TAC Meeting Statement
Jan 8, 2024

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I apologize that I could not be there today – unfortunately, the meeting conflicted with long-standing travel plans. I am grateful to the Committee leadership for sharing my statement today. First of all, I would like to applaud the Subcommittee for their hard work on this report. I think the technical descriptions are both accurate and accessible, and I believe that the report offers perhaps the best identifications and explanations of DeFi risks that I have seen. In particular, I applaud the authors of the report for resisting the urge to demarcate a level of decentralization that would count as "sufficiently decentralized" for regulatory purposes – any such demarcation would inevitably be tied to the state of technology and business models at this moment in time, and would thus provide many fertile avenues for regulatory arbitrage.

The report also does an excellent job of distinguishing DeFi's present reality from its hyped potential. Ultimately, however, I cannot support this report's recommendations. I am concerned that the report stops short of engaging with why much of DeFi's hyped potential is, in fact, impossible – often because of the realities of economic incentives. At least, it is impossible without DeFi becoming so much like the existing financial system that all the added technological complexity is pointless (as well as inviting all the new risks that the report articulates so well).

Given these realities, I question the report's recommendations that the CFTC and other regulators expend scarce resources in learning more about, and developing bespoke regulatory approaches for, something that is unlikely to deliver any new benefits (to be clear, there are lots of structural problems in the existing financial system – but permissionless blockchain technology is ill-suited to addressing them for many reasons that I have articulated in my new work, *Fintech and Techno-Solutionism*).[1] The report also does not consider where regulatory resources will be diverted *from* in order to discharge these recommendations. I think it should be acknowledged that interest rate changes have made venture funding harder to come by, and much of the venture capital interest that had been driving DeFi experimentation has now pivoted to AI – this reality of decreased commercial interest in DeFi underscores the concerns I have about expending scarce regulatory resources on DeFi.

In short, while the report recognizes that DeFi has not yet progressed very far down the spectrum of decentralization, the report should also reckon with the implausibility of it *ever* progressing far enough to justify large investments by regulators in mapping existing regulatory regimes to DeFi, let alone justify developing accommodative, bespoke regulatory treatment like waivers and sandboxes that would effectively roll back regulations designed to protect the public from harm.

[1] Hilary J. Allen, *Fintech and Techno-Solutionism*, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4686469.