
The DeFi Control Paradox: When Compliance Controls Increase the Risk of MSB Classification

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DeFi projects are under increasing pressure to build compliance infrastructure, but what happens when those very tools may constitute the types of control features that could trigger regulatory obligations?

In this client alert, the first in a series on AML, sanctions, and decentralized finance ("DeFi"), the authors identify the "DeFi Control Paradox." The alert also considers the Financial Action Task Force's ("FATF") July 2026 DeFi report, which brings the paradox into sharper focus: several of the control indicators FATF identifies overlap with compliance features that DeFi projects are being urged to adopt.

The alert analyzes the practical consequences of this paradox under U.S. law, explaining how adopting these tools may increase the risk of being classified as a money services business and potentially trigger registration, licensing, AML program requirements, and reporting obligations. The alert also flags similar control questions under state money transmission laws and non-U.S. regulatory regimes.

Read the full client alert below.

Attorneys

- Brockton B. Bosson
- Jonathan Galea
- Christopher A. Arkin

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