

DAO GOVERNANCE AND VOTING PROPOSAL



Proposal by: Himalayanguru

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Motivation

DAO has over 23,000 swarms who participated during the crowdsale. Within this swarm therefore lies tremendous human capital that needs to be sourced properly in order to truly take advantage of the phenomena known as the “wisdom of the crowd”, the basis for which this DAO fund was created. There are age old wisdoms that portrays that in numbers there are tremendous strength and force. The capability of the DAO and the “force” therefore adjusts dynamically based on coherence of group dynamics, executed decisions and the perceptions of the general public who will be served by DAO’s products and services.

Numerous governance models has been presented from Gnosis, Backfeed and others concerning a structure for voting and governance. The motivation behind this small write-up is to point out some psychological aspects of why it is important that we restructure our voting paradigm. A successful voting mechanism would allow DAO to function like an efficient organism that is fully capable of taking risks and making quick and cunning judgements that is pertinent to achieving success in the world of finance, venture capitalism and crowd sourcing.

The paper outlines some voting paradigms to consider as we further optimize the governance model of the DAO. These voting paradigms in general rewards the most productive member of the DAO society and encourages everyone to fully participate towards finding and vetting knowledge. This paper will therefore first highlights **Three** pertinent issues and afterwards deals primarily with creation of additional internal tokens that rewards good reputation of the swarm.

Current issues

Liquidity Risks

Liquidity is a term that is used to denote “Free capital”, or it could be understood as an expression to define ones ability to *do what you want to do with your money whenever you want it*. Cash is considered a liquid asset. Bitcoin, dogecoin, ethereum are all liquid assets because we can convert them into whatever we want in the marketplace and do as we please. In our current voting mechanism, we have 13 days for a proposal to be fully vetted. If enough quorum (20%) is not met by then, the proposal will be scrapped. There are two opposing interests here for a DTH. In one hand DTH token holder wants to vote but then in the other hand voting will make their liquid asset so solid that it cannot move. When someone takes risks on capital like this, it must be rewarded.

There are times when all proposals don't generate revenue, such as this current period when moratorium is being called upon to improve the security of the DAO. DTH's who votes now does so in an altruistic manner because he/she believes in the greater good. Although encouraged, things like this needs to be removed from the future of governance models as much as possible. Fairness and equality is determined by a smart code. This individual should not have to take greater risks on behalf of others, especially when it is very easy to implement fairness code into the smart contract. It also violates number of game theory models.

Details concerning how to tackle this will be discussed in sections below.

Voting Efficiency and a need for faster turnaround

There are times when 20% quorum needs to happen faster than 13 days. If an impending security flaw is about to compromise the system, quicker actions need to be taken. Therefore, we should either create a mechanism that allows for quorum to reach quicker or quorum criteria needs to be lowered for these types of initiatives. As an example, it doesn't make sense to wait 13 days to wait weather or not this moratorium goes into effect. What if quorum is not reached? Are we going to operate with status quo system? No. We need to be thinking about a system that is continuously improving. We call this a continuous improvement system in the world of LEAN management. Figure below shows 1% voting in over 40 hours at this rate, required quorum will be difficult to achieve. This issue also has a number of national publications, to that effect voting public is very inactive right now.

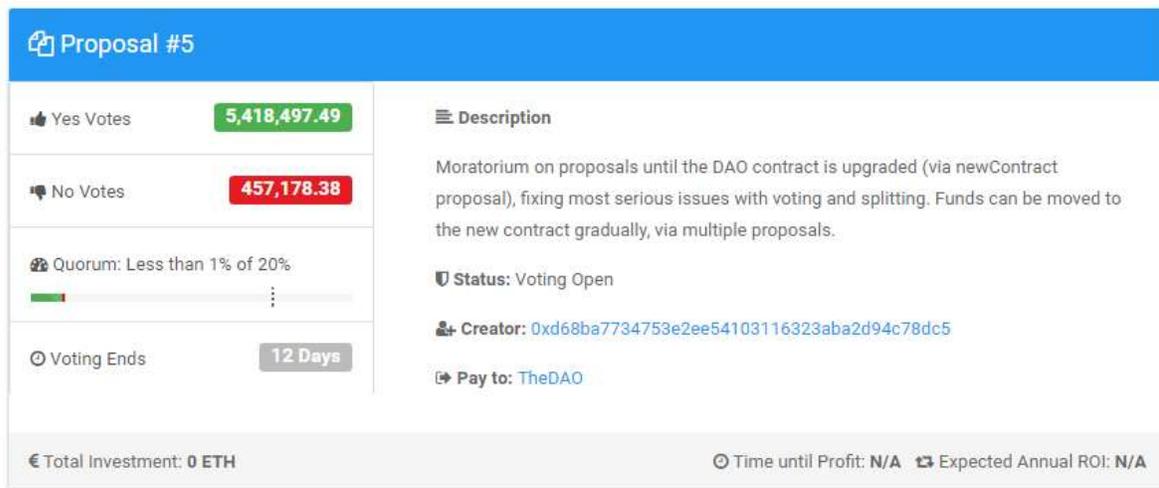


Fig1.1 Slow and inefficient rate of voting

Existing votes bias

Due to factors related to group dynamics, human beings tend to vote alike in groups. There is a strong tendency to lean one way or another based on the manner in which votes were casted. This vulnerability arises especially if the voter has a pre-existing knowledge how the votes are going to turn out. Figure 1.2 shows various proposals that were voted and it's amazing to see the right leaning distribution. Part of this leaning could be due to group momentum where the decision of the voter is corrupted by current crowd momentum. In order to prevent this, the final voting results should only be published once the voting duration has ended. This will allow proper crowd wisdoms to prevail. This is also the best way to tap into crowd wisdom. Yes/no wisdoms should not be in anyways shape or form published to the voter before they are about to vote on a proposal.

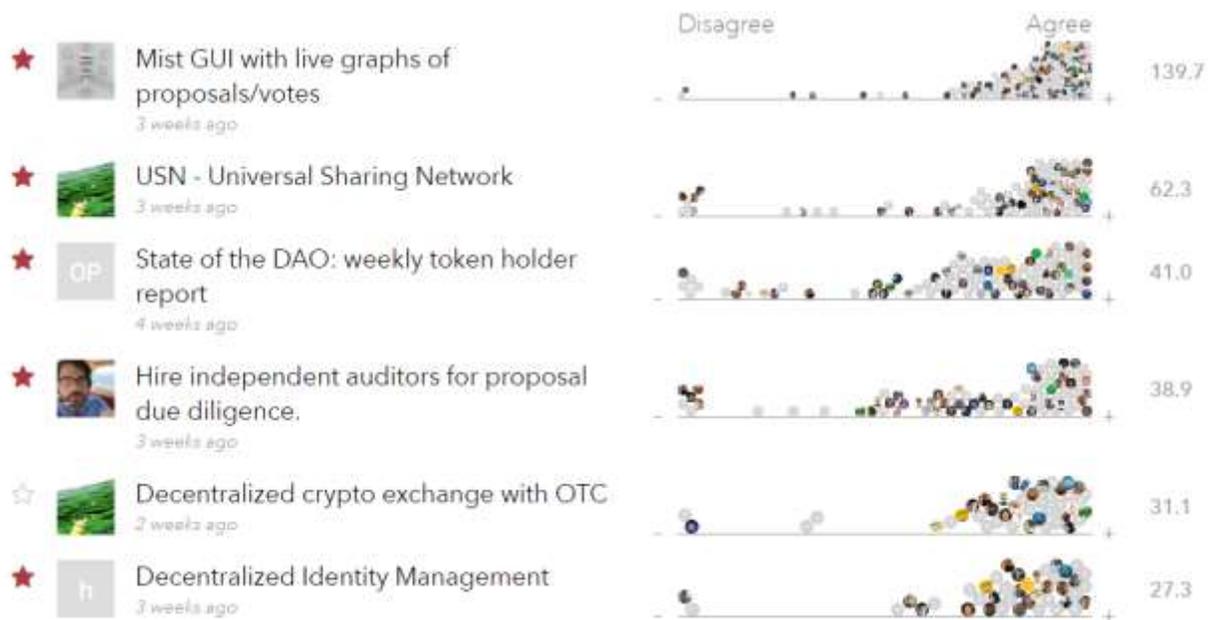


Fig1.2 Layout of Karma points vs time

Liquidity and efficiency Mitigation via Karma tokens

Proposal is to create an internal token that functions inside the DAO network for making measures of social accounting. As a dry humor, much like how "God" is supposed to judge our heavenly or hellish abode via weighing karma. DAO needs to assign points to good actors in the swarm such that their actions long term will benefit the DAO community as a whole. The karma tokens then can be converted to ETH within the DAO's framework. These are the basis of popularity behind a social blogging site called steemit. Where karma points allows for productive bloggers that benefits the entire ecosystem.

Voting Reputation

Aforementioned issues can be mitigated if the karma points can be assigned to voters who choose to take liquidity risk. The karma points needs to have certain interconvertibility to ETH

and the market maker for that needs to be the DAO itself. In this event, certain amount of DAO tokens should be allocated to develop the DAO itself. An alternative to DAO funding rewards is to integrate steemit itself within the DAO's governance model. Since steemit is traded in the market and is considered top10 cryptocurrency, is growing in popularity and significant liquidity exists. This could create a mutually beneficial environment for the DAO and steemit.

Voting efficiency can be improved by scheduled karma points vs time see fig 1.2 below. If everyone votes on time then everyone will get same number of karma points. Since the bounty is fixed. Everyone voting will dilute individual holdings a little bit, but this is still superior to not having any rewards for good actions. It might encourage competitive voting for good proposals. Human beings have some animal like tendencies and Pavlov's experiments still holds true for us.

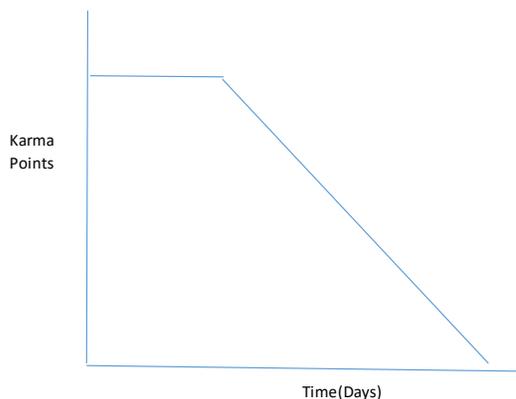


Fig1.3 Layout of Karma points vs time

Source of funding

Funding to pay for the karma points can be collected from the proposer or some parts of it can be allocated by the DTH themselves, unless other cleverly arrangements can be implemented with steemit. Proposers have the incentive to provide sources for karma points in order to entice voting. One could likewise imagine that the amount put up by the proposer can be matched by the DTH karma fund. Once the karma points for various addresses are calculated, then the respective weight of the karma would determine the fraction of the source (allocated reward) that would be distributed. The plateau of the karma point curves should be engineered towards improving quorum likelihood.

Activism/Participation reputation

There are content creators who will put their heart and soul towards developing the DAO. This kind of behavior needs to be encouraged. This is the heart and soul focus of Steemit and this is

probably where steemit integration makes most sense. It fulfills their need for good content and at the same-time it fulfills the need for the DAO to have the wisdom of the crowd emanate out in all creative ways possible.

Steemit rewards curators via up votes of the contents and the magnitude of the power that was behind the upvote, also called "Steem Power". Visit steemit.com for more details.

Issue Mitigation via time premium reward

This can be an alternative or could work together with karma points. One may grant time premiums for early voters (who took the penalty of freezing their assets by voting) and karma points for social responsibility blogs/likes/enabler of the idea machine. Time premium reward can work much like options exchange as it is run via CBOE. Those who buy options earlier (call or put) get to capture what's called a **time value of money**. As the expiration date gets closer and closer to 13th day, the time value of money will essentially go to 0 and the only value that's left is an intrinsic value of the proposal. One can implement the idea of time value of money right into the voting paradigm. Those who vote early on a bullish proposal (yes) or a bearish proposal (no), can be entitled to collect time value of money if the proposal end up meeting its target. The no votes should be rewarded as equally as yes votes. What matters is the proposal that meets quorum. A linearized or parabolic model should suffice in defining time value of money (Very similar to Fig 1.2).

Proposals like splits will not receive time premium reward. This would be another incentive to not split and that's beneficial for the DAO overall.

Conclusion

Current social model for DTH voting discourages people to vote and therefore will delay voting until the 13th day. This creates unique risks for the DAO community and creates a tremendous efficiency barrier. Risks and contributions therefore needs to be rewarded. The best way to mitigate liquidity risks is through creation of karma tokens that rewards voting records as well as content creation. The source for the rewards can be integrated into existing reputation reward models such as steemit or a portion of DTH's ETH token should be allocated for reward distribution. These are akin to fees that investors pay fund managers in order to ensure that funds are managed in the best light possible.