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# Wyoming Paves Way for DAO Legal Company Status

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The state of Wyoming made headlines when its legislature approved a [first-of-its-kind bill](#)<sup>[1]</sup> that grants legal company status to decentralized autonomous organizations (DAOs) that operate on a blockchain, provided they are organized as a Wyoming limited liability company. The bill, codified as the Wyoming Decentralized Autonomous Organization Supplement<sup>[2]</sup> applies only to DAOs organized under the Wyoming Limited Liability Company Act<sup>[3]</sup> (the “Act”). DAOs organized as limited liability companies in states other than Wyoming will not be authorized to do business within the state of Wyoming.<sup>[4]</sup>

A DAO is an organization that operates pursuant to a transparent set of software protocols. These protocols allow a distributed group of individuals or entities to make decisions on behalf of the DAO. The DAO’s governance rules are maintained and executed on a blockchain using distributed ledger technology. As a result, a DAO can function on a distributed basis with no central authority or decisionmaker.

Lawmakers passed the bill to provide liability protection for DAO members who organize as a Wyoming limited liability company. Without such protections, a DAO could be considered a general partnership, exposing its members to personal liability for any of the DAO’s actions and obligations. Under the new law, traditional legal protections extend to LLC members that organize a DAO as a Wyoming LLC.

The law contemplates two types of DAOs: member managed and algorithmically managed. A member managed DAO is similar to a member managed LLC under the Act in that certain enumerated persons or entities are responsible for the upkeep and management of the organization. While the phrase “algorithmically managed” is undefined, it is likely the law may contemplate an algorithmic decision-making protocol that resides on a blockchain that manages such a DAO. An algorithmically managed DAO LLC can only register as an algorithmically managed LLC if the governing

smart contract system is already operational at the time of filing. The statute is silent as to the degree of functionality required.

A DAO LLC's Articles of Organization must include a publicly available identifier of any smart contract directly used to manage, facilitate or operate the DAO. These articles must be amended when there is an update or change to the DAO's underlying smart contracts. We believe this requirement was included to provide public disclosure because the DAO's underlying smart contract is the controlling authority when a conflict arises between the DAO's smart contracts and its Articles of Organization. Considering the frequency with which a typical blockchain-based DAO's underlying code changes, this requirement may be an onerous obligation for DAO LLCs.

The law also provides the following unique requirements for and features of DAO LLCs:

- DAO LLCs must maintain a registered agent in the state of Wyoming.
- The legal name for the DAO must include "DAO" or "LAO" (Limited Autonomous Organization) or "DAO LLC."
- The LLC's Articles of Organization must state that the LLC is a DAO "pursuant to W.S. 17-31-104" and must include the following text:

*"The rights of members in a decentralized autonomous organization may differ materially from the rights of members in other limited liability companies. The Wyoming Decentralized Autonomous Organization Supplement, underlying smart contracts, articles of organization and operating agreement, if applicable, of a decentralized autonomous organization may define, reduce or eliminate fiduciary duties and may restrict transfer of ownership interests, withdrawal or resignation from the decentralized autonomous organization, return of capital contributions and dissolution of the decentralized autonomous organization" (emphasis added).*

- A DAO is presumed to be member managed unless otherwise defined as algorithmically managed in the DAO's Articles of Organization.
- The DAO's smart contracts also prevail in any conflict with the DAO's articles of organization.
- A DAO LLC is automatically dissolved if it fails to approve any proposals or take any actions for a period of one year and that, except as specifically modified by the bill, the Act applies to DAO LLCs.

By default, DAO LLCs are governed by a majority vote of the DAO's membership interests. Membership interests are calculated by either "dividing a member's contribution of digital assets to the organization divided by the total amount of digital assets contributed to the organization at the time of a vote"[\[5\]](#) or "if members do not contribute digital assets to [the] organization as a prerequisite to becoming a member, each member shall possess one (1) membership interest and be entitled to one (1) vote."[\[6\]](#) Considering the wide range of governance structures already practiced by DAOs, it seems unlikely that this relatively narrow definition will be nimble enough to apply in most cases.

Finally, the law appears to give the maximum effect to the principle of freedom of contract by waiving the fiduciary duties of members by default. Under the Act, members in a limited liability company owe the traditional fiduciary duties of loyalty and care to the company and other members.[\[7\]](#) Members in a DAO LLC, however, are only subject to an implied contractual covenant of good faith and fair dealing.

As of the date of publication, it is unclear whether the law will lure DAO founders to Wyoming, or even whether existing Wyoming blockchain organizations governed by DAOs will take advantage of the law. Overall, the new law appears to function as a placeholder that applies the existing legal framework of an LLC to Wyoming DAOs without providing significant guidance for, or rules regarding, the ways in which a DAO LLC might differ from a traditional LLC. We will continue to follow its uses and benefits and provide updates as they become available.

For more information, please contact [Josh Lewis](#), [Bob Zeglarski](#), or any attorney with Frost Brown Todd's [Blockchain](#) industry team.

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[1] "Wyoming Decentralized Autonomous Organization Supplement," codified at W.S. 17-31-101 through 17-31-115.

[2] WS §17-31-101 et seq.

[3] *Id.*

[4] WS §17-31-116

[5] WS §17-31-111.

[6] *Id.*

[7] WS §17-29-409

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