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Crypto: is anyone regulating the thing that actually failed?

A feasibility assessment of the leading "regulate crypto" theories — built around a real-payments number finally measured at under 1% of volume, three mega-collapses that turn out to be old-fashioned bank failures in new clothes, and the load-bearing "offshore share" statistic that nobody, anywhere, has ever measured.

ABSTRACT

This inquiry set out to name what fifteen years of cryptocurrency actually produced, who its losses actually fell on, and which of the competing regulatory architectures addresses either. Three findings organize everything else. First, the use question has an answer: two independent methodologies converge on $350–550 billion of genuine payments for goods and services in 2025 — real, growing, and 0.6–0.9% of the $62 trillion in raw on-chain volume; most of the industry's larger "adjusted" figures turn out to share one bot filter and differ by measurement window, while the largest circulating number rests on a methodology its vendor has never published. Second, the documented mega-losses — FTX, Celsius, Voyager — were not crypto-native failures. Traced to bankruptcy examiners and federal complaints, all three ran on commingling, undisclosed leverage, and concentration: bank failures in crypto clothing, two of them behind written custody promises that were secretly violated — which means the fix is audit infrastructure with teeth, and neither flagship bill contains it. Third, the constraint map keeps pointing at what isn't measured: no one has measured what share of US-person trading runs offshore, no federal instrument can separate exchange-failure losses from price-decline losses, and an eight-architecture scorecard — red-teamed before publication, one cell corrected, two headlines withdrawn — finds that on project-verified evidence, no marquee instrument on the board can yet be distinguished from doing nothing. That is a statement about the evidence base, and it is the finding.

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PART 1

What it's actually for: real payments are under 1% of the volume

KILL CONDITION: RECONCILED

$350–550B
GENUINE PAYMENTS, 2025 — TWO METHODS CONVERGE

0.6–0.9%
OF $62T GROSS ON-CHAIN VOLUME

$14.6T
ACTUAL 12-MONTH ADJUSTED VOLUME, PULLED LIVE

$28T
THE OUTLIER — METHODOLOGY UNPUBLISHED

Both sides of the crypto argument assert the use question; this filing measured it. Two independent methodologies — BCG with Allium's wallet-behavior data, McKinsey with Artemis's infrastructure-tagging — converge on $350–550 billion of actual bilateral payments for goods and services in 2025: real, fast-growing, and well under 1% of gross on-chain volume. The famously irreconcilable "adjusted volume" figures mostly reconciled under inspection: BCG and Visa turn out to use the identical bot filter, and their apparent 5× gap is largely a measurement-window artifact — a widely-quoted "$21.5 trillion annualized" figure was a single hot month multiplied by twelve; the dashboard's actual trailing year, pulled live for this filing, reads $14.6 trillion. One number would not reconcile: Chainalysis's $28 trillion of "real economic activity" rests on a methodology confirmed unpublished as of this filing — and it is absent from the one vendor-independent academic study of this exact question, whose own finding (six in ten transfer events sit inside bot-and-bundle transactions, not simple payments) supports the filters that shrink the number, not the headline that inflates it.

ws03-findings · BCG/Allium · McKinsey/Artemis · BIS WP 1359 (Schär et al.) · visaonchainanalytics.com pulled 2026-08-04

PLAIN TALK

Crypto really is being used to pay for things – hundreds of billions of dollars a year, growing fast. But against everything moving on-chain, it's under a penny on the dollar. The giant "usage" numbers in the debate are mostly trading bots talking to each other, counted differently by whoever's selling the count.

PART 2

Who actually holds it — measured from the government's own surveys

8.8%

OF US ADULTS HELD CRYPTO, PAST YEAR (OWN PIPELINE)

1–3%

USED IT TO PAY FOR ANYTHING OR SEND MONEY

16→19%

EVER TRIED IT, 2021→2026 — STATISTICALLY FLAT

1.2%

UNBANKED-HOUSEHOLD USE — VS. 5.0% OF BANKED

This filing tabulated the federal microdata directly – Fed SHED 2025 and the FDIC's 2023 household survey, committed pipelines with identity checks – rather than quoting the survey war. The apparent chaos in circulating adoption numbers is mostly people comparing four different questions: about 19% of adults have *ever* touched crypto (Pew, flat since 2021), 8.8% held any in the past year, roughly 14% report current ownership (Gallup), and the share who actually *used* it to buy something or send money is 1–3% and has never exceeded 3% in five years of Fed surveys. The inclusion argument fares worst against the data: unbanked households – the population the financial-inclusion case invokes – use crypto at 1.2%, a quarter the rate of fully banked households.

`crypto/baseline: SHED 2025 (n=12,934) + FDIC/CPS June 2023, committed pipelines · Pew 2021–2026 · Gallup 2025 · FDIC 2023 report`

PLAIN TALK

About one in five Americans has ever tried crypto – a number that hasn't really moved in five years. The number using it as actual money is one to three in a hundred. And the unbanked people it's supposedly for? They use it least of anyone.

PART 3

The 105% recovery that wasn't — and the loss data that can't say who lost what

KILL CONDITION FIRED

103–120%
FTX RECOVERY, OF NOV-2022 DOLLAR VALUE

27–32%
SAME RECOVERY, IN TODAY'S COIN VALUE

3.7×
BITCOIN'S RISE SINCE THE PETITION DATE

0
FEDERAL INSTRUMENTS SEPARATING LOSS CAUSES

FTX's bankruptcy "made customers whole" — and paid a BTC depositor roughly 30 cents on today's dollar. Both are true. Recoveries of 103–120% (verified from the estate's own July 2026 distribution release) are measured against claims frozen in dollars at the November 2022 petition date, when bitcoin traded under $17,000; paid in cash against a coin that has since risen about 3.7×, that "full" recovery is 27–32% of in-kind value. FTX's own communications never mention the petition-date basis. The deeper problem fired one of this filing's pre-registered kill conditions: no federal instrument — not the FBI's IC3, not the FTC's fraud database, not the CFPB — can distinguish money lost to exchange failures from money lost to price declines from money lost to fraud. They are crime-complaint systems, categorized by scam type and payment method, not by cause. The consumer-protection debate is running on loss numbers that cannot answer its own first question.

FTX Recovery Trust release, 2026-07-31 (primary) · anchor 3 · phase0-findings §2 · IC3/FTC/CFPB structural review

> PLAIN TALK
>
> When you hear FTX customers "got all their money back," that's the price of crypto in November 2022 talking. Anyone who held bitcoin there got about a third of what the coins are worth now. And the government's fraud statistics can't tell you how much of America's crypto losses were scams versus collapses versus just prices falling — nobody's data separates them.

PART 4

The boring failure: three collapses, zero crypto-native causes

MECHANISM CONFIRMED AT PRIMARY SOURCE

Traced through bankruptcy examiner reports and federal complaints, the three defining collapses of 2022 share a mechanism, and it is not a novel one. FTX's terms of service promised in writing that customer assets were not FTX's property — while its engineers built a special flag letting Alameda alone draw unlimited negative balances, exempt from the liquidation engine that policed everyone else. Celsius's "Custody" accounts were marketed as segregated and were, per its examiner, commingled with company funds, shortfalls papered over from other pools. Voyager pooled customer crypto into one enormous uncollateralized loan to a single opaque counterparty, then concealed the default while still soliciting deposits. Commingling, undisclosed leverage, concentration, concealment: every one of these is a failure bank regulation has a hundred-year-old vocabulary for. No smart contract was exploited. No oracle was manipulated. And the sharpest detail cuts at the standard remedy: two of the three had written custody promises that functioned exactly like a segregation rule — and were defeated by concealment. The fix isn't writing the rule. It's the mandatory independent audit that forces the books to match it.

`ws04-findings: SEC v. Bankman-Fried · FTX examiner (Ray) · Celsius examiner (Pillay) · CFTC v. Ehrlich · all primary or primary-quoting`

> PLAIN TALK
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> Crypto's biggest disasters weren't high-tech. They were the oldest tricks in banking — spending customer money and lying about it — done by companies whose own fine print promised they wouldn't. Rules on paper didn't stop them. Auditors checking the paper against the vault might have.

PART 5

The bills vs. the losses: Washington is solving a different problem

~$4.6B

IN JUDGMENTS → TWO CONFLICTING RULINGS, ZERO APPELLATE LAW

60%

DROP IN SEC CRYPTO CASES IN ONE YEAR

5 of 5

AGENCIES THAT MISSED THE GENIUS RULEMAKING DEADLINE

0

AUDIT-CADENCE MANDATES FOUND IN EITHER FLAGSHIP BILL

Five years of regulation-by-enforcement ended with two judges in the same courthouse disagreeing about the core legal test — Ripple's judge carved out exchange sales, Terraform's judge explicitly rejected the carve-out — and no appeals court ever resolved it, because the big cases were dropped, dismissed, or abandoned after the 2025 administration change collapsed SEC crypto enforcement by 60% (penalties fell from $4.98 billion to $142 million: the clearest proof in the record that anything administrative is one election from reversal, in either direction). The legislative response is two bills aimed somewhere else. The GENIUS Act regulates stablecoin reserves — enacted, then stalled: every implementing agency missed the one-year rulemaking deadline, and its perimeter excludes algorithmic stablecoins, the class behind the largest adjudicated stablecoin loss on record. The CLARITY Act resolves which agency regulates which token — the industry's actual ask — but its custody title governs who may hold customer assets, not how often anyone verifies the books; this filing could not find a proof-of-reserves or audit-cadence mandate in it at all. The jurisdictional question is real. It is also not the question FTX, Celsius, or Voyager turned on.

`ws07-findings · Cornerstone Research 2025 · anchor 8 · anchor 12 · H7.1 adjudication`

> PLAIN TALK
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> Congress is close to deciding which referee crypto gets. Nobody's bill hires the accountants. The failures that cost people $8-billion-plus weren't caused by regulatory confusion — they were caused by nobody checking whether customer money was where the company said it was. That check still isn't in any bill.

PART 6

Illicit finance, honestly: both sides are right, about different things

BOTH TRUE

~1%

OF CRYPTO VOLUME IS ILLICIT — VENDOR-MEASURED, REVISED UP YEARLY

+694%

SANCTIONED-ENTITY FLOWS, 2025 — THE GROWTH IS STATE ACTORS

78.9→28%

RANSOMWARE VICTIMS WHO PAY, 2022→2025

$90B ≈ $93B

OIL-SHELL-COMPANY EVASION VS. THE CRYPTO RAIL

The illicit *share* of crypto volume is around 1% and roughly flat — but that figure is a moving lower bound from commercial vendors who revise every year's estimate sharply upward the year after, and the 2025 dollar surge is a specific story: sanctioned-state actors. North Korea stole $2 billion (the Bybit hack alone was ~$1.5 billion); a Russian ruble stablecoin moved $93 billion in under a year. Meanwhile the crime that made crypto infamous is receding on the one number two independent vendors agree on: the share of ransomware victims who pay has collapsed from 79%

to 28%. And the comparator both sides skip: a Financial Times investigation found $90 billion of sanctioned Russian oil moving through ordinary shell companies — the same order of magnitude as the crypto rail. Crypto is neither uniquely dirty nor basically clean; it is one channel among several, with a better paper trail than most.

ws06-findings · Chainalysis/TRM 2026 (single-lineage, flagged) · Coveware corroboration · FT via Moscow Times · IC3 2025

> PLAIN TALK
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> Is crypto for criminals? About 1% of it — and the fastest-growing criminal users are governments dodging sanctions, not street crime. Ransomware payments are actually collapsing. And the boring old shell company still launders as much for Russian oil as the crypto rail does.

PART 7

The sovereign-sized stablecoin — big enough to rank, small enough to ignore, growing too fast for either

PRIOR BROKEN UPWARD

$175–190B
ISSUER TREASURY HOLDINGS, MID-2026

~#15
RANK AMONG FOREIGN TREASURY HOLDERS — NEAR NORWAY

~1%
OF US BANK DEPOSITS — TODAY

$600B–1.26T
FED-MODELED LENDING DISPLACEMENT, HIGH ADOPTION

Stablecoin issuers now hold more US Treasuries than most countries — roughly $175–190 billion, which would slot around 15th among foreign holders, by Norway and India. This filing's own prior said "$100–150B, mid-sized"; the verified figure broke it upward. Against the banking system it is still a rounding error: about 1% of deposits. But the 2023 bank failures are the wrong reassurance and the right warning — regulators' own post-mortems found crypto was the proximate cause only at Silvergate (which wound down paying everyone), while Signature and SVB died of old-fashioned uninsured-deposit concentration. That mechanism is exactly what the Fed's own research now models for stablecoins: under high adoption with the wrong plumbing, $600 billion to $1.26 trillion in displaced bank lending. The asset is new; the transmission channel is the oldest one there is. And the disclosure regime meant to watch it isn't running yet: Tether has still never completed a full audit, and the GENIUS rules that would force one are unwritten.

ws05-findings · FDIC OIG EVAL-24-02, Fed OIG (primary) · Fed FEDS Notes 2025-12-17 · BDO attestation Q2 2026 · TIC Apr 2026 (secondary-reconstructed, flagged)

PLAIN TALK

A handful of companies now lend the US government more money than Saudi Arabia does — backing digital dollars, audited by nobody, under a law whose rules the government hasn't finished writing. Today it's too small to break anything. The Fed's own math says that stops being true if it keeps growing.

PART 8

The lopsided fight: $133 million vs. nobody

$133.0M

INDUSTRY SUPER-PAC SPENDING, 2024 — FEC-VERIFIED

25–45×

THE COMBINED BUDGETS OF ITS MAIN OPPONENTS

$0

FAIRSHAKE SPENT AGAINST ANY REPUBLICAN

0

ORGANIZED VICTIM CONSTITUENCIES — NONE EXISTS

This filing summed the FEC filings itself: $133.0 million in independent expenditures by the crypto industry's PAC network in 2024 — the second-largest single-sector political operation on record, achieved in one cycle, with 2026 spending already past it. Across the table: the two most engaged consumer-finance advocates operate on combined budgets 25–45 times smaller — total budgets, not lobbying lines. And the constituency you'd expect to exist, doesn't: despite billions in documented losses, there is no FTX-victims PAC, no Celsius-creditors lobby, no registered advocate — the one time victims' stories reached a Senate floor argument, an industry-aligned senator was using them to argue *for* the industry's bill. The money's partisan pattern is subtler than a team jersey: Fairshake funded both parties' friendlies, spent $13.5 million against crypto-skeptical Democrats, and spent zero against any Republican — discipline enforced on one side of the aisle only.

ws08-findings · FEC.gov committee filings (primary, self-summed) · Public Citizen · OpenSecrets (403'd, snippet-sourced, flagged)

PLAIN TALK

One side of the crypto-rules fight spent $133 million on the last election and is spending more on this one. The other side is a few nonprofits whose whole budgets are a rounding error on that — and the millions of people who lost money have no lobby at all. Policy fights this lopsided usually end the way they're funded.

PART 9

What other places prove — and what nobody has proven

TRANSFERABILITY, HONESTLY

Japan wrote custody rules after Mt. Gox, and its two big post-reform exchange failures both ended with customers whole — but through ad hoc parent-company rescues (one funded, ironically, by FTX), a sample of two, and rules that reallocate losses rather than prevent breaches. The cleanest data point anywhere: FTX's own Japanese subsidiary, ring-fenced by Japan's segregation rules, paid customers back two years before the global estate. Europe's MiCA is comprehensive and only fully in force since July 2026 — it demonstrably forced issuer behavior (Tether left rather than comply), while the consumer-outcome statistics circulating for it trace to no regulator this filing could find. El Salvador made bitcoin legal tender and usage fell every year until the IMF unwound the experiment — while the government's claimed daily bitcoin buying is contradicted by the IMF's own program reviews. And China ran the prohibition experiment with tools no democracy has — capital controls, a national firewall — and still hosts one in ten of the world's crypto users and 14% of bitcoin mining. Bans lose to VPNs even for authoritarians. The last precedent is procedural: when Congress last built a market-structure regime from statute (Dodd-Frank swaps), the core took three years and the full build a decade — against which the current bill's 270-day deadlines are a wish.

ws09-findings · anchors 7, 9, 10 · phase0-part2 · CFTC swaps timeline · Chainalysis-lineage China figures, flagged

> PLAIN TALK
>
> Japan's rules put customers first in line and it worked, barely tested. Europe's rules made the biggest player leave. A country that forced crypto on its citizens watched them refuse it; a country that banned it watched them keep it. The one lesson everywhere: write rules people can comply with, because prohibition demonstrably doesn't stick.

PART 10

The scorecard, corrected: a leader with no wins, a tie nobody wanted

ARCHITECTURE	CONSUMER	SYSTEMIC	ILLICIT	INCLUSION	ENFORCE
MARKET-STRUCTURE STATUTE (CLARITY)	2	3	3	3	3
SEC-LED DISCLOSURE (NO STATUTE)	2	3	3	3	2
STABLECOIN BANKING REG (GENIUS)	2	3	3	3	3
CUSTODY + AUDIT TEETH	3	3	3	3	3
STATE MONEY-TRANSMITTER FLOOR	2	3	3	3	2
ENFORCEMENT-ONLY STATUS QUO	2	3	3	3	2
OUTRIGHT RESTRICTION (CHINA-SHAPE)	2	3	2	1	1
DO-NOTHING (COMPARATOR)	2	3	3	3	3

Eight architectures, the protocol's five objectives, six weightings, every cell cited or held at a disclosed neutral. Custody-with-audit-teeth leads every weighting under every sensitivity reading — but the red team corrected what that means: it leads by being the only architecture with no documented failure, not by proven success; the segregation half is evidenced in Japan, and the audit half — the part that actually matters, per Part 4 — has never been implemented anywhere. The harder finding is the tie: on project-verified evidence, neither flagship bill, nor SEC-led disclosure, nor enforcement-only can be distinguished from doing nothing anywhere in the score matrix. Their cases rest on mechanism arguments, not outcomes. Restriction is the only architecture the evidence actively scores down. And one risk class remains genuinely unowned — the fully decentralized, no-issuer protocol, which nothing on the board reaches even after the fact, and which hasn't produced its mega-loss yet.

ws10-scorecard · 8 architectures × 5 anchored objectives × 6 weightings · four sensitivity readings published · ws10-red-team-log

CORRECTED VIA RED TEAM, NOT ASSERTED

PLAIN TALK

Graded strictly on evidence, no crypto bill in Washington has yet shown it would beat doing nothing — not because doing nothing is good, but because nobody's collected the proof. The one approach with real-world evidence behind it — make exchanges keep customer assets separate and prove it to auditors — is the one thing no bill proposes.

APPENDIX

The honesty box

The offshore share is unmeasured, including by us. The claim that most US crypto trading happens on offshore exchanges is load-bearing for every enforcement argument in the debate, and no regulator, vendor, or researcher has measured it — this filing's contribution is documenting the absence, and every enforceability score above is provisional on it. **Our leading architecture is half-evidenced.** Custody rules are demonstrated in Japan (barely — two confounded cases and one clean quasi-experiment); the audit-with-teeth half this filing calls load-bearing has no as-implemented exemplar anywhere on earth, and we recommend it as derived mechanism reasoning, labeled as such. **26 of 40 scorecard cells sit at neutral** — about 19 for lack of evidence — because this policy field is running years ahead of its evidence base; the flat board is the finding. **The illicit-finance numbers ride one commercial lineage.** Chainalysis figures anchor Part 6 and the China case, their vendor revises prior years upward annually, and the strongest independent check we found agrees only on the topline. **One axis was broadened beyond the protocol's wording** — enforceability now includes durability against political reversal, disclosed because it moves two scores and aligns with our own statute-over-guidance thesis; rankings under the narrow reading are published and the top doesn't change. **Everything here is perishable.** This domain moved faster from 2024 to 2026 than any prior filing's; every number above carries its as-of date in the record, and several (Tether's attestations, the CLARITY floor count, El Salvador's holdings) were moving as we filed. **One analyst, one desk.** A red-team pass moved a cell, withdrew two headlines, and caught seven facts cited ahead of their sources — all corrections are in the record; an independent blind second scorer has since re-scored every cell (2026-08-06): two cells corrected — both SEC-centered rows' containment scores, on the documented withdrawal of the SEC's own containment instrument — the board's structure otherwise survived intact, the first filing to need only two corrections. The reconciliation, including a disclosed contamination path now closed for all future re-scores, is in the record.

THE RECEIPTS · 11-section protocol · Phase 0 gate: GO, one kill condition part-fired and resolved by original reconciliation · 12-anchor table fully verified, broken priors preserved (anchors 2, 4, 6, 11, 12 corrected or reclassified) · deviations log (37 entries) · committed federal-microdata pipelines (Fed SHED 2025, FDIC/CPS 2023) · adversarial red-team pass: 15 attacks, one cell moved, two headlines withdrawn · all public.

CITE · Gubment. "Crypto: Is Anyone Regulating the Thing That Actually Failed?" Policy

Whitepaper No. 10, Aug 2026. gubment.com/crypto · Sources & data:
gubment.com/crypto/sources