Legion:
A New Era Of Merit-Based, On-Chain Fundraising

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Abstract

Early-stage crypto investing is now accessible only to venture capital funds (VCs) and accredited investors. Driven by a near-exclusive focus on financial return, regulation, and poor incentive structures, the industry has standardized "low-float, high fully diluted value (FDV)" token launches, which treat retail purchasers as exit liquidity.

With this walled garden approach, new token launches often fail to generate sustainable interest, shared upside or long-term community alignment. Instead, they act as a sophisticated tool for extracting money from new ecosystem entrants, product evangelists, and community members.

Just as the enforcement of U.S. regulation shattered the ICO landscape in 2018, the European Union's recent adoption of Markets in Crypto-Assets Regulation (MiCA) ignites the potential to fix the current meta. By establishing a framework for compliant retail token sales, MiCA paves the way for a more inclusive and regulated investment environment. In this paper, we propose Legion, which leverages MiCA and AI tools to allow projects to harness the benefits of this new regulation without unnecessary overhead.

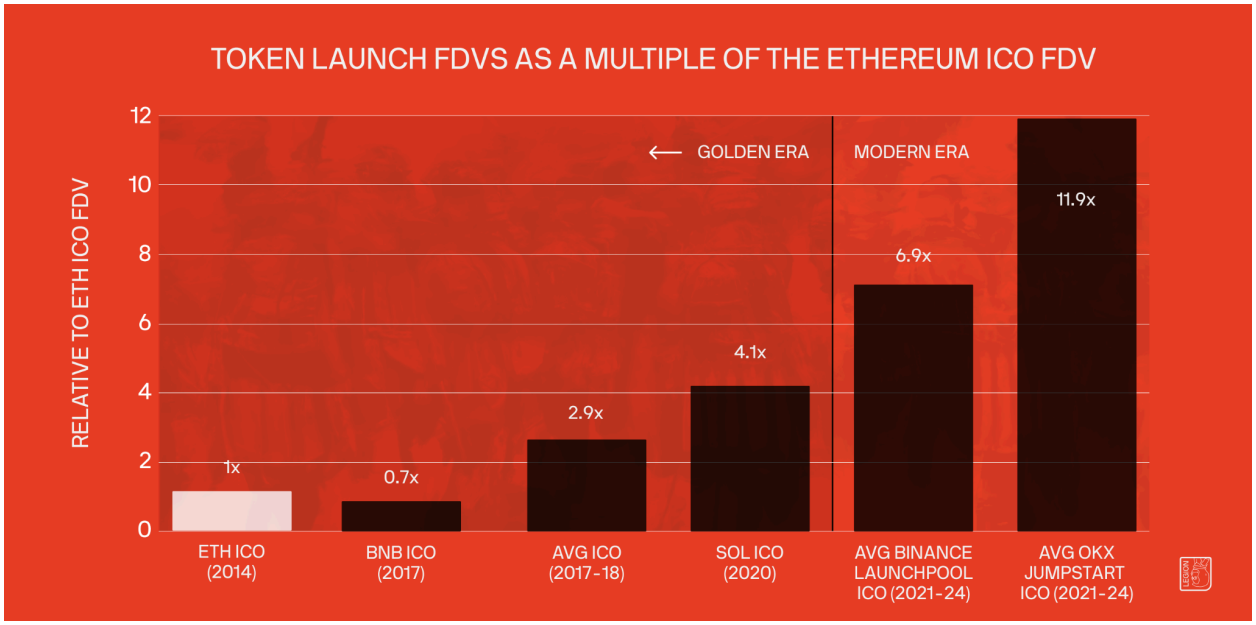
The Legion platform is purpose-designed to bring back the best aspects of Initial Coin Offerings (ICOs) while fixing their most significant flaws. It does this with an on- and off-chain reputation system dubbed the "Legion Score". With Legion Scores, retail investors in the EU get access to curated, early-stage investment opportunities alongside VCs and other institutional investors. Founders can then choose from customizable pools of potential investors with transparent skill sets, track records, social followings, interests and more. The net result is tokens entering the world not with passive whales eager only to lock in gains, but with passionate, mission-aligned communities—much like the best tokens from the golden age of ICOs.

1. The Current Meta

Today's leading crypto projects follow an unspoken blueprint:

1. Multiple private funding rounds led by well-capitalized VCs
2. Testnet or mainnet "points" campaigns designed to demonstrate "adoption"
3. A late-stage token generation event (TGE) with a nominal airdrop designed to distribute tokens and establish an initial floating supply
4. Day 1 or very early centralized exchange (CEX) listings
5. Market makers who own or control a significant portion of a token's floating supply and who are able to trade without fees
6. Ongoing vesting to founders and VCs (post an initial "cliff"), which leads to sales that can push the token's market capitalization down over time.

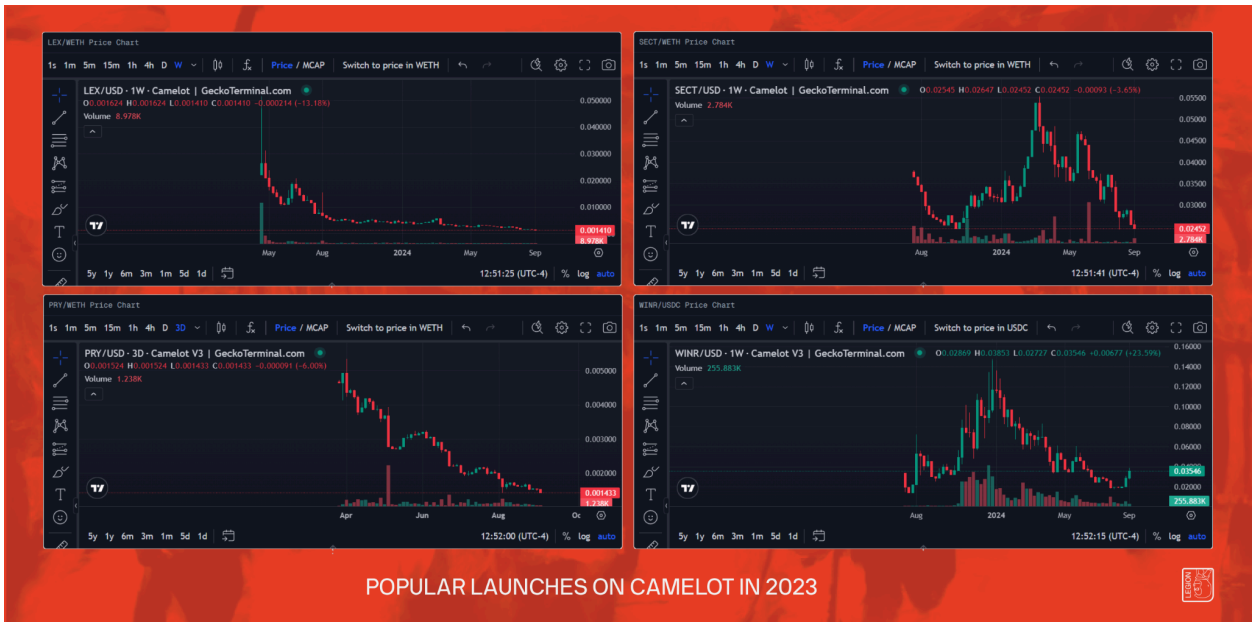
With small circulating supplies at launch, retail can only get exposure to leading crypto projects at extremely high FDVs. Regulations and incentives are misaligned. That harms retail and has led to a structure that feels purpose-designed to generate the "down-only" price charts that have typified recent launches.



Source: Legion research.

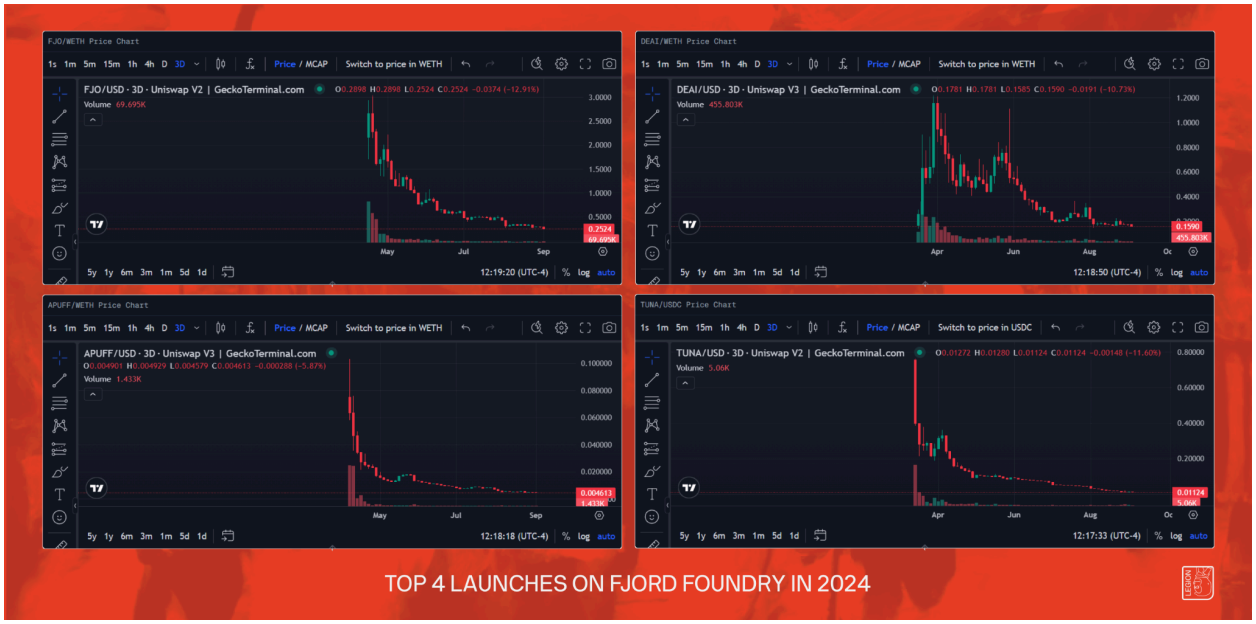
Second-tier projects are unable to raise adequate funding from VCs and must choose alternative launch methods. The most common of these are decentralized "launchpad" rounds, which have limited reach and visibility. Since these launchpads are unregulated and generally uncurated, they also expose projects to increased regulatory risk and difficulty securing partnerships and CEX listings, which can be a significant driver for token

appreciation. Market making deals may also be prohibitively expensive for cash-strapped teams.



Source: Legion research.

With significant drawbacks, launchpads are limited to lower-quality projects, which rarely offer positive returns. Instead of attracting long-term interest, launchpads incentivize flipping. These short-term purchasers are value-extractive, harming the project's true believers and potentially impairing a protocol's ability to sustain growth and scale over time. This creates a reflexive loop of lowered expectations and lower returns for new launchpad offerings.



Source: Legion research.

Under the current meta, retail has little opportunity to get upside-exposure in emerging protocols. Their access to quality projects comes only at the latest possible stage. These low-float offerings inflate FDVs and create large supply overhangs, which ultimately turn early buyers into exit liquidity.

Projects and founders also find themselves at odds with the current meta. The most significant problems for new projects are:

1. Inefficient airdrops
2. Gatekeeping
3. Legal risk
4. Minimal value-add per dollar invested
5. Impaired network effects

The sections below explore each of these problems in greater depth.

Inefficient airdrops

Without ICOs as a potential option, projects were forced to give away tokens in order to achieve wide distribution of their token supply. With a zero cost basis, this naturally creates much less sticky communities.

Source: Legion research.

Indeed, analysis has repeatedly shown airdrops do not result in long-term token holders, let alone retain active users. [1, 2] For instance, one year after LooksRare's airdrop, only 0.2% of recipients remained as active users. [3] Airdrops attract farmers, not communities.

Airdrop distribution methods can also be problematic. Often distributed on a pro-rata basis at the end of a points campaign, airdrops ostensibly reward loyal protocol users. In reality, many are subject to rampant sybil attacks by large-scale airdrop farmers – typically programmers who create bots, which can simulate organic activity on a given protocol. Even if an airdrop cannot be sybil attacked, they are purposely opaque, offering little to no transparency around the correlation between points earned and tokens awarded – or even if participants will receive tokens at all.

Lastly, airdrops create very little sense of ownership due to the investor psychology of receiving something for free. Viewed as "play money" by recipients, these tokens do not foster a sense of ownership or "skin in the game." Since ICOs require early conviction and an up-front monetary commitment, holders are more likely to feel a sense of ownership that fosters long-term community alignment.[4][5]

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[1] https://dune.com/tomfutago/uni-airdrop-beneficiaries-analysis.
[2] https://dune.com/jhackworth/jupiter-airdrop.
[3] J.Hackworth. (2023). Beyond Hype: Understanding the Impact of Airdrops on NFT Marketplace Performance.
[4] Ben-David, Itzhak & Hirshleifer, David. (2012). Are Investors Really Reluctant to Realize Their Losses? and
[5] Mark Grinblatt, Bing Han. (2005). Prospect theory, mental accounting, and momentum.

Absolute power

Ambitious projects in need of significant funding rounds ($20 million or more) are limited to the small number of venture funds capable of leading such large rounds. Often referred to as "Tier 1" funds, these VCs can contribute significant perceived value to a fledgling project. By effectively granting a project an institutional "stamp of approval," their presence on a capitalization table ("cap table") can reflexively increase a project's actual value by making it easier to get press coverage, CEX listings, partnerships and professional market makers.

These soft benefits give Tier 1 VCs significant leverage over aspiring projects. Not only can they cherry-pick from the most ambitious projects in the industry, they can gatekeep access and demand artificially low valuations in early private rounds. This absolute power warps the market, effectively extracting value away from founders and later from retail purchasers.

Legal risk

Crypto regulations are notoriously ambiguous.

Even with high-cost lawyers, it's often unclear what's permissible and what's not. That makes attaining compliance prohibitively expensive and time consuming for small teams, and it limits a project's potential pool of investors. This further entrenches the current VC-driven meta.

Lower value-add per dollar invested

While a handful of VCs add exceptional value, most offer little more than the capital they invest. Beyond the aforementioned stamp of approval, the minimal value-add they do offer (reviewing roadmaps, for example, or making introductions to CEXes, market makers, or potential partners) is generally similar regardless of a given fund's size. In other words, value-add often does not scale with size, and that means that the problem is amplified when a passive Tier 1 fund invests in a given project.

Angel investors can potentially contribute more value to new projects and generate a higher value-add per dollar invested. However, it's difficult for founders to gauge an angel investor's commitment level before inviting them onto their cap tables. Their impact varies widely, and they can even produce negative outcomes – especially if they've funded competing projects.

Impaired network effects

History is filled with examples of inferior technologies outcompeting superior technologies to achieve mass adoption (MS-DOS vs. CP/M, for example, or the QWERTY Keyboard vs. Dvorak Keyboard). As new technologies spread, network effects can lock in winners, and relegate losers to history's waste bin.

"Technological change is not a purely technical process; it is deeply embedded in social contexts," writes Bijker, Hughes and Pinch in *The Social Construction of Technological Systems*. "Disruptive technologies require the backing of a committed community or network to challenge and eventually replace existing systems."

The words hint at the single biggest flaw in the current meta: its negative impact on a nascent crypto project's community. At the time of the project's token generation event (TGE), a protocol's most engaged and excited community members may buy tokens only to see their value quickly eroded away as early backers vest and frequently sell. While token appreciation hyper-accelerates community momentum, "down only" price action discourages early supporters and hinders a project's ability to scale and acquire new users and partnerships.

In this current meta, projects essentially forgo their future ability to scale in an exchange for a higher valuation in early private rounds. In other words, it's a recipe for dooming projects to irrelevance.

Ultimately, the current meta is strongly skewed toward VCs in general and Tier 1 VCs in particular. With asymmetric negotiating power, they can demand outsized allocations at artificially low valuations. CEXes, which generally offer the only avenue for retail to get access to high-quality projects, also benefit from the existing paradigm. With large user bases and network effects, they possess enough leverage to demand egregious listing terms. Binance Launchpad, for example, asks for anywhere from 3-10% of a project's token supply before initiating a listing. The lower a project's valuation, the greater the percentage CEXes can demand.

The low-float, high-FDV meta also generates significant paper gains for VCs and higher trading volume on CEXes. In effect, gatekeepers and middlemen – the very entities crypto aims to disintermediate – benefit the most from the current meta.

In the following sections, we'll look at how Legion plans to disrupt the prevailing system.

2. Introduction to Legion

The Legion platform is a merit-based, on-chain fundraising platform that exists to fix on-chain capital formation forever. It works by connecting projects, VCs and retail investors and giving each a way to get what they most need from the fundraising process. Specifically:

1. **Investors:** Early-stage access to tokens that provide funding to high-quality projects based on merit, rather than net worth.

2. **Projects:** Substantially mitigated legal risks, maximized value per dollar invested, reduced fundraising overhead, and a path to cultivating a dedicated community at any stage.

3. **Venture Capital:** Decreased risk of portfolio company failure from lack of community adoption with the goal of transforming short-term paper gains into genuine long-term gains.

At the heart of the Legion platform lies the Legion Score: an on- and off-chain reputation system, which gives potential purchasers the opportunity to provably demonstrate how they might contribute non-monetary value to new projects. Founders can review platform users' Legion Scores, pick their most-desired attributes and present a selection of users with early-stage offerings or token sale allocations.

For purchasers, Legion carefully vets potential projects, and requires critical disclosures and documentation. This process, which will be progressively decentralized, ensures investors have readily-accessible information to make informed purchase decisions.

All raises on Legion will initially comply with the Markets in Crypto-Assets (MiCA) framework and Regulation S (Reg S) promulgated under the U.S. Securities Act of 1933, as amended (the Securities Act), and be available to non-U.S. persons only, with plans to add support for access by accredited investors in the U.S. in the future.

Before exploring Legion's specific mechanics, we will look back at the history of ICOs and the ways in which this history informs Legion's design decisions.

3. How did we get here

On the face of it, ICOs solve many of the fundraising problems we outlined above. It begs the question: how did we end up in this situation?

ICOs arrived in a world that largely excluded retail investors from early stage investments until public equity offerings—and after most value had been extracted by wealthy or institutional actors. In 2017, for example, the average start-up took approximately six years[6] to move from initial VC funding to an Initial Public Offering (IPO). All early fundraising rounds were filled by VCs, completely excluding retail investors.

ICOs inverted the equation. Suddenly, anyone, anywhere in the world could purchase tokens at an early stage to help fund a founder's dream, and thereby share in the potential upside at the earliest possible stage. In a world so monopolized by VC funding, it felt revolutionary.

Product-market fit was quickly evident with new projects collectively raising $1 billion to $2 billion *per month* in late 2017 and early 2018. Notable ICOs including the offerings of ETH, LINK and SOL produced staggering peak returns of 1,573,532.26%, 47,809%, and 118,063.64% respectively. Those gains came in approximately 1 year for SOL, 4 years for LINK and 7 years for ETH. For context, one of the top-performing stocks of all time, Nvidia is up around 235,000%, but it took *25 years* to get there.

For all their benefits, ICOs weren't without problems. The most common issues included:

1. **Fraud:** Without disclosure standards, it was the Wild West. Frauds and scams were rampant, and there was little ability for investors to differentiate legitimate projects from scams.
2. **Lack of accountability:** Even legitimate projects from the golden age of ICOs offered very little post-sale accountability. Projects like Golem, for example, still hold hundreds of millions of dollars of ETH while generating little traction for their underlying protocol. In other cases, founders have set up Switzerland-based foundations, which can generate substantial returns from the crypto assets they hold (*e.g.*, by staking ETH). Meanwhile, investors are sidelined with a down-only token.
3. **Adverse selection:** As regulators began to pursue ICOs, it ironically worsened the ICO market for retail. Specifically, the threat of enforcement actions created a form of adverse selection for founders whose interests were pitted against the interests of the buyers of the project tokens. For example, some founders chose to avoid any activity that could be construed as "entrepreneurial effort," so their projects wouldn't be viewed as business endeavors ("I'm not a CEO, I'm just a humble open-source contributoooooor"). Likewise, other projects launched valueless "governance" tokens, which could have instead offered revenue-sharing for holders.
4. **Culture clash:** As ICOs went mainstream, competition to get into trendy, new ICOs intensified. Buyers were no longer interested in the underlying technology. Instead, they were merely there to make money. This created inevitable culture clashes. Just as your first hires set the culture of your company, a project's earliest community

[6] Wilmer Cutler Pickering Hale and Dorr LLP. (2023). Venture Capital Report

members set its culture. If a project's community doesn't understand the project's mission (and simply posts "wen moon" repeatedly in a Telegram group), they can ultimately act as a net drain on a project.

Over time, ICO markets froze as legitimate founders opted for a route then widely perceived to be safer: raising exclusively from VCs early at low valuations and subsequently achieving wider distribution through airdrops, liquidity mining, and similar initiatives at artificially high and unsustainable valuations.

That brings us back to square one: retail left watching on the sidelines as the value created by high-quality, early-stage projects is wholly captured by VCs and deep-pocketed angel investors. In the sections below, we'll articulate exactly how Legion strives to change today's meta.

4. Legion Mechanics

The Legion platform has six core mechanisms. Each is designed to help reopen quality fundraising opportunities to retail, improve outcomes for founders and ensure ongoing participation from VCs:

1. Mitigating Project Regulatory Risk
2. Legion Scores
3. Project vetting
4. Sale mechanisms
5. Business model
6. Project Basecamp

Each mechanism is detailed below.

4.1 Mitigating Project Regulatory Risk

MiCA provides a regulatory framework that makes early-stage token offerings permissible. Aspects of the regulation, including mandatory disclosures, are designed to improve transparency for token purchasers. This has the potential not just to "professionalize" the quality of teams building crypto projects, but to make retail-accessible token offerings the primary funding mechanism for the next major cycle of growth of the blockchain space.

Ultimately, MiCA is the unlock that fuels the vision of Legion.

Over the past 12 months, Legion's cofounders have conducted hundreds of interviews with project founders to understand the unique risks and concerns they face. Founders

overwhelmingly cited regulatory reasons as the primary blocker to conducting public token sales, so the majority of projects ultimately opt for private rounds.

Following approval, Legion will initially operate as a MiCA-compliant CASP (Crypto Asset Service Provider). Under MiCA, a CASP can help teams sell tokens to qualified or non-qualified investors in the EU without any limit on the amount that can be raised.

MiCA is concerned with tokens being sold *to* EU persons. However, it does not require tokens to be sold *by* EU persons or teams. Once MiCA goes into full effect on December 30 2024, any project, in any jurisdiction around the world, that wants to distribute tokens to EU persons must comply with MiCA.

The Legion platform provides services that allow projects to publicly offer tokens[7] in compliance with MiCA, including having users complete KYC checks ahead of purchasing. Legion has also partnered with Bluprynt, a leading disclosure platform founded by Professor Chris Brummer, to make generating MiCA-compliant whitepapers simple.

By complying with MiCA (and Reg S to appropriately exclude US persons), teams can effectively and compliantly reach EU residents and non-US persons who are not subject to sanctions. In addition, in the future, project teams may choose to include US investors who are "accredited investors" in accordance with Rule 506(b) of Regulation D promulgated under the Securities Act. This allows teams to maximize their reach within the existing regulatory frameworks.

Transparency for purchasers is achieved through MiCA-compliant disclosures. This eliminates ambiguities that have historically affected the crypto industry by giving token purchasers the necessary details and risk disclosures to make an informed decision.

By automating compliance with legal requirements and AI tools, we foresee a significant reduction in the administrative burden on projects, ensuring they meet MiCA's regulatory standards without unnecessary overhead. Furthermore, we anticipate a shift towards open-source standards for token distribution, vesting, and legal structuring, fostering consistency and reliability across the crypto space.

4.1.1 MiCA compliance

MiCA standardizes a regulatory approach to crypto assets across all EU member states and is also quickly becoming an internationally-adopted template.

[7] Not asset-referenced tokens, e-money tokens, or security tokens.

Excitingly, unlike regulation in the U.S., MiCA explicitly allows for sales to the general public of most "non-financial-instrument tokens" that are already typically used as funding vehicles for crypto projects, with no limit on how much or from whom a given project can raise, no pre-raise "registration" process and a reasonable and valuable public disclosure regime. Notably, these investment opportunities are not limited to "qualified investors".

MiCA allows any project to sell many types of tokens to the public as long as the relevant "crypto-asset service provider" (CASP) is licensed and ensures the filing of an extensive informational disclosure statement (referred to as a "whitepaper") about the project and the token offering. Because MiCA applies across the EU, compliance with any given member state's implementation of the MiCA regime will be "passported" to every EU member state, opening up the massive EU market.

Of course, even if a token distribution is compliant in the EU, this does not mean it complies with the laws of other jurisdictions. Project teams are responsible for compliance in all jurisdictions where the tokens are offered and sold. Legion will also assist projects with excluding persons from sanctioned jurisdictions and prohibited countries from participating in the token offering. At the direction of the project teams, Legion can also facilitate lockups to avoid "flowback" into the U.S. for the prescribed anti-flowback period or provide permissioned AMM pools to allow non-U.S. persons to trade amongst each other during the anti-flowback period.

MiCA's public sales apply to most types of "non-financial instrument tokens". Abstracting a lot of detail and somewhat simplifying the issues, it may be said that any tokens can be sold on the Legion platform in compliance with MiCA as long as the tokens do not represent legal investment rights (e.g., tokenized traditional securities like stocks and bonds) and do not constitute "e-money tokens" or "asset-referenced tokens" (as these terms are used in MiCA) such as stablecoins or traditional commodities derivatives. This leaves a wide range of potentially eligible tokens for token sales on the Legion platform, including most tokens that are typically already used as fundraising vehicles for crypto projects—i.e., "utility tokens," "governance tokens" and consumer NFTs.[8]

4.1.2 Regulatory status of Legion

Co-founded by Fabrizio Giabardo and Matthew O'Connor and incubated by Delphi Labs, Agora Labs Ltd (d.b.a. Legion) is incorporated in the British Virgin Islands with multiple subsidiaries in other jurisdictions, including Malta. Legion's subsidiaries are designed to be jurisdiction specific, for example one entity is licensed as a Virtual Asset Service Provider

[8] *See* "Report on Significant Aspects of the Proposal for the European Parliament to Pass a Regulation on Markets in Crypto-Assets (MiCA) and Amend the Directive (EU) 2019/1937" by LeXpunK (https://github.com/LeXpunK-Army/MiCA-GUIDANCE/blob/main/LexPunkMiCAReport.pdf).

(VASP) and another has applied for a MiCA-equivalent license and Crypto Asset Service Provider (CASP) licensure with the Malta Financial Services Authority (MFSA). Upon successful approval, which is expected on or shortly after MiCA goes into full effect, Legion will finalize onboarding of projects and investors, and prepare for projects' token offerings. Investors and founders interested in onboarding can join the waitlist now at legion.cc.

4.2 Legion Score

Every individual user who onboards onto the Legion platform will receive a Legion Score. This numerical score (ranging from 0 to 1,000) represents the user's on-chain, social, developer, and Legion activity, interactions with invested projects, endorsements, and social trust graph. At a glance, the number represents how valuable a user could be to the project's community. Each score is an average of sub-scores across specific verticals (eg. social media clout, developer experience, interaction score, etc.).

Expanding beyond this quantitative score, projects can dig deeper into a user's profile to learn about their background and see how they specifically propose to add value to a project. The Legion Score heavily leverages an individual's public reputation and social graph outside the platform meaning that the reputation they provide as collateral for staying accountable is valuable, rather than being isolated to a single platform.

This approach offers several benefits:

1. **Eliminating bots:** As part of the process of generating a Legion Score, all potential purchasers must submit Know Your Customer (KYC) documentation. This ensures that each participant on the Legion platform is unique.
2. **Accountability:** Legion Scores are living, evolving numbers, which factor in user behavior – both before and after each fundraising event. This holds potential purchasers accountable for their actions and ensures the purchasers who add the most value to projects are the most likely to get investment opportunities.
3. **Investor filters:** Legion Scores and rich datasets give project teams the ability to quickly narrow in on the specific types of users they'd like to invite into a given round, potentially saving them hundreds of hours of vetting and pitching to individual purchasers.

4.2.1 Utilizing Legion Scores

Imagine a project that aims to build out a new layer 1 blockchain that's optimized for AI agents. Founders could weight their allocations toward user profiles that are actively contributing open-source code, especially in the AI space.

Founders could approach these allocations in several ways. For example, a new project might allocate a maximum of $5,000 to everyone eligible to participate but $10,000 to developers with a high developer Legion Score.

Another project might want to conduct an auction-based sale and give developers who can contribute to certain GitHub repos (based on their achievement tags for their developer activity) a 10% discount, making it easier for them to win the auction.

Or, a third project might conduct a tokenized "SAFT" round - still public since any user (not in a prohibited jurisdiction) can apply to participate, but extremely limited in size. The project could, for example, whitelist only users with a strong social following and who have been using DeFi for at least four years.

Ultimately, Legion Scores enable public token sales based on merit—to real, value-add purchasers, not bots, not sybils, and not short-term token-flippers.

4.2.2 Calculating Legion Scores

The exact algorithm behind the score is intentionally not public to prevent abuse, but the overall Legion Score includes five subcomponents:

1. **Clout Score:** An abuse-resistant measure of a user's social influence. More followers do not necessarily mean a higher score.
2. **Dev Score:** An abuse-resistant measure of a user's GitHub activity. More contributions or stars do not necessarily mean a higher score.
3. **Chain Score:** A wealth-agnostic measure of a user's level of organic on-chain activity. Larger monetary transactions or bot activity does not necessarily mean a higher score.
4. **Interaction Score:** A measure of how users interact with projects, other funders and tokens on the Legion platform.
5. **Endorsement Score:** This measures how highly the core team, project founders, or their delegated community managers recommend a user. Teams can privately leave bad ratings for purchasers who promised to help out but didn't, giving the user a lower Endorsement Score and thus a lower Legion Score, all else equal.

Each subcomponent has been carefully designed using the principles of EigenTrust, an open-source algorithm for deriving reputation in decentralized, peer-to-peer systems.[9]

[9] Kamvar, Sepandar & Schlosser, Mario & Garcia-molina, Hector. (2003). The EigenTrust Algorithm for Reputation Management in P2P Networks.

Several crypto projects already leverage different implementations of EigenTrust-family algorithms, including Farcaster, which uses it for generating user feeds (essentially assigning a reputation score to each piece of content).[10]

One of the significant benefits of EigenTrust-family algorithms is that they are incredibly resilient to abuse and exploitation.[11] For instance, a network of bots that joins the network and attempts to all "upvote" each other would not increase their total reputation, and if they only interacted with each other, their total reputation would still be zero.

As a more practical example, in the context of an EigenTrust-family algorithm for social media accounts, reputation would not be a function of the number of followers but instead the quality of the followers. For example, an account followed by 100 people but with Vitalik Buterin included in that 100 has a higher reputation than an account with 100,000 followers that are bots. The bot accounts could try to increase their reputation via spamming, sybil, or collusion attacks, but it would have minimal impact.

Legion Score is not and never will be purely objective, like any reputation system. Especially when paired with data from each user's self-entered profile. It will need changes and improvements over time. It's not perfect, but it does not need to be perfect to be tremendously valuable in optimizing access to token distributions.

An inherent tradeoff exists between *equal access* to token sale allocation and *merit-based access* (equal opportunity) to earn token sale allocation.

If every user had a high Legion Score, that would ultimately defeat the purpose of any reputation system. Still, *any* user can have a high Legion Score - regardless of the size of their wallet, where they were born or who they went to school with.

Project teams can choose to give every user the same purchase terms, regardless of their Legion Score. But forcing teams to offer equal terms to everyone is not possible, as it returns us to a state with no quality protections for purchasers. If teams don't want to raise predominantly from lower reputation users, then they won't - they'll avoid a public token sale and raise only from VCs as they currently do. Trying to force everyone to get equal allocation would lead to no one getting any allocation.

In practice, we expect and encourage projects to give smaller max allocations to a broad set of users and larger max allocations based on a higher Legion Score. This allows for merit-based access while allowing newcomers to hustle, grind, and prove themselves over

[10] https://openrank.com/social

[11] Fan, Xinxin & Liu, Ling & Li, Mingchu & Su, Zhiyuan. (2012). EigenTrust++: Attack Resilient Trust Management.

time. It's in the team's best interest not to over-concentrate their distribution and to include a mix of proven value-added investors and newer, hungry users willing to work to prove themselves.

4.2.3 Keeping Purchasers Accountable

Token purchasers on the Legion platform are incentivized to participate in a given sale only if they are truthful about their intentions. This, in turn, fosters psychological ownership and creates a self-reinforcing cycle.

Almost all previous forms of public token sales, whether ICOs, Initial Dex Offerings (IDOs), Initial Exchange Offerings (IEOs), or launchpads, operate as single-round games. Each token sale is a distinct event, and what happens in one sale does not impact your ability to participate in future sales.

But imagine transforming this model into a multiple-round game where accountability from earlier rounds affects future participation. In such a framework, your actions in one token sale would impact your ability to participate in subsequent sales, altering the payoff structure.

In game theory, the optimal strategy shifts when the game is repeated. For instance, in a one-off prisoner's dilemma, the best strategy is to betray the other party. However, in an iterated version of the game, the optimal approach becomes cooperating, only betraying if the other party does so first.

Similarly, the accountability layer on the Legion platform changes the dynamics of token sales. In a system where each sale is treated as a standalone event, the optimal strategy is to mislead projects about your true intentions to secure an allocation, flip it for a quick profit, and repeat. However, with Legion's accountability layer that extends across sales, misleading projects become counterproductive. Such actions would damage your reputation and reduce your merit for future sales, making the quick-flip strategy less viable and potentially causing you to miss lucrative long-term opportunities.

As a result, each user's Legion Score is expected to evolve—improving for those who consistently add value, engage in the ecosystem, and uphold commitments while declining for those who fail to maintain their obligations or who do not contribute meaningfully.

Yes, previous attempts to implement investment scoring mechanisms have been made, but they have several flaws. These implementations are often game-able and lack a reputation component that genuinely matters—a visible and socially relevant reputation that ties the investor to their public image. When reputations are made salient and connected to the social feedback loop, individuals are incentivized to act in ways that maintain their positive

standing within the community, as their actions directly impact their social capital and future opportunities.[12]

The Legion Score mechanism and the platform users' social capital they risk to participate combined, make it a powerful incentive machine that will drastically improve community quality for projects that fundraise on the Legion platform.

4.3 Project vetting

On the other side of the previously mentioned marketplace sit the projects and ideas seeking funding and a community. Just as it's vital to ensure there are a variety of value-add investors, it's equally important to ensure there are high-quality projects using the Legion platform to fundraise.

Legion's success will depend on the quality and outcomes of projects that raise funds on the platform. Success will rely upon not just sourcing promising deals, but ensuring valuations on those deals present appropriate risk/reward for potential purchasers. Legion anticipates several sources of potential deal flow including:

1. Legion employees
2. Legion users (who will eventually have the opportunity to become Legion Scouts)
3. Conferences, hackathons and blockchain clubs
4. Partnerships with experienced investment firms including Delphi Ventures, Cyber·Fund, Alliance DAO and LongHash Ventures

However, picking winning projects is notoriously difficult. Even the most experienced investors struggle with distinguishing between ventures that will achieve significant growth and those that will fail, as many critical factors that determine success are unknown or unknowable at the time of purchase.[13]

Given Legion's licensing requirements and early stage, project vetting will start centralized. Leveraging the experience of our value-add investors and incubation partners in Delphi, Legion will carefully curate projects that raise on the Legion platform.

This process of vetting will require projects launching tokens to pass the equivalent of a Tier 1 VC investment committee, as well as meet specific metrics around supply at launch and FDV. Eventually, we expect the vetting process to transition to a decentralized process as described in section 5.2.

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[12] Kraut, R. E., & Resnick, P. (2002). *Social and economic influences on online behavior*. In *Building successful online communities: A research agenda*. ACM.

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4.4 Sale Mechanisms

Different projects aim to optimize for varying fundraising outcomes; these outcomes might be focused on token distribution, simplicity, price discovery, or the sale duration. While supporting a broad remit of mechanisms would meet the needs of projects, there is a risk of building an overly complex platform that reduces participation by users through a lack of understanding. With this in mind, Legion will initially support:

1. **Pre-TGE Rounds:** Support for pre-Token Generation Event rounds that mirror traditional private fundraising but leverage the efficiency and transparency of smart contracts. These rounds do not require a token nor the overhead that comes with defining a token distribution up front. This makes them perfect for early ventures that need flexibility in their decision-making process. They typically include an open phase, commitment period, review process, and acceptance period and are conducted at a fixed price.
2. **Fixed-Price Sales:** An option for projects to conduct simple, straightforward token sales with a pre-funding period. This model optimizes for easy understanding and accessibility, ensuring participants have a transparent and predictable entry point. These sales have the option to be whitelisted or the purchasers to which the tokens are offered.
3. **Clearing-Price Auctions:** A sophisticated sale mechanism designed to optimize for price discovery. This model allows for dynamic pricing based on market demand, providing a more accurate reflection of a project's valuation while introducing a level of complexity suited for more advanced investors.

CEXes currently offer the highest-volume venues for trading new tokens. No single DEX can compete with their reach. However, Legion will allow sales to be conducted across multiple blockchain ecosystems simultaneously. Cross-chain blockbuster launches could one-day rival CEX volumes by allowing projects to tap into diverse, chain-dispersed investor bases. This should help projects broaden their reach and engage with new audiences that were previously inaccessible without requiring users to bridge funds to a new ecosystem just to invest.

4.5 Business Model

All projects that raise on the Legion platform will have access to robust compliance tools, a pool of qualified, value-add prospective purchasers, cross-chain launch primitives, and a communications portal where they can stay in touch with investors (see “Project Basecamp” in Section 5.1). To ensure that the Legion platform can cover its operational expenses while also aligning the platform with projects’ long-term success, each vetted project will be subject to the following fees:

1. A portion of the total amount raised; and
2. A portion of the total amount of tokens sold, subject to the same vesting terms in the raise.

5. The Path Ahead

Legion will initially launch with a streamlined onboarding process for potential investors that includes KYC processes and the establishment of a baseline Legion Score. Vetted projects approved to raise funds on Legion will receive both real-time and automated compliance assistance to ensure they meet regulatory standards without additional overhead. After these core features are in place, Legion expects to explore the potential enhancements outlined in the sections below.

5.1 Project Basecamp

Capital formation is just the beginning of the journey. By facilitating early-stage offerings, Legion acts as the gathering ground for projects and participants in their community. Even after a round is complete, Legion can serve as a communication channel between both parties.

To this end, Legion proposes Project Basecamp: a private hub for collaboration between verified users and project team members accessible on the Legion platform. This whitelisted access area allows founders to coordinate action and deliver clear and actionable requests to prospective purchasers with minimum overhead.

For example, projects could use their Project Basecamp to request wireframe reviews, amplify major announcements, solicit introductions to other protocols for potential partnerships and more. Basecamp makes it easier to recognise users who go above and beyond increasing their Legion Score as a result. Basecamp would also serve as a space for users to learn about each other and strengthen community bonds as projects evolve and seek to grow.

5.2 Founder reputations

Legion Scores are initially intended to be used by project teams as they vet potential purchasers. However, the underlying reputation engine could also be harnessed to produce scores for founders and project contributors themselves. This mechanism would add to the extensive disclosure processes that will already be in place on Legion and further help users make informed decisions.

Ultimately, we envision Legion's reputation engine as a tool for communication and collaboration. Along those lines, founder and contributor scores can be used by founders themselves to network and connect with potential partners or future contributors.

5.3 Beyond financial capital

Legion Scores represent a potential purchaser's ability to contribute to blockchain projects in meaningful ways. These contributions could include time, effort, creative capital, beta testing and more. In other words, they're not just financial contributions. However, these "soft" contributions could prove as valuable as financial contributions.

As Legion Scores solidify over time, projects could elect to reward these contributors without requiring a financial contribution at all. This would give cash-poor, time-rich contributors the opportunity to get exposure to nascent projects. In effect, they could invest not with money but with effort.

6. Conclusion

Legion represents a paradigm realignment in the way capital formation is conducted in the blockchain sector. By creating a more open, merit-based, and compliant platform, Legion increases the odds of success for new crypto projects and ensures they can thrive beyond a single market cycle. It's a more sophisticated structure that benefits from crypto's simple transfer-of-value mechanism.

The success of this model will require a systemic change in expectations, founder mindset, and breaking of the current extractive market structure, but with the right tools and approach, Legion has the potential to usher in a new era of ecosystem growth, market structure change, and innovation.