

Financial fraud and scams have always been with us. In fact, they're older than money itself. Criminals have always found inventive ways to cheat people out of what they earned.

Crypto is no different.

Scams that have persisted in the securities markets can easily be translated to crypto assets. They may seem even more enticing to potential victims when wrapped in a new technology, and with the promise of quick, outsized returns.

In the early years of Bitcoin, scammers hacked exchanges to steal from early adopters. It didn't take long for crypto fraudsters to figure out Bitcoin can be used for old-time frauds like Ponzi schemes and bogus investments – promising big returns with only upside and no risk.

Back in March, this Committee looked at how cryptocurrencies could be used in illicit finance like terrorism and human trafficking. Today's hearing considers how the increasing presence of fraud and speculation in the crypto and securities markets threaten investors and savers.

In the last two months, we've witnessed spectacular blowups in the crypto markets, exposing both the alarming interconnectedness and the enormous risks among crypto firms.

Consumers and investors were misled with promises that their crypto would earn double-digit interest rates – in perpetuity.

Think back to multimillion dollar Super Bowl ads, and whom they were targeting.

But one collapse after another revealed how quickly supposedly “stable” investments could fall apart. We saw that unregulated and unlicensed entities could both borrow and lend hundreds of millions of dollars to engage in risky crypto trading.

Our witnesses are all too familiar with fraud and risks in the growing crypto markets. They have been on the frontlines in the securities markets, chasing bad actors, exposing frauds, and educating investors and investment firms.

While the work of state securities regulators and FINRA is always important, it is especially critical during periods of market volatility and economic uncertainty. Those are the times when diligent savers see their retirement accounts decline, and offers of supposed “guaranteed profits” or, quote, “no risk” investments may sound more tempting.

Crypto's appeal is understandable.

Promises of double digit interest and lies about FDIC insurance or SIPC protection entice Americans frightened by volatile markets and worried about retirement – or bills that are piling up.

Times of crisis also create opportunity for those looking to exploit economic anxiety.

In the early days of the coronavirus pandemic, all of our financial watchdogs began issuing warnings about COVID-19 related scams. From frauds connected to investments tied to vaccines, to sales of useless PPE, fraudsters used our fears to steal and cheat.

Our witnesses today will also discuss scams and frauds that target vulnerable groups or close-knit communities, where trust and pre-existing relationships can be abused. This is another area financial watchdogs know well.

Seniors and other vulnerable Americans are too often the victims of scam artists, peddling Ponzi schemes or using high-pressure tactics to get victims to part with their money, right away.

This Committee has seen the predatory behavior that targets servicemembers looking for affordable short-term credit, who are instead sold high-cost payday loans. Bad actors touting supposedly “safe” investments use similar predatory methods to defraud military families.

And we know those frauds are often underreported.

Victims blame themselves, or don’t want to admit what happened. We have to fix that, and Ms. Walsh will talk about that today.

American markets are the envy of the world. Our diverse economy and the rule of law help families and workers save for the future.

We have to keep it that way.

That’s why law enforcement and our regulators, like our witnesses today, must be alert. They must be able to identify scams, and move quickly to punish bad actors.

Just last week, the FBI issued a warning for financial institutions about cybercriminals creating fraudulent cryptocurrency investment apps. Agents found hundreds of victims who lost collectively tens of millions of dollars.

And we know that’s just the beginning. There are more victims and more losses every day.

My colleagues across the aisle seem confused about where our priorities should lie.

Our markets are the envy of the world, because of – not in spite of – the ways we protect Americans’ money. Supposed “innovation” and “opportunity” don’t mean much if they come at the cost of massive fraud.

New ways to cheat people out of their money is not the kind of innovation most people want in our economy.

We hear industry players call for “rules of the road” when a big fraud is uncovered, and after a bad actor has knowingly violated the law. The rules are there, the road map is clear, and this

Committee needs to make sure our regulators enforce the law and protect the workers and families that keep our economy and markets running.

As this Committee and the American people learn more about crypto-based investments, and understand how frauds and scams are growing, we will push our regulators to do more. Of course, that means the SEC. It also means the banking regulators.

Industry shouldn't be allowed to write the rules they want to play by.