Discussion of "From CeFi to DeFi: Trust, Knowledge, and the Missing Adoption"

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Big Picture: Two kinds of trust

CeFi (CEXs)

- Trust 'people + governance'
- Custody risk (exchange holds keys)
- Signals: size, proof-of-reserves, etc.

DeFi (DEXs)

- Trust 'code + ecosystem'
- Self-custody (user holds keys)
- Cognitive load: wallets, gas, smart contracts

Big Picture: The puzzle

- Narrative:
  CeFi trust shock → users should migrate to DeFi.

- Reality after FTX: Many users stayed in CeFi (often shifting to ‘bigger / more disclosed’ CEXs) or exited — DEX adoption didn’t surge.

- Missing adoption is mostly a knowledge barrier, not switching costs or transaction costs.

- Education about DeFi and CeFi regulation matter

Summary

- Setting: FTX collapse (Nov 2022) as an exogenous trust shock to the crypto ecosystem.
- On-chain evidence: Ethereum data (millions of addresses → 8M inferred users); DiD comparing CEX-heavy users vs matched controls.
- Survey experiment: randomized information about (i) why FTX failed and/or (ii) what DEXs are.
- Structural model: venue choice with transaction costs, CEX risk, and knowledge-gated cognitive frictions.

Contributions

- Empirical ‘missing adoption’ fact: CeFi shock does not mechanically produce DeFi migration.
- Mechanism: DeFi adoption is ‘knowledge-gated’ — trust shocks matter mainly for users who understand DeFi operations.
- Policy angle: investor education + CeFi oversight; reliance on size/disclosure signals can be fragile.
- Methodological combo: on-chain identification + survey RCT + calibrated choice model.

Overall assessment

- Big strengths: clean shock, crisp mechanism story (knowledge vs costs).
- Main results are intuitive yet surprising: users 're-choose within CeFi' instead of switching regimes.
- Bridges trust/finance + household literacy/familiarity + fintech adoption.
- Comments on Identification, measurement, and mechanisms

1) Treatment definition & matching

- CEX-heavy users defined by >$100 and >50% assets on CEX pre-shock
- Potential concern: selection into CEX-heavy might correlate with latent preferences (UX, risk tolerance, etc.).
- Suggestions: placebo outcomes on non-trading on-chain actions (simple wallet activity, token transfer, etc.) to reassure parallel trends: Do treated users only change where they trade, or also how they use the blockchain more generally?

(discussion mode: curious + friendly)

2) Measuring ‘DeFi adoption’

- They identify ~300k DeFi contracts via ABI similarity (≥80% overlap)
- Suggestions: sample manual validation, examples of top false positives/negatives.
- DeFi adoption:
  - distinguish 'trying' a DEX once vs 'persistent' DEX usage (habit formation).
  - Separate DEX trading vs other DeFi (lending/staking) to show substitution is specifically about 'exchange' choice.

3) Knowledge channel: sharpening the story

- On-chain data: Users with prior DeFi experience increase DEX usage and self-custody after FTX.
- Survey: DEX-info treatment boosts DEX choice by ~27–32pp;
- Model: raising knowledge to median increases adoption ~7pp; gas ÷100 only ~2.8pp.

Suggestions:

- Alternative knowledge proxies (wallet count, token diversity, past L2 usage).
- Interpretation: ‘knowledge’ mixes literacy + confidence + UX familiarity — is it possible to decompose?

4) Switching costs vs knowledge

- Paper argues switching costs are second-order; survey shows only extreme switching-cost types mute DEX-info effect.
- Suggestion: connect survey switching-cost index to observable on-chain behavior (e.g., number of wallets, frequency of bridging, app diversity).
- Falsification: if switching costs drive inertia, then users who frequently switch CEXs (CEX switchers) should also switch to DEX more
- If knowledge dominates, even ‘CEX-switchers’ may not adopt DEX compared with ‘CEX-stayers’

5) Trust signals inside CeFi: size & proof-of-reserves

- Nice empirical point: users flee to large CEXs and to those disclosing reserves.
- However, for these trust signals
  - Disclosure might proxy for regulatory exposure or clientele, not necessarily trust
  - One crisp example about the size: FTX was large too
- Emphasize ‘fragile heuristics’
  - How predictive are these signals for failures historically?

6) Policy implication

- The paper's policy implication: Because knowledge frictions limit DeFi adoption, investor education and CEX regulation are important.
- Make the policy message balanced: DeFi reduces custody risk, but it introduces other risks:
  - private-key loss
  - phishing and wallet-draining attacks
  - smart-contract bugs
  - etc.
- The result does not imply that DEX adoption is always welfare enhancing. It implies that users may fail to consider DEXs because they do not understand the institutional difference between custody and non-custody trading.

Conclusion

- Interesting and insightful paper!
  - Key result: CeFi failures don’t automatically push users to DeFi; adoption is knowledge-gated.
  - Big implication: ‘DeFi literacy’ can be a first-order policy lever.

- Highly recommended. Best of luck!