Article 1:
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The spectacular collapse of FTX, the big cryptocurrency exchange founded by the wunderkind crypto titan Sam Bankman-Fried, wiped out about a million people's investments and has dealt a massive blow to trust in cryptocurrency. But it has also done tremendous damage to a philosophy that Bankman-Fried championed: effective altruism.

Effective altruism is a niche but influential theory of how to do good in the world. It's buzzy in Silicon Valley, Oxford University and in certain corners of progressive data analysis, and its advocates have tens of billions of dollars at their disposal. But in the hands of Bankman-Fried (commonly known as SBF), effective altruism was neither effective nor altruistic. Instead, he illustrated how the do-gooder ideology can serve as a sleek vehicle for immense social harm.

Now the downfall of SBF could contribute to the downfall of effective altruism.

Now the downfall of SBF could contribute to the downfall of effective altruism — or at least do irreversible damage to its mainstream reputation as a virtuous movement. That's because SBF doesn't just have to answer for why he was allegedly defrauding customers, which resulted in wiping out countless people's investments and life savings. He also has to answer for how this happened on his watch as an evangelist for a philosophy that's about being exceptionally good.

But if one pays close attention to the more unsettling ideas behind how effective altruism works, it should become apparent how this whole debacle unfolded.

Effective altruists claim they strive to use reason and evidence to do the most good possible for the most people. Influenced by utilitarian ethics, they're fond of crunching numbers to determine sometimes counterintuitive ideas for maximizing a philanthropic act's effects by focusing on "expected value," which they believe can be calculated by multiplying the value of an outcome by the probability of it occurring.

SBF belonged to the "longtermist" sect of effective altruism, which focuses on events that could pose a long-term existential threat to humanity, like pandemics or the rise of runaway artificial intelligence. The reasoning for this focus is that more people will exist in the future than exist today, and thus the potential to do more good for more people is greater. He also adopted one of the movement's signature strategies for effecting social

change called "earning to give," in which generating high income is more important than what kind of job one takes, because it enables people to give away more money for philanthropy. As a college student, SBF had lunch with William MacAskill, the most prominent intellectual advocate for effective altruism in the world, and then reportedly went into finance, and then crypto, based on the idea that it would allow him to donate more money. SBF had said he planned to give almost all of his vast wealth away.

SBF's entire brand was tied up in effective altruism. The media buzz and fascination with SBF as an ascetic character helped attract investors and develop his reputation as an exception to the rule of shadiness and lawlessness in the world of crypto. His advertisements for FTX included his pledge to give away money. Journalists often noted his inattention to his unkempt appearance, his Toyota Corolla, and the fact that he had roommates as a sign of his apparent uninterest in indulging in his own money. (They paid less attention to the fact that he lived in a multi-million dollar penthouse in the Bahamas.) Unlike most other players in crypto, SBF actively sought for his industry to be regulated by the government. He set up a foundation, the FTX Future Fund, advised by MacAskill, to distribute millions in grants. (The fund's leadership team has recently resigned and says the organization is unlikely to be able to honor many of its committed grants.)

But as SBF faces allegations of fraud and has overseen the overnight evaporation of a million people's assets, his belief system is receiving new scrutiny. His shocking admissions to a Vox reporter a couple of weeks ago, in a conversation that he later said he did not realize was on the record, provides a window into the reckoning effective altruism is now facing.

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Here's Why FTX Collapsed — and Why it Matters
18:05

In online conversation with the reporter, SBF referred to his bids in the past to appear regulator-friendly as "just PR," and he disavowed some of his previous statements about ethics. When the reporter asked whether he was being honest in past interviews when he said he would not do certain bad things for a greater good, such as running a tobacco company, he responded with a cryptic "heh." At one particularly jaw-dropping point SBF responds affirmatively to a question about whether his "ethics stuff" was "mostly a front."

There's some ambiguity in this part and other parts of SBF's exchange with the reporter, but broadly speaking, one can interpret the meaning of his responses in two ways.

The first possibility is that he's confessing that his entire set of ethical commitments — including effective altruism — is a ruse. In this scenario, SBF is admitting that he's a cynical exploiter of effective altruism for his personal enrichment.

The second possibility is that he's saying that he's *extremely* committed to effective altruism, and that he would be willing to do anything — including unsavory things — in order to get to what he saw as the greatest good. The "front" SBF would be referring to is the pretense that he's constrained by standard moral boundaries. In this scenario, he is an effective altruism extremist willing to cross any line.

Remarkably, both scenarios are plausible — and damning.

The reason the first possibility — cynical exploiter — is plausible is because when you look at SBF more closely, he's not terribly different from many captains of industry. He received plaudits for asking for crypto to be regulated by the government, but in reality he was seeking out weak regulators that he could boss around. He did set up a philanthropic fund, but the money it distributed was a mere fraction of the company's value — not necessarily different in function from the social responsibility operation of a typical corporation. And if he were a true longtermist, then why would he secretly donate as much money to Republicans as he gave publicly to Democrats, when Republicans are climate denialists and would oppose the kinds of robust government regulation that would guard against future pandemics and irresponsible development of AI technology?

The second possibility— extremist true believer — is also plausible because SBF, the vegan son of two consequentialist academics, demonstrated interest in utilitarian thinking and radical commitments to human and animal welfare as a student before even entering the job market. His first venture in crypto, before FTX, involved hiring and getting funding from the effective altruism community, and giving profits to its causes. He maintained a meaningful and financially consequential relationship with MacAskill as he became a billionaire. And before the collapse of FTX, he and his effective altruist-identifying colleagues openly talked about how they were inclined to take unfathomable levels of risk in their work in order to maximize total human happiness.

The core reason that effective altruism is a natural vehicle for bad behavior is that its cardinal demands do not require adherents to shun systems of exploitation or to change them.

While these two scenarios reflect different outlooks on the world, both expose something alarming about effective altruism. It is a belief system that bad faith actors can hijack with tremendous ease *and* one that can lead true believers to horrifying ends-justify-the-means extremist logic. The core reason that effective altruism is a natural vehicle for bad behavior is that its cardinal demands do not require adherents to shun systems of exploitation or to change them; instead, it incentivizes turbo-charging them.

Defenders of effective altruism will say that some of its proponents have warned against doing harmful things to achieve a greater long-term good. But the reality is that the core philosophy allows it and as a culture it encourages it.

The value proposition of this community is to think of morality through the prism of investment, using expected value calculations and cost-effectiveness criteria to funnel as much money as possible toward the

endpoint of perceived good causes. It's an outlook that breeds a bizarre blend of elitism, insularity and apathy to root causes of problems. This is a movement that encourages quant-focused intellectual snobbery and a distaste for people who are skeptical of suspending moral intuition and considerations of the real world. The key to unlocking righteousness is to "shut up and multiply." This is a movement in which promising young people are talked out of pursuing government jobs and talked into lucrative private sector jobs because of the importance of "earning to give." This is a movement whose adherents are mainly people who went to elite schools in the West, and view rich people who individually donate money to the right portfolio of places as the saviors of the world. It's almost like a professional-managerial class interpretation of Batman.

The point is not that effective altruism does no good in the world. That is certainly not the case — it has funneled plenty of money to worthwhile causes from malaria bed nets to animal welfare to pandemic preparedness. And some of its nonbillionaire adherents who have given away huge portions of their income have admirably subjected themselves to levels of material discomfort or modesty that most people in their position would never even consider. The impulse to do a lot of good and to be rigorous about it is a virtuous one and should indeed be encouraged. The problem is that this specific school of thought is a breeding ground for a fanaticism that ignores and often *intensifies* the sources of the very problems its purportedly trying to address.

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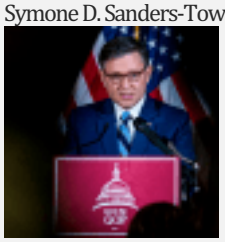

Mike Johnson just hinted at undermining the entire system of checks and balances

Jessica Levinson

Mainstream effective altruism displays no understanding of how modern capitalism — the system that it eagerly chooses to participate in — can explain extreme destitution in the Global South or the vulnerability of our society to pandemics. This crowd seems clueless about the reality that funding research into protecting against dangerous artificial intelligence will be impotent unless we *structure our society and economy* to prize public safety over capital's incentive to innovate for profit. If longtermists want to mitigate climate change, they should probably be radically reappraising an economic system that incentivizes short-sighted hyper-extractionism and perpetual growth.

To understand the myopia bred by effective altruism, look no further than the decision of MacAskill, the intellectual leader of the movement, to agree to work with a fund attached to a giant crypto exchange. Even without the fraud allegations, that's a baffling decision for a professional ethicist. Many economists and social scientists have described cryptocurrency as a pure gambling product that resembles a Ponzi scheme. (It also has a giant carbon footprint.) Why would it make sense for a moral project to attach oneself to such a source of revenue other than a blind interest in getting one's hands on *tons of money*? And how can a movement that prides itself on foreseeing long-term problems be trusted to assess risk if they can't even see the perils of attaching themselves to a shady, unregulated financial product?

The question of how to do good cannot be divorced from questions of what is just and where does power reside. This is a matter of morality: people concerned with doing good should be thinking about themselves not just as individual investors but as citizen-participants of systems that distribute suffering in the world unequally for reasons that are not natural but largely man-made. This is a matter of efficacy: if you want to alleviate suffering but you're encouraging people to go blindly into highly lucrative and thus often-predatory sectors of law, finance, tech, consulting and real estate, you're throwing gas on a lot of the fires you're trying to put out. This is a matter of practicality: building mass political movements on the left and instituting policy regimes that transform our commitments to each other is a far more plausible theory of doing good than relying on all the richest people in the world voluntarily converting into a collective of trolley-game loving philanthropist-monks.

In an interview with The New York Times' Andrew Ross Sorkin on Wednesday, SBF tried to downplay his comments in the Vox interview. He said he "forgot" he was speaking to a reporter and said that he does believe in the causes that effective altruism stands for. He suggested that he

thought FTX had to play up its focus on doing good in order to be a major business player. “I wish the world did not work this way,” he lamented.

SBF’s true motives will never be knowable. And it is entirely possible that his worldview involves some blend of the two ways of reading his quotes about his ethics being a front. Perhaps he got into the game to do good, but when the astonishing amount of money started flowing in, his ego and a desire to influence the world with his newfound power took hold, and he became more reckless and selfish because of it. In any case what we do know is that he was guided by a philosophy that didn't caution him against his catastrophic mistakes, but very well may have primed him for them.

Article 2:

Things have been going poorly for Sam Bankman-Fried lately. And they’re only getting worse.

As the disgraced co-founder of the collapsed cryptocurrency platform FTX was being extradited to the U.S. from the Bahamas last week, some of his closest associates were turning on him.

Caroline Ellison, the former head of the crypto hedge fund that allegedly misused FTX funds, pleaded guilty to several charges of fraud and conspiracy, and agreed to help federal prosecutors develop a case against Bankman-Fried. FTX co-founder Gary Wang also pleaded guilty to fraud and conspiracy charges, and is cooperating with the government.

Both of them said that they knew what they were doing was wrong, according to transcripts of their pleas that were unsealed Friday, The New York Times reported. Ellison, who reportedly once dated Bankman-Fried, said she was “truly sorry” for defrauding customers and investors, the Times reported.

These developments put him in a much more vulnerable legal position.

This is devastating news for Bankman-Fried. These developments put him in a much more vulnerable legal position, and could tear apart his defense that his alleged misbehavior at the helm of FTX was an unintentional mistake.

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His platform FTX imploded after a report emerged indicating that he may have been inappropriately misusing his customers' funds for trading at Alameda Research, a crypto hedge fund he co-founded. That allegation was giant red flag. As crypto analyst Stephen Diehl told me in November, "That's a conflict of interest. One exists to provide a service for customers, the other exists to make a profit." Since then prosecutors have charged him with illicitly using FTX funds not just for his hedge fund, but also for, among other things, huge political campaign contributions and ritzy real estate.

In the run-up to being extradited to the U.S., Bankman-Fried constantly insisted to the public that he made mistakes but he didn't *intentionally* engage in the alleged misuse of customer funds, and that he was operating honestly as an executive. In other words, he's been implying that this was a case of incompetence rather than subterfuge. But if his top lieutenants at these firms are pleading guilty, helping to build a case against him, and saying they knew what they were doing, that doesn't bode well for Bankman-Fried's case for downplaying his knowledge of the full scope and implications of how he used his customers' money. As witnesses against him, Ellison and Wang could provide critical details on Bankman-Fried's intent and state of mind as FTX money allegedly found its way into another multibillion-dollar fund and Bankman-Fried emerged as a major political force in Washington.

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Sam Bankman-Fried to be released on $250 million bond
04:10

This development isn't just a blow to Bankman-Fried's legal case, but could further damage a controversial philosophy that he championed as he became one of the richest people in the world. As I've written about recently, Bankman-Fried's close association with effective altruism, a utilitarian philosophy that claims to use data to maximize human happiness, has raised questions about whether the school of thought gives license to predatory behavior. Depending on how you read some of Bankman-Fried's accidental admissions to a reporter in November, he may have confessed that under the principles of effective altruism, he believes in doing reckless, immoral things for a perceived greater good.

Ultimately as his colleagues agree to cooperate with prosectors, the likelihood that we get a clearer picture of what really happened at FTX is increasing.

Article 3:
The time is ripe for Congress to probe and enact meaningful reforms to regulate cryptocurrencies, one of the most tortured topics in the United States today.

We're just weeks removed from the colossal collapse of FTX, the once-popular crypto trading platform formerly run by founder Sam Bankman-Fried.

I wrote in November about how Bankman-Fried's downfall cost a lot of rich investors their money, leading some of them — who've previously demurred over government regulation — to call for more government oversight of the crypto world.

And just last week, the head of the Commodity Futures Trading Commission, an independent agency of the U.S. government that is increasingly tasked with policing the crypto world, urged lawmakers during a Senate hearing to pass regulatory measures focused on digital currencies.

There's clearly some momentum to take action on cryptocurrency — the only question is how substantive any action will be given the divided Congress set to take control in January.

To be clear, Democrats in the Senate are already probing the FTX collapse, and Democrats in the House have scheduled a hearing on the matter for next week.

But Republicans preparing to hold the House majority have vowed to pursue more conspiratorial threads relating to crypto. Specifically, right-wingers have tried to cast Bankman-Fried as an exclusive benefactor to left-leaning causes — and Ukraine — to portray the FTX collapse as some sort of liberal money scheme. (Note how this theory serves two archconservative goals: slandering Democrats *and* parroting pro-Russian taking points about Ukraine.)

Unfortunately for Republicans, many of these claims have been dispelled.

Bankman-Fried, for example, has been known to donate to Republicans and Democrats alike. Recently, he even claimed —without evidence — that he was among the top donors to Republicans this election cycle, a feat he said he was able to accomplish in secret due to laws permitting "dark money" donations to political causes. And, as The Washington Post noted last week, other FTX officials donated large sums of money to Republicans as well, without facing nearly the same scrutiny as Bankman-Fried.

Fundamentally, what this means is that both major parties have connections to cryptocurrencies, and rather than lean on opportunistic disinformation, there should be nationwide incentives to root out the powerful influence these kinds of volatile "assets" can wield in our politics. That should mean *serious* – not specious — investigations into crypto.

Democrats *and* Republicans have shown a troubling obsession with this still-unproven technology — a technology, I should add, that has grave implications for the environment and the failure of which has hit Black people especially hard.

In an ideal world, the new Congress would still find a way to properly probe these things and produce legislation to fix them. Rest assured, I won't be holding my breath waiting on that.

Article 4:

Alongside the failure of a red wave to materialize in the midterm elections, the other surprising news of last week was the overnight collapse of FTX, the huge — and now bankrupt — cryptocurrency exchange where people bought and sold crypto assets like bitcoin, and the astonishing disappearance of the wealth of its ultra-rich founder, Sam Bankman-Fried.

Crypto has had a rough year, with many currencies plummeting in value and exchange platforms collapsing. But FTX had, until last week, seemed like an exception, both in its stability and in Bankman-Fried's reputation as an honest player.

But after reporting alleging that Bankman-Fried had covertly and inappropriately used funds from FTX customers to make risky bets for a hedge fund he also ran, a huge number of customers rushed to withdraw their money from the platform quickly, causing the exchange to implode.

A great deal of the buzz surrounding this massive vanishing of wealth is tied up in Bankman-Fried's public persona. He had accumulated a fortune of over $20 billion by the age of 30 and he was predicted to be the world's next trillionaire because of his financial wizardry in the crypto space. He also earned countless glowing profiles and admiration from the public for his alleged commitment to giving away his fortune and effective altruism, a hotly debated (and in my view, highly questionable) moral philosophy that calls on people to think rigorously about maximizing human welfare through often-counterintuitive modes of philanthropy. Those narratives have now crumbled and been instantly replaced with that of a reckless gambler willing to take other people's money to get his fix.

A lot of the problems that arose out of the recent catastrophe are due to the lack of regulation of these products.

To better understand the complex story of how we got here, I reached out to a leading critic of the cryptocurrency industry, Stephen Diehl, co-founder of

the Center for Emerging Technology Policy and co-author of the new book "Popping the Crypto Bubble." We discussed what exactly went wrong with FTX, why people fell for Bankman-Fried's shady practices, and how this collapse is going to rattle the already-beleaguered crypto world.

Our conversation, edited for length and clarity, follows.

Zeeshan Aleem: What was FTX and how did it make money?

Stephen Diehl: FTX was a cryptocurrency exchange. It's a website where you can create an account, show up with your credit card or your bank account, and use it to buy crypto assets. Crypto assets are effectively digital financial assets which people buy and they speculate on.

In some ways, it looks a lot like a traditional brokerage, like a Fidelity, or Charles Schwab, or Robin Hood. But crypto exchanges don't trade regulated financial products like stocks or bonds; they trade unregulated financial assets, which are crypto tokens. And these tokens are not subject to the same level of regulation as most other products in the market. A lot of the problems that arose out of the recent catastrophe are due to the lack of regulation of these products.

Why was FTX's reputation different from competitors?

Diehl: FTX fancied itself as a respectable platform. They really wanted to be perceived as being like a safe place to put your money and as more reputable. They're in a space — the cryptocurrency space — where a lot of these platforms have no pretense toward being respectable. They are set up in offshore tax shelters, usually in the Caribbean; they often have very shady reputations about them.

And at least in the marketing, FTX wanted to present itself as being this new tech startup, like they're the next generation of the broker dealer business, but for crypto. They spent massive amounts of money on Super Bowl advertisements. They papered the London underground with advertisements. They promoted themselves as being the future of finance, and at the head of this was this very charismatic leader named Sam Bankman-Fried.

Now, beneath the marketing and the veneer of credibility, what was actually going on is that FTX was set up in the Bahamas, which is a jurisdiction with extremely loose financial regulation. And they would have people from the United States log in to this platform, and give them their money.

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Breaking down the FTX collapse
05:18

But the laws of the United States and the laws of the Bahamas are two different worlds. And unfortunately, the Bahamas is not subject to the same level of regulatory oversight that the United States is. And this structure was set up in a way such that the customers of FTX actually have no claim on any of the tokens that they bought from FTX, because of the way the law works across borders. And they had a catastrophe inside of it recently, which left most people without access to the things that they purchased on the platform. And a lot of that was because of how the company was set up — because it was set up to avoid regulation entirely.

How did FTX go from seemingly untouchable to filing for bankruptcy seemingly overnight?

Diehl: It's important to note that because FTX was set up in a tax haven, it had no reporting obligations to anybody. They were a completely opaque financial black box, through which billions of U.S. dollars were flowing. But they had no accountability to any regulator. They had no shareholder visibility. They didn't even have a board of directors. And they weren't under the oversight of any of the American regulators like the SEC or the CFTC. So you had this black box run by, apparently, a bunch of 20-somethings in the Bahamas, with billions of dollars sloshing around in it and nobody looking into it. This creates a sort of criminogenic context in which a lot of things that are not allowed in normal markets could happen. And that's exactly what did happen. It turns out this company was running another company, which acts like a hedge fund.

So let's step back. FTX is the exchange: They take customer funds and allow them to buy crypto assets. They also hold the customer funds on their behalf with no actual claim to return them, because of their legal structure.

That's a conflict of interest. One exists to provide a service for customers, the other exists to make a profit.

But some of the people who ran FTX — including Bankman-Fried — also ran this other entity called Alameda Research, which was a hedge fund. Alameda Research existed to make profit for the owners of the hedge fund. That's a conflict of interest. One exists to provide a service for customers, the other exists to make a profit. So what happened, allegedly, is that some of the executives between the two entities were commingling the funds. So they were taking money from their FTX customers and using it to invest in extremely risky crypto assets for their own profit. And what happened was that the press found out that this was happening, or they made some allegations that it was happening. And this triggered what looked like a bank run.

If everybody wants all their money at one point in time, you can have what's called a liquidity crunch, which means that the liabilities of the company — what they owe to their customers — exceed the actual assets that they have. And there's no money to go around for everybody. That's exactly what happened, it happened in about 48 hours. And now FTX had a liquidity crisis, which led to them effectively becoming insolvent. They filed for bankruptcy last week.

What happens to customers seeking recourse? On one hand, this company is Bahamas-based, on the other hand, lawsuits are being filed.

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Diehl: What's going to happen for customers that have lost their money is that there's going to be a bankruptcy hearing. The courts in Delaware are going to liquidate all of the assets of the holding company across a couple jurisdictions. And then there's going to be hearings to determine how those assets are going to be divvied up, that's going to take about four or five years. Then for every $1 that people had, as an alleged creditor of FTX, they're going to get a couple cents back. And most of that money is gone.

What are the broader effects of the FTX collapse?

Diehl: This was one of the most credible entities in the entire crypto space. It exploded in 48 hours. I've never seen a week like this in markets and I look at this stuff all the time. The only comparable thing would be Bear Stearns collapsing back in 2008. That took about 72 hours. And that was a major event.

This has shaken the entire industry to its core, if a seemingly or aspiringly respectable company was engaged, allegedly, in this level of fraud, then a lot of the other players which are far less respectable and far less credible, could be engaged in far worse things, and probably are.

So when you're going to Congress to try to get regulation passed to create a safe haven for crypto assets in the United States, having the most respectable player, with a million creditors, violently implode, it's going to be hard to tell your average senator why they should respect this as an institution.

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Elon Musk's Twitter is Imploding
14:46

There are plenty of problems in the financial system, there are plenty of problems with Wall Street. But we haven't had a bank run in 100 years in the United States; they don't happen anymore. Because we put in a framework by which depositors are protected — they have deposit insurance. There are bank examiners, banks are public companies, and they have to report their finances publicly. So the kind of fraud that happened allegedly at FTX simply could not happen with a normal bank. And that simply couldn't happen with a normal broker dealer, because of the regulation. It hasn't happened since the Great Depression. That's the big takeaway here: This was very preventable.

Is there such thing as an unshady and regulatable cryptocurrency exchange?

Diehl: I'm a crypto skeptic. So let me first caveat this by saying I'll repeat [economist and current U.S. Treasury Secretary] Janet Yellen and Andrew Bailey from the Bank of England: These are assets; they have no intrinsic value; they trade purely on faith that there is somebody else who will buy them from you. They are effectively a greater fool scheme, which looks a lot like a Ponzi scheme in many ways.

That said, I think most of the problems around that would be solved by simply regulating them exactly the same way you regulate every other intangible financial asset, like stocks and bonds. There's a set of laws called the Securities Act that were put in place after the Great Depression in 1929. They have worked very, very well for the last 100 years. In fact, U.S.

markets have grown after we put regulation into them that made them become more secure. Americans have become more wealthy, our markets are robust, they're solid, people have faith in them, and that's *because* of regulation. Because if people don't have faith in markets, they're not going to put their capital toward it.

How much of Bankman-Fried's success and failure is tied to his persona as a boy wonder and effective altruist, a guy who presented as in it for putatively good reasons, for the intellectual challenge of making tons of money just to give it away?

Diehl: If there's one thing the media likes, it's a good story. And he gave them a really great story. We see this all the time in Silicon Valley. There are these cult of personalities that form around people, you saw this with Adam Neumann with WeWork, Elizabeth Holmes with Theranos. … The industry loves elevating people to secular saint status. A lot of people are very credulous, they want to cover this genius that's going to transform the world. With Elizabeth Holmes, it was that she was going to revolutionize the health care industry.

The story the media latched on to with Sam was that he believes in this movement called effective altruism, which is this ethical utilitarian belief that we should maximize the happiness of not just people around us but people in the future. And that we should inform our actions based on what will maximize the number of people in the future and their potential happiness. Baked into that is the assumption that these people who are effective altruists can shape the future, and that they know how to do it. It's a movement that's very popular in Silicon Valley. I would say it's not very popular among some philosophers, it has some problems. But it's a really great story, it sympathizes with this sort of techno-solutionism — Sam is building a new financial system, and he's going to save the world.

How much was Bankman-Fried deceiving himself versus deceiving other people? Which is a sort of way of trying to get at the question of how much of this was originally well-intentioned incompetence and hubris versus outright malicious?

Diehl: As a parallel, consider a thought experiment. Imagine a doctor, and they sell homeopathic cures. Homeopathy does not work, water does not cure cancer. But if the doctor deluded themselves into thinking the homeopathic cure can cure cancer, does that indemnify them from malpractice? The answer from our legal system is no, it does not.

You have a professional obligation to treat your patients to the best of your capacity and your personal beliefs do not affect that. The professional responsibility also extends to other professions like law, and to things like

financial advising in running financial firms. So the fact that Sam believes all of these economic absurdities, that he can just keep rehypothecating customer money and investing in coins that are talking dogs and generate money from it does not indemnify him from the fact that he lost their money on a bunch of really risky bets on a structure which is probably illegal — or should be illegal.

Article 5:

The crypto market is crashing, and lighting a lot of rich people's money on fire in the process.

In the past week, the collapse of FTX, one of the world's most prominent crypto trading platforms, has sowed a lot of doubt about the volatile digital asset market. And the devastation is turning even the staunchest capitalists into fans of "big government" oversight.

First, a quick refresher, courtesy of NBC News:

The crypto giant FTX and its affiliated companies have started the process of filing for Chapter 11 bankruptcy, with founder Sam Bankman-Fried stepping down as CEO. The filing represents a staggering turn for the cryptocurrency exchange, once reportedly valued at $32 billion and seen as the face of the industry thanks to its voluminous marketing and advertising efforts.

Bankman-Fried, a megadonor to Democrats, and his FTX platform were endorsed by celebrities of all political persuasions.

Some of the losses have almost certainly hit people from marginalized communities, who are disproportionately high investors in cryptocurrencies and may have seen the lack of federal oversight as a means to make hay in a seemingly fairer environment.

But rich investors have taken a bath, too. Here's a quick message for them, courtesy of rapper Rick Ross.

(For the record: Rick Ross is from Miami, a city that local officials have openly tried to make a cryptocurrency hub.)

In the past week, Treasury Secretary Janet Yellen has called for regulation of the cryptocurrency market. This was inevitable, as I wrote in this ReidOut Blog post in March about how looming federal regulation would eventually shatter the dreams of crypto bros everywhere.

The Biden administration has already begun evaluating possible regulatory measures, and as crypto enthusiasts come down from their high (and their

wallets are brought down to size), it's clear some of them are being forced to reconsider the previous stances against regulation.

That apparently includes conservative investor Kevin O'Leary — of ABC's "Shark Tank" fame — who appeared on CNBC this past weekend to discuss his recent losses as an investor in FTX.

In 2019, O'Leary celebrated the Trump administration's see-no-evil approach to financial regulation.

"I have never in my life seen an economy like this. This is even better than the '60s," O'Leary said in an interview with Reason Magazine. "It is phenomenal. And I think [it's] primarily because of deregulation, not tax reform. My companies in California, in Texas, in Florida, in Illinois ... have been set free."

But this past weekend, he sounded like a member of the Congressional Progressive Caucus with his demands for government oversight.

"What I'm going to be doing is, I'm gonna fly to Washington, and I want regulation," he told CNBC. "I want it now. No more delaying."

Funny how rich conservatives see value in "big" government as long as it suits them.

Check out the clip below.

Article 6:

Last year's Super Bowl featured a who's who of celebrities hawking cryptocurrency and crypto platforms like FTX. In retrospect that looks like the boom before the bust. This year, crypto prices have tumbled and one of the most valued exchanges, FTX, collapsed in a cloud of alleged fraud and federal indictments. So is it all a scam? A pyramid scheme? Will crypto endure? Our guest this week thinks it will, but says accused fraudster Sam Bankman-Fried has shown the world just how risky the market can be for new users. It remains unclear if FTX customers will ever get their money back or if crypto can ever be seen more broadly as a trustworthy store of value. Tonya Evans is a tenured full professor at Penn State Dickinson Law School whose work focuses on the legal, regulatory, policy and economic justice implications of new technologies and innovation. She also hosts a weekly podcast called "Tech Intersect," all about the intersection of law, business and tech. Evans joins WITHpod to

discuss why, in her view, the collapse of FTX isn't a crypto problem, rather a fraud problem, what the future of regulation in the space could look like and more.

Note: This is a rough transcript — please excuse any typos.

Tonya Evans: We have a huge problem from a UI/UX point of view in the crypto ecosystem. That means that it's very clunky. It's setting up a wallet. You're trying to figure out what the wallet is. Do you have the right wallet for the right type of crypto or token?

And most people tap out, right, unless they're highly motivated or highly geeky or highly both, which is me. So, the idea of making the user experience a lot friendlier to onboard people into this asset class is a laudable one and a necessary one for broader adoption of crypto.

The problem is when you have fraudsters in the mix as well. And so, that becomes, obviously, the problem here with FTX.

Chris Hayes: Hello and welcome to "Why Is This Happening?" with me your host, Chris Hayes. It is Super Bowl time this time of year and, of course, Super Bowl time it means Super Bowl ads.

And maybe you recall, if you're a Super Bowl watcher, which I think is a majority of households in the United States, last year's Super Bowl was one of the main things that leapt out about last year's Super Bowl in the ads was the insane, almost overwhelming presence of ads for a crypto, you know, cryptocurrencies, individual cryptocurrencies, crypto exchanges, all sorts of crypto spinoff businesses.

And it was really clear that these crypto firms were swimming in cash because the crypto ads that appeared in the Super Bowl, first of all, their Super Bowl ads, which are the most expensive ad real estate that exist in the entire country and probably the world, A. B, not just for the crypto ads, they had gone out and hired like some of the most famous people in America to be in these ads.

You know, there was Steph Curry was in crypto ads; Matt Damon, that Fortune favors the bold one; Larry David was also in one. I mean, and I think anyone who watched that Super Bowl came away being like, wow, that was a lot of crypto ads.

Now, there's a question of what do you do with that information and I remember thinking of the time of a story that Joseph Kennedy, of, course very wealthy man, the father of JFK and RFK. He told a story about the way that he got out of the stock market in time to avoid the Great Crash that

happens, that causes the Great Depression or happened around the same time as the Great Depression, is that he was getting tips from a shoeshine boy.

So, a shoeshine boy was telling him stock tips. And so, to Joseph Kennedy, this was his indicator that stocks had gotten overpriced, that there was a bubble that it was crazy that even shoeshine boys are talking stock tips. And so, he exited the market.

Well, in retrospect, the crypto Super Bowl looks like it was the peak of a bubble since that Super Bowl crypto prices have come down considerably. But most notably, one of the two main exchanges, FTX, has imploded and the founder of that exchange, Sam Bankman-Fried, has been indicted by U.S. prosecutors in the Southern District of New York for fraud, securities fraud, wire fraud.

He is pleading not guilty. So, we don't know what's going to happen there. But it really looks like the critics of crypto who said, this is a Ponzi scheme, this is a grift, this is a swindle. There's a lot of plugged in people making a lot of money and ordinary people are going to be left holding the bag. It looks like they had pretty good point.

I was always a little unclear about it all. We've done episodes in the show on crypto. I never felt like I had a hardened opinion out of it other than a skepticism born of some of the excesses that seemed obvious to me and also some of the like cleared grifters operating in the space.

But I thought given the massive boom and short-term bust and the news about Sam Bankman-Fried, it would be a good time to sort of devote ourselves to what exactly happened in crypto over the past year and particularly with FTX and Sam Bankman-Fried.

And so, we've got a great guest today. Dr. Tonya Evans is a tenured full professor at Penn State Dickinson Law School, and she studies this area of the law. She hosts a weekly podcast called "Tech Intersect" which is about the intersection of law, business and technology. And her work focuses on the legal and regulatory policy, economic justice implications of new technologies and innovation, including crypto.

So, Dr. Evans, it's great to have you in the program.

Tonya Evans: Thank you so much, Chris. I'm so glad that we're having this conversation. And you're right, this is the right time.

Chris Hayes: So, let's start with that sort of topline, which is where the crypto world is right now as I speak to you at the beginning of 2023. Crypto's been around for a long time. Bitcoin is over a decade old.

So, it's gone through booms/bust before and I remember in previous times, it's losing a lot of value and being like, we're done with that and then the next thing, you ƒknow. So, I don't want to like pronounce it dead, but where do you think we are right now broadly in the landscape?

Tonya Evans: It's interesting to think about the crypto ecosystem separate and apart from the macroeconomics but also to see it within the larger context of everything else that's going on. Because of where we ended with Sam Bankman-Fried and FTX in particular is kind of the death knell of a sideways movement of the crypto ecosystem, which is probably reacting to some of the broader macroeconomics of inflation and watching the Fed, coming out of the pandemic.

People tend to move into less risky positions in these times. So, I feel like there have been some pullback even outside of what we see happening given what happened with the exposure of SBF and the crypto contagion really that's really impacting the broader crypto ecosystem.

You know, we are in a place of likely heightened scrutiny from regulators, legislators. Hands are going to be pressed and far greater scrutiny about what's going on in the crypto ecosystem going forward.

Chris Hayes: So, I want to tell a story about crypto and crypto's price and the boom/bust, which is a simplistic one and then just get your read on how true it is. So, basically, we have COVID. The world shuts down. People start spending a lot of time in their computers. And not only are they spending a lot of time on their computers, people's outlets for their disposable income go away. So, people aren't spending money on vacations and they're not spending the money on travel.

So, people's balance sheets, we see this household balance sheet start to accrue, right? People have more and more savings in their pockets. This is true even fairly down the wealth scale. So, the poorest 10 or 15 percent have more money in their bank accounts than in a generation basically after those checks are cut.

Tonya Evans: Right.

Chris Hayes: You've got near low zero interest rates. So, people are looking for return. And this creates basically a little financial bubble of a lot of money flowing into crypto that's part and parcel of a larger bubble, which is that we're seeing stocks go up, we see huge valuations for tech companies.

And then once the Fed starts raising interest rates come back inflation, the easy money spigot gets turned off and it goes boom. How fair or true is that as the broad story of the last few years?

Tonya Evans: So, it's good point to think about the context where people are literally sitting in front of their computer for at least half of a year, let alone two years for those who had the privilege of actually staying home and the privilege of having a couple of extra coins in the bank to be sure, I think it's also coupled with the price because there's so many new entrants into the space that really start to react to the price when it's pumping, to be honest.

And sitting around and watching that, more people who had less exposure and didn't really understand the nature of crypto who actually does, but definitely saw things moving up really, really quickly. And so, thinking about even at the beginning of last year where the price of bitcoin, for example, was still north of 30,000, even though it had pulled back considerably from the 67,000 or 69,000, is still attractive.

So, for people who are in the gambling business, and they don't have to buy an entire bitcoin, they can buy a fraction, it was worth it for them at that time to get in, but they got in at the top.

Chris Hayes: Exactly. So, there's a kind of casino aspect to it, too. And there's a classic financial bubble, right, because there's two different reasons --

Tonya Evans: Right.

Chris Hayes: -- you won't buy an asset class, right? One is that you think there's some structural reason that the market is undervaluing. You're making an arbitrage trade, or your a value investor who thinks that, okay, this business is a very sound business model that I think is going to have growth in the long run and I'm going to buy and hold.

The other reason you do it is because like it's going up and you think it's going to keep going up. But if you buy it, you'd be --

Tonya Evans: Right.

Chris Hayes: -- on the receiving end, which someone described that to me as a momentum trade, which I hadn't heard that before. A lot of people did that. Like I even felt myself tempted to buy it because it was like, I don't know, I'm looking around, I'm seeing people I know personally people who have made literally millions of dollars having gotten in early and it's like,

wow, am I going to miss out, you know. I'm missing out. I never did buy any crypto.

But, have before (ph), but like that does also seem a huge part of this. It's just classic kind of like financial bubble people chasing an upward trajectory.

Tonya Evans: Yeah. The FOMO is definitely real in the environment and the concern is there is so much, on one hand, promise and potential for a truly decentralized alternative means of exchanging value in the same way, in the late '90s, early 2000's, when people are using peer-to-peer technology to file share.

Now I'm an IP lawyer as well so I'm not really into the sharing aspect. But let's go with that moniker of moving MP3 files and other media files and then translate that into what folks are doing now to move value instead. It's really the same technology. It's actually, when bitcoin first came on the scene, we're talking about peer-to-peer technology, the Internet, cryptographic protocols to encrypt and decrypt messaging. All of that already existed in 2009, but they were combined in a unique way.

No one really understood that. But they just saw the price really pump and the enthusiasm, as you said in your lead in, it was everywhere.

Chris Hayes: Yeah. I think that's a key thing to distinguish here because at one level, the technology is interesting about how the blockchain works and we've talked about that a little bit. It does seem like neat and nifty a novel. It seems like it potentially, and I'm certainly not an expert, has some interesting applications.

But the usefulness or the potential applicability of the underlying technology had essentially nothing to do with the enormous rally in the price, which was just like Dutch tulips or people buying homes that they're going to flip in, you know, gentrifying neighborhood with cheap mortgages, right? I mean, it was just people trying to make a buck because the value was going up.

Tonya Evans: Yeah. And it's confounding to folks who, on the other side of that, felt like it was going to be something that they couldn't lose, and they were like, you'll get in quick. And we say this a lot in crypto, it's not timing the market because the market is literally 24 hours a day, seven days a week, 365 days a year on a global basis. There are no vacations or holidays or bank closures. It's on all the time.

And so, that is something that people couldn't keep up with. Maybe they were trying to trade, maybe they are buying, you know, the equivalent of

penny stocks to try and get in on the upside without a full appreciation. And I hope that we can unpack this a bit too as well, there're over 22,000 different types of coins and tokens. And even distinguishing between native coins and tokens where their transactional data is actually recorded to a separate blockchain.

No one had a great appreciation for that. They just saw the upside of the price without fully appreciating the asset class.

Chris Hayes: So, my next question is about the fact that, to take this argument one step further. So, it seems to me there's a distinction between whatever the intricacies and potential the underlying technology are and the boom in the price of various coins and the money flowing into the space, right? They weren't that connected.

Tonya Evans: Right.

Chris Hayes: But it does seem to me that the volatility, as exemplified in the markets, actually ends up eating away at one of the arguments for the utility of bitcoin or Ethereum or any crypto cash, which is, A, a hedge against inflation, is what people said it was. It clearly has not worked that way, right?

And two, if you're going to have some kind of version of digital cash which is distributed, anonymous, untraceable and you could, you know, do whatever you want with, you can't really use it as like cash if it might lose half its value tomorrow. So, like if the volatility is this high, it doesn't seem to have the basic utility that all the people advocating for it say it has.

Tonya Evans: I think crypto, generally speaking, and we can talk more specifically about maybe the distinction between bitcoin and even ETH and then other altcoins (ph), but this idea of like a hard cap with bitcoin of 21 million coins that will only and ever be in circulation, 19 million of them are already in circulation.

It functions very differently, and I agree with you, we have seen that one of those main arguments about a hedge against inflation really fall. I also think that bitcoin doesn't function well as a cryptocurrency. And so, this misnomer of cryptocurrency when it's really taxed as a capital asset that can be used to buy and purchase things.

Certainly, I own bitcoin. I would never use it to actually buy anything because I'm a long-term holder or HODLer, hodoler, depending upon how you say it. And so, it actually doesn't function well when we think about Satoshi's Vision of peer-to-peer cash that people would use.

Chris Hayes: Right. Right. Right. That's the whole idea. Like some universe where like everyone in a free and associative way, uncontrolled by a government and could just be like buying coffee, paying off loans, supporting, you know, dissidents in Iran, whatever you thought the use for it was.

That core function, to your point, seems really vitiated in some ways by the volatility whereas it as an investment class, like, yes, sometimes, an asset class will go up or down. But if you think that there's a reason for its long-term potential to go up, you can buy and hold like you're saying.

Tonya Evans: Right.

Chris Hayes: Those are just totally different things from a utility perspective.

Tonya Evans: Well also think about now and I will compare and contrast bitcoin with something like Ethereum. Ethereum functions very differently, although the protocol has changed a bit not to get into the weeds of that, because the Ethereum virtual machine operates as a huge operating system where there are decentralized applications and other protocols that run on top of it. It serves a very different purpose.

And ETH draws an incredible amount of value because every token that functions within that ecosystem, in some form or fashion, has to leverage Ethereum. That functions very differently than the bitcoin blockchain that is really just there to record transactions and balances of bitcoin.

Chris Hayes: Okay.

Tonya Evans: That is what it is intended to do. Technically speaking, could you run smart contract code on the bitcoin blockchain? I've been told that it is possible. But that's not its function. It wouldn't serve its function well.

But, again, to your point, the idea at this point in the lifecycle of bitcoin, functions more as a store value than it does as readily available peer-to-peer cash. Final point though, and it's difficult to see in the United States, but there are other places around the world where people are literally transacting on a day-to-day basis in ways that they may not be able to do with the local currency.

I think of those who might be political dissidents. I think of gender bias and things of that nature for women who are working but not able to hold and this might be the only way. So, there are utilitarian aspects that we can't fully appreciate in the United States because the almighty dollar is still the global reserve.

Chris Hayes: So, rock solid, right?

Tonya Evans: Absolutely.

Chris Hayes: Right. If you have currency that's undergoing, you know, remarkable fluctuations in its volatility, then you may be less volatile.

Tonya Evans: Comparatively. Right.

Chris Hayes: Exactly. So, let's talk a little bit about the regulatory environment before we get to Sam Bankman-Fried because I think these two stories are related. So, here's my understanding. There's a sort of counterintuitive story here.

Crypto world has been, in some ways, pushing to get regulated, in some ways, because regulation would serve as a kind of imprimatur and a stamp of approval that would have then allow the asset classes to be integrated into the main financial system.

Large banks, large financial stations, including too-big-to-fail ones could have big holdings in them and that would open up huge markets in visas (ph). They basically failed in getting themselves regulated in such a way, which has meant that, largely, this financial market, as I understand it, has been outside of the big regulatory edifice of our financial markets, you know.

And maybe that's been good because the crash has not spread through the system because it's not like, oh sorry, Goldman Sachs, go bye-bye because they had --

Tonya Evans: Right.

Chris Hayes: -- too much. You know, they were overleveraged on bitcoin or whatever. So, is that roughly an accurate story?

Tonya Evans: This is a really frustrating area particularly as a lawyer and someone who studies this and also trains other lawyers and certainly law students in this regard. On one hand, and I've entered the space basically in 2017, I was initially encouraged by the fact that I felt like the SEC, the CFTC, when I think of the legislation that it creates and oversees agencies, that they were taking a sober approach, kind of a wait-and-see in some respects rather than just coming in, a lot of it had to do with the education.

I've spent a lot of time trying to educate policymakers just on the basics and they kind of stayed on the sidelines for a bit. That was kind of the blessing and the curses, other country started moving ahead. I think smaller

countries are more nimble. They often have only one regulator and we have this alphabet soup.

Fast forward to where we are today, most legitimate folks who are operating in the space want some clarity, which tokens are commodities, which are securities. We see a lot of regulation by enforcement. So, it's difficult to play by the rules if they are not clear.

And that has kept a lot of institutional money on the sidelines. Although in 2021, in particular, at the end of like 2020 and the beginning of 2021, we started to see some money coming from off the sidelines particularly from big business that wanted to have some exposure to what you talked about earlier. They felt like their high-net-worth individuals are sitting on the sidelines.

And so, they started to chime in as well saying, we need some clarity. We have institutional money. We want to get in the game, but we don't want to get burned in a way that you've described. And so, now, we're at a point where we have to have something that gives greater clarity.

The final point, and maybe we can unpack this as well, it's not fair to say there is no regulation. Look how quickly Sam Bankman-Fried was apprehended.

Chris Hayes: Sure. Right.

Tonya Evans: Right. So --

Chris Hayes: Well, you can't defraud people.

Tonya Evans: Right. You can't defraud people and a commodity is a commodity and an unregistered security is an unregistered security. We have it. I think we need updates in the laws to be sure. But to say that, a lot of people say there's a wholesale absence and that's where I push back a bit in that regard.

Chris Hayes: More of our conversation after this quick break.

(ADVERTISEMENT)

Chris Hayes: So, what you're saying is that there's regulatory structures in place that, on the plain reading of the law, apply to these tokens.

Tonya Evans: Correct.

Chris Hayes: Whether there've been, you know, specifically designed for them or not, that should bound some of what businesses can and can't do with them.

Tonya Evans: Yes. And then what the one caveat that the great majority of tokens will probably be commodities, there are ton in the outpouring (ph) space of unregistered securities, and it is what it is. But, you know, the CFTC needs greater teeth in order to not just talk about standards.

Chris Hayes: So, why would it be a commodity and not a security and what's the distinction?

Tonya Evans: The distinction, so, bitcoin and Ethereum, for example, are commodities.

Chris Hayes: Like a pork belly?

Tonya Evans: Like a pork belly, or the ag. That's why the agricultural committees on the Hill actually are responsible for the oversight in this regard and it functions as a commodity in the same way that you could have one dollar that's interchangeable or you have wheat, et cetera, et cetera.

And this is where we need some additional clarity but the full decentralization of a project that isn't beholden to one person, one entity, one thing. So, from the beginning, when January 2009, bitcoin comes on the scene with a gangster lean, it is fully decentralized from the beginning. There was no initial coin offering as there was in the case of Ethereum to raise money to launch a project, right?

We still have folks, in the beginning of Ethereum's history, that were involved and directly had an integral relationship with the network and people could say that they were relying on the efforts of others to get a profit or return on investment, which makes it interesting in the case of Ethereum because even though I would argue that it started out as a security and an unregistered security, by the time in, I want to say like in 2017, 2018, because I was doing something for Yahoo Financial, and literally that day, I think Bill Hinman at that time was talking about perhaps Ethereum started out as a security but it was fully decentralized by that time and therefore, had transitioned into a commodity, which makes this asset class really interesting, too.

It can start out with a certain character and over the lifecycle of a project, once it becomes fully decentralized, can change from a security, whether it's registered or unregistered, into a commodity. That is something that I think people don't fully realize because there are thousands of unregistered securities that are tokens right now.

Chris Hayes: Man okay, wait, I'm a little lost. So, what is the distinction between security, I know what a commodity is in (ph) --

Tonya Evans: Yeah.

Chris Hayes: -- like a pork belly, right, like every pork belly is like tradable with every other pork belly --

Tonya Evans: That's correct.

Chris Hayes: -- and there are markets in them, right? What is a security?

Tonya Evans: So, security is, think of an investment contract where people are paying in with the expected return of a profit due to the efforts of others. We call it like the Howey test. There's a Supreme Court case and basically that case outlines and it really is from the '40s that distinguishes what an investment contract that requires the efforts of others for the return of an investment.

And think of where that even came from, the Howey case, long story short, there's a bunch of plots of land and people were paying so that the land could be developed and the profits from that land would be returned to the folks.

Chris Hayes: And that was ruled, the court found that to be a security.

Tonya Evans: That's correct. And then fast forward to where we are now, we have thousands of projects where people say, send me your fiat maybe. We will issue our token that we've made up and then once we get this thing up and running, you'll get a return on your investment.

Chris Hayes: Okay. And that sounds like a security to me.

Tonya Evans: Correct.

Chris Hayes: So, you're saying it's an unregistered security.

Tonya Evans: If they have not gone to the SEC and filed or gotten some type of exemption, that would be deemed to be unregistered.

Chris Hayes: Okay. So, this is a complex landscape. So, some of them we think of and are regulators commodities, some are unregistered securities, and some are unregistered securities?

Tonya Evans: That's correct. So, you can absolutely have a legitimate project if you could play by the rules. And there are certainly tokens in the

space where they've gone through the effort and they've worked with the SEC, but thousands have not and that becomes the problem.

And that's how some exchanges also get into trouble as well and most will move offshore so they don't have to be bothered with registration, with the SEC. They don't have to bother themselves with KYC AML or know your customer anti-money laundering and all the other things, which is the reason most of these exchanges are offshore.

Chris Hayes: So, that brings us to exchanges. There were two big ones, Binance and FTX. FTX, of course, founded by Sam Bankman-Fried. He had been a sort of trader. He had found this like crypto arbitrage trade where he could sort of move from one market to another and make a huge amount of money and then use the profits from that to start, he had Alameda, which was a hedge fund, and then FTX. They were in the Bahamas.

What was FTX? I don't really understand like if the whole idea is that this is all decentralized, like, what do you need in exchange for anyway?

Tonya Evans: I'm glad that you said that because I've been like screaming to the rooftops for anyone to hear me and I get push back all the time. And so, I'm happy to have a longer space to talk about it.

Sam Bankman-Fried was running a centralized exchange, actually two exchanges. So, the one that is really in hot water is the one that was operating offshore but impacted investors and customers in the United States.

Second one is FTX.US which was regulated by the United States and there are couple of tiers to this type of KYC registration, but it comes with its own rules. People give a certain amount of information, connect their bank account. But FTX.US is not an issue here.

And then the hedge fund that was related that you mentioned, Alameda, a crypto exchange at a high level, and then we'll get to the centralized versus decentralized because FTX is a centralized exchange. That is not the point of crypto. That is not the point of full decentralization. This is like an old-school opaque asymmetrical by way of information where he has all of the information, other folks don't that's centralized.

Chris Hayes: Yeah.

Tonya Evans: Right?

Chris Hayes: Yes.

Tonya Evans: So, this is not the crypto industry that we are all speaking up. But you need a place to onboard. One of my courses at Advantage Evans is from cash to crypto. You have to go, at some point and exchange and also have an opportunity for a platform where you're exchanging one token for another.

That is what FTX did. It offered spot trading. There were some future stuff. They had a lot more risky operations than some exchanges do. But essentially, it was the opportunity in a marketplace to exchange either fiat to crypto or crypto to crypto.

Chris Hayes: And we should note here that like, if I'm recalling this correctly, the Steph Curry ad for FTX, the concede of it is like, I don't know anything about crypto, but I have FTX. You don't need to know anything about crypto. Like that was the whole stick.

Tonya Evans: That's literally --

Chris Hayes: Yes. It's like, Steph Curry, you're an expert in crypto. It's like, no, don't know nothing about it, but I got FTX. And it's like, right. So, what they're saying is you person out there, you download this app. You hook it up your bank account and then you're just on there. You're buying stuff --

Tonya Evans: You're in.

Chris Hayes: -- and you're in, right? So, it was obviously explicitly marketed to people who know nothing about crypto.

Tonya Evans: Right.

Chris Hayes: To get them in the door.

Tonya Evans: On one hand, this would have been good if it wasn't so bad. So, hear me out with this point, Chris, as I say it out loud. It doesn't sound great. We have a huge problem from a UI/UX point of view in the crypto ecosystem. That means that it's very clunky. It's setting up a wallet. You're trying to figure out what the wallet is. Do you have the right wallet for the right type of crypto or token? And most people tap out, right, unless they're highly motivated or highly geeky or highly both, which is me.

So, the idea of making the user experience a lot friendlier to onboard people into this asset class is a laudable one and a necessary one for broader adoption of crypto. The problem is when you have fraudsters in the mix as well and so that becomes obviously the problem here with FTX.

Chris Hayes: Okay. But this gets to like the profound question here, which is like why should I, who's watched this whole thing, not think (ph) this entire thing, it's just an enormous grift that like it's just a scam. Like there's a bunch of people who got in. They want other people's money to get into it because other people drawing in the money like an MLM scheme or like a pyramid scheme or like, you know, Bernie Madoff who kept having to get new investors so he could, you know, create those returns.

But the whole thing operates functionally like a pyramid scheme. Early entrants need other people to bring new money in, which is essentially what grows the value of the assets they hold, right, the legacy assets they hold, and you have to keep doing that so you can keep making more and more money.

But in the end, there's no there, there. There's no reason for anyone to be onboarding into crypto because what value is it other than some of the next suckers going to onboard, too.

Tonya Evans: Well, this is where I push back on when people say crypto and they're literally referring to 22,000 different types of coins and tokens and not all operate in this way. Bitcoin is not a grift. ETH is not a grift. You and I could literally create Tonya coin and Chris coin today with the token standard. It would take us about 15 minutes to do.

But I also compare it to when people say what is the backing, what's behind it, sometimes, it's a legitimate project. I think of things like, I won't start naming specific coins and tokens but there are projects, for example, working in decentralized file storage.

It may or may not work because 70 percent of new companies fail in two years. It doesn't mean it's a scam even though --

Chris Hayes: Right.

Tonya Evans: -- it may not work. It's unfair to categorize FTT, the exchange token that was created for FTX, and liking it to be coin or ETH. So, we have to just clear the space so that people can make more informed decisions so that they have the metrics to be able to use to compare and contrast.

And then the final point is also this idea that there's no there, there. I understand the reason and in many cases, there probably isn't a lot of there, there for some tokens and we see FTT is a prime example of that. I have no problem with that to be sure.

But it’s different to say that there is no value when you think about let's compare it to the dollar, for example. The dollar has not been backed by gold for decades at this point.

Chris Hayes: Sure. Right. Yeah.

Tonya Evans: It's based on the full faith, credit and trust of the government as there's more demand, it becomes more valuable, less demand, less valuable. So, we have that over there.

These coins and tokens function in the same way they require a community to buy-in, has to have robust developers to keep it accurate.

Chris Hayes: Right.

Tonya Evans: But it doesn't mean it's a grift although there are grifters.

Chris Hayes: Right.

Tonya Evans: So, I just want to kind of parse that out a bit.

Chris Hayes: Right. I mean, I guess that's right. It seems like a space that even if they're not all grifts, it seems like a space that a grifter can swim in --

Tonya Evans: Understood.

Chris Hayes: -- pretty easily.

Tonya Evans: Understood.

Chris Hayes: So, let's describe the structure of what happened with FTX because I have a little bit of a handle on it. But if you could, in lay terms, like there was this exchange, you can download an app, you can onboard pretty quickly, you can be buying and trading crypto pretty easily, right?

Tonya Evans: Right.

Chris Hayes: Lots of people are depositing their money. I mean, they have money in it, right? My FTX account, I took $1,000 from my bank account, at Bank of America. I put it in my FTX account. So, now, FTX has that money, right?

Tonya Evans: Right.

Chris Hayes: It's not in Bank of America. It's in FTX, right? And I might have cash sitting there in my account and then also some crypto assets I

purchased, right? So, let's say I purchased $500 of crypto assets. Now, there's $500 in crypto assets that's in my wallet and I've got 500 bucks sitting in FTX, right?

Tonya Evans: Right.

Chris Hayes: Lots of people did this and then all the money went bye-bye.

Tonya Evans: In some form or fashion. Although they're actually recovering quite a bit because one other thing is that the truly decentralized area and the truly decentralized ledgers in the space, we're talking like bitcoin, ETH and public facing ledgers or the records that you can actually see, it's a terrible place to do criminal activity, it's a terrible place.

It's easy when you're cooking your own books behind the scenes, right, because the FTT token was actually those transactions and balances were recorded to the Ethereum blockchain. We call it an ERC20 token. So, it's an exchange token that you can use and has some benefit and some utility in FTX land. But those transactions are actually recorded to the Ethereum records or the recordation put that to the side.

Here's how it works. You open up an account on FTX, both FTX.US and FTX.com, and essentially, you are sending either your money, and there were, I think, nine different types of fiat or government issued currency, and then dozens and dozens of different types of tokens could be traded on the platform as well.

Self-custody is actually really important in this phase and those who leave their money, their assets on centralized exchanges will always be at risk even in the best case circumstance because it's a huge honeypot that hackers spend all day every day and twice on Sunday trying to break into.

But you set up your account, easy to do, five minutes or less. You start sending on your assets. Maybe you buy some. You might leave it in a spot trading account. But there's one other type and this is where Sam Bankman-Fried and his merry band of thieves actually were able to operate a little more surreptitiously.

They set up, basically, it's a yield-bearing account. They were promising eight percent return if you just leave it on the exchange. That’s separate and apart from me sending maybe a thousand dollars or some other token to do spot trading that might sit on a custodied wallet, which was a separate type of situation than sending your money to yield-bearing account. It said you couldn’t lose money, eight percent interest and it was compounded a lot more. And that’s very attractive to people who could spend a lot of time saving and loans in the traditional market and not make any money.

Chris Hayes: Okay. So, let me stop you there because this is a little complex. So, what they were advertising is if you let your cash sit in FTX, you would make eight percent on it --

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Tonya Evans: That's right.

Chris Hayes: -- which is better than any savings account at any bank in America. Essentially, when they're doing that, right, when they're saying, you leave your cash with us, we pay you interest, they're acting like a bank.

Tonya Evans: Correct.

Chris Hayes: But they're not --

Tonya Evans: They're not a bank.

Chris Hayes: -- FDIC.

Tonya Evans: That's right.

Chris Hayes: But they're not a bank. They're not bank chartered. They're not FDIC insured. They have none of the regulatory existence of a bank.

Tonya Evans: Right.

Chris Hayes: But they're offering you better than a bank returns, right, to just let your cash sit there.

Tonya Evans: Just sit there.

Chris Hayes: Of course, the risk is that, and I guess my point. So, here's the next question. So, people have their money in this account, right? The question is did people understand like when I put my money into my bank and, you know, fractional reserve banking --

Tonya Evans: Right.

Chris Hayes: -- is complex. But basically, I know that they're using that money to do other stuff with, right? That's the way banking works.

Tonya Evans: Right.

Chris Hayes: They're using that money to loan out to other people and in so doing, they're creating actually new money. What insures against a bank run, right, which is that if everyone needs their money at the same time, the bank doesn't actually have the cash on hand to pay it --

Tonya Evans: Right.

Chris Hayes: -- is that the federal government, thanks to new deal legislation passed, right, insures up to $250,000.

Tonya Evans: Right.

Chris Hayes: So, that's how you stop bank runs in the normal banking system. There was no such insurance here and it sounds like did they undergo a bank run that was not insured, or did they steal the money because those are actually two different things.

Tonya Evans: Absolutely. It's the latter is the short answer.

Chris Hayes: Okay. I should say that he's pleaded not guilty, and I think they would say they did not steal the money.

Tonya Evans: Absolutely.

Chris Hayes: But in your opinion, you think it's the latter.

Tonya Evans: Well, and he's actually gone on record and he will not stop talking or tweeting to say that essentially, at least half of Alameda's balance position came from assets that were customer assets. And the problem there is maybe if you set that up and you let them know, there are other situations where you can have yield-bearing or interest-bearing accounts and it becomes very clear in the fine print, if you care to read it, this is what we're going to be doing and this is why you get such a great return.

Many people don't get there especially if you can set up something in five minutes. But it at least sits there --

Chris Hayes: Right.

Tonya Evans: -- in the fine print. There was no fine print to that effect or the co-mingling or the relationship between FTX Alameda as well. And so, that is extremely problematic. That's classic fraud. That's classic Enron. Or it's classic Lehman Brothers, right? That's what this Bernie Madoff, as you've mentioned, as opposed to a problem with crypto, although it's an old trick but it's the latest technology to be able to do it.

I argue that it's easier to recoup the funds here because of the nature of wallets. And following the money is just easier in the crypto realm because literally every transaction is recorded for ever you can go back to the initial transaction, you know, from the genesis spot to even see every single step of the way.

Chris Hayes: So, if I understand this correctly, again, I'm sorry to be a little dense here --

Tonya Evans: No.

Chris Hayes: -- but I just want to retrace it. So, okay, you're giving me your cash. It's sitting in FTX. This is customer money, right? It has your name, Professor Evans on it. It's Professor Evans' account.

Tonya Evans: Like an IOU though. Yeah.

Chris Hayes: Yeah. Right. But your understanding of it at the user interface in the same way when I log into my bank, it's like there is your bank account, right?

Tonya Evans: Right.

Chris Hayes: Like in my head, like that's my money.

Tonya Evans: Right.

Chris Hayes: It's not like even though banking is complex and in fact, it's not sitting there in some sense, right? But it's guaranteed to me, right?

Tonya Evans: Right.

Chris Hayes: So, you look in your FTX account, it's there. What they're doing behind the scenes without notifying you is they're taking that money. They're giving it over to Alameda. Alameda's investing it. And the hope to make the whole thing scan is Alameda's getting 15 percent returns, they're taking seven and they're kicking the eight back into the FTX account.

Tonya Evans: That's correct.

Chris Hayes: You have your interest-bearing account. You're doing better than banks. Everyone's happy.

Tonya Evans: Right.

Chris Hayes: And that trade works as long as Alameda can make 15 percent, right? But they have a few bad weeks. They start losing. They start making riskier bets to try to recoup, right? Then you're in Madoff territory, right?

Tonya Evans: Right.

Chris Hayes: Because then your, you've moved over from like, because you haven't been honest with the customers to begin with, you've now moved over for a plausibly be a reckless trade levered on your customers money to essentially having to pyramid scheme and lie your way out and get more and more reckless with your bets to try to hit it big to pay them back. And then as soon as word gets out, everyone comes to get their money out and then you have a classic bank run.

Tonya Evans: That's exactly how we got here. That's exactly why this is happening.

Chris Hayes: Okay. Okay. Okay. I'm sorry to take this slow and repeat it in my words. It's just the only way for me to understand is to do that. Okay. So, now, I have a better sense of what about happened.

But to go back to your point about tracing the money, if Alameda just made a bunch of bad investments, right, if they invested in things that went bust, the money is gone. There's just no one to get it back from, right? Like if you lose money, you just lose money.

Tonya Evans: That's correct. That's correct.

Chris Hayes: So, like, a lot of people are not going to be made whole here.

Tonya Evans: And certainly at the customer level, I think --

Chris Hayes: Yeah. That's what I mean.

Tonya Evans: -- to the extent that anybody's going to get it back. And as a matter of priority, I'm not a bankruptcy lawyer but I've been trying to keep up with the movements there and reading through those documents and as a matter of priority, those investors, to the extent that there's money coming back, will go to them before it trickles down to customers to be sure.

Chris Hayes: We'll be right back after we take this quick break.

(ADVERTISEMENT)

Chris Hayes: You sound like someone who's intimately familiar with the law here and pretty familiar with the case, like the prosecutor's case here is pretty strong.

Tonya Evans: It is very strong. I mean, I was looking at the calculations and some of the ranges of potential jail time, prison time, excuse me, and that could go upwards of 115 years to be sure. It kind of taps out because we've never had this level at a certain point to even go forward.

But wire fraud, securities fraud, money laundering, campaign finance laws as well, although I don't think those will stick, but we also have lockstep actions from the SEC and the CFTC as well, the SEC on the investor side, the CFTC on the customer side.

So, between Department of Justice, the CFTC and the SEC, there's some really, really very serious charges with very serious consequences. And we have two people who are participating and, you know, they're cooperating I should say.

Chris Hayes: Right. So, the person who is the head of Alameda, we believe, is cooperating, right, with federal authorities.

Tonya Evans: Yes. She's already pleaded guilty, Caroline Ellison, and also Gary Wang pleaded guilty as well. He was the co-founder of FTX.

Chris Hayes: Okay. And these are people who were sort of in the Bahamas, I guess, polycule to describe.

Tonya Evans: I don’t know what we should call it, right? I don’t know.

Chris Hayes: It’s all, it makes me feel like a real old man. The classic Bahamas crypto polycule. So, right. So, that seems like bad news if you're Sam Bankman-Fried. If the person who is the head of Alameda, which appears to be the instrument that was losing all the money --

Tonya Evans: Right.

Chris Hayes: -- has pleaded guilty and is cooperating with authorities, like you're probably in a tough spot.

Tonya Evans: Absolutely. And that happened pretty quickly. Gary Wang agreed. I know that Caroline Ellison absolutely did as well. And that was

only a few days after charges were filed. He's arrested in the Bahamas. He spends a few days, week tops, in the Bahamian jail. He's like that's not cool. I'd rather be in my parents' basement. He agrees to extradition, he comes back and then the rest is history.

Chris Hayes: What do you see is the fallout from this for both law regulators, other people in the crypto business?

Tonya Evans: This is really serious ripple effects for the industry. You mentioned a couple of exchanges, but we also have Gemini, Coinbase, Kraken.

And at least Gemini's earn product is locked up because of its relationship to another crypto lender, Genesis, that has filed bankruptcy and is tied up in this. There's another crypto lender, Block5, that filed bankruptcy as well. So, the dominoes have fallen.

But I think it's probably a good thing to weed out folks who are not operating well in the space and to unearth some of the real systemic issues with centralized finance. You don't have the same issue with this DeFi or decentralized finance because it may have some risks. I'm not saying there are no risks.

Chris Hayes: Sure.

Tonya Evans: But there aren’t for the centralized actor. You might have volatility risk. You might have failure of software. There might be a hack.

Chris Hayes: You can be hacked and stolen. Yeah. Right.

Tonya Evans: Right. So, those things still persist. And one of the safest ways, even though it comes with its own attendant risks as well, self-custody. That’s what I preach with my students. And that’s what I talk about on the pod all the time. This is never to blame the victim, but the point of an exchange is literally to exchange, not to have your assets residing on --

Chris Hayes: Sit there. Right.

Tonya Evans: Right. If you pull it off now and if you lose your cold storage wallet or your other wallet, you have some other issues, but it won't be this. And you have to take your money, your assets off of exchanges.

Chris Hayes: I mean, to get back to this, the cold storage wallet thing, right?

Tonya Evans: Yeah.

Chris Hayes: So, you have this wallet that holds the unique key, right, and the thing about bitcoin is that it does function like cash, right? So, the amazing thing about cash, right, is that if you have 10,000 U.S. dollars like you can give that to a person and then --

Tonya Evans: Right.

Chris Hayes: --they have that 10,000 U.S. dollars and the government doesn't know about it. Well, let's say, $9,999.

Tonya Evans: Right.

Chris Hayes: You don’t want to be indicted for structuring. But the other problem with that, right, so, that’s the upside if you give someone $9,000 in cash. The downside is like they might lose it, or they might get held up and taken. And then --

Tonya Evans: Right.

Chris Hayes: -- you're just SOL like you can't do anything about it. It's the same with bitcoin, right? I mean, like --

Tonya Evans: Absolutely.

Chris Hayes: -- if you're hacked, or you lose it. Like it's gone in the same way that a briefcase and $9,000 cash is gone.

Tonya Evans: Absolutely. And it's interesting when I think about the self-determination and the economic justice aspects of some of the things I talk about and we just aren’t raised, I think, writ large particularly when I think of communities that have been systemically marginalized.

And I've never learned more, even with all of my financial and education privilege as I did when I got into this space, to really figure out about what it means to be in charge of my assets, to check on a regular basis, to have responsibility to not say, don't let me worry my pretty little head about it, I'll just trust the bank.

Trust can be broken. We see what happened in the fallout of 2008, 2009. So, what alternatives are there and there's a lot of responsibility but also a lot of power as a matter of economic justice and managing your own money and being your own bank.

Chris Hayes: But it seems to me like you could also take the opposite lesson, right, which is that like the structure of trust, again, as we learn from, you

know, you had periods in the late 19th century of constant bankrupts and constant financial crises.

Tonya Evans: Yes.

Chris Hayes: And then you have the second Federal Reserve, the second National Bank. You get the Federal Reserve Act then you get the new deal legislation, all of which comes together to produce a sort of system of trust that's ultimately backed up by law and ultimately U.S. government so that it's not a buyer beware situation, right?

But it sounds like you're saying like, well, there's something empowering about the buyer beware situation or attractive to folks who might be squeezed out of or skeptical of the classic financial situation.

Tonya Evans: Absolutely.

Chris Hayes: But it also seems, it seems perverse, too, right, because the extent the people are marginalized or squeezed out of the normal banking system or unbanked, they're outside of that system of insurance and trust. And to the extent that they're then operating in these other places like you're saying, you know, on tokens or with crypto, they're also more exposed, like, they're self-insured, right, like the risk is on them.

Tonya Evans: In some sense, it's true. But I think we overplay our hands because I'm always a little skeptical of other systems that weren't built to protect me and didn't include me to actually then trust them with everything.

Chris Hayes: Yeah.

Tonya Evans: What's the counter? What's the alternative? I have very much believe in balancing things out. I don't think this is going to replace fiat. In fact, every central bank is working on central-bank digital currency, including in the United States.

Chris Hayes: Yeah.

Tonya Evans: This technology is not going anywhere. Crypto is not going anywhere.

Chris Hayes: Right.

Tonya Evans: So, either we learn the language of it, and we learn how to use it responsibly or we get left behind. And now, the, we, for those who don't participate in the one percent of the one percent of the Silicon Valley money

that created a Sam Bankman-Fried where, you know, invested all of these millions and billions, millions upon millions of dollars to prop up someone who didn't even have a Board of Directors, didn't even have an accounting department or real CFO, but he's always given the benefit of the doubt to fail forward.

I promise you that if I tried to do that, we'd be sitting here talking about all the things that went wrong that didn't happen.

Chris Hayes: Yeah.

Tonya Evans: Right. Even with again my financial and education privilege, and I've benefitted personally, most of my crypto holdings, when I had them at their peak, came from earning, I was the chair of the MakerDAO Foundation, that's where I learned a lot about decentralized finance, and I was charged with the task as the chair to oversee the full decentralization of that project. It's one of the most successful projects as well. That token went from a couple of hundred dollars per token to thousands, right?

So, I benefited on upcycles. I've seen downcycles. I notionally gained and notionally lost to be sure. But it was that, that allowed me to be debt-free and my parents to be debt-free and for me to purchase other assets to balance that out that would not have been possible but for that.

So, it's a both and thing. But I'm really concerned with people who don't have all the information and therefore either make terrible decisions or sit on the sidelines for fear of losing.

Chris Hayes: Did the experience of FTX end up discrediting the notion of centralized exchanges for a crypto?

Tonya Evans: This is a really important question because it is the worst of the worst, not only of the legacy financial system but what will happen without the proper guardrails to dissuade folks from just replicating the same system with new technology. So, if we, as consumers, as investors, as policymakers, don't learn the lessons here and then come forward with reasonable regulations that strike the balance between encouraging innovation, protecting innovation so that America remains relevant as this moves forward because it's moving forward regardless, but also with the protections, as you've mentioned, of consumers and investors in the process.

And also making sure that there is inclusivity in terms of access and inclusion to participating on all sides not just as an investor or consumer but also in the build of this next iteration of the Internet, which is really what the framework of blockchain and other Web 3 technologies are.

Chris Hayes: So, that's all the folks and all the money's been on the currency part, right?

Tonya Evans: Right.

Chris Hayes: But then there's this idea of that there's this decentralized structure for doing all sort of things, an autonomous organization, self-regulating organizations, self-executing contracts. Like again all this, I feel dumb because I've struggled to sort of get are my arms around it.

Is that happening, like is the non-crypto part of the blockchain or the non-crypto parts of these structures like autonomous organizations and DAOs, like are those happening, are they producing like things in the world that are tangible and useful?

Tonya Evans: There are. And it's not a dumb question at all. I'm writing a book right now basically demystifying or it's called "Digital Money Demystified." So, it's going, you know, I'm dealing with all of these myths and rightsizing them. Sometimes, there's half-truths. Sometime, not.

But also, talking about the benefits not just of the investment and the speculation but what is this technology really for and how is it functioning as a matter of protecting identity. We talked about NFTs for example, non-fungible tokens, this unique identifier. We talk about it in the context of art and collectibles.

But I'm more interested in how it might be used to protect identity, or I think of companies like Ticketmaster cutting down on scalping because there's this unique identifier. There's really interesting ways that we're so early that a lot of things will test and fail. But some things will emerge and really make things better, faster, cheaper in terms of not just connecting us to information or each other but having artificial intelligence and augmented reality and virtual reality in internet of things that connect in a way that connect us more broadly than our local circles.

And that's the thing that really excites me about the power and potential if we right size. So, yes, those projects are moving forward. I just participated in one research project with Wharton and with the World Economic Forum to create a DAO toolkit.

It's agnostic because I'm not trying to convince people to buy crypto or participate or not. But it's a toolkit that you can use to start to unpack like what does this mean, what's the relevance, how might it help in systems and organizations and in ways that are more empowering. So, that's what we are.

Chris Hayes: Just for folks who don't know what a DAO is, D-A-O, can you just give us a 101?

Tonya Evans: So, decentralized autonomous organization is what it stands for and basically, it is disaggregating or flattening out an organizational structure where you have more flat organizational participation that's more like grassroots are ground up that doesn't again have a centralized entity. But you can have all sorts of DAOs or decentralized autonomous organizations that can come together and pull their money.

There was even a DAO that was the Constitution DAO to try and buy, you know, the Constitution, for example, and a range of other things. There are some DAO pools that operate as a matter of governance to fund projects. So, a lot of really fun and exciting ways that DAOs are operating and really challenging the notion of organizational structures.

Chris Hayes: Right. So it's my understanding is like a set of like essentially governing structures or kind of organization constitution or bylaws that is on the blockchain and also has some sort of like public ownership, like transparent ownership token, right, so that you're a member --

Tonya Evans: That's correct.

Chris Hayes: -- of the organization and then that membership can be, you know, traded or not depending on the bylaws, right?

Tonya Evans: Right. Yeah. That gets back to a point that you made earlier as well that there are multiple uses for one token. It can have value on a secondary market, but it can also allow you to have governance participation as a matter of voting or things of that nature. So, yeah, it can kind of be a both-end structure, something that has value as a capital asset in its own regard but also has some utility.

Chris Hayes: So, when you talk about these tokens, it seems to me one of the other parts of the story here and parts of the broader crypto story is that you said there's 22,000 different coins out there. Like it seems to me that a coin that is traded at the volume of bitcoin or Ethereum, right? It's just that it's the nature of any financial market for anything that the larger it is, right, and the more transactions, the more that price is going to be pretty transparent, right? You got lots and lots of buyers, lots of sellers.

Tonya Evans: Right.

Chris Hayes: If you shrink that down, those markets get more obscure. They get more eccentric. Information asymmetries become more profound, right? You know so if you're like the market for an Apple stock, right, one

share of Apple, like everyone knows that price is. You just go on CNBC, go on the Internet, like that's the price.

The market for a Damien Hirst painting, right, or a rare piece of shaker furniture or a gem, right, these are less liquid markets. They have less participation in them. They're more obscure. Information asymmetry can be exploited much more easily, right? Someone says, oh no, this gem is worth X and you're like, I don't know.

So, it seems to me like you've got that issue in the crypto space and that in the case of FTX particularly, one of the accounting gimmicks they were putting out was they were putting out their own tokens. They put it out and say, you know, here's 10 of these tokens, and people would buy them for say $10,000 each and they'd be like, oh, by the way we have 900 of them on the books.

Tonya Evans: Yes.

Chris Hayes: So, it's worth 900 times whatever that cost is. Like, well, of course, it's up because you actually sold it, you would bring the price down because you would oversupply. But it just, to me, tokens can be dangerous in the sense that when they're not being traded in this pretty like voluminous way, deep way, it seems like there's a lot of openness for prediction.

Tonya Evans: I would argue that. Actually, when you have a public permission list record that actually you have public-facing rules, the rules are embedded in the software. And so, the type of asymmetry of information you're talking about can happen in an exchange world but not in the token separate and apart from the exchange.

To your point, if you have project founders who hold back a certain amount of coins or tokens, you actually can see that amount reflected in the wallet that is holding them.

Chris Hayes: Right.

Tonya Evans: So, that separate and apart from the apparent fraud that went on behind the scenes with the movement of customer assets over to Alameda to participate in the risky bets, which is separate, then again, you can go on --

Chris Hayes: I see.

Tonya Evans: -- and the price of the FTT is going to rise and fall. I saw some of those tokens went up 30 percent today when there is the possibility that

the current CEO of FTX who came in, John J. Ray III, he mentioned in passing that they might start FTX.com again and all of a sudden, the price --

Chris Hayes: I understand. I see. I see.

Tonya Evans: -- you know, went up.

Chris Hayes: So, you're saying there is sort of transparency --

Tonya Evans: Yeah.

Chris Hayes: -- on the smaller tokens because you can actually see them.

Tonya Evans: Absolutely. Now, that doesn't protect it from the volatile swings that you are mentioning but it is not an asymmetry of information issue in that regard because it is what it is.

The rules are embedded in the code, the information, those ledgers or those records. We can actually go and see all of the wallets that hold all of the assets and their movements.

Chris Hayes: I guess the final question is when you say this is not going anywhere, what makes you confident in that?

Tonya Evans: It's not something that you can stop. Like think of, let me be more specific. Peer-to-peer technology that is used. First of all, the internet's not going anywhere.

Chris Hayes: Well, that I would agree.

Tonya Evans: Peer-to-peer technology is not going anywhere. And even if, and there are some countries, China comes to mind immediately, this is absolutely forbidden and you cannot participate and yet, we see wallets accessing blockchains because it is global. It's not holding to one particular place.

The records are decentralized and redundant to the extent that as long as you have a computer, one computer in the world that is still running the bitcoin software, and there are millions of them at this point in time, those records will always exist.

So, the issue for governments and policymakers at this point in time is how do you have a right size relationship with it so that when people are participating that they're doing so in a way that's legitimate, that's safe, that's legal so that people could be confident in the space. But the

technology itself is not going anywhere. People are going to continue to hold whether it's in this country or others.

And what we've seen from the current administration, the Biden administration, is some passive recognition of that with President Biden's executive order last year to tell all agency heads, let's have a coordinated effort to protect consumers and investors in the technology.

Chris Hayes: Yeah. I'm really curious to see where this goes. I'm also curious to see if we get more crypto ads in the Super Bowl and whether they acknowledge all this.

Dr. Tonya Evans is a full professor at Penn State Dickinson Law School. She is the host of a podcast called "Tech Intersect." She writes on and studies legal regulatory policy, economic justice, new technologies, including crypto. She created the first blockchain crypto in law certificate program.

Professor, that was great. Thank you so much.

Tonya Evans: Thank you, Chris.

Chris Hayes: Once again, great thanks to Dr. Tonya Evans. Those conversations, they're good for me because they really test my capacity to understand. Maybe they test yours too, or maybe I'm just not that good at getting my head around this stuff. But I feel like I did get a grasp of a lot from Dr. Evans, and I really appreciate it.

If you have thoughts on crypto, send them to withpod@gmail.com. Tweet us with the #WITHpod or follow us on TikTok by searching for WITHpod.

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Correction: An earlier version of this transcript included the guest mentioning that Kraken is an offshore exchange. Kraken is based in the United States.