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Crypto companies, on defense in Washington, scramble to assemble a lobbying machine

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A handful of the nation's most powerful financial technology companies made a splashy announcement in April aimed at grabbing the attention of federal policymakers starting to consider a crackdown on cryptocurrency.

The firms — including Fidelity, Square and Coinbase — said they were launching a new trade association called the Crypto Council for Innovation to serve as the industry's voice in Washington. The group revealed plans to "demonstrate the transformational promise of crypto" by funding research projects and lobbying decision-makers.

"Wherever you are, our doors are open," the group declared in a tweet.

But seven months later, the council still hasn't opened its doors in Washington. Nor has it hired any staff. The project has snagged on picking a chief executive, and its membership, which now includes venture capital firms Andreessen Horowitz and Ribbit Capital, is at odds in part over whether to recruit a Washington veteran or a crypto executive for the job, people close to the process said.

The indecision hobbling the group has left its members, with some of the deepest pockets in crypto, fending for themselves at a critical moment for the industry.

Cryptocurrency is a digital means of recording and transferring value without requiring the involvement of a financial institution as a middleman. Regulators, fearing that the sector's explosive growth could pose a threat to the stability of the broader financial system, are rushing to subject it to the same federal scrutiny as its rivals in traditional finance.

And lawmakers looking for new sources of revenue are zeroing in on crypto, a global market whose overall value has nearly quadrupled since the start of the year, from about $770 billion to $2.9 trillion, according to data from Coinmarketcap.com. The infrastructure package President Biden signed into law Monday includes new crypto tax-reporting obligations expected to generate an estimated $28 billion over a decade, a proposal the industry unsuccessfully fought when it was introduced this summer.

Crypto interests have scrambled to respond to the multiplying threats by funneling more of their newly minted riches into Washington, though insiders agree that the effort has been both late and haphazard.

After spending $2.8 million on lobbying in 2020, the industry has already shelled out $4.9 million through the first nine months of this year, according to figures from the Center for Responsive Politics. Roughly half of this year's tab came in the third quarter, as crypto expanded its roster of hired guns — including a number of former federal regulators — from fewer than 60 to 107 over that three-month period, the center found. Executives are mulling how to add other tools for winning allies in power, including the creation of a super PAC to support crypto-friendly candidates in the midterm elections.

"This has been a woefully underfunded effort for the last several years," said Kristin Smith, executive director of the Blockchain Association, one of a handful of existing crypto trade groups. And as the ranks of the sector's lobbyists swell, she said, "it's going to be a challenge making sure we get all these people up to speed. There's not a deep bench of people in Washington who understand the ins and outs of crypto."

Financial regulators are not waiting to act. A Treasury Department-led group this month urged lawmakers to give bank regulators new authority to crack down on a type of digital token called stablecoins, arguing that left unchecked, their skyrocketing growth could threaten the broader economy. Separately, the Federal Reserve and other key regulators recently completed a review aimed at coordinating their approach to the industry. The agencies have not produced the findings yet.

But Washington's top finance cops already have spelled out their view that the sector is in dire need of tougher federal oversight. Securities and Exchange Commission Chair Gary Gensler has repeatedly referred to crypto trading as a "Wild West" that endangers investors, arguing that firms need to register with his agency. And Michael Hsu, acting comptroller of the currency, this month suggested that a failure to impose stricter rules could invite another financial crisis.

The industry's collision with Washington is in many ways a familiar tale, accelerated by crypto's rapid rise this year. Successive waves of tech industry innovators have been discovering the threat posed by the federal government since the Justice Department's antitrust suit against Microsoft in the 1990s.

Over the last decade, Amazon and the companies formerly known as Facebook and Google have all faced their own antitrust investigations — and growing bipartisan scrutiny on Capitol Hill of their business practices. The lobbying expenditures of those three firms together surged from $7.6 million in 2010 to $47.4 million last year, vaulting them into the top ranks of corporate spenders in Washington. (Amazon founder Jeff Bezos owns The Washington Post.)

But the crypto industry, for all its recent growth, remains largely libertarian in spirit. Crypto pioneers pride themselves on their resistance to top-down organizing, arguing that the alternative financial infrastructure they are building on decentralized computing networks will prove faster, safer and cheaper for consumers than the established version that relies on banks to serve as middlemen for borrowing and payments.

Lobbyists involved in the effort said executives are struggling to adapt that philosophy to a Washington mission that would benefit from empowering a representative to serve as crypto's face to policymakers. "The industry has anarchic DNA," one veteran lobbyist said, speaking on the condition of anonymity to offer a candid assessment. "Building a hierarchy to negotiate with government is antithetical to why most of these guys got into this in the first place."

The founders of the Crypto Council for Innovation conceived of the group, with its limited membership and starting annual budget of $10 million to $15 million, as the solution. The six members, U.S.-based companies that all embrace the need for regulators to set some rules of the road, aim to present a reputable face for an industry that many policymakers still think of primarily as a tool for speculative trading and illicit payments.

Marthea Davis, a spokeswoman for the council, said the group is taking its time launching to ensure that it is built for the long haul. "Our growing global alliance of some of the most influential organizations and companies in the space is focused not just on the challenges and opportunities of today, but those of the next several decades," she said in a statement. "We are taking a deliberate approach to set up an organization that will endure over that span and help policymakers globally get crypto right for the long-term."

But in the meantime, as the group's launch has stalled, its members are pursuing their own policy priorities. In October, the team behind Andreessen Horowitz's $2.2 billion crypto investment fund came to Washington for a week-long blitz of meetings with administration officials and lawmakers.

The Silicon Valley firm's executives — led by Katie Haun, a former federal prosecutor who directed investigations of crypto-based crimes; Tomicah Tilleman, a former adviser to then-Secretary of State Hillary Clinton; and Anthony Albanese, a former head of the New York State Department of Financial Services — centered the visit on a proposed regulatory regime for cryptocurrencies. Regulators should set up "cross-agency working groups" to coordinate their approach, the firm wrote in a white paper titled "How to Win the Future."

The day after the firm rolled out that proposal, Coinbase — an online cryptocurrency exchange platform originally seeded by investments from two other CCI founding members, Andreessen Horowitz and Ribbit Capital — presented its own vision for regulating the industry. It called for creation of a single, crypto-focused regulator. The technology underlying the digital assets is different enough "that it didn't make sense to take a legacy regulator and somehow transform it into an agency that would be able to look at these markets anew," said Faryar Shirzad, a national security aide in the George W. Bush White House who joined Coinbase as its chief policy officer this year.

The proposal came after Coinbase chief executive Brian Armstrong clashed publicly with one of its chief regulators, the Securities and Exchange Commission. In September, he revealed in a tweet that the agency had threatened to sue the company over a program that would allow investors in certain digital assets to earn interest on their holdings. Armstrong called the move "sketchy" and said he had been unable to get a meeting with the regulator during a May visit to Washington. Coinbase then quietly shelved the project.

Tilleman, Andreessen Horowitz's global head of policy, said the two firms' proposals overlap, noting that his company's plan also calls for considering a new regulatory framework eventually. They differ mainly in their scope, he said in a statement: Coinbase is focused on the financial applications of blockchains, the record-keeping technology that enables cryptocurrency users to conduct transactions without a middleman such as a bank. Andreessen Horowitz is investing in a much wider array of companies that employ the same technology to power new platforms for a range of content, such as video games and social media. "We trust that knowledgeable observers will grasp this critical distinction," Tilleman said.

Regulators aren't the only source of worry for crypto companies. Their losing fight back in August against the tax hike in the infrastructure package provided a rude awakening that lawmakers are also training their sites on the industry.

The provision gives federal tax collectors the authority to scrutinize more digital currency transactions. Industry advocates say it would force unworkable reporting requirements on cryptocurrency "miners," who are critical to validating transactions on the decentralized network, and others. Debate over the provision stalled progress on the infrastructure bill in the Senate over the summer, threatening to derail it.

At the time, crypto executives and allied groups put out a call to action to the industry's nascent grass roots, generating more than 41,000 calls to lawmaker offices, according to the digital rights group Fight for the Future, which spearheaded the campaign. Most of those calls, and the industry itself, rallied behind an amendment from Sens. Patrick J. Toomey (R-Pa.), Ron Wyden (D-Ore.) and Cynthia M. Lummis (R-Wyo.) that would have carved out crypto miners and software developers from the new tax-reporting requirements.

The push fell short. Crypto executives now say they aim to rework the scope of the law as it is implemented by the Treasury Department.

In the meantime, the fight proved galvanizing. "This was the first legislative moment where large and small companies, influencers, grassroots community and everyday Americans came together because this issue has become important for a growing and vocal population," Ron Conway, a longtime Silicon Valley venture capitalist and crypto investor, wrote in an email to The Washington Post. "This crypto industry effort will only grow."

Just last week, the DeFi Education Fund said it had hired four outside lobbying firms to sell policymakers on decentralized finance, the crypto-enabled alternative to traditional financial services. And the Blockchain Association announced that it is bringing on Dave Grimaldi, a onetime aide to House Majority Whip James E. Clyburn (D-S.C.), as top lobbyist and lawyer Jake Chervinsky as policy chief.

Smith said that after raising and spending roughly $2 million last year, the group has already quadrupled that haul this year, with most of it coming in the third quarter. "Ideally, we'll soon be in the $20 [million] to $25 million range," she said of the group's budget. And the Chamber of Digital Commerce, another lobbying group for the industry, is in the process of doubling its head count, according to its president, Perianne Boring.

Crypto executives have been slow to engage in political fundraising, but that's changing, too. After Wyden championed the industry's preferred fix to the infrastructure tax provision, industry executives organized a fundraiser for him in early September. The event — hosted by Conway; Haun of Andreessen Horowitz; and Fred Ehrsam, chief executive of Paradigm, a crypto-focused venture capital firm and founding member of the CCI — was one of the first such efforts by industry leaders, participants said. "The crypto industry is still nascent, and with any growing industry, fundraising efforts start small and they grow over time," Conway said. "The same will happen here."

A Wyden spokeswoman declined to comment.

Others are working on building political fundraising machinery that they hope will tap more deeply into the wealth the industry has generated. Tyler Whirty, a former staffer at the libertarian Cato Institute, founded HODLpac to gather contributions for congressional candidates supportive of crypto. The political action committee — which takes its name from the misspelling of "hold" that crypto enthusiasts use to refer to their buy-and-hold investment strategy — raised only about $35,000 from its launch last year through the first half of this year.

But Whirty said donations have surged in recent weeks. "The infrastructure bill was a big wake-up call, and we've seen a change in sentiment, not only among the leaders of the industry but the grass roots," he said. The PAC is developing a "quadratic funding" formula, a concept that crypto users have pioneered for other crowdfunding initiatives, to match donations that contributors earmark for specific candidates. "It's an elegant way of using the industry's tech to avoid spats," Whirty said.

Some crypto executives are considering how to enlist investors to do more. "If you made $1mm in the crypto bull market, you should plan on spending $20k on pro-crypto campaign contributions in the midterms," Ryan Selkis, chief executive of Messari, a crypto asset data and research company, wrote in a September tweet. "If 5,000 new US crypto millionaires donated 2% of gains, we'd have $100mm in PAC money. NOT TO MENTION the Super PACs."

Selkis, in an interview, confirmed that he thinks raising $100 million to deploy in midterm election campaigns is a reasonable goal. "Crypto moves really fast," he said. "It's not going to take long to raise money." The challenge for the industry will be "finding the right people" to do the work, he said. "It's talent acquisition, not capital acquisition."