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Crypto Advocates Push Back on Overreaching DeFi Bill

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The DeFi Education Fund (DEF), a Washington-based policy advocacy group initially supported by Uniswap funding, has submitted a formal response to the U.S. Senate Banking Committee, urging lawmakers to revise the draft of the Responsible Financial Innovation Act (RFIA). The letter expresses concerns that the proposed legislation could stifle innovation and wrongly expose open-source developers to regulatory risk.

Co-signed by several major crypto stakeholders, including a16z Crypto (Andreessen Horowitz), Uniswap Labs, Jump Crypto, Multicoin Capital, Paradigm, Jito Labs, Variant Fund,

the Solana Policy Institute, and the Uniswap Foundation, the DEF letter lays out four central policy requests. These include distinguishing open-source DeFi developers from financial intermediaries, providing clear guidance on which entities must register with regulators, creating standards to define decentralization, and ensuring that all rulemaking remains neutral concerning specific technologies.

The RFIA is positioned as a follow-up to earlier legislative proposals, such as the Digital Asset Market Clarity Act introduced in the House. The bill seeks to create a comprehensive framework for regulating digital assets and decentralized systems. While some lawmakers claim the draft balances innovation with consumer protection and oversight, DEF argues that it reflects a limited understanding of decentralized infrastructure.

One of DEF's central concerns involves the treatment of software developers in light of recent federal prosecutions, most notably the case against Tornado Cash developer Roman Storm. DEF argues that certain interpretations of Financial Crimes Enforcement Network (FinCEN) guidance could lead to treating non-custodial software tools as if they were financial services. They caution that developers who merely write code that does not control user funds might face criminal liability, which could create a chilling effect on open-source development. However, it is important to note that the charges in Storm's case go beyond code creation and include allegations of knowingly facilitating money laundering.

The letter also highlights the issue of regulatory fragmentation across U.S. states. Without federal preemption, DEF warns that large financial institutions could use inconsistent state laws to suppress competition from decentralized protocols. National-level regulation, the group argues, is necessary to provide legal clarity and promote fair competition.

In a separate filing, venture capital firm a16z raised concerns about how the RFIA classifies "ancillary assets", digital tokens distributed without governance or ownership rights. The firm contends that this classification could conflict with the long-standing Howey test used to determine what constitutes a security. A16z instead supports narrower definitions introduced in the House's Digital Asset Market Clarity Act and advocates for a control-based model in which regulatory status depends on whether a token's developers maintain operational control.

DEF and its allies conclude by warning that if legislation fails to accommodate the technical realities of decentralized systems, innovation may migrate abroad. They call on lawmakers

to adopt a more informed and balanced approach that preserves both regulatory oversight and technological progress in the digital asset space.