DAR In Conversation: Q&A with Marco Manoppo

Our CEO Doug Schwenk had the chance to speak with Marco Manoppo, Director of Research at DAR, asking a few questions about **ESG and its impact on the crypto industry**.

Click here to watch video highlights or scroll down to read the full transcript.

Doug: What is ESG and why is it important to crypto assets?

Marco: ESG stands for Environmental, Social, and Governance. Investors can measure [their assets against these pillars] to see whether their portfolio aligns with the values, standards, and behavior of these pillars.

Data collection is more difficult for crypto assets [than traditional assets], which contributes to the complexity of gathering ESG data. There aren't centralized parties, regulatory agencies, filings, or investor relations teams that one can rely on to gather information. A lot of the information might come from various different sources, including community members, anonymous founders, and team members.

ESG data is important to evaluate before investors allocate or consider the asset classes in their portfolios. As part of [their mandate], asset managers and capital allocators in Europe should ideally consider ESG data before participating in a new asset class.

Doug: What are some ESG concerns for crypto assets?

Marco: Crypto assets may consume a lot of energy. There have been concerns around Bitcoin and the Proof-of-Work (PoW) consensus mechanism that powers the blockchain network and the mining activities behind Bitcoin, [with] PoW having been noted to consume as much energy as an entire country. Assets are also used for activities that might be difficult to track or even illicit because of the lack of standards and communication to its community members.

Additionally, the level of transparency that crypto assets provide for market participants can vary. There is often a lack of communication from crypto projects towards their community members and users regarding the use of the funds and the capital that has been raised. For a decentralized asset, when team members might not always be identifiable, there are unique nuances that market participants need to consider in order to ensure that governance can be upheld to the best standard possible.

Doug: What's changing, and where do institutional investors still need guidance?

Marco: We have seen investors become more aware of the importance of the Governance and the Network Health (N) pillar [within] the last year. Currently, most institutions have some sort of an idea on how to assess the environmental pillar when it comes down to crypto assets. For example, it's well known for the majority of market participants that PoW consumes a lot more energy than Proof-of-Stake or other consensus mechanisms.

The Governance pillar, however, remains opaque to most market participants. There are still many questions requiring deep crypto expertise and crypto knowledge when looking behind the scenes:

- How do these assets actually operate?
- How do these assets coordinate in a decentralized and often anonymous manner?
- How do you assess whether or not founders and token holders will actually honor the governance systems?

Understanding these governance process mechanisms and the durability of the process itself is a key factor that is still often misunderstood by most market participants. Reviewing factor level scores across Governance and Network Health could provide institutional investors with a lot of insights before they decide how to proceed with their investment in crypto assets.

A few ways to learn more:

- Read Why ESG For Crypto Matters
- Watch DAR Proposes 4th Pillar: Network Health video
- Contact info@digitalassetresearch.com