

CRYPTOCURRENCY

# What to know about Sam Bankman-Fried and the FTX crypto exchange collapse

FTX founder Sam Bankman-Fried is facing criminal and civil charges from three U.S. agencies

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FTX founder Sam Bankman-Fried was hit with a slew of civil and criminal charges on Tuesday by three U.S. agencies, a day after his arrest in the Bahamas at the request of the U.S. government. Also on Tuesday, a court in the Bahamas where Bankman-Fried appeared declined his plea for bail.

The charges follow the collapse of FTX in November, when Bankman-Fried resigned and the cryptocurrency exchange filed for bankruptcy, stunning its customers and investors. It has led to calls for stricter regulation of the crypto industry.

On Tuesday morning, federal prosecutors in New York unsealed an eight-count criminal indictment against Bankman-Fried, alleging fraud and conspiracy charges stemming from the misuse of billions in cryptocurrency assets.

Hours earlier, the Securities and Exchange Commission announced civil charges against Bankman-Fried, alleging the 30-year-old had “orchestrated a years-long fraud” that concealed from investors the diversion of FTX customer funds to his crypto trading firm Alameda Research, among other allegations. Meanwhile, the Commodity Futures Trading Commission accused Bankman-Fried of fraud and is seeking civil penalties.

SEC Chair Gary Gensler said in a statement that Bankman-Fried “built a house of cards on a foundation of deception while telling investors that it was one of the safest buildings in crypto.”

Here’s what to know.

# Who is Sam Bankman-Fried?

Bankman-Fried, known by his initials SBF, was until recently the cryptocurrency world's wunderkind. He shot onto the Bloomberg Billionaires Index with a net worth of \$26 billion in the spring and has been a leading proponent of effective altruism, a movement that believes that rationality is key to doing maximum good in the world. He and other FTX executives also gave enormous amounts of money to politicians, more than \$70 million in the 2022 election cycle.

Born in California to a pair of Stanford Law professors, Bankman-Fried studied physics and math at the Massachusetts Institute of Technology before a stint on Wall Street. He founded Alameda Research in 2017 and FTX two years later.

## What is FTX?

Until recently, FTX was the third-largest crypto exchange in the world by volume, where investors could buy and sell bitcoin, dogecoin and other cryptocurrencies. FTX also created its own token, called FTT.

The exchange advertised itself as a safe and easy way to get into crypto investing, paying for splashy television commercials featuring superstars such as NFL quarterback Tom Brady and tennis player Naomi Osaka. It also purchased advertising space on the uniforms of Major League Baseball umpires and sports stadiums.

Notable competitors included Binance, Coinbase and Kraken.

FTX, first set up in Hong Kong and later headquartered in the Bahamas, had received capital from such high-profile investment firms as Sequoia Capital, BlackRock and Tiger Global. It filed for bankruptcy on Nov. 11.

## What caused FTX to crash?

FTX issued millions of FTT tokens, which once traded as high as \$80 but have since lost most of their value. It allegedly shifted incoming money from investors to take loans for its partner firm, Alameda Research.

In November, when news spread that most of Alameda's balance sheet was made of FTTs, the markets went into a tizzy. Changpeng "CZ" Zhao, the founder of rival Binance, said he would sell more than \$500 million worth of FTT, sparking a sell-off that sent the digital coin's value plummeting. Investors rushed to pull their money out of FTX, and the exchange paused withdrawals. To rescue his foundering company, Bankman-Fried searched for a lifeline — and Zhao tentatively stepped up.

But Zhao abruptly backed out of a deal — saying that a review of FTX’s books revealed that it had “mishandled customer funds.” Soon after, Bankman-Fried resigned and the company filed for bankruptcy.

The collapse is seen as a failure of oversight and regulation in an industry that operates outside conventional banking rules.

John J. Ray III, the chief executive brought on to oversee FTX’s restructuring, said there was “a complete absence of trustworthy financial information.” In prepared remarks for a House hearing, Ray said his initial investigation showed “gross mismanagement, excessive leverage” and “failures of internal controls.”

Ray told the House Financial Services Committee on Tuesday that FTX customers will not fully recover their money and that the process of recovery could take months.

In an interview last month with the New York Times, Bankman-Fried said he “didn’t knowingly commingle funds.”

“Look, I screwed up. I was the CEO of FTX,” Bankman-Fried said. “I say this again and again. That means I had a responsibility. We messed up big.”

## **Will Bankman-Fried be extradited to the U. S.?**

On Tuesday, Bankman-Fried appeared at a court in Nassau, the Bahamas, after his arrest at his apartment on Monday evening.

Bankman-Fried’s lawyer contested his extradition to the United States and appealed for bail. The judge declined to grant bail after Bahamian government lawyers argued that Bankman-Fried is a flight risk, because he may have money hidden in other countries.

The Nassau Guardian reported that Bankman-Fried was sent to custody until Feb. 8, 2023.

Mark Botnick, a spokesman for Bankman-Fried, said his client “is reviewing the charges with his legal team and considering all of his legal options.”

Some legal experts believe his extradition is expected to be successful. “U.S. prosecutors would not have requested his arrest, and filed and unsealed this substantial and far-reaching indictment absent great confidence in this extradition occurring,” said Mark Kornfeld, a member of the Blockchain and Crypto Asset and Securities Litigation Groups at Buchanan, Ingersoll & Rooney law firm.

The two countries have a long-standing extradition treaty that governs such requests. Kornfeld said the extradition process involves confirming that the charges brought are covered under the treaty and probable cause. While Bankman-Fried is likely to contest the extradition, his claims of “innocence” will not be a factor for the extradition request, he said.

Local media in the Bahamas reported that Bankman-Fried is also likely to face an investigation from local authorities.

## What are the charges against Bankman-Fried?

Federal prosecutors for the Southern District of New York unsealed an indictment Tuesday alleging that Bankman-Fried illegally moved FTX users' funds to Alameda to make investments and pay expenses. The indictment lists eight counts, including conspiracy to commit wire fraud and conspiracy to commit money laundering.

In a separate complaint made public Tuesday, the SEC accused Bankman-Fried of defrauding investors. The regulator says he raised more than \$1.8 billion from equity investors, including \$1.1 billion from about 90 U.S.-based investors, and that he spent years hiding risks from them. The SEC contends he diverted FTX customers' funds to Alameda and gave it a virtually unlimited line of credit with FTX, raising the potential that Alameda's assets were overvalued because it held large amounts of FTX-issued tokens.

The Commodity Futures Trading Commission also levied fraud charges against Bankman-Fried and FTX on Tuesday, alleging that they made "untrue or misleading statements" in connection with the sale of commodities. The agency is seeking civil penalties.

## What will happen to Bankman-Fried's congressional testimony?

It is unclear whether Bankman-Fried will testify before the House Financial Services Committee, which had been scheduled to do Tuesday. Two members of the House panel said they would like the opportunity to question him nonetheless.

"Although Mr. Bankman-Fried must be held accountable, the American public deserves to hear directly from Mr. Bankman-Fried about the actions that've harmed over one million people, and wiped out the hard-earned life savings of so many," Rep. Maxine Waters (D-Calif.) said in a statement. "The public has been waiting eagerly to get these answers under oath before Congress, and the timing of this arrest denies the public this opportunity."

Rep. Lee Zeldin (R-N.Y.), a member of the House panel, asked on Twitter why Bankman-Fried could not still appear before the committee, where he said Republicans were set to "grill him six ways to Sunday."

"Why not allow him to 1st testify tomorrow and answer our many questions?" he wrote.

The hearing commenced Tuesday with testimony from Ray, who is overseeing FTX's bankruptcy.

*Tony Williams in the Bahamas, Tory Newmyer in Washington, Gerrit De Vynck in San Francisco and Steven Zeitchik in New York contributed to this report.*