, but the truth is, there's less of an expectation or ability to participate frequently. I think that's a big differentiator.

**AYLA:** Looking at it from a software development perspective, what is the difference between a standard software building project and a DAO project? There are some obvious aspects, such as how the developers are paid not in cash, but in tokens or whatever it may be. But there might also be some infrastructure differences that should be taken into account. Where are the core differences there?

**DANE:** Absolutely. When you're creating a DAO, you're creating an entire on-chain ecosystem. And so, I think one difference is the technical relevance of substances. Typically, it's written in Solidity or Rust, or some web3 specific language. But that doesn't really give you an idea of what's going on. When you're creating a DAO, you're creating a system of smart contracts that have very clear "if, then" logic, where a token is effectively a ledger controlled by a wallet that has some effect on the smart contract ecosystem when that wallet directs a change on the ledger that is signed with its private key.

It's very simple at its core. In fact, you could deploy a DAO with very easy code. You could reference Gnosis to deploy a safe and create a tokenized environment very quickly. Now, what goes in the smart contracts, and the more complex texture of the rules that you create with them, is where the real richness of a DAO comes from. But put very simply, it's just made of contracts that function by "if, then" language or logic that responds to wallets or holders that send commands.

**KENNY:** One question that relates to that is, how are new proposals managed from a technical perspective? Who can send those commands? How do they get in front of the community? What is the period where they can vote? Perhaps you can tell us what that actual process looks like.



**DANE:** That's the exciting part. It's all subject to the definition of the community. Now, I think it's really important to understand that there is this idea of an initial state. Obviously, somebody has to found the DAO. It's not as though 10,000 people come together and all of a sudden function according to an undefined voting system. There's usually a point at which a team defines the procedure of making a proposal, how that proposal proceeds to a more developed process, and then an ultimate vote.

Let's assume that a team has essentially told you what the initial state is and what it might look like, where anyone can make a proposal, and that proposal then goes through a period of upvoting and downvoting. Maybe ten of us really like it, but everyone else downvotes it. That's probably not a proposal that should be escalated to serious discussion. However, if something gets upvoted to that serious consideration level, then we might have a more developed writing and forum for that type of proposal.

People might write pages on why they think a certain legal structure should be implemented, or why a certain compensation system should be implemented to incentivize contributors to do things that are important for the development and implementation of the mission. Then, if that gets some quorum or threshold of support, usually over a period of time, then the matter would go to a final vote. And oftentimes, there's a period at which that final vote is put on a very specific forum. Often, it's called Snapshot.

That snapshot is available to anyone who wants to look at what's going on within the DAO. And once a proposal passes or is rejected there, either the smart contracts that are attached to the proposal are deployed automatically, or the proposal fails. You can do so much with that infrastructure. You could do signaling votes on Discord, which is a noisy mess in my mind, but it's something that people do. For instance, if something gets enough emojis, it goes to the next stage. You could relegate a lot of the proposals to different groups that can make their own proposals that pass optimistically.

I think optimism is a really important concept for the future of DAOs. To define what an optimistic resolution is, let's say that we're a group that's focused on the treasury, and we want to install a certain audit system. We might propose that, and the DAO would defer unless they veto it. So, unless some percentage of the DAO votes against it, it passes automatically. I'm just giving you a preview of the complexity that goes into these systems. I'm trying to give you a sense of the most relevant topics right now.

**AYLA:** Awesome. That makes a lot of sense. Now, one of the key “real world” questions here is, how do you set up an MVP? How do you actually incentivize somebody to help you build? Everybody knows these are really expensive technology resources. We had somebody on previously who mentioned that they paid people in cash, with a standard payroll. But how would you suggest that people get started if they wanted to set up an MVP?

**DANE:** There are a couple of models for this. I think the most frequent, and what I think of as the oldest model, is that there's a centralized development company that initiates the DAO. And ideally, that



development company has a limited life if it controls the DAO. It shouldn't be a company for the DAO's entire existence in that case. But that company may manage centralized payroll for a period of building. That comes with its own kind of risks and drawbacks, but we see that a fair amount.

A more contemporary example is that the DAO may begin as a DAO in an on-chain environment, and there can be a bounty system where the community lists the tasks that need to be done. Those bounties have rewards attached to them. It could be a USDC payment, or it could be the native token of the DAO, for instance. If somebody signs up as approved to perform that bounty, then they would be paid automatically out of the treasury upon some oracle, which is a group that says the task has actually been performed.

If there are more frequent participants, oftentimes called core contributors, they may receive a guaranteed payment stream where the stream is locked in a smart contract. Provided that no one says that they have failed at their job, it streams out at a defined time, which could be instantaneous if you use a platform like [Superfluid](#), or it could be on a monthly or semi-monthly basis. If you're a core contributor, oftentimes you have a longer engagement with the DAO. It's less of a bounty system and more of providing some core utility, generally for a defined period of time. But that defined period of time can elongate depending on what type of DAO it is.

**KENNY:** That's great. It sounds like it's up to the DAO to give those bounties and salaries. Now, a related question from Bharat. DAOs are new. The infrastructures are new. "Rickety" might not be a fair word, but it's probably not too far off. What do you see as some of the areas for opportunity specifically for DAO toolings that are lacking, and that you could develop further?

**DANE:** That's a great question. I want to break down the technical aspect of this answer a little bit. Top of mind is navigating the [layer one and layer two infrastructure](#) of many of the data ecosystems. A DAO that sits on Ethereum is very expensive. That's because each action requires a [gas fee](#). And so, if you want to create a more sophisticated governance infrastructure, what you need to do is expand to a layer two.

Layer one is your core utility chain, whereas layer two is oftentimes a chain that's connected or adjacent to that chain but transacts at a much lower cost. It proves to the layer one chain that whatever people say happened actually did. If you think about Ethereum, Polygon, [Optimism](#), or other layer twos, the infrastructure of governance on those is very new. It hasn't been fully developed. There is a good tool called [Gnosis Zodiac](#) which helps people develop on this, but it's also new. I think we need to see a lot more tools that will help build it up to the level where DAOs can actually hold billions of dollars. Because right now, there's a question of whether we are prepared to do that.

The other important aspect of tooling is the management of private keys for [multi-signature wallets](#). Multisigs are wallets where usually three of five people have to sign in order to disperse funds. We see a lot of problems with that because firstly, it's [hackable](#). Individuals hold the private keys, and it's possible for someone to exploit that.



There is interesting work to be done around zero knowledge proofs and, potentially, concealing private keys better. I don't think anyone has the best idea on how to replace the multisig system entirely. So if you figure that out, that will be very valuable.

On the part about tangible tooling, I think that analytics platforms, particularly around compensation, are helpful. I don't think anyone has figured out the best compensation platform yet. And I think no one's really focused on expanding the governance forum technology. There's one standard, which is called Discourse. It's a message board. It's fine, but I think it can be done much better. Those are the categories I think are most important for building tooling.

**AYLA:** Beautiful. Now, a lot of folks in the room are investors. When someone looks at a DAO and thinks about whether they should invest in someone's project, how should they assess the DAO? Both on the human side, and the underlying technology.

**DANE:** Great question. Here's how I think about it. I think that the barrier for entry for DAOs is very low. In a market where we don't know anything about any DAO, they're all basically competing for participation and capital. If participation or capital ends, the DAO dies. So, where I typically start is the mission. A lot of DAOs don't have very good mission statements. And what I see building from that is either something organic that I can anticipate, or chaos. If there's not a good mission statement, that's a disqualifier in the beginning.

And then, I also want to see and read the documentation. I like to go through the materials. I like to see whether the mission that they stated is being implemented. If you think the mission is compelling and you find value there, then everything should follow from that. So, if the architecture of the DAO does not look like the mission statement, there's a disconnect that either needs to be solved, and you have to figure out if they have a solution, or you should probably discount that DAO as well.

There are some very good examples of mission statements. I think Bankless has a pretty good mission statement. I think MolochDAO, which is fairly controversial, is very clear about what they are and why they're there. I think that's the standard you'd want to hold any DAO to, as an investor .



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**Dennis Chookaszian**

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



**Susan Brazer**

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



**Raj Mukherjee J.D.**

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for [Coinbase](#) and [Binance](#) from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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