



# The Very Real Dangers of Adopting Virtual Money

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On July 19, 2024, the largest internet outage in history occurred. CrowdStrike is a cybersecurity service provider relied on by many top US companies. The firm regularly provided rapid release updates intended to address the latest threats. The update released that chaotic day in July contained a logic error that, although it was quickly identified and corrected, still caused the failure of millions of Windows-based computers and resulted in more than \$5.4 billion in costs to US companies.<sup>1</sup> The disruption caused thousands of flight cancellations, the shutdown of vital hospital systems, and the disruption of financial markets.<sup>2</sup>

A well-known rule of programming is to never push untested code to a production environment. In other words, new software isn't released for public use before it has been extensively tested in a limited offline system. In testimony to Congress, CrowdStrike stated that they would treat future releases like code updates by doing exactly that: thoroughly testing code across various scenarios before taking it live and implementing updates in phases.<sup>3</sup> These are best practices for any coder – whether they work in cybersecurity or stablecoins.

Bills have been introduced in Congress to integrate stablecoins into our approximately \$150 trillion financial markets.<sup>4</sup> In the crypto markets where they are currently used, stablecoins have failed to reliably maintain their value time and again. Yet legislative efforts ignore the important coding rule about not experimenting in live environments. Introducing an untested

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<sup>1</sup> Kerner, S. M. (2024, October 29). CrowdStrike outage explained: What caused it and what's next. *TechTarget*. <https://www.techtarget.com/whatis/feature/Explaining-the-largest-IT-outage-in-history-and-whats-next>

<sup>2</sup> Fung, B. (2024, July 24). We finally know what caused the global tech outage - And how much it cost. *CNN*. <https://www.cnn.com/2024/07/24/tech/crowdstrike-outage-cost-cause/index.html>

<sup>3</sup> Meyers, A. (2024). *United States House of Representatives Committee on Homeland Security Subcommittee on Cybersecurity and Infrastructure Protection*.

<sup>4</sup> Scott, Hagerty, Lummis, Gillibrand introduce legislation to establish a stablecoin regulatory framework. United States Committee on Banking, Housing, and Urban Affairs. Retrieved February 18, 2025, from <https://www.banking.senate.gov/newsroom/majority/scott-hagerty-lummis-gillibrand-introduce-legislation-to-establish-a-stablecoin-regulatory-framework>

Ranking Member Maxine Waters unveils bipartisan stablecoins legislation. (2025, February 10). U.S. House Committee on Financial Services Democrats. <https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=412883>



financial instrument like stablecoins into the largest financial market in the world is likely to cause far more damage than CrowdStrike ever could have.

Before considering passage of any bill, we urge legislators to evaluate the risks that may be impossible to mitigate in statute at this time. These include the financial stability threats introduced by the unforgiving rigidity of blockchain technology and smart contracts, the regularity with which fiat-backed stablecoins have failed to maintain their value, and the financial interests' current US political leaders have in stablecoin adoption. All of which are compounded by the fact that a shadow government is gutting the agencies charged with policing the financial sector for abuse of consumers and investors. Congress should ask itself why it would risk undermining hard-earned trust in American markets by further enabling the financial conflicts of political leaders already undermining the rule of law. And why that risk justifies embracing a technology that doesn't even work.

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## TRUST IS OUR COMPETITIVE ADVANTAGE

While it is common for regulated firms in the financial sector to claim that regulation harms international competitiveness, the truth is that dependable regulation and enforcement of the law is a competitive advantage.<sup>5</sup> In fact, not only does it benefit markets as a competitive advantage, but it also increases their efficiency.<sup>6</sup> Financial institutions, and even financial regulators, often claim that hesitancy to instantly adopt the latest financial “innovation” is

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<sup>5</sup> Seghezza, E., & Morelli, P. (2018). Rule of law and balance of power sustain US dollar preeminence. *Journal of Policy Modeling*.

<sup>6</sup> Corbae, D., & Levine, R. (2018). Competition, Stability and Efficiency in Financial Markets. *NBER*.





harmful to financial markets and especially to middle-class families and communities of color.<sup>7</sup> But one need only look to the 2008 financial crisis to debunk this myth.<sup>8</sup> At that time, banks rapidly introduced the equivalent of untested code into our markets. These included complex instruments with names seemingly designed to hide their danger behind technical jargon like “synthetic CDOs” and “credit default swaps.” No one needs to be reminded it resulted in a disaster only eclipsed by the Great Depression.<sup>9</sup>

Crypto advocates believe that the “trustless” nature of crypto transactions is a feature. Trustless-ness refers to the idea that transactions don’t depend on a central party and therefore require no trust in financial institutions. The belief that trust is not essential to financial markets conflicts with every lesson we’ve learned since the stock market crash of 1929. New Deal agencies like the FDIC and SEC were established with the explicit goal of restoring trust.

Advocates for stablecoins as the latest financial market innovation point to this “trustless-ness” as an advantage over traditional financial instruments. Unfortunately, these alleged features are fragilities by another name - and they come with alarming consequences for financial stability.

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The inflexibility of crypto settlement and smart contract execution eliminates financial regulators’ ability to intervene in times of market stress, instead, automatically triggering fire sales and amplifying panics and potential crises.<sup>10</sup> Compare these features to developed capital

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<sup>7</sup> Gramlich, E. (2004, May 21). *Subprime Mortgage Lending: Benefits, Costs, and Challenges*.

<sup>8</sup> Johnson, S. (2012). Is financial innovation good for the economy?\*: Innovation policy and the economy: Vol 12. *Innovation Policy and the Economy*. [https://doi.org/978-0-226-47340-6/2012/2012-0001\\$10.00](https://doi.org/978-0-226-47340-6/2012/2012-0001$10.00)

<sup>9</sup> Financial Crisis Inquiry Commission, United States. (2011). *The financial crisis inquiry report, authorized edition: Final report of the national commission on the causes of the financial and economic crisis in the United States*.

<sup>10</sup> Pistor, K. (2013). A Legal Theory of Finance. *Columbia Law School Scholarship Archive*.



markets that have adopted tools like circuit breakers to great success.<sup>11</sup> Trading halts and other regulatory frictions calm markets before exogenous events like the 2020 COVID-19 financial panic.<sup>12</sup> The technology stablecoins rely on does not provide the same opportunities for regulatory intervention on which the stability of our financial system is dependent.<sup>13</sup> Even more concerning, the safety and soundness tools developed over a century of experience offer little protection from these unique threats - threats from financial instruments that have already received a government bailout.<sup>14</sup>

## DANGEROUS CONFLICTS OF INTEREST

Currently, reckless experimenting isn't even the greatest threat to the world's faith in the fairness and stability of American markets. Attacks on the rule of law, tilting markets in the favor of individual financial interests, and providing unfair advantages to insiders are the fastest paths to eroding domestic and international trust in the financial system.

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“The two most powerful men in our government, President Trump and Elon Musk, stand to benefit handsomely from stablecoin adoption.”

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The two most powerful men in our government, President Trump and Elon Musk, stand to benefit handsomely from stablecoin adoption. President Trump has engaged in several crypto

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<sup>11</sup> Lin, K., Gurrola-Perez, P., & Speth, B. (2022). Circuit Breakers and Market Quality. *World Federation of Exchanges Working Paper No. 3*.

<sup>12</sup> He, L., Duffy, C., & Horowitz, J. (2020, March 8). US stocks halted after falling 7%. Global stocks plunge as oil crashes and coronavirus fear spreads. *CNN*. <https://www.cnn.com/2020/03/08/investing/stock-dow-futures-coronavirus/index.html>

<sup>13</sup> Pistor, A Legal Theory of Finance

<sup>14</sup> *Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.* (n.d.). Board of Governors of the Federal Reserve System. Retrieved February 17, 2025, from <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm>



ventures, the latest of which defrauded hundreds of thousands of investors.<sup>15</sup> He is associated with yet another crypto business, World Liberty Financial (WLF) in which Justin Sun – a known crypto scammer – has a large stake.<sup>16</sup> According to WLF’s “gold paper” the company is committed to blocking governments from developing central bank digital currencies (CBDCs).<sup>17</sup> CBDC’s are official, government-issued stablecoins that operate with all the protections and rules of their traditional counterparts. They are direct competitors to private stablecoins. WLF’s paper claims a “...new strategy driven by stablecoins to...safeguard the US dollar's future...”<sup>18</sup> Not only does the President wield enormous influence among consumers and investors, but he also chooses the leadership of financial policing agencies and can halt their oversight completely.<sup>19</sup>

Elon Musk, the richest man in the world and leader of the shadow government “DOGE,” also has personal financial interests directly related to crypto and the US payments system. Musk has been a longtime crypto supporter and has demonstrated unprecedented influence over crypto asset markets.<sup>20</sup> X, the social media platform he owns and has used to manipulate crypto asset prices, has announced a partnership with Visa to establish a payments business offering digital wallets.<sup>21</sup> While further details have not been announced, Musk’s interest in and advocacy for blockchain technology strongly suggests these digital wallets will be

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<sup>15</sup> Lipton, E., & Yaffe-Bellany, D. (2025, February 9). Early crypto traders had speedy profit on Trump coin as others suffered losses. *The New York Times*. <https://www.nytimes.com/2025/02/09/us/politics/trump-crypto-memecoin.html>

<sup>16</sup> Charalambous, P. (2024, December 6). Chinese entrepreneur sued for fraud invests \$30 million in Trump crypto venture. *ABC News*. <https://abcnews.go.com/US/chinese-entrepreneur-sued-fraud-invests-30-million-trump/story?id=116499146>

<sup>17</sup> World Liberty Financial “Gold Paper” - available at <https://static.worldlibertyfinancial.com/docs/intl/gold-paper.pdf>

<sup>18</sup> Ibid.

<sup>19</sup> Lang, H., & Prentice, C. (2025, January 15). Trump’s new SEC leadership poised to kick start crypto overhaul, sources say. *Reuters*. <https://www.reuters.com/world/us/trumps-new-sec-leadership-poised-kick-start-crypto-overhaul-sources-say-2025-01-15/> and

Egan, M. (2025, February 9). Consumer watchdog ordered to stop fighting financial abuse and to work from home as HQ temporarily shuts down. *CNN*. <https://www.cnn.com/2025/02/09/business/cfpb-vought-stop-activity/index.html>

<sup>20</sup> Lennart Ante, How Elon Musk's Twitter activity moves cryptocurrency markets, *Technological Forecasting and Social Change*, Volume 186, Part A, 2023,122112, ISSN 0040-1625, <https://doi.org/10.1016/j.techfore.2022.122112>.

<sup>21</sup> Son, H., & Sigalos, M. (2025, January 28). Elon Musk’s X begins its push into financial services with Visa deal. *CNBC*. <https://www.cnbc.com/2025/01/28/elon-musk-x-visa-digital-wallet.html>



compatible with, or possibly built on, popular crypto protocols. Musk’s seizing of the Treasury’s payment systems already threatens to destabilize the economy.<sup>22</sup> His actions and conflicts of interest have directly undermined financial stability, consumer protection, investor protection, and the fair and orderly operation of US financial markets.

Conflicts of interest aren’t the only way the President’s fealty to the crypto industry threatens to undermine trust in the United States. Trump has roiled markets and created doubt in the full faith and credit of the US government by announcing it’s possible that some US Treasuries “don’t count.”<sup>23</sup> He has also suspended enforcement of the Foreign Corrupt Practices Act.<sup>24</sup> This is a troubling action in and of itself, but specifically with regard to crypto assets that are a well-known vector for bribery as well as money laundering that enables the financing of drug cartels and terrorists.<sup>25</sup> Trump’s national security appointments and threats to the independence and objectivity of CISA, America’s premier cybersecurity agency, also suggest that now is not the time to further incorporate crypto into the mainstream economy.<sup>26</sup> CISA, in a joint statement with the NSA and FBI, has issued alerts that ransomware, which relies on crypto’s unique ability to hide attackers’ identities, is a threat to critical US infrastructure like

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<sup>22</sup> Tankus, N. (2025, February 3). Rolling stone. *Rolling Stone*. <https://www.rollingstone.com/politics/politics-features/trump-elon-musk-treasury-payment-system-dangerous-1235254831/>

<sup>23</sup> Stewart, H. (2025, February 16). Forget Trump’s tariffs, the president’s bond market threat is worse. *The Guardian*. <https://www.theguardian.com/business/2025/feb/16/forget-trumps-tariffs-the-presidents-bond-market-threat-is-worse>

<sup>24</sup> Pausing Foreign Corrupt Practices Act Enforcement to Further American Economic and National Security, Executive Order, President Donald Trump, February 10, 2025.

<sup>25</sup> P Robinson, Dr. T. (n.d.). *Chinese Spies used Wasabi Wallet mixer to pay Bitcoin bribes to FBI double agent*. Retrieved February 18, 2025, from <https://www.elliptic.co/blog/analysis/chinese-spies-used-wasabi-wallet-mixer-to-pay-bitcoin-bribes-to-fbi-double-agent>

<sup>26</sup> Sakellariadis, J., & Miller, M. (2025, February 7). Trump continues federal purge, gutting cyber workers who combat disinformation - POLITICO. *Politico*. and MASCARO, L., JALONICK, M. C., & AMIRI, F. (2025, January 24). Pete Hegseth confirmed as defense secretary in tie-breaking vote. *AP News*. and Barnes, J. E., & Jimison, R. (2025, February 12). Tulsi Gabbard confirmed by Senate as Trump’s director of national intelligence. *The New York Times*. and Organization of the National Security Council and Subcommittees, Presidential Memorandum, President Donald Trump, January 20, 2025.



the water supply.<sup>27</sup> Crypto hacks have already harmed our national security by benefitting North Korea<sup>28</sup>

President Trump's actions and his unorthodox collection of national security advisers provide little assurance our government will continue to be capable of detecting or defending us from national security threats arising from untested technologies.

No legislation can address even a fraction of these issues. And even if it could, President Trump has declared his willingness to ignore public laws and other congressional mandates.<sup>29</sup> If there were an appropriate time to adopt legislation that further entangles America's financial system with crypto, it certainly isn't now. It is unfathomable that Congress would choose this moment to risk further tarnishing America's credibility to adopt a technology that simply does not work.

## UN-STABLE COINS

Regardless of the name it's marketed under - crypto, blockchain, or a distributed ledger – it remains a technology in search of a use. Crypto has promised to be many things over the years. It was initially proposed as a decentralized currency independent of the traditional financial system.<sup>30</sup> It promised to provide access to real world utility like distributed cellular service.<sup>31</sup> It was also promoted as a solution for supply-chain management.<sup>32</sup> It has failed to live up to any of these promises. Traditional markets aren't alone in their failure to adopt blockchain technology. The largest crypto trading platforms, like Coinbase, rely on traditional databases for

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<sup>27</sup> Cybersecurity Infrastructure and Security Agency Joint Alert, "Ongoing Threats to U.S. Water and Wastewater Systems, October 25, 2021.

<sup>28</sup> Klingner, B. (2023). North Korea's Cybercrimes Pay for Weapons Programs and Undermine Sanctions. *The Heritage Foundation, Asian Studies Center*.

<sup>29</sup> Haberman, M., Savage, C., & Swan, J. (2025, February 15). Trump Suggests No Laws Are Broken if He's 'Saving His Country.' *The New York Times*. <https://www.nytimes.com/2025/02/15/us/politics/trump-saves-country-quote.html>

<sup>30</sup> Bitcoin: A Peer-to-Peer Electronic Cash System

<sup>31</sup> Helium claims 100,000 "sign-ups" based on NFT sales, but does not disclose number of actual subscribers. See: <https://blog.hellohelium.com/helium-mobile-hits-100-000-sign-ups/#:~:text=Our%20growth%20has%20accelerated%20rapidly,and%20the%20Helium%20Mobile%20Tour.>

<sup>32</sup> While many companies tout the use of blockchains, these are almost exclusively private, permissioned, centralized systems nearly indistinguishable from traditional databases.





their internal orderbooks instead of blockchain technology.<sup>33</sup> Crypto assets have established themselves as a purely speculative, volatile, non-compliant financial instrument prone to fraud and spectacular failure.<sup>34</sup>

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Stablecoins are marketed as a contrast to typical crypto assets, immune from their volatility. This claim is largely based on stablecoins’ alleged price support via their backing by other financial instruments. In contrast to the marketing, the evidence demonstrates that stablecoins share the same faults as their fellow crypto assets.

Stablecoins’ value is derived by maintaining a “peg” to a fiat currency – providing users confidence that its value will precisely match the value of a dependable and stable currency. This is typically achieved by holding collateral, or reserves, that serve to back their value - much like currencies that were once redeemable in gold. Financial instruments that fail to maintain their value, due to lack of confidence like market uncertainty or mistrust in their financial holdings, are said to have “depegged”. A financial instrument doesn’t have to veer far from the value of the currency it mimics to cause a panic. In 2008 a money market fund advertised to

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<sup>33</sup> Securities and Exchange Commission vs. Coinbase, Inc. and Coinbase Global, Inc. (United States District Court, Southern District of New York June 6, 2023). <https://www.sec.gov/files/litigation/complaints/2023/comp-pr2023-102.pdf>

<sup>34</sup> *Samuel Bankman-Fried sentenced to 25 years for his orchestration of multiple fraudulent schemes.* (2024, March 28). United States Department of Justice.  
*Binance and CEO plead guilty to federal charges in \$4B resolution.* (2023, November 21). United States Department of Justice.  
*SEC.gov: SEC v. Terraform Labs PTE, Ltd. and Do Hyeong Kwon, No. 23-Cv-1346-JSR (S.D.N.Y.)*

*SEC.gov: SEC Charges Alleged Crypto Company NovaTech and Its Principals and Promoters with \$650 Million Fraud.*



maintain a value of \$1 per share, the Primary Reserve Fund, became the subject of a run when the value of its shares fell by just three cents.<sup>35</sup>

Alleged stablecoins have depegged on numerous occasions, and by far more than just three cents. Algorithmic stablecoins were an early breed of untested stablecoin code introduced to the crypto ecosystem. BitUSD began trading in 2014 and collapsed by 2018.<sup>36</sup> NuBits was established slightly later in 2014 and also collapsed in 2018.<sup>37</sup> Though BitUSD and NuBits had already demonstrated that algorithmic stablecoins were completely untrustworthy, the model remained in use until the TerraUSD collapse a full four years later in 2022.<sup>38</sup> The inherent and catastrophic flaws in algorithmic stablecoins caused TerraUSD to take down other parts of the crypto market with it. Only after 8 years of crashes were algorithmic stablecoins generally, though not entirely, dismissed as a viable enterprise. A lesson that took far too long to learn.

Collateral and fiat-backed stablecoins have failed to hold their pegs as well. Between June 2021 and June 2023, BUSD depegged several times and by as much as 13 cents.<sup>39</sup> BUSD, despite being issued by the world's largest crypto platform Binance, still could not maintain the confidence of its users. The regional banking crisis in March of 2023 resulted in Circle's USDC losing its peg to the dollar by as much as 13 cents. This depeg event occurred when Circle's largest banking partners, Silvergate and Signature, stopped operating and Coinbase paused USDC redemptions for US dollars.<sup>40</sup> Circle also held \$3.3 billion of USDC's reserves in uninsured accounts at Silicon Valley Bank (SVB) - reserves meant to ensure that consumers could redeem USDC at its stable price of \$1. Those reserves were ultimately given special treatment and guaranteed by banking regulators upon Silicon Valley Bank's collapse. Circle's USDC benefitted

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<sup>35</sup> Callaway, D. (2013, September 11). Callaway: Lehman and the day the buck broke. *USATODAY*. <https://www.usatoday.com/story/money/columnist/2013/09/11/callaway-money-funds-2008-financial-crisis-lehman/2800783/>

<sup>36</sup> Kristiansen, J. (2022, November 4). The rise and fall of the first stablecoins — bitusd and nubits. *Medium*. <https://medium.com/@yakhat86/the-rise-and-fall-of-the-first-stablecoins-bitusd-and-nubits-1efc020a7ae8>

<sup>37</sup> Team, R. R. (2018, July 12). The end of a stablecoin — the case of nubits. *Reserve*. <https://blog.reserve.org/the-end-of-a-stablecoin-the-case-of-nubits-dd1f0fb427a9>

<sup>38</sup> Schoar, A., Lu, J., & Makarov, I. (2023, May 22). *Anatomy of a run: The Terra Luna crash*. The Harvard Law School Forum on Corporate Governance. <https://corpgov.law.harvard.edu/2023/05/22/anatomy-of-a-run-the-terra-luna-crash/>

<sup>39</sup> Stablecoins: A deep dive into valuation and depegging. (2023, June 9). *S&P Global*. <https://www.spglobal.com/en/research-insights/special-reports/stablecoins-a-deep-dive-into-valuation-and-depegging>

<sup>40</sup> Ibid.



from the FDIC’s Deposit Insurance Fund regardless of the fact that SVB, unlike thousands of regional and community banks, contributed nothing to the FDIC to insure those specific assets.<sup>41</sup>

DAI, an asset-backed stablecoin that relied on USDC as 40% of its collateral, depegged during the same period of market stress.<sup>42</sup> Shortly thereafter, in June 2023, Tether (USDT) lost its peg in the Curve3 liquidity pool following a hack of so-called “Decentralized Finance” protocols.<sup>43</sup> In July 2023, BUSD lost its peg yet again, diving by more than 5%.<sup>44</sup>

We’re fortunate our financial system wasn’t further exposed to these failures. Any of these depeg events would have spelled doom for a traditional financial instrument and potentially resulted in financial panic. But the crypto industry overlooks these obvious failures just as it ignored lessons from early algorithmic stablecoins. American consumers and investors should not have to re-learn this lesson for them.

Even if fiat-backed stablecoins had not catastrophically depegged over multiple periods, they would still be disqualified as a viable form of payment. Stable money enables financial transactions when both participants are confident in the consistent value of the chosen currency. But as the Bank for International Settlement points out, stablecoins demonstrate intraday volatility – i.e. their value fluctuates against that of the dollar throughout the day.<sup>45</sup> Over history, providers and purchasers alike have been strongly averse to bearing the risks of those fluctuations. As a research paper by the Federal Reserve Bank of Atlanta notes, “...consumers are not sheep waiting to be sheared...”<sup>46</sup> It would not serve our economy to

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<sup>41</sup> Howcroft, E., & Jaiswal, R. (2023, March 11). Circle assures market after stablecoin USDC breaks dollar peg. *Reuters*. <https://www.reuters.com/business/crypto-firm-circle-reveals-33-bln-exposure-silicon-valley-bank-2023-03-11/>

<sup>42</sup> DAI depegs to lifetime lows as stablecoin rout plagues crypto. (2023, March 11). *CoinDesk*. <https://www.coindesk.com/markets/2023/03/11/dai-depegs-as-stablecoin-rout-plagues-crypto>

<sup>43</sup> Jha, P. (2023, June 16). Curve pool imbalance triggers USDT depeg concerns: Finance Redefined. *Cointelegraph*. <https://cointelegraph.com/news/finance-redefined-curve-imbalance-usdt-depeg-concerns>

<sup>44</sup> Amberdata. (2023, October 17). The lost stablecoin depeg, July 2023. *Amberdata*. <https://blog.amberdata.io/the-lost-stablecoin-depeg-july-2023>

<sup>45</sup> Rice, A. K., Marc Glowka, Ilaria Mattei and Tara. (2023). Will the real stablecoin please stand up? *BIS Papers, Monetary and Economics Department*.

<sup>46</sup> Dwyer, G., Jr. (1996). Wildcat Banking, Banking Panics, and Free Banking in the United States. *Federal Reserve Bank of Atlanta Economic Review*.



require that small businesses or regular consumers constantly monitor the value of a stablecoin to ensure they're getting the value they expect.

Along with virtually every other promise of crypto, stablecoins fail as a dependable medium of payment. Even their promise of cheap cross-border payments holds no water – those payments are more expensive than traditional means.<sup>47</sup> Integrating volatile assets that rely on under-tested technologies and that are inferior to existing digital payment methods is a waste of, and risk to, taxpayer dollars.

Not only do these bills expose the financial system to the dangers of stablecoins, but to the volatility and insecurity of the entire crypto ecosystem. The largest hack in crypto's history – and likely all financial history – occurred just last week. More than 400,000 eth tokens worth about \$1.5 billion were stolen from a crypto platform called Bybit.<sup>48</sup> Early reports indicate the involvement of the Lazarus group, suggesting that the funds were likely stolen by North Korea.<sup>49</sup>

The Ethereum community is debating whether to “revert” those transactions by resetting them to a previous state – potentially affecting every transaction since the hack occurred. This includes voiding any transaction that relies on the Ethereum blockchain – even those that involved stablecoins.<sup>50</sup> Whether or not this ultimately happens, the mere possibility should be alarming to Congress.

Resetting a blockchain is not unprecedented – after a \$60 million hack in 2016, the Ethereum community permanently split. Some participants maintained the transaction history with the

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<sup>47</sup> Goldstein, A. (2021, December 14). *Testimony before the Senate Committee on Banking, Housing and Urban Affairs*. Hearing Entitled: Stablecoins: How Do They Work, How Are They Used, and What Are Their Risks? <https://www.banking.senate.gov/imo/media/doc/Goldstein%20Testimony%2012-14-21.pdf>

<sup>48</sup> Press, A. (2025, February 21). Cryptocurrency exchange says it was victim of \$1.5 billion hack. *AP News*. <https://apnews.com/article/bybit-exchange-crypto-hack-88256366c723a9de8327ef3d4071057e>

<sup>49</sup> Sigalos, M. (2025, February 21). Hackers steal \$1.5 billion from exchange Bybit in biggest-ever crypto heist. *NBC News*. <https://www.nbcnews.com/tech/crypto/hackers-steal-15-billion-exchange-bybit-biggest-ever-crypto-heist-rcna193273>

<sup>50</sup> Arthur Hayes floats the idea of rolling back ethereum network to negate \$1.4B Bybit hack, drawing community ire. (2025, February 22). *CoinDesk*. <https://www.coindesk.com/markets/2025/02/22/arthur-hayes-proposes-rolling-back-ethereum-network-to-negate-usd1-4b-bybit-hack>





hack included, while another created a new transaction history to recover the hacked funds.<sup>51</sup> Those two versions of the Ethereum blockchain continue to diverge to this day.<sup>52</sup> Reversing on-chain transactions in a crypto world that has become more complex would be incredibly destabilizing but users would have crypto returned to their wallets in some form. It could, however, negate gains or losses made from trades, reverse purchases of NFTs, and reset allegedly dependable smart contracts.

Off-chain transactions, as in purchases for real world services, are a far scarier story. Crypto has no mechanism to protect a mom-and-pop hardware store that accepted stablecoins for \$100 worth of gardening equipment last week. While the hardware store's stablecoins would be reverted to their customers' wallets, the garden supplies would not magically return to the store's inventory. Circle's terms of service strongly declare that their transactions are irreversible, and in the case of fraudulent or unauthorized payments Circle directs customers to their banks.<sup>53</sup> In other words, the potential economic fallout caused by alteration of the blockchain – an event outside the control of any individual stablecoin company - would be absorbed either by businesses that had accepted stablecoins as payments, or by the banking system implicitly backed by the US government.

Stablecoins like USDC are also issued on blockchains other than Ethereum. USDC, for example, is also available on the Solana chain, notorious for its recent role in Presidentially backed memecoin scams and its network outages.<sup>54</sup> In September 2021 the network was down and unable to process any transactions for 17 hours, it failed again in February 2023 for 19 hours, and in February just last year for almost 5 hours.<sup>55</sup> The length and regularity of these network failures are absolutely unacceptable in a modern payments environment. The Visa network

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<sup>51</sup> CoinDesk turns 10: 2016 - How the DAO hack changed ethereum and crypto. (2023, May 9). *CoinDesk*. <https://www.coindesk.com/consensus-magazine/2023/05/09/coindesk-turns-10-how-the-dao-hack-changed-ethereum-and-crypto>

<sup>52</sup> What is the difference between ethereum and ethereum classic? (n.d.). *Coinbase*. Retrieved February 23, 2025, from <https://www.coinbase.com/learn/crypto-basics/what-is-the-difference-between-ethereum-and-ethereum-classic>

<sup>53</sup> *Circle*. USDC Terms. Retrieved February 23, 2025, from <https://www.circle.com/legal/usdc-terms>

<sup>54</sup> Mott, F. D. (2025, January 27). Why Solana could be the big winner of the meme-coin frenzy. *Markets Insider*. <https://markets.businessinsider.com/news/currencies/solana-sol-cryptocurrency-memecoin-rally-blockchain-trump-digital-assets-regulation-2025-1>

<sup>55</sup> *A complete history of Solana outages: Causes, fixes, & lessons learnt*. (n.d.). Helius. Retrieved February 24, 2025, from <https://www.helius.dev/blog/solana-outages-complete-history>



processes 639 million transactions per day and already employs secure, cryptographic token technology without depending on unreliable blockchains.<sup>56</sup> A Visa processing outage in 2018 that lasted for just over 10 hours and affected only 7% of transactions sparked a UK Parliamentary inquiry.<sup>57</sup> A network failure comparable to those of Solana would have been unthinkable.

More importantly, introducing this instability into the US payments system could be disastrous to America’s already precarious reputation as the deepest, most liquid, and most dependable financial markets in the world. Investors have consistently been warned by consumer and investor protection agencies to avoid trading crypto unless they are willing to accept that they are placing bets in a speculative and fraud-infested market rife with conflicts of interest and wild volatility. Crypto traders refer to losing bets as getting “rekt”, and the losers of these bets are labeled “bagholders.” Congress cannot take a gamble on untested and unreliable technology that could wreck the financial system and leave hard-working Americans holding the bag.

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<sup>56</sup> Visa. (2024). *Visa Annual Report 2024*.

<sup>57</sup> *Visa Europe Response to Chair of the Treasury Committee, UK House of Commons*. (2018, June 15). <https://www.parliament.uk/globalassets/documents/commons-committees/treasury/correspondence/2017-19/visa-response-150618.pdf>