BETTER MARKETS

CRYPTO

FACT SHEET

Crypto 101: Bait-and-Switch, False Promises, Influence Peddling and a Growing Threat to our Financial System and Main Street

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Last week's election results had many losers and winners. While the crypto industry will be quick to claim to be one of the winners, after it spent almost $200 million on campaign ads, it is important to remember that despite this massive amount of funding, **Congress does not have a crypto mandate** (as detailed here). While crypto spent big on ads attacking skeptical lawmakers, they never actually mentioned crypto. This is because the crypto industry has a long record of lawbreaking and enabling outrageous crimes like ransomware and money laundering, which is why American voters are rightfully distrustful of crypto. **The industry spent hundreds of millions of dollars to eliminate lawmakers who stand up for consumers and the public interest but never mentioned the real reason they are trying to defeat these candidates.**

What are they trying to buy with that money? Crypto's top goal is to get its special interest legislation passed to give the industry an aura of legitimacy, despite its rap sheet that we detail below. The legislation debated in Congress would allow the industry to pick the Commodities and Futures Trading Commission (CFTC) as its regulator because it is smaller and less funded than the Securities and Exchange Commission (SEC), which actually has the expertise and track record of protecting consumers and retail investors. CFTC budget of $365 million and 700 employees vs. SEC budget of $2.1 billion and 4,500 employees. It won't be a fair fight, which is what the crypto industry wants.

Concerned citizens must ask, in what other case would we allow an industry to pick its own regulator?

With a flurry of must-pass legislation expected in the lame-duck Congress and dozens of new lawmakers to be sworn in next January, now is an important time to review the fundamental issues surrounding crypto and how policymakers and regulators may address them.

15 Years of Crypto, Still No Use Case

Since the publication of the Bitcoin whitepaper in 2008, cryptocurrency developers have created thousands of cryptocurrencies. Together, these developers and their venture capital backers have spun a narrative that these projects would revolutionize everything in modern life from finance to the internet.

Yet, after more than 15 years since the creation of Bitcoin, and tens of billions of dollars in venture capital investment, the promised golden goose has yet to yield any golden eggs. In fact, not only has cryptocurrency come up empty on its promises, but it also is yet to be determined if any cryptocurrency will ever yield any substantive use case in the future. So far, its primary accomplishment has been to inflict excruciating losses on millions of investors who have seen billions of dollars disappear in fraudulent crypto schemes and ensuing bankruptcies, not to mention the companies and communities that have been victimized by ransomware.

Below are just a few of the many unfulfilled promises of cryptocurrencies over the past 15 years.

- *Cryptocurrency will enable decentralized financial transactions without the need for intermediaries*.
- *Cryptocurrencies will bank the unbanked and foster an inclusive financial system*.
- *Cryptocurrencies can be a more efficient payment mechanism*.
- *Cryptocurrencies will provide higher returns in your investment portfolio*.
- *Cryptocurrencies will serve as a hedge against inflation*.

Not a single one of these predictions has come true. This is something policymakers should keep in mind as they consider crypto industry claims.

A Lawless Industry

Crypto proponents argue for the uniqueness of their products, asserting that existing financial regulations do not apply to them. However, this claim is fundamentally flawed. The reality is that many crypto tokens fall squarely within the definitions of securities as established by law. Historical precedents show that industries attempting to sidestep regulation, whether through innovative financial products or technological advancements, have consistently failed to secure exemptions from the very laws designed to protect investors.

The argument against regulatory compliance is often couched in terms of innovation and progress. Yet, this narrative conveniently ignores the implications of a lawless financial landscape. Crypto exchanges find themselves embroiled in legal battles for operating as unregistered broker-dealers, custodians, and exchanges. They do not adhere to the decades-old compliance standards required of traditional financial institutions, undermining the trust that underpins our capital markets and putting investors at risk.

This raises a crucial question: Why is the crypto industry so opposed to being classified under existing securities laws?

The answer lies in the financial model that many crypto firms have embraced. Compliance with securities regulations would necessitate a major restructuring of their business practices. It would mean greater transparency, requiring companies to fully disclose risks associated with their products—an insurmountable hurdle for many in an industry that often thrives on speculative trading, money laundering, and criminal activity.

Moreover, imposing regulatory standards would reveal the inherent weaknesses of many crypto offerings. Without tangible business models or revenue streams, the value proposition of many tokens remains entirely speculative. Many investors are left to navigate a minefield of poorly understood products with little or no disclosure, often unaware that these investments are fundamentally unlike any other investments they may have. It is not an asset class and cannot be compared to other real assets subject to traditional analysis and evaluation.

Tool for Criminals

Other than for pure speculation and gambling, crypto is primarily a tool for criminals, terrorists, and rogue states like North Korea and Iran, enabling sanctions evasion for states like Russia, as well as tax evasion, money laundering for narco-terrorists and other criminals, as well as lying, cheating, stealing, and ripping off investors and customers.

The cost – and number of victims - of crypto-enabled scams continues to rise. The FBI released a report detailing more than 69,000 complaints regarding financial frauds involving crypto in 2023, with estimated losses totaling $5.6 billion. These schemes often involve the same, now-classic crypto tactics designed to take investors' money while enriching the promoters: the sale of unregistered securities; the false promise of huge returns; phony trading to manipulate prices; and a failure to protect and segregate investor funds, leading to outright theft. As a result, it's no wonder that the chair of the SEC has described cryptocurrency investments as "rife with fraud, scams, and abuse."

Influence Peddling

This election cycle the crypto industry intensified its lobbying efforts to pass legislation that would grant it legitimacy while avoiding any meaningful regulation. Following the collapse of FTX and the conviction of its former CEO, Sam Bankman-Fried, the industry aimed to influence Congress through significant financial contributions, raising hundreds of millions of dollars through various Super PACs.

The industry's strategy includes promoting favorable legislation while obscuring the negative implications of crypto from the public. Key Senate races, such as those involving Senators Sherrod Brown and Elizabeth Warren, were prime targets due to their independent stances against special interests. The increasing influence of the crypto sector poses risks to investor safety and overall financial stability.

Legislative efforts being pushed by the crypto industry are concerning, as they often favor minimal regulation, allowing for an expansion of crypto offerings that could endanger investors and financial markets. In Congress, there has been a surge in the introduction of bills designed to promote digital assets, with dedicated subcommittees in both the House Financial Services and House Agriculture Committees focusing on these issues. The support of lawmakers who have ties to the industry poses a threat to the integrity of financial regulation and could lead to an increase in scams and risky financial products.

Predatory Inclusion, Not Financial Inclusion

Crypto claims to be a source of financial inclusion, however the industry's track record shows how they have exploited the very people that they claim to benefit. Historically, minority groups in the U.S. have been subject to financial discrimination, exclusion, and exploitation through numerous practices including redlining, loan denials, and predatory lending. Crypto exploits these legitimate concerns and desire to close the wealth gap from minority communities.

Crypto markets are rife with fraud, volatility, and abuse. This ends up harming low- and moderate-income communities and investors who do not get financial inclusion, but instead are preyed upon by a crypto industry trying to take advantage of predatory inclusion. For example, the crypto industry targets minority communities by putting Bitcoin ATMs in disproportionately Black, Latino, and low-income communities, which charge high fees and only allows the purchasing, not sales, of Bitcoins.

For minority communities—often with limited financial resources and even less financial resilience—the risks of volatility and fraud can lead to devastating financial losses. What crypto frames as a pathway to financial empowerment too often becomes another avenue for exploitation.

Un-stablecoins

The short history of stablecoins has been characterized by instability, bank-like runs, and the evaporation of tens of billions of dollars in investor losses. The use of the moniker "stablecoin" has become a misnomer in that these financial products are anything but stable. A more appropriate name would be "unstablecoins" considering how susceptible they are to bank-like runs and how often they depeg from their "stable" value.

Stablecoins are remarkably similar to money market funds – an industry that had to be bailed out by the federal government in 2008 and 2020 after experiencing bank-like runs. And despite industry fantasies and talking points touting stablecoins as an innovative and inclusive form of payment, stablecoins have not lived up to the hype as a payment mechanism outside the unregulated crypto ecosystem. In fact, more than 80 percent of the trade volume on major centralized exchanges involves stablecoins – demonstrating that their primary use case is simply trading activity for no purpose other than the pursuit of speculative profit. However, despite their instability and lack of prowess as a form of payment, policymakers have debated codifying these money market fund-like products as a payment mechanism. For these reasons, regulators and policymakers should stop and consider the risks to investors, consumers, and the economy before legislating stablecoins into a form of payments.

Better Markets Resources:

Fact Sheet: Crypto's Predatory Targeting of Minority Communities (10/24/24)

Fact Sheet: Seven Questions on the Pro-Crypto, Anti-SEC Financial Innovation and Technology for the 21st Century Act (FIT 21) (6/11/24)

Op-ed: Congress must ask tough questions about crypto industry favored legislation (6/11/24)

Fact Sheet: Standing with Crypto Means Standing with Fraudsters (9/18/24)

Fact Sheet: Our Fact Sheet explains how crypto is an important tool used for criminal and terrorists, including Hamas. (10/25/23)

Report: Our team explained why crypto should be regulated by the SEC under the Howey Test to protect investors. (7/26/24)

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