

diffusetap
Virtual Event Series

Commercializing DAOs

Guest Speaker:



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Hosts:



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DiffuseTap: Commercializing DAOs

Last time on DiffuseTap, Brendan Kissane, CEO and President of Drumin Management Advisors, talked to us about how a DAO structure is set up, why many community-driven organizations have a great opportunity in adopting a DAO structure, and some items to cross out when looking to invest in a DAO company.

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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



Brendan Kissane is CEO and President of Drumin Management Advisors. Having worked with numerous organizations for more than 20 years, he has held a variety of roles, from CFO and CRO to Interim President, Independent Committee Member, and Business Development Lead. Brendan also has extensive experience navigating both the restructuring and sale process of companies..

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KENNY ESTES: All right. Brendan, do you want to unmute yourself and tell the good folks a little bit about your background and what you're up to at Drumin?

BRENDAN KISSANE: Good afternoon, everybody. Pleasure to be here. My name is Brendan Kissane. I have been running the company for close to 25 years. I work in the corporate restructuring area, mainly with private equity groups and different platforms of theirs. We're doing various restructuring improvements, and typically also the sale of those businesses.

More recently, I forayed into the crypto world along with Jason Myers and a bunch of other folks. We're launching a DAO, which is today's topic. It's very interesting. There are a lot of questions out there regarding the structure of how DAOs work. In our case, we talked about this internally. We know that there is an important aspect of giving some type of majority to a management team which has oversight. In our case, we asked our community to vote on certain individuals to oversee key roles, to ensure that our project maintained its velocity.

What we did was we appointed certain key players within the DAO to have management over the DAO. And of course, everybody that's a member of the DAO has voting rights. Typically, the things that get voted on include putting forth various resolutions and processes. Once approved, those key management members are tasked with execution of the proposal to accelerate the whole process. Otherwise, you lose velocity on execution.

The management team should have a proven track record in their respective roles, such as marketing, community awareness, design, and treasury to name a few. While I won't get into the weeds, I would strongly advise you to work with your legal advisors, who are very familiar with crypto, to help you aid in your governance structure. In our case we used a Wyoming LLC structure and certain key members have authority over day to day operations to ensure we are driving the project forward.

AYLA KREMB: Now, I think for the most part everybody in the group knows what a DAO is. But what makes a particular DAO valuable? Is it the infrastructure that you have? Is it whether you have registered the DAO with legal jurisdictions? Or is it whether the community behind the DAO is very engaged? Maybe you could talk about that.

BRENDAN: Well, we formed the DAO in Wyoming for specific reasons. Wyoming itself is very friendly towards DAOs. It's more efficient to start a DAO there. As you know, everything is run through the smart contract. Everybody knows how those things work. Long story short, DAOs give power to any community-focused organization, whether it's for profit or nonprofit. It gives anybody or any group that has a community-driven project the opportunity to launch. The members have the ability to have a direct hand in shaping what's to come. Typically those with the most passion while other members might be interested but less active hence our earlier discussion on proper governance.



We were up and running in less than about 36 hours, and it was the first DAO that we did. We were a group of folks that loosely knew each other at the time and came together. We were up and running in a very short period of time, so while the bones were there, we needed a structure to ensure we got meat on those bones. As I said earlier, the management of a DAO is a critical aspect to consider in how you drive quick, efficient decision making.

And so, if you have thousands of people involved, getting the voting process to happen quickly and in an expedited manner is key. That is why we chose the direction of having a management team. The management team is a governing group that is able to accelerate the decision making processes quickly within the DAO. Hopefully that answers your question.

KENNY: Sure. Let's talk a little bit about some of the nuts and bolts of a DAO. When you're spinning up a DAO, what are your options? How do you structure a DAO? And while we're on the subject, it might be useful for the audience to compare and contrast a DAO structure to a more traditional company.

BRENDAN: That's a good question. The reason we picked a DAO in our case is because this specific project is informational. We're bringing together groups in a summit-type environment where you can come in and learn about different aspects of crypto. We're running that through a DAO called DAO Dynasty. We launched a token, and we work with NFTs, as well. What we're trying to accomplish is definitely crypto-centric. DAOs are all about community, so building community awareness is key to your ultimate success. We might not be able to accomplish these things with a traditional LLC where community members can invest but can't control the direction of the project due to minority positions. Where as a DAO is solely govern by the community so if enough of the community feels strongly about a specific topic they can effect change

AYLA: One of the questions we want to ask is about DAO mutiny. There was an example of a DAO voting to take control over a user's funds. That was a plot to avoid liquidation when the DAO was turned over later on. Do you see this becoming a common phenomenon in DAOs these days, where the community might take over leadership and vice versa?

BRENDAN: I think that's part and parcel of what I was mentioning earlier. If you have a sufficient number of tokens to vote with, or a group of people has enough votes, then you have the ability to propose any type of change. That is theoretically possible. In our case, again, we set up a management group that's responsible for the day to day operations to accelerate the development.

We're not waiting for everybody to turn in votes and chase that whole process. In any corporation, even traditional companies, if you have enough shares then you have more voting majority. One of the things



to think about when you're looking at investing in any of those types of groups is how long are things locked up, and what the overall governance. Those are important factors to consider when you're looking to invest. The short answer is yes, it's possible that that could happen. But you'd have to have a majority of outstanding tokens to make that even feasibly possible. However, if your management team has a strong track record, it's unlikely.

KENNY: Well, let's dig in further on that before we get back to my previous question. One thing there is yes, they can vote however they want to, but there is still a legal framework they have to offer. They can't just vote to run arms, for example. That's not a thing you can do. But technically, the DAO would allow it. So, how does that interplay between the well-established legal system and DAO management work?

BRENDAN: Well, in Wyoming, you're responsible for providing fiduciary responsibility regarding movement of funds, and so on. In our case, we make sure that there are at least five or six parties that are voting on any disbursement of funding. So, one person can't go off and decide to take the treasury and run to the hills. Those folks are elected to the board as part of the Wyoming LLC that is set up behind the DAO.

Their traditional governance is similar to a traditional corporation in that we have to make sure that those legal frameworks are in place. We will review them and make sure that everything is set up properly. The number one thing was the disbursement of funding. Again, we have a total of nine people who are approved, and you have to have a majority of those people sign off on any disbursement. You have to basically have five or six votes in that case when rogue operators decide to do something.

AYLA: We'll take a question from the chat here. Can you give us an example of an effective use of a commercial entity that is running using a DAO? Namely, one that is deemed successful doing so and has been for a while.

BRENDAN: I think DAOs are new on the horizon. A good traditional use for a DAO would be any type of nonprofit organization. DAOs are really about the community coming together, either for profit or nonprofit, and deciding to run it in a decentralized, smart contract format. You can have sufficient governance to ensure that you're not exposed to any type of issues.

I think the structure will work for pretty much most types of organizations and in most industries that I can think of, provided you have enough governance behind it. A DAO really opens up the decision making to any community that has a vested interest in a specific project.



KENNY: Maybe we could reframe the question a bit. What are DAOs better at than traditional organizations? You mentioned nonprofits would work well with a DAO. Why do you think making a DAO is better than just doing a regular nonprofit organization? And specifically, is there an example of a successful DAO that you're familiar with? Any specific examples of a DAO that is operating well and in some sense better than would be done by traditional corporate structure?

BRENDAN: I can't point to a specific DAO per se, but I really believe that DAOs could excel in many areas. Instead of just donating or investing your money in an entity and hoping that they do good things with it, you have actual voting rights because you are part of that team. You're making specific decisions, like whether the organization is going to send it through this area or that area, for example. The community is involved in that particular decision.

I think it gives more power to the community as compared to a traditional corporation, where the shareholders elect a board, the board elects a management team, and that management team fulfills the shareholders' desires. In a DAO situation, people can now have the power to vote to ensure that what that community was set up to do is actually getting done by the entity. Also, you could easily vote people off, which I think is harder to do with a traditional corporation.

AYLA: True. It's definitely possible to do that with a traditional corporation if you hold the majority of the shares. It will be difficult to be an activist shareholder. Now, I think a lot of folks in the community, especially at Diffuse, are looking at DAOs from an investment perspective. And I think there's a good point to be made that a DAO might never in its entirety replace a corporate structure.

But if you wanted to wager on a DAO, what are the red flags that you would look out for? Is it a management team that is willing to go around the DAO? Is it the poor infrastructure underlying it? What are the pieces that you should look out for if you're looking to invest in a DAO?

BRENDAN: That's a great question. I think the same thing goes for anything else that you're looking at. Obviously, you want to know what the project is, what is the roadmap, where do they stand, and things like that. Also, you want to see the management team and find out what successes they've had in the past. If they come out of nowhere and they don't really have a proven track record, it's harder for me to invest a lot of capital in.

I think the other piece you have to really look at is what the governance is for the release of those tokens, and what is the timeframe. If those tokens are locked up, that gives me more confidence to believe that a rug pull is not going to happen right after I've invested. Those are some of the top things I would want to understand to see what the project is actually doing.



The caliber of the management team, the structure of how they operate, whether they have tokens locked up for a period of time, and whether they have the ability to liquidate their tokens. Those immediately give me a feel for whether it's a company worth paying attention to.

KENNY: That makes sense. Rug pulls are a massive concern. It's like the old VC saying, "bet on the horse, not the jockey." Last question. What do you see happening in the future for DAOs? What are you excited by?

BRENDAN: I definitely see the broader crypto industry, including DAOs, accelerating. There is an ability in the crypto community to put more power in the hands of the many, and the ability to provide all kinds of financial services of various aspects into the hands of the masses through crypto. Some projects that are out there today are available only in the traditional finance world, or to a very select group, like derivative trading and all these different platforms.

Today, if I had a thousand bucks and I want to trade derivatives through a platform, I can do that. But I probably am not going to be able to do that by using any other methodology. In the traditional finance world, I wouldn't have access to it.

I think crypto is going to continue to broaden, and I think everybody will be talking about this. As you get more adoption, it's going to accelerate more. There are peaks and valleys with volatility, and I think part of the reason volatility has softened is because the group is larger. As the community grows itself and goes past that trillion trader mark or so, I think that volatility will soften a little bit. Obviously, the deleverage piece is happening right now, and I think the whole thing is going to be deleveraged in the future. Crypto is here to stay, and I think it could grow to a \$50 trillion market space in five years.



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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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