Statement for the Record
House Financial Services Committee
Digital Assets, Financial Technology and Inclusion Subcommittee Hearing
"Coincidence or Coordinated? The Administration's Attack on the Digital Asset Ecosystem"

March 9, 2023

Dear Chairman McHenry, Ranking Member Waters, Subcommittee Chair Hill, and Ranking Subcommittee Member Lynch,

On behalf of Americans for Financial Reform and Demand Progress, we submit this letter for the record in connection with House Financial Service Committee's Subcommittee on Digital Assets, Financial Technology and Inclusion Hearing on digital assets taking place today. We urge the Committee to pursue meaningful oversight of and accountability for the crypto industry, and to abandon measures that would instead weaken such efforts, in the name of dubious claims about crypto's potential for financial innovation.

1. The Crypto Industry's Failure is Largely Its Own Fault

Crypto industry representatives and their allies in Congress have been quick to suggest that the massive crypto market failure that began in 2022 and continues today is primarily the fault of a few bad actors within the industry and regulators who did not provide "regulatory clarity" for crypto firms and who also failed to act quickly and decisively enough to prevent the market's collapse.

Some of these claims, which come from not only industry voices but by policymakers in this body, verge on conspiratorial, accusing regulators of collusion with both legacy financial institutions and now infamous players within the crypto space.[1] This is bitterly ironic, given that some of the policy makers making these claims were, at the height of the crypto bull market and just before the crash, actively seeking to impede SEC investigations and oversight into the actions of firms like FTX.[2]

The lion's share of responsibility for the crash lies with the industry. It seems strange to have to provide a reminder of this point, but the crypto crash has eliminated roughly $2 trillion in investors' assets; caught up millions of investors in prolonged bankruptcy proceedings with

[1] https://cointelegraph.com/news/republican-lawmaker-claims-sec-chair-was-coordinating-with-ftx-to-obtain-regulatory-monopoly
[2] https://prospect.org/power/congressmembers-tried-to-stop-secs-inquiry-into-ftx/

little hope of full redemption; illustrated the poor custody practices – or outright theft – practiced by many crypto platforms; exposed the deeply interconnected relationships between various crypto firms which, in turn, point to rampant conflicts of interest; demonstrated how many firms were overleveraged and under-capitalized; and revealed woeful due diligence on the part of both venture capital, private market and institutional investors exposed to crypto markets – just to name a few issues. The problems raised here are business and financial regulation 101 – traditional financial firms and businesses of many kinds navigate these requirements every day. These are fundamental failures of industry practice.

If that were not enough, however, we only have to look at the ongoing systemic problems in the industry **right now** to once again recognize how deep the governance, compliance and performance problems go in the crypto sector.

Just in the past **two weeks**, more details have emerged pointing to widespread misdeeds by industry leaders.

- The SEC charges filed against Terra founder Do Kwon allege that Terra, the once popular algorithmic stablecoin highly touted by crypto industry players and backers, may have **never actually been** a legitimate stablecoin, and that instead a third party may have helped to prop up the coin to make it look like it was one.[3]
- An investigative report from the *Wall Street Journal* (WSJ) published this past Saturday alleges that **Tether** – **the most widely used stablecoin in the crypto industry, with a past record of wrongdoing and suspicious activity** – falsified documents and used shell companies to secure bank accounts, in some cases using third party names and entities linked to money laundering.[4]
- Another recent investigation by the *WSJ* alleges that **Binance** executives created a plan to 'neutralize US authorities' in part to avoid or mitigate regulatory scrutiny. This alleged plan involved the creation of US legal entities, including Binance.US, to create the appearance of an independent business, despite the fact that ownership and control of the entity was deeply intertwined with the parent company.[5]
- Meanwhile, also this past week, a *Forbes* magazine investigation claims Binance moved $1.8 billion of collateral meant to back its customers stablecoins last year and put those assets to other undisclosed uses, leaving those assets unbacked for a period of months. This was despite claims by the firm that those assets were 100% backed, and observers say this practice is "eerily" similar to similar actions taken by FTX.[6]

---

[3] https://decrypt.co/121575/sec-files-lawsuit-against-terraform-labs-and-founder-do-kwon
[4] https://www.wsj.com/articles/crypto-companies-behind-tether-used-falsified-documents-and-shell-companies-to-get-bank-accounts-f798b0a5?mod=mhp&s=03
[5] https://www.wsj.com/articles/texts-from-crypto-giant-binance-reveal-plan-to-elude-u-s-authorities-3a17ddeb
[6] https://www.forbes.com/sites/javierpaz/2023/02/27/binances-asset-shuffling-eerily-similar-to-maneuvers-by-ftx/?sh=14d12078bccd

- Binance is also facing likely fines and penalties from the DOJ as a result of its alleged violations of anti-money laundering laws.[7] This doesn't come as a surprise; a *Reuters* investigation from June 2022 alleged that for a period of five years from 2017 to 2021, Binance served as a conduit for the laundering of at least $2.35 billion in illicit funds, stemming from hacks, investment frauds and illegal drug sales.[8]
- Voyager Digital's Unsecured Creditors' Committee filed a report in bankruptcy proceedings this past week that examined Voyager's lending practices. The report asserted that a major reason the company became insolvent was because of a single unsecured loan made to now defunct crypto hedge fund Three Arrows Capital - one that was over a quarter of their loan book. The loan was made March 8, 2022, just two months before the Terra-Luna collapse. Voyager's leadership reportedly knew they were embarking on risky lending strategy, yet the due diligence on 3AC allegedly amounted to a single-sentence statement of 3AC's net asset value and a half hour phone call.[9]
- A profile in *Forbes* magazine of a lawsuit filed by wealthy tech founder Ryan Breslow lays out how Breslow hired a developer previously convicted of federal wire fraud and money laundering charges to engineer a new crypto protect called Movement DAO - a decentralized autonomous organization that Breslow and his co-founders created to be a "community-run platform for funding social impact causes." Breslow is suing developer Mark Philips – who was given high levels of access to the platform – for the alleged theft of more than two-thirds ($10 million+) of seed funding invested in the program, which disappeared earlier this year. Phillips has dismissed the allegations and has claimed instead it was Breslow that sought to "pull the rug [e.g., rip off] on Movement."[10]

Voyager, Tether, Celsius, FTX, Terra Luna, 3AC, BlockFi, Nexo – these firms are not obscure, fringe elements of an otherwise upstanding crypto industry. These firms arguably **are** the industry, or at the very least, major stars in its firmament.

For policymakers and other stakeholders to have an effective and reasonable discussion about the proper regulatory response to the problems and failures of the crypto industry, it starts with the industry taking full responsibility for its actions, and not finger-pointing at regulators.

2. The SEC and Banking Regulators Have Approached Crypto Regulation in Sound Manner

Regulatory agencies are fallible and can be slow to respond to fast moving developments, regardless of the context. They also often have competing priorities – in the case of financial

---

[7] https://www.coindesk.com/policy/2023/02/16/binance-bracing-itself-for-fines-from-us-regulators-to-settle-past-conduct-wsj/
[8] https://www.reuters.com/investigates/special-report/fintech-crypto-binance-dirtymoney
[9] https://amycastor.com/2023/03/04/crypto-collapse-silvergate-implosion-continues-signature-bank-tether-lied-to-banks-voyager-celsius/
[10] https://www.forbes.com/sites/iainmartin/2023/03/03/ryan-breslow-bolt-convicted-fraudster-movement-dao-lawsuit/?sh=3fc6878b9f70&s=03

markets for example, market regulators have the dual objective of providing protection for investors while also creating clear rules of the road that facilitate capital formation. Regulators are also often famously underfunded – in part thanks to a decades-long effort by some in Congress to defund and marginalize regulatory agencies' efforts to provide meaningful and effective oversight and accountability.

Despite these challenges, we would argue that the SEC and banking regulators have taken meaningful and effective steps to protect investors (particularly investors outside of or adjacent to crypto markets, which comprise a much larger pool of investors), financial systems and markets from the obvious risks present with the crypto industry.

A number of organizations and experts have enumerated in detail several steps that the SEC in particular has taken to appropriately and effectively regulate crypto actors, enforce securities laws, and protect investors. We've attached links and excerpts to a few of those papers to this statement as an appendix for further review by policy makers. But in short, the SEC:

- As of January 18, 2023, has brought 127 successful enforcement actions (and more since that date) against actors in the crypto space that were out of compliance.
- Issued an Investors Alert on "Ponzi Schemes Using Virtual Currencies" in 2013, and another alert in 2014 on "Bitcoin and Other Virtual Currency-Related Investments."
- In 2017, released a Section 21a report of an investigation into The DAO, concluding the tokens the firm offered met the Howey Test, clearly communicating the agency's understanding that those who would use a DAO (decentralized autonomous organizations) or distributed ledger technology to raise capital should ensure compliance with securities laws.
- In 2019, released a "Framework for Investment Contract Analysis of Digital Assets," providing details on when a digital asset has the characteristics of an investment contract.
- In multiple speeches, testimony, and official Commission statement, SEC Chair Gensler has raised concerns about the risks associated with crypto platforms, and consistently conveyed the Commission's view that most crypto assets are securities or operating out of compliance with securities law, and that firms should seek to register.[11]

Moreover, the approach the SEC is taking now has merit. The crypto sector has at one count over 12,000 individual tokens that have been issued and are being traded (and that may be an undercount);[12] to effectively hold each token issuer's hand as they go through the registration process (assuming that's even appropriate) would take more than the full roster of employees retained by the SEC overall. In contrast, most crypto trading and investment activity takes place

[11] For a more detailed analysis of the SEC's record on regulatory guidance and enforcement with respect to crypto assets, please see the testimony of Lee Reiners (Policy Director, Duke Financial Economics Center) before the Senate Banking Committee in January 2023 - https://www.banking.senate.gov/imo/media/doc/Reiners%20Testimony%202-14-23.pdf
[12] https://www.fool.com/investing/stock-market/market-sectors/financials/cryptocurrency-stocks/how-many-cryptocurrencies-are-there/

on a handful of major crypto exchanges. Those exchanges, being mostly vertically integrated, also often provide brokerage services and clearinghouse services as well. The exchanges are the on-ramp and off-ramp for most tokens seeking buyers or products seeking investors. And these exchanges – as we've seen with FTX and others – present some of the most potent vulnerabilities when comes to investor protection, disclosure, market fairness and stability risks.

Hence, the ramped-up focus by the SEC on exchanges and firms providing ersatz brokerage services is a more efficient and strategic approach to ensuring system-wide change in the industry. If exchanges are obliged to register and meet existing standards, their adoption of such standards would force token issuers and other crypto market participants to adhere to their standards in return.

3. The industry is measuring itself with a private markets yardstick – not a public markets one

Industry voices claim that the process to become a registered exchange or securities issuer is difficult and onerous. The reality is that, to a certain extent, it should be. The rules governing those listing and registration processes have been hammered out over a century of financial crises and responses. Issuing an investment product to the general public, with the support of financial regulators, SROs and other assistance from the US government, should require rigorous standards to be met.

Meanwhile, many crypto firms are accustomed to operating in a private markets offering context, where standards are less rigorous – and where we and other public interest organizations have warned such less rigorous standards have created conditions that have allowed private market actors to conduct a range of risky and unethical business practices that are harming investors, ordinary Americans and our financial system as a whole.

The reality is that many crypto asset issuers and actors, under current conditions, would struggle to meet the standards required for public listing. The registration requirements alone would require greater disclosures, more financial reporting and auditing, greater details and vetting of issuers' management and governance practices, and more sober, detailed analysis of a product's essential value and inherent risks. But, when the industry culture is dominated by products that are created overnight, issued with white papers that are vague, grandiose and replete with industry specific, self-referential jargon (not standardized terms), the problem is not the registration requirements, it's the industry's ability to meet them.

4. The Legislative Proposals Considered in the Hearing Are Deregulatory in Nature and Are A Step Backwards for Investor and Consumer Protection and Financial Safety and Stability

On January 23, 2023, Committee Chair McHenry was quoted, in response to questions about the recent crypto crash, "We have a massive number of fraudsters that are acting in this space, and we have little regulatory clarity, and little clarity under law."[13] During a December 2022 hearing to examine the collapse of FTX, in reference to the over one million creditors negatively impacted by that collapse, Subcommittee Chair Hill said, "Americans were hurt. And I want everyone listening to know in today's hearing that this is just the first step that Congress is taking to get an understanding of what happened and how to create the appropriate regulatory environment."[14]

One could view these statements as recognition that more needs to be done to protect investors from fraud and harm found within crypto markets. Yet, the bills proposed by the Committee's Republican leadership today seem to move in the opposite direction. Each of these bills appear largely deregulatory in nature. We are deeply concerned that these measures could weaken, not strengthen, oversight for the crypto industry, and enable further harm and abuse in this sector.

The Keep Your Coins Act, sponsored by Rep. Davidson (R-Oh.), would effectively prohibit regulators from overseeing the use of self-hosted crypto wallets for transactions dealing with goods and services. The rationale for this bill is to protect consumers' privacy when conducting regular business and differentiate 'ordinary' transactions from ones associated with investment activity. But it's possible that if this bill were passed, it would be more difficult for regulators to use consumer protection laws such as the Electronic Funds Transfer Act to protect and assist consumers that are victims of fraudulent transactions or scams that involve such wallets (which in many case perform functions similar to bank accounts, not actual wallets). This is critically important given the high frequency of scams already found in crypto markets. It's also possible other large non-bank payment platforms such as Venmo or PayPal might use this self-custodied wallet carve-out to avoid compliance with consumer protection laws, which could impact millions of consumers, even those who haven't even touched crypto. The bill may also allow bad actors to more easily use self-custodied wallets to bypass or undermine anti-money laundering due diligence requirements.

The Financial Technology Protection Act would create an interagency working group to 'study' the intersection between financial technology and illicit finance. Such a study presents as a neutral exploration of this intersection, but we fear this is proposal may be more of a stall tactic to delay or diffuse crypto platforms' compliance with basic anti-money laundering/know your customer rules.

Many actors in the crypto space are or have been found out of compliance with these rules. For example, major US crypto exchange Coinbase recently reached a $100 million settlement with the New York Department of Financial Services after the agency found the platform let customers open accounts without conducting sufficient AML/KYC background checks.[15] Major

---

[13] https://www.ny1.com/nyc/all-boroughs/politics/2023/01/24/--it-was-a-wild-week---rep--mchenry-recounts-tumultuous-speaker-vote

[14] Quote from PoliticoPro Transcription of House Financial Services Committee Hearing "Investigating the Collapse of FTX, Part I," December 13, 2022.

[15] https://www.nytimes.com/2023/01/04/business/coinbase-settlement-anti-money-laundering.html

platform Binance is under investigation by the Department of Justice for what may likely be similar violations,[16] and has been accused of more widespread AML violations and failures by a bipartisan group of Senators earlier this month.[17] Our concern is that this study would simply "kick the can down the road" with regard to ensuring crypto platforms are abiding by basic AML requirements, making it easier for bad actors that exploit crypto platforms for the purposes of laundering illicit funds to continue with business as usual.

The Keep innovation in America Act, sponsored by Rep. McHenry (R-N.C.), seeks to rescind tax rules laid out in the recently adopted Infrastructure and Investment Jobs Act, which clarified that anyone acting as a broker involved in the sales or trading of digital assets, including so-called crypto miners, must report the same tax information as brokers dealing in other more traditional assets.

This change in the tax law was both fair and necessary. Crypto miners – largely firms that pool computing resources to 'validate' transactions on the blockchain using energy intensive computing processes – often argue that they don't qualify as 'financial intermediaries' because they are simply validating transactions, not acting as brokers or other intermediaries. But those claims don't hold up well under scrutiny. For example, a June 2022 analysis conducted by the Bank of International Settlements showed that, since miners 'choose' which transactions are added to the ledger and in what order (and are sometimes even paid to move certain transactions to the front of the line) they are acting as intermediaries in these financial transactions and sometimes may even be engaging in a form of market manipulation.[18] This and other examples make the case that if miners are facilitating trades that result in taxable income for market participants, like other intermediaries, it's only fair that they have similar reporting obligations.

What is more, individuals who invest in crypto and earn income or capital gains as a result need reliable information from the third parties that facilitate crypto transactions – just as they would from more conventional financial institutions – or else they risk failing to comply with their own tax reporting obligations.

Lastly, the link between crypto and tax evasion is a strong one. A Barclays analysis from 2022 showed there maybe a $50 billion a year more tax gap in the U.S. as result of nonpayment of taxes owed on crypto transactions.[19] Better tax reporting would help close this gap, simply by

---

[16] https://www.reuters.com/markets/us/us-justice-dept-is-split-over-charging-binance-crypto-world-falters-sources-2022-12-12/

[17] https://www.investors.com/news/binance-accused-of-money-laundering-criminal-activity-by-senators-bitcoin-retreats/#:~:text=Binance%20Alleged%20Charges&text=Over%20the%20course%20of%20three,by%20Binance%20CEO%20Changpeng%20Zhao.%22

[18] https://www.bis.org/publ/bisbull58.htm

[19]

https://www.cnbc.com/2022/05/18/irs-may-be-missing-out-on-50-billion-dollars-a-year-in-unpaid-crypto-ensuring that taxpayers who benefit from cryptocurrency investments pay what they owe. Yet, this bill would likely weaken or narrow these definitions and tax reporting obligations, allowing crypto miners and validators to avoid tax reporting obligations, likely making it easier for tax evaders to evade the law and harder for honest crypto investors to abide by it.

The Blockchain Regulatory Certainty Act, sponsored by Rep. Emmer (R-Minn.) would prohibit or restrict financial regulatory oversight of software designers or developers who create blockchain protocols that facilitate crypto finance. We have serious concerns about this legislation, which could amount to a fin reg "get out of jail free" card for decentralized finance. There are certainly serious conversations to be had about the tension between protecting code if or when it amounts to an expression of speech while also ensuring software developers can't just write code that is directly intended to facilitate potentially risky financial transactions, including illicit ones, and simply wash their hands and pretend they have little or no responsibility for the outcome.

This bill is not grounded in that serious conversation; it appears to be a blanket carve out for the DeFi industry, which faces serious problems with hacks, scams and financial instability despite the industry insisting DeFi can "solve" the problems of centralized finance with technology. Furthermore, it's possible this bill would undermine existing financial regulations for traditional finance; it's not hard to see how the bill's vague language and broad definitions would invite traditional financial companies that use or develop software to conduct hi-frequency trading strategies to seek similar exemption under this law.

Lastly, the proposed **Resolution expressing Congressional support for blockchain technology and digital assets** is breathtaking in its demonstration of selective memory. The ink isn't even dry on the various indictments levied at Sam Bankman-Fried and his alleged co-conspirators. More criminal actions against other major players in the crypto industry are underway or are likely coming. Millions of investors and creditors have individually lost significant amounts of money as the result of this malfeasance; many have lost it all. Major players in the industry have failed to meet even elementary investor protection standards. None of this should elicit confidence in the crypto industry's record, yet Members of Congress are introducing this resolution, as if the ongoing crypto collapse is already a distant memory. Imagine if, in early 2009, Members of Congress decided to issue a resolution expressing support for the underlying innovative potential of sub-prime lending?

The technological potential of blockchain is also highly contested. Many of the use cases for crypto have so far failed to deliver on their promises, and there is division in the computer engineering world as to whether blockchain's structural limitations can be overcome, or are worth investing in, given the existence of products that provide the same benefits without the same drawbacks. As one example, in June 2022 more than 1500 technologists with expertise in

taxes.html#:~:text=In%20a%20new%20analysis%20released,as%20%2450%20billion%20per%20year.

computer science and engineering sent a letter to Congress expressing serious doubts about the technology's risks and potential:

> "By its very design, blockchain technology is poorly suited for just about every purpose currently touted as a present or potential source of public benefit. From its inception, this technology has been a solution in search of a problem and has now latched onto concepts such as financial inclusion and data transparency to justify its existence, despite far better solutions to these issues already in use."[20]

The crypto industry has thus far largely failed to deliver on its promises to provide a more fair, safe, efficient, and equitable way for people to engage in financial activities, and instead has facilitated widespread fraud and abuse that has harmed millions of investors and consumers. Instead of taking full responsibility for this failure and working constructively with policymakers to pursue fair and consistent ways of complying with existing rules that protect consumers and investors, the industry has for the most part pursued a strategy of laying blame at the feet of everyone else – regulators, a "few bad apples", legacy financial institutions, or policy makers that just don't "get it". Unfortunately, some in Congress are playing the same tune, and if it continues, it will be consumers and investors that will be harmed again by Congress' failure to hold bad actors in this industry accountable and truly address the systemic harms and failures in this industry.

Instead of proposing deregulatory legislative measures that would weaken oversight of this industry, Member of this Committee and Congress in general should support effective efforts by the SEC, major banking regulators and others to hold the line and oblige crypto industry players to come into compliance with existing financial regulatory measures. One means of offering such support would be for Congress to provide significant increased funding for financial regulatory agencies to deal with the fallout of the crypto collapse.

We thank you for taking these comments into consideration and would be happy to respond to any questions or comments Committee members might have in response.

Sincerely,

Mark Hays
Senior Policy Analyst
Americans for Financial Reform
markhays@ourfinancialsecurity.org

---

[20] https://concerned.tech/

Appendix: Selected Resources on Regulatory Response to Crypto Firms Non-Compliance and Other Themes

Gensler Got it Right – The American Economic Liberties Project

Synopsis: This piece argues that, while the SEC has been criticized for not taking enough action against the crypto industry, the reality is that they have done more than they are given credit for. Under Chair Gensler, the SEC has attempted to crack down on some of the abuses with the crypto currency space. The crypto industry claims that crypto can serve as a functional currency, but it has been largely used as a speculative investment. However, unlike other securities, crypto's value comes from no real economic activity and faces minimal regulation compared to other securities.

To start, the agency, in coordination with banking regulators, has largely kept crypto out of the banking system, potentially preventing a future financial crisis related to crypto. The SEC has also maintained a consistent requirement for all commodity- trust- exchange traded products, which prevented Greyscale and other crypto companies from creating a Bitcoin spot ETF. Gensler has continued to make crypto enforcement a priority and has gone after its largest players. This includes the prevention of crypto lending products entering the market, and an ongoing investigation into Terra and its Terra/Luna coins, and the company's founder Do Kwon. Since the publication of this article, the SEC has charged Do Kwon in federal court for defrauding investors. The SEC has also prevented crypto companies from entering the public stock market and has fought against light touch regulation of the crypto industry, pointing out that this would undermine securities law and the authority of the SEC.

US Regulators are Cleaning Up the Crypto Industry – The American Economic Liberties Project

Synopsis: This article provides an argument for why, by using existing laws, the SEC and other financial regulators have taken a decisive step in regulating crypto. While the SEC has taken a leading role, they are joined by the Fed, FDIC, and the Office of the Comptroller of the Currency in highlighting the potential risks that crypto has to the financial system. These risks include: fraud, scams, significant volatility, institutional mismanagement, misleading and false advertising, among other claims. The SEC has taken action against multiple crypto firms in the past few months. It shut down Kraken's staking program, as well as Genesis and Gemini for an illegal crypto lending program. The Federal Reserve also issued a policy statement discouraging banks from working with crypto assets and denied a crypto firm membership in the Federal Reserve system.

Why "SEC Regulation by Enforcement" is a Bogus Big Crypto Catchphrase – John Reed Stark:

Synopsis: This extensive piece argues that the phrase "regulation by enforcement" misrepresents the way in which the SEC goes about securities regulation in general, and in particular how the SEC has used existing securities law and regulatory guidance to appropriately oversee the crypto sector. Securities regulation is principles-based, with broad definitions and has often been formed through litigation. This allows the SEC to be flexible to new technologies and products as they arise and enforce regulation as the financial landscape changes. The crypto industry has decried this practice as "regulation by enforcement" saying that it will stifle innovation and that regulation needs to be created that is specific to crypto. Chair Gensler has pushed back against this claim, saying that crypto firms can come talk to the SEC and has clearly implied he believes most cryptocurrencies are securities and should be regulated as such. The principles-based approach of securities regulation is what allows securities regulation to work, and that, "The flexibility of SEC statutory weaponry is an SEC hallmark, enabling SEC enforcement to keep fraud in check. "The piece then goes on to evaluate in detail some of the legal details of various SEC enforcement actions and litigation, ultimately making a case for why the enforcement actions levied against crypto platforms are an appropriate regulatory response to an industry that is largely out of compliance with existing securities laws and regulations.

The SEC's Excellent Record on Crypto: Regulation and Enforcement – Better Markets

Synopsis: This report argues that the SEC has an excellent track record when it comes to regulating the crypto industry. The SEC has consistently worked to enforce laws that all other US financial companies are already required to follow and has issued new guidance related to cryptocurrency and digital assets. Despite these efforts, the SEC has faced criticism from all sides for its actions, both for being overbearing in its enforcement and for not doing enough of it. The SEC has managed to do all this while facing significant challenges including: underfunding, low staffing levels, and fierce opposition from the crypto industry.

Debunking the Narratives about Cryptocurrency and Financial Inclusion – Tonantzin Carmona, Brookings Institution

Synopsis: This piece analyzes the claims made by the crypto industry regarding its potential for fostering financial inclusion, versus the reality of how many crypto products either fail to address barriers to financial inclusion or mimic the injustices found within the traditional financial sector. Many people, including people and communities of color, as well as those with low-incomes, face a chronic lack of access to affordable and fair financial services and products. This is a major concern that policy makers should work to address, especially since studies have shown that these groups have less trust in traditional financial institutions, due to the endemic racism and other forms of injustice that are found throughout this system.

This state of affairs has created an opening for the crypto industry to try to fill the gaps, presenting themselves and the potential of their technology as a solution for these communities. However, this paper argues that there is a crucial difference between the current state of crypto and its potential. In its current state, crypto could have an outsized negative impact on the communities it purports to want to help and is still largely inaccessible to them.

The crypto industry has two main arguments for its potential: One, that crypto will provide easy access to financial services; and two, that crypto can help marginalized investors and communities build wealth in a more accessible and equitable way.

The problem with the first argument is that crypto's volatile qualities make investments risky for many participants, a poor choice for payment services, and that in most cases investors need access to banking services anyway to engage in crypto related activities. The challenge with the second argument is that crypto's volatility, poor business practices and lack of meaningful regulation means that investors from marginalized communities are being exposed to high levels of risks with less protection and with less financial cushion than more affluent, white investors. This means that crypto may be serving as more of a form of 'predatory' financial inclusion than as a more equitable pathway to wealth. The paper explores these claims in more detail.