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US Sen. Elizabeth Warren Warns Crypto Madness Will 'Take Down the Economy' If It Isn't Regulated

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"FTX's implosion should be a wake-up call," said the Massachusetts Democrat. "Regulators must enforce the law before more people get cheated, and Congress must plug the remaining holes in our regulatory structure."

U.S. Sen. Elizabeth Warren warned Tuesday in a *Wall Street Journal* opinion piece that if the federal government fails to adequately regulate the planet-killing cryptocurrency industry, it will "take down the economy."

Writing in the wake of the collapse of Sam Bankman-Fried's digital asset exchange platform FTX, the Massachusetts Democrat argued that "crypto is following a well-worn path of financial innovations, such as subprime mortgages and credit-default swaps, that began with dazzling rewards and ended with crippling losses."

> "Proponents say crypto holds great promise for making the financial system more efficient and inclusive," wrote Warren. "We've heard that story before. History is littered with financial schemes promoted by criminals and charlatans who claimed that the latest and greatest tools had evolved beyond the need for regulation or a cop on the beat. During the 2008 collapse and every financial crisis before that, these claims have proved dangerously delusional. Crypto is no exception."
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> "FTX's implosion should be a wake-up call," Warren continued. "Regulators must enforce the law before more people get cheated, and Congress must plug the remaining holes in our regulatory structure—before the next crypto catastrophe takes down our economy."

As the *Journal* reported on November 11:

> "FTX is the latest in a string of crypto companies seeking bankruptcy protection this year. Months ago, Mr. Bankman-Fried served as a lender of last resort to his industry,

> following the failure of other crypto companies. Its fortunes reversed in the past 10 days, after a CoinDesk report showed the depth of the relationship between FTX and Alameda, triggering a loss of faith in the platform by amateur and professional investors."

According to the newspaper, which in another article cited unnamed sources familiar with the matter, "FTX extended loans to Alameda using money that customers had deposited on the exchange for trading purposes, a decision that Mr. Bankman-Fried described as a poor judgment call."

As the *Journal* noted:

> FTX was previously seen as a rising star in the digital asset world. It attracted nearly $2 billion of investments from high-profile venture capital funds, hedge funds, and the Ontario Teachers' Pension Plan. Many investors face a wipeout of their equity stakes in FTX as the exchange heads to the bankruptcy court. Venture capital firm Sequoia Capital said on Wednesday it is writing down its $150 million investment in FTX to zero.
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> Bankruptcy means that it could be a long time before individual investors and others owed their funds are able to potentially recover any of them, if ever. Creditors to Mt. Gox, the Japanese crypto exchange that failed following a 2014 hack, are still waiting for their funds almost a decade later.

"Crypto investors may find an uphill battle to get their crypto deposits back in bankruptcy proceedings," the newspaper explained, "because their investments are likely to be treated as unsecured claims without collateral rights."

The sudden disintegration of FTX prompted the U.S. Department of Justice and the Securities and Exchange Commission to launch an ongoing investigation.

"Crypto executives who break the law are just like any other crooks, and the Justice Department should use its full range of tools, including criminal penalties, against them," Warren wrote Tuesday. "If Mr. Bankman-Fried and FTX executives committed fraud, then federal prosecutors should send them to prison."

"But FTX's fall, like the collapse of Lehman Brothers before it, isn't limited to one out-of-control company," the progressive lawmaker stressed. "That means the Securities and Exchange Commission needs to suit up as well. Market manipulation, theft, insider trading—the SEC has decades of experience in rulemaking and monitoring retail investment and knows how to root out fraud and hold cheaters accountable."

She continued:

> The Treasury Department has also moved, using existing law to impose sanctions on two crypto mixing services, Blender and Tornado Cash,which were used to launder billions of dollars worth of virtual currencies, including hundreds of millions stolen by hackers. Crypto lobbyists howled, but Treasury was right to use its authority to force these entities to comply with the law. A few cases are good, but Justice, SEC, and Treasury are the frontline enforcers, and they need to act like it every single day. Federal agencies should use their expansive authority to crack down hard on crypto fraud.

> Congress should back up these law enforcement agencies and financial regulators with more funding. Many crypto executives have armies of lawyers, PR advisers, and paid celebrity supporters, and they seem to think they can escape the laws that apply to everyone else. If the financial cops are going to take on crypto criminals, they need adequate resources to fight and win.

"It is past time for crypto to be subjected to the same basic rules as other financial activities," Warren concluded. "If the crypto industry can succeed without stealing from investors or providing money-laundering services to terrorists and drug dealers, that's great—but we won't know that until the loopholes are closed and the laws are rigorously enforced."

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