Chairman Don Beyer – Prepared Remarks

"Demystifying Crypto:
Digital Assets and the Role of Government"
November 17, 2021

Recognitions

This hearing will come to order. I would like to welcome everyone to the Joint Economic Committee's hearing titled "Demystifying Crypto: Digital Assets and the Role of Government."

I want to thank each of our truly distinguished witnesses for sharing their expertise today. Now, I would like to turn to my opening statement.

Statement

Since the introduction of Bitcoin in 2009, the market for cryptocurrencies and other digital assets has expanded from a niche product to a globally significant asset worth nearly three trillion dollars just last week. While this rapid rise in value has made some early adopters quite wealthy, it also poses an array of risks to both everyday investors and the broader financial system.

The purpose of this hearing is to explore emerging trends in the digital asset market and discuss prudent steps that Congress and the federal government can take to update our regulatory framework and bring much-needed clarity to issuers, ensure transparency for investors, and protect the integrity of our financial system—while also leveraging exciting developments in blockchain technology. Congress can promote responsible innovation in this market while also providing basic protections to the investing public.

Interest and involvement in the digital asset market has become increasingly mainstream in recent years. The growth of these products has been especially pronounced since the start of the coronavirus pandemic, as the reported total market value of all digital assets soared from two hundred billion dollars in January 2020 to nearly three trillion dollars today.

As the market has grown, we have seen digital asset investors broaden from a narrow group of true believers in cryptocurrencies to an expanding community that includes everyday investors. A Pew survey conducted this fall found that sixteen percent of American adults have personally owned or invested in a cryptocurrency at some point, up from just one percent who reported holding Bitcoin in 2015. While many early Bitcoin transactions occurred on little-known online platforms, today, investors can buy digital asset through Robinhood or Venmo, or on large exchanges run by publicly-traded companies like Coinbase.

But this growth in value and interest presents a number of challenges for our economy. The current digital asset market structure and accompanying regulatory framework are ambiguous and risky for both investors and the broader economy. Digital asset holders have been subjected to a market that is, as SEC Chairman Gary Gensler described it "rife with fraud, scams, and abuse".

The mainstreaming of digital assets is laying the foundation for huge swaths of the economy to invest in this market. Increased crypto market volatility or a digital bank-run could disrupt more mainstream financial institutions like pension funds or mutual funds. And the underlying assets can create significant consumer protection issues given existing patterns of financial fraud, hacks, and market manipulation.

Retail investors may be lured in by the hype around a new coin with improbably high rates of return, only to be caught on the wrong end of a speculative bubble and lose their entire investment. A recent example was “Squid”, a blatant scam token that used the excitement around the popular TV show Squid Game to dupe unwitting investors out of 3.3 million dollars.

While all investments involve risk, the lack of disclosure and reporting requirements in many parts of the crypto asset industry tilt the playing field towards the largest investors who can leverage their size to exploit regulatory gaps at the expense of retail investors. It is currently difficult for regulators to prevent market manipulation by large players who can exploit their access to multiple sides of a trade, or trade on inside information.

Despite these issues, Congress has not yet weighed in on a comprehensive legal framework around these assets.

Updating the U.S. regulatory framework for digital assets would be in line with how officials have often responded to past financial innovations with stronger rules to protect consumers and market integrity. For example, Dodd-Frank created stronger rules on complex swaps and derivatives in the wake of the 2008 financial crisis.

Updated regulation can also reduce the likelihood that these emerging developments would destabilize financial markets and the broader economy. For example, the largest stablecoin Tether was recently found to not hold sufficient reserves of cash and equivalents to fully back their seventy billion dollar value. Applying additional regulatory scrutiny to assets like Tether, and the platforms where they are used, could ensure that cracks in one asset don’t spread to the broader economy.

Increasing reporting requirements for decentralized finance platforms will shine a light on a fast-growing but lightly regulated segment of the market. Increased information sharing would also improve tax compliance for capital gains from the sale of crypto assets.

The many issues we will discuss today are why I introduced the Digital Asset Market Structure and Investor Protection Act earlier this year. This legislation would establish much-needed guardrails and provide clarity to regulators and investors without stifling innovation. The present moment gives us an opportunity to take action *before* a potential crisis hits the broader economy.

I am looking forward to learning from each of our witnesses today.