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Power Concentration and Ecosystem Trust in Crypto Foundation Governance

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Abstract

This paper focuses on the power concentration that can arise from “foundation governance” in crypto projects, and discusses how it reshapes the trust structure of blockchain ecosystems and the way risks are exposed. Based on a governance-evolution timeline across representative projects, we unpack the foundation’s real functions: it is not only a vehicle for a “neutrality narrative,” but also an institutional interface that early-stage projects use to navigate fundraising, asset custody, ecosystem grants, and cross-jurisdiction compliance frictions.

Once a foundation persistently accumulates power over resource allocation, rule interpretation, and emergency intervention, ecosystem trust can shift from “verifiable rules” to “endorsement of a few actors,” creating dual fragilities: single-point failure and single-point enforcement. By contrast, institutionalized power dispersion can lower trust thresholds, reduce transaction frictions, and strengthen system resilience.

Combining regulatory “look-through” logic that seeks identifiable control points and responsible persons, we further argue that the industry is moving from “foundation-led, growth-oriented governance” toward “corporatized, accountable, auditable modern governance.” We propose actionable governance anchors: accountable execution, auditable funds flow, checks and balances on upgrade authority, and exitability at the consensus layer. These conclusions provide an analytical framework and policy implications for institutional design that balances efficiency, compliance, and trust in crypto projects.

Keywords: Crypto Governance; Foundations; Power Concentration; Corporatized Governance.

01 / Introduction

In many crypto projects, early teams establish foundations (often non-profit entities) to hold project funds and support core development and ecosystem building. A foundation's "neutral image" matters, but what is often more decisive are economic and legal constraints: in token financing, asset custody, external grants, and sponsorship partnerships, the foundation form can more easily handle inflows and outflows, provide a "shared account" that multiple stakeholders can join, and create workable arrangements for tax, compliance, and legal-liability boundaries. In other words, a foundation is not merely narrative packaging; it is an organizational tool that helps a project complete an early-stage cycle of "capital injection - resource allocation - responsibility separation." This also plants the seeds of later governance power concentration and trust frictions.

When resources and interpretive authority are heavily deposited into the foundation system, it can shift from "coordinator" to a new centralized control point. For example, after the ICO, Ethereum created the Ethereum Foundation as a pillar for ecosystem development. However, the foundation model also introduces governance tensions: when a foundation holds substantial resources and decision rights, it can itself become a new source of centralized power.

Blockchains profess decentralization: the system should not rely on a single central actor. Yet decentralization in practice is a spectrum rather than an absolute. Bitcoin has no official foundation, but its technical direction is still influenced by Core developers and small teams; projects like Ethereum may claim community governance, but foundations and core developer groups often have major influence over roadmaps. Both academia and industry have noted that blockchains do not eliminate classic governance problems; they can instead shift power to new "gatekeepers," such as developers, foundations, and companies. The result can look less like democratic self-rule and more like technocracy [2].

One of the blockchain visions is "trustless" collaboration: participants should be able to transact without trusting a central institution. In reality, trust is not removed; it changes its object. Users must trust that core developers will not act maliciously or negligently, that mining pools or validators will not collude, and that foundations will coordinate resources fairly. As one commentary puts it, blockchains shift trust from banks and governments to developers, moderators, and charismatic leaders [2]. This "trust paradox" means that if foundations or a few actors hold too much power, users remain dependent on trust - in tension with decentralization ideals.

In incentives and transparency, the key difference between foundation governance and corporate governance is not simply that a foundation is "non-profit" on paper, but that it often lacks external constraints that are standard in corporate structures. Traditional companies are disciplined by profits, shareholders, and markets; foundations can resemble "spending other people's money." Without clear accountability and performance linkage, foundations may be inefficient or drift away from community interests. Foundations often fund operations by holding and selling tokens, but may lack mechanisms that tie spending to outcomes [1].

Foundation transparency is also frequently questioned. For instance, outsiders may find it difficult to observe the Ethereum Foundation's internal decision processes and detailed fund usage [2]. Limited transparency can erode trust: if the community cannot see what the foundation is doing or how, confidence declines. This helps explain why some projects later adopted on-chain governance, regular disclosures, and other measures to improve transparency and trust.

In sum, while blockchain technology enables decentralization, foundations and similar structures can introduce new centralized factors. Understanding where centralization emerges - and how it affects trust - is essential for analyzing specific projects. The following sections outline the evolution of

crypto governance models and use representative cases to clarify how foundation power concentration can both stabilize and undermine ecosystem trust.

02 / Governance Evolution: Trend Analysis

Blockchain governance models are not static. Early crypto projects such as Bitcoin followed an extreme decentralization route: Satoshi Nakamoto remained anonymous and then withdrew; Bitcoin has no official foundation and is maintained by a volunteer developer community. This “no center” approach created Bitcoin’s highly dispersed power structure.

Bitcoin’s success also taught later projects that some centralized coordination can be useful in practice, especially during early stages when rapid development is critical.

2.1 The ICO era and the rise of foundations

During the 2016-2017 ICO boom, many projects that raised large sums created foundations to manage funds and development, such as the Ethereum Foundation (Switzerland) and the Tezos Foundation. The foundation model was once seen as a “clever legal path” to preserve neutrality while promoting decentralization. Many teams believed that having a non-profit foundation hold tokens and fund the ecosystem would be more acceptable to communities than direct corporate control.

Over time, the drawbacks became clearer: regulatory dynamics and competitive pressures pulled foundations away from the original vision, and in some cases they became “shells” used to avoid scrutiny. The U.S. SEC’s efforts-based approach to decentralization encouraged founders to appear to step back and to claim that control had moved to a foundation to reduce the risk of tokens being treated as securities [1]. But actual control may remain with the founding team or its agents. This “decentralization shortcut” is understandable under heavy regulation, yet it can create misaligned incentives, inefficiency, and opaque power concentration.

2.2 New experiments in governance

Early crypto culture often idolized “code is law” and pure on-chain voting. Under tightening regulation and growing institutional participation, that utopian narrative is weakening. The industry is undergoing a shift from “loose foundations” to “modern corporate governance.” This is not only about operational efficiency; it is also a compliance necessity.

ICO-era fundraising continues to face pressure under securities classification, disclosure, and anti-fraud frameworks. Stablecoins are increasingly required to be accountable for reserve backing, redemption rights, and issuer responsibility. DAOs’ legal posture of “no one is responsible” conflicts with regulators’ look-through accountability. A pragmatic compromise is emerging: keep the consensus layer as decentralized as possible, while making the execution layer corporatized and auditable. Foundations are being repositioned as bridges - justifying internal resource allocation while meeting external disclosure and accountability demands. The implementation of MiCA in the EU and broad moves toward look-through regulation of DAOs are pushing projects to establish clear responsible entities [3][4].

The trend is no longer to rely solely on direct token-holder voting (often low participation and whale manipulation) [5], but to build governance closer to that of public companies. Projects increasingly set up legally bound entities, professional boards, compliance functions, and audits. Decentralization is often limited to the consensus layer, while execution adopts efficient corporate operations. This may

reduce the glow of “community self-rule,” but it provides predictability and legal safeguards that can act as an entry ticket for crypto assets to become mainstream balance-sheet items.

2.3 Regulatory participation and governance evolution

Regulators are reshaping governance incentives. Across jurisdictions, token issuance and management rules are becoming clearer; for example, MiCA pushes stablecoin issuance toward registered responsible entities. Projects therefore must balance full decentralization with compliance. Meanwhile, the perception that “sufficiently decentralized” networks may face lighter treatment in some settings has incentivized projects to claim decentralization as quickly as possible.

Recent U.S. legislative proposals have leaned toward “control-based” decentralization frameworks [1]. This approach encourages founding teams to relinquish control when networks mature, rather than using foundations to create a veneer of separation. If adopted, it would offer clearer legal pathways for staged decentralization under rule of law.

Overall, crypto governance has evolved from early spontaneous organization, to foundation-centered governance, to on-chain DAOs and multi-actor balancing structures. The shared objective is to maintain coordination efficiency while minimizing trust damage from single-point power. Next, we examine representative projects to illustrate how power concentration manifests and how it shapes ecosystem trust.

03 / Governance Timeline: Power Structures and Trust Consequences in Representative Projects

Crypto governance is not a static snapshot; it is a long timeline of experimentation and iteration. From early reliance on “benevolent dictators,” to performance-driven centralization compromises, to institutional innovation, and finally to today’s HYPE-driven pragmatism, we can observe clear generational shifts in governance models.

3.1 The early phase: foundations in the shadow of decentralization (Ethereum)

As the second-largest crypto network, Ethereum is known for its “world computer” vision and DAO ecosystem. In practice, Ethereum governance has long relied on the Ethereum Foundation (EF) and core developer leadership. Founded in Switzerland in 2014, EF controls substantial resources and funds client development, community events, and research. In Ethereum’s early years, EF helped the project navigate key moments such as the decision to hard-fork after the DAO hack and coordinate multiple upgrades. This also meant that a small set of leaders and EF executives had significant influence over direction.

The 2016 “The DAO” incident highlighted the practical challenges of decentralized governance. After a hack drained a large amount of ETH from a DAO, Ethereum faced a dilemma: follow “code is law” and do nothing, or change the code to recover funds. In the end, core developers led by Vitalik Buterin pushed a hard fork to roll back the hack, preserving funds but violating the immutability ideal [2]. The decision won majority support but split the community, with a minority staying on the original chain (Ethereum Classic). The episode showed that when crises occur, someone still needs to make a call - and the actors exercising concentrated intervention power were the core developer group and the foundation.

More recently, centralization concerns have resurfaced. In October 2025, Geth maintainer Péter Szilágyi published an open letter arguing that Ethereum’s decision structure is overly centralized and that Vitalik and a close circle have outsized influence, warning of protocol-capture risks [6]. Around the same time, leadership controversies involving the EF executive director role triggered broader community debate. Vitalik responded publicly: “The person deciding the new EF leadership team is me... before a formal board is established, all decision-making power is with me,” and warned that pressure campaigns could harm the developer environment [7]. These remarks were widely interpreted as an explicit acknowledgment of how concentrated informal authority can be.

That said, EF has increasingly repositioned itself as an ecosystem enabler rather than a monopoly decision-maker. It seeks to distribute funding and influence across regions and organizations, so that the network’s resilience rests not only on node distribution but also on a thick layer of independent builders. In Chinese-speaking communities, this is especially visible: EF has supported the EthPanda community and related initiatives, funding scholarships (e.g., EPF) and hackathons to bring more developers into EIP standardization and client development. The broader idea is to turn ecosystem maintenance into a federated network of independent groups: even if the foundation disappeared, dozens of organizations could still sustain iteration and evolution.

3.2 The expansion phase: bargaining between speed and centralization (Solana)

Solana is known for high performance and low fees, but its governance and network structure have long faced centralization critiques. One source of debate is initial token allocation. Public materials indicate that only about 38.9% of SOL was allocated to the community and public sale, while roughly 60% went to seed investors, the team, and the Solana Foundation. Within that, the foundation reportedly received about 10.6% and the team about 12.7% [10]. Such a distribution implies that early control was relatively concentrated compared with Bitcoin or Ethereum.

At the network layer, Solana's validator ecosystem also faces concerns about dependence on centralized entities. Solana's PoS + PoH design requires high-performance hardware to maintain throughput. While there are thousands of validators, stake can be concentrated among top validators, and many operators rely on Solana Foundation delegation and subsidies. Some analyses suggest that more than 70% of nodes operate unprofitably without subsidies, implying that the foundation acts as a financial backstop for network operation [11]. Infrastructure concentration is also discussed: significant stake hosted in certain regions and non-trivial reliance on major cloud providers [12].

Repeated network outages and restarts have amplified centralization concerns. Several incidents were resolved via patches from the core development team and coordinated validator restarts. Critics argue that such a process resembles a centralized system with a "restart button." As noted by commentators such as Edward Snowden, some high-performance chains centralize in the name of speed while sacrificing redundancy and robustness [12].

Solana has acknowledged room for improvement and has pursued decentralization measures: multi-client efforts (e.g., Jump's Firedancer) to reduce single-client dependence, staking-delegation improvements to support smaller validators, and consensus optimizations to reduce outage risks. Some 2024 measurements place Solana's Nakamoto coefficient around 19 [12]. Still, the core trust issue remains: users often trust Solana because they trust the core team's capability and responsiveness, rather than because the system is self-sufficient and tolerant of failures. That trust can be fragile during repeated disruptions.

3.3 The turbulence phase: the collapse of pseudo-decentralization (Terra)

Terra was once a star project in algorithmic stablecoins, claiming to build a decentralized financial ecosystem. In May 2022, the collapse of Terra and its stablecoin UST delivered a painful lesson: if a system that markets itself as decentralized is in fact governed by highly concentrated power, trust can evaporate instantly when the center fails.

Terra's governance looked community- and algorithm-driven on the surface, with Terraform Labs providing development. In early 2022, founder Do Kwon led the creation of the Luna Foundation Guard (LFG), presented as an independent non-profit tasked with managing billions of dollars in reserves (including Bitcoin) to defend UST's peg. This mechanism required the public to trust that LFG would transparently and effectively deploy reserves when needed.

Later revelations suggested the "independence" was largely illusory. U.S. investigations alleged that Do Kwon effectively controlled both LFG and Terraform Labs while publicly portraying LFG as independent, and that he misappropriated hundreds of millions of dollars in assets [13]. In this setup, token-holder voting and other "decentralized" procedures became largely symbolic.

When UST depegged under market stress, the algorithmic mechanism failed to restore equilibrium and the market expected LFG to intervene. Reports indicate LFG sold large amounts of Bitcoin reserves, but the response was too late; confidence collapsed. Within days, UST fell below $1, LUNA entered a death spiral, and nearly $50 billion in market value evaporated. Many users had trusted the Anchor protocol's 19.5% yield without fully understanding the risk exposure [2]. Terra's collapse demonstrated that when stability depends on a few actors, failures of judgment, technical design, or integrity can destroy trust at system scale.

The Terra episode also accelerated regulatory intervention. Do Kwon fled after the event, was later arrested, and faced U.S. fraud charges [13]. Regulators emphasized that using a decentralization label to disguise centralized control not only violates norms but can trigger significant legal consequences.

3.4 The reflection phase: institutionalized checks and balances (Polkadot & Optimism)

After earlier lessons, projects in 2022-2023 increasingly experimented with institutional designs intended to limit single-point power.

3.4.1 Polkadot: on-chain governance and rebalancing the foundation's role

Polkadot is known for governance innovation. From inception, it introduced on-chain governance in which DOT holders can vote on protocol upgrades and treasury spending. Early governance used an elected council and a technical committee to improve efficiency and safety, but this structure was criticized for concentrating power in "first-class citizens."

In 2022-2023, Polkadot introduced OpenGov (often called Gov2.0), removing the council and technical committee and opening most governance matters to public referenda [8][4]. Parallel decision tracks allow multiple proposals to proceed simultaneously, increasing participation and efficiency. Official narratives described this as transferring council responsibilities to token holders to improve representation [3][4].

Polkadot's ecosystem also involves the Web3 Foundation and Parity (the core development company). The Web3 Foundation has emphasized that it is a supporter and coordinator rather than an "official governing authority." Under OpenGov, protocol changes ultimately require DOT community votes; the foundation consults the community and respects collective decisions [9]. For example, it has sought community input before advancing ecosystem programs such as Polkadot Agents [9].

In reality, the foundation still influences the ecosystem through funding and token holdings. Polkadot's distinctive feature is that the foundation actively uses on-chain governance and community authorization to dilute its own discretionary power. As decision rights move to a broader token-holder base, trust can rely more on transparent rules and less on endorsement of a single institution.

3.4.2 Optimism: experimenting with a bicameral governance system

Optimism, an Ethereum Layer 2 scaling project, has drawn attention for governance experimentation. In April 2022 it launched the "Optimism Collective," a bicameral structure consisting of a Token House and a Citizens' House [14].

The Token House is composed of OP governance token holders and votes on network upgrades, incentives, and treasury management. OP tokens were airdropped to roughly 250,000 addresses in

2022 [14]. Like other token-governance systems, voting power is transferable and can be purchased, raising risks of whale dominance and low participation.

To counterbalance this, Optimism introduced the Citizens' House, which allocates Retroactive Public Goods Funding (RetroPGF) to reward contributions to public goods. Citizenship is granted via non-transferable "soulbound" NFTs and expands over time. Rules for selecting new citizens are jointly determined by the foundation and Token House. The Citizens' House is meant to represent interests beyond token ownership. Vitalik Buterin has voiced support for such designs as a way to mitigate plutocratic governance [14].

The Optimism Foundation remains an initial designer and coordinator. The OP token distribution assigns major portions to ecosystem funding and public-goods programs: one distribution summary allocates 25% to an ecosystem fund, 20% to RetroPGF, 19% to user airdrops, 19% to core contributors, and 17% to investors [15]. The foundation also published a "temporary constitution" to guide the governance houses during the transition. This produces a supervised-democracy flavor: the foundation both sets rules and executes, while gradually introducing multi-actor participation.

As an experiment, Optimism suggests a possible middle path: pure token democracy risks concentration in capital, while pure idealized self-rule can be inefficient. Multi-representation mechanisms may provide better long-term legitimacy and resilience. If the two houses operate effectively, community trust increases; if they are captured or symbolic, trust erodes. Ongoing analyses also track how the governance system performs in practice [16].

3.5 HYPErliquid: pragmatism in the HYPE era and "openly centralized" governance

In 2024-2025, as crypto markets rebounded and speculative sentiment returned, governance narratives shifted. HYPErliquid represents a HYPE-driven governance style that no longer prioritizes decentralization as political correctness, but instead centers on product experience and wealth effects. It offers a form of "frank and efficient centralization."

HYPErliquid's core promise is a trading experience comparable to centralized exchanges such as Binance, with millisecond-level performance. Its HYPErBFT consensus design imposes strict performance requirements on nodes. In early and mid mainnet phases, the validator network appeared highly closed: community observers suggested that consensus was maintained primarily by the official team or a small set of closely related high-performance nodes. In such a structure, security relies less on broad, permissionless consensus and more on the project team's technical and ethical reliability.

Centralization is most visible in how the system handles shocks. In extreme price moves involving long-tail assets (e.g., JELLY) and cascading liquidation risk, HYPErliquid displayed intervention capabilities rare for public chains: the team could rapidly adjust parameters and even use the treasury for compensation and loss netting to avoid systemic bad debt or oracle failures.

From a user-protection perspective, such paternalistic governance can be efficient and even benevolent. Yet it creates a key paradox: asset safety is protected not by code alone, but by administrator decisions. If administrators can intervene "for justice," then in principle they could also intervene "for self-interest."

HYPErliquid's governance also shapes community psychology. Months-long "Points" incentive campaigns effectively turned governance participation into a loyalty test. Before the HYPE token generation event, rule-setting, points computation, and airdrop weightings were largely black-box and interpreted unilaterally by the foundation. Even with limited transparency, strong airdrop

expectations created cohesion rather than resistance: participants resembled “employees” awaiting year-end bonuses more than “citizens” of a protocol.

Figure 1: Four stages of Hyperliquid governance: from "trust mechanism" to "trust team"

Stage (Phase Four)	Governance measures	Trust object	Main benefits	Main hazards
① Hype/Experience Launch Period	Centered around product experience and wealth effects, weaken 'decentralized political correctness'	The trust team can produce good products	Fast growth, liquidity, and rapid user aggregation	Using narrative as a substitute for mechanism to examine, risks are obscured by bull markets
② Infrastructure closure period	High performance threshold → few nodes/highly correlated nodes maintain consensus, structure more like a 'private server cluster'	Trust the team not to do evil and have strong technology	Performance/stability is more controllable in the short term	Single point of failure/increased risk of single point enforcement, decreased withdrawability and resistance to censorship
③ Crisis management centralization period	During extreme market conditions, the team has strong intervention capabilities: adjusting participation, intervening, and compensating/balancing accounts with the national treasury	The trust team will 'save the field'	Reduce systemic bad debt/error clearing and protect user experience	The governance paradox brought about by 'administrators can change results': it can serve both justice and self-interest
④ Allocation of black boxes and training periods	Points and airdrop weight interpretation are centralized, rules and criteria are black box, and participation becomes loyalty screening	The team will 'pay according to contribution'	Strong cohesion, mobilization, and expectation control	Once moral hazard/internal disintegration/regulatory iron fist appears, trust may collapse instantly

Source: Pharos Research

Figure 1 summarizes this governance progression. HYPErliquid’s success signals a stage of “pragmatic trust” in which users trade trust in decentralized architecture for trust in an elite team’s brand. In bull markets, high growth can mask governance flaws. But the latent risk is not only technical failure, as in Terra; it is also human failure or regulatory enforcement. If the core team fractures, acts opportunistically, or becomes the target of enforcement, a high-performance network without broad fault tolerance could face sudden disruption. HYPErliquid suggests that markets may tolerate “dictatorship” for sufficient product strength - leaving open the question of whether this is progress or a regression toward Web2 centralization.

04 / Trust Mechanisms

The cases above show that the degree of power concentration profoundly shapes trust in blockchain ecosystems. In the ideal case, a fully decentralized network lacks a single controller, giving participants a sense of “trustless” security: rules are transparent and superior to any individual will. In reality, most projects cannot begin fully decentralized; they rely on core teams or foundations to drive development. This creates a trust paradox: once participants must trust a centralized actor, how should that trust be managed and sustained?

Excessive concentration undermines the internal trust foundation of a system. Users trust Bitcoin and similar networks because the rules are predictable and resistant to arbitrary manipulation. If a project is found to depend on a foundation’s commands, users must trust both the institution’s competence and integrity. If the foundation makes mistakes or acts opportunistically (e.g., misusing funds or making flawed technical judgments), users can suffer unavoidable losses. In this sense, centralization becomes a single point of failure: once the pillar breaks, the trust structure collapses, as illustrated by Terra.

Conversely, dispersing power can strengthen trust. When decisions emerge from coordination among many independent participants rather than a single leader, individual errors are less likely to be fatal and collective deliberation can reduce bias. Bitcoin’s post-Satoshi resilience is often credited to rules embedded across the protocol and community, without dependence on a single person. Ethereum’s successes under strong leadership also highlight a long-term challenge: reduce reliance on personal charisma and informal authority, and move toward more institutionalized governance. From a trust perspective, the goal is to rely on code and consensus rather than on any one person or institution - difficult to achieve fully, but directionally important.

Transparency is a key ingredient of trust. Sunshine is an effective disinfectant: the more transparent a governance structure, the easier it is for the community to supervise it. MakerDAO, after dissolving its foundation, moved decisions into open forum discussion and on-chain votes, and regularly disclosed important financial data; this improved governance clarity and trust. By contrast, even if a foundation does not abuse power, opaque operations create information asymmetry and suspicion. Persistent calls for greater transparency around the Ethereum Foundation reflect this concern [17]. Practical steps include publishing financial statements, decision records, and holdings to grant communities meaningful visibility and oversight.

Incentive alignment and constraints also matter. If a foundation’s interests diverge from token holders’ interests, its actions can erode trust (e.g., selling tokens aggressively while holders seek price stability). a16z notes that foundations lack shareholder pressure and clear performance metrics, leading to “spend without accountability” risks [1]. This resembles classic agency problems: when organizations grow and concentrate resources without oversight, insiders can capture control. Solutions include adopting corporate structures or contractualized incentive plans, introducing independent audits, and using smart contracts to tie benefits to measurable milestones (e.g., unlocking team tokens only after decentralization targets are met) [1]. These approaches reduce reliance on goodwill and increase reliance on enforceable rules.

Overall, the industry has moved beyond naive worship of “complete decentralization.” In a market with trillions of dollars of liquidity, purely informal DAO committees or moral trust are insufficient. Future trust mechanisms are likely to be hybrids of institutional compliance and technical verification: corporate-grade accountable entities on the front end, and blockchain-based transparent auditability in the back end. This “efficient corporate execution + transparent on-chain audit trail” may be a more realistic bridge between crypto ideals and real-world economic adoption.

05 / Policy and Regulatory Factors

The centralization risks of foundation governance are also a regulatory concern. Regulators ask: if a crypto project is effectively controlled by a company or foundation, then regardless of decentralization rhetoric, the law may still treat it as a centralized actor with corresponding responsibilities. For example, in assessing whether a token is a security, the U.S. SEC considers whether investors expect profits from the managerial efforts of others. If a core third party (such as a foundation) creates such expectations, the token is more likely to be treated as a security.

To make “how regulators view governance control points” more concrete, we can compare representative frameworks across major jurisdictions (Figure 2). The comparison also explains why foundations can be both “useful” and “dangerous” in heavy-regulation environments: they reduce transaction frictions by providing compliance interfaces, but concentrated governance rights and assets also create single points for regulatory look-through and freezing risk.

Figure 2: Comparison of regulatory frameworks and governance structures for crypto assets/DAOs in major jurisdictions

legal jurisdiction	Representative framework/document	Regulatory focus	Direct impact on governance structure
the United States	Howey Test (Investment Contract Judgment) [19]	Is there a profit expectation based on the efforts of others; The clearer the controlling entity, the higher the securities attribute risk	Tending to identify the foundation/core team as a 'key other', decentralized governance is difficult to exempt from responsibility
the United States	SEC《DAO Report》（2017）[20]	DAO is not naturally exempt from securities laws, and regulation will penetrate into organizers and promoters	Decentralized storytelling cannot replace legal responsibility, and actual control and promotion behavior will be held accountable
European Union	MiCA（Regulation (EU) 2023/1114）[21]	Clear responsibility chain for asset issuance, information disclosure, and stablecoins	Promote the establishment of identifiable and auditable entities, processes, and governance mechanisms for the project

Source: Pharos Research

Regulatory environments are changing. In the U.S., proposed laws have increasingly favored control-based classifications: if founders relinquish control after the network matures so that it can operate autonomously, tokens may be treated differently than traditional securities. This could encourage genuine decentralization rather than the older pattern of hiding behind foundations. Under such a framework, teams could participate openly in early network building while committing to a clear decentralization plan. Some commentators describe this as an era of “accountable decentralization”: decentralization is not abandonment of responsibility, but a staged engineering process with measurable targets and clear responsibilities [1][18].

Across jurisdictions, attitudes toward foundations differ. Crypto-friendly regions such as Switzerland and Singapore provide legal recognition that attracts registrations. Switzerland’s Zug (often called “Crypto Valley”) hosts the Ethereum Foundation and also the Web3 Foundation and Solana

Foundation. These jurisdictions typically focus on disclosure and lawful fund usage. By contrast, in stricter jurisdictions such as the U.S., regulators often pursue “key persons,” bringing enforcement actions against founders or foundation executives for unregistered securities offerings or fraud. This creates governance challenges: if executives are charged or foundation assets are frozen, projects can suffer severe disruption. Many projects therefore seek greater decentralization to reduce single-point legal risk.

Regulation can both bolster and undermine trust. Oversight can raise public confidence by enforcing disclosure and anti-fraud rules, but overly strict regulation can push projects toward extreme dispersion that reduces coordination, or can drive them offshore. After Terra’s collapse, jurisdictions accelerated stablecoin rules that require reserve attestations, redemption rights, and issuer responsibility - effectively introducing centralized audits and custody in exchange for trust. Centralized stablecoins like USDT and USDC can appear more acceptable to regulators because identifiable entities can be held responsible, even if this clashes with the crypto ideal of “trustlessness.”

A possible balance is to incorporate third-party audits, legal commitments, and limited fiduciary duties for DAOs or foundations without demanding a fully centralized controller. This is analogous to trustee duties in traditional finance: even an autonomous organization may need certain identifiable obligations. Legal innovation is also emerging; for example, Wyoming has recognized “DAO LLC” structures that give DAOs legal personality while requiring registered agents. How such legal forms affect ecosystem trust remains an open question.

In short, policy and regulation have become major external forces shaping crypto governance. Good regulation can improve trust by requiring disclosure and discouraging fraud; excessive regulation can reduce transparency by pushing projects underground. Projects and foundations will likely need proactive dialogue with regulators to pursue “compliant decentralization,” demonstrating credible power dispersion to communities while meeting accountability expectations externally.

06 / Outlook and Recommendations

Debates over the boundary between centralization and decentralization in foundation governance reflect a deeper concern: how to build sustainable long-term trust. Based on the analysis and case lessons above, we propose the following recommendations:

Define a clear decentralization roadmap. If teams retain some centralized control early for efficiency, they should publish a staged plan: how governance rights and token power will be delegated over time; how foundation authority will be reduced; when key parameters will be moved to on-chain governance. With a roadmap, communities can treat centralization as a transitional tool rather than a permanent state. MakerDAO is often cited as planning and delivering a foundation exit [5].

Increase transparency and accountability in foundation governance. If foundations are unavoidable early on, make them “glass boxes”: publish regular financial statements (assets and spending), disclose major decision records, and release annual reports. Create accountability mechanisms such as community-elected oversight, independent third-party audits, and public audit results. For sensitive events such as executive changes or large fund movements, communicate promptly and clearly.

Introduce pluralistic participation to avoid unilateral control. Consider multi-center governance architectures that add checks and balances: oversight committees composed of community representatives, technical experts, and external advisers; delegated voting; hybrid structures combining on-chain votes with off-chain deliberation. Optimism’s bicameral system is one example of using multiple constituencies to reduce capture risk [14].

Optimize token distribution to improve governance decentralization. Initial and ongoing token distributions shape governance power. If foundations and insiders hold large shares long-term, decentralization is formal rather than real. Projects should avoid excessive insider concentration and broaden distribution to real users via fair airdrops, usage incentives, or other mechanisms. For already-concentrated projects, longer vesting schedules and milestone-based unlocks can help. Improving voting usability and adding participation incentives can reduce the pattern where most holders abstain and a few whales dominate decisions.

Invest in community education and culture. Beyond technology and institutions, culture matters. A healthy community develops ownership and oversight capacity. Projects should educate participants on governance processes, train potential community leaders, and recognize constructive contributors. Cultivate norms of transparency, collaboration, and principled skepticism so that soft constraints complement hard rules.

Build constructive engagement with regulators. Transparent and compliant projects are more likely to win public and institutional trust. Foundations should meet disclosure and audit requirements in their jurisdictions, and can proactively demonstrate decentralization progress through metrics and roadmaps. They can also represent communities in policy discussions that clarify decentralization standards and recognize DAO legal status.

Stay alert to the pragmatism trap under HYPE. In cases like HYPErliquid, users may tolerate centralization for performance and profits, but the model lacks deep safety redundancy. Teams should use bull-market resource windows to accelerate real decentralization rather than entrenching control. Centralization for efficiency should be a means, not an end state.

07 / Conclusion

Foundation governance in crypto is essentially a workable institutional middle ground between technical verifiability and financial credit structures. Blockchains try to replace “trusting a person” with “verifying a rule set” via public ledgers, consensus, and cryptography, lowering coordination frictions. Yet financial systems also require identifiable responsibility chains, enforceable remedies, and auditable disclosures in extreme conditions. Foundations became an industry default in the ICO-to-growth phase not only for neutrality narratives, but because they provided an operational interface across fundraising, grants, ecosystem support, liability separation, and cross-jurisdiction compliance frictions. That same interface naturally accumulates power: when resource allocation, narrative interpretation, and upgrade coordination concentrate in a few hands, trust costs return in a subtler form.

From Ethereum’s “necessary centralization” to Terra’s “disastrous centralization,” from Polkadot/Optimism’s “institutional dispersion” to HYPErliquid’s “pragmatic centralization,” the timeline does not tell a story of political correctness. It reveals a recurring contradiction: growth requires coordination, and coordination concentrates power; concentration raises efficiency but creates single-point trust and enforcement risks. In calm periods, markets may substitute “trust the team’s competence” for “trust the mechanism’s redundancy.” But under security incidents, liquidity stress, or regulatory look-through, trust can quickly shift toward institutional accountability. Whether a power structure is auditable, checkable, and replaceable then determines whether the ecosystem repairs with resilience or collapses abruptly.

Therefore, the trend “from foundation governance to corporatized / modern governance” is not simply a retreat in values; it resembles the historical evolution of corporate governance: as scale grows, stakeholders multiply, and external constraints strengthen, governance migrates from charisma and loose consensus to verifiable, accountable institutions - board-style oversight, audit disclosures, compliance duties, fiduciary responsibilities, and clear boundaries of authority. Decentralization should no longer mean “no one is responsible.” It should be a measurable, deliverable staged project that converts “rule by people” into “rule by constrained rules,” while retaining efficient execution and compliant interfaces.

Looking forward, a more sustainable governance paradigm should have clear anchors: accountable execution at the operating layer, auditable fund flows, checks and balances on upgrade authority, and exitability at the consensus layer. When participants can believe that “no single actor can manipulate the system without being detected and without paying a price,” ecosystem trust becomes an institutional fact rather than a moral hope. That is the real threshold for crypto - as a technology-and-finance hybrid - to enter the mainstream and endure over the long term.

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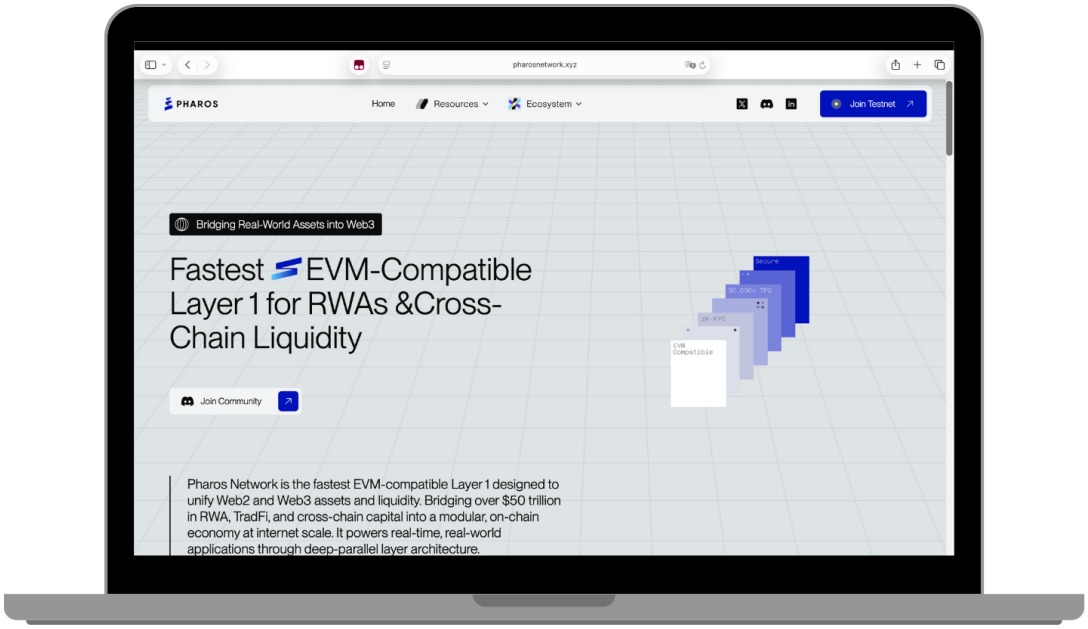

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