Representative **Jordan D. Teuscher** proposes the following substitute bill:

1   **DECENTRALIZED AUTONOMOUS ORGANIZATIONS**

2   **AMENDMENTS**

3   2023 GENERAL SESSION

4   STATE OF UTAH

5   **Chief Sponsor: Jordan D. Teuscher**

6   Senate Sponsor: Kirk A. Cullimore

7

8   **LONG TITLE**

9   **General Description:**

10   This bill allows a decentralized autonomous organization that has not registered as a

11   for-profit corporate entity or a non-profit entity to be treated as the legal equivalent of a

12   domestic limited liability company.

13   **Highlighted Provisions:**

14   This bill:

15   ▸ enacts the Decentralized Autonomous Organization Act;

16   ▸ defines terms under the act;

17   ▸ establishes the requirements of a decentralized autonomous organization to be

18   recognized by the state;

19   ▸ establishes the purposes for which a decentralized autonomous organization may be

20   formed; and

21   ▸ establishes the membership requirements and rights of members of decentralized

22   autonomous organizations.

23   **Money Appropriated in this Bill:**

24   None

25   **Other Special Clauses:**

26   This bill provides a special effective date.

27   **Utah Code Sections Affected:**

28   ENACTS:

29   **48-5-101**, Utah Code Annotated 1953

30   **48-5-102**, Utah Code Annotated 1953

31   **48-5-103**, Utah Code Annotated 1953

32   **48-5-104**, Utah Code Annotated 1953

33   **48-5-105**, Utah Code Annotated 1953

34   **48-5-106**, Utah Code Annotated 1953

35   **48-5-107**, Utah Code Annotated 1953

36   **48-5-108**, Utah Code Annotated 1953

37   **48-5-109**, Utah Code Annotated 1953

38   **48-5-201**, Utah Code Annotated 1953

39   **48-5-202**, Utah Code Annotated 1953

40   **48-5-203**, Utah Code Annotated 1953

41   **48-5-301**, Utah Code Annotated 1953

42   **48-5-302**, Utah Code Annotated 1953

43   **48-5-303**, Utah Code Annotated 1953

44   **48-5-304**, Utah Code Annotated 1953

45   **48-5-305**, Utah Code Annotated 1953

46   **48-5-306**, Utah Code Annotated 1953

47   **48-5-307**, Utah Code Annotated 1953

48   **48-5-401**, Utah Code Annotated 1953

49   **48-5-402**, Utah Code Annotated 1953

50   **48-5-403**, Utah Code Annotated 1953

51   **48-5-404**, Utah Code Annotated 1953

52   **48-5-405**, Utah Code Annotated 1953

53   **48-5-406**, Utah Code Annotated 1953

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55   *Be it enacted by the Legislature of the state of Utah:*

56   Section 1. Section **48-5-101** is enacted to read:

CHAPTER 5. DECENTRALIZED AUTONOMOUS ORGANIZATION ACT

Part 1. General Provisions

48-5-101. Definitions.

As used in this chapter:

(1) "Administrator" means a person that is appointed in a manner specified in the by-laws to make decisions for specific, predefined operations of the decentralized autonomous organization.

(2) "Asset" means an item of value, whether on-chain or off-chain.

(3) "By-laws" means the procedural rules and regulations that govern a decentralized autonomous organization and the interaction of the decentralized autonomous organization's members and participants.

(4) "Cryptographic proof" means a mathematical proof that verifies that a message has not been tampered with or altered in any way and can be verified by a person that has access to the original message and the proof.

(5) "Decentralized" means that decision-making is distributed among multiple persons.

(6) "Decentralized autonomous organization" means an organization:

(a) created by one or more smart contracts;

(b) that implements rules enabling individuals to coordinate for decentralized governance of an organization; and

(c) that is an entity formed under this chapter.

(7) (a) "Developer" means a person involved in the development or maintenance of a decentralized autonomous organization.

(b) "Developer" includes a person that provides:

(i) software code; or

(ii) design, business, legal, or ancillary support.

(8) (a) "Dispute resolution mechanism" means an on-chain alternative dispute resolution system that enables persons to resolve disputes arising out of a decentralized autonomous organization.

(b) "Dispute resolution mechanism" includes:

(i) arbitration;

(ii) expert determination; or

88   (iii) an on-chain alternative court system.

89   (9) "Division" means the Division of Corporations and Commercial Code.

90   (10) "Failure event" means an error in the decentralized autonomous organization's

91   software code or an exploit that:

92   (a) renders the decentralized autonomous organization inoperative; or

93   (b) fundamentally changes the expected operation of the decentralized autonomous

94   organization.

95   (11) "Graphical user interface" means a publicly accessible interface through which a

96   person interacts with computer software through visual indicator representations.

97   (12) "Hard fork" means a blockchain software upgrade that is not compatible with

98   previous versions of the blockchain software and requires all users to upgrade to the latest

99   version of the blockchain software.

100   (13) "Legal representative" means an individual appointed in the manner specified in

101   the by-laws of a decentralized autonomous organization to perform procedural functions

102   off-chain on behalf of a decentralized autonomous organization.

103   (14) "Majority chain" means the version of the blockchain accepted by more than half

104   of the blockchain's validators following a hard fork.

105   (15) "Meeting" means a synchronous or asynchronous event for the purpose of

106   discussing and acting upon decentralized autonomous organization related matters by members

107   or participants.

108   (16) (a) "Member" means a person who has governance rights in a decentralized

109   autonomous organization.

110   (b) "Member" does not include an individual that has involuntarily received a token

111   with governance rights, unless that person has chosen to participate in governance by

112   undertaking a governance behavior, on-chain or off-chain, for the decentralized autonomous

113   organization.

114   (17) "Minority chain" means the version of the chain that is not the majority chain

115   following a hard fork.

116   (18) "Off-chain" means any action that is not on-chain.

117   (19) "On-chain" means any action that is recorded and verified on a blockchain.

118   (20) "On-chain contribution" refers to any token segregated and locked in one of the

119   decentralized autonomous organization's smart contracts for the purpose of member buy-in to

120   the decentralized autonomous organization and the provision of withdrawable capital.

121   (21) "Organizer" means a person that submits the certificate of filing as required in

122   Section 48-5-201.

123   (22) "Participant" means a person that:

124   (a) is not a member of a decentralized autonomous organization; and

125   (b) holds or interacts with a token of a decentralized autonomous organization.

126   (23) "Permissionless blockchain" means a publicly distributed ledger that allows a

127   person to transact and produce blocks in accordance with the blockchain protocol, in which the

128   validity of the block is independent of the identity of the user.

129   (24) "Public address" means a unique, durable identifier that an individual can transact

130   with on a permissionless blockchain.

131   (25) "Public forum" means a freely accessible online environment that is commonly

132   used for the exercise of speech and public debate.

133   (26) "Public signal" means a declaration authorized by the decentralized autonomous

134   organization in a public forum.

135   (27) "Quality assurance" means a security review of the software code of the

136   decentralized autonomous organization in accordance with industry standards.

137   (28) "Redeem" means to exchange a token for the value that the token represents.

138   (29) "Smart contract" means software code that:

139   (a) is deployed on a permissionless blockchain;

140   (b) consists of a set of predefined instructions executed in a distributed manner by the

141   nodes of an underlying blockchain network; and

142   (c) produces a change on the blockchain network.

143   (30) "Token" means a record on a permissionless blockchain that represents an asset,

144   participation right, or other entitlement.

145   (31) "Transaction" means a new entry in a permissionless blockchain, including the

146   recording of a change in ownership of an asset or participation in a decentralized autonomous

147   organization.

148   Section 2. Section **48-5-102** is enacted to read:

149   **48-5-102. Governing document hierarchy -- Governing law.**

150   A decentralized autonomous organization shall be governed by the following, listed in

151 order of primacy:

152   (1) this act;

153   (2) the by-laws of the decentralized autonomous organization;

154   (3) if this act and a decentralized autonomous organization's by-laws are silent, the

155 provisions of Chapter 3a, Utah Revised Uniform Limited Liability Company Act; and

156   (4) principles of law and equity.

157   Section 3. Section **48-5-103** is enacted to read:

158   **48-5-103. Powers of the division.**

159   (1) (a) The division may make, amend, or rescind a rule, form, or order when necessary

160 to carry out this chapter.

161   (b) The division shall make rules in accordance with Title 63G, Chapter 3, Utah

162 Administrative Rulemaking Act.

163   (2) The division may by rule:

164   (a) provide the form and content of a registration requirement required under this

165 chapter;

166   (b) provide the method of determining whether formation requirements described in

167 Section 48-5-201 have been met and when to issue a certificate of organization; and

168   (c) identify industry standards for determining whether the decentralized autonomous

169 organization has undergone security review for quality assurance.

170   Section 4. Section **48-5-104** is enacted to read:

171   **48-5-104. Legal personality.**

172   A decentralized autonomous organization that meets the requirements of this act:

173   (1) shall be deemed a legal entity separate and distinct from the decentralized

174 autonomous organization's members;

175   (2) has the capacity to sue and be sued in the decentralized autonomous organization's

176 own name and the power to do all things necessary or convenient to carry on the decentralized

177 autonomous organization's activities and affairs;

178   (3) shall meet the decentralized autonomous organization's liabilities through the

179 decentralized autonomous organization's assets;

180   (4) may have any lawful purpose; and

181   (5) has perpetual duration.

182   Section 5. Section **48-5-105** is enacted to read:

183   **48-5-105. Permitted names.**

184   (1) (a) The name of a limited liability decentralized autonomous organization shall

185 contain the words limited liability decentralized autonomous organization or limited

186 decentralized autonomous organization or the abbreviation L.L.D., LLD, L.D., or LD.

187   (b) Limited may be abbreviated as Ltd., and decentralized autonomous organization

188 may be abbreviated as DAO.

189   (2) Except as authorized by Subsection (3), the name of a decentralized autonomous

190 organization shall be distinguishable as defined in Subsection (4) upon the records of the

191 division from:

192   (a) the actual name, reserved name, or fictitious or assumed name of any entity

193 registered with the division; or

194   (b) any tradename, trademark, or service mark registered with the division.

195   (3) (a) A decentralized autonomous organization may apply to the division for approval

196 to reserve a name that is not distinguishable upon the division's records from one or more of

197 the names described in Subsection (2).

198   (b) The division shall approve the name for which the decentralized autonomous

199 organization applies under Subsection (3)(a) if:

200   (i) the other person with a name that is not distinguishable from the name under which

201 the applicant desires to file:

202   (A) consents to the filing in writing; and

203   (B) files a form approved by the division to change the person's name to a name that is

204 distinguishable from the name of the applicant; or

205   (ii) the applicant delivers to the division a certified copy of the final judgment of a

206 court of competent jurisdiction establishing the applicant's right to use the name in this state.

207   (4) A name is distinguishable from other names, trademarks, and service marks

208 registered with the division if the name contains one or more different words, letters, or

209 numerals from other names upon the division's records.

210   (5) The following differences are not distinguishing:

211   (a) the term:

212   (i) decentralized autonomous organization;

213   (ii) DAO;

214   (iii) limited liability decentralized autonomous organization;

215   (iv) L.L.D. or L.L.DAO.; or

216   (v) L.D. or L.DAO.;

217   (b) an abbreviation of a word listed in Subsection (5)(a);

218   (c) the presence or absence of the words or symbols of the words "the," "and," "a," or

219   "plus";

220   (d) differences in punctuation and special characters;

221   (e) differences in capitalization; or

222   (f) differences in singular and plural forms of words.

223   (6) The division may not approve for filing a name that implies that a decentralized

224   autonomous organization is an agency of this state or any of the state's political subdivisions, if

225   the decentralized autonomous organization is not actually such a legally established agency or

226   subdivision.

227   (7) The authorization to reserve or register a decentralized autonomous organization

228   name as granted by the division does not:

229   (a) abrogate or limit the law governing unfair competition or unfair trade practices;

230   (b) derogate from the common law, the principles of equity, or the statutes of this state

231   or of the United States with respect to the right to acquire and protect names and trademarks; or

232   (c) create an exclusive right in geographic or generic terms contained within a name.

233   (8) The name of a decentralized autonomous organization may not contain:

234   (a) the term:

235   (i) association;

236   (ii) corporation;

237   (iii) incorporated;

238   (iv) partnership;

239   (v) limited liability corporation;

240   (vi) limited partnership; or

241   (vii) L.P.;

242   (b) any word or abbreviation that is of like import to the terms listed in Subsection

243   (8)(a);

244   (c) without the written consent of the United States Olympic Committee, the words:

245   (i) Olympic;

246   (ii) Olympiad; or

247   (iii) Citius Altius Fortius;

248   (d) without the written consent of the Division of Consumer Protection issued in

249   accordance with Section 13-34-114, the terms:

250   (i) university;

251   (ii) college; or

252   (iii) institute or institution; or

253   (e) the number sequence 911.

254   (9) A person, other than a decentralized autonomous organization formed under this

255   chapter or another decentralized autonomous organization that is authorized to transact

256   business in this state, may not use in the person's name in this state the term:

257   (a) limited liability decentralized autonomous organization;

258   (b) limited decentralized autonomous organization;

259   (c) L.L.DAO. or L.L.D.; or

260   (d) L.DAO. or L.D.

261   Section 6. Section **48-5-106** is enacted to read:

262   **48-5-106. Registered agent.**

263   Each decentralized autonomous organization shall designate a registered agent in this

264   state in accordance with Subsection 16-17-203(1) and maintain a registered agent in the state.

265   Section 7. Section **48-5-107** is enacted to read:

266   **48-5-107. Fees.**

267   Unless otherwise provided by statute, the division shall charge and collect a fee for

268   services established by the division in accordance with Section 63J-1-504 including fees:

269   (1) for issuing a certified copy of any document, instrument, or paper relating to a

270   decentralized autonomous organization; and

271   (2) for affixing the seal to a certified copy described in Subsection (1)(a).

272   Section 8. Section **48-5-108** is enacted to read:

273   **48-5-108. Certificates issued by the division.**

274   (1) Any person may apply to the division for:

275   (a) a certificate of existence for a decentralized autonomous organization; or

276   (b) a certificate that sets forth any facts of record in the division.

277   (2) A certificate of existence or certificate of authorization sets forth:

278   (a) the decentralized autonomous organization's name;

279   (b) that the decentralized autonomous organization is recognized under the law of this

280   state;

281   (c) the date of the decentralized autonomous organization's formation;

282   (d) that articles of dissolution have not been filed by the division; and

283   (e) other facts of record in the division that may be requested by the applicant.

284   (3) Subject to any qualification stated in the certificate, a certificate issued by the

285   division may be relied upon as conclusive evidence of the facts set forth in the certificate.

286   Section 9. Section **48-5-109** is enacted to read:

287   **48-5-109. Electronic documents.**

288   (1) Subject to Section 48-5-107, the division shall by rule permit a writing required or

289   permitted to be filed with the division under this chapter:

290   (a) to be delivered, mailed, or filed:

291   (i) in an electronic medium; or

292   (ii) by electronic transmission; or

293   (b) to be signed by photographic, electronic, or other means prescribed by rule, except

294   that a writing signed in an electronic medium shall be signed by electronic signature in

295   accordance with Title 46, Chapter 4, Uniform Electronic Transactions Act.

296   (2) The division may by rule provide for any writing required or permitted to be

297   prepared, delivered, or mailed by the division under this chapter to be prepared, delivered, or

298   mailed:

299   (a) in an electronic medium; or

300   (b) by electronic transmission.

301   Section 10. Section **48-5-201** is enacted to read:

302   **Part 2. Formation**

303   **48-5-201. Formation requirements.**

304   (1) (a) One or more persons may act as organizers to form a decentralized autonomous

305   organization by delivering to the division for filing a certificate of organization.

306   (b) At least one of the organizers of a decentralized autonomous organization shall be

307   an individual.

308   (2) (a) A certificate of organization shall provide:

309   (i) the name of the decentralized autonomous organization, which shall comply with

310   Section 48-3a-108;

311   (ii) the name of an organizer that is an individual; and

312   (iii) the street and mailing address of the organizer described in Subsection (2)(a)(ii).

313   (b) An organizer may request that the information provided in Subsections (2)(a)(ii)

314   and (iii) is redacted by the division before any public disclosure of the filing.

315   (3) A decentralized autonomous organization shall submit evidence to the division that

316   the decentralized autonomous organization has complied with the following requirements:

317   (a) the decentralized autonomous organization is deployed on a permissionless

318   blockchain;

319   (b) the decentralized autonomous organization has a unique public address through

320   which an individual can review and monitor the decentralized autonomous organization's

321   transactions;

322   (c) the software code of the decentralized autonomous organization is available in a

323   public forum for any person to review;

324   (d) the software code of the decentralized autonomous organization has undergone

325   quality assurance;

326   (e) the decentralized autonomous organization has a graphical user interface that:

327   (i) allows a person to read the value of the key variables of the decentralized

328   autonomous organization's smart contracts;

329   (ii) allows a person to monitor all transactions originating from, or addressed to, the

330   decentralized autonomous organization's smart contracts;

331   (iii) specifies the restrictions on a member's ability to redeem tokens;

332   (iv) makes available the decentralized autonomous organization's by-laws; and

333   (v) displays the mechanism to contact the administrator of the decentralized

334   autonomous organization;

335   (f) the governance system of the decentralized autonomous organization is

336   decentralized;
337   (g) the decentralized autonomous organization has at least one member;
338   (h) (i) there is a publicly specified communication mechanism that allows a person to
339   contact the registered agent of the decentralized autonomous organization and provide legally
340   recognized service; and
341   (ii) a member or administrator of the decentralized autonomous organization is able to
342   access the contents of this communication mechanism; and
343   (i) the decentralized autonomous organization describes or provides a dispute
344   resolution mechanism that is:
345   (i) binding on the decentralized autonomous organization, the members, and
346   participants of the decentralized autonomous organization; and
347   (ii) able to resolve disputes with third parties capable of settlement by alternative
348   dispute resolution.
349   (4) Notwithstanding the requirements of Subsection (3)(e)(iv), a decentralized
350   autonomous organization may redact sensitive information from the by-laws before making the
351   by-laws available, if those redactions are necessary to protect the privacy of individual
352   members or participants in the decentralized autonomous organization.
353   (5) A decentralized autonomous organization is formed when the decentralized
354   autonomous organization's certificate of organization becomes effective and the decentralized
355   autonomous organization submits the evidence required in Subsection (3).
356   (6) Upon formation, the decentralized autonomous organization shall have limited
357   liability, subject to the provisions of Section 48-5-202.
358   (7) A decentralized autonomous organization may request a certificate of organization
359   from the division to signify that the decentralized autonomous organization has complied with
360   the requirements for legal personality under this act.
361   Section 11. Section **48-5-202** is enacted to read:
362   **48-5-202. Limited liability.**
363   (1) Except as set forth in Subsections (2) and (3), a member:
364   (a) may only be liable for the on-chain contributions that the member has committed to
365   the decentralized autonomous organization;
366   (b) may not be held personally liable for any excess liability after the decentralized

367   autonomous organization's assets have been exhausted;

368   (c) may not be held personally liable for any obligation incurred by the decentralized

369   autonomous organization; and

370   (d) may not be held personally liable, in the member's capacity as a member, for the

371   wrongful act or omission of any other member of the decentralized autonomous organization.

372   (2) If a decentralized autonomous organization refuses to comply with an enforceable

373   judgment, order, or award entered against the decentralized autonomous organization, the

374   members who voted against compliance may be liable for any monetary payments ordered in

375   the judgment, order, or award in proportion to the member's share of governance rights in the

376   decentralized autonomous organization.

377   (3) Subsections (1) and (2) do not affect the personal liability of a member in tort for a

378   member's own wrongful act or omission.

379   Section 12. Section **48-5-203** is enacted to read:

380   **48-5-203. By-laws.**

381   (1) A decentralized autonomous organization shall adopt by-laws that establish internal

382   organization and procedures for the decentralized autonomous organization.

383   (2) The by-laws shall be set out in plain terms.

384   (3) The bylaws of a decentralized autonomous organization may contain any provision

385   for managing the entity and regulating the affairs of the decentralized autonomous organization

386   that is not inconsistent with law.

387   Section 13. Section **48-5-301** is enacted to read:

388   **Part 3. Members**

389   **48-5-301. Classes of participation rights -- Membership.**

390   (1) A decentralized autonomous organization's by-laws may create multiple classes of

391   member participation rights.

392   (2) Where the decentralized autonomous organization has tokens providing governance

393   powers to the token holder, the token holder shall be considered a member of the decentralized

394   autonomous organization:

395   (a) from the time the ownership of the tokens is established to be in the possession of

396   an address; or

397   (b) from the time when ownership is first acknowledged by the token holder through an

398   on-chain interaction with the decentralized autonomous organization.

399   (3) This section does not apply in the event of a hard fork.

400   Section 14. Section **48-5-302** is enacted to read:

401   **48-5-302. Voting rights.**

402   (1) The by-laws shall set out the distribution of voting rights for the classes of member

403   participation rights in a decentralized autonomous organization.

404   (2) The method by which these voting rights are computed and distributed shall be set

405   out in the by-laws.

406   Section 15. Section **48-5-303** is enacted to read:

407   **48-5-303. Proxies.**

408   (1) A member may be represented by a proxy.

409   (2) The by-laws of a decentralized autonomous organization may establish the

410   requirements for representation by proxy.

411   (3) A proxy may exercise all rights of a member.

412   Section 16. Section **48-5-304** is enacted to read:

413   **48-5-304. Minority rights protection.**

414   The decentralized autonomous organization shall state in the by-laws whether the

415   decentralized autonomous organization provides minority rights protection.

416   Section 17. Section **48-5-305** is enacted to read:

417   **48-5-305. Administrators.**

418   (1) Unless mandated in the decentralized autonomous organization's by-laws, a

419   decentralized autonomous organization is not required to have an administrator, including a

420   board of directors or a trustee.

421   (2) In the absence of a provision requiring administrators, all the powers and tasks of

422   an administrator shall be vested in the decentralized autonomous organization members as a

423   class.

424   (3) The voting mechanism for nominating and appointing an administrator shall be set

425   out in the decentralized autonomous organization's by-laws.

426   Section 18. Section **48-5-306** is enacted to read:

427   **48-5-306. Legal representation.**

428   (1) A decentralized autonomous organization may elect to retain a legal representative

429   to undertake tasks that cannot be achieved on-chain.

430   (2) Legal representation of the decentralized autonomous organization may be carried

431   out by the legal representative in the manner provided in the by-laws, as evidenced by an

432   authorization displayed on a public forum, and verifiable by cryptographic proof.

433   (3) The legal representative may undertake and execute any and all acts and contracts

434   included within the scope of such authorization.

435   (4) The legal representative may not be required to reside in Utah.

436   (5) A legal representative may not be personally liable for acts performed on behalf of

437   the decentralized autonomous organization.

438   Section 19. Section **48-5-307** is enacted to read:

439   **48-5-307. No implicit fiduciary status.**

440   A developer, member, participant, or legal representative of a decentralized

441   autonomous organization may not be imputed to have fiduciary duties towards each other or

442   third parties solely on account of their role, unless the developer, member, participant, or legal

443   representative:

444   (1) explicitly holds themselves out as a fiduciary; or

445   (2) stipulates to assume a fiduciary status as provided in the decentralized autonomous

446   organization's by-laws.

447   Section 20. Section **48-5-401** is enacted to read:

448   **Part 4. Miscellaneous Provisions**

449   **48-5-401. Asset subscription and payment.**

450   (1) No minimum capital requirements may apply to a decentralized autonomous

451   organization recognized by this act.

452   (2) If the decentralized autonomous organization wishes to maintain a minimum

453   amount of capital, the by-laws of the decentralized autonomous organization shall specify the

454   rules for subscription and payment.

455   (3) The by-laws shall provide the rules for exiting the decentralized autonomous

456   organization that address the consequences of voluntary and involuntary member and

457   participant exit on subscriptions and payments made by the member or participant.

458   (4) No member may compel the dissolution of the decentralized autonomous

459   organization for failure to return the member's on-chain contribution.

460   Section 21. Section **48-5-402** is enacted to read:

461   **48-5-402. Meetings.**

462   (1) A decentralized autonomous organization may hold meetings as provided in the

463   decentralized autonomous organization's by-laws.

464   (2) Unless explicitly specified in the by-laws, meetings are not required to be in person.

465   (3) If the by-laws include a meeting requirement, the by-laws shall include an explicit

466   and transparent mechanism of giving notice of meetings to administrators, members, or

467   participants, and a defined time period for deliberating upon proposals submitted by an

468   administrator, member, or participant.

469   (4) Notice of any required meeting shall be communicated through a graphical user

470   interface.

471   (5) The quorum and majority requirements for meetings of a decentralized autonomous

472   organization's administrators, members, or participants shall be specified in the by-laws.

473   Section 22. Section **48-5-403** is enacted to read:

474   **48-5-403. Contentious forks in the underlying blockchain.**

475   (1) Except as provided in this section, in the event of a hard fork in the underlying

476   permissionless blockchain:

477   (a) the legal representation of the decentralized autonomous organization remains on

478   the majority chain; and

479   (b) any off-chain assets shall belong to the decentralized autonomous organization on

480   the majority chain.

481   (2) (a) A decentralized autonomous organization may choose to maintain legal

482   presence on a minority chain if the decentralized autonomous organization expresses an intent

483   to do so by public signal.

484   (b) If the decentralized autonomous organization expresses an intent by public signal to

485   maintain legal presence on a minority chain, any off-chain assets shall belong to the

486   decentralized autonomous organization on the selected minority chain.

487   (3) The decentralized autonomous organization may liquidate the decentralized

488   autonomous organization's on-chain assets after a hard fork to move those assets to the chosen

489   chain.

490   (4) The decentralized autonomous organization may split into multiple legal entities

491   after a hard fork, each on a separate chain, after public signal of an intent to do so, provided

492   there is a definitive distribution of off-chain assets between the majority and minority chain.

493   Section 23. Section **48-5-404** is enacted to read:

494   **48-5-404. Restructuring.**

495   (1) When a decentralized autonomous organization is restructured, whether through

496   modification, upgrade, or migration, the decentralized autonomous organization's legal

497   personality and limited liability is retained only to the extent that:

498   (a) the new software code of the decentralized autonomous organization fulfills all the

499   formation requirements of Section 48-5-201; and

500   (b) where the decentralized autonomous organization has to be associated with a new

501   unique public address, proper notice is provided by way of public signal.

502   (2) A decentralized autonomous organization that is restructured in compliance with

503   Subsection (1) inherits the rights and obligations of the original decentralized autonomous

504   organization as a successor.

505   Section 24. Section **48-5-405** is enacted to read:

506   **48-5-405. Failure event.**

507   (1) In the case of a failure event, legal personality and limited liability are maintained

508   to the extent necessary to protect decentralized autonomous organization members and

509   participants from personal liability.

510   (2) A failure event may trigger liability on the person deploying or upgrading the

511   decentralized autonomous organization if that person:

512   (a) acted in bad faith; or

513   (b) engaged in gross negligence.

514   Section 25. Section **48-5-406** is enacted to read:

515   **48-5-406. Taxation.**

516   (1) A decentralized autonomous organization recognized by this act shall be eligible to

517   elect the decentralized autonomous organization's classification for federal tax purposes.

518   (2) (a) Unless otherwise elected under Subsection (1), a decentralized autonomous

519   organization recognized by this act shall be treated as a pass-through entity for tax purposes,

520   with no entity-level tax accruing to the decentralized autonomous organization.

521   (b) Any realized gains shall pass through to the decentralized autonomous

522 organization's members in proportion to their token holdings.

523   (3) Where a member is not a taxable entity, the realized gains allocated to such

524 members shall pass to the first taxable person.

525   Section 26. **Effective date.**

526   This bill takes effect on January 1, 2024 with the exception of 48-5-406 which takes

527 effect for a taxable year beginning on or after January 1, 2024.