Chairman Brown Opening Statement – February 14, 2023

What a difference a year makes.

Go back to last year's Super Bowl. The cryptocurrency industry spent a whopping $54 million on eight ads, promising Americans untold riches and the chance to make history. Of course, they didn't tell us about the high fees, risk of loss, and outright theft that plagued the crypto industry.

But if you watched the Super Bowl two nights ago, you didn't see a single ad for crypto.

The cryptocurrency industry has imploded. In 2022, the crypto market lost $1.46 trillion in value. Hackers and fraudsters – often tied to the regimes in Pyongyang and Moscow – have stolen over $3 billion. Crypto firms have slashed over 1,600 jobs.

And as crypto values crashed last year, platforms began collapsing, creating more losses across the rest of the crypto ecosystem. The crypto firms that are left have had to halt customer withdrawals, freezing people out from their own money.

While crypto contagion didn't infect the broader financial system, we saw glimpses of the damage it could have done if crypto migrated into the banking system. And the handful of banks with close ties to the crypto industry have needed liquidity lifelines after they suffered large withdrawals.

This nightmare isn't over yet – we are still learning the full extent of the fallout from the FTX collapse. In December, this Committee heard about the excessive risk taking and misconduct at FTX. The customers who lost money are only now understanding the reality of the products they were sold.

As these crypto firms filed for bankruptcy, regulators, and policymakers have also learned how out-of-control some of those businesses were.

They were over-leveraged and undercapitalized. They had no internal risk controls. They were careless with customers' money. In the case of FTX, they used it to line their own pockets. Now the money of millions of Americans is trapped and they might never get it back.

Last year I warned that the splashy Super Bowl ads left out key details. A year ago, I said:

- Big crypto companies are looking to make big profits and are desperate to reach as many Americans as they can. They brought in celebrities and gimmicks to make crypto sound exciting and daring…and profitable.

- But the ads left a few things out.

- They didn't mention the fraud, scams, and outright theft.

- The ads didn't point out that you can lose big in crypto's huge price swings. They didn't tell you about the high fees pocketed by the crypto companies.

- And they sure didn't explain that crypto markets lack basic investor protections and oversight.

The results were as predictable as they are tragic. And contrary to crypto evangelists' claims of democratizing finance, it's not the early adopters or big money investors who are left holding the bag. When it comes to crypto, it turns out fortune doesn't favor the brave – it favors wealthy insiders.

This isn't just about a few bad actors that didn't do things the right way.

These crypto catastrophes have exposed what many of us already knew: digital assets – cryptocurrencies, stablecoins, and investment tokens – are speculative products run by reckless companies that put Americans' hard-earned money at risk. Not surprising from an industry that was created to skirt the rules.

Whether it's Facebook Libra or the explosion of crypto, I've always been concerned about shiny new products that really just offer another way to profit off the backs of working Americans while threatening the real economy.

It's time now to consider how to protect consumers from unregulated digital assets, and ultimately, who we want our financial system to serve.

Last Congress, this Committee examined the risks of cryptocurrencies to our economy, explored the mechanics behind stablecoin companies, and looked at how regulators and Congress can protect consumers.

We learned how crypto can be used to commit crimes like drug running and human trafficking, which threaten our national security and help fund terrorists and rogue regimes. We looked at how fraud and speculation in the crypto market hurt investors and savers.

Recent crypto meltdowns have made clear that we need a comprehensive framework to regulate crypto products to protect consumers and our financial system.

Today, we'll examine how time-tested financial safeguards can help protect against the harms and risks of crypto products.

And we'll start by taking a closer look at these basic principles of regulation:

- **Clear disclosures and transparency** that are essential so retail customers and investors can understand how a token or crypto platform works.

- **Prohibitions on conflicts of interest and self-dealing** by insiders is fundamental. Our markets only work when they work for everyone.

- **Protecting customer funds** by separating them from company assets. Investor dollars cannot be a slush fund for the executives' benefit.

- **Internal governance and risk management** to make sure that if a platform takes customer funds it acts prudently.

- **Strong consumer and investor rights and protections** that are foundation of trust in any financial system and central to a functioning market.

- **Anti-money laundering and fraud prevention** to make sure malign actors and evil nation states can't fund themselves and evade law enforcement.

- **Oversight and supervision** to hold companies accountable, because access to our financial markets is a privilege not a right that can be abused.

These are basic, commonsense principles that have developed over centuries of financial system regulation – the wildcat money of the 1800s, the repeated banking panics of the Gilded Age, the 1929 stock market crash, the savings and loan crisis, the dot-com bubble, the Great Financial Crisis.

These crises are the story of speculative bubbles – fueled by investor euphoria and the promise that "this time is different" – even though it never is. The lessons learned here are the product of hard-earned experience – experience that is born of real people losing real money and of dreams shattered.

Crypto isn't special. We can start with these commonsense principles as we consider a regulatory framework for digital assets that puts consumers first and keeps our financial system safe.

I trust this Committee can find common ground and work together to protect investors from crypto risks.

###