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governance is your only ally! You gain trust

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**BLOCKCHAIN INVESTOR,
BLOCKCHAIN INVESTEE:
GOVERNANCE IS YOUR ONLY ALLY!
YOU GAIN TRUST.**

Eelco Fiole, Switzerland³¹¹

**22.1 Blockchain and Crypto: Opportunities and Risks
are Kicking**

The blockchain- and crypto space is an exciting space to be in, both as an investor and as an investee company, you are right at the front of the new world! However, it also bears huge risks as 2022 has shown, risks that are partly well, but mostly not very well understood: smart-contract risk, oracle risk, custodial risk, scaling risk, regulatory risk, and

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of course governance risk. And these and other better-known risks materialize too often: massive destruction of financial and reputational value, especially visible in the FTX-case... How to go about blockchain, just forget about it? Wait until regulations come in and then rely on those? While it is true massive value was destroyed in the blockchain- and crypto space over the last period of time, it is also true that the blockchain technology still has huge benefits. There are many real-world examples where blockchain technology replaces outdated information technology, yielding massive benefits: faster, cheaper, better. Switzerland-based aidonic.io is just one for-profit example where humanitarian aid is tokenized based on blockchain technology yielding a two to three times higher payout ratio for the beneficiaries. Also, in Web3 do we see first new business models, new economies, coming online, where creators can be rewarded for their efforts, without being located in major blockchain hubs, and interact with their communities, devprotocol.xyz of Japan being a good example of that. Of course, there are many more great initiatives under way, the blockchain developers are building at lightning speed, unabated by FTX-, Terra/Luna- and 3 Arrows Capital-like scandals. Indeed, for early investors the timing for investing in blockchain could not be better. Low valuations, a healthy dose of humility and massive opportunity. However, while opportunities are abundant, risks have not come down.

22.2 The View from the Blockchain and Crypto Investor

One of the major things that became clear in the FTX-case was that very reputable investment managers, investing with other people's money, basically did not do any proper initial due diligence, a huge omission. One of the things that due diligence would have uncovered would have been that there was no board, not to speak of a quality board, that would have kept oversight on FTX on behalf of investors. There was a clear

lack of fiduciary responsibility at FTX: willingly or unwillingly, they did not understand what it means if a fintech is dealing with other people's money, and that the interest of the investor comes before their own. Further, the very large number of legal entities created increased complexity massively and made the structure ungovernable, one can only wonder what the thinking behind it was...

But even if due diligence would have been performed, what happens after that? When is the next round of due diligence, a year later? In the blockchain- and crypto world, things are not only too complex for regular investors to comprehend, but things also go at lightning speed, crossing borders as a default way of working. Doing due diligence once a year, maybe twice a year is not enough. One would need to do ongoing due diligence, which of course is unpractical. However, the proxy for ongoing due diligence on investors' behalf is called governance, which has been so underutilised. A high-quality board, a board with the up-to-date knowledge, experience, matching maturity and attitude, should be there to represent the interest of investors, making sure that the investment in a blockchain- or crypto-entity is well-managed. This is irrespective of any regulation that may or may not come in and that may or may not fit the situation. Regulation and policy are good, but governance makes it so much better. Indeed, as a blockchain or crypto investor, governance, people that knowledgeably closely oversee the investment on your behalf, is your only ally!

22.3 The View from the Blockchain Investee Entity

Investee blockchain or crypto entities are exciting. The technology enables things that ten years ago were unimaginable and based on some years of experience and uptodate knowledge of the technology a bright future is almost certain... Or not? The world and especially capital markets are complex, the uncertainties are actually quite high. Policy and regulations are expected to come in and right or wrong, they are mostly

expected to be a hindrance to reach goals. One needs to build a reporting bureaucracy, needs to spend money on non-productive functions, and needs to spend time away from non-core development work. Investors are interested in supplying capital, but what level of comfort can a blockchain entity give them— is a PhD in computer science enough? If investee companies are serious about building a profitable sustainable business, they will need to provide comfort to investors that their investment is well-guarded, that strategy is set and executed and no unnecessary risks are taken, that robust operating structures are built. Serious blockchain entities ensure that they get their strong governance in place, instead of looking for the jurisdiction with the lowest level of regulation. Governance, both on a corporate as well as sometimes on a protocol level, ensures that experience, a sense of judgment, broader knowledge and a fiduciary attitude flow into company and protocol development. It is underutilised but positive symbiotic governance that will help investee companies to project trust to investors, on an ongoing basis, and to interact with policy and regulation if and when this comes, to show that certain principles indeed have already been implemented. It is the right governance that helps understand capital market intricacies and recognize tangible and not so tangible risks and ways to avoid or mitigate them, and that supports purpose, strategy, structure, antifragility and culture towards intention and output. Innovation spirit is good, but governance makes it so much better. Indeed, as a blockchain or crypto investee company, governance, people that innovators can rely on for input and representation, is your only ally!

In 2022, lacking governance in the blockchain and crypto space has cost investors and investee companies hundreds of billions of dollars, in negative market impact, opportunity cost and direct losses. Blockchain and crypto will survive, but how is 2023 going to look like for your investment or for your blockchain or crypto entity?

Remember, governance is your only ally. And with governance you build trust.