



DAO Association Regime 2024

issued by the Ras Al Khaimah
Digital Assets Oasis (RAK DAO)

Legal Framework Analysis

In October 2023, the UAE's first Web3-focused economic free zone, RAK Digital Assets Oasis (the "**RAK DAO**"), was launched in the Emirate of Ras Al Khaimah.

RAK DAO aims to be the global hub for the blockchain and digital assets ecosystem.

It's important to note that RAK DAO is an Economic Free Zone, and its licensing authority has the power to register companies and grant business licenses for **non-regulated** business activities. If an entity registered in RAK DAO plans to carry out Virtual Assets (the "**VA**") activities, which are regulated at the Federal level, they will need to obtain a relevant Virtual Asset Service Provider (the "**VASP**") license from the Federal Regulator - Emirates Securities and Commodity Authority.

RAK DAO acknowledged the rise of DAOs as a necessary and integral part of the infrastructure for the Web3 economy. Therefore, shortly after its establishment, the Free Zone began developing its distinctive DAO regulatory regime tailored to the needs of the Web3 industry.

RAK DAO has undertaken a comprehensive examination of the jurisdictional frameworks available for legal wrappers of DAOs and, after extensive industry consultation introduced the **DAO Association Regimes 2024** ("**DAO Association Regimes**").

DAOs incorporated in RAK DAO can select common law, DIFC Courts and ADGM Courts or Arbitration as a dispute resolution mechanism.

KEY FEATURES OF THE DAO ASSOCIATION REGIME

GENERAL

Legal Form

A DAO Association shall take the legal form of a Company Limited by Guarantee, and has a lot of features incorporated from the Swiss Associations regime, which has proven to be very flexible and advantageous for DAOs.

Legal Personality

A DAO Association incorporated under the DAO Association Regimes will have a separate legal personality from that of its Founding Members, Guarantee Members and any Token Holders and may carry out activities and enter into legally binding obligations under its own name.

Purpose

A DAO Association may conduct any lawful business activity that aligns with the commercial license issued by the RAK DAO Authority. The DAO Association Regimes will permit DAO Associations to partake in commercial activities and generate returns or profits, provided that such earnings are not distributed to the DAO members. Consequently, the Regimes only permit the establishment of “non-profit” DAO Associations.

It is crucial to emphasize that should a DAO Association pursue any VASP activities as defined by Federal Law, it must procure the necessary licensing and adhere to the pertinent VASP, securities, and tax laws and Regimes in the UAE.

DAO Assets

A DAO Association has the ability to acquire, own, develop, and dispose of assets and property in its own name, including both on-chain and off-chain assets.

Technical requirements

A DAO Association shall be deployed only on a Permissionless blockchain, and the entire software code must be in an open-source format that is publicly accessible.

DAO Association Representative

Every DAO Association must have either a Manager or a Registered agent to represent the DAO Association off-chain and satisfy economic presence requirements.

Initial Capital

No minimum capital is required for the establishment of a DAO Association unless the Registrar imposes a minimum guarantee amount for accountability purposes.

DAO Association Documents

DAO Association's foundational document is a Memorandum of Association, which must contain the information prescribed by the Registrar and ensure that it remains up to date.

Additionally, a DAO Association will have a Constitution that, among other things prescribed in the regimes must include details of each class of member and their associated rights, decision-making processes, governance and dispute resolution mechanisms, token distribution and supply mechanisms, treasury management processes, details of the smart contracts used, etc.

GOVERNANCE AND CONTROL

Council

Each DAO Association must establish a governing body, known as the "Council", comprising a minimum of two natural persons. The Council is empowered to represent the DAO Association off-chain and in dealings with third parties, such as creditors, counterparties, and government authorities. Additionally, the Council is responsible for administering the DAO Association's assets, including any Virtual Assets, making operational and maintenance-related decisions, engaging with and delegating to third parties for services, such as software developers, professional services firms, and hardware suppliers, and ensuring ongoing compliance with relevant legislation.

Members

Any person who holds the DAO's Governance Token automatically becomes a member of that DAO Association. The DAO Association Regime require at least two members to create a DAO Association (the "**Founding Members**"). The number of Founding Members is limited to ten persons. Founding Members are required to provide the Registrar with a paid-up guarantee, which can be in approved cryptocurrencies or fiat currencies. The Registrar may, at its discretion, require the guarantee to be paid in a specific amount, or in prescribed fiat currency or virtual asset.

DAO Association Members as a minimum shall be as follows:

- Founding Members, who are also Guarantee Members
- Council Members
- Token Holders or General Members

The regime allow a DAO Association to include other categories of members whose rights and obligations must be specified in the Constitution.

Tokens

The DAO Association is allowed to issue Virtual Assets, including Governance Tokens, provided that certain regulatory requirements are met. These requirements include such as registering a White Paper and Tokenomics with the Registrar, obtaining a Legal Opinion to confirm whether a token is regulated or non-regulated, making the DAO's White Paper accessible to the public, conducting a smart contract cybersecurity audit, etc.

REPORTING, DISCLOSURES AND PUBLICATIONS

Accounts and Audit

A DAO Association is required to prepare and file with the Registrar its audited Annual Accounts.

Annual Return Form

Within four (4) weeks from the end of its financial year, DAO Associations must submit an Annual Return. This should include details about the nature of the token, if any, the activities of the DAO, and any additional information required by the Registrar. The submission should also confirm that the DAO Association is not involved in any VASP activities or possesses the necessary license for such activities.

Disclosures

Every DAO must host and maintain a publicly accessible Internal Register containing at a minimum information about DAO Association Founding and Council Members, its Manager or Registered Agent, Council Meeting Minutes, and other information as may be specified by the Authority publicly available and accessible to its members and other stakeholders.

BENEFICIAL OWNERSHIP/CONTROL

In accordance with the Regimes on Ultimate Beneficial Ownership (the “UBO”) in the UAE, corporate entities are mandated to declare the individual ownership, whether beneficial or actual, within an entity holding 25 percent or more of the company, directly or indirectly, to the relevant regulatory authority. Given its inherent lack of ownership structure, a DAO association does not possess owners or shareholders; rather, it is governed by controllers who wield significant authority over the entity.

For the purposes of UBO Regimes, Founding Members, Council Members, and any person holding 25% or more of the voting rights will be considered as controllers of the DAO Association.

SUPERVISION

AML and Sanctions

DAO Associations must comply with the applicable Federal AML Laws and sanctions regimes.

Data Protection and Cyber Security

DAO Associations must comply with Federal data protection and data security regimes.

SUB-DAO ASSOCIATIONS

Larger DAO Associations will be permitted to establish sub-DAOs to separate the association’s assets and liabilities and allocate distinct business purposes or investment objectives, along with separate rights, powers, or duties.

To be eligible to create a Sub-DAO, a DAO Association must be classified as an Alpha DAO, meeting the following criteria: 1) treasury exceeding 1 million USD; 2) having conducted a public token sale; 3) with more than 100 members or governance token holders.

INSOLVENCY, LIQUIDATION AND STRIKE-OFF

Strike Off

The Registrar may, at its discretion, remove a DAO Association from the Register if (i) the DAO Association has ceased to conduct business; (ii) the DAO Association is conducting business for which a trade license, permit, or authority is required; (iii) the DAO Association or its officers have committed a criminal offense; or (iv) the DAO Association has failed to pay its annual fee or to submit its annual return to the Registrar.

Winding Up

A DAO Association may be wound up by the Registrar or voluntarily.

FEES

Fees and other costs associated with establishing a DAO Association will vary depending on the DAO Association type. There are two types of DAO Associations that can be established under the Regimes:

1. Startup DAO: This is designed for emerging projects. To qualify for this regime, DAOs must have a treasury of less than 1 million USD, have not yet conducted a public token sale, and have fewer than 100 members or governance token holders.

2. Alpha DAO: This is tailored for more mature and established DAOs with a treasury exceeding 1 million USD and a larger base of members or governance token holders (more than 100).

Incorporation Fees and Yearly renewal fees

Incorporation and annual renewal of a Startup DAO will be subject to a 4,500 USD fee, while incorporation and annual renewal of an Alpha DAO will be subject to a 9,500 USD fee.

Sub-DAOs

The registration of each Sub-DAO will be subject to 3,000 USD fee.