SB Opening Statement – December 14, 2022

I call this hearing to order, and welcome our witnesses.

Today's hearing is in *a hybrid* format. Our witnesses are in-person and virtual, and Members have the option to appear either in-person or virtually.

First, I want to express my gratitude to the Department of Justice, the SEC, the CFTC, and the Bahamian authorities for taking this critical step to hold Sam Bankman-Fried accountable for his misdeeds. I'd also like to thank Ranking Member Toomey and his staff for working with me and my staff to try to secure Mr. Bankman-Fried's testimony.

I trust that Mr. Bankman-Fried will soon be brought to justice. It is clear he owes the American people an explanation.

Meanwhile, our job is to keep learning more about the collapses of FTX and other crypto firms, and work with regulators to put consumers—not the crypto industry—first.

This isn't just about crypto. This is about protecting the consumers and the regulated financial sector from bad actors who think rules don't apply to them.

Two and half years ago, I explained why I thought Facebook's Libra currency was dangerous.

At the time, Facebook was moving full steam ahead to create its own "currency" to impose on its billions of users.

Congress, regulators, and policymakers saw Facebook Libra for what it was: a shiny new tool Facebook could use to reach into Americans' pockets and profit from– no matter the risk to consumers or our economy.

Members of this Committee, and others in Congress, responded. Republicans and Democrats alike made it clear that Facebook couldn't be trusted, and our financial system was not to be played with.

The risk of a company creating its own currency to compete with the U.S. dollar was obvious.

Ultimately, Facebook shut down its crypto project, but this Committee's work to protect consumers continues. Even though Facebook shelved its crypto plans, in the last two and half years, the stablecoin market has grown five-fold to become a tool for rampant speculation.

The number of crypto tokens has exploded, even as the total value of all crypto assets fell by two-thirds in the last year.

In the past, I’ve noted the similarities that cryptocurrencies share with risky mortgage bonds and over-the-counter derivatives during the lead up to the financial crisis. In all these cases, they told us how great innovation is and how derivatives make markets efficient.

Wall Street made it easy for everyone to get a mortgage so bankers could create more mortgage bonds and increase profits. Making money in crypto seemed easy, too easy – every crypto token could double or triple in value in a matter of hours or days.

It didn't matter if it was created with vague details or as a joke – money poured in. But no one is laughing now.

The weekend before our stablecoin hearing last February, we saw crypto companies spending big money on Super Bowl ads to attract more customers and pump up crypto tokens.

Crypto, like Facebook's Libra before it, was the shiny tool that was supposed to capture our imagination and revolutionize our lives. Wealthy celebrity spokespeople told Americans, if you're not buying crypto, you're missing out.

Crypto platforms created dozens of investment products. Products that look and sound like bank deposits, and that used words like "lend" and "earn." Or tokens that resemble securities and have a "yield" or governance rights. Yet these products had none of the safeguards of bank deposits or securities.

Crypto firms, and their backers, argued that billions of dollars invested in lending programs, or earning yield, should be exempt from basic oversight and regulatory protections.

That's not how regulation works. The things that look and behave like securities, commodities, or banking products need to be regulated and supervised by the responsible agencies who serve consumers.

Crypto doesn't get a free pass because it's bright and shiny. Or because venture capitalists think it might change the world. Or its TV ads campaigns were witty and featured celebrities. Especially when so many consumers are at risk of losing their hard-earned money.

And that's before we even consider how crypto has ushered in a whole new dimension of fraud and threats to national security that support dangerous nation-states, embolden criminals, and finance terrorists.

North Korea uses crypto stolen in hacks to finance its ballistic missile programs. Human traffickers and drug cartels and gunrunners launder their proceeds using crypto assets, and some of these laundered funds end up bankrolling terrorists bent on undermining the United States.

The ability of rogue states, cyber criminals, and terrorists to use crypto for their own malign purposes is a feature of the technology. That's the point.

Crypto also has made it easier for fraudsters and scammers to steal consumers' money. Hacks and complex crypto transactions made it easy to steal billions of dollars of investors' money.

That's what we saw with FTX. That's what will continue as long as we allow crypto firms to write their own rules.

The myth of Sam Bankman-Fried and his crypto trading success was supposed to impress us.

We are still learning how he shuffled money between FTX and his trading firm, Alameda Research. A name calculated to sound as generic as possible to avoid raising eyebrows while sending money across the world.

FTX and Alameda Research took advantage of the crypto industry's appetite for speculation. They were able to borrow and lend from other platforms and invest in other crypto firms – inflating the crypto ecosystem and growing their own profits.

Even this summer as crypto values crashed and platforms began to fail, FTX and Alameda found ways to benefit. In one case, FTX made a $250 million loan to a platform using its proprietary token, and Alameda borrowed client deposits worth more than twice that from the platform.

All the while, venture capitalists and other big investors fell for it. They were caught up in the speculative frenzy, missed the red flags at FTX, and showered Mr. Bankman-Fried with money. And now it is all most likely gone.

It's no surprise that in 2018, Alameda solicited investors by guaranteeing 15% returns with quote "no downside." That's more than the guaranteed 11% that Bernie Madoff offered.

With Madoff and with Sam Bankman-Fried, investors didn't ask questions for fear of missing out. It's a good reminder that most guaranteed investments are too good to be true.

In this story, Sam Bankman-Fried was also the shiny object. Now he's the villain, possibly worse. But this story is bigger than one person or even one firm.

This is not just about misconduct at FTX, but about how to protect consumers and the financial system from unregulated crypto products.

For many investors, it might be too late. I've heard from Ohioans who have money stuck at FTX.US – that they tried to get out before it filed for bankruptcy. But despite Mr. Bankman-Fried's assertions that the U.S. side of FTX should be fine, the court proceedings are likely to drag on.

If we are going to learn from FTX's meltdown, we must look closely at the risks from conflicts at crypto platforms that combine multiple functions.

It means thinking about the kinds of disclosure that consumers and investors really need to understand how a token or crypto platform works. We can look to existing banking and securities laws for time-tested approaches to oversee and examine entities that want Americans to trust them with their money.

To protect consumers and the financial system we need a comprehensive framework that looks at crypto products for what they are, not what crypto executives want them to be.

I look forward to working with Treasury Secretary Yellen and all the financial regulators to ensure there is an all of government approach – just as we've done in the past. Anything less just won't work.

Ranking Member Toomey.