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From DeFi and TradFi to just finance

Why a shared ledger nobody can rewrite is good technology for finance, what has already been rebuilt on it, where the risks and the rules sit, and why the line between crypto and traditional finance is fading.

THE IDEA

A blockchain gives everyone the same ledger, lets nobody rewrite it, and settles in seconds to minutes with code doing the work of a back office. Lending, trading and the dollar itself have already been rebuilt on that ledger, and regulation is what makes them usable at scale. My thesis is that the line between DeFi and TradFi keeps blurring until what is left is just finance.

A roundtable for two sections of graduating finance seniors in the senior seminar in financial policy. Six student teams presented: blockchain foundations, decentralized finance (DeFi), stablecoins and tokenized assets, regulation, ETFs and custody, and risk and valuation. I moderated and added the practitioner view, as head of treasury at Ava Labs after about a decade on Wall Street. Figures are as of February 2026 unless a later date is given.

Why a blockchain is good technology

Think of a ledger as a book. Each page (a block) holds a batch of transactions, and each new page is mathematically linked to the one before it. Two things make this book different from any other system of record: everyone in the world has a copy, and once a page is added nobody can change it.

The standard frame is the **blockchain trilemma**. A good chain is **decentralized** (every copy is as good as anyone else's), **secure** in the sense of immutable (everyone agrees on the whole history, not just the present) and **scalable** (throughput is how often a block is produced times how much each block holds). Pushing one usually costs another. Bitcoin is the dinosaur, with a block roughly every ten minutes; newer chains produce blocks in seconds or less.

Why can't whoever writes the next page add "pay me a million dollars"? Because writing a page is made expensive. Under **proof of work** (Bitcoin), miners spend computing power and energy solving a puzzle, and the difficulty adjusts to keep blocks about ten minutes apart. Under **proof of stake** (Ethereum), validators post capital instead: 32 ETH to run a validator, about \$66,000 at the February 26, 2026 price. They earn a staking yield of roughly 3% a year, and they lose part of the stake if they cheat (smaller penalties apply for going offline).

Settlement: faster, cheaper, auditable

Compare today's plumbing. A domestic wire is usually quoted at about a day, ACH at one to two days, and an international transfer at two to five, as the money hops through correspondent banks. US stocks settle T+1 (since May 2024; it was T+3, then T+2).

REAL MARKET DATA

One Bitcoin block, pulled up live on a block explorer, February 26, 2026. The block recorded about 8,000 BTC moving, roughly \$540 million at a bitcoin price near \$67,800, and paid about \$2,200 in total fees. That fee was typical: the average block that day paid between about \$1,000 and \$2,700 (mempool.space). The "amount sent" includes change returned to senders, so less new value changed hands, but the order of magnitude is the point. Compare that with a Western Union fee.

It is cheap because it is code: no back office, nobody on a lunch break, no rent. The flip side: no 1-800 number to call if you make a mistake.

DeFi: a bank and an exchange written as code

Bitcoin's 2008 white paper came out of the financial crisis: sound money, and no centralized counterparty that can fail with your savings. Ethereum's step was to fill blocks with programs (smart contracts), not just "Alice sends Bob one bitcoin." In my view the killer app that followed is DeFi: banks and exchanges rebuilt as code you use directly.

Lending. On Aave, the largest lending protocol, you supply an asset, earn interest on it, and borrow against it up to a set loan-to-value. If your collateral falls too far, the code sells it to repay the loan. As of February 26, 2026, Aave held about \$42 billion of supplied assets, of which about \$17 billion was lent out (DeFi Llama).

What got me into this industry was doing it myself: wrap bitcoin to move it onto Ethereum, deposit it on Aave, borrow USDC, sell it for dollars on an exchange, wire them to my bank. About thirty minutes, with no login and no Social Security number.

Transparency. A bank's loan book is sealed: you see quarterly totals, never the loans. On Aave you see every deposit and loan, for every wallet, back to day one. In class we opened one wallet with several hundred million dollars of ether posted against stablecoin loans and traced every trade it had made. What you cannot see is who owns it.

Exchange. Exchanges concentrate risk because they sit in the middle of every trade (FTX was a centralized exchange). Uniswap, one of the oldest decentralized exchanges, lets anyone be a market maker: deposit two tokens in a pool, and code quotes a two-way price that moves against the buyer as the pool's mix shifts.

Real-world assets. The same code accepts any token. A tokenized version of Janus Henderson's AAA CLO fund (JAAA, via Centrifuge) is collateral on Aave's institutional market, Horizon, so you can borrow stablecoins against AAA CLO paper on chain today. Tokenized stocks plug into the same rails.

The risk. Losing your keys is the biggest risk in crypto, but that is operational. Past that, the biggest DeFi risk is **smart contract risk**: a flaw the audits missed. The mitigations are open-source code the whole world can test, audits, and years of operating history. Aave has no FDIC insurance; overcollateralization

and automatic liquidation, visible on chain, take its place. That is a different risk, not zero risk: code can fail, and collateral can fall faster than liquidations clear.

Stablecoins: the bridge to real dollars

DeFi needs a unit everyone understands, and everyone knows what a dollar is. **Circle** takes your dollars, buys short-dated T-bills, and issues USDC one for one. It keeps the interest; that is the whole business model. Circle has been a public company since its June 2025 IPO. **Tether**, the first major issuer, does the same offshore (long based in the British Virgin Islands, headquartered in El Salvador since 2025). With about \$184 billion of USDT outstanding, it reported more than \$10 billion of 2025 profit on a staff of a few hundred, among the highest profit per employee anywhere.

Holding USDC earns nothing, so most stablecoin balances work like a checking account (the FDIC national average on interest checking was 0.07%). To earn, you put them to work, for example on Aave.

The issuer is the one centralized link in an otherwise decentralized system, and its quality matters. Terra's UST was an algorithmic stablecoin backed by less than a dollar of real collateral; in May 2022 it lost its peg within days and set off a chain of failures across crypto lenders. FTX collapsed six months later, in November 2022, after customer funds were found to have been diverted to its affiliated trading firm.

Regulation: guardrails make it usable

Stablecoins (US). The GENIUS Act, signed July 18, 2025, requires a compliant payment stablecoin to be backed one for one by cash, bank deposits, Treasury securities maturing in 93 days or less and a short list of similar assets, with monthly public reserve reports. It is not yet binding: it takes effect on the earlier of January 18, 2027 or 120 days after final rules, and as of February 2026 regulators had only proposed those rules. Tether's response was a separate US token, USAT, launched January 27, 2026 through a federally chartered bank, while USDT stays offshore.

Anti-money laundering. The openness that lets anyone use Aave with a 12-word phrase lets a sanctioned state or a cartel do it too. The EU's answer is MiCA, one crypto rulebook for all 27 member states (fully applicable since December 30, 2024), plus a travel rule from the same date: providers must pass on sender and recipient details for every transfer and check ownership of self-hosted wallets above €1,000. The industry finds that restrictive. My view: some regulation beats none, because clear rules on tax, accounting and custody bring more people in, though overly restrictive rules do harm too.

Who regulates (US). Under SEC Chair Gensler (2021 to early 2025) the approach was regulation by enforcement: lawsuits without a rulebook. The SEC and CFTC now share the job (bitcoin is treated as a commodity), and on January 29, 2026 their chairs launched a joint effort, Project Crypto, to draw the lines. The broader market structure bill (the CLARITY Act) passed the House in July 2025; as of October 2026 it had not passed the Senate.

Prediction markets show where the line sits. A sportsbook sets the odds and takes your bet's other side: gambling. An exchange matches you with another trader for a fee: a derivatives market. Polymarket, born on chain, won CFTC approval for a regulated US platform in November 2025.

Can a government stop a blockchain? Only by stopping everyone who produces blocks, which for the largest chains is very hard. You could jail Michael Saylor, whose Strategy held more than 3% of all bitcoin (about 717,000 BTC), and nothing would happen to Bitcoin. The Ethereum Foundation holds well under 1% of all ether: influence, not control.

Bitcoin as digital gold, and the quantum question

Holders give two reasons: it keeps going up (reflexivity: the rise attracts more buyers) and it is a store of value. My personal view is the second. Supply is capped at 21 million, issuance halves about every four years, and with your own keys there is no counterparty. A one-kilogram gold bar fits in your palm and was worth about \$167,000 (gold near \$5,200 an ounce), but it is hard to verify, split or move. Bitcoin divides to a hundred-millionth of a coin and moves anywhere for a small fee. And if the dollar goes to zero, we have bigger problems. None of this is investment advice.

Your **public key** is like your name: everyone sees it. Your **private key** (the 12 to 24 words) is like your fingerprint: only you have it. Deriving one from the other is infeasible with today's computers. A large enough quantum computer would change that, and not only for Bitcoin: it threatens most public-key encryption in use, including the elliptic-curve signatures Bitcoin uses. The fix is quantum-resistant cryptography. Decentralization cuts both ways: it makes Bitcoin hard to attack and also hard to upgrade, because so many independent parties must agree. As of February 2026 neither Bitcoin nor Ethereum had deployed quantum-resistant signatures, though both had proposals in progress.

Where this goes

- **Payments first.** In my view stablecoins become the plumbing behind payment apps, noticed or not, because they are cheaper and settle instantly. Stripe (its Tempo chain), PayPal and JPMorgan (Kinexys) are all building for it.
- **Tokenized real-world assets next.** Many investors abroad want US stocks and cannot easily buy them; a tokenized share can be bought from anywhere.
- **Then a flywheel.** More dollars and more real assets on chain feed DeFi lending and trading, which draws more liquidity on chain because it is cheaper, faster and auditable by design. That is how I see DeFi and TradFi merging into one global capital market: just finance.

Takeaways

- Strip out the hype and judge blockchain as a system of record: shared, unchangeable, fast.
- In DeFi, your counterparty is code. Know the smart contract risk before you deposit, and secure your keys first.
- A stablecoin is only as good as its reserves and its regulator. Read the reserve report, and follow GENIUS Act rulemaking.
- Get hands-on: set up a wallet, put \$10 on it, and try a protocol. Pair that with fluency in AI: in my view, those two technologies add the most value to a young finance career right now.

Go further

- Satoshi Nakamoto, *Bitcoin: A Peer-to-Peer Electronic Cash System* (2008), bitcoin.org/bitcoin.pdf.
- The GENIUS Act, Public Law 119-27 (2025), at [congress.gov](https://www.congress.gov).
- Markets in Crypto-Assets Regulation (MiCA), Regulation (EU) 2023/1114, at eur-lex.europa.eu.