



Bitcoin: Trojan Horse



May 7, 2021

Dear SEC,

Paraphrasing Augutin Carstens, the general manager of Bank of International Settlements: Money is not just technology, but also the right legal framework, together with good economics.

Will make my points of concern as concisely as possible. I will raise 3 questions that alludes to the problem with Bitcoin ETF.

Does legitimizing Bitcoin endangers US national security? Everybody knows about the 51% attack and that 75% of Bitcoin mining is in China, but I think another important risk comes when we integrate Bitcoin into our financial system by embracing it with regulatory control and oversight. What we come to integrate will open our financial system with added channels of dependencies and vulnerabilities. It is one thing for Bitcoin to be a hobbyists fascination but it is another thing when it becomes tightly coupled to our financial system, with participation from our institutions. What happens when zero knowledge proof technology advances such that conducting AML becomes expensive or impossible? Are we not endangering our national security not only from China but also providing a platform for rogue states like North Korea to participate in the global financial system. Adversaries don't drive their existential decision process based upon economics. Is there no safety backstop if the code fails due to some unknown unknown? Isn't that fragility in the most extreme sense? Coupling our financial system to Bitcoin will provide them with a far larger target, than just Bitcoin alone.

Does Bitcoin have a floor to its valuation like USD (US dollar)? You often hear the argument made that Bitcoin is no different from USD, in that USD also has no intrinsic worth. However, this doesn't seem to be true because USD has legal standing, for all intents and purposes. I know, that I can always pay my debt in USD. The lender can not legally refuse to accept USD as debt repayment. Therefore, USD does have some monetary floor to its value. In fact, arbitrage arguments can be used to validate that USD does have such intrinsic worth. However, a lender can not be compelled to receive Bitcoin as repayment, so it is entirely possible for Bitcoin price to go down to zero. If Bitcoin doesn't achieve the anticipated financial participation and legitimacy, what will likely happen to the dramatic price rise of Bitcoin? Is the need for transaction demand causing Bitcoin price appreciation? I think many would have more confidence in the viability of Bitcoin if the price appreciation was correlated with increasing commercial usage rather than the exuberance from regulatory legitimacy. That's why Bitcoin rest on weak foundation of mere expectation and can go to zero.

Can Bitcoin undercut Federal Reserve's ability to conduct monetary policies? I don't think this issue has been fully investigated and should be before further legitimizing Bitcoin as an ETF. Assuming Bitcoin works as designed, when the Fed pursues an expansionary monetary policy, can the market forces undercut the effectiveness of the policy with such a competing currency, as a haven. Can the Bitcoin be rehypothecated? How will the rehypothecated Bitcoin enter the blockchain? What will be the expansion of credit under Bitcoin, as with USD? I think such issues need to be addressed

before we further couple Bitcoin into our financial system. These are questions that obviously need to be addressed given how instrumental our monetary policy tools were in rescuing our economy from the precipice of Financial Crisis of 2008 and COVID crisis of 2020.

Someone amusingly stated that Bitcoin is like a Tesla but with a lot of used batteries. The risks may be far greater. It may be a Trojan Horse, looking for regulatory welcome from the many marveled by the new technology. What may be from the gods, may be from Kim (the real Satoshi, by the way). Once we let in through the gates, the consequences may be irreversible, just like a Bitcoin fat finger transaction or a misplaced private key. Given that money is not just technology but also, law and economics, then when Warren Buffett and Charles Munger weighs on the side of caution, with their time tested principles in the latter two, while praising the technology itself, it is probably as good as any counselled advice.

Sincerely yours,

J.C.