

This post outlines a framework for funding regulatory and political defense of the decentralized finance ecosystem with a grant from the UNI Community Treasury. We will refer to this fund as the DeFi Defense Fund here, which can be set up as a 501(c)(4) in the US for the greatest flexibility, accountability, and benefits.

The temperature check showed massive interest in the topic and almost two-thirds of the votes were in favor of moving forward. The biggest concern—raised by those both voting yes and no—was the lack of precise details. We planned to unveil more details in the Consensus Check as the next stage in this process, and do so here. We address the other concerns raised at the end of this post and plan to respond to concerns as they come up during this Consensus Check.

This proposal is both a response to external threats and a preemptive action taken to ensure the sustainability of Uniswap—and DeFi more broadly—for the long-term. Decentralized finance is increasingly under regulatory scrutiny, and we need to defend the ecosystem, its democratizing potential, and its decentralization ideals. To date, decentralized non-custodial protocols have logically been exempted from regulatory obligations designed for custodial financial intermediaries. But now governments and international organizations are considering policies that may halt the innovation, expanded access, and transparency it enables.

Similar organizations were essential to protecting the Internet from regulatory threats that would have destroyed the internet's potential long ago. Over the decades, legal advocates had to win the US Supreme Court case “Reno v. ACLU” in 1996 (without which most websites would have had to verify that their viewers were over 18 and exclude minors), the Comcast-BitTorrent case in 2008 (without which the largest cable companies would have continued to block peer-to-peer protocols), the SOPA/PIPA bill in 2012 (which, had it passed, would have stifled web 2.0 by targeting platforms for user-generated content), and even the Apple-FBI case in 2015 (where the US government asserted the right to force companies to write new code for increased surveillance). Without these and other wins—by lawyers, advocates, and technologists—the internet could have never reached its potential.

As the most prominent and successful automated market maker protocol, Uniswap will not only receive legal and political questions but also will be well-positioned to lead the defense against rushed proposals that would restrict individuals' ability to use DeFi protocols or attempt to obligate governance token holders to adopt changes that would fundamentally undermine the promise of decentralized finance.

We recommend that Uniswap governance allocate funds to set up a 501(c)(4) “policymaking machine” with the goals of 1) preempting regulatory, legal, political, and tax threats to decentralized finance; 2) achieving regulatory clarity for decentralized finance and related activity; 3) advancing laws that support decentralized finance and decentralized governance; and 4) spurring other DeFi protocols' governance bodies to contribute to the effort (through this organization or their own).

The DeFi Defense Fund would fund all of the following: 1) Thought leadership: we need more think tanks and academics to write policy white papers, articles, and op-eds explaining the benefits of decentralized finance; 2) Legal firepower: we need to develop strong legal arguments ahead of enforcement actions or new regulations that threaten DeFi; 3) Top advocates: we need more people directly educating legislative and regulatory policymakers about DeFi and advocating for policy positions that favor DeFi; 4) Messaging: We need to better formulate ideas, prepare spokespeople, and communicate to policymakers and the general public the promise of DeFi; 5) Grassroots advocacy: we need to make it easy for individuals who already care about DeFi to voice their opinions to Congress and regulations. Advocacy campaigns usually require a combination of all of these working in concert.

Due to the importance of this work to the Uniswap community and the cost of doing this work well, we propose funding the DeFi Defense Fund with 1M UNI tokens. We expect the committee to allocate these funds over 4-5 years.

Outline of this post

- The regulatory threat
- Doing nothing is not an option
- The Uniswap community is best positioned to lead the effort to protect decentralized finance
- About the DeFi political defense organization
- Addressing questions raised in the Temperature Check
- Snap poll

The regulatory threat

Governments' financial supervisory regimes are generally based on the regulation of financial intermediaries (think banks, stock exchanges, money transmitters, etc.). To date, decentralized finance protocols like the Uniswap protocol have generally been excluded from these regulatory regimes because users of the protocols retain “total independent control” over their assets and the protocols have been treated more like the Bitcoin, Ethereum, or HTTP protocols. For example, in the United States, the Financial Crimes Enforcement Network (FinCEN)—the agency responsible for implementing the Bank Secrecy Act—has said that when a cryptocurrency “...trading platform only provides a forum where buyers and sellers of [cryptocurrency] post their bids and offers and the parties themselves settle any matched transactions through an outside

venue (either through individual wallets or other wallets not hosted by the trading platform), the trading platform does not qualify as a money transmitter under FinCEN regulations.” This conclusion makes sense and is worth defending.

Unfortunately, governments and international organizations are considering whether to move away from this relatively clear delineation of what is and is not a regulatable activity and essentially seek to “shift the goal posts” in order to capture decentralized finance protocols—and their governance token holders—as “regulatable entities.” For example, the Financial Action Task Force (FATF), an international organization that aims to coordinate countries’ anti-money laundering regimes, essentially suggests that decentralized finance doesn’t exist at all: “Where customers can access a financial service, it stands to reason that some party has provided that financial service, even if the act of providing it was temporary or shared among multiple parties”—such as governance token holders. The FATF suggests also that “...launching a self-propelling infrastructure to offer VASP services is the same as offering them, and similarly commissioning others to build the elements of an infrastructure, is the same as building them.” Switzerland is already proposing to expand the definition of money transmission to include the “enabling” of funds transfers—even when there is no intermediary taking custody of a customer’s funds—and so may capture decentralized financial protocols in their financial supervisory regime (and this definition may even capture Bitcoin and Ethereum).

Doing nothing is not an option

“If we do nothing proactive, governments will develop proposals modeled on TradFi regulation that was developed for different systems in a different time and with wholly different risks. “Doing nothing” will lead to “doing ineffective, irrelevant activities mandated by regulators because they were not yet properly educated.” The enormous costs of this potential future are much less likely to materialize if we invest resources in a defense fund—a modest cost by comparison.

If governance of DeFi protocols is to survive long term, we need to actively engage in the policymaking discussions happening right now to ensure the interests and positions of millions of DeFi users are represented.

The Uniswap community is best positioned to lead the effort to protect decentralized finance

Decentralized and non-custodial exchange over the internet is a net benefit to society that should be embraced by societies seeking to advance economic flourishing and individual liberty. The Uniswap protocol is universally recognized as the leading and most successful automated market maker protocol in the DeFi ecosystem. Uniswap v3 and v2 each have more volume than any other automated market maker protocol. The broader Uniswap community includes many of the crypto ecosystem’s most thoughtful leaders, both institutions and individuals, and the community prioritized properly resourcing the UNI Community Treasury from day one.

We have the technological leadership, community, and human and financial resources to win this policy debate over the foundational principle underlying not only automated market makers and decentralized finance, but crypto generally.

About the DeFi political defense organization

In light of the expense of hiring sophisticated lobbyists, lawyers, and experts, and in light of the urgent threat we see from poorly informed regulatory proposals globally, we recommend an initial infusion of 1 million UNI (less than one-quarter of one percent of the treasury). This entity will not replicate the great work of existing organizations such as Coin Center, Fight for the Future, the Blockchain Association, the Crypto Council for Innovation, the Defi Alliance, Blockchain for Europe, or others. Rather, it would fund these and other organizations to expand their capabilities to be able to more effectively protect DeFi. It would fund across areas including thought leadership, legal analysis, policy advocacy, messaging, and grassroots.

Further, this fund will extend its monetary impact by conditioning some of its grants with matching by other governance treasuries, crypto foundations, or crowd-matching.

Grants administration for political spending is a subjective process that cannot be easily automated, and thus we propose a grants committee overseen by an accountable entity. This committee would hire a grants-making leader or staff and create an efficient, predictable process for applicants.

We propose the following as committee members, with a subset of them serving as the entity’s board of directors. All have expressed their willingness to join the committee:

1. Jake Chervinsky

, General Counsel, Compound Labs & Strategic Advisor, Variant Fund. Jake serves as general counsel at Compound Labs and as an adjunct professor at Georgetown University Law Center.

1. Larry Sukernik

, co-founder, Reverie. Larry co-founded Reverie to steward the development of DAOs. Previously, he was an investor at Digital Currency Group.

1. Rebecca Rettig

, General Counsel, Aave Companies. Rebecca is a well-known DeFi lawyer who has advocated before government bodies around the world. Aave is based in Europe so she can help ensure connectivity with European based groups.

1. Marc Boiron

, General Counsel, dYdX Trading. Marc is a DeFi attorney who has designed the regulatory strategies and DAO structures for many of the leading DeFi protocols in addition to having educated regulators on DeFi.

1. Marvin Ammori

, Chief Legal Officer of Uniswap Labs. Marvin has spent his career advocating for new technologies from the internet to DeFi. He has served as a board member of multiple advocacy nonprofits.

1. Katie Biber

, Chief Legal Officer of Brex, Board of Directors of Anchorage. Katie is a fintech and crypto leader and political superlawyer who served as the General Counsel of the Mitt Romney presidential campaign in 2012.

1. Sheila Warren

, World Economic Forum, Executive Committee (Cryptocurrency Lead). Sheila is trained as a lawyer who used to represent 501(c)(4) nonprofits such as Planned Parenthood and the ACLU. She now convenes experts on cryptocurrency regulatory issues at WEF.

These committee members skew towards legal advocates for their expertise in policy formation and analysis and towards US residents as the US plays an outsized role in global financial regulation.

We expect that some members will be able to serve pro bono and that the total compensation across the entire committee will be less than \$150K per year. Due to the dynamic and somewhat unpredictable state of global policy proposals, we believe the grant-making committee should have considerable discretion, subject to the necessary disclosure of its activities.

Addressing questions raised in the Temperature Check

Some concerns were raised in the Temperature Check.

- Will a student group control these funds?

We propose the committee named above, which includes some of the top thinkers and lawyers in DeFi across multiple top projects. In Temperature Check, several people assumed that the Harvard Law Blockchain and Fintech Initiative would control these funds, and we should have been clearer that this was never the intent of our proposal.

- Why isn't the budget small?

Top lawyers, lobbyists, and educational public relations campaigns are very expensive. When the US Treasury Department proposed a "midnight rulemaking" in December, blockchain advocacy organizations were forced to spend millions in just a few months on agency comments and prepared litigation. Given the complexity and novelty of these issues, we need the world's best talent, and many of them are paid more than professional athletes. The committee will be best positioned to allocate these funds dynamically in response to threats and opportunities. Given the current proposals, the industry needs funding sizable enough to support the multi-front campaign on multiple issues.

- Considerable transparency will be ensured.

There are considerable public reporting requirements for both 501(c)(4) organizations—regarding grant size and recipients—and also separately for any lobbying expenditures. Further, we expect this committee (and independently others in the community) to provide plain language summaries of these disclosures. Board members of 501(c)(4) organizations are also fiduciaries required by law to act not in their own interest but in the organization's best interest.

- Free-riding can be mitigated but is not worth any upfront delay.

In this ecosystem, many of us get to free ride off of one another's software contributions (e.g., Uniswap governance is a fork of Compound governance, all of DeFi benefits from Ethereum development). Groups also free-ride off of policy contributions. DeFi has benefited from expensive and time-consuming efforts of Coin Center, the Ethereum Foundation, and others as they educated policy makers and defended Bitcoin and Ethereum against attacks for many years. As noted, we expect the committee over time to condition grants on matching funds raised by other affected communities. Further, more funds will be needed over time if DeFi continues to grow—just as internet freedom organizations such as the Electronic Frontier Foundation remain busy and have expanded over time—and we expect other communities will contribute as they wake up to additional threats and rushed proposals targeting them directly. The need for this funding organization is too urgent to delay over negotiating free-riding concerns, and we expect those concerns to be mitigated in months, not years.

- The grants would go far beyond lobbying.

Nobody likes lobbyists. We get it. But to properly educate policymakers in a way that defends DeFi, the organization would provide some funding to lobbyists and more to the workstreams described above: (1) thought leadership, (2) legal firepower, (3) top policy advocates (some of whom would be "lobbying" on specific bills and some would be more generally educational), (4) messaging, and (5) grassroots advocacy.

Link to the snap poll

: [Snapshot](#)