

Testimony of Mr. Kevin O’Leary
U.S. Senate Committee on Banking, Housing and Urban Affairs
“Crypto Crash: Why the FTX Bubble Burst and the Harm to Consumers.”
December 14, 2022

Chairman Brown, Ranking Member Toomey, and members of the Committee, thank you for inviting me to testify about crypto and the collapse of FTX.

I am the Chairman of O’Shares, an ETF indexing firm and also a private equity and venture investor. I support entrepreneurs at every stage of their journeys. I have dozens of family-run businesses in our investment portfolios. My extensive social media platform enables me to tell the stories of their products and services to help reduce their customer acquisition costs. It is a model that has worked well for over a decade and helped support so many small American businesses, which create over 60% of jobs in the American economy.

In 2017, I was a public critic and skeptic of crypto and blockchain technology. After observing the extraordinary advances in these technologies and watching the amount of intellectual capital that was being invested in them and the innovation they were producing, I completely reversed my position. I am now of the opinion that crypto, blockchain technology and digital payment systems will be the twelfth sector of the S&P within a decade. Today, I am a shareholder in multiple companies involved in crypto technology, including WonderFi/BitBuy, the largest and first regulated broker/dealer crypto exchange in Canada, Immutable Holdings, a developer of NFT technology, and Circle, the company that brought USDC stablecoin to market. I have also invested in multiple crypto tokens, infrastructure and Level 1 and Level 2 blockchains.

Many of these technologies are going to disrupt the existing financial services sector with faster, more efficient, more productive and more secure ways of investing, paying, transferring and tracking assets. If properly regulated and implemented, they will undoubtedly make the entire American economy more competitive and productive.

As you are aware, Bitcoin - a store of value - is not a coin, it is software. Ethereum is software. Blockchain is software. In the last thirty years every American enterprise has driven major efficiencies using various versions of enterprise software and crypto is no different. The potential of these crypto technologies is astronomical in scale.

In August of 2021, nearly 3 years after I started allocating capital to the crypto sector, I entered into an agreement with FTX to be a paid spokesperson. I was paid approximately \$15 million for these services; plus approximately \$3 million to cover a portion of the taxes due. Of the remaining amount approximately \$1 million was invested in FTX equity and approximately \$10 million in tokens held in FTX wallets. The equity is now most likely worthless and the accounts have been stripped of their assets and financial records. I have written them off to zero. Because I was a paid spokesperson, I never invested any capital from our partners or LPs. The capital lost was from an operating company that I had 100% ownership in.

I am using my own capital to pursue record recovery of the FTX accounts so that I can conduct a forensic audit. The truth of this situation will be discovered by following the transaction trail after obtaining the records. I have applied for membership on the FTX creditors' committee, in connection with the bankruptcy proceedings, because I feel obligated to pursue the facts on behalf of all stakeholders and believe my perspective of this situation will be helpful to the other creditors' committee members.

The collapse of FTX is nothing new. While this situation is painful for shareholders, employees and account holders, in the long run, it does not change this industry's promise. Enron came and went and had no impact on the energy markets. Bear Stearns and Lehman Brothers demise had no impact on the *long term* potential of American debt and equity markets.

I am only one of many investors that has experienced this loss. However, this changes nothing in terms of the potential of crypto. In fact, the recent collapse of crypto companies has a silver lining. This nascent industry is culling its herd. Going or gone are the inexperienced or incompetent managers, weak business models and rogue unregulated operators. Hopefully, these highly publicized events will put renewed focus on implementing domestic regulation that has been stalled for years. Other jurisdictions have already implemented such policies and are now attracting both investment capital and highly skilled talent. In the U.S., we are falling behind and losing our leadership position.

I guest lecture graduating cohorts of engineers all across the country because approximately a third of each class will start their own company. Where do they want to work? On blockchain technology and the new emerging digital economy. These are the best and brightest hands over keyboards. I ask you to consider this: how is it possible to invest this much intellectual capital into a sector, and not expect extraordinary outcomes in the future? Now is the time to embrace the potential of crypto, regulate it, and allow its potential to be fully realized for the benefit of the entire economy.

I understand why many leaders in the banking industry are open skeptics, calling for the banning of these new crypto software technologies. Disruption is always uncomfortable at first, and entrenched businesses abhor new competition, but it has been proven time and time again that disruption is absolutely necessary in advancing the economy.

There is the risk of investing in crypto and there is also the risk of not investing in it and letting others accrue its benefits first, essentially gifting them a competitive advantage that could be hard to recapture.

So where to start? We need clear policy and regulation for the crypto industry, its entrepreneurs, its developers and its users. Congress should start by passing bipartisan legislation that creates a sensible regulatory framework for digital stablecoins backed by the U.S. dollar. Why? A well-regulated stablecoin backed by the U.S. dollar and other high quality, liquid assets could become the global default payment system over time.

The U.S. dollar already denominates the price of oil and other commodities, why not everything else? What could be more bipartisan?

Let me close with this: we need to get to the bottom of what happened at FTX, but we can't let its collapse cause us to abandon the great promise and potential of crypto.

Kevin O'Leary