THE WALL STREET JOURNAL.

HD **In Days, FTX Chief Went From Golden Boy to Villain --- Sam Bankman -Fried's downfall casts shadow on broader use of crypto**

BY By Gregory Zuckerman and Alexander Osipovich

WC 1,951 words

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SN The Wall Street Journal

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LP

In a matter of days, **Sam Bankman** -**Fried** has gone from crypto hero to villain.

His billion-dollar fortune has collapsed. He is facing Justice Department and Securities and Exchange Commission investigations. His firm, **FTX**, is bankrupt, and with it many hopes for the future of crypto itself.

TD

An outwardly genial 30-year-old commonly referred to as SBF, Mr. Bankman-Fried was until this week the industry's leading champion. His firm's finances were opaque, but he seemed to be an open book on Twitter and in scores of media interviews.

Bill Clinton, Tom Brady, Katy Perry and other boldfaced names trekked to FTX's Bahamas base to appear with him at a conference he organized to promote his vision of a sophisticated financial system built around digital assets. He spoke recently of becoming the world's first trillionaire. He gave liberally to political candidates and causes, and he became an advocate of effective altruism, a trendy philosophical movement that encourages young people to make big bucks so they can donate fortunes to charity.

Another side to Mr. Bankman-Fried emerged as his firm grew. He was brusque and insulting with overseas regulators and others, said people involved in the meetings. He demonstrated a cocksure style in negotiations to buy struggling crypto companies. He courted U.S. politicians and regulators, and seemed to egg on their scrutiny of his rivals.

And behind the scenes, FTX was using billions of dollars of customer money to fund risky trades by Alameda Research, a digital-currency firm he also founded. Revelations of the practice this week shocked Mr. Bankman-Fried's admirers, as well as many of his own employees. The undisclosed loans tore a hole in FTX's finances that set the stage for the exchange's swift implosion earlier this week.

In the end, one of Mr. Bankman-Fried's fatal mistakes might have been antagonizing members of the crypto world by advocating for crypto regulation. In particular, he made an enemy of Changpeng Zhao , the billionaire founder of Binance , the world's biggest crypto exchange by trading volume. Mr. Zhao, who goes by CZ, was an early financial backer of FTX.

Last weekend, he helped pull it apart -- tweeting that Binance was dumping its stash of more than $500 million worth of FTT, a token created by FTX.

The Binance founder said the move was for "risk management" purposes, citing a recent report on crypto website CoinDesk revealing that billions of dollars worth of the illiquid token were sitting on the balance sheet of FTX's sister firm, Alameda.

That was a problem because it showed Alameda was dangerously dependent on FTT, a token with uncertain value, and Alameda's finances might collapse if selling caused the token's price to crash. It

was unclear at the time whether Alameda's troubles would extend to FTX, but fears quickly mounted in the market about FTX's stability, given the intertwined nature of the two firms.

Later that day Mr. Zhao added a dig: Binance couldn't support those who lobby against other players behind their backs, he tweeted. It was a clear reference to Mr. Bankman-Fried's activities in Washington, where the FTX chief had emerged as one of the largest political donors.

Almost immediately, hedge funds and other firms yanked money from FTX, causing a crisis that jeopardized the exchange's future. On Sunday alone, customers slammed FTX with $5 billion worth of withdrawals, according to a tweet posted later by Mr. Bankman-Fried.

Seeking a rescuer, FTX turned to the same rival who had sparked the crisis: Mr. Zhao. Binance agreed to buy FTX, only to withdraw its bid a day later. Adding salt to the wound was that Mr. Bankman-Fried only learned about the deal falling apart after it was reported in the media, he told employees in a Slack message seen by The Wall Street Journal.

"I'm deeply sorry that we got into this place, and for my role in it," he wrote in the Slack message. "That's on me, and me alone, and it sucks, and I'm sorry, not that that makes it any better."

As recently as last month, Mr. Bankman-Fried was boasting about his plans for expansion. He was in talks with investors for fresh cash to pursue "efficient acquisitions," he said at the Journal's Tech Live conference. He said FTX was already well known among crypto pros; he was interested in buying something that would get more mom-and-pop traders on board, he said.

On Friday, Mr. Bankman-Fried resigned as chief executive. The bankruptcy filing put an end to his frantic efforts to find suitors to save FTX -- an ironic twist given that FTX itself bailed out ailing crypto firms earlier this year.

And after previously criticizing bad actors in crypto, Mr. Bankman-Fried is himself facing federal probes. He has described the decision to use customer funds as a poor judgment call, according to someone close to the matter.

In traditional finance, regulators require brokerages to segregate customer funds from any capital they use for trading. But in the Wild West of crypto, the rules are murkier. It wasn't immediately clear what legal consequences Mr. Bankman-Fried or FTX might face for the loss of customer funds.

Alameda and FTX haven't yet detailed what happened to the missing money, though Mr. Bankman-Fried has promised to share more information. Alameda was known to engage in risky trading strategies and was more vulnerable to volatility in the crypto markets than FTX.

On Thursday, Bahamas regulators froze the assets of a key FTX subsidiary and appointed a provisional liquidator. On Friday morning, FTX and its U.S. unit filed for bankruptcy.

"What's shocking is the fall from grace, it was so rapid," said crypto analyst Dan Dolev of Mizuho Securities . "We're learning that value can evaporate within minutes in crypto, that's the most shocking thing."

FTX's collapse is the most serious setback yet for crypto's wider goal -- to build an alternative financial architecture that could supplant the system of banks and brokers that dominates the world of money today. A brutal decline in the price of bitcoin and other digital currencies this year led to a string of crypto-firm bankruptcies that revealed loose lending practices and rampant risk-taking.

FTX, which advertised sophisticated risk-management capabilities and gained a rapid following, was viewed as a stabilizing force, while Mr. Bankman-Fried was seen as a visionary capable of leading the digital-currency world to a bright future. "The question now is can you trust any crypto investment," Mr. Dolev said. "Will it expire worthless in a matter of seconds?"

The broader investment and financial worlds have long held their collective breath as the crypto universe evolved and expanded. Financial players worried a collapse might take down more entrenched firms or investors, creating potential problems for the broader system.

For now, there have been few signs of broader impact, reassuring professionals and others.

Still, the financial world remains on edge because FTX had hundreds of mainstream investors and lenders, including some of the leading venture-capital firms and others. They likely have suffered enormous losses from FTX's downfall and the resulting tumbles for bitcoin and other crypto investments. FTX, Alameda and other affiliates estimated in their bankruptcy filings that they have more than 100,000 creditors and face liabilities of between $10 billion and $50 billion.

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FTX's collapse also comes as the Fed moves to raise interest rates to fight inflation and end the era of easy money, putting a damper on risky assets like crypto. That suggests there may be more pain and shock to the financial system to come.

In 2017, Mr. Bankman-Fried started Alameda Research in a rented house in Berkeley, Calif. It launched a crypto exchange in May 2019, under the name FTX, shorthand for "Futures Exchange." Binance became one of FTX's first investors.

The exchange grew explosively, surpassing rivals that suffered from technology stumbles and poor user interfaces, though it still trailed Binance .

Starting in 2021, FTX made a huge funding push, raising nearly $2 billion within seven months -- including from Sequoia Capital. FTX's last funding round, in January 2022, put it at a valuation of $32 billion.

Mr. Bankman-Fried leaned into his brand as a chilled-out quant trader, showing up at crypto conferences in his FTX T-shirt and baggy shorts. He usually was treated as a rock star. Soon, stalwarts of finance, such as Ontario Teachers' Pension Plan and Singapore state investment company Temasek Holdings , joined FTX as investors.

But FTX still had fewer customers than its primary competitors -- around one million users last year, it has said. Mr. Bankman-Fried sought to attract crypto newbies through sports sponsorships and advertising, paying $135 million for the naming rights to the Miami Heat 's basketball arena and buying a Super Bowl commercial featuring comedian Larry David.

The Binance-FTX rivalry grew deeper. Last year, Binance sold its roughly 20% equity stake in FTX, swapping it for a mix of cash-like stablecoins and FTT tokens. In June, Mr. Zhao tweaked Mr. Bankman-Fried's drive for publicity: "It was not easy saying no to Super Bowl ads, stadium naming rights, large sponsor deals a few months ago, but we did."

Binance didn't respond to a request for comment.

Regulation was a point of contrast between the two firms. Last year, governments around the world including the U.K., Italy and Japan warned Binance for offering unregistered crypto products, forcing it to pull back from some markets. The firm faced mounting scrutiny from the financial press for refusing to say where its headquarters were -- an approach that critics said helped Binance evade regulation and dodge liability for mishaps.

FTX moved its own headquarters to the Bahamas for its crypto-friendly regulatory environment.

Alameda also partly operated from the Bahamas. Mr. Bankman-Fried and Alameda's CEO, Caroline Ellison, a fellow former employee of quantitative trading giant Jane Street, once dated, according to people familiar with the matter.

Mr. Bankman-Fried embarked on a campaign to amass regulatory licenses. He surprised many of his fans when he came to a December 2021 Capitol Hill hearing on cryptocurrencies, wearing a suit and tie. Soon, he was a frequent visitor to Washington, meeting with regulators and others.

There were signs for months that Mr. Bankman-Fried wasn't quite what he seemed to outsiders. In a meeting with a half-dozen top regulatory, banking and other officials in the Bahamas in January, Mr. Bankman-Fried surprised some in the room by frequently using the "F" word, while boasting about FTX's capabilities. He promised his company would dominate new markets, including stocks, according to a participant in the meeting.

This summer, when Mr. Bankman-Fried sought to prop up several struggling crypto companies, including broker Voyager Digital Ltd . and lender BlockFi Inc., some were struck by his aggressive style.

Some FTX employees privately worried that the firm was growing too fast and expanding into areas too far from its core business, current and former employees said. Mr. Bankman-Fried relied on himself and a small core group of FTX executives to negotiate deals, didn't use outside advisers to help judge their risks and sped through due diligence, according to people familiar with his deal-making style.

Julie Steinberg, Ben Dummett, Paul Vigna and Caitlin Ostroff contributed to this article.

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THE WALL STREET JOURNAL.

HD **Crypto Platform FTX Says It's Bankrupt --- Calamitous week ends with chapter 11 filing and $8 billion shortfall; Investors out of luck**

BY By Caitlin Ostroff, Vicky Ge Huang and Alexander Gladstone

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LP

Beleaguered cryptocurrency platform **FTX** filed for bankruptcy protection Friday, and Chief Executive **Sam Bankman** -**Fried** resigned, a demise remarkable for its swiftness as well as its size.

FTX and a bevy of affiliates said they had more than 100,000 creditors and tens of billions of dollars in assets and liabilities. It is the largest crypto-related bankruptcy ever.

TD

Just a week ago, FTX was an industry titan, and Mr. Bankman-Fried its smiling public face. In January, FTX raised money from Silicon Valley's most sophisticated investors, at a valuation of $32 billion. A few weeks ago, Mr. Bankman-Fried was publicly musing about raising more, to get even bigger.

That is all gone. The bankruptcy will likely wipe out billions of equity value, leaving investors including Sequoia Capital and Thoma Bravo with stiff losses. It will maroon the crypto and cash deposits belonging to a legion of customers. FTX faces investigations or asset freezes from regulators and prosecutors around the world.

It has also rattled the crypto world. Crypto lender BlockFi, which had obtained a financial lifeline from FTX in July -- one of several companies FTX had rescued earlier in the year -- paused withdrawals Thursday evening.

Among the affiliates filing for bankruptcy protection is FTX US, a smaller unit that operated in the U.S. Most of FTX's business was offshore. FTX and its affiliates filed in federal bankruptcy court in Delaware, where the U.S. unit is registered.

Thursday morning, Mr. Bankman-Fried said the troubles at FTX were confined to its international operations. He tweeted that FTX US "was not financially impacted" and that "every user could fully withdraw." Later that day, FTX US said it might stop trading. On Friday, FTX US filed for bankruptcy along with the rest of FTX.

Bitcoin slipped after the announcement to trade near $16,500.

At issue in the bankruptcy proceedings and the investigations is to determine what happened to the billions that FTX raised, that its customers deposited, and that it earned from operating what appeared -- for a time -- to be a successful cryptocurrency exchange.

FTX in 2021 also paid $250 million -- a quarter of its revenue that year -- to a "related party" for software royalties, according to documents viewed by The Wall Street Journal.

Mr. Bankman-Fried wrote on Twitter roughly an hour after the bankruptcy announcement that he was "shocked to see things unravel the way they did earlier this week."

FTX's troubles began last weekend, after rival exchange Binance said it would sell its holdings of an FTX equity-like token -- spooked by a CoinDesk report showed the depth of the relationship between FTX and Alameda Research, an affiliated trading firm founded by Mr. Bankman-Fried.

Just days ago, then FTX agreed to be taken over by Binance , but Binance walked away from the deal following a review of the company's finances. The crypto exchange is facing a shortfall of up to $8 billion, The Wall Street Journal reported.

John J. Ray III has been named the new CEO of FTX Group, the company said. The bankruptcy filing includes FTX Trading Ltd., the company presiding over the global trading website FTX.com, and Alameda Research, in addition to FTX US.

Mr. Ray was chairman of Enron Corp .'s successor company, Enron Creditors Recovery Corp ., and oversaw the energy-trading company's liquidation after it filed for bankruptcy in late 2001. The recovery rate for Enron creditors as of 2008 was about 52 cents on the dollar, the company said at the time. Mr. Ray's successes included securing a $1.7 billion settlement with Citigroup in 2008. He had accused the bank of helping Enron mislead investors.

In the petition, Mr. Bankman-Fried said that Stephen Neal would be appointed as the chairman of the board of FTX Group if he is willing to serve. He also said that he is being advised by the law firm Paul, Weiss, Rifkind, Wharton & Garrison LLP .

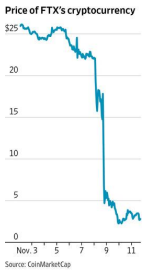
Bankruptcy means that it could be a long time before retail traders and others owed their funds are able to potentially recover any of them, if ever. Creditors to Mt. Gox , the Japanese crypto exchange that failed following a 2014 hack, are still waiting for their funds almost a decade later.

The collapse in digital-currency prices earlier this year triggered a rash of crypto-related bankruptcy filings, including Celsius Network LLC , Voyager Digital Ltd . and Three Arrows Capital.

Investors may be confronted with an uphill battle to get their crypto deposits back in bankruptcy proceedings because their investments are likely to be treated as unsecured claims without collateral rights.

FTX's bankruptcy also calls into question the fate of Voyager Digital . In September, FTX won the auction to buy the bankrupt lender's assets. Voyager said Friday that the firm has reopened the bidding process and is in "active discussions" with potential buyers. Voyager has about $3 million of cryptocurrencies stuck on FTX.

Jonathan Weil contributed to this article.



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THE WALL STREET JOURNAL.

HD **EXCHANGE --- Tax Report: First, Crypto Crashed. Now Come the Taxes. --- Crypto holders may need to act fast to cut taxes -- and get ahead of an increasingly aggressive IRS**

BY By Laura Saunders

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LP

The rout in cryptocurrencies worsened this past week with the collapse of the offshore exchange **FTX**. With bitcoin recently down more than 60% in 2022, many crypto investors would surely like to forget about digital assets, at least for now.

That would be a mistake. The Internal Revenue Service hasn't lost interest in cryptocurrencies, and investors need to focus on key tax issues before year-end.

TD

New rules and enforcement actions are coming to ferret out crypto transactions that often went unreported in the past. There's a bit of good news as well: This year's painful selloff brings an opportunity for crypto holders to harvest losses to offset future taxes.

Here's more to help investors make smart crypto moves in the next few weeks -- and get ready for new IRS scrutiny.

-- Crypto losses as a tax-saving tool. There's a silver lining for investors whose crypto holdings are in taxable accounts rather than tax-sheltered accounts such as IRAs.

The benefit is that if an investor sells this crypto and books a capital loss, it can be used to offset future capital gains on winners. These gains don't have to be on digital assets; they could be on stocks, real estate, or other investments.

If an investor with losses has no capital gains to shelter, the losses can offset up to $3,000 of ordinary income such as wages per tax return, per year. These losses don't expire.

Say that John has a $20,000 loss in his crypto holdings now. If he sells and has no capital gains to offset, he can reduce his wage income by $3,000 this year and in future years. If he then has a capital gain of $5,000 two years from now, he won't owe tax on it -- and he'll still have $9,000 to offset future taxes.

In a key way, crypto losses have an advantage over stock losses. If an investor sells shares at a loss, the "wash-sale" rules penalize him if he also buys the same stock within 30 days before or after the sale.

But the wash-sale rules don't currently apply to cryptocurrencies. So crypto investors can have their cake and eat it too, by taking losses now to shelter future gains and then repurchasing favorites right away. There's no need to wait and risk missing a market surge -- if there is one.

-- New IRS reporting by brokers. The 2021 Infrastructure Investment and Jobs Act included a provision requiring crypto brokers to report customers' sale proceeds to the IRS on a 1099 form, if it's held in a taxable account. The requirements are akin to what brokerage firms report for investors' stock sales.

The change aims to clamp down on many crypto investors' cavalier -- and sometimes criminal -- tax avoidance. Until Congress acted, few crypto transactions had to be reported to the IRS by third parties such as exchanges, and many investors have ignored crypto tax rules. In a recent court filing, the IRS said that in 2019 only about 100,000 tax returns reported crypto transactions. That's far less

than would be expected given research showing that about 20% of American adults have bought, traded, or used cryptocurrencies.

The new law is set to take effect Jan. 1, 2023, so the first forms would go to taxpayers and the IRS in early 2024. However, tax specialists say the date may be postponed because the Treasury Department hasn't issued regulations detailing the laws defining thorny issues such as who is a crypto broker.

The new rules will likely increase complexity, even for crypto investors complying with the law -- so it could make sense to accelerate moves into this year. More paperwork will likely lead to more errors by taxpayers and the IRS that take time to untangle, says Shehan Chandrasekera, head of tax strategy at CoinTracker, a provider of crypto tax-filing software.

For crypto holders who aren't compliant, he adds, "The new reporting doesn't change the taxation of cryptocurrencies. But it will tell the IRS about your transactions -- so it's important to put things in order now."

-- New court-ordered searches for crypto tax cheats. In August and September federal judges approved two new summonses requiring a crypto exchange and a bank to turn over customer information to the IRS to uncover tax cheating using cryptocurrency.

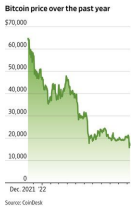
The crypto exchange is sFox, a crypto prime dealer with more than 175,000 customers whose transactions have totaled more than $12 billion since 2015, according to a Justice Department statement. The bank is M.Y. Safra Bank, which had an agreement to provide banking services to sFox customers. Neither business is accused of wrongdoing. Both must turn over to the IRS account information on sFox customers who had $20,000 or more in crypto transactions in any one year from Jan. 1, 2016, to Dec. 31, 2021.

To justify the summonses, the agency provided examples of 10 unnamed people who didn't declare taxable income from transactions conducted largely through sFox. The unreported income ranged from $1 million by someone allegedly involved in a Ponzi scheme to $5,000 by someone whose return showed wages, retirement income, and Social Security payments -- but no crypto profits.

The IRS has already used this strategy, called a John Doe summons, to pursue crypto tax cheats with transactions of $20,000 or more at three other exchanges: Coinbase, Kraken and Circle. From these and other efforts, the agency has assessed more than $110 million in tax due on unreported crypto income, with more expected. Penalties and interest could nearly double the total that some taxpayers owe.

Future summonses are likely, says Don Fort, a former chief of IRS criminal investigations now with the Kostelanetz law firm: "The IRS and Justice Department have become adept at tailoring requests judges will approve."

The IRS's dogged pursuit of past cases is a reminder to investors with unreported crypto income that it may not stay hidden -- and the consequences could be severe.



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THE WALL STREET JOURNAL.

HD **EXCHANGE --- FTX Bankruptcy Ensnares Traders, Industry Lenders**

BY By Caitlin Ostroff, Eliot Brown and Peter Rudegeair
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LP

The collapse of crypto exchange **FTX** has tripped up casual day traders and professional investors alike.

Some 10% of the assets of a Multicoin Capital hedge fund are stuck at **FTX**, according to an investor letter viewed by The Wall Street Journal. It was able to pull out around 24% of fund assets held there before withdrawals were halted, the letter said. Earlier this month it told investors the fund was $1.2 billion in size.

TD

The trading desks and lenders that serve institutional investors are in limbo, too. Cryptocurrency lender BlockFi Inc. has paused withdrawals and limited activity on its platform, saying FTX's woes were preventing it from operating as usual. Another crypto lender, Genesis , said some $175 million from its derivatives business was frozen in an FTX trading account. Crypto market maker B2C2, which matches trades between other entities, has $5 million stuck on FTX, according to people familiar with the matter.

Crypto news site the Block earlier reported the Multicoin Capital letter to investors.

FTX's journey from crypto white knight to pariah took just over a week, following questions about its relationship with founder Sam Bankman -Fried's trading firm, Alameda Research. Both Alameda and FTX filed for bankruptcy protection Friday.

Mr. Bankman-Fried earned investors' trust with his frequent trips to Washington to lobby for more crypto regulation. Financial backing from some of Silicon Valley's top venture-capital firms also lent credibility to the exchange.

But for some crypto firms that did business with the company, financial insight into FTX was almost as limited as it was for day traders.

There are few regulations binding players in the crypto market, meaning companies often aren't required to present minimum information to trading counterparties. Companies also are based in myriad jurisdictions, sometimes with or without licenses, making it difficult to get baseline disclosures across the board.

"The things that we're learning that may have gone on at FTX are really wild," said Wes Hansen, director of trading and operations at crypto fund Arca. He said he routinely asks companies for financial information, and the level of detail provided varies widely.

"We always ask for everything we can get, but we have no way of really verifying out," Mr. Hansen said.

For a report published last month ranking and assessing the risk of different crypto exchanges, research firm CryptoCompare asked firms for a wide set of information. FTX provided it only with public information from its website, said Jamie Sly, a marketing executive at CryptoCompare.

The scope of its public-facing policies led the research firm to rank it among the lowest-risk exchanges, he said. CryptoCompare removed FTX from its ranking this past week.

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- Crypto Platform's Customers Face Unchartered Territory**

BY By Vicky Ge Huang
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LP

Stephen Gibbs got spooked this week when he heard about problems brewing at **FTX** and he decided it was time to take his money out of the crypto exchange.

Mr. Gibbs, a 46-year-old musician in Thailand, said he tried to withdraw his money Tuesday. But **FTX** that day halted both crypto and fiat withdrawals from its international unit. As of Thursday, Mr. Gibbs said, his transaction was still listed as "requested." On Friday, **FTX** filed for bankruptcy protection.

TD

"If you couldn't trust an exchange like FTX, you can't trust any exchange," Mr. Gibbs said before the bankruptcy filing. "And then if you can't trust exchanges, the whole premise of cryptocurrency doesn't work."

Cryptocurrency exchange FTX was one of the biggest players in the industry, often considered a survivor in a broad market crash that has taken down a number of crypto firms this year. But its rapid collapse this week has left customers wondering if they will ever see their money again.

It isn't clear how long it might take customers to get their money back, or whether they will get anything at all.

FTX was hit by a run of withdrawal requests this week and the company is scrambling to raise money to cover a shortfall of up to $8 billion, The Wall Street Journal previously reported. The exchange lent billions of dollars to fund risky bets at its affiliated trading firm, Alameda Research, using money that customers had deposited at FTX.

Big crypto losses are a familiar tale for many people. Lenders like Celsius Network and Voyager Digital filed for bankruptcy this year and many of their customers are losing hope that they will get their money back. Even one so-called algorithmic stablecoin, meant to maintain a set value, crashed this year, leaving traders with little recourse.

A spokesman for Voyager said U.S. dollar withdrawals are active but that crypto withdrawals are still on hold until the restructuring process is complete. A spokeswoman for Celsius didn't respond to a request for comment.

Bankruptcies in the crypto world are still virtually uncharted territory. The cryptocurrency that customers put on these platforms might not belong to them in the eyes of a bankruptcy court, according to regulators and legal experts. Instead, they could go into the bankruptcy estate that creditors divvy up.

Even if customers eventually get access to their crypto, they could suffer big losses if the market turned down while the bankruptcy played out.

Crypto expanded steadily into the mainstream in recent years, and crypto lenders and brokers pitched themselves as avenues for regular people to make money. Some newbies embraced crypto trading, using platforms like FTX to try to time the market. Others thought they were taking a safer route by using FTX and other crypto firms to park their money as if it were a bank deposit -- but earning a much greater yield than any regulated bank would pay. Many in both groups are now in desperate situations.

The website for FTX's American arm said as of Thursday evening that "trading may be halted on FTX US in a few days."

A spokesman for FTX declined to comment. In a Thursday tweet, FTX founder Sam Bankman -Fried said he is sorry and that his No. 1 priority is to do right by users.

"Every penny of that -- and of the existing collateral -- will go straight to users, unless or until we've done right by them," Mr. Bankman-Fried said. On Friday, he resigned as CEO of FTX.

Crypto attracted hordes of new traders during the pandemic. But crypto in many ways is little more than a casino. Unlike the regulated, traditional financial system, it lacks the government rules and legal protections built into banks and brokerages. Notably, their deposits aren't guaranteed by the federal government.

Mr. Gibbs, the musician, used FTX to store his bitcoin. The exchange offered a 6% annual percentage yield on bitcoin deposits, he said.

"In the last couple of years, it became possible to generate a yield with crypto assets and that's a hard thing for people to turn down," Mr. Gibbs said.

Julian Figueroa, based in Vancouver, British Columbia, had been using FTX to trade digital assets and he was regularly withdrawing from his FTX account to pay himself or cover other expenses. Usually, he said, FTX processed his requests in just a few minutes. The withdrawals stopped working Tuesday.

Mr. Figueroa previously lost money in the collapse of QuadrigaCX , once Canada's largest crypto exchange, which made the problems at FTX particularly frustrating for him. Mr. Figueroa, who runs a YouTube channel called Kinetic Finance, said he has about a year's worth of salary tied up at FTX.

"It hurts but I'm a young guy," said the 27-year-old. "I have time to make back a year's salary."

Gianluca Giuffra, a 25-year-old investor from Lima, Peru, used FTX to trade digital assets and picked the exchange because he thought it was a safe bet.

"Sam looks like a very honest person," he said, "He doesn't look like the type of guy that would do crazy stuff behind users' backs."

On Tuesday, Mr. Giuffra put in four withdrawal requests starting around 5:24 a.m. The first three went through. The last one, made at 5:56 a.m., didn't. The experience has left him disheartened about the whole industry.

"I guess regulation is not that bad after all," Mr. Giuffra said. "Because without them, you were kind of guessing and hoping that the CEO or the person in charge is not playing and gambling with all the money that you put in."

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THE WALL STREET JOURNAL.

HD **REVIEW --- Play: News Quiz**

BY By Daniel Akst
WC 321 words
PD 12 November 2022
SN The Wall Street Journal
SC J
PG C13
LA English
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LP

1. The bankruptcy of **FTX** led founder **Sam Bankman**-**Fried** to resign and wind down his crypto trading firm -- which is called what?

A. Alameda Research

TD

B. Mono Mining

C. El Dorado Capital

D. Yolo Holdings

---

2. Republicans seemed likely to win the House. Jen Kiggans scored a noteworthy win by ousting a Democratic incumbent -- in what state?

A. New York

B. Arizona

C. Washington

D. Virginia

---

3. Regulators are looking to broaden trading in the $24 trillion Treasury market -- by moving to what?

A. eBay

B. Blockchain

C. A small group of big banks

D. All-to-all trading

---

4. Which West African nation, 88% forest, is marketing the largest-ever issue of carbon credits?

A. Cameroon

B. Gabon

C. Liberia

D. Nigeria

---

5. Some 11,000 layoffs were announced by Facebook's parent -- which is called what?

A. Meta Networks

B. Meta Platforms

C. Meta Systems

D. Metta World Peace

---

6. Whose art collection set a record by selling for $1.5 billion at Christie's?

A. Paul Allen

B. Bill Gates

C. David Rockefeller

D. Harry and Linda Macklowe

---

7. A new book offers a lively history of measurement. How big is a smoot?

A. The number of words in the Smoot-Hawley Tariff

B. The height of MIT student Oliver Smoot in 1958

C. The quantity of cosmic microwave radiation emitted in one light-second

D. A hundredth of a quark

---

8. Fleeing Kherson, Russian forces took the corpse of the famous count who founded the Ukrainian city. Name him.

A. Sergei Levitsky

B. Alexei Vronsky

C. Boris Sheremetev

D. Grigory Potemkin

---

9. Seed companies are investing in a potentially transformative new variety of corn. What does one seedmaker call it?

A. "Compact"

B. "Dwarf"

C. "Reduced stature"

D. "Vertically challenged"

ANSWERS

1. A

2. D

3. D

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4. B

5. B

6. A

7. B

8. D

9. C

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THE WALL STREET JOURNAL.

HD **Lender BlockFi Halts Withdrawals**

BY By Elaine Yu

WC 171 words

PD 11 November 2022

SN The Wall Street Journal

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LA English

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LP

Cryptocurrency lender BlockFi Inc. said it was pausing withdrawals and limiting activity on its platform, becoming the latest casualty of the sudden collapse of **Sam Bankman** -**Fried**'s crypto empire.

"We are shocked and dismayed by the news regarding **FTX** and Alameda," BlockFi said late Thursday on its Twitter account, referring to the crypto exchange **FTX** and an affiliated trading firm, Alameda Research.

TD

"Given the lack of clarity on the status of FTX.com, FTX US and Alameda, we are not able to operate business as usual," BlockFi said, adding that its priority is to protect its clients.

BlockFi, which is based in Jersey City, N.J., obtained a financial lifeline from FTX this past summer after steep declines in crypto prices set off a liquidity crisis that engulfed many lenders. FTX -- which is controlled and run by Mr. Bankman-Fried -- provided BlockFi with a $400 million revolving credit facility in a deal that also gave the exchange an option to purchase the lender.

CO ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

SE Corrections & Amplifications

HD **Corrections & Amplifications**

WC 247 words

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LA English

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LP

Jakob Palmstierna, chief executive of crypto market maker GSR, said cryptocurrency exchange **FTX** assured GSR that its transactions would be processed. A Page One article on Wednesday about **FTX**'s agreement to be taken over by rival Binance incorrectly said that **FTX** told GSR it was well-funded.

(See: "Binance to Acquire Rival **FTX**, In Power Shift in Crypto World" -- WSJ Nov. 9, 2022)

TD

The title of the Broadway musical "Oklahoma!" was given without the exclamation point in a Page One article on Wednesday about new varieties of short corn.

(See: "Farmers Find Short Corn A Tall Order --- New, small varieties bring waves of groans" -- WSJ Nov. 9, 2022)

A photo of the Georges Seurat painting "Models, Ensemble (Small Version)" that appeared in some editions Thursday with a U.S. Watch article about its sale at auction is credited to Christie's Images Limited 2022. It was incorrectly credited to Sue Ogrocki/Associated Press in some editions.

Luckin Coffee Inc . posted net profit of $108 million for 2021 after a one-time accounting gain, and an operating loss of $85 million. A Business & Finance article on Tuesday about the company incorrectly said Luckin's 2021 net profit was $107 million, and it didn't mention the operating loss.

(See: "Luckin Critic Becomes Supporter" -- WSJ Nov. 8, 2022)

Readers can alert The Wall Street Journal to any errors in news articles by e-mailing wsjcontact@wsj.com or by calling 888-410-2667.

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THE WALL STREET JOURNAL.

HD **To Fund Risky Bets, FTX Tapped Customer Accounts**

BY By Vicky Ge Huang, Alexander Osipovich and Patricia Kowsmann

WC 936 words

PD 11 November 2022

SN The Wall Street Journal

SC J

PG A1

LA English

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LP

Crypto exchange **FTX** lent billions of dollars worth of customer assets to fund risky bets by its affiliated trading firm, Alameda Research, setting the stage for the exchange's implosion, a person familiar with the matter said.

FTX Chief Executive **Sam Bankman** -**Fried** said in investor meetings this week that Alameda owes **FTX** about $10 billion, people familiar with the matter said.

TD

FTX extended loans to Alameda using money that customers deposited on the exchange for trading purposes, a decision that Mr. Bankman-Fried described as a poor judgment call, one of the people said.

All in all, FTX had $16 billion in customer assets, the people said, so FTX lent more than half of its customer funds to its sister company Alameda.

Alameda took out additional loans from other financial firms, according to people familiar with the matter. As of Monday, Alameda owed $1.5 billion in loans to counterparties outside of FTX, according to one of those people and another person familiar with the matter.

An FTX spokesman declined to comment.

FTX paused customer withdrawals earlier this week after it was hit with about $5 billion worth of withdrawal requests on Sunday, according to a Thursday morning tweet from Mr. Bankman-Fried. The crisis forced FTX to scramble for an emergency investment.

The Securities and Exchange Commission and Justice Department are investigating FTX following its sudden crisis this week, a person familiar with the matter said.

On Thursday the Securities Commission of The Bahamas said it froze the assets of FTX Digital Markets Ltd, the Bahamian subsidiary of FTX. The commission said it appointed a provisional liquidator and that no assets held by the firm can be transferred without the provisional liquidator's approval, the commission said.

FTX struck a deal to sell itself to its giant rival Binance on Tuesday, but Binance walked away from the deal the next day, saying FTX's problems were "beyond our control or ability to help."

The failure of FTX to fill withdrawal requests shocked crypto investors and badly tarnished the reputation of Mr. Bankman-Fried, who had embraced regulation of digital currencies and branded himself as a crypto entrepreneur driven by ethics and philanthropy.

"An exchange really shouldn't have problems getting its customers their deposits," said Frances Coppola, a U.K.-based economist. "It shouldn't be doing anything with those assets. They should literally be sitting there so people can use them."

As questions were brewing about FTX's health on Monday, Mr. Bankman-Fried tweeted: "FTX has enough to cover all client holdings. We don't invest client assets (even in treasuries)." He later deleted the tweet.

On Thursday morning, Mr. Bankman-Fried wrote in a tweet that Alameda Research was winding down trading.

In traditional markets, brokers must keep client funds segregated from other company assets and regulators can punish violations. In 2013, for instance, the Commodity Futures Trading Commission fined brokerage MF Global $100 million for misuse of customer funds during its messy collapse two years earlier -- a downfall also driven by risky bets gone wrong.

But MF Global customers were made whole after a yearslong bankruptcy process. With FTX, operating in the Wild West of crypto, it is unclear whether customers will ever get their money back.

The revelation of the loans suggests that the root of FTX's downfall lay in its relationship with Alameda, a firm known for aggressive trading strategies funded by borrowed money. Some crypto traders have voiced wariness of the affiliation, worrying that it posed a conflict of interest for an exchange to be attached to a trading business.

Mr. Bankman-Fried founded and is the majority owner of both firms. He was CEO of Alameda until last year, when he stepped back from the role to focus on FTX.

Alameda's CEO is Caroline Ellison, a Stanford University graduate who like Mr. Bankman-Fried previously worked for quantitative trading firm Jane Street Capital. Alameda is based in Hong Kong, where FTX was based before relocating to the Bahamas last year.

In theory, exchanges like FTX make money by allowing customers to trade cryptocurrencies and collecting fees for transactions. Alameda pursued a variety of trading strategies to make money from volatility, a riskier business model.

Among the strategies that Alameda engaged in after Mr. Bankman-Fried founded the firm in 2017 was arbitrage -- buying a coin in one location and selling it elsewhere for more. One early winning trade involved buying bitcoin on U.S. exchanges and selling in Japan, where it commanded a premium over its U.S. price.

Another business at Alameda is market-making -- offering to buy and sell assets on crypto exchanges throughout the day and collecting a spread between the buying and selling price.

More recently Alameda has become one of the biggest players in "yield farming," or investing in tokens that pay interest-rate-like rewards, according to analysts who used public blockchain data to track the firm's activities. One crypto wallet controlled by Alameda has generated more than $550 million in trading profit since 2020, according to blockchain analytics firm Nansen.

Yield farming can be risky because the tokens often have an initial run-up in price as investors pile in, seeking the rewards, then a crash as they get out.

"It's essentially like picking up pennies before a steamroller," said independent blockchain analyst Andrew Van Aken. "You use dollars, or stablecoins, to get these very speculative coins."

Caitlin Ostroff, Peter Rudegeair and Alexander Gladstone contributed to this article.

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THE WALL STREET JOURNAL.

CLM REVIEW & OUTLOOK (Editorial)

HD **The FTX Crypto Fiasco**

WC 747 words

PD 11 November 2022

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LP

This week's investor run on the FTX crypto-currency exchange marks round two of the great crypto crackup, and so far the victims are consenting adults. Barring an unexpected spread to the banking system, this is another in the long line of easy-money manias turned to panic.

FTX CEO Sam Bankman -Fried has been the crypto industry's leading champion. This year he engineered bailouts of several troubled crypto firms, including lenders Voyager Digital and BlockFi Inc., as plunging digital asset values exposed bad bets and computer coding. Recall the May collapse of stablecoin TerraUSD, whose stable value was based on an algorithm.

TD

Crypto markets have lost some $2 trillion in market value over the last year as the Federal Reserve has removed liquidity and markets reprice financial assets. Yet even as other crypto firms ran into trouble, Mr. Bankman-Fried insisted that FTX was solid. On Thursday he acknowledged in a Twitter mea culpa for the ages that he was wrong.

FTX's liquidity crunch appears to have been triggered in part by a report on CoinDesk last week detailing close ties between FTX and Alameda Research, the trading house Mr. Bankman-Fried founded and in which he is a majority owner. Alameda's balance sheet consisted largely of FTT tokens created by FTX to reward customers for trading on the platform.

The CoinDesk report caused a selloff in FTT tokens. The CEO of Binance , the world's largest crypto exchange, announced on Sunday that his company would sell some $500 million. Other FTX customers sensed trouble and ran for the door. Mr. Bankman-Fried says customers on Sunday sought to withdraw $5 billion from accounts -- a classic financial run.

FTX didn't have the funds available. Where'd they go? Mr. Bankman-Fried said he's "still fleshing out every detail" but noted that "poor internal labeling of bank-related accounts meant that I was substantially off on my sense of users' margin." He also said he overestimated liquidity by multiple factors. That's not all.

According to a Journal report, FTX lent more than half of its customer assets to Alameda to fund risky bets. Uh oh. Mr. Bankman-Fried says FTX now faces a shortfall of up to $8 billion. If it can't raise that cash, the plunge could be swift and the losses for investors steep, if not total.

That's capitalism, or at least a speculative form of it. Regulators will have to watch for contagion to the banking system, but there's no reason not to let FTX fail if it comes to that. The last thing we need is the feds rescuing investors in speculative assets.

All of this is a lesson for crypto investors and the Fed, which encouraged excessive risk-taking by keeping real interest rates below zero for so long. Trillions of dollars flowed into crypto seeking higher returns. A Terra affiliated lending platform offered interest rates of up to 20% on deposits. FTX offered yields of up to 8% on fiat and crypto currency in its accounts.

Securities and Exchange Commission Chair Gary Gensler has raised fair concerns about crypto company conflicts of interest and opaque profit-making activities such as those that seem to have landed FTX in trouble. But his regulation by enforcement isn't working and merely fuels market uncertainty. Mr. Bankman-Fried and other crypto leaders have lobbied Congress to enact clear rules.

Members of Congress disagree over which regulator is best suited to supervise crypto firms, but this can be worked out. The bigger problem is that progressives favor letting Mr. Gensler regulate the industry out of business. One worry is that an FTX collapse will become an excuse for him to do so.

Massachusetts Sen. Elizabeth Warren tweeted Wednesday that "the collapse of one of the largest crypto platforms shows how much of the industry appears to be smoke and mirrors. We need more aggressive enforcement and I'm going to keep pushing @SECGov to enforce the law to protect consumer and financial stability." What law? Congress hasn't passed one.

Crypto has potential as a financial asset and marketplace even if some trading is purely speculative. Maybe the best way to rein in excessive risk-taking is for the Fed to continue rolling back the monetary conditions that have encouraged it.

(See related letters: "Letters to the Editor: After FTX, Crypto Must Follow the Old Rules" -- WSJ Nov. 18, 2022)

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THE WALL STREET JOURNAL.

HD **Founder Poured $1 Billion Into Kazakhstan Bitcoin Miner**

BY By Eliot Brown and Yuliya Chernova

WC 1,344 words

PD 12 January 2023

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PG B1

LA English

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LP

Just before crypto markets plunged last year, **Sam Bankman-Fried**'s hedge fund made a $1 billion bet on Genesis Digital Assets, a Cyprus-registered energy-guzzling bitcoin miner in Kazakhstan.

The cash injection from Mr. Bankman-Fried's Alameda Research LLC was supersized even for the red-hot crypto startup world, and it dwarfed the **FTX** founder's other investments in private companies.

TD

Genesis Digital is now one of the largest assets in the FTX bankruptcy, the product of a globe-spanning spending spree in which Mr. Bankman-Fried's companies poured money into crypto tokens, an arena branding deal and Bahamas real estate.

Extracting value from Genesis Digital could prove difficult. Bitcoin-mining company valuations have plummeted. Only around half of the Alameda funds in Genesis Digital went to the company's operations, according to Cyprus corporate-registration documents and people familiar with Genesis Digital.

More than $500 million bought existing shares from two Genesis Digital co-founders, a detail that hasn't been previously reported.

A spokeswoman said Genesis Digital received money from Alameda "at market value" in the usual course of fundraising and that its founders own most of the company.

Anthony Scaramucci's SkyBridge Capital, which invested more than $60 million in Genesis Digital, marked down the value of its stake in the bitcoin miner by 59% between its June peak and September, according to SkyBridge securities filings. SkyBridge declined to comment.

FTX collapsed in November and Mr. Bankman-Fried pleaded not guilty to charges earlier this month in federal court. Prosecutors allege that he defrauded investorsand siphoned billions of dollars of FTX customer cash into his hedge fund. FTX's new management is sorting through precisely where all the cash went.

A chunk of what remains for FTX and Alameda creditors to pick over are scores of investments in startups such as Genesis Digital.

FTX, Alameda and other entities controlled by Mr. Bankman-Fried put more than $5 billion into more than 150 startups, as well as venture firms such as Sequoia Capital, according to Alameda company documents viewed by The Wall Street Journal.

Many of those investments were concentrated in the crypto sector itself, adding to the challenges of recovering money in the bankruptcy.

"It's a very trying time for the crypto sector, and what I worry about is the impairment to that portfolio of $5 billion because obviously that's a recovery pool for our customers," John J. Ray III, FTX's new CEO, told a U.S. House committee last month. "Many of those investments are likely troubled."

Thomas Braziel, an investor who buys claims from creditors in bankruptcies, said he expects creditors will eventually get between 20% and 60% of their money back, though years into the future. Given that the venture portfolio was heavily invested in crypto, it is unlikely to contribute much to that total, he said.

As one of the world's largest bitcoin miners, Genesis Digital is tethered to the crypto market.

Bitcoin mining works like this: Miners process transactions on the network -- solving complex equations in a process that rewards them in newly created bitcoin. In the early days of crypto, most of the digital number crunching was done on home computers, before an industry formed of massive, energy-sucking data centers looking to process bitcoin transactions at scale.

When bitcoin prices jumped in 2021, the valuations of large miners surged into the billions of dollars. Given that these companies' end product is bitcoin, their share prices tend to soar when prices rise and plummet when they fall. With bitcoin down over 70% from peak, shares of many publicly traded miners are down between 70% and 99% in the past year; the largest,Core Scientific Inc., filed for bankruptcy protection last month.

Adding to the challenges is that the price of electricity -- a top expense for bitcoin miners -- is up sharply.

Genesis Digital got its start in 2017 when a duo of German bitcoin miners joined forces with a trio of Kazakh entrepreneurs. Their plan was to set up bitcoin-mining data centers in Kazakhstan, taking advantage ofits relatively cheap, coal-fueled electricity, company executives have said in video interviews posted online.

The German co-founders, Marco Streng and Marco Krohn, came with several years of bitcoin-mining experience, while the Kazakh businessmen had local ties and a background in commodities.

With access to cheap power in Kazakhstan, Genesis Digital marketed itself as a low-cost provider of bitcoin -- one that was able to grow large by building and running its own data centers.

In mid-2021, Mr. Bankman-Fried directed more than $100 million into the company from Alameda, the crypto hedge fund in which he had a 90% stake, according to the company documents. Mr. Bankman-Fried joined the board of Genesis Digital in October 2021.

Mr. Bankman-Fried met the Central Asian country's president with a group of other foreign investors in December 2021. Around a circular table in the presidential palace -- an ornate building that looks like a postmodern White House crowned with a blue Faberge egg -- he urged support for bitcoin mining, among other topics. President Kassym-Jomart Tokayev responded with skepticism, citing its high energy use, people familiar with the meeting said.

As Genesis Digital grew and bitcoin prices soared, Mr. Bankman-Fried's appetite increased. Early in 2022, Alameda invested $550 million in the company. It was part of an investment round that totaled $670 million, according to the people familiar with Genesis Digital.

The proceeds went solely toward buying shares from two co-founders, Mr. Krohn and Rashit Makhat, according to those people and Cyprus corporate records. Records show 70% of the shares transferred from the founders to the investors were from Mr. Makhat. Both men remain company shareholders, according to the corporate records.

The secondary sale, in which founders or early investors sell some of their shares to other private investors, was large by industry standards, although the practice increased in popularity as the market for startups grew frenzied in 2021.

Months later, Alameda put in another $500 million. This time it was for newly issued shares, and the money would go toward expanding Genesis Digital's operations. In total, Mr. Bankman-Fried's hedge fund invested more than $1.1 billion, according to the Alameda company documents. That gave Alameda a 20% stake, according to Cyprus registration records.

Genesis Digital in a statement to Kazakh media in June highlighted the "serious compliance procedures" at Mr. Bankman-Fried's operations.

And bitcoin miners liked Kazakhstan, especially after China banned most bitcoin mining.

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In mid-2021, the former Soviet republic was estimated to be home to nearly a fifth of the world's bitcoin mining, according to Cambridge Bitcoin Electricity Consumption Index, a tool developed by a research center at the University of Cambridge. Genesis Digital had 280 megawatts of installed capacity, according to information the company provided to the Kazakh government, equivalent to the consumption of roughly 100,000 U.S. homes. The company told local media in mid-2022 that Kazakhstan accounted for as much as a quarter of its business.

More recently, the local government has grown wary of the strain the crypto industry places on the electricity grid and has cut off power to some miners. It also increased the tariff on electricity use for crypto miners starting this month by more than 20 times.

Genesis Digital's investors urged a faster pivot away from Kazakhstan than the company previously planned, according to company investors.Some of the money it got from Alameda has gone into new data centers in Texas and South Carolina. Most of its mining now takes place in the U.S., the company investors said.

Mr. Bankman-Fried resigned from Genesis Digital's board on Nov. 10 amid pressure from his fellow investors, according to some of the people familiar with Genesis Digital. FTX filed for bankruptcy protection the following day.

Caitlin Ostroff contributed to this article.

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THE WALL STREET JOURNAL.

HD **FTX Locates More Than $5 Billion in Assets**

BY By Becky Yerak
WC 570 words
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LP

Bankrupt cryptocurrency exchange **FTX** said it has located more than $5 billion in cash and other liquid assets and is hoping to sell hundreds of additional investment holdings with a book value of more than $4.6 billion.

Those assets are valued as of **FTX**'s bankruptcy filing in November and don't include $425 million held by authorities in the Bahamas, company lawyers said on Wednesday in the U.S. Bankruptcy Court in Wilmington, Del.

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FTX lawyers also told the judge overseeing the bankruptcy case that the amount of the shortfall in FTX customer funds isn't yet clear. The company is working on determining the size of the claims pool and potential recoveries for some nine million customer accounts it has identified, FTX lawyer Andrew Dietderich said in the court hearing.

Mr. Dietderich said that new FTX management is "building financial statements from the ground up," rather than using previous statements. The company is also "well under way on plans to monetize over 300 other nonstrategic investments, with a book value over $4.6 billion," Mr. Dietderich said.

FTX, affiliated hedge fund Alameda Research and other entities that were controlled by founder Sam Bankman-Fried put more than $5 billion into startup ventures as well as venture firms like Sequoia Capital, The Wall Street Journal reported Wednesday. Many of those investments were concentrated in the crypto sector itself.

FTX Chief Executive John J. Ray III has said that some companies in that venture portfolio are likely troubled and has expressed concern how the current downturn in cryptocurrency assets could affect the value of those stakes, a potentially significant source of recovery for customers.

The company didn't keep reliable financial records and lacked normal corporate controls under past management, according to Mr. Ray, who took over the firm from Mr. Bankman-Fried and placed it in bankruptcy after concerns about the exchange's financial health fueled a wave of customer withdrawals.

FTX has put some salvageable units up for sale since entering chapter 11, including Embed Financial Technologies, LedgerX, FTX Japan and FTX Europe. The sales process under way doesn't include FTX.com or FTX.US, the company's primary exchanges serving international and U.S. customers. Kris Hansen, a lawyer for the unsecured creditors committee, said in Wednesday's hearing that a "reboot" of the exchanges is under discussion and could unlock "incredible value" for customers if realized.

Separately, the judge overseeing the bankruptcy case acknowledged a letter sent Monday by a bipartisan group of U.S. senators questioning the independence of the law firm guiding FTX through bankruptcy, Sullivan & Cromwell LLP. In the letter, four senators said Sullivan & Cromwell may not be able to conduct an independent investigation into FTX's collapse because the firm's lawyers worked for the company while it was allegedly misusing customer funds.

Judge John Dorsey called the letter an inappropriate communication, and said it would have no impact on his decisions in the chapter 11 case.

Sullivan & Cromwell charged more than $8.5 million in legal fees to FTX before its bankruptcy. The law firm has said in court papers that it is working in the best interests of FTX and the company's stakeholders and that its lawyers don't represent any outside party with an interest in the chapter 11 case that could create a conflict.

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THE WALL STREET JOURNAL.

HD **Finance: Senators Question Independence Of FTX Bankruptcy Law Firm**

BY By Jonathan Randles
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LP

A bipartisan group of U.S. senators said **FTX**'s outside law firm, Sullivan & Cromwell LLP, may not be capable of conducting an independent investigation of the cryptocurrency exchange's collapse because its lawyers represented the company and co-founder **Sam Bankman-Fried** before the business spiraled into bankruptcy.

Four senators said in a Monday letter to Judge John Dorsey of the U.S. Bankruptcy Court in Wilmington, Del., that Sullivan & Cromwell has to answer questions about the extent to which its lawyers suspected potential fraud at **FTX** or had concerns about the absence of appropriate legal controls at the exchange before the company filed for chapter 11 in November.

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"Put bluntly, the firm is simply not in a position to uncover the information needed to ensure confidence in any investigation or findings," the senators said.

The lawmakers cited their concerns with Sullivan & Cromwell as reasons why Judge Dorsey should back a pending request by the Justice Department's bankruptcy watchdog to appoint an independent examiner to review FTX's collapse. The letter was signed by Sens. John Hickenlooper (D., Colo.), Thom Tillis (R., N.C.), Elizabeth Warren (D., Mass.) and Cynthia Lummis (R., Wyo.).

The letter was sent weeks after Sullivan & Cromwell disclosed in bankruptcy court that the law firm previously represented Mr. Bankman-Fried and FTX engineering director Nishad Singh.

Sullivan & Cromwell said it billed Messrs. Bankman-Fried and Singh $23,882 and $195,000, respectively, for transactional work that was arranged for and paid by FTX's related trading platform, Alameda Research.

Mr. Bankman-Fried has been charged with eight counts of fraud and conspiracy and accused of scheming to defraud his crypto exchange's customers and his hedge fund's lenders. He has pleaded not guilty.

Sullivan & Cromwell made the disclosure in support of its application to be retained as lead bankruptcy counsel to FTX during its chapter 11 case. Law firms seeking to work in chapter 11 are required under bankruptcy rules to disclose any past representations that could pose a conflict.

The firm's retention in FTX's chapter 11 could be opposed by creditors or the Justice Department's bankruptcy watchdog and must be approved by Judge Dorsey. FTX is scheduled to appear in bankruptcy court Wednesday.

A Sullivan & Cromwell spokesman said Tuesday that the law firm never served as primary legal counsel to FTX or any of its affiliates and "had a limited and largely transactional relationship with FTX and certain affiliates prior to the bankruptcy, as is common, and is disinterested as required by the Bankruptcy Code."

The firm is part of a larger team of legal professionals overseen by new FTX Chief Executive John J. Ray III, which includes separate counsel hired to review potential conflicts of interest, the Sullivan & Cromwell spokesman said.

Sullivan & Cromwell also represented Alameda in its proposed acquisition of bankrupt crypto brokerage firm Voyager Digital Ltd.'s assets, according to court documents. The Voyager deal, which was announced in July, fell apart when FTX filed for chapter 11 in November.

The senators said in their letter that Sullivan & Cromwell "may well bear a measure of responsibility for the damage wrecked on the company's victims" given the firm's legal work for FTX.

The law firm charged more than $8.5 million in legal fees to FTX before the company filed for bankruptcy.

Sullivan & Cromwell has said in court papers that the law firm is working in the best interests of FTX, its creditors and other stakeholders and that its lawyers don't represent any outside party with an interest in the chapter 11 case that could create a conflict.

U.S. Trustee Andrew Vara, part of the Justice Department unit monitoring the nation's bankruptcy courts, requested an independent examiner in December.

Mr. Vara's request is also supported by financial regulators for the states of Wisconsin and Vermont, according to court documents.

The senators said any review should "have full authority and resources to conduct a thorough, objective investigation of the activities that led to the collapse of FTX."

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THE WALL STREET JOURNAL.

HD **FTX Founder's Lawyers Are Tested In Battle**

BY By James Fanelli and Corinne Ramey
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LP

A pair of attorneys defending **FTX** founder **Sam Bankman-Fried** against one of the biggest white-collar prosecutions in decades are veterans of high-profile cases, including ones involving drug lord El Chapo and disgraced socialite Ghislaine Maxwell.

Mark Cohen and Christian Everdell, former federal prosecutors who are now partners in the New York-based boutique firm Cohen & Gresser, are known for an unflashy, roll-up-their-sleeves style to cases, with a meticulous and persistent approach to building a defense, lawyers who know the men say. The pair are up against hard-charging Justice Department lawyers who moved quickly to indict Mr. Bankman-Fried after **FTX**'s collapse and secured two of his former top lieutenants as cooperating witnesses.

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"The swiftness of charging coupled with the cooperators that emerged suggests this is an uphill battle for them," said Jennifer Rodgers, a former Manhattan colleague of Mr. Everdell's in the U.S. attorney's office who praised his work there.

The Manhattan U.S. attorney's office this past month charged Mr. Bankman-Fried with stealing billions of dollars from FTX customers, while misleading investors and lenders connected to his crypto-trading firm Alameda Research. He faces charges of fraud, conspiracy, money laundering and campaign-finance violations and pleaded not guilty last week. The demise of FTX and its impact on other spiraling crypto platforms has made Mr. Bankman-Fried one of the most high-profile white-collar criminal defendants in recent history.

Lawyers from Paul, Weiss, Rifkind, Wharton & Garrison LLP had been advising Mr. Bankman-Fried before the federal charges, but because of a conflict they referred him to Mr. Cohen, according to people familiar with the matter.

Messrs. Cohen, 59 years old, and Everdell, 48, have already navigated their client through a thorny extradition from the Bahamas, where Mr. Bankman-Fried had been jailed after the Justice Department requested that local police arrest him.

The two lawyers worked with local counsel to secure his transfer to U.S. custody while negotiating with federal prosecutors his pretrial release under a $250 million bond. They are now tasked with combing through voluminous and technical discovery, including documents relating to FTX investors, debtors and political campaigns.

Meanwhile, Mr. Bankman-Fried has stated that he intends to help customers recover their money, which some lawyers have said could conflict with his own defense.

The two lawyers declined to comment.

Mr. Cohen, a graduate of the University of Michigan Law School, worked in the U.S. attorney's office in Brooklyn from 1990 to 1995, where he spent some of his tenure working on business and securities fraud matters. He had a reputation for questioning witnesses in a way that jurors respected, said lawyer Mark Kirsch, who met Mr. Cohen at the office in 1991.

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"His light touch when examining witnesses was extremely effective in obtaining information," Mr. Kirsch said.

Mr. Cohen founded his law firm with attorney Lawrence Gresser in 2002. It has since expanded to more than 80 lawyers with offices in New York, Washington, London and Paris.

Joel Cohen, a partner at law firm Gibson, Dunn & Crutcher LLP who isn't related to Mark, said Mark is his go-to person for referring clients he is unable to represent or for a senior executive needing a separate lawyer. The two men worked together representing a fund manager and analyst at hedge fund Wynnefield Capital Inc. in a yearslong insider-trading case brought by the Securities and Exchange Commission.

During the trial, Mark Cohen showcased his ability to make legal arguments on the fly, including a 40-minute back-and-forth with a judge in which he cited case law off the top of his head, Joel Cohen said.

"He won the argument," Joel Cohen said. A jury found the defendants not liable in 2014.

Mr. Everdell, a Harvard Law School graduate, worked from 2007 to 2016 as a federal prosecutor in the Manhattan U.S. attorney's office, where he handled cases involving terrorism, complex fraud and money laundering involving a digital currency. He was part of a team that investigated and charged Joaquin "El Chapo" Guzman Loera, the notorious leader of a Mexican drug cartel who spent decades on the run from authorities. He was among the prosecutors who worked with witnesses to locate the kingpin, who was eventually convicted in a Brooklyn federal court of 10 criminal counts connected to his cartel.

Sarah Krissoff, a former federal prosecutor, said Mr. Everdell takes a low-key approach that could be helpful in a high-drama case. "He's not a showman," she said. "He's a solid, trustworthy lawyer."

Mr. Everdell joined Mr. Cohen's firm in 2017.

The two men were part of a legal defense team that advised and represented disgraced Jeffrey Epstein associate Ghislaine Maxwell, who was convicted in late 2021 of sex-trafficking offenses for recruiting underage girls for the disgraced financier. One of Mr. Everdell's filings in the case led the presiding judge to lower Ms. Maxwell's recommended potential sentence under federal sentencing guidelines.

White-collar defense lawyer Glen McGorty of Crowell & Moring LLP, who has known Mr. Everdell since college, said he is empathetic when working with a defendant facing serious consequences.

"He's undaunted by what may seem like an impossible defense," said Mr. McGorty.

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THE WALL STREET JOURNAL.

HD **Crypto Risk Management Draws Focus --- FTX-related turmoil prompts questions on how to identify red flags about a firm**

BY By Mengqi Sun

WC 1,041 words

PD 10 January 2023

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LP

Cryptocurrency companies are disclosing more information about their internal controls and risk management following the collapse of **FTX**, but a level of transparency in the industry that would make many investors feel comfortable remains far off.

Without a federal regulatory regime for the nascent crypto industry in the U.S., risk-management measures vary by firm, and it remains difficult for outside observers -- including investors and customers -- to determine how effective these controls are until things go bad, industry experts say.

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When a crypto firm is privately held and isn't subject to the disclosure requirements public companies face, such as third-party auditing, just learning what controls are in place can be a tall order.

"We need better risk management, more guardrails . . . and we need some of that installed into the crypto industry," said Jeff Horowitz, chief compliance officer at crypto custodian BitGo. Mr. Horowitz said BitGo's assets are kept separate from customer assets, and the company's operations go through a full examination once a year by regulators in South Dakota and New York, where the firm has operations.

Although most crypto firms aren't subject to formal federal regulation, many have adopted the enterprise-risk-management programs that U.S. watchdogs require of mainstream financial institutions after the 2008 financial crisis. These rules ask companies to identify, monitor and control risks in both their financials and operations through scenario planning and testing and framework implementation.

Among the risks being monitored are cybersecurity risks; legal and compliance risks, such as those arising from financial crimes and sanctions; credit risks that arise when funds are used as collateral and liquidity risks.

"These things sound good, but what's running through my mind is . . . are these efforts coordinated and connected and are we seeing gaps in these processes?" said Mark Beasley, director of the Enterprise Risk Management Initiative at North Carolina State University.

As the crypto industry works to reassure customers, there are signs that some of the efforts to bolster transparency are faltering. Accounting firm Mazars on Dec. 16 said it paused all work for crypto clients and withdrew from its website a report on reserves at Binance and other cryptocurrency-trading companies. Binance, whose own efforts at providing transparency have been criticized in recent weeks, said net outflows from its platform swelled to $6 billion in the period between Dec. 12 and Dec. 14.

A Binance spokeswoman said that Binance's capital structure is free from debt. She added that Binance passed a stress test in December and was able to fulfill large withdrawal requests "without breaking stride" and the firm is looking to provide additional transparency in the coming months.

Although stress testing for lending risks doesn't apply to custodians that hold assets on behalf of others, BitGo's Mr. Horowitz, who previously worked as the compliance chief at crypto exchange Coinbase Global Inc., said measures such as those established to manage banking risk can help identify potential problems, like those seen at FTX. He said his firm -- whose assets under custody include about $1 billion for FTX under the failed exchange's new management team -- conducts an annual audit of financial statements, a review of its anti-money-laundering and know-your-customer programs and has insurance in cases of fraud and for the potential loss of the cryptokeys for customers' wallets.

Crypto exchange Bitstamp USA Inc. said that it separates client digital assets from company assets and that it performs annual stress testing on the liquidity risks of client funds, including under hypothetical scenarios in which the exchange would have enough liquid assets to withstand material client withdrawals over short periods.

The exchange also has a global operations team that oversees customer onboarding, transactions monitoring and customer-service issues, said Bitstamp Chief Compliance Officer Thomas Hook. It has a global risk team in charge of companywide assessment but has regional compliance teams to ensure compliance with local regulatory requirements.

Bitstamp USA is licensed in New York state through a business license for virtual currency activities, known as a BitLicense and has compliance personnel in Europe, the U.K. and Singapore. Mr. Hook said these teams also report to the firm's senior management and board to ensure the firm's risk-management plan "doesn't happen in a silo."

At crypto exchange Bittrex Inc., Chief Compliance Officer Mike Carter said the firm's risk-management strategy includes the use of policies and processes to protect against cyberattacks and to protect data privacy in response to Europe's General Data Protection Regulation and privacy laws in place elsewhere.

The Seattle-based exchange also focuses on market surveillance and integrity to prevent potential misconduct on its marketplace.

Having experienced staff to implement and monitor the risk-management measures on a routine basis is also important, Mr. Carter said.

As the crypto industry matures, these executives said it is important for investors and consumers to check for signs of adequate risk management and compliance measures at crypto firms.

These include ascertaining the type of licensing a company might have, whether it is being audited and by whom, seeing proof of reserves backing customer deposits and disclosures about the company's business model, and determining whether the company has responsive customer service, they said.

Other signs include whether the company engages in outside due diligence, whether assets are segregated and how secure crypto assets passwords are kept.

In addition, potential customers should evaluate the maturity and makeup of a crypto firm's leadership team to ensure a cult of personality doesn't exist around it, said Mr. Hook of Bitstamp.

Ultimately, none of the efforts crypto firms make to be transparent or disclose risk-management efforts amount to a guarantee without formal regulatory oversight or the disclosure rules required of publicly traded companies.

"Many of the actors at that level of scale are good actors, but we won't know until all of the acts of the play have come about," said Doug Schwenk, chief executive of Digital Asset Research, which provides data on the crypto market and vets crypto exchanges on behalf of hedge funds.

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THE WALL STREET JOURNAL.

HD **FTX Seeks to Recoup Charitable Donations**

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LP

Sam Bankman-Fried and **FTX** doled out millions in charitable donations. Now, new management is asking for it back.

Some of the money has been spent, and the gifts flowed through myriad sources and agreements that are proving difficult to tally.

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Mr. Bankman-Fried, FTX and its affiliates used stolen customer money to pour billions of dollars into risky wagers that imploded, according to federal prosecutors and regulators. The company collapsed into bankruptcy in November.

Its undoing continues to ripple through the crypto world and beyond it, to academia, nonprofits and politics. FTX's new management, led by CEO John. J. Ray, says it has been a challenge to determine the company's assets, liabilities and even how many bank accounts it held. Customers whose money is locked up on the crypto exchange are wondering if they will ever get it back. Mr. Ray has asked for their patience but warned it will be a difficult road.

Federal prosecutors have said Mr. Bankman-Fried used customer deposits to fund his trading firm and make political donations, and regulators have said he used customer money for personal expenses as well, like buying lavish real estate.

Mr. Bankman-Fried has pleaded not guilty to prosecutors' charges. His spokesman said charitable donations were all from trading profits, and not from customer deposits.

FTX's new management is also trying to claw back donations that Mr. Bankman-Fried and other executives made to politicians and political groups.

The company said in a news release that its new management has been approached by "a number of recipients of contributions or other payments" from FTX that want to return the money. The company has urged others to do the same. For those that don't, FTX said, it will "commence actions before the bankruptcy court" to require that the money be returned, with interest.

Future Fund, FTX's primary charitable arm, pledged more than $160 million to more than 110 nonprofits as of September, according to its now-defunct website.

Grantees included biotech startups and university researchers working on Covid-19 vaccines and pandemic preparedness studies; programs that provide online resources and mentoring to STEM students in underdeveloped parts of India and China; and a nonprofit building renewable solar panels in communities ranging from Appalachia to the Brazilian Amazon.

Millions of dollars were doled out just in 2022, per Future Fund's former site, even as crypto prices were crashing.

According to the old website: Future Fund pledged $3.6 million to AVECRIS to build the "next generation genetic vaccine platform," and $5 million to the Atlas Fellowship to support scholarships and a San Francisco-based summer program for high-school students.

One of the largest pledges, according to the old website, was $10 million to biotech startup HelixNano to run "preclinical and Phase 1 trials of a pan-variant Covid-19 vaccine."

None of the organizations returned requests for comment.

Mr. Bankman-Fried often said philanthropy was his primary motivation for amassing a fortune.

In a recent interview with The Wall Street Journal, Mr. Bankman-Fried said the majority of his charitable giving was sincere. But he also said that some was to curry favor with the public.

"When I pledged to give away $2,000 to some brand name charity as part of some promotion related to FTX's business, that was as much PR as anything else," Mr. Bankman-Fried told the Journal.

FTX company Blockfolio agreed to make "annual contributions to charities designated by" supermodel Gisele Bundchen, who filmed a commercial with then-husband Tom Brady for FTX.

The lawyers working through FTX's bankruptcy have asked to end the partnership along with a number of other sponsorships. A representative for Ms. Bundchen didn't comment.

The Alignment Research Center, a nonprofit focused on machine learning, said it will return its $1.25 million grant from the FTX Foundation, saying the money "morally (if not legally) belongs to FTX customers or creditors."

ProPublica, a nonprofit investigative media outlet, said it would return the $1.6 million it received from Building A Stronger Future, Mr. Bankman-Fried's family foundation.

Many charities spent at least a portion of the money received from FTX.

A spokeswoman for the Good Food Institute, a nonprofit think tank supporting plant- and cell-based meat alternatives, said it spent all the funds it received from two FTX grants. The spokeswoman said GFI's legal counsel advised that the odds of having to return grant funds were low, based on their grant agreement.

Stanford Medicine received approximately $4.5 million and was promised another $1 million, a spokeswoman said. She said she couldn't disclose the amount already spent, but said that the school is holding any remaining funds while it waits for legal clarity.

A major challenge is figuring out when FTX became insolvent -- or whether it was ever solvent in the first place. If a donation was made while FTX was technically unable to pay its creditors, those funds may need to be returned due to bankruptcy laws.

"This case is all about solvency," said Dov Kleiner, bankruptcy partner at Kleinberg, Kaplan, Wolff & Cohen PC.

Further complicating the clawback process: FTX Foundation may not be considered the same thing as FTX. Recipients who received funds from FTX Foundation rather than FTX itself may have additional protections, Mr. Kleiner added.

If the court determines FTX was a Ponzi scheme however, the FTX managers could argue that the donations will have to be returned because they were themselves intended to defraud customers and investors.

Mr. Kleiner said he thinks the most likely case is that management tries to settle with nonprofits that received funding.

"People lost money in FTX," he said. "If you're a creditor, it's unfair that they took your deposits and gave it to someone else, even if it's a charity."

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- FTX, Bahamas Liquidators Reach Deal**

BY By Alexander Saeedy

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LP

FTX's new management and liquidators in the Bahamas have signed an agreement to cooperate and collect assets on behalf of creditors, capping off a prolonged row between the two parties over who controls the bankrupt exchange's remaining property.

The parties have agreed to share information, as well as help to secure and distribute assets that belong to FTX entities in the Bahamas and abroad, according to a Friday press release. FTX had been based in the Bahamas since 2021 and its international exchange was overseen by Bahamian regulators.

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"There are some issues where we do not yet have a meeting of the minds, but we resolved many of the outstanding matters and have a path forward to resolve the rest," said John J. Ray III, FTX's new chief executive.

Plans to cooperate may resolve a prolonged battle between government officials in the Bahamas and FTX's new U.S.-based management, who have publicly traded barbs and accused the other of misconduct for almost two months.

As FTX suffered from billions in customer withdrawals and teetered toward bankruptcy, Bahamian regulators ruled that a local unit housing the international exchange was insolvent and appointed liquidators to collect billions of its assets. One day later, Sam Bankman-Fried resigned as FTX's chief executive and passed control of FTX to Mr. Ray, who filed more than 130 FTX subsidiaries for chapter 11 protection.

Companies that file for bankruptcy in the U.S. typically benefit from a legal firewall around their assets. But liquidators in the Bahamas still grabbed control of FTX assets after Mr. Ray filed the company for bankruptcy, including crypto tokens they then valued at about $3.5 billion, according to Bahamian regulators.

FTX's U.S. lawyers accused the Bahamian liquidators of "directing unauthorized access . . . for the purpose of obtaining digital assets," while the Bahamian government countered that Mr. Ray was making unfounded accusations and questioned his motives.

Friday's agreement suggests both sides are ready to move past those disputes as federal authorities in the U.S. have begun to seize FTX assets after they unveiled criminal charges against Mr. Bankman-Fried for his role in improperly using customer funds.

Vicky Ge Huang contributed to this article.

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THE WALL STREET JOURNAL.

HD **Charles Ponzi's Lesson for George Santos**

BY By Gregg Opelka
WC 517 words
PD 6 January 2023
SN The Wall Street Journal
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PG A13
LA English
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LP

'Be careful with your present," my mother, Duckie, used to warn her nine children, "because someday it will be your past." The lesson implied in her words, which she routinely forced us to deduce, was that mistakes you make today may come back to haunt you at a most inconvenient future date.

George Santos could have benefited from this wisdom. The recently elected New York congressman's embellishments, exaggerations and flat-out lies about his ancestry, education, religion, employment and even alleged past crimes are multiplying faster than **FTX** lawsuits. Among the most disturbing accusations is the revelation that in 2008 Mr. Santos, then 19, allegedly forged checks while in Brazil, helping himself to $700 from the bank account of a patient for whom his Brazilian mother, an itinerant nurse, was caring.

TD

Mr. Santos wasn't very careful with his present then, and nearly 15 years later his past is revisiting him at a most inopportune time, his inaugural term as a U.S. congressman. Despite his recent claim that "I am not a criminal here -- not here or in Brazil or any jurisdiction in the world," Rio de Janeiro prosecutors announced Jan. 2 that they are reopening the forgery charges against Mr. Santos now that they know his whereabouts.

His allergy to the truth as well as his habit of playing fast and loose with other people's checkbooks reminds me of another smooth talker, an immigrant to the U.S. whose past, which he thought he had buried, proved his future undoing.

In 1907, after four years of failing to achieve success in the U.S., 25-year-old Charles Ponzi moved to Montreal, where he found work as a manager at Banco Zarossi, a bank run by his Italian compatriot Luigi Zarossi. After Zarossi absconded to Mexico with piles of depositors' money, the young Mr. Ponzi decided it would be comparatively innocuous if he wrote a check from one of the bank's customers to himself in the amount of $423.58. The forgery landed Ponzi a three-year stay at the St. Vincent de Paul Federal Penitentiary.

Thirteen years later in Boston, Ponzi's infamous scheme of issuing promissory notes to customers of his newly formed Security Exchange Co. -- with outlandish interest payments of 50% in 45 days -- was in full bloom. By July 1920, the operation was collecting nearly $1 million a day from greedy Bostonians of all stripes.

Again, Mr. Ponzi could have benefited greatly from Duckie's sage words. By mid-August, a dogged journalist from the Boston Post tracked down and published the story of Ponzi's Montreal misdeeds and subsequent incarceration, complete with a mug shot under the alias Charles Bianchi. In weeks, the charismatic con man's empire collapsed, his only legacy -- a dubious one -- the robbing-Peter-to-pay-Paul scheme that bears his name. In 1949, after deportation from the U.S., an ailing and destitute Ponzi died at 66 -- in, of all places, Rio de Janeiro.

Mr. Opelka is a musical-theater composer-lyricist.

NS gponz : Ponzi/Pyramid Scheme | gcount : Counterfeit/Forgery | gcfra : Check Fraud | gpol : Domestic Politics | nedc : Commentaries/Opinions | c12 : Corporate Crime/Legal Action | ccat :

Corporate/Industrial News | gcat : Political/General News | gcrim : Crime/Legal Action | gfinc : Financial Crime | gfraud : Fraud | gpir : Politics/International Relations | gsfra : Securities Fraud | ncat : Content Types | nfact : Factiva Filters | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Crypto Bank Takes Hit To Cover Withdrawals**

BY By David Benoit
WC 899 words
PD 6 January 2023
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LP

The **FTX** collapse sparked a run on one of the crypto market's top banks, Silvergate Capital Corp., forcing it to sell assets at a steep loss to cover some $8.1 billion in withdrawals.

Crypto-related deposits plunged 68% in the fourth quarter, the bank said in an early release of some quarterly results. To satisfy the withdrawals, Silvergate liquidated debt it was holding on its balance sheet. The $718 million it lost selling the debt far exceeds the bank's total profit since at least 2013.

TD

Silvergate caters to companies in the crypto business. It helps institutional investors move dollars into and out of crypto-trading platforms through its Silvergate Exchange Network, which links the bank accounts of investors and exchanges.

FTX and other companies controlled by the crypto exchange's founder, Sam Bankman-Fried, accounted for about $1 billion of the bank's deposits. Their November collapse rattled the crypto market and sent Silvergate's stock down sharply.

Silvergate shares were down about 43% Thursday. The stock has fallen 84% in the past three months.

Silvergate was able to survive such a steep decline in deposits because it isn't structured like most banks. It sold off much of its traditional banking operations and branches to focus on providing bank accounts to crypto exchanges and investors. Crypto-related deposits account for some 90% of the bank's total, and it keeps almost all of its deposits in cash or easy-to-sell securities.

At the end of the fourth quarter, Silvergate said it had more cash on hand, $4.6 billion, than its $3.8 billion in remaining deposits. And it held an additional $5.6 billion in debt securities such as U.S. Treasurys that could be sold quickly. Daily average volume on Silvergate's network rose in the fourth quarter, the bank said.

Still, a run of that magnitude is highly unusual -- even by the standards of the Great Depression. According to a 1938 study by the Federal Reserve, banks that were closed between 1930 and 1933 averaged a deposit decline of nearly 38%. Only nine banks, in a sample of 67, exceeded a 50% decline, the study found.

Banks that failed during the 2008-09 financial crisis largely saw deposits decline between 10% and 20% on a monthly basis, according to a paper from Fed historian Jonathan D. Rose.

Silvergate said it remains committed to crypto and has the funding to handle a "sustained period of transformation."

The withdrawals, executives said, were the result of a loss of confidence in crypto that snowballed after FTX's collapse. Deposits dropped to as low as $3.5 billion in the fourth quarter before rising again to end the period at $3.8 billion.

On a call with analysts Thursday morning, Silvergate executives said customers didn't simply close out their accounts; rather, they told the bank they were moving their money out of crypto

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and thus didn't need to keep so much of it with Silvergate. Even customers who are focused on digital currencies pulled their cash to invest in supersafe assets such as Treasurys, executives said.

"Our customers have taken a huge pause," Chief Executive Alan Lane said.

The bank started borrowing against its holdings to get the cash needed for withdrawals, but as interest rates continued to increase it faced a mismatch: It was paying more to borrow than it was making in interest on the securities. That forced it to sell the securities, even ones it had previously intended to hold, into a market that was shedding bonds.

Silvergate plans to pare back some business to ride out the downturn. The bank has laid off 40% of its staff and shelved plans to launch its own digital currency, writing off $196 million it spent buying the technology that Facebook had built in its failed attempt to start a crypto-based payments network.

Silvergate has faced intense scrutiny over its relationship with FTX and Mr. Bankman-Fried's crypto-trading firm, Alameda Research LLC. The companies collapsed in November after it came to light that Alameda used FTX customer funds to fund risky bets.

Mr. Bankman-Fried has blamed the use of customer funds on outdated systems and risk-management failures. In its early days, he has said, FTX didn't have a bank account, so customers looking to trade on the exchange wired money to Alameda's bank accounts. Some of that money appears to have been transferred to an account at Silvergate.

Silvergate has said it is reviewing transactions between FTX and Alameda and suggested it didn't know that the money going into Alameda was supposed to go to FTX.

"At Silvergate, we understand and share the concerns being widely expressed that FTX apparently was directing its customers to wire money to Alameda's accounts," Mr. Lane wrote last month in a letter to lawmakers who had questioned the bank's relationship with Mr. Bankman-Fried's companies.

The crypto meltdown also has raised questions about the viability of the bank's business model. A group of federal regulators earlier this week warned banks against being too exposed to the market.

Silvergate's shares are heavily shorted. The trade has been a profitable one, with shorts up more than $400 million in the past year, according to S3 Partners.

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THE WALL STREET JOURNAL.

HD **FTX's Founder Pleads Not Guilty**

BY By Corinne Ramey
WC 607 words
PD 4 January 2023
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LP

FTX founder **Sam Bankman-Fried** pleaded not guilty to fraud and other criminal charges Tuesday, as a judge set his trial to begin Oct. 2.

Mr. Bankman-Fried, 30 years old, entered his not guilty plea to all eight criminal counts he faces before U.S. District Judge Lewis Kaplan in federal court in Manhattan. It was his second appearance in a U.S. court following the collapse of his cryptocurrency exchange.

TD

Prosecutors have accused him of stealing billions of dollars of customer funds from FTX and of defrauding investors and lenders to his trading firm, Alameda Research. He also evaded campaign-finance contribution limits and reporting requirements when he made millions of dollars in illegal political contributions funded by Alameda, prosecutors said.

Mr. Bankman-Fried has previously said he didn't intend to commit fraud but has acknowledged making mistakes while running the company.

The former chief executive, who is being detained at his parents' California home but returned to New York for the hearing, sat at the defense table between his lawyers, who entered the plea on his behalf. Assistant U.S. Attorney Danielle Sassoon told the judge the October trial would last about four weeks, while Mark Cohen, a lawyer for Mr. Bankman-Fried, estimated it would last from two to three weeks.

Judge Kaplan set the next court hearing for May 18.

Two of Mr. Bankman-Fried's associates, Caroline Ellison and Gary Wang, pleaded guilty to related charges last month and are cooperating with prosecutors' investigation into the alleged scheme. Damian Williams, the U.S. attorney for the Southern District of New York, said on Tuesday that his office had formed an FTX task force, drawing on prosecutors from multiple units, including those focused on securities fraud, public corruption and money laundering. Mr. Williams said his office "is working around the clock to respond to the implosion of FTX."

In December, Mr. Bankman-Fried was arrested in the Bahamas and, after consenting to extradition, flown to New York.

During his first appearance in federal court last month, a magistrate judge released him on a $250 million bond, which was secured by his parents' home in Stanford, Calif.

While Mr. Bankman-Fried wasn't required to deposit any money with the court, if he were to fail to appear in court, the government could move to seize his parents' property.

The judge required that Mr. Bankman-Fried's parents and one nonfamily member co-sign the $250 million bond and that two additional people sign other bonds in lesser amounts.

In a letter Tuesday, lawyers for Mr. Bankman-Fried asked Judge Kaplan to order that the names of the sureties, or signers of the lesser bonds, not be disclosed to the public.

The lawyers said that Mr. Bankman-Fried's parents had been subjected to intense media scrutiny and threats.

"There is serious cause for concern that the two additional sureties would face similar intrusions on their privacy as well as threats and harassment if their names appear unredacted on their bonds or their identities are otherwise publicly disclosed," the letter said.

Judge Kaplan granted the request, though said he would allow members of the media or others to contest the sealing of the information.

Ms. Sassoon, the prosecutor, asked the judge to impose an additional bond condition barring Mr. Bankman-Fried from transferring or accessing FTX and Alameda assets.

Mr. Cohen said his client hadn't accessed those funds, echoing a point Mr. Bankman-Fried had made in a tweet last week.

Judge Kaplan granted prosecutors' request.

James Fanelli contributed to this article.

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THE WALL STREET JOURNAL.

HD **Business & Technology: Crypto Magnates Trade Barbs Online Over Lender's Freeze**

BY By Vicky Ge Huang and Caitlin Ostroff
WC 550 words
PD 3 January 2023
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LP

Tensions between crypto magnates Cameron Winklevoss and Barry Silbert erupted into an open dispute on Twitter at the start of the new year, with Mr. Winklevoss accusing Mr. Silbert of "bad faith stall tactics" that are hurting rank-and-file customers.

The back-and-forth on Monday deals another blow to a sector struggling for credibility, especially since the collapse of **FTX** and its affiliated trading firm, Alameda Research. The fall of the two companies led to outflows from other crypto exchanges and the near-erasure in value of coins tied to **FTX** and Alameda, domino effects in a closely linked industry.

TD

Crypto investors are closely watching the negotiations between the Gemini exchange, which was founded by Mr. Winklevoss and his brother, Tyler, and the lender Genesis Global Capital. Last year saw the bankruptcies of multiple crypto firms, capped off with FTX. Traders are going into the new year wary of further turmoil.

Genesis, the lending unit of Mr. Silbert's crypto conglomerate Digital Currency Group, halted loan originations and redemptions Nov. 16 after it couldn't meet client withdrawal requests. Genesis cited the demise of FTX. The Wall Street Journal has reported that Genesis had loans outstanding to FTX's sister trading firm.

Genesis is a lending partner of Gemini's earn program, which allows retail users to lend out their cryptocurrencies for annual interest rates as high as 8%. Gemini paused customer withdrawals from the earn program on the same day that Genesis made its announcement. Gemini's 340,000 earn users have deposited more than $900 million in the earn program, according to Mr. Winklevoss.

Crypto exchange Gemini has banded together with other creditors of Genesis to find a way for the crypto lender to return owed assets.

In an open letter to Mr. Silbert Monday, Mr. Winklevoss said Genesis creditors have repeatedly tried to get together with Mr. Silbert and sent multiple proposals to him, including one delivered on Christmas.

"Despite this, you continue to refuse to get into a room with us to hash out a resolution," Mr. Winklevoss wrote. "Every time we ask you for tangible engagement, you hide behind lawyers, investment bankers, and process. After six weeks, your behavior is not only completely unacceptable, it is unconscionable."

Mr. Silbert responded on Twitter, saying his company had delivered a proposal on Dec. 29 "and has not received any response."

Mr. Winklevoss also said that Mr. Silbert's parent company DCG owes $1.675 billion to its subsidiary Genesis. Mr. Silbert replied on Twitter that DCG didn't borrow $1.675 billion from Genesis and is current on all loans outstanding.

Mr. Silbert said in a letter to investors in November that DCG owes Genesis about $575 million that is due in May 2023, in addition to a $1.1 billion promissory note to Genesis due in June 2032.

Last year, DCG took on liabilities from Genesis after the crypto hedge fund Three Arrows Capital defaulted on the $2.4 billion in loans it took out from Genesis, prompting the issuance of the $1.1 billion promissory note while DCG tries to recover assets from Three Arrows' liquidation proceedings.

Spokespeople for Gemini and DCG declined to comment.

CO dcurrg : Digital Currency Group Inc. | ftxdig : FTX Trading Ltd

IN ivicu : Virtual Currencies/Cryptocurrencies | icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology

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THE WALL STREET JOURNAL.

HD **Stocks Log Worst Year Since 2008 --- Tech sector took the brunt, bonds suffered historic selloff, as Fed raised rates sharply**

BY By Akane Otani

WC 1,106 words

PD 31 December 2022

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LP

This year was a bust for markets.

Stocks tumbled. Bonds were hit by their worst selloff ever. And cryptocurrencies were eviscerated, leading to the collapse of industry giants including **FTX**.

TD

The tumult across global markets had a chilling effect on Wall Street and beyond. Companies that hoped to go public scrapped their plans. Banks that typically cash in on fees for advising on deals and initial public offerings are slashing bonuses because of the drought. And retirees saw their savings shrink.

The S&P 500 fell 19% for the year, while the Dow Jones Industrial Average dropped 8.8%. The Nasdaq Composite declined 33%, hurt by a steep slide in technology shares. All three indexes logged their biggest declines since 2008, the year Lehman Brothers collapsed and the financial crisis began. Trading was quiet ahead of the holiday weekend, with stocks ending a touch lower.

Bonds had an even more bruising year. The yield on the 10-year U.S. Treasury note -- which influences everything from mortgage rates to student debt -- climbed to 3.826%, from 1.496% at the end of 2021. Yields rise as bond prices fall.

How did things go so badly? In short, investors and policy makers were burned by bets that 2021's inflation surge would prove to be transitory.

Instead, price pressures were exacerbated by Russia's invasion of Ukraine, which sent oil and gas prices soaring in February and March. And then, even as energy prices moderated, inflation stayed stubbornly high. In a bid to bring inflation back down, the Federal Reserve executed its most-aggressive interest-rate increases since the 1980s.

Tighter monetary policy led investors to flee the most popular bets across markets from previous years. When interest rates were ultralow, as they were for more than a decade after the 2008 financial crisis, it cost investors less to bet on shares of often-unprofitable companies promising to deliver big growth years down the line. Now, with short-term bonds, money-market funds and other cash-like investments offering their highest yields in years, many money managers are reluctant to bet on risky investments with uncertain payoffs.

That explains why so many technology-driven companies were hit so hard this year. The NYSE FANG+ Index, which tracks Meta Platforms Inc., Amazon.com Inc., Apple Inc., Netflix Inc. and Alphabet Inc., among other stocks, was down 40% year to date.

Tesla Inc. shares suffered their worst year ever as Chief Executive Elon Musk was embroiled in more controversies at Twitter Inc., for which he took ownership in October.

"We were a little bit spoiled in the past because we were going through a long period since especially the 2000s of rising equity valuations [and] relatively low volatility that only got interrupted during the financial crisis," said Maria Vassalou, co-chief investment officer of multiasset solutions at Goldman Sachs Asset Management.

That dynamic has been upended by the Fed's policy turn this year, she added.

Bitcoin slumped more than 60%, a sharp reversal after it flew to records in 2021. TerraUSD, a cryptocurrency that had been marketed as a safe harbor from volatility, crashed. Customers and clients of such firms as Celsius Network LLC and Three Arrows Capital were left scrambling to get their money back after a wave of bankruptcies.

Heightened volatility wasn't bad for everybody. Bigger market swings allowed stock pickers who diverged from the crowd to make a comeback. About 55% of actively managed large-cap mutual funds were on pace to beat their benchmarks this year, the highest share since 2007, according to a Goldman Sachs analysis going through mid-November. Hedge funds that deployed strategies to take advantage of volatility also came out on top.

Another group that was richly rewarded: those who correctly timed the big rally in commodities.

U.S. crude oil prices topped $130 a barrel in March, reaching a 13-year high, after intensifying Russian attacks in Ukraine prompted lawmakers in the U.S. and Europe to discuss banning imports of Russian oil and energy products. Although oil prices failed to maintain their momentum in the second half of the year, they still posted modest gains for 2022 -- making for one of the few bright spots in an otherwise glum year for markets.

Oil's boom was good news for shares of energy companies. Occidental Petroleum Corp., the producer that caught Warren Buffett's eye and became one of Berkshire Hathaway Inc.'s biggest holdings, closed out the year with its biggest annual gain ever. So did Exxon Mobil Corp., which, like its rivals, enjoyed record profits in 2022.

The debate over what's next is already well under way.

Many economists see the U.S. slipping into recession next year. But the unemployment rate has remained at a historically low level.

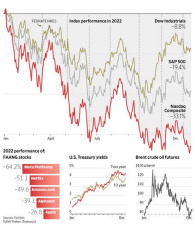
Fed Chairman Jerome Powell has signaled that he doesn't view the fight against inflation as anywhere near done. Markets are pricing in something entirely different. Bond traders are betting on the Fed pivoting from raising rates to cutting them as early as next year, according to FactSet data on the interest-rate derivatives market.

In another sign traders are doubting the Fed, the U.S. dollar, which strengthened against other currencies for much of the year as the central bank raised rates, has yet to surpass its September peak.

The disparities have some investors and analysts on edge about how 2023 will shake out. Will markets wind up suffering deep losses, as they did after the 2008 financial crisis, but find their bottom in due course? Or will they fall for longer than most anticipate? Such was the case after the dot-com bust. The S&P 500 took 2 1/2 years to hit its trough, repeatedly defying traders who believed they were just days away from the end of the selling.

At the moment, yields on short- and longer-term Treasurys seem to be pricing in a dovish Fed -- not a central bank that has said it plans on keeping monetary policy tight for the foreseeable future. That could spell trouble for traders, if their guesses for where monetary policy goes next year are proven wrong.

"We see all rates, and especially short ones, as too low," said Roberto Perli, head of global policy research at Piper Sandler and a former senior staff member at the Fed. At the moment, neither the stock market nor corporate debt appears to be pricing in the possibility of prolonged pain, he added.



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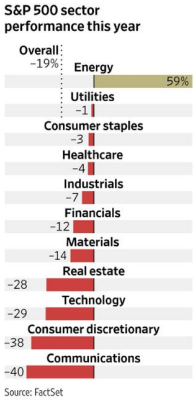

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THE WALL STREET JOURNAL.

CLM REVIEW & OUTLOOK (Editorial)

HD **The Year Markets Came Down to Earth**

WC 304 words

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LP

Reality has rudely but helpfully taught some hard economic lessons in 2022. To wit, excessive government spending has negative consequences such as inflation; modern monetary theory is a fraud; renewable energy can't keep the lights on without fossil fuels; and (most cruelly) free money can't last forever.

The last of those is the reality that financial markets brought home in 2022 as U.S. stocks finally fell back to earth after being inflated for years by the Federal Reserve's detour into monetary illusion. Asset prices soared as the Fed showered the economy with money that cost essentially nothing, as real interest rates stayed negative. Investors dug for gold in the Klondike of crypto assets and the NFTs of memorabilia from pro athletes. **Sam Bankman-Fried** was hailed as a man who saw the future -- and it was crypto.

TD

This couldn't last and in 2022 it didn't. As inflation took off, and the Fed raised interest rates, asset prices have inevitably adjusted. U.S. stocks had their worst year since 2008, the year of financial panic. The S&P 500 fell 19%, while high-flying tech shares fell even more. In the revenge of the financial nerds, value shares outperformed growth funds. Mr. Bankman-Fried stands accused of fraud.

The surprise, if there is one, is that there haven't been even more financial casualties as the Fed has tightened money. Perhaps the financial system is sturdier now than in 2008, or perhaps the debt dominoes have yet to fall. But the end of free money always does harm that is unanticipated during the mania.

Unhappily, corrections are sometimes necessary to teach the eternal truth summed up by legendary stock trader Ace Greenberg after the 1987 stock-market crash: "Stocks fluctuate, next question."

CO fed : Board of Governors of the Federal Reserve System

NS e12 : Monetary Policy | ecat : Economic News | m11 : Equity Markets | mcat : Commodity/Financial Market News | ncolu : Columns | nedi : Editorials | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- Bahamas Regulator Seized FTX Assets**

BY By Jonathan Randles and Becky Yerak

WC 788 words

PD 31 December 2022

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LP

Bahamas securities regulators said they seized digital assets valued at $3.5 billion from **FTX**'s local operation in mid-November as the cryptocurrency exchange spiraled toward collapse, a figure that **FTX**'s U.S. managers cast doubt on Friday.

Christina Rolle, executive director of the Securities Commission of the Bahamas, said in an affidavit made public Thursday that the commission sought control of the crypto assets held by **FTX** Digital Markets Ltd. in November after **FTX** co-founder **Sam Bankman-Fried** told local authorities under oath about a hacking attempt.

TD

Her affidavit, filed with the Supreme Court of the Bahamas, also confirmed the Securities Commission relied on FTX's co-founders, Mr. Bankman-Fried and Gary Wang, to make the transfers happen.

Ms. Rolle's account provides new insight into how regulators in the Bahamas, where FTX ran its doomed exchange operation, responded as the firm collapsed, including by sweeping its local assets to government-controlled wallets. Those tokens were valued at $3.5 billion at the time of the transfer, according to her affidavit.

On Friday FTX's U.S. managers disputed the multibillion-dollar value that Bahamian officials assigned to the crypto assets they swept, pegging the assets' worth at $296 million when they were transferred, or $167 million based on more recent spot prices.

FTX's U.S. management has criticized Bahamian officials, alleging they directed unauthorized transfers of company assets, and said Friday it would seek to retrieve the seized cryptocurrency from the Bahamas.

The dispute has raised the question of whether U.S. or Bahamian courts will divvy up at least some assets amassed by FTX, a company operating globally and run from the Bahamas. A list of the top 50 FTX creditors filed in U.S. bankruptcy court indicates they alone are owed $3.1 billion.

The crypto assets swept into government-controlled wallets in the Bahamas include roughly 195 million of FTX's FTT tokens, 1,938 Ethereum "and other miscellaneous coins that do not have substantial value," according to FTX's statement Friday.

FTX said the Securities Commission should "clear up any confusion created by their recent statements and provide the public with accurate information concerning the cryptocurrency seized and how it was valued."

According to Ms. Rolle's affidavit, Messrs. Bankman-Fried and Wang made the transfers out of the exchange's local unit based on a court order obtained by the Securities Commission.

"There was no other timely option available to the [Securities Commission] to achieve compliance" with the Bahamian court order, Ms. Rolle said.

The Securities Commission is maintaining the FTX Digital Markets assets in wallets hosted by Fireblocks, an institutional digital asset custodian, according to the affidavit.

The transfers were done a day after Mr. Bankman-Fried resigned as FTX chief executive and his successor, John J. Ray III, put more than 100 FTX affiliates into chapter 11 in the U.S. Bankruptcy Court in Wilmington, Del. FTX Digital Markets isn't included in the U.S. bankruptcy filing and has been overseen by Bahamas court-appointed liquidators.

The Securities Commission said Thursday it is temporarily holding the digital assets it swept and is awaiting direction from the Bahamian Supreme Court, which could require the assets to be delivered to customers and creditors who own them, or to the local liquidators of FTX Digital Markets.

Mr. Ray and FTX's bankruptcy lawyers have questioned the independence of the Bahamian liquidation proceeding and said the crypto transfers removed assets that belong to FTX's chapter 11 estate.

Ms. Rolle said the Securities Commission had acted properly, and disputed allegations from FTX lawyers that Bahamian officials directed the minting of new tokens as the exchange was collapsing.

"This statement is unsubstantiated and untrue, and has the effect of casting a pall of mistrust over public institutions in the Bahamas and otherwise sully the reputation of this jurisdiction," her affidavit said.

Ms. Rolle said the Securities Commission didn't publicly share details that explain why it took the actions it did in November sooner because of a confidentiality order, which it initially sought from the court to avoid tipping off parties that could be connected to FTX Digital Markets.

Earlier in December, an FTX lawyer said in a bankruptcy-court hearing that its management team is negotiating with Bahamian authorities to resolve a dispute over access to the failed crypto exchange's electronic records.

Ms. Rolle said the Securities Commission rebuffed an offer by Mr. Bankman-Fried in early November to allow Bahamian customers to withdraw funds from FTX. She said in earlier filings with the Bahamas court that such transfers could be subject to clawbacks.

CO sutcbh : Securities Commission of the Bahamas | ftxdig : FTX Trading Ltd

IN i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | icryxch : Cryptocurrency Exchanges | ifinal : Financial Services | ifmsoft : Financial Technology | iinv : Investing/Securities | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS c13 : Regulation/Government Policy | ccfd : Corporate Financial Difficulty | gcrim : Crime/Legal Action | c16 : Bankruptcy | csecre : Securities Regulations | neqac : Equities Asset Class News | reqrbc : Suggested Reading Banking/Credit | reqris : Suggested Reading Investing/Securities | cactio : Corporate Actions | ccat : Corporate/Industrial News | gcat : Political/General News | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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THE WALL STREET JOURNAL.

HD **Business News: FTX Customers Seek Redaction of Identities From Filings**

BY By Andrew Scurria
WC 778 words
PD 30 December 2022
SN The Wall Street Journal
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PG B3
LA English
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LP

A group of **FTX**'s international customers asked for a court order shielding their names from the public, spotlighting a privacy issue that has divided bankruptcy courts in other crypto-related cases.

Unnamed customers of **FTX**.com, the failed company's largest exchange platform outside the U.S., said in court papers Wednesday that their interest in keeping their identities and contact information secret trumps the public's interest in an open and transparent bankruptcy process. Public disclosure of customer identities puts them at risk of identity theft and cyber scams, and could diminish whatever value remains in **FTX**, according to the customer group.

TD

"It is difficult to imagine a more compelling case that would warrant withholding and redacting the information of the thousands of FTX.com customers who had their funds stolen and never anticipated that their use of cryptocurrency and FTX.com would become publicly known," the customers' filing said.

Justice Department lawyers and media organizations including The Wall Street Journal have asked in bankruptcy court for FTX customers' names to be disclosed in its public filings. The judge overseeing FTX's chapter 11 case is scheduled to consider next month if the identifying information should be redacted.

Bankruptcy courts normally require transparency into the affairs of troubled businesses, including their creditors, in return for the protections of chapter 11. FTX, Celsius Network LLC and other crypto platforms moving through bankruptcy have said their customers should nonetheless stay anonymous.

Some platforms argued successfully to keep users' information under wraps, but hundreds of thousands of customers of Celsius were publicly listed in its chapter 11 case after a September court ruling forced it to disclose account holders' names and coin balances.

FTX lawyers said in court papers after its collapse last month that keeping customer information under seal is crucial to maintaining the company's competitive advantage and the value of its assets, as well as its customers' privacy.

The Journal, Bloomberg LP, the New York Times and the Financial Times have intervened in FTX's chapter 11 case to oppose its sealing request. Lawyers for the Journal and the other media companies argued in court papers this month that creditor lists have historically been open to the public and FTX hasn't met its burden to be granted an exception.

Wednesday's filing by FTX.com customers argued that the Journal and the other media organizations haven't explained why unsealing customer information is in the public's interest, "or what the media would do with that information." Online fraudsters can capitalize on any personally identifying information, even if disclosure is limited to auser's name, through phishing schemes aimed at private crypto keys or online wallets, according to the group of 15 customers holding roughly $1.9 billion in claims.

Millions of cryptocurrency holders around the world are facing losses after Celsius and Voyager Digital Ltd. filed for chapter 11 in July and FTX and BlockFi Inc. filed last month.

Government lawyers have argued in court filings that redacting users' data is a slippery slope that would move a significant portion of bankruptcy proceedings out of public view.

In September, Judge Martin Glenn of the U.S. Bankruptcy Court in Manhattan ruled Celsius couldn't keep its users' identities redacted. Enabling the public to identify creditors and see how claims are treated is important to the fairness and public perception of the bankruptcy process, the judge said.

That rationale isn't necessarily binding on FTX. Judge John Dorsey of the U.S. Bankruptcy Court in Wilmington, Del., who oversees the FTX case, has been willing to seal crypto user data before. In 2020, he ruled that failed crypto platform Cred Inc. could seal its customer data, in part to preserve the value of its business for a potential buyer. No such buyer emerged, and the customer list hasn't been sold or made public.

While FTX.com's privacy policy stipulates that user information may be sold or transferred as part of a bankruptcy reorganization, that doesn't mandate disclosure to the general public, according to the customers' filing. They said keeping customer information private would help preserve the potential value of FTX as a going concern if it can relaunch its exchanges or use the technology embedded in the platform.

It isn't clear if parts of FTX have any going-concern value. The company has put some potentially salvageable business units in Europe and Japan up for sale, but not FTX.com and FTX US, its biggest platforms for international and U.S. customers.

Akiko Matsuda contributed to this article.

CO ftxdig : FTX Trading Ltd

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NS ccfd : Corporate Financial Difficulty | ghack : Cybercrime/Hacking | c12 : Corporate Crime/Legal Action | c16 : Bankruptcy | neqac : Equities Asset Class News | reqris : Suggested Reading Investing/Securities | cactio : Corporate Actions | ccat : Corporate/Industrial News | gcat : Political/General News | gcrim : Crime/Legal Action | ncat : Content Types | nfact : Factiva Filters | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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THE WALL STREET JOURNAL.

HD **MANSION --- Private Properties: A Florida Condo Bought With Crypto Sells at a Loss -- in Cash**

BY By Katherine Clarke

WC 422 words

PD 30 December 2022

SN The Wall Street Journal

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LP

In June 2021, when the cryptocurrency markets were soaring, the developers of the Arte condominium in Miami's Surfside neighborhood announced that a buyer had purchased a penthouse there for $22.5 million in cryptocurrency. The deal, one of the most expensive ever done using digital coins, was heralded as evidence that cryptocurrency would eventually become commonplace in the real-estate world.

Now, with the crypto marketscrashing back toearth after the implosion of the cryptocurrency exchange **FTX**, that same buyer has resold at a loss for $18 million. The deal closed for cash this time, said Danny Hertzberg of Coldwell Banker Realty, one of the listing agents.

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The unit was listed for $28 million in September 2021 and its price was lowered several times. It was most recently asking $19.9 million.

Records show the seller was a company named Chain Inc. On its website, Chain Inc. described itself as a blockchain-based technology company founded in 2014 with a mission to enable a smarter and more connected economy. It wasn't clear if the unit was owned by the company or one of its executives. The company's chief executive, Deepak Thapliyal, didn't respond to a request for comment.

The identity of the buyer couldn't be determined.

The deal comes as real-estate agents across the country report that the newly minted crypto-millionaires and billionaires who flooded the real-estate market earlier this year are stepping back. It also coincides with a wider pullback in the crypto markets: The price of bitcoin has dropped more than 70% from its peak late last year and crypto fund asset managers saw investors withdraw almost $20 billion in November, The Wall Street Journal reported.

The apartment comprises Arte's ninth floor and has 360-degree views of the ocean, shoreline and cityscape, according to a listing description on Zillow. It spans about 5,100 square feet with four bedrooms, four bathrooms and a wine-tasting bar, as well as an oceanfront, wraparound terrace. The furniture was included in the deal, Mr. Hertzberg said.

Arte is perhaps best known as the home of Ivanka Trump and her husband, Jared Kushner, who rented there after leaving the White House. The building's amenities include swimming pools, a meditation pond, tennis court, fitness center and yoga studio.

Mr. Hertzberg and Craig Heger at Echo Fine Properties represented the seller. Oren Alexander of Official represented the buyer.

CO rpewvv : Chain Inc.

IN ivicu : Virtual Currencies/Cryptocurrencies | i85 : Real Estate Services/Transactions | icryxch : Cryptocurrency Exchanges | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | icre : Real Estate/Construction | ifinal : Financial Services | ifmsoft : Financial Technology | iinv : Investing/Securities | ireest : Real Estate | itech : Technology | i3302 : Computers/Consumer Electronics | i330202 : Software | i3302021 : Applications Software |

icomp : Computing | icrmsw : Customer Relationship Management Software | ientrps : Enterprise Management Software

NS mcryp : Cryptocurrency Markets | glux : Luxury Homes/Estates | c182 : Physical Asset Transactions | c18 : Ownership Changes | cactio : Corporate Actions | ccat : Corporate/Industrial News | gcat : Political/General News | glife : Living/Lifestyle | greest : Real Estate/Property | m13 : Money/Currency Markets | m132 : Foreign Exchange Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Crypto Customers Sell Claims at a Huge Loss**

BY By Jonathan Randles
WC 971 words
PD 29 December 2022
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LA English
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LP

Some customers with accounts stuck in failed cryptocurrency companies are choosing to take a big loss on their investments now to avoid dealing with uncertainties in drawn-out bankruptcies.

At least hundreds of customers burned by the collapses of **FTX**, Celsius Network LLC and Voyager Digital Ltd. are seeking to sell their cryptocurrency claims at deep discounts so they don't have to wait months or even years to see what they might recover as the platforms move through chapter 11.

TD

Customers and other creditors holding about $1 billion in FTX claims and about $100 million in Celsius claims have expressed interest in selling them through an online market run by Cherokee Acquisition, a bankruptcy claims broker and buyer, the firm said.

Nearly 500 users of FTX, Celsius and Voyager have posted claims valued at about $126 million for sale on Xclaim Inc., a bankruptcy claims trading startup that recently changed its business to focus on providing a platform to buy and sell crypto claims. Xclaim has so far listed about $91.7 million in FTX customer claims, the company said.

These investors are taking the loss upfront to avoid going through bankruptcy proceedings that don't necessarily guarantee them a better outcome or they don't have the time to find out.

"[Bankruptcy] takes more time than people can deal with," said Vladimir Jelisavcic, founder and manager of Cherokee Acquisition. "Some people need or want money now."

Xclaim founder and Chief Executive Matt Sedigh said the firm is getting calls from creditors every day. Because most of FTX's users live overseas, about two-thirds of the FTX claims submitted come from creditors based in China, Hong Kong and Taiwan, Mr. Sedigh said.

On the other end of the transactions, hedge funds and distressed-debt investors are making calculated bets. Fund managers including Contrarian Capital Management LLC, Invictus Global Management and digital-asset investment firm NovaWulf Digital Management have bought claims from Celsius or Voyager creditors, court papers show.

Professional asset managers have the capital and the time to ride out the bankruptcies and they said they are purchasing tokens that they believe have high upside.

Other considerations include analysis of the quality of tokens they buy in case they aren't repaid through bankruptcy in dollars.

Pricing of the claims can change day-to-day. Voyager's bankruptcy claims dropped to 40 cents on the dollar on Xclaim after FTX collapsed in early November and the deal for it to buy Voyager fell apart. They had earlier traded at as much as 64 cents, Mr. Sedigh said. Celsius's claims also plunged, falling from highs of about 29 cents on the dollar to 19 cents shortly after FTX filed for bankruptcy.

The sales have so far represented only a share of the amounts owed to FTX, Celsius and Voyager customers. How much FTX creditors might recover in bankruptcy is unknown and the case is more complicated because the company lacked trustworthy financial information and its founders are subject to criminal investigations.

Xclaim and Cherokee Acquisition said their platforms allow cryptocurrency customers to get back higher returns because they make the historically opaque process of claims trading transparent, which creates competition among potential buyers.

NOIA Capital, a Luxembourg-based investment firm, has purchased FTX claims by offering sellers two options. The firm would pay 5% upfront of the value of the claims, with 20% payouts when the accounts are repaid in bankruptcy, or 2.5% upfront, with 35% of future proceeds, said Muhammed Yesilhark, chief investment officer of NOIA.

He said the types of claims holders are varied and include companies backed by FTX that had their funds on its exchange, as well as wealthy individuals that are "willing to just close this chapter of [their] life and move on."

Ezra Serrur, who launched his hedge fund management firm Serrur & Co. in June, said selling accounts not only allows customers to get some money back right away, it also lets them lock in a loss to lower tax liability. Mr. Serrur was an investment analyst at distressed-debt hedge fund DSC Meridian Capital LP before founding his namesake hedge fund.

Buyers, on the other hand, have the capital to purchase claims and can leverage expertise in the intersection between cryptocurrency and chapter 11 to invest in digital assets with a significant upside, Mr. Serrur said.

Some customers decided to hold on to their accounts. Josh Ragusa, a Voyager customer in California, said, "[I'd] rather take my chances with my holdings in the hope that I will be able to recoup my portfolio and that digital currency will again have its day."

"Hope is a powerful drug," Mr. Ragusa said.

But for others, the venture into crypto has been a costly but valuable lesson.One customer who sold his claims to Mr. Serrur's fund was Dylan Jones. The California resident collected 16.5 cents on the dollar on his $165,205 Celsius claim through Xclaim.

Mr. Jones said he opened his account because Celsius promised high returns that he thought "were unmatched anywhere else."

He said he wasn't surprised to see big losses in the cryptocurrency market. If he held on to these claims, he said he might see a return of between 10 cents and 20 cents based on the assets Celsius said it has been able to secure.

"My crypto investments were always limited to an amount of money that I was willing to lose if the experiment imploded, as it did," Mr. Jones said. He said he has some regrets "about not listening to my inner conscience when the market got rocky."

"It was a life lesson learned in that there are very few opportunities to rapidly gain wealth without massive risk," he said.

CO wnxdwz : Celsius Network LLC | curiv : Voyager Digital Ltd. | ftxdig : FTX Trading Ltd

IN ivicu : Virtual Currencies/Cryptocurrencies | iinv : Investing/Securities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | icryxch : Cryptocurrency Exchanges

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THE WALL STREET JOURNAL.

CLM Wonder Land

HD **Sober Up, America**

BY By Daniel Henninger

WC 946 words

PD 29 December 2022

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PG A15

LA English

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LP

Looking back at a mess of a year, it seems possible to blame the Covid pandemic for just about everything. The pandemic pushed many off their A-game, and in public life most of the bad things that happen are caused by bad judgment.

Consider: Officials said inflation was transitory. Investors thought markets would rise forever. **Sam Bankman-Fried**'s customers thought that with cryptocurrency, money was finally growing on trees. Anthony Fauci should have left us alone earlier. Republican primary voters heard voices and nominated too many losers. It slipped Joe Biden's mind that the U.S. has a southern border. Vladimir Putin lost his mind in the ethers of Great Russia nationalism.

TD

In this respect, Congress didn't disappoint. With full knowledge of the year's bad calls, Democrats and Republicans this month passed a $1.7 trillion cats-and-dogs, everything-but-the-kitchen-sink spending blowout. They make drunken sailors look respectable.

By process of elimination, which wasn't hard, we arrive at 2022's man of the year -- Federal Reserve Chairman Jerome Powell. Mr. Powell has been delivering one simple New Year's resolution: It's time to sober up.

In Mr. Powell's world, sobering up means recognizing that a binge of nearly zero interest and constant trillions in spending put us in the ditch. Recovery is impossible unless inflation falls and stays down.

Mr. Powell wasn't the only one who recognized in 2022 that a great sobering up is necessary.

Ukraine's President Volodymyr Zelensky told the U.S. Congress that Ukrainians are fighting to preserve freedom from autocracy both for themselves and the world. So far, the U.S. and most Western nations agree and are making sacrifices to supply Ukraine with the means to defend itself. The fantasy that Mr. Putin would never play politics with energy also faded.

This month, the U.S., Japan and Australia announced they are increasing military cooperation in explicit recognition of the security threats posed by China's external ambitions and North Korea's missiles. Japan committed to a previously unthinkable increase in spending on its national defense.

Even the Biden effort to revive the Iran nuclear deal has effectively died, a casualty of the reality that Iran, Russia and China now constitute an on-the-march triumvirate intent on displacing democratic economic and social values.

Still, something is missing from this emerging coalition of the sober -- Uncle Sam. Put it this way: Some of world's free nations are trying to get real about an array of long-ignored security threats and economic realities, but this moment won't last unless the U.S. assertively leads -- not for a brief year or two but for an uninterrupted decade at least. Right now, America is treading water.

The midterm elections were supposed to provide guidance about the U.S.'s direction. They settled nothing. Rather than offering policy leadership, the Republican Party is bogged down in an argument over its "messaging." What the world needs from the U.S. is more than messaging.

Every New Year is typically about seeing silver linings amid the clouds, and we have one: Mr. Biden's postelection assertion that what he needs to change is "nothing." That's good, because the Biden presidency and its policies sit before us as one choice for the country's future.

That path was described on these pages recently by Treasury Secretary Janet Yellen's defense of the administration's economic policies. I searched her piece for the phrase "economic growth." What appeared -- once -- was "stable growth." Mostly she described the administration's spending proposals and transfer payments.

"Stable growth" isn't just a sentiment. For Democrats, the U.S. economy is understood now as primarily a public economy in which well-being for most people comes from government payments to individuals, rather than from private economic activity or even work.

In this view, the role of the more heavily taxed, government-guided private sector is to keep the economy's heart beating with "stable growth," which means settling for the trade-off of long-term growth rates under 2%. This is socialism American style: lowered personal expectations, flattened well-being, more justice. Add to this the progressive goal of an economy of renewables, which will require massive public subsidies for a decade or more.

To meet the needs of the sobered-up world I've just described, this economic model won't work.

The new spending law is considered by some to be the future of political compromise: Defense spending increased 9.7% in return for what House Democrats describe as a 9.3% increase in nondefense spending. This grand bargain isn't sustainable.

The Democrats' "stable growth" model can't possibly produce sufficient wealth to rebuild the U.S. national-security infrastructure plainly exposed as necessary after Russia's invasion of Ukraine and China's threat to Taiwan -- and beyond. It would be nice to think otherwise. Sober up.

There's one other problem: A "stable" low-growth economy will be really, really boring. The country will fall asleep watching the paint dry on its government transfer payments.

In the years ahead, the free world and frankly life itself need the American economy firing on all its incomparable economic and human cylinders. How do we achieve this? Here's the answer in 11 words: Texas, Florida, Arizona, Utah, Idaho, Tennessee, Georgia, North Carolina, South Carolina.

They figured it out. Let one of them take it to Washington.

Write henninger@wsj.com.

(See related letter: "Letters to the Editor: It Slipped Joe Biden's Mind" -- WSJ January 4, 2023)

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THE WALL STREET JOURNAL.

HD **Business News: Crypto Bankruptcy Tests Limits of Customer Privacy**

BY By Akiko Matsuda
WC 919 words
PD 28 December 2022
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LP

The collapse of several cryptocurrency platforms this year is testing the industry's promise of user privacy, as bankruptcy courts weigh whether millions of individual customers' identities should be revealed to the public.

Hundreds of thousands of customers of Celsius Network LLC have already lost their anonymity because of its chapter 11 filing after a court ruling in September forced it to disclose its account holders' names and coin balances. A different bankruptcy court is expected to consider next month if failed crypto exchange **FTX** can seal information on its customers' identities and contact information from its publicly available filings.

TD

Bankruptcy gives businesses an opportunity to resolve their debts in exchange for transparency into their affairs, including names and addresses of their business counterparts and known creditors. Government lawyers and media organizations are opposing FTX's efforts to seal its customers' information, saying it hasn't provided enough evidence to justify curtailing the public's right of access to judicial records.

"One of the biggest selling points of crypto is the anonymity," but the notion becomes an issue in bankruptcy courts that require transparency, said Joanne Gelfand, a bankruptcy lawyer with Akerman LLP.

"Many people believe that the anonymity only protects wrongdoers, that the anonymity enables thieves and fraudsters to transfer money and not be accountable," she said. "Other people look at it as a personal individual right-to-privacy issue."

Lawyers representing crypto firms have urged courts to err on the side of redacting information, saying that disclosure will only reduce whatever value the businesses have left and harm customers who are already facing financial losses.

The turmoil in cryptocurrency markets has hurt crypto's credibility with the investing public as plunging asset prices blew holes in the balance sheets of lenders, exchanges and hedge funds. The resulting bankruptcies blocked millions of individuals and institutions from accessing their crypto and exposed how some platforms weren't as careful with customer funds as they let on.

FTX shook the crypto world with its swift implosion and alleged misuse of customer funds. Some platforms may simply shut down if they can't sell or reorganize their businesses in chapter 11.

FTX management said in court papers that keeping its customer information under seal is crucial to maintaining its competitive advantage and protecting its customers' privacy. The company has put some potentially salvageable business units in Europe and Japan up for sale, but not FTX.com and FTX US, its biggest platforms for international and U.S. customers.

The Wall Street Journal, Bloomberg LP, the New York Times and the Financial Times Ltd. have intervened in FTX's chapter 11 case to oppose its sealing request. Lawyers for the Journal and the other media companies argued in court papers this month that creditor lists have historically been open to the public and that FTX hasn't met its burden to be granted an exception.

An FTX representative didn't respond to requests for comment on the court filing by the Journal and the other companies. FTX's lawyer Brian Glueckstein said in a court hearing last month that releasing names and email addresses would give competitors a "free opportunity to poach" FTX's customers and potentially hurt the value of its assets. Identifying customers who are high net-worth individuals or entities with significant digital assets could "put them in the crosshairs of bad actors" such as identity thieves or hackers, he said.

FTX's recent terms of use stipulate that in events such as a merger, restructuring or bankruptcy, its customer information may be sold or transferred as permitted by law or contract. If customers never had a contractual right to keep their FTX information private, "it's hard to see why customers would suddenly gain privacy rights in bankruptcy," said Adam Levitin, a professor at Georgetown Law.

Judge John Dorsey of the U.S. Bankruptcy Court in Wilmington, Del., who is overseeing FTX's case, has expressed a willingness to shield identifying information on crypto customers in a chapter 11 case.

In 2020, lawyers of online cryptocurrency platform Cred Inc. asked Judge Dorsey to hide its customer information from the general public. They argued that releasing such information could give Cred's competitors an unfair advantage while parties involved in the chapter 11 case would get no apparent benefit.

Cred said in court papers that its customer list was a potentially valuable asset, and that disclosing its creditors as required by normal bankruptcy procedure would amount to giving up that valuable corporate asset. Judge Dorsey granted its sealing request.

More recently, Judge Martin Glenn with the U.S. Bankruptcy Court in Manhattan in September allowed Celsius Network to redact contact information for individual customers, while refusing the company's request to seal their names. Businesses got no seal at all: Their names, email addresses and physical addresses were made public.

After the release of names, Celsius lawyers reported phishing attempts in which customers received emails from senders posing as law-firm associates, requesting account information.

Clifford White, who led the Justice Department's bankruptcy division until March, said creditor names were traditionally sealed to protect vulnerable populations, such as sex-abuse victims or residents of nursing homes. But in the past decade, bankruptcy courts have expanded the protection to others and most recently to crypto investors, he said.

Court approval of FTX's request would "signal a significant expansion of the practice of sealing," Mr. White said.

CO wnxdwz : Celsius Network LLC | ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

HD **U.S. News: DOJ Puts Focus on Crypto Sector, Top Official Says**

BY By Aruna Viswanatha and Dave Michaels
WC 685 words
PD 24 December 2022
SN The Wall Street Journal
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LP

WASHINGTON -- A surge of Justice Department resources into cryptocurrency investigations more than a year ago helped prosecutors quickly charge **FTX** founder **Sam Bankman-Fried** and augurs a spate of aggressive enforcement ahead, according to the department's second-ranking official.

"You should expect more," Deputy Attorney General Lisa Monaco said in an interview Thursday with The Wall Street Journal about the agency's efforts to combat corporate crime. "Those investments are paying off in the prosecutorial firepower you are seeing."

TD

Federal prosecutors in Manhattan charged Mr. Bankman-Fried with fraud and conspiracy last week; this week he was extradited to the U.S. from the Bahamas and released on a $250 million bond. Authorities have obtained guilty pleas from two of Mr. Bankman-Fried's top lieutenants, including Caroline Ellison, chief executive of Mr. Bankman-Fried's trading firm.

Critics of the U.S. government's approach to crypto say authorities have been too slow to rein in the freewheeling industry. Exchanges such as FTX are hubs of the crypto market, consolidating under one roof functions that are handled separately in the capital markets by banks, brokerages and custodians. They hold traders' assets despite regulators' worries about loose internal controls, hacks and other customer threats.

FTX owes its 50 largest creditors, which it listed as customers, about $3.1 billion, according to a bankruptcy court filing from November. There were about 2.7 million users on FTX's U.S. platform and more than 7.6 million users on its international exchange, although some users might have had multiple accounts, FTX's new chief executive, John J. Ray III, told House lawmakers last week.

The Justice Department plays a prominent role in policing digital-asset markets because the products aren't supervised by any market regulator. Prosecutors are able to apply broad laws written to deter fraud and money laundering, as well as misconduct involving securities and commodities, to schemes involving digital assets.

The Manhattan U.S. attorney's office has spearheaded the criminal case against Mr. Bankman-Fried and his closest associates, reprising the leading role it often takes in white-collar criminal cases involving financial markets.

But the Justice Department is building expertise across the 93 U.S. attorney's offices and is coordinating those efforts through a 25-member national cryptocurrency enforcement team, Ms. Monaco said. Two lawyers from the Securities and Exchange Commission, which has a dedicated crypto enforcement unit, are expected to be detailed to the team soon."We saw the potential for the illicit use of the technology and, frankly, we saw the crypto season could eventually become the crypto winter," she said.

The Justice Department is also investigating Binance, the world's largest cryptocurrency exchange, the Journal has reported.

"We're watching the volatility in the market . . . and looking at the exploitation of this technology . . . however they may be used for illicit ends, whether it's ransomware, whether it's money laundering, whether it's misleading the investing public," Ms. Monaco said.

The Biden administration's Justice Department said this year it had overhauled its approach to financial and other corporate crimes in an attempt to bring more cases faster. Those efforts in recent months have often touched on national security priorities.

Since Russia's invasion of Ukraine in February, for example, prosecutors have seized the yachts and planes of wealthy Russian businessmen allegedly close to the Kremlin, and charged aides who allegedly helped them move money through the U.S. financial system, in an effort to pressure Moscow to change course.

In October, prosecutors charged two Chinese intelligence officers who allegedly tried to bribe American law-enforcement officials for inside information about the investigation into Chinese telecom giant Huawei Technologies Co. Also that month, the French cement firm Lafarge SA agreed to more than $750 million in penalties as it pleaded guilty to paying Islamic State and an al Qaeda affiliate to protect its Syrian cement plant, marking the first time prosecutors charged a company with supporting terrorist organizations.

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THE WALL STREET JOURNAL.

HD **FTX Founder Bankman-Fried Released on $250 Million Bond**

BY By Corinne Ramey and James Fanelli
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LP

FTX founder **Sam Bankman-Fried** was released on a $250 million bond Thursday and ordered to stay in his parents' Palo Alto, Calif., home, after the former executive's first appearance in a New York federal court following his extradition from the Bahamas.

Mr. Bankman-Fried, charged with engaging in criminal conduct that contributed to the cryptocurrency exchange's collapse, came to court shackled by the ankles and wearing a charcoal gray suit. He sat quietly at the defense table, flanked by his lawyers.

TD

Mr. Bankman-Fried left the courthouse in a black SUV. At a later date he will enter a plea on charges that he engaged in fraud and other offenses, a federal magistrate judge said. The next court hearing is set for Jan. 3.

Magistrate Judge Gabriel Gorenstein set the bail package, which requires Mr. Bankman-Fried to be under electronic monitoring and restricts his travel to parts of Northern California and New York.

Assistant U.S. Attorney Nicolas Roos called Mr. Bankman-Fried's alleged crimes "a fraud of epic proportions" and said he believed the $250 million bond was the largest ever. The judge said the bond would be cosigned by four financially responsible people, including one nonfamily member.

The evidence against Mr. Bankman-Fried includes the testimony of multiple cooperators and more than a dozen witnesses from FTX and his crypto trading firm Alameda Research, as well as encrypted text messages and tens of thousands of pages of financial documents, Mr. Roos said.

The government agreed to the bail package, Mr. Roos said, because Mr. Bankman-Fried had consented to extradition. Mr. Bankman-Fried's assets had diminished significantly from when they were worth billions of dollars, he said.

Mark Cohen, a lawyer for Mr. Bankman-Fried, said his client agreed to extradition, which could have taken years, to address the charges. He noted Mr. Bankman-Fried would be living with his parents, who helped to secure his bond with the equity interest in their home. They live near the Stanford University campus, in a home valued at roughly $4 million.

Judge Gorenstein said he agreed to the bail package because he believed Mr. Bankman-Fried wasn't a flight risk and didn't pose a danger to the community.

"It will be very difficult for this defendant to hide without being recognized," the judge said. Mr. Bankman-Fried had achieved such notoriety that it would be impossible for him to conduct any financial transactions, the judge added.

When the judge asked if Mr. Bankman-Fried understood that he could be charged with bail jumping if he failed to appear in court, he looked at his lawyers then said, "Yes, I do."

Mr. Bankman-Fried has acknowledged making mistakes while running the company, but has denied committing fraud.

His appearance capped a dramatic series of legal developments that began when Mr. Bankman-Fried told a Bahamas judge Wednesday morning that he wanted to be transferred immediately to the U.S. to face charges and try to "make the relevant customers whole."

After U.S. officials had him on a plane en route to New York on Wednesday night, they announced that two of his closest associates had pleaded guilty to several criminal offenses and were cooperating with prosecutors.

Caroline Ellison, the former chief executive of Alameda Research, pleaded guilty to seven criminal counts, and former FTX Chief Technology Officer Gary Wang to four counts, according to their plea agreements. Their cooperation with investigators likely strengthens prosecutors' case against Mr. Bankman-Fried, who is accused of defrauding customers, lenders and investors. It could also increase the legal peril facing other former FTX officials who played a role in the alleged scheme, as prosecutors have two insiders' accounts and documents upon which they could rely at any future trials.

According to documents made public Thursday, Ms. Ellison and Mr. Wang pleaded guilty to participating in a scheme to defraud FTX customers from 2019 through November 2022 by misappropriating customer deposits and lending them to Alameda. Ms. Ellison also admitted participating in a scheme to defraud Alameda lenders by providing false information about its financial condition. She and Mr. Wang also pleaded guilty to misleading FTX investors.

A lawyer for Ms. Ellison declined to comment after her guilty plea was announced. A lawyer for Mr. Wang said his client took his obligations as a cooperating witness seriously.

Both Ms. Ellison, 28 years old, and Mr. Wang, 29, have ties to Mr. Bankman-Fried that predate his founding of FTX. Ms. Ellison and Mr. Bankman-Fried worked together at Jane Street, a quantitative-trading firm, and were once romantically involved. Mr. Wang and Mr. Bankman-Fried were in the same coed living group at the Massachusetts Institute of Technology.

The Securities and Exchange Commission and Commodity Futures Trading Commission also filed lawsuits against Ms. Ellison and Mr. Wang late Wednesday for their roles in a scheme to defraud FTX investors. Both agreed to settle the SEC's and CFTC's claims and to accept liability, according to the regulators.

Legal experts said the speed with which the two former executives entered into cooperative plea agreements is notable and suggests the U.S. government has a strong case.

"People generally don't just come running in the door offering to help. They only do this when they've concluded that their situation is grave," said Samuel Buell, a law professor at Duke University and a former federal prosecutor.

Mr. Bankman-Fried is also charged with conspiring with others to make illegal campaign contributions. Mr. Williams said Mr. Bankman-Fried made contributions look like they were coming from wealthy associates when in reality they were funded by Alameda with stolen customer funds.

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LP

Bankman-Fried was released on a $250 million bond and ordered to stay in his parents' Palo Alto, Calif., home, after the **FTX** founder's first appearance in a New York federal court following his extradition from the Bahamas.

TD

YouTube will pay an average price of roughly $2 billion a year to secure rights to the NFL Sunday Ticket franchise, people familiar with the deal said.

Stocks fell after economic data pointed to a strong labor market and faster economic growth than previously thought. The S&P 500, Nasdaq and Dow lost 1.4%, 2.2% and 1%, respectively.

Microsoft filed a rebuttal to an FTC lawsuit aimed at blocking its $75 billion purchase of Activision Blizzard, saying the deal wouldn't hurt competition in the videogaming industry.

Musk pledged to pause selling Tesla stock and said a decision on a share buyback could be influenced by the severity of any economic downturn, as he tried toease concerns stemming from his purchase of Twitter.

Tesla doubled the discounts offered on its Model 3 and Model Y electric vehicles delivered in the U.S. this month, fueling concern that demand for the company's autos may be softening.

Chinese imports of semiconductor-making equipment plunged in November, as U.S. export controls aimed at slowing Beijing's technological advancement took a bite.

CO actvis : Activision Blizzard, Inc.
IN i3302 : Computers/Consumer Electronics | i330202 : Software | i3302021 : Applications Software | icnp : Consumer Goods | icomp : Computing | igamsof : Games Software | ilgood : Leisure/Travel Goods | itech : Technology
NS ccat : Corporate/Industrial News | ncdig : Corporate Digests | ncolu : Columns | npag : Page One Stories | ncat : Content Types
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THE WALL STREET JOURNAL.

HD **Banking & Finance: FTX's Collapse Pressures SEC Over Strategy**

BY By Paul Kiernan
WC 448 words
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LP

Securities and Exchange Commission Chair Gary Gensler is pushing to hold cryptocurrency firms to the same rules that apply to stocks and bonds, rather than write a raft of new regulation for the troubled sector.

That puts him at odds with some lawmakers who say the collapse of **Sam Bankman-Fried**'s **FTX** trading platform shows crypto needs its own set of guardrails, and point out that Mr. Gensler's enforcement strategy moved too slowly to stop **FTX** from imploding.

TD

Mr. Gensler, a veteran regulator nominated by President Biden, hasn't included major crypto regulations among the more than 40 rules he has proposed or finalized since taking office in April 2021. Rather, he has demanded crypto firms comply with existing SEC requirements for exchanges, broker-dealers and public companies. "I'm very proud of what we've done and proud of the public voice, as well," Mr. Gensler said in an interview.

Mr. Gensler has added more enforcement attorneys to the SEC's crypto unit and shifted the agency's litigation strategy from focusing on individual tokens to the trading platforms that sell cryptocurrencies to investors.

Since 2018, the SEC has brought or settled more than 90 lawsuits related to cryptocurrencies. More than 30 have come during Mr. Gensler's time in office. The SEC chief has said the majority of cryptocurrencies are securities -- like stocks and bonds -- that should follow the agency's rigorous disclosure requirements before being sold to the investing public.

The SEC filed suit Wednesday against two associates of Mr. Bankman-Fried. The agency also joined other federal agencies in suing Mr. Bankman-Fried after FTX filed for bankruptcy. It alleged the executives defrauded FTX's investors.

The FTX fiasco has brought heightened scrutiny of the SEC and its smaller sibling agency, the Commodity Futures Trading Commission, which regulates derivatives and is vying for greater jurisdiction over crypto markets. CFTC Chairman Rostin Behnam said in a hearing on Dec. 1 that FTX's collapse showed why his agency should be given authority to oversee markets for the small number of cryptocurrencies that the SEC has declined to pursue, such as bitcoin.

Mr. Gensler has said that he would support Congress giving that agency more powers to regulate such assets. But he said last month that the most recent attempt by lawmakers to write a bill for that purpose had too light a touch.

The risk, he has said, is that new legislation could create loopholes that undermine a $100 trillion market for U.S. stocks and bonds in order to accommodate a crypto market valued at less than $1 trillion globally.

CO ftxdig : FTX Trading Ltd | seexc : US Securities and Exchange Commission

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NS c13 : Regulation/Government Policy | mcryp : Cryptocurrency Markets | csecre : Securities Regulations | neqac : Equities Asset Class News | ccat : Corporate/Industrial News | m13 : Money/Currency Markets | m132 : Foreign Exchange Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **U.S. News: Crypto Giant Binance Draws Calls for More Transparency**

BY By Patricia Kowsmann and Caitlin Ostroff
WC 664 words
PD 22 December 2022
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LP

The collapse of the crypto exchange **FTX** has triggered calls for transparency in the industry. To many investors, the industry's biggest player, Binance, remains a black box.

Binance processes more transactions than most of its rivals combined, accounting for roughly half of crypto spot trading and two-thirds of derivatives trading, according to the research firm CryptoCompare.

TD

Its outsize role has come under greater scrutiny since the collapse in November of FTX.

Like FTX, Binance discloses limited financial information. It doesn't say where the company is based. And its founder, Changpeng Zhao, is affiliated with market makers providing liquidity on its own platform, an arrangement some market observers say leads to a potential conflict of interest.

"Does the exchange give preferential treatment to an affiliate? Is the exchange supporting an affiliate with customer money? These questions concern customers and the regulators who try to protect them," said Larry Harris, a finance professor at the University of Southern California's Marshall School of Business.

"When a business is not transparent and not regulated, we have no true understanding of what is happening inside," Prof. Harris said.

Adding to investor worries, an outside audit firm that Binance brought in to report on its reserves recentlysaid it was suspending its work for crypto firms.

Patrick Hillmann, Binance's chief strategy officer, said Binance has strict controls in place overseen by a global risk department. He said the exchange doesn't trade against users. While private companies aren't required to produce financial statements, Binance is embracing additional transparency by showing proof of its reserves, he added.

We have already restarted the [process] and will make additional announcements in the coming weeks," Mr. Hillmann added.

Binance has been shrouded in secrecy following its creation in 2017. In recent years, when cryptocurrencies were booming, investors paid scant attention to corporate structure and governance within the industry.

Binance's lack of transparency and the structure of its operations have raised concerns among regulators.

Long before FTX's collapse, the Justice Department was probing whether Binance had abetted money laundering, and the SEC asked for a list of information from Binance's U.S. affiliate, including how it relates to the global organization. Binance has said in the past that it collaborates with regulators worldwide and takes compliance obligations seriously.

Mr. Zhao, born in China and raised in Canada, launched Binance out of Shanghai. After the Chinese government issued a ban on crypto exchanges, the team moved to Japan. In 2018, Japan's financial

regulator warned the company against conducting trades for residents without having a license to do so. After that, Binance stopped disclosing a specific location.

Binance denies it continued to conduct business out of China after the ban, but developers based in Shanghai were maintaining important software functions at its U.S. arm, Binance.US, as of summer last year, The Wall Street Journal reported. It made Binance.US executives worry that the U.S. government might take issue with customer data being potentially accessible by the Chinese government.

Binance.US told the Journal at the time that the exchange had robust data protection and that U.S. customer data was stored on servers in the U.S.

"Binance does not operate in China nor do we have any technology, including servers or data, based in China," Mr. Hillmann said.

Binance is far larger than FTX and more important to the industry. The exchange is a big partner for Western crypto traders and institutions and a major platform for those in developing economies who want to store funds outside local-government currency.

After FTX filed for bankruptcy protection, Binance vowed to show customers worried about their funds that their tokens were stored safely. Binance released figures for bitcoin, but before it could release for others, Mazars, the auditing firm it used, suspended the work for Binance and other exchanges.

CO ftxdig : FTX Trading Ltd | hlicay : Binance (Cayman Islands)

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LP

Two associates of **FTX** founder Bankman-Fried have pleaded guilty for their roles in fraud that contributed to the cryptocurrency exchange's collapse and are cooperating with federal investigators.

Bankman-Fried was transferred to U.S. custody to face criminal charges after a judge in the Bahamas approved his extradition.

TD

U.S. existing-home sales slid in November for a 10th straight month, extending a record streak of declines as high mortgage rates and home prices pushed many buyers out of the market.

U.S. stocks rose, boosted by consumer-confidence data. The S&P 500 and Nasdaq both gained 1.5%, while the Dow added 1.6%.

Citadel expects to return about $7 billion in profits to its clients on the back of what is expected to be its most profitable year ever, said people familiar with the hedge-fund firm.

After years of wrong-way bets, investors shorting the shares of Tesla have made $15 billion in collective gains in 2022, according to data from S3 Partners.

Musk said Twitter was on track to post negative cash flow of $3 billion a year before the company slashed costs in part by cutting thousands of jobs.

Hundreds of Tyson Foods employees plan to leave the company as it consolidates its corporate offices to northwest Arkansas next year, according to people familiar with the matter.

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THE WALL STREET JOURNAL.

HD **Bankman-Fried Associates Admit Fraud Charges in FTX Collapse**

BY By Corinne Ramey and Dave Michaels
WC 776 words
PD 22 December 2022
SN The Wall Street Journal
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LP

Two associates of **FTX** founder **Sam Bankman-Fried** have pleaded guilty for their roles in fraud that contributed to the cryptocurrency exchange's collapse and are cooperating with federal investigators.

Caroline Ellison, the former chief executive of Alameda Research, a trading firm tied to **FTX**, and Gary Wang, **FTX**'s former chief technology officer, both pleaded guilty to criminal offenses similar to those Mr. Bankman-Fried was charged with last week.

TD

Damian Williams, the U.S. attorney for the Southern District of New York, announced the charges and plea agreements in a video posted online Wednesday night. Mr. Williams called for others who participated in alleged misconduct at FTX or Alameda to come forward.

"We are moving quickly and our patience is not eternal," he said.

The announcement came shortly after Mr. Bankman-Fried had been transferred to U.S. custody in the Bahamas, where he was arrested last week.

Ms. Ellison, 28 years old, pleaded guilty to seven counts, including wire fraud and conspiracy to commit securities fraud, according to her plea agreement, which was signed Monday. Mr. Wang, 29, pleaded guilty to four counts, including wire fraud.

Ilan Graff, a lawyer for Mr. Wang, said in a statement, "Gary has accepted responsibility for his actions and takes seriously his obligations as a cooperating witness." An attorney for Ms. Ellison declined to comment.

The Securities and Exchange Commission and Commodity Futures Trading Commission also sued Ms. Ellison and Mr. Wang, alleging they committed civil securities and commodities fraud. Both agreed to settle the SEC's and CFTC's claims and to accept liability, with monetary penalties to be decided in the future, according to the regulators.

Mr. Bankman-Fried, 30, is expected to appear in federal court in Manhattan as soon as Thursday. Prosecutors have charged him with eight criminal counts, alleging he defrauded customers, lenders and investors, in addition to making illegal political donations.

Ms. Ellison, who graduated from Stanford University in 2016, was previously a trader at Jane Street, a quantitative-trading firm. She met Mr. Bankman-Fried at Jane Street, and after he left to found Alameda, she joined him. Ms. Ellison and Mr. Bankman-Fried were at times romantically involved, The Wall Street Journal has previously reported.

Mr. Wang worked as a software engineer at Google before co-founding Alameda and FTX. He claims to have built systems to aggregate airline fares across millions of flights at Google, according to an FTX presentation viewed by the Journal.

Messrs. Bankman-Fried and Wang are both graduates of the Massachusetts Institute of Technology, where they were members of the same coed living group, Epsilon Theta.

According to their plea agreements, Ms. Ellison and Mr. Wang are expected to truthfully disclose information to investigators, provide requested evidence and appear in front of a grand jury or court

proceeding if asked. In exchange, the government would inform the judge of the defendants' assistance and request lesser sentences.

The SEC said Ms. Ellison, from 2019 to 2022, manipulated the price of FTT, a digital asset that FTX issued. Ms. Ellison did so at the direction of Mr. Bankman-Fried, according to the SEC. The price manipulation allowed Alameda to inflate the value of FTT that it held and used as collateral for undisclosed loans from FTX customers, the SEC said.

Mr. Bankman-Fried on at least two occasions became worried about the price of FTT dropping and told Ms. Ellison to have Alameda buy FTT, the SEC's complaint says. Binance, a rival crypto exchange, was also a large holder of FTT tokens; its announcement in November that it would sell its FTT stake caused the price of the token to plummet, although Ms. Ellison had offered publicly to buy Binance's holdings of FTT at $22 each.

The SEC alleged that FTT is a security, giving the agency authority to oversee how it was traded. FTX's profits from selling FTT helped fund the exchange's growth, the SEC said.

Ms. Ellison was co-CEO of Alameda from late 2021 until August, when she took the title exclusively. Like many of Mr. Bankman-Fried's lieutenants, she worked in Hong Kong and the Bahamas. Though she was CEO, Mr. Bankman-Fried owned 90% of Alameda and Mr. Wang owned the other 10%, according to bankruptcy court filings.

Even after Ms. Ellison became co-CEO, Mr. Bankman-Fried directed investment and operational decisions, frequently communicated with Alameda employees and had full access to Alameda's records and databases, the SEC said.

Hannah Miao and Vicky Ge Huang contributed to this article.

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NS gfinc : Financial Crime | gfraud : Fraud | c13 : Regulation/Government Policy | c12 : Corporate Crime/Legal Action | c41 : Management | cexla : Legal Action - Executives | csecre : Securities Regulations | neqac : Equities Asset Class News | npag : Page One Stories | reqrbc : Suggested Reading Banking/Credit | reqris : Suggested Reading Investing/Securities | ccat : Corporate/Industrial News | gcat : Political/General News | gcrim : Crime/Legal Action | ncat : Content Types | nfact : Factiva Filters | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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THE WALL STREET JOURNAL.

HD **Banking & Finance: FTX Aims to Claw Back Donations --- New leadership goes after political spending by Bankman-Fried, other executives**

BY By Patricia Kowsmann and Paul Kiernan

WC 696 words

PD 21 December 2022

SN The Wall Street Journal

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LP

New management at collapsed crypto exchange **FTX** said it would try to recoup donations made by **Sam Bankman-Fried** and other executives, which include tens of millions of dollars in contributions to U.S. politicians and affiliated groups.

The move comes after the Securities and Exchange Commission said in a lawsuit last week that customer assets were used to make investments, real-estate purchases and large political donations.

TD

Mr. Bankman-Fried was charged last week by federal prosecutors with secretly diverting customer funds from the exchange to an affiliated trading arm. He is being detained in a jail in the Bahamas, where he and FTX were based.

In a statement, the new management of FTX said it has been approached by a number of recipients of contributions and other payments that wanted to return the funds. The company, now led by CEO John J. Ray III, said other recipients should also contact it about returning the payments.

"To the extent such payments are not returned voluntarily, the FTX debtors intend to commence actions before the bankruptcy court to require the return of such payments, with interest accruing from the date any action is commenced," it said.

Mr. Bankman-Fried and members of his team were among the biggest donors in U.S. politics, contributing more than $70 million to election campaigns in less than 18 months, The Wall Street Journalpreviously reported.

Mr. Bankman-Fried personally gave $40 million to politicians and political-action committees ahead of the 2022 midterm elections, mostly to Democrats and liberal-leaning groups, according to the Center for Responsive Politics, a nonpartisan group that tracks campaign donations. Ryan Salame, another top FTX executive, donated more than $23 million, mainly to Republicans and conservative groups.

Political-action committees that promote specific causes also received funding from FTX executives.

Lawrence Noble, an adjunct law professor at American University who specializes in campaign finance, said some of the groups could be forced to give the money back -- assuming they have it. For committees that were primarily funded by FTX officials, he said, it may be easier to shut down.

Otherwise, groups could face ethical or political pressure to return tainted funds. But whether they ultimately do so is an open question.

"Committees do not like giving money back," Mr. Noble said. "Sometimes they stall, hoping the public forgets about it."

Some of the groups that received the biggest checks from FTX officials have spent most of the money, campaign finance disclosures show.

They include Protect Our Future, a political-action committee that purports to focus on stopping pandemics, and American Dream Federal Action, a group that funneled money to Republicans.

Both got nearly all of their funding from FTX officials: Protect Our Future received $27 million from Mr. Bankman-Fried, while American Dream Federal Action got $15 million from Mr. Salame. After spending ahead of midterms, they currently have $384,588 and $280,623 left, respectively.

Neither group responded to a request for comment.

FTX officials also gave to PACs that are affiliated with Republican and Democratic leaders. These groups have deeper pockets and receive funding from a broader network of donors.

Mr. Bankman-Fried and his deputies gave $6 million to House Majority PAC, a committee affiliated with House Speaker Nancy Pelosi (D., Calif.), $5 million to Future Forward USA, a group that backed President Biden's 2020 campaign, and $3 million to Senate Majority PAC, a committee affiliated with Senate Majority Leader Chuck Schumer (D., N.Y.).

Mr. Salame gave $2.5 million to Senate Leadership Fund, affiliated with Senate Minority Leader Mitch McConnell (R., Ky.), and $2 million to Congressional Leadership Fund, associated with House Minority Leader Kevin McCarthy (R., Calif.).

House Majority PAC and Senate Majority PAC said they have set aside the contributions from FTX officials with the intention of returning them once they are instructed to do so by law enforcement.

Future Forward, Senate Leadership Fund and Congressional Leadership Fund didn't respond to requests for comment.

Vicky Ge Huang contributed to this article.

CO ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

HD **Binance.US to Buy Voyager's Assets --- CEO says U.S. arm of crypto exchange has hundreds of millions of dollars to deploy**

BY By Vicky Ge Huang and Caitlin Ostroff

WC 612 words

PD 20 December 2022

SN The Wall Street Journal

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LP

The U.S. arm of Binance, the world's largest cryptocurrency exchange by trading volume, has agreed to buy the assets of bankrupt crypto lender Voyager Digital.

Voyager resumed its search for a buyer after the collapse of crypto exchange **FTX**. In September, **FTX** beat Binance.US to win the auction for Voyager's customer accounts with a purchase price of around $50 million and in a deal valued at $1.42 billion, The Wall Street Journal reported.

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Binance.US will make a $10 million good-faith deposit now, in U.S. dollars, and another $10 million deposit once the deal closes, Binance.US Chief Executive Brian Shroder said in an interview. It also will reimburse Voyager for certain expenses up to a maximum of $15 million, according to a release announcing the deal.

Voyager valued the bid by Binance.US at $1.022 billion. That includes Voyager's cryptocurrency portfolio, worth an estimated $1.002 billion at current market prices.

Palo Alto, Calif.-based Binance.US is looking at a variety of distressed assets as acquisition targets, including already-bankrupt companies and those on the verge of bankruptcy, according to Mr. Shroder. He said the firm has hundreds of millions of dollars to deploy.

In April, Binance.US raised $200 million in a seed round that valued the company at $4.5 billion.

The demise of Sam Bankman-Fried's crypto exchange FTX has spread contagion across the crypto industry and bred users' distrust of centralized crypto exchanges, which have rushed to tout reserves. Concerns regarding Binance, the global crypto exchange, have risen recently following its release of a narrow "proof of reserve report" that left investors with questions about the state of its finances.

Mr. Shroder said his firm has a fundamentally different business model from FTX.

"We do not lend out customer assets, we do not offer margin trading, we maintain one-to-one reserves," he said. "Tomorrow all of our customers can withdraw their assets and we still have hundreds of millions of assets. . .Sam has destroyed trust, I don't expect anyone to hear from me and feel comforted."

Binance.US is serving as a distribution agent for the Voyager assets, Mr. Shroder said.

Pending court approvals, Voyager will move customer assets to Binance.US, which will then deliver assets to users who will need to register to use the exchange's platform.

Mr. Shroder said he is hoping to fast track the process and the firm aims to provide Voyager users access to their assets in March next year.

The company also is giving priority to Voyager employees who are applying for open Binance.US roles, he added.

"The Binance.US bid aims to return crypto to customers in kind, in accordance with court-approved disbursements and platform capabilities," Voyager said.

Binance.US's bid was the highest and best bid for its assets, Voyager said. The company will seek bankruptcy-court approval for the deal at a hearing on Jan. 5, 2023.

Voyager, founded in 2019, operated a crypto lending platform that took in customer deposits, paid them interest and lent out the assets to other parties. It went public via a reverse merger in 2019. At the stock's peak in 2021, the company's market capitalization was $3.9 billion.

The crypto lender and broker was the first major crypto platform to file for bankruptcy after Three Arrows Capital failed to repay the more than $650 million it lent to the crypto hedge fund.

CO curiv : Voyager Digital Ltd. | ftxdig : FTX Trading Ltd | hlicay : Binance (Cayman Islands)

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THE WALL STREET JOURNAL.

HD **Crypto Is Money Without a Purpose**

BY By Todd H. Baker
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LP

Before **FTX** crashed, crypto lobbyists and many politicians were complaining loudly that crypto trading was being unfairly denied full participation in banking and finance by overly cautious regulators. We should thank our lucky stars that somebody showed good sense.

Granted, crypto trading looks a lot like the forms of finance we're all familiar with. It's made up of things called "exchanges," "brokers," "lenders," "deposits" and "hedge funds." The financial press breathlessly reports their every move. Crypto also carries the special mystique of the blockchain, which has let traders treat critics as anti-innovation Luddites.

TD

Yet in the most crucial respect, the crypto marketplace isn't at all like traditional finance. Finance and financial services exist for a purpose that crypto trading lacks. As Nobel Prize-winning economist Robert Shiller once wrote, "Finance is not about making money per se . . . it exists to support other goals -- those of society."

Finance helps businesses, people and governments raise, save, transmit and deploy money for socially and economically useful ends. Banks allow savings to be pooled and turned into loans for fruit orchards, solar farms, automobiles, small businesses and houses. The securities market supports the needs of larger businesses and the government in raising capital and helps make the banking process more efficient by distributing risk broadly. Insurance and derivatives markets help manage risk. Participants in finance seek to maximize profit, of course -- but in the context of a larger social and economic purpose.

Contrast that with the purposelessness of the crypto trading system. Crypto trading is a game that uses finance as its subject matter. It emulates finance the same way the board games Risk and Monopoly emulate war and real-estate investing. But it is a fiendishly complex and dangerous game born in the age of big data. The "finance" that crypto gambling emulates is the type that society wants less of: highly levered and opaque. It uses all the weapons of modern financial engineering and all the tricks of trading culture to boost returns. It's the kind of finance that creates crises.

Crypto trading is also gambling. Gamblers bring money -- fiat currency -- into a casino or online gambling game, wager on outcomes, and convert the winnings or losses back into money. The closed-loop crypto trading system operates in the same way. Crypto trading can't serve the productive purpose that defines finance. It performs no intermediation function to help expand the economy or improve society. Crypto trading is, as "Seinfeld's" George Costanza might have said, finance about nothing.

If crypto trading were to be integrated into traditional finance, the risk of systemic contagion would be real. Crypto coins would become part of investment, pension and retirement portfolios, which are critical pieces of people's financial support structure. Unexpected connections and hidden leverage would re-create the types of systemic vulnerabilities that led to the 2008 financial crisis. All this would be exacerbated by the "stateless" status of so much of crypto trading and the inability of the current regulatory structure to deal with offshore and virtual crypto trading providers.

Most important, crypto trading would inevitably come to benefit, like other parts of the traditional financial system, from the Federal Reserve's ever-expanding role as lender of last resort.

None of this sounds like good policy. Instead, crypto trading should be separated as completely as possible from the traditional financial system. Banks, brokerages, investment advisers, money managers and retirement funds -- any entity or affiliate that is part of the regulated financial infrastructure -- should be prohibited from participating in, supporting or adding leverage to crypto trading in any way. This will probably slow, or even reverse, growth in crypto trading. Given the many downsides of gambling, this is a good thing.

No crossover means no crossover. While individuals should be allowed to play in both areas, institutions must choose to be all in with either traditional finance or crypto trading. We can't have distressed crypto-trading firms or enablers causing real-world crises by liquidating assets held in banks and brokerages to cover losses. Nor can we have affiliated entities operating on both sides of the divide, as there is a long history suggesting that risks can't be effectively segregated in commonly controlled enterprises.

When you have a hammer, everything looks like a nail. That's why everyone in Washington seems to think that federal financial-services regulators are the natural overseers of crypto trading. This is wrong. Crypto trading should be regulated for what it is -- a form of gambling that emulates finance -- and not what its advocates tell you it is.

That means the separated crypto-trading system should be excluded from financial-services regulation by the Securities and Exchange Commission, the Commodity Futures Trading Commission, banking agencies, and the Consumer Financial Protection Bureau. Consumers won't go unprotected. State laws specifically regulating crypto activities, such as New York's bit license law, will still apply, as will state fraud and consumer protection laws. The Federal Trade Commission's jurisdiction over any unfair and deceptive advertising or other practices crypto traders and their enablers engage in won't be affected. Where these laws prove inadequate, state legislatures and Congress can add targeted consumer protections specific to crypto trading. Expanding the reach of state gambling laws to cover crypto trading is also a possibility.

The best part of separating crypto trading from traditional financial services? There will be no need for the Fed to act as a lender of last resort for crypto markets. With no connection between the crypto trading system and the real financial system, there will be no contagion and no systemic risk to deal with. The Fed's reaction to the next crypto crash will be a big yawn. That's good when the alternative is metastasized crypto trading causing the next financial crisis.

Mr. Baker is a senior fellow at Columbia University's Richman Center for Business, Law and Public Policy.

(See related letters: "Letters to the Editor: The Purpose of Cryptocurrency: Let's Debate" -- WSJ Dec. 27, 2022)

(See related letters: "Letters to the Editor: What Is the Real Purpose of Cryptocurrency?" -- WSJ January 4, 2023)

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THE WALL STREET JOURNAL.

HD **Business News: Many Crypto Fans Call It Quits**

BY By Gunjan Banerji
WC 550 words
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LP

Buying crypto was so much fun when it was going up. Now, many onetime fans are getting out.

This year has brought crisis after crisis, raising questions about the industry's long-term prospects. Two major lenders, Voyager Digital and Celsius Network, filed for bankruptcy this summer. The price of bitcoin has plunged some 75% from its peak late last year. For some traders, the recent collapse of the crypto exchange **FTX** -- which is dragging down other firms -- was the last straw.

TD

Crypto fund asset managers saw investors withdraw almost $20 billion in November, or nearly 15% of total assets under management, according to the research firm CryptoCompare.

That brought the fund managers' collective assets under management to the lowest point in nearly two years. By contrast, many small-time investors continue to stay in the relatively boring stock market, despite losses there as well.

Dennis Drent, a former executive at a pet-insurance company, said he waded into the crypto market last December, when the world felt different. He was growing anxious that the stock market's record run would soon sputter and was frustrated by how little his bond investments were generating.

Around that time, he caught an appearance by a bitcoin proponent, Michael Saylor, with Fox News's Tucker Carlson. "He had me convinced that you can't lose," said Mr. Drent, who lives in Southern California.

A few weeks later, he poured about $25,000 into Grayscale Bitcoin Trust. He even had a nod from his financial adviser, he said.

It didn't work. Mr. Drent cashed out in May, taking about a 50% loss. By then, crypto prices were falling fast. But so were stocks and bonds, an unusual coupling that reflected broad uncertainty.

Mr. Drent said he should have known to avoid a market that was so lightly regulated and that he didn't fully understand: "I wasn't cautious enough."

Mr. Saylor didn't respond to a request for comment.

Crypto use exploded over the past few years and so did crypto prices, with bitcoin soaring from roughly $9,000 in early March 2020 to about $68,000 at its peak in November 2021.

Rookie traders stuck at home during pandemic lockdowns downloaded apps that made it easy to buy crypto with a few taps on their phones. Some embraced active trading, darting in and out of different cryptocurrencies. Others thought they were taking a safer route by parking their crypto holdings at companies that offered eye-popping yields in return.

The share of U.S. households that have ever transferred funds into a crypto-related account jumped to 13% as of June 2022, up from 3% before 2020, according to data from the JPMorgan Chase Institute. It estimates that many investors flocked to crypto for the first time last year, with activity among new users peaking around the time bitcoin prices did in November. Since then, activity has tumbled.

While crypto prices soared, financial-services companies rolled out new products and services to allow everyday investors to add crypto to their nest eggs. Some of that enthusiasm has waned.

JPMorgan estimates that many investors who transferred money to crypto accounts did so when prices were much higher than they are now.

CO wnxdwz : Celsius Network LLC

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LP

FTX co-founder **Sam Bankman-Fried** plans to consent to extradition to the U.S. to face criminal charges related to the crypto exchange's collapse, people familiar with the matter said.

TD

During the wildest year for global markets since 2008, individual investors have been doubling down on stocks while many professionals appear to have bailed out.

Toyota's president said he is among the auto industry's silent majority in questioning whether electric vehicles should be pursued exclusively.

L3Harris said it agreed to buy Aerojet Rocketdyne in a $4.7 billion deal that would cement L3Harris's role as one of six prime defense contractors for the Pentagon.

Ford was slated to lay out its arguments for a new trial in a truck-rollover lawsuit that resulted in a $1.7 billion jury verdict in Georgia over the summer.

Microsoft signaled it plans to challenge the FTC's lawsuit to block its $75 billion deal for Activision and is expected to argue that it is an underdog in videogame developing.

Elon Musk asked Twitter users to vote on whether he should step down as head of the social-media platform and pledged to abide by the results.

"Avatar: The Way of Water" made waves at the box office, but lingering concerns over the coronavirus tempered ticket sales in China, where the film's makers hoped for a major hit.

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THE WALL STREET JOURNAL.

HD **Life Science: Where Was Biden's SEC Sheriff on Sam Bankman-Fried?**

BY By Allysia Finley
WC 976 words
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LP

Securities and Exchange Commission Chairman Gary Gensler is trying to spin the **FTX** blow-up as a cautionary tale about the crypto "wild West." But where was the SEC sheriff when **Sam Bankman-Fried** was funneling **FTX** customers' funds to his Alameda Research trading house to finance risky bets and a lavish lifestyle?

In September 2021, Mr. Gensler rejected major industry players' contention that he needed congressional authorization to regulate crypto products. "We have robust authorities at the Securities and Exchange Commission and we're going to use them," he told the Washington Post. "We'll also be the cop on the beat, bringing those enforcement actions." And the commission has -- but not against **FTX**.

TD

Mr. Gensler has claimed that all cryptocurrencies except Bitcoin and a few others that he won't specify are securities subject to SEC regulation and thus require the same robust investor disclosures as stocks and bonds. He has also claimed jurisdiction over crypto lending platforms and trading exchanges on the premise that digital assets are securities.

Under his watch, the SEC has continued litigation launched by his predecessors against tokens XRP and LBRY. A federal judge on Nov. 10 ruled for the SEC that LBRY was selling an unregistered security. Last fall Mr. Gensler threatened to sue crypto exchange Coinbase if it proceeded with plans to pay interest on customer deposits of a stablecoin pegged to the U.S. dollar.

In October the SEC charged celebrity Kim Kardashian with touting digital tokens on social media without disclosing the remuneration for her endorsement. (She settled with the SEC for $1.26 million without admitting or denying its findings.) Mr. Gensler has repeatedly admonished crypto exchanges for "commingling" activities by serving as custodians for customer deposits, market-makers and lenders.

"There's going to be a problem on lending platforms or trading platforms," Mr. Gensler warned in September 2021. "And frankly, when that happens, I think a lot of people are going to get hurt." Last month his prophesy came true as Mr. Bankman-Fried's "house of cards," to quote the SEC complaint, collapsed.

According to the commission, starting in 2019 FTX "lent" Alameda billions of dollars from customer accounts to fund its trading, amounting to an unlimited no-interest line of credit. When crypto prices plunged in May 2022, Alameda's lenders demanded repayment. Mr. Bankman-Fried directed FTX to divert more customer funds to the trading house. During the summer he continued to dig the hole by transferring more customer funds to finance venture investments and personal loans to FTX executives.

The music stopped on Nov. 2, when the crypto website CoinDesk reported that Alameda held a large position in FTX's proprietary token. Alameda CEO Caroline Ellison said in September that the company was at "arm's length" from FTX. The CoinDesk report better described it as a pinky-finger's length relationship, which wasn't surprising since the two shared a corporate campus in the Bahamas. Mr. Bankman-Fried and Ms. Ellison were also romantically involved.

Customers rushed to sell their FTX tokens and withdraw deposits, while Mr. Bankman-Fried assured everyone that everything was all right. "Assets are fine. . . . FTX has enough to cover all client

holdings," he tweeted. "We don't invest client assets (even in treasuries). We have been processing all withdrawals." He later deleted the tweet. FTX soon halted withdrawals and declared bankruptcy.

Billions of dollars of customer funds are now missing and may never be returned. Mr. Gensler attributes the FTX crack-up to the less regulated nature of crypto markets. But the government doesn't need more regulations to target fraud, which is illegal under the laws already on the books.

That FTX hadn't registered with the SEC doesn't let Mr. Gensler off the hook. For months he's claimed to have authority over crypto and warned about self-dealing at their exchanges. Why didn't he investigate the company? That would have given the SEC records of FTX's sloppy bookkeeping and perhaps its alleged fraud.

A charitable explanation is that he considered his progressive regulatory agenda a higher priority, including a climate rule requiring public companies to disclose their greenhouse-gas emissions. An SEC inspector general report in October warned that Mr. Gensler's aggressive rule-making agenda was overwhelming staff and diverting resources from investor protection. It's also likely that Mr. Bankman-Fried's $36 million in donations to Democratic causes bought him political protection.

A cynic might wonder if Mr. Gensler was waiting for a crypto disaster to serve as the impetus for Congress to grant him authority to regulate the industry aggressively. Increased regulation wouldn't necessarily have prevented the FTX crack-up, though it would have raised the barriers to entry for competitors, as Mr. Gensler noted in an MIT lecture on crypto-regulation.

This isn't the first time customer funds went missing on Mr. Gensler's watch. In 2011 more than $1 billion disappeared from the failed MF Global brokerage firm, run by former Democratic New Jersey Gov. Jon Corzine. The CME futures exchange reported that MF Global hadn't been complying with federal rules on segregating client funds.

Mr. Gensler, then chairman of the Commodity Futures Trading Commission, was MF Global's primary regulator. During Beltway stints, he and Mr. Corzine helped write the 2002 Sarbanes-Oxley Act tightening securities regulation in the wake of the Enron fraud. Its main effect has been burdening small public companies.

Regulators "can't actually distinguish between good and bad," Mr. Bankman-Fried told a Vox reporter last month. At least it doesn't seem as if Mr. Gensler can.

(See related letter: "Letters to the Editor: Did the SEC Learn From Its Flubs in the Madoff Case?" -- WSJ Dec. 29, 2022)

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- Science of Success: The New CEO of FTX on How to Clean Up a Mess**

BY By Ben Cohen
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LP

There was one question that nobody in this past week's congressional hearing asked the new chief executive officer of **FTX**: Why would anybody want that job?

"I am drawn to crisis," John J. Ray III told me in an email. "There is something about the sheer chaos and human panic that creates an unbridled energy."

TD

The same person who became CEO of Enron under similar circumstances of chaos and panic is now a central figure in another generational business scandal because of the market for his talents: Mr. Ray is in high demand when something, somewhere has gone horribly wrong.

His work depends on colossal failure in which unfathomable amounts of money have gone missing. His success will be measured by how much he can find and how quickly he can find it.

Anyone drawn to crisis would have felt the gravitational pull of FTX's catastrophic implosion from another galaxy. The cryptocurrency exchange is bankrupt and owes billions of dollars to what could be millions of creditors. Only someone like Mr. Ray could have been so eager for the job. "I love jumping into the breach," he said.

Others start companies. He salvages whatever is left of them. That is the difference between Mr. Ray and the people he tends to replace. They promise disruption. He restores order. It's a role that goes overlooked even in situations when people can't look away.

That was especially true during the latest drama in the FTX saga. Sam Bankman-Fried, the company's disgraced former CEO, was arrested in the Bahamas this past week and charged by U.S. criminal prosecutors for stealing customer money in what they called "one of the biggest financial frauds in American history." He was also sued by the Securities and Exchange Commission, denied bail and remanded to jail on the same day.

But as Mr. Bankman-Fried was in Bahamian custody, Mr. Ray was testifying before Congress in Washington. The previously inconspicuous CEO presented himself as the opposite of his ubiquitous predecessor. In his first public appearance, he was brief, direct and under oath.

He also wore pants. He seemed to believe in haircuts. He looked like the adult in the room.

He's not in the habit of blabbing about FTX, but it turned out Mr. Ray had a lot to say when legally required. His first-day bankruptcy declaration weeks earlier made the Declaration of Independence sound ambivalent.

"I have over 40 years of legal and restructuring experience," he said. "Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information."

Mr. Ray says that "the art of making complex things simple" is a key part of his work. This scathing portrayal of a dysfunctional company that duped the world happened to be a perfect example.

It framed the calamity in terms anyone could understand: The guy who took over Enron was saying the FTX disaster was worse than Enron.

"This situation," he said, "is unprecedented."

He would know. Mr. Ray has overseen the unwinding of the knottiest bankruptcies in business history, most notably the five years he spent picking through the wreckage of Enron and finding more than $20 billion. The original expectation was that he might recover around 17 cents on the dollar for creditors. Mr. Ray has said the final number was roughly 52 cents. That accomplishment is both encouraging and demoralizing for people who lost money to FTX.

"He'll at least minimize the pain," said Nancy Rapoport, a University of Nevada, Las Vegas law professor who has studied the Enron case. "But there will still be pain."

When I asked people around Mr. Ray why he is good at his job, they offered two reasons that explain a lot of professional success: He's been doing it for a long time, and he actually likes doing it.

The son of a plumber, Mr. Ray was once a lawyer at Waste Management, and he built a career on cleaning up spectacular messes.

He found his niche almost by accident. After growing up in Pittsfield, Mass., and going to Drake University in Iowa for law school, he worked for a Chicago firm and became general counsel at Fruit of the Loom in the 1990s, unexpectedly steering the company through his first major bankruptcy. It was excellent preparation for a career plumbing the depths of management rot. He started his own specialized bankruptcy firm in 2002, which he called Avidity Partners, and the back of his business cards included a definition for "avidity," according to the Chicago Tribune. Mr. Ray wanted clients to know that it meant "characterized by enthusiasm and vigorous pursuit."

Few people were as qualified to handle the FTX debacle. The 63-year-old bankruptcy guru was not a crypto guy, and yet Mr. Ray wasn't an underwear guy at Fruit of the Loom, just as he wasn't an energy guy before Enron or a telecom guy before Nortel Networks. He didn't have to be. His experience with dozens of large bankruptcy cases bred his expertise.

"Once you've gone through a few of these, you really begin to understand how they work," said Jim Bromley, a Sullivan & Cromwell partner on the legal team representing FTX.

Anyone who has been around corporate bankruptcy knows it's odd for someone to be genuinely absorbed by corporate bankruptcy. But obsession is an edge in every business. The less others care about the job, the more it's a competitive advantage.

Mr. Ray fishes, golfs, hunts birds and smokes a tasty brisket. But his work maximizing value and mitigating damage "is why he gets up in the morning," said Jared Ellias, a Harvard Law School professor.

Mr. Ray, who is billing $1,300 an hour, was hired by FTX's legal advisers soon after the collapse for the greatest challenge of his career. A crypto bankruptcy case was always going to be difficult because of the global nature of the unregulated business. But appalled by the company's lack of records and documentation, Mr. Ray said this was a "paperless bankruptcy," neatly summarizing the fiasco as "plain old embezzlement." He has also described his predecessor not as a visionary, savior or the modern John Pierpont Morgan but "inexperienced, unsophisticated and potentially compromised."

Mr. Bankman-Fried was equally critical of his successor in his prepared congressional testimony. "I am not optimistic," he wrote. "I have not myself witnessed any progress by Mr. Ray's team towards raising substantial funds or restarting the exchange." He was arrested before he could appear at the hearing.

The new CEO of FTX has been traveling around Texas, Delaware and Washington, not the Bahamas, and Mr. Ray's team consists of lawyers, accountants, consultants, investigators and crypto analysts. They meet at 9:30 a.m. and 6 p.m., initially seven days a week and now five with a weekend update, as they track down assets and try to figure out what happened. Mr. Ray's staff is implementing the governance structures and basic oversight systems that were foreign concepts under Mr. Bankman-Fried. The unglamorous process will almost certainly take years.

The only part he appreciates more than the uncertain beginning of a bankruptcy is the end.

"Nothing feels more satisfying than coming out the other side of the storm united with those who fought by your side," Mr. Ray said. "It is the ultimate human bonding experience."

CO ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

HD **Accounting Firm Halts Reports For Binance, Other Crypto Clients**

BY By Caitlin Ostroff and Jean Eaglesham
WC 910 words
PD 17 December 2022
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LP

Cryptocurrency-trading giant Binance said the accounting firm it used to verify its reserves has paused all work for crypto clients, hampering efforts to reassure customers that their money is safe.

Binance also said outflows from its platform swelled to $6 billion, a reflection of turmoil among crypto traders shocked by the implosion last month of rival exchange **FTX**.

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Mazars, a midsize accounting firm that worked for former President Donald Trump's company, on Friday withdrew from its website a report on reserves at Binance and other cryptocurrency-trading companies. The report for Binance, which wasn't an audit, was published earlier this month.

A spokesman for the accounting firm said it had made the move "due to concerns regarding the way these reports are understood by the public."

A Binance spokesman said Mazars's decision didn't mean customers' funds were at risk. "Our users want to know that their funds are secure and that our business is financially strong," he said. "We embrace additional transparency and we are looking into how best to provide those details in the coming months."

This past week, Binance experienced a sharp increase in customer withdrawals, with roughly $6 billion in net outflows between Monday and Wednesday. The company didn't specify what percentage this represented of total customer deposits. Earlier in the week, it said outflows were around $1.1 billion. The Binance spokesman said the company was able to process the withdrawals "without breaking stride."

A series of failures involving crypto coins, exchanges and hedge funds, have rocked the world of digital currencies this year. As the world's largest surviving player, Binance is seen as a barometer for the ability of the broader industry to navigate through the trouble.

The role accounting firms play in the cryptocurrency industry has gained fresh attention since the collapse of FTX, which has been accused by federal prosecutors of misappropriating customer funds. Several platforms have turned to accounting firms to validate how they account for customer deposits.

Among them was Tether Holdings Ltd., which issues tether, the world's largest stablecoin. On Friday, the accounting firm BDO, which recently signed off on reserves reports for Tether, said it is reconsidering its work for crypto companies. "In common with several other professional service firms, we are currently evaluating our approach to this sector and the work we undertake for our clients," a spokesman for the BDO international network said. The spokesman declined to comment on any individual company.

The Tether attestation was undertaken by BDO Italia, the Italian member firm of BDO. A Tether spokesman said: "As the pre-eminent stablecoin and a pioneer for financial freedom, we remain confident in our relationship with BDO Italia, and we don't expect any change of plans."

Customers of crypto exchanges deposit traditional government-backed money in return for private digital currencies. They can also deposit digital currencies directly with the exchanges. Users trade or

borrow against their digital coins on an exchange, which match customers and arrange transactions across multiple cryptocurrencies.

Some of the big crypto exchanges promise to back customer holdings one-to-one in segregated accounts, similar to how traditional brokerage accounts operate. But in crypto, there is limited oversight, regulation or auditing to assure customers that the money they deposited is where they think it is.

In addition to work for Binance, Mazars has conducted so-called proof-of-reserves reports for rival exchanges Crypto.com and KuCoin.

"We will continue to engage with reputable audit firms in 2023 and beyond as we seek to increase transparency across the entire industry," a spokesman for Crypto.com said. KuCoin didn't respond to a request for comment.

Crypto companies have raced to provide proof-of-reserves reports to reassure investors in the wake of the collapse of FTX. Despite the limitations of such reports, they are often presented by the crypto companies as evidence their customers' funds are protected.

Crypto.com this month said that providing audited proof-of-reserves from Mazars is "an important step . . . to increase transparency and begin the process of restoring trust."

On its website, KuCoin says that "Mazars, the leading international audit agency, independently verifies that all user assets correspond [one-to-one] to real reserves on the chain."

Binance's proof-of-reserves report consisted of a five-page letter from a partner at the South African affiliate of Mazars. It contained three numbers and didn't express an opinion, meaning the auditor wasn't vouching for the numbers.

The FTX crash underscored the dangers to auditors of getting involved in what is largely an unregulated arena, industry watchers said. Two U.S. accounting firms signed off on the financial statements of FTX units.

The audits by Prager Metis CPAs LLC of FTX Trading Ltd. and Armanino LLP of the much smaller FTX US can't be relied on, according to John J. Ray, FTX's new CEO. Prager Metis and Armanino didn't respond to requests for comment.

Larger auditing firms have largely steered clear of crypto companies, though Deloitte serves as the auditor for Coinbase Global Inc.

The Binance spokesman said the exchange has "reached out to multiple large firms, including the Big Four, who are currently unwilling to conduct a [proof of reserves] for a private crypto company and we are still looking for a firm who will do so."

CO ftxdig : FTX Trading Ltd | hlicay : Binance (Cayman Islands)

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THE WALL STREET JOURNAL.

HD **REVIEW --- Play: News Quiz**

BY By Daniel Akst

WC 302 words

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SN The Wall Street Journal

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PG C13

LA English

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1. **FTX** founder **Sam Bankman**-**Fried** faces fraud charges. What did the SEC chairman call his empire?

A. "A house of cards"

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B. "A dream turned nightmare"

C. "A mountain of fool's gold"

D. "A snake-oil distillery"

---

2. A nuclear fusion experiment at long last produced more energy than it used. How big was the gain?

A. 1.1 megajoules

B. 0.296 kwh

C. 2.3 amps

D. 115 volts

---

3. Why do coronary problems increase during the holidays?

A. Viruses

B. Cold weather

C. Heavy meals

D. All of the above

---

4. The European Central Bank followed the Fed in raising interest rates -- by how much?

A. 0.25%

B. 0.5%

C. 0.75%

D. 1%

---

5. Who agreed to buy Horizon Therapeutics for $27.8 billion?

A. Amgen

B. Anthem

C. Aetna

D. Anacin

---

6. New Zealand adopted the world's most stringent antitobacco law. What does it do?

A. Raises the price of cigarettes to $54 a pack

B. Bars sales to anyone born after 2008

C. Bans smoking outright after 2024

D. Requires one in a million cigarettes to explode when lit

---

7. Who was chosen to complete an unfinished manuscript by Michael Crichton?

A. Anne Carson

B. Michael Chabon

C. Mark Winegardner

D. James Patterson

---

8. An exhibit at the Getty Center in Los Angeles features "the oldest book of the Americas." Who created the 12th-century text?

A. The Aztecs

B. The Inca

C. The Maya

D. The Spaniards

---

9. A celebrity mountain lion was hauled in from the Hollywood Hills for health care. Name that feline.

A. Glamourpuss

B. Maggie

C. P-22

D. F6F

ANSWERS

1. A

2. A

3. D

4. B

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5. A

6. B

7. D

8. C

9. C

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THE WALL STREET JOURNAL.

HD **FTX Founder's Arrest Offers Cold Comfort --- Customers worry they won't be repaid and that Bankman-Fried will get off easy**

BY By Hannah Miao and Caitlin McCabe

WC 995 words

PD 16 December 2022

SN The Wall Street Journal

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LP

For many customers burned by the whirlwind collapse of **FTX**, the arrest of founder **Sam Bankman-Fried** offered them the chance to take a brief sigh of relief -- but not much more.

Prosecutors and regulators alleged this week that Mr. Bankman-Fried stole billions of dollars from **FTX** customers in one of the biggest financial frauds in American history. Much of the money, they said, propped up trading firm Alameda Research, also largely owned by Mr. Bankman-Fried.

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"I was delighted to hear it," said FTX customer Mark Miller, after learning of Mr. Bankman-Fried's arrest. "But I'm still very skeptical. I don't know what's going to come of it."

Mr. Bankman-Fried appeared in court Tuesday in the Bahamas, where he ran the now-bankrupt crypto exchange. He was denied bail and has been remanded to jail until Feb. 8. The Securities and Exchange Commission and Commodity Futures Trading Commission filed lawsuits against Mr. Bankman-Fried this week.

Mr. Miller deposited $25,000 on FTX last year and, like others, hasn't been able to get his money out. He and other customers said they still worry that Mr. Bankman-Fried could get off easy, or that others associated with FTX or Alameda may not be held accountable.

"I would love to see him go to court" for a public trial where he could be held accountable, said Mr. Miller, who is 67 years old and a retired medical sales and marketing executive. "But I doubt that it's going to happen."

FTX halted withdrawals from its international unit in early November, when its financial problems started spilling into the open. U.S. customers said they still can't get their money out either.

The bankruptcy case is now inching along, and repayment will likely be complicated. Even determining how much money FTX has on hand has been difficult, since the company didn't keep an accurate list of its bank accounts, according to its new management. Camps of individual investors are likely to battle with each other and possibly other parties, such as FTX's financial backers, for whatever assets are left.

FTX's new management has said it is working to recover as much as it can for stakeholders, including customers. John J. Ray III, the new CEO, told Congress this week that FTX's U.S. entity isn't solvent.

"We're trying to get customers' money back as quickly as possible," Mr. Ray told lawmakers on Tuesday. But he described the idea that all American customers will have their funds returned as "speculative."

A spokesman for Mr. Bankman-Fried said this week that he is "considering all of his legal options."

Millions of Americans who had never given much thought to crypto tried their hand during the pandemic. Some loved the thrill of day trading for a quick profit. Others thought they were taking a safer route by parking their money at crypto companies, including FTX, that offered high yields in return.

FTX launched in 2019 and quickly ranked among the largest exchanges in the world, courting everyday investors with flashy ads. Another draw was Mr. Bankman-Fried himself, who positioned himself as a pro-regulation, charity-driven billionaire in contrast to the Wild West of the crypto world.

Mr. Bankman-Fried's elite pedigree -- educated at MIT, trained at the quant-trading powerhouse Jane Street Capital -- made Douglas Campbell believe FTX would be fairly safe, at least by crypto standards.

"I was a big fan of Sam's early on," said Mr. Campbell, who is 42 and an economist in Virginia. "Before that, I had been very crypto skeptical."

Mr. Campbell said he still has tens of thousands of dollars trapped on FTX. When the company collapsed, he couldn't sleep for four nights straight.

Now, he feels like there is some sense of justice -- but he still doesn't expect to get much of his money back.

In filings this week, U.S. regulators said Mr. Bankman-Fried had been misusing customer money from the start, letting the Alameda trading firm spend the money on venture investments and other risky bets. He also used the customer money to buy luxury real estate and make large political donations, the SEC and CFTC said in their lawsuits.

Last month, when FTX's financial problems became public and customers rushed to yank out their money, Mr. Bankman-Fried sought to reassure them that everything was fine. U.S. authorities said this week that he knew it wasn't.

Also this week, lawyers for FTX's new management said in bankruptcy-court filings that Mr. Bankman-Fried let Bahamas customers withdraw their money even after withdrawals for other customers had been suspended.

As FTX was collapsing, Mr. Bankman-Fried allowed nearly $100 million in cryptocurrency to be withdrawn by "approximately 1,500 individuals and entities purporting to be Bahamian customers," according to the lawyers.

Calvin Tsai, a 27-year-old professional investor in Hong Kong, said Mr. Bankman-Fried's arrest didn't give him any sense of relief.

"I'm a very rational person," said Mr. Tsai, who used to be a top-tier VIP customer on FTX. "I don't think whatever penalty he gets would be helpful in that regard."

Mr. Tsai had about $1.3 million in personal funds at FTX, accounting for about 20% of his crypto assets.

Darragh Grove-White, a 37-year-old digital marketing strategist based in Canada, said Mr. Bankman-Fried's arrest has done little to assuage him. "I'm partially surprised it took this long for him to be arrested," he said. "There's also a part of me that . . . thinks that he's probably not even going to be seriously held accountable."

Michelle Chan contributed to this article.

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THE WALL STREET JOURNAL.

HD **Political Economics: How the Federal Reserve Fed the FTX Meltdown**

BY By Joseph C. Sternberg
WC 886 words
PD 16 December 2022
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LP

Another Federal Open Market Committee statement, another Jerome Powell press conference, another round of runic dot plots, another bout of hyperventilation as markets and the press attempt to make sense of new marching orders from the Federal Reserve.

In short, this week brought another bacchanalia of forward guidance from our most important economic policy makers. And spare a thought for the folks who actually pay attention to this -- most especially the poor retail saps who may have lost at least $1 billion from their accounts at FTX.

TD

The greatest financial fiasco so far this business cycle couldn't have happened without the Fed, in more ways than one. Easy money fuels speculative manias as surely as night follows day. So it is that individual savers desperate to find returns higher than inflation poured billions of dollars into cryptocurrency "investments" to be mediated by crypto exchange FTX. And so it is that well-heeled institutional investors such as venture capitalists poured substantial capital into FTX on the basis of that apparent enthusiasm from retail investors for the "services" FTX claimed to offer.

And so it is that the crash always comes. It's easy to say in hindsight that they all should have known better. Certainly FTX's institutional backers might have noticed the lack of any meaningful internal controls, say, at a financial company that was run by an underdressed, overhaired 20-something like Sam Bankman-Fried.

But to say "they should have known" underestimates all the things those investors did know. They knew that the Federal Reserve wanted them to take ever greater financial risks. And retail investors especially knew the Fed wasn't going to do anything about the inflation that has become the primary preoccupation of Western households over the past two years.

They knew these things because the central bank told them so. This is the real mischief the Fed wreaked here, via its growing enthusiasm for forward guidance since the 2008 panic. The practice, by which a central bank drops ample hints about its future intentions to shape economic outcomes today, has become so common since the Ben Bernanke era that we've all lost sight of how perverse it is.

The rationale for adopting forward guidance in its current form was that as interest rates and inflation both seemed to be trending permanently lower, the central bank's traditional short-term policy levers risked losing their effectiveness. The Fed therefore should start committing to a specific long-term policy approach to direct longer-term market decisions such as business investment.

The unspoken flaw was that for this to work, the Fed would have to promise to stick to policies even when economic changes rendered those policies obsolete. A promise to maintain ultralow rates or quantitative easing for an extended period only means anything to investors if those investors believe the central bank will hold to its word even through economic events (such as an uptick in inflation) that would otherwise prompt the Fed to raise rates or engage in quantitative tightening.

This is what happened in 2021. As inflationary pressures grew more serious, Chairman Powell appears to have felt constrained by longstanding promises to maintain easier policies -- if only because changing course might startle markets whose placidity has itself become one of the Fed's measures of its success. This presumably is why he devised implausible excuses to explain away price rises, rather than adapting policy to fight the inflation.

Mr. Powell was boxed in especially after the Fed, in another bout of forward-guidance enthusiasm, had promised in August 2020 to start tolerating spells of above-2% inflation to achieve a "flexible average inflation target" over some unspecified period. Mr. Powell created that policy regime specifically to convince markets that the Fed would not react to inflation when investors might ordinarily expect that it would.

Message received. Investors desperate to brace themselves against the inflation that the Fed's forward guidance promised not to suppress flocked to high-risk assets such as crypto in a scramble for positive real returns. It's not an accident that bitcoin achieved its highest valuation on record, above $68,000, in November 2021, nor that this was FTX's heyday. Mr. Powell and his reckless predecessors Janet Yellen and especially Mr. Bernanke talked investors into it.

How to avoid future disasters? The Fed at least could try to align its communications to reality. It could drop its notion of forward guidance as a means for head-faking the market and instead adopt a clear monetary-policy rule. This would signal how the Fed will interpret new data, rather than the Fed's recent practice of promising to ignore data.

Then again, this columnist's preference would be for the Fed just to shut up. The central bank's pathological loquacity -- policy statements, detailed meeting minutes, press conferences, speeches, interviews and those infernal dot plots -- has become more confusing than enlightening.

To the extent its plethora of mixed signals do convey anything, the Fed's message remains that markets should distrust their own instincts on matters such as the appropriate future course of monetary policy. This is no way to run an economy, as FTX's retail victims now discover to their cost.

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THE WALL STREET JOURNAL.

CLM Potomac Watch

HD **SBF's Dirty Political Donations**

BY By Kimberley A Strassel

WC 800 words

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LA English

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LP

Celebrity crypto savant **Sam Bankman-Fried** is in a heap of trouble. The **FTX** founder was arrested this week on federal fraud charges. But he can't be the only one sweating. Washington has its own giant **FTX** problem, in what now appears to be millions of dollars in dirty donations. It's a donor scandal for the ages, and yet politicians are mum on what they intend to do about it.

TD

The country is learning more about FTX's spectacular collapse, including the allegation that SBF stole billions from customers to prop up a side venture, Alameda Research. But the Beltway zinger can be found in a civil complaint from the Securities and Exchange Commission. The SEC explains that FTX customer funds were diverted to Alameda to the extent that there was "no meaningful distinction," and that SBF then used these "commingled FTX customers' funds" to make "large political donations." Put simply, SBF stands accused of using stolen money to fuel politics.

And not little donations. According to OpenSecrets, SBF came in as the sixth-largest donor overall in this midterm cycle, and the second-largest donor to Democrats. Only George Soros gave more. SBF dumped close to $40 million into political-action committees, outside groups and individuals.

That's not all. Individuals associated with FTX and its affiliates contributed some $70 million this cycle. They include executives Ryan Salame (at $20 million, the 14th-largest donor this cycle) and Nishad Singh ($8 million, 31st-largest). Given that both received sizable loans from Alameda, it's possible all the FTX political donations are criminally tainted.

The complaint suggests those donations were made at the expense of thousands of FTX customers -- including smaller investors -- who are now at risk of not getting their money back. The SEC says that among other things it wants a "disgorgement" of SBF's "ill-gotten gains." The natural follow-on question: When will political outfits return their ill-gotten donations to aid in compensation?

Some of the money is gone forever. A sizable portion of SBF's political spending (some $28 million) went into his own hybrid committee, the Protect Our Future PAC, which played in Democratic primaries. Who knows how different the political landscape might look now if these funds hadn't been tipping the scales in races. Good thing Washington remains obsessed with Russian meddling in elections.

SBF gave money to 50 Democratic House and Senate candidates and eight Republicans, and several have already announced they'll direct their donations to charity. But dumping cash into a lefty charity hardly helps to make FTX customers whole.

As for the recipients of large donations, don't expect a rush to write checks given the sheer numbers involved. SBF donated $6 million to the House Majority PAC, an outside group affiliated with Speaker Nancy Pelosi. That was one of the largest donations this cycle to that entity -- which, according its most recent federal disclosure report, has $490,000 in cash on hand.

FTX execs gave an additional $3 million to the Senate Majority PAC, $2.25 million to Women Vote! and more than $1 million to the LGBTQ Victory Fund. There were also donations to the Democratic National Committee, the Democratic House and Senate campaign funds, and state Democratic parties. And that's only this cycle. SBF in 2020 gave more than $5 million to the elect-Biden effort.

Not that Republicans aren't also in the hot seat. While SBF's declared donations are primarily to Democrats, Mr. Salame turned up this cycle as a GOP megadonor. Much of his money (at least $13 million) also went into his own vehicle -- American Dream Federal Action -- which engaged in GOP primaries. Again, that's gone. There's also $2 million to the GOP's Congressional Leadership Fund, $2.5 million to its Senate Leadership Fund, and additional money to GOP candidates, state parties and outside groups. SBF recently suggested he made his own sizable, undeclared donations to Republican-affiliated groups.

The media has reported some details, and a few are now starting to ask recipients what they intend to do about the political liability. Remarkably, top political outfits are stonewalling. While the court case will lay out more of the technicalities of commingling, that's now almost beside the point -- FTX is already toxic. And Washington already has egg on its face, given revelations about FTX lobbying on potential crypto regulation.

Political outfits can fairly claim they didn't know about FTX indiscretions when they accepted the donations (even if there may be a lesson here in the wisdom of banking sums from overnight billionaires). Still, they know now. Time to explain how they plan to make it right.

Write to kim@wsj.com

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THE WALL STREET JOURNAL.

HD **Markets & Finance: Intent Is Key to Bankman-Fried Case**

BY By James Fanelli and Corinne Ramey
WC 730 words
PD 16 December 2022
SN The Wall Street Journal
SC J
PG B10
LA English
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LP

FTX founder **Sam Bankman-Fried** stuck to a common refrain ahead of his indictment on fraud and conspiracy charges, saying that while bad decisions and lack of oversight led to the collapse of the crypto exchange, he didn't commit or know of any wrongdoing.

If his case goes to trial, his lawyers are likely to make the same argument to the jury. Prosecutors will need to rebut that narrative to win a conviction, proving that Mr. Bankman-Fried knowingly and willfully broke the law, former federal prosecutors and defense attorneys say.

TD

"You can't accidentally commit a crime," said Andrey Spektor, a former prosecutor now at law firm Bryan Cave Leighton Paisner.

The U.S. Attorney's Office for the Southern District of New York, in an indictment unsealed Tuesday, charged Mr. Bankman-Fried with stealing billions of dollars from FTX customers while defrauding lenders and investors before the company's collapse in November. He faces eight counts, including wire fraud and conspiring to commit securities fraud.

Mr. Bankman-Fried, 30 years old, was arrested in the Bahamas at the request of the Justice Department, which is seeking his extradition. He appeared Tuesday in court in Nassau.

He was denied bail and remanded to jail. His next scheduled court appearance is in February.

A spokesman for Mr. Bankman-Fried declined to comment. His lawyer Mark Cohen previously said that Mr. Bankman-Fried was reviewing the charges with his legal team and considering all of his legal options.

Mr. Bankman-Fried has tried to explain the reasons for the demise of FTX in several public appearances and interviews in the past month.

"Clearly I made a lot of mistakes or things I would give anything to be able to do over again," he said in an interview Nov. 30 at the New York Times DealBook Summit. "I didn't ever try to commit fraud on anyone."

It is a familiar explanation from executives facing criminal charges.

At the criminal trial of Theranos Inc. founder Elizabeth Holmes, her lawyers portrayed her as a well-intentioned if inexperienced entrepreneur. Ms. Holmes also testified she never tried to mislead investors about the blood-testing startup.

Federal prosecutors said that she forged reports provided to some investors, and former Theranos employees testified that she dismissed warnings about questionable test results from the company's lab.

She was sentenced last month to more than 11 years in prison after being convicted of fraud.

At the fraud trial of Nikola Corp. founder Trevor Milton, his lawyers argued the former electric-truck executive painted a rosy picture of the company's technology but didn't intend to deceive investors. He

was convicted this year after a trial in which prosecutors argued he repeatedly lied about the development of Nikola's trucks and technology. Mr. Milton's lawyers have said they would appeal.

"The classic defense argument is, 'My client is a bad businessman but he's not a criminal. He didn't intend to defraud or cause any harm,'" said Timothy Howard, a former federal prosecutor and partner at law firm Freshfields Bruckhaus Deringer.

Prosecutors have said Mr. Bankman-Fried's deception helped cause the company's downfall.

Their challenge will be taking jurors through Mr. Bankman-Fried's mindset and demonstrating that the FTX founder knew what he was doing was wrong.

Prosecutors often rely on communications, including emails and texts, as evidence to show a defendant's alleged crimes were intentional.

In Mr. Bankman-Fried's case, they may also use his own statements, former prosecutors said.

"So much of what is in the defendant's mind has been shared by the defendant himself," said Justin Danilewitz, a former federal prosecutor now at Saul Ewing LLP. "He hasn't left much a secret."

Prosecutors also can bolster their case by showing the magnitude of the alleged fraud, said Renato Mariotti, a former federal prosecutor.

"The allegation is that essentially the entire enterprise was fraudulent," Mr. Mariotti said. "It makes it much more difficult for the defendant to say he didn't know what was going on."

Mr. Bankman-Fried's lawyers might seek to use the lack of regulatory clarity on crypto to argue he didn't intend to defraud anyone, said Robert Frenchman, a partner at Mukasey Frenchman LLP.

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THE WALL STREET JOURNAL.

HD **U.S. News: Campaign-Finance Charge Targets FTX's Political Strategy**

BY By Chad Day and Paul Kiernan
WC 724 words
PD 15 December 2022
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LP

U.S. authorities have accused **Sam Bankman-Fried** of violating federal campaign finance law as part of what they called a sweeping scheme to defraud customers of **FTX**, the crypto company he founded.

Here's what we know -- and don't know -- about the campaign-finance allegations against Mr. Bankman-Fried from his indictment and lawsuits filed by the Securities and Exchange Commission and Commodity Futures Trading Commission.

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The Law

U.S. law bars corporations from making direct campaign donations to federal candidates. It also bars so-called straw-donor schemes where a company or individual gives money to another person to then give as a political donation, disguising the true source of the funds.

Both of these prohibitions come into play in the allegations against Mr. Bankman-Fried.

The Allegations

One of the eight counts in the indictment against Mr. Bankman-Fried charges him with conspiracy to defraud the U.S. and violate campaign finance laws enforced by the Federal Election Commission. The count specifically accuses Mr. Bankman-Fried of conspiring with others to make political contributions in the names of other people and to use corporate funds to donate to federal candidates and joint fundraising committees.

The indictment says the conspiracy occurred from 2020 through November of this year, a period in which Mr. Bankman-Fried and other members of FTX made more than $70 million in political contributions, according to FEC records.

Mr. Bankman-Fried personally gave $40 million to politicians and political-action committees ahead of the 2022 midterm elections, mostly to Democrats and liberal-leaning groups. Ryan Salame, another top FTX executive, donated more than $23 million, mainly to Republicans and conservative groups.

The SEC and CFTC lawsuits say the donations were part of Mr. Bankman-Fried and other executives using FTX customer money for their personal benefit.

The lawsuits accuse Mr. Bankman-Fried of diverting customer money from FTX to Alameda Research, an investment firm that he controlled. He and other FTX executives then "took hundreds of millions of dollars in poorly-documented 'loans' from Alameda that they used to purchase luxury real estate and property, make political donations, and for other unauthorized uses," according to the CFTC lawsuit.

During a press conference Tuesday, Damian Williams, the U.S. attorney for the Southern District of New York, said Mr. Bankman-Fried's conspiracy led to tens of millions of dollars in illegal political contributions to campaigns and committees associated with Democrats and Republicans.

"These contributions were disguised to look like they were coming from wealthy co-conspirators, when in fact the contributions were funded by Alameda Research with stolen customer money," Mr. Williams said. "All of this dirty money was used in service of Bankman-Fried's desire to buy bipartisan influence and impact the direction of public policy in Washington."

Mark Cohen, a lawyer for Mr. Bankman-Fried, has said in a statement that his client "is reviewing the charges with his legal team and considering all of his legal options."

The indictment doesn't name or charge any other co-conspirators in the campaign finance violation or list the donations they say were made illegally. Neither do the CFTC or SEC lawsuits.

Documents Sought

In a congressional hearing Tuesday, Rep. Brad Sherman (D., Calif.), one of the crypto industry's loudest critics on Capitol Hill, asked new FTX Chief Executive John J. Ray III to turn over documents that could help law enforcement connect payments made to executives at the collapsed crypto exchange with campaign contributions. Mr. Ray responded affirmatively.

Mr. Sherman cited reports that Mr. Salame received a $55 million loan from the company, and asked Mr. Ray to provide information on the timing. Mr. Salame hasn't been charged with any crime or named in the lawsuits filed by federal regulators. Mr. Salame didn't respond to an email seeking comment Tuesday afternoon.

FTX officials donated millions to political committees aligned with either of the two major parties. Those groups spend money on advertising and other types of messaging to help elect candidates they support.

Mr. Bankman-Fried and his associates also donated four- or five-figure amounts to the campaigns or joint-fundraising committees of scores of individual lawmakers, according to the Center for Responsive Politics.

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THE WALL STREET JOURNAL.

HD **An Infectious Tune: I Got It From FTX**

BY By Gregg Opelka
WC 460 words
PD 15 December 2022
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LP

We have plenty of victory marches. So why not odes for rogues? As American financial scams pile up -- Enron, Madoff, Theranos, Nikola and now **FTX** -- why not give each a song? Cautionary tales would be all the more memorable with a catchy tune.

FTX's founder, the notorious and now-arrested **Sam Bankman-Fried**, can be the inaugural subject of these anthems to financial villains. As luck would have it, nearly 70 years ago, Tom Lehrer penned the perfect ditty for Mr. Bankman-Fried's predicament.

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The FTX debacle is well-suited to one of the musical satirist's funniest songs, "I Got It From Agnes." The best comedy is oblique, and without ever mentioning the term "venereal disease," Mr. Lehrer wrote a naughty refrain about the wages of promiscuity. The lyrics, accompanied by a perky melody, blithely state: "I got it from Agnes. She got it from Jim./ We all agree it must have been Louise who gave it to him." The catalog of contagion continues: "Giles got it from Daphne. She got it from Joan/ Who picked it up in County Cork a-kissin' the Blarney Stone."

Sounds a lot like the FTX contagion that romped through the financial world. The company's unspooling nailed everyone from Sequoia Capital and BlackRock to Tom Brady, Stephen Curry, Kevin O'Leary and Larry David. Not to mention the thousands of little-guy investors, most of whose money may be gone. One trusting victim after another succumbed to the wiles of Mr. Bankman-Fried and, as in Mr. Lehrer's song, they innocently passed the contagion on to the next unsuspecting victim.

The similarities don't end there. It's been reported that Mr. Bankman-Fried and his colleagues at FTX and its affiliate, Alameda Research, had close romantic relationships that impaired their business judgment. Mr. Lehrer's song addresses that, too: "I love my friends and they love me. We're just as close as we can be./ And just because we really care, whatever we get, we share!"

In 2017, Warren Buffett's longtime business partner, Charlie Munger, said of crypto: "I'm proud of the fact I've avoided it. It's like a venereal disease or something." It's possible Mr. Munger, born four years before Mr. Lehrer, at some point heard "I Got It From Agnes." Regardless, Mr. Lehrer, 94, may be amused to learn that he is clairvoyant. Decades before Mr. Bankman-Fried was born, Mr. Lehrer unwittingly wrote the theme song to his demise.

Mr. Opelka is a musical-theater composer-lyricist.

(See related letter: "Letters to the Editor: Investors in Crypto 'Ain't Got Nothin' but the Blues'" -- WSJ Dec. 28, 2022)

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THE WALL STREET JOURNAL.

HD **Year in Review (A Special Report): Digital Currencies --- How to Start Regulating The Crypto Markets: Former chairmen of the SEC and CFTC offer three steps U.S. regulators should take to make sure crypto lives up to its promise**

BY By Jay Clayton and Timothy Massad

WC 1,202 words

PD 15 December 2022

SN The Wall Street Journal

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PG R3

LA English

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LP

Only someone who has been living under a rock could think cryptocurrency markets don't need stronger regulation. The implosion of **FTX**, the collapse of the TerraUSD "stablecoin" and other recent failures -- all causing massive losses to investors -- provide ample evidence that digital assets should be regulated just like practically all other financial products and services. Yet the road to compliance with basic regulatory principles, in the U.S. and globally, may remain rough.

This risk is partly the result of the widely divergent and often emotional responses crypto has triggered since it began. Charlie Munger has referred to crypto as "partly fraud and partly delusion," while many successful venture investors believe tomorrow's financial infrastructure will be based on crypto technology. Each camp believes the government should act in furtherance of their view.

TD

The unique genesis of crypto assets has also complicated the regulatory challenge. Unlike other financial innovations, bitcoin was launched globally and directly to retail consumers, with a claim that it would make traditional intermediaries obsolete. Because financial regulation is implemented on a national basis and largely through intermediaries, this "global retail" path of emergence has challenged regulators. The fact that the use case of many crypto assets is often cloudy adds more complexity.

These factors, coupled with our fragmented financial regulatory system, have slowed the application of basic prudential and consumer-focused regulation. Crypto proponents have sought to exploit the situation by arguing that most digital assets should not be treated as securities, but instead as commodities where the spot market has no federal regulator. They often characterize their choices not to voluntarily comply with existing regulations as the result of "regulatory uncertainty," when the main motivation is avoiding compliance and its costs.

Legislative proposals have recently attracted attention, but the question is whether consensus can be achieved in the wake of FTX. Crypto critics are likely to resist any legislative action that could be seen as legitimizing a sector that they distrust and wish would die of its own weight. Many crypto enthusiasts believe FTX shows the problem is "centralized entities" that aren't faithful to crypto's promise of decentralization and will oppose any affirmation of our traditional, rigorous approach.

We, two former markets regulators, believe that government action should not rest on a particular view of the future, nor on the often elusive search for a comprehensive plan. The fact is billions of dollars a day in transactions continue to take place, while fraud and theft remain common. In our experience, immediate action is best pursued incrementally.

We have three recommendations for U.S. regulators:

-- Require all crypto intermediaries to implement basic customer protections. For all the novelty of blockchain technology, most crypto trading isn't recorded on chain but rather on traditional ledgers kept by centralized intermediaries. But these entities claim the products they trade don't make them subject to registration with the Securities and Exchange Commission or Commodity Futures Trading Commission, which means that investor protection rests on state laws written for the telegraph era

that are woefully inadequate. While we believe most of the tokens they trade are securities, we need a path to compliance that doesn't depend on litigating classification questions.

We believe the SEC and the CFTC should publish a core set of standards, including (1) segregation of customer assets, (2) limits on lending, (3) restrictions on operating conflicting businesses such as trading, and (4) prohibitions against fraud and manipulation including wash trading (where someone trades with themselves or an affiliate to inflate the market price or volume of a security).

These standards could easily be drawn from existing requirements for our securities and derivatives exchanges. The two agencies would then tell the trading venues: Adopt these standards for everything you trade if you haven't already registered with the SEC or the CFTC.

This would establish an interim period -- while classification questions are resolved -- where an intermediary would not be shut down for failure to register as long as it complies with the standards.

-- Provide rules for "stablecoin" use. The use of stablecoins -- digital assets that purport to peg their value to national currencies such as the U.S. dollar -- has exploded, mostly to facilitate crypto transactions. Stablecoins may have the potential to improve payments in use cases beyond crypto. But the fact is they lack stability, posing risks of banklike runs.

Banking regulators should take the lead in creating a regulatory framework, but the SEC and CFTC can help by requiring that intermediaries use only stablecoins that, at minimum, are issued by regulated entities that holds reserves in cash and high-quality liquid assets.

-- Continue rigorous enforcement of the law. Crypto proponents complain about "regulation by enforcement," but enforcement is necessary when many in the industry will use any colorable claim to avoid or delay compliance. The SEC's successful crackdown on unregistered "initial coin offerings," or ICOs, beginning in 2017 was necessary because these offerings flouted the rules for public offerings, often failing to provide even basic financial information or risk disclosure. The SEC and CFTC should continue to prosecute illegal products and other scams, but these efforts -- targeted by their nature -- should be supplemented by broader steps of the types we suggest.

Our proposed initiatives, which focus on intermediaries, should not be read to suggest that we are giving a pass to "DeFi" (decentralized finance) platforms, which seek to eliminate intermediaries by offering software protocols, such as trade matching or asset-lending programs, on public blockchains. To the contrary. While their structure may appear different, many of the same risks are present -- scams, hacks, lack of operational resilience, and potential for manipulation of the protocol. And many DeFi platforms, contrary to their claims, have identifiable control persons. It may take some creativity to implement the core regulatory requirements for DeFi platforms, but a level playing field requires it.

For many years, we have shared the same views on crypto regulation. Regardless of the promise of this new technology, crypto should be subject to a strong regulatory framework. Nor should concerns about the U.S. acting unilaterally or more rigorously hold us back. We each undertook initiatives -- the SEC in cracking down on ICOs and the CFTC in regulating swaps -- where industry critics claimed the U.S. would be out of sync and innovation would move offshore. That didn't happen; instead, other countries followed our lead or wished they did.

Those who invest -- and risk -- their hard-earned money in our financial markets should know that the playing field is fair and stable, and that bad actors will be weeded out. We hope that Congress and our successors are guided by that common perspective, and we offer these initiatives in the spirit of moving forward.

Mr. Clayton was chairman of the Securities and Exchange Commission from 2017 to 2020, and Mr. Massad was chairman of the Commodity Futures Trading Commission from 2014 to 2017. Email reports@wsj.com.

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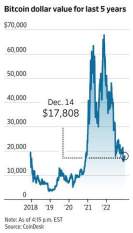

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LP

FTX founder Bankman-Fried oversaw "one of the biggest financial frauds in American history," a top federal prosecutor said in charging that the former chief executive stole billions of dollars from the cryptocurrency exchange's customers while misleading investors and lenders.

TD

Consumer prices rose in November at the slowest 12-month pace since December 2021, closing out a year in which inflation hit the highest level in four decades and challenged the Fed's ability to keep the U.S. economy on track.

U.S. stock indexes ended higher after paring gains seen earlier in the session, with the S&P 500, Nasdaq and Dow adding 0.7%, 1% and 0.3%, respectively. The yield on the 10-year Treasury note slid.

United Airlines said it would purchase 100 Boeing 787 Dreamliners with options to buy 100 more, a win for the plane maker after a streak of manufacturing, engineering and regulatory setbacks.

Tether said it is winding down its practice of lending its own stablecoins to customers by next year, addressing a broad risk to the wider crypto world.

Danske Bank, Denmark's largest bank, agreed to pay about $2 billion to settle probes into anti-money-laundering failures.

A group of 15 state attorneys general demanded that executives at Google and Apple strip TikTok of its content rating that classifies it as appropriate for teens.

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THE WALL STREET JOURNAL.

HD **U.S. News: SEC Sues Bankman-Fried, Says Funds Were Diverted**

BY By Dave Michaels
WC 504 words
PD 14 December 2022
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LP

FTX founder **Sam Bankman**-**Fried** diverted customer funds from the start of his cryptocurrency exchange to support his hedge fund, Alameda Research, and to make venture investments, real-estate purchases and political donations, the Securities and Exchange Commission alleged in a lawsuit filed Tuesday.

The SEC said those moves were concealed from Silicon Valley investors who poured $1.8 billion into **FTX**. U.S. investors contributed $1.1 billion of that total. Mr. Bankman-Fried also failed to disclose special treatment that **FTX** gave to Alameda on its platform, and financial risks posed by the relationship between the exchange and the hedge fund, the SEC alleged in its civil fraud lawsuit.

TD

"Bankman-Fried was orchestrating a massive, years-long fraud, diverting billions of dollars of the trading platform's customer funds for his own personal benefit and to help grow his crypto empire. . . . Customers around the world believed his lies, and sent billions of dollars to FTX," the SEC complaint said.

Mr. Bankman-Fried was arrested on Monday in the Bahamas after the U.S. filed criminal charges against him, the authorities in the two countries said. The Commodity Futures Trading Commission also sued the FTX founder.

The SEC's suit seeks civil fines, disgorgement of any illegally earned profits, and a bar from serving as an officer and director of a public company. The SEC said its investigation continues, meaning it could accuse other individuals or companies of wrongdoing.

The exchange's investors included Sequoia Capital, which gave more than $200 million to FTX and its U.S. affiliate, as well as other big names including Dan Loeb's Third Point LLC, Tiger Global Management, the Ontario Teachers' Pension Plan, SoftBank Group Corp., and Singapore's investment company, Temasek Holdings.

Many of the crypto exchange's executives and employees also plowed money into FTX, which was valued at $32 billion earlier this year. Some of the large institutions recently said they had conducted extensive due diligence on FTX before deciding to invest, and have since marked down the value of their investments to zero.

Unlike many of the SEC's earlier enforcement actions against crypto companies, the SEC's lawsuit doesn't currently hinge on claims that Mr. Bankman-Fried or FTX issued digital assets that violated investor-protection laws. Instead, it alleges that Mr. Bankman-Fried hid FTX's practices from investors who supported the company. The 30-year-old was FTX's chief executive until he resigned last month.

Alameda had taken billions of dollars of FTX customer funds even before the hedge fund faced calls from lenders in May, according to the SEC's lawsuit.

"Bankman-Fried directed FTX to divert billions more in customer assets to Alameda to ensure that Alameda maintained its lending relationships, and that money could continue to flow in from lenders and other investors," the SEC said.

A spokesman for Mr. Bankman-Fried didn't respond to a request for comment.

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THE WALL STREET JOURNAL.

HD **FTX Founder Is Charged With Fraud --- Indictment comes as SEC and CFTC file lawsuits and new chief testifies at hearing**

BY By Corinne Ramey, James Fanelli and Vicky Ge Huang

WC 1,255 words

PD 14 December 2022

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LP

FTX founder **Sam Bankman-Fried** oversaw "one of the biggest financial frauds in American history," a top federal prosecutor said in charging that the former chief executive stole billions of dollars from the cryptocurrency exchange's customers while misleading investors and lenders.

An indictment by the U.S. attorney's office for the Southern District of New York, unsealed Tuesday, charges Mr. Bankman-Fried with eight counts of conspiracy and fraud. Prosecutors allege he took **FTX**.com customers' money to pay the expenses and debts of Alameda Research, an affiliated trading firm. Mr. Bankman-Fried is charged as well with conspiring to defraud the U.S. and violate campaign finance rules by making illegal political contributions.

TD

Damian Williams, the U.S. attorney for the Southern District of New York, said he authorized the charges against Mr. Bankman-Fried last Wednesday and a grand jury voted on the indictment on Friday. "This investigation is very much ongoing and it is moving very quickly," Mr. Williams said in Manhattan on Tuesday. "While this is our first public announcement, it will not be our last."

Separately, John J. Ray III, the new CEO of FTX, said at a congressional hearing Tuesday that FTX incurred losses "in excess of $7 billion." Mr. Ray, who oversaw the Enron Corp. bankruptcy in the early 2000s, said funds were taken from FTX and misused by Alameda Research, which incurred trading losses.

Mr. Ray described Enron as having been brought down by sophisticated people whose machinations aimed to keep transactions secret.

FTX, by contrast, is a different case, he said. "This is really old-fashioned embezzlement," he said. "This is just taking money from customers and using it for your own purpose. Not sophisticated at all."

Also Tuesday, the Securities and Exchange Commission alleged in a civil lawsuit that Mr. Bankman-Fried diverted customer funds from the start of FTX to support Alameda and to make venture investments, real-estate purchases and political donations. The Commodity Futures Trading Commission filed a lawsuit Tuesday linking his alleged fraudulent conduct at Alameda and FTX to markets that the CFTC regulates.

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

The charges are the latest twist in a saga that rattled the crypto world, a largely unregulated market that boomed during the pandemic but was hammered this year by rising interest rates and the failure of significant industry players.

FTX, one of the largest crypto exchanges in the world, filed for bankruptcy in November after it ran out of cash and a merger with rival Binance collapsed. The firm's failure marked a sudden fall from grace for Mr. Bankman-Fried, who portrayed FTX as a safer crypto exchange to use and cast himself as an ally of regulation.

In interviews since the filing, Mr. Bankman-Fried said he bore responsibility for FTX's collapse but denied he committed any fraud. Mark Cohen, a lawyer for Mr. Bankman-Fried, said on Tuesday that his client "is reviewing the charges with his legal team and considering all of his legal options."

Mr. Bankman-Fried, 30 years old, was arrested Monday in the Bahamas and appeared in court Tuesday in Nassau. He was denied bail and has been remanded to jail until Feb. 8, said a person familiar with the matter.

Prosecutors allege that from 2019 through November 2022, Mr. Bankman-Fried conspired with unnamed individuals to defraud customers and lenders. He provided false and misleading information to lenders about Alameda's financial condition, the indictment says.

The 14-page indictment said that on Sept. 18, 2022, Mr. Bankman-Fried caused an email to be sent to an FTX investor in New York that contained false information about FTX's financial condition. In June 2022, the indictment says, Mr. Bankman-Fried and others misappropriated FTX.com customer deposits to satisfy Alameda's loan obligations.

Mr. Bankman-Fried is also accused of defrauding the Federal Election Commission starting in 2020 by conspiring with others to illegally make contributions to candidates and political committees in the names of other people. He and his associates contributed more than $70 million to campaigns in recent years, The Wall Street Journal reported. He personally made $40 million in donations ahead of the 2022 midterm elections, most of which went to Democrats and liberal-leaning groups.

Mr. Ray said on Tuesday that FTX is probing whether any loans taken by FTX executives were improperly used for campaign contributions. He noted that tracing fund flows from FTX to executives and third parties was difficult given the lack of a paper trail for many corporate transactions at FTX.

"We're dealing with a paperless bankruptcy," he said. "It makes it very difficult to trace and track assets."

The CFTC complaint contains a detailed discussion of events at Alameda and FTX and argues the agency also has jurisdiction over the case. The CFTC regulates U.S. derivatives markets, but it can go after fraud that affects certain commodity markets.

Besides giving Alameda access to customer deposits, FTX granted the crypto hedge fund controlled by Mr. Bankman-Fried trading-execution privileges that provided it an edge against other traders on the platform, the CFTC suit alleges.

The CFTC said while institutional customers had their orders routed through the FTX system, Alameda was able "to bypass certain portions of the system and gain faster access." It resulted in orders being received by FTX several milliseconds faster than those of other institutional clients. The suit alleges Alameda wasn't subject to certain automated verification processes, including on whether it had available funds before executing a transaction, giving it further advantage on the speed of its trades.

The edge wasn't enough to keep Mr. Bankman-Fried from considering shutting Alameda in September, according to the CFTC complaint. In a document titled "We came, we saw, we researched," Mr. Bankman-Fried laid out reasons for shutting Alameda, according to the CFTC suit. Alameda wasn't making enough money to justify its existence, he wrote.

The CFTC said the statements contradicted what Mr. Bankman-Fried and Alameda were saying publicly at the time.

Tuesday's congressional hearing on FTX was the first public appearance for Mr. Ray on FTX's bankruptcy. Mr. Bankman-Fried had been scheduled to appear virtually at the hearing, before he was arrested in the Bahamas at the request of the U.S. government.

"The operation of Alameda really depended, based on the way it was operated, on the use of customer funds," Mr. Ray said, responding to questions from members of Congress. "There were virtually no internal controls . . . whatsoever."

He described numerous loans totaling billions of dollars taken out by Mr. Bankman-Fried from Alameda. "We have no information at this time as to what purpose or use of those funds were," Mr. Ray added.

Mr. Ray pushed back against statements by Mr. Bankman-Fried that he had little involvement in the management of Alameda after passing control of it to Caroline Ellison and Sam Trabucco, as well as his statements that customer funds were passed to Alameda because of an accounting error. "I don't find those statements to be credible," Mr. Ray said.

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Dave Michaels, Alexander Saeedy and Hannah Miao contributed to this article.

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THE WALL STREET JOURNAL.

HD **U.S. News: Speedy Indictment Is Product Of a New DOJ Push**

BY By Ben Foldy
WC 528 words
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LP

The arrest of **FTX** founder **Sam Bankman-Fried** roughly a month after the swift collapse of his cryptocurrency exchange is among the fastest recent indictments in a financial blowup and comes as federal prosecutors look to speed white-collar prosecutions.

Mr. Bankman-Fried was arrested Monday night in the Bahamas at the behest of U.S. authorities. He was charged Tuesday, roughly a month after **FTX** filed for bankruptcy, wiping out billions of dollars of investors' capital and marooning the funds of depositors in the process.

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He faces eight criminal counts, including conspiracy to commit securities fraud, wire fraud and campaign finance violations. Financial regulators have also filed civil-fraud lawsuits against Mr. Bankman-Fried.

Mr. Bankman-Fried "is reviewing the charges with his legal team and considering all of his legal options," Mark Cohen, a lawyer representing Mr. Bankman-Fried, said.

The Justice Department has pushed to speed up white-collar prosecutions, former and current officials said. These cases have historically been slow-moving due to the schemes' complexity and a need to assemble evidence indicating a suspect's intent.

Deputy U.S. Attorney General Lisa Monaco said in a September speech that making prosecutors and companies feel that they were "on the clock" in these cases was a key priority for the department.

Former U.S. prosecutors say high-profile financial cases with lots of victims can increase the pressure on authorities to bring cases more quickly.

"If people forget about the case by the time it finally comes to fruition, they may feel that justice deferred is justice denied," said Mark Chutkow, a former federal prosecutor who is currently head of government investigations and corporate compliance at Dykema Gossett PLLC.

The speed at which charges were brought against Mr. Bankman-Fried was fast even by recent standards. It took just over a year for federal prosecutors to charge hedge-fund manager Bill Hwang and another former executive of Archegos Capital Management after their fund collapsed in March 2021. In October, a Manhattan jury convicted Nikola founder Trevor Milton on three counts of fraud relating to Mr. Milton's public statements around the company's initial public offering in the summer of 2020.

In a statement after Mr. Hwang was charged, his lawyer said his client is entirely innocent and there is no evidence he committed any kind of crime. After Mr. Milton's conviction, one of his lawyers said his client would continue to fight the charges."

Those cases, and Mr. Bankman-Fried's, were all brought by the U.S. attorney's office in Manhattan, which specializes in financial crime.

Former prosecutors said Mr. Bankman-Fried's case appeared to have several elements that could have helped expedite an investigation, including lots of potential victims, government scrutiny of cryptocurrency and new leadership at FTX that seems inclined to cooperate with the government.

In addition, the relatively small inner circle at FTX made it easier to directly implicate Mr. Bankman-Fried in wrongdoing whereas executives at large companies are usually insulated by several levels of other employees, said Mr. Chutkow.

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THE WALL STREET JOURNAL.

SE PERSONAL JOURNAL

HD **After FTX Collapse, Check How Safe Your Accounts Are**

BY By Anne Tergesen

WC 957 words

PD 14 December 2022

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LP

The collapse of crypto exchange **FTX** raises a question for every saver and investor: What happens to your assets if the company that holds your bank, brokerage, 401(k) or crypto account goes under?

The answer varies depending on the type of account. Bank deposits have been backstopped by the Federal Deposit Insurance Corporation since the Great Depression. In the crypto world, there are no clear protections. As **FTX** customers discovered, with the company entering bankruptcy proceedings, investors can suffer significant losses if the company that houses their account goes bust.

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"If the platform fails, you become part of the bankruptcy process," said Adam Levitin, a law professor at Georgetown University who specializes in consumer protection and is a principal at Gordian Crypto Advisors LLC, which provides services to cryptocurrency businesses.

Bank Accounts

Banks do fail, but deposits in checking and savings accounts are among the safest of all assets.

When a bank goes under and no other bank takes over the deposits, the FDIC covers up to $250,000 in checking and savings accounts, money-market deposit accounts and certificates of deposit. (FDIC insurance doesn't cover the investment accounts many banks offer through brokerage units.)

Some customers can get $250,000 of coverage for each account they have at a bank, provided the accounts are titled differently. For example, if you have a bank account in your name with $250,000 and you and your spouse have a joint account at the same bank with $500,000, both are fully insured. To calculate how much coverage you have, go to the FDIC's electronic deposit insurance estimator.

People with balances that exceed the limit can protect themselves by transferring the excess deposits to an account at a different FDIC-insured bank.

Brokerage Accounts

If a brokerage fails, customer assets should be safe.

The U.S. Securities and Exchange Commission prohibits broker-dealers from using customer money or commingling it with the firm's assets.

The federally mandated nonprofit intervenes on behalf of customers when client assets are missing and a brokerage firm is unable to meet its obligations to customers. If the firm fails but there are no customer assets missing, the firm might seek to transfer customer accounts to a different brokerage firm, said Josephine Wang, chief executive of the Securities Investor Protection Corp., which covers up to $500,000 per account, including up to $250,000 in cash.

If you have a brokerage account in your own name, a traditional individual retirement account, a Roth IRA account and a joint account at the same brokerage firm, each might be eligible for up to $500,000 of protection, according to SIPC.

SIPC replaces missing securities including stocks, bonds, mutual funds, ETFs and certificates of deposit. It doesn't cover investments that aren't SEC-registered.

An investor with more than the $500,000 limit in an account will receive a share of customer assets the firm possesses and any assets recovered in a liquidation in proportion to the customer's account size at the failed brokerage, said Ms. Wang.

If assets are missing from your account and your brokerage firm is solvent, SIPC typically won't intervene, Ms. Wang said. In that situation, the loss "will be between you and the firm to resolve," she said, adding that firms might have supplemental insurance to cover a loss.

401(k) Accounts

If a company with a 401(k) plan files for bankruptcy, the plan's assets are protected. The federal Employee Retirement Income Security Act requires the assets to be held in trust, said Michael Kreps, a principal at Groom Law Group who specializes in retirement-plan law. The trust also protects your money if your 401(k) plan administrator goes bust.

In contrast, the money executives save in other types of company-sponsored deferred compensation plans can be seized by creditors in a bankruptcy proceeding, said Mr. Kreps.

Cryptocurrency Accounts

If the company that holds your cryptocurrency fails, there is no guarantee that your money won't go to pay the firm's creditors, said Prof. Levitin.

Customer agreements for cryptocurrency exchanges and brokers often suggest that customer assets are shielded.

In June, Coinbase Global Inc., a cryptocurrency exchange, updated its user agreement to say that it had agreed to be governed by a section of U.S. commercial law that it believes would protect customer accounts from its creditors in a bankruptcy. But Coinbase also said it is unclear whether a bankruptcy court would agree with that interpretation.

When you transfer cash to a cryptocurrency exchange to make purchases, the company often holds the money in an FDIC-insured bank account where it is available for trading.

If the cryptocurrency exchange fails, customers should be able to access any cash they have in a linked bank account, provided the cryptocurrency firm titled the account properly, said Prof. Levitin. But the protections don't extend to any crypto assets you have purchased.

In August, the FDIC accused companies, including FTX, of making "false representations -- including on their websites and social-media accounts -- stating or suggesting that certain crypto-related products are FDIC-insured."

One way to safeguard your cryptocurrency against an FTX-style failure is to hold it in your own wallet, said Jerry Brito, executive director of Coin Center, a nonprofit focused on policy issues facing cryptocurrencies.

But there are risks. A wallet stored on a computer or mobile phone might be hacked. A so-called hardware wallet on a device that is not connected to the internet might be lost or stolen. In such a situation, investors without a backup would lose their digital assets, said Mr. Brito.

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THE WALL STREET JOURNAL.

CLM REVIEW & OUTLOOK (Editorial)

HD **Sam Bankman-Fried's Crypto Crash**

WC 702 words

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LP

If the rise of **Sam Bankman-Fried** was a modern tale about cryptocurrency tokens and "effective altruism," his fall seems to be as old as original sin. "This is really old-fashioned embezzlement," John Ray, the caretaker CEO of the failed crypto exchange **FTX**, told the House on Tuesday. "This is just taking money from customers and using it for your own purpose, not sophisticated at all."

Mr. Bankman-Fried, **FTX**'s co-founder, was arrested Monday in the Bahamas and is expected to be extradited. SBF, as he is often called, has been on a media tour since **FTX**'s failure, and he portrays himself as a well-intentioned doofus savant who got in way over his head and -- whoops -- lost billions of dollars. The sloppiness of bookkeeping is true enough: Mr. Ray said invoices and expenses were communicated via Slack chats, and "they used QuickBooks."

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But Mr. Ray's darker story is backed by allegations in the federal indictment, along with a civil complaint from the Securities and Exchange Commission. Prosecutors say Mr. Bankman-Fried "engaged in a scheme to defraud customers of FTX.com by misappropriating those customers' deposits." The money was diverted to Alameda Research, SBF's crypto hedge fund. The indictment alleges he defrauded lenders as well, and prosecutors also threw in a campaign-finance violation for excessive political donations made "in the names of other persons."

The SEC complaint is more voluble. "From the inception of FTX, Bankman-Fried diverted FTX customer funds to Alameda," it says, to the point that "there was no meaningful distinction." Then SBF "used Alameda as his personal piggy bank to buy luxury condominiums, support political campaigns, and make private investments." He took enormous loans, "including two instances in which Bankman-Fried was both the borrower in his individual capacity and the lender in his capacity as CEO of Alameda."

Mr. Bankman-Fried claimed Alameda had no special privileges on the FTX platform. Yet the SEC says his hedge fund was granted a "virtually unlimited" credit line and was exempt from the "automated risk mitigation protocols" that SBF trumpeted as ensuring FTX's stability. The mixing of funds was obfuscated in internal accounts. The beginning of the end arrived when crypto prices fell and "many of Alameda's lenders demanded repayment of loans."

If the authorities are correct, this is a story as old as time that reoccurs every time there is a financial mania. The thoroughly modern twist in the SBF allegation was to convince investors to place money into a digital box, except with a hole in the bottom leading directly to a proprietary hedge fund. In such a case, the remedy is also old and familiar: Enforce the fraud laws already on the books.

House Democrats implied Tuesday that new government regulation is needed in response to FTX's bankruptcy. It's notable, however, that the exchange's collapse and the entire cryptocurrency meltdown haven't created contagion in the financial system.

One interesting question is whether this is due in part to the unregulated nature of crypto markets. Nothing screams caveat emptor like buying invented digital tokens that lack any history of stability. Perhaps a regulated crypto industry would look safer even if it isn't.

Special mention to the Federal Reserve for keeping interest-rates too low for too long and inspiring the search for exotic returns. The apparent lack of due diligence by serious investors to FTX is another point of interest. Mr. Bankman-Fried's case will be fascinating to watch.

His defense might be that he lacked fraudulent intent and was hoping that his crypto bets would save FTX in the end. Maybe so, but a jury will want to know why so much money went to personal loans and real estate. He will also have to defend why he didn't tell investors about his co-mingling of their money with other assets to fund his ventures. Fraud is a crime, in real or crypto currency.

(See related letter: "Letters to the Editor: Take Back the Boardroom" -- WSJ Dec. 19, 2022)

(See related letter: "Letters to the Editor: The Look on the CEO's Face" -- WSJ Dec. 22, 2022)

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LP

FTX founder **Sam Bankman-Fried** was arrested in the Bahamas after the U.S. filed criminal charges against him, authorities in the two countries said.

TD

Microsoft will take a 4% stake in the London Stock Exchange's corporate parent and help shift the exchange's financial data and trading platforms to the cloud.

Amgen's deal to buy Horizon Therapeutics for $27.8 billion is the biggest this year by a major pharmaceutical firm seeking new revenue sources to offset patent expiries.

Major U.S. stock indexes jumped, with the S&P 500, Dow industrials and Nasdaq posting gains of 1.4%, 1.6% and 1.3%, respectively.

Twitter disbanded its Trust and Safety Council on Monday night, according to an email viewed by The Wall Street Journal.

Twitter said it reintroduced a new version of its paid subscription service, the second attempt in recent weeks to launch the feature.

News Corp named veteran U.K. journalist Emma Tucker as the next editor in chief of The Wall Street Journal, succeeding Matt Murray.

Thoma Bravo is tapping its newest and largest fund to date as it plans to take Coupa Software private in an all-cash acquisition with an enterprise value of $8 billion.

Rivian said it paused talks with Mercedes over a planned tie-up to produce electric vans in Europe, as part of a wider effort at the SUV and truck maker to conserve cash.

NS c181 : Acquisitions/Mergers/Shareholdings | ccat : Corporate/Industrial News | gcrim : Crime/Legal Action | ncdig : Corporate Digests | ncolu : Columns | npag : Page One Stories | c18 : Ownership Changes | cactio : Corporate Actions | gcat : Political/General News | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Binance Seeks to Calm, but Finances Still Unclear**

BY By Jonathan Weil
WC 1,294 words
PD 12 December 2022
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LP

Binance recently made a commitment to transparency, but it has a long way to go before it discloses enough meaningful information to give investors confidence in its future, accounting and financial specialists say.

The world's largest cryptocurrency exchange is seeking to reassure customers about the safety of their holdings after the collapse of **FTX**. Binance's position means its success or failure will weigh heavily on the entire crypto market.

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"It's important for us to show users that the coffers are not bare, like at FTX," said Binance's chief strategy officer, Patrick Hillmann.

Over the past month, Binance publicized details about its crypto-wallet addresses. It hired an outside accounting firm to prepare a "proof of reserve report" covering a portion of its assets and liabilities, including a small set of financial data. And it promised more information will be forthcoming.

"When we say proof of reserves, we are specifically referring to those assets that we hold in custody for users," Binance says on its website. "This means that we are showing evidence and proof that Binance has funds that cover all of our users assets 1:1, as well as some reserves."

Investors still shouldn't be satisfied with the report, said Douglas Carmichael, an accounting professor at Baruch College in New York and former chief auditor of the U.S. Public Company Accounting Oversight Board.

"I can't imagine it answers all the questions an investor would have about the sufficiency of collateralization," he said. "That's the main thing it seems to speak to."

The report said its purpose was to show customers that the assets covered in the report "are collateralized, exist on the blockchain(s) and are under the control of Binance."

Binance, which is private, isn't required to produce audited financial statements, and it hasn't released anything that would provide a comprehensive overview of its financial condition or liquidity. Nor has it indicated plans to do so.

The reserve report, released Wednesday, is a five-page letter from a partner at the South African affiliate of the global accounting firm Mazars. It contained three numbers. The letter wasn't an audit report, didn't address the effectiveness of the company's internal financial-reporting controls, and said Mazars did "not express an opinion or an assurance conclusion," meaning it wasn't vouching for the numbers.

Mazars said it performed its work using "agreed-upon procedures" requested by Binance and "we make no representation regarding the appropriateness" of the procedures.

The letter was addressed to a Binance entity called Binance Capital Management Co. Ltd., which is based in the British Virgin Islands, though it wasn't clear if the assets it counted were held by that unit. The report didn't show total assets or total liabilities. Rather, its scope was limited only to bitcoin assets and bitcoin liabilities. Binance said it would begin releasing information about other crypto tokens in the coming weeks.

In an interview, Binance's Mr. Hillmann said the Mazars letter covered all the bitcoin assets and bitcoin liabilities for the company's Binance.com exchange -- although the Mazars letter itself didn't say this. Mr. Hillmann said the Mazars letter didn't cover any assets or liabilities at Binance's U.S. operations. "This is the first step in what's going to be a much longer process," he said.

The Mazars partner who wrote the letter, Wiehann Olivier, declined to comment.

The few numbers in the report raised fresh questions about the ability of Binance to meet its financial obligations to customers.

On the last page of the Mazars letter was a brief section called "report details," which consisted of the three numbers, each denominated in bitcoin. One number was labeled "customer liability report balance" and showed a balance of 597,602 bitcoins. Another number, labeled "asset balance report," showed a balance of 582,486 bitcoins.

The upshot is the total bitcoin liabilities cited in the letter were 3% greater than the bitcoin assets that were included within the scope of the report as of the reporting date, which was Nov. 22. In other words, Binance didn't meet its 1:1 ratio of reserves to customer assets. In U.S. dollar terms, based on bitcoin's price at the time, the liabilities would have been about $9.68 billion, while the assets would have been $9.43 billion, or about $245 million smaller, according to calculations by The Wall Street Journal.

The third number was labeled "net liability balance (excluding in-scope assets lent to customers)" and showed a liability figure that had been adjusted downward by about 21,860 bitcoins to 575,742 bitcoins. Binance noted it lets customers borrow crypto assets through loans or margin accounts.

On this adjusted basis, the report showed, the liabilities were 1% less than the assets, leading Mazars to state that "Binance was 101% collateralized" when using that methodology. At the same time, Mazars wrote that "Binance was 97% collateralized" when using the larger liabilities number for the calculation.

Binance spokeswoman Jessica Jung said the difference of 21,860 bitcoins was "made up of BTC loans made to customers through the Binance loan program" and "the collateral for said loans are not in BTC, but in other currencies." If Binance hadn't provided these bitcoin loans, she said, then "we would be 101% collateralized." The reasons for the adjustment appear to be tied to the scope of the report, which focused only on bitcoin so it didn't count collateral in other currencies.

Binance announced its new "proof of reserves system" in a Nov. 25 news release that referred to the numbers as "audit results." Mr. Carmichael said: "It is a gross misrepresentation to call this an audit."

During the interview, Mr. Hillmann at times referred to the work performed by Mazars as an "audit." Asked about the appropriateness of Binance's use of the term "audit" in the news release and elsewhere, Mr. Hillmann said: "We're talking about a review of our assets in custody." He said: "I would just say we're parroting others' descriptions of this as an independent audit."

Other basic information about Binance is lacking. Mr. Hillmann said he couldn't provide the name of Binance's ultimate parent because Binance over the past year and a half has been in the process of a reorganization. He confirmed that Binance's founder and chief executive, Changpeng Zhao, is the majority owner of the Binance.com exchange and Binance's U.S. operations.

Hal Schroeder, a former Financial Accounting Standards Board member and investment manager who teaches accounting at Rutgers University, said the report means little without any information about the quality of Binance's internal controls, such as its systems for keeping accurate books and records.

"We don't know how good Binance's systems are to liquidate assets to cover any margin loans," he said. "And we know in the U.S., even with all the good systems, banks have occasionally been caught off-guard."

What would happen if Binance had a shortfall? The company in a Nov. 9 news release pointed to an "emergency insurance fund" it said it established in 2018, called the "secure asset fund for users," or SAFU for short. The company said, "We've topped the SAFU balance back to" $1 billion.

Binance said the fund consisted of a combination of bitcoin and two tokens created by the company -- one called Binance USD and another called BNB. Binance hasn't released financial statements for the fund showing its assets and liabilities, but it says on its website "the value of the fund will fluctuate based on the market."

CO hlicay : Binance (Cayman Islands)

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IN ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS ccat : Corporate/Industrial News | mcryp : Cryptocurrency Markets | c131 : Regulatory Bodies | gpol : Domestic Politics | neqac : Equities Asset Class News | c13 : Regulation/Government Policy | gcat : Political/General News | gpir : Politics/International Relations | m13 : Money/Currency Markets | m132 : Foreign Exchange Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpin : C&E Industry News Filter

RE bvi : British Virgin Islands | caribz : Caribbean Islands | cayi : Cayman Islands

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THE WALL STREET JOURNAL.

HD **Founder of FTX Set To Testify in House**

BY By Paul Kiernan and Caitlin Ostroff
WC 971 words
PD 10 December 2022
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SC J
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LA English
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LP

FTX founder Sam Bankman-Fried said he would testify next week before Congress, setting up a high-profile discussion with lawmakers he sought to court before his crypto exchange collapsed into bankruptcy.

Mr. Bankman-Fried said on Twitter he would appear before the House Committee on Financial Services. The committee has a hearing scheduled for Tuesday at 10 a.m. ET to investigate the collapse of FTX. Mr. Bankman-Fried will most likely testify remotely, according to a person familiar with the matter.

TD

Mr. Bankman-Fried's appearance caps a stunning downfall of an executive who just months ago was showering Congress, including members of the committee, with political donations. He and FTX executives spent about $70 million ahead of the 2022 midterm elections in an effort to sway the regulation of the nascent crypto industry. Now, Mr. Bankman-Fried is in the hot seat as the committee tries to get to the bottom of what caused the company's implosion last month.

John J. Ray III, the new chief executive leading FTX in bankruptcy -- and a sharp critic of Mr. Bankman-Fried -- is listed by the committee as a witness for the hearing.

Mr. Bankman-Fried's decision follows a back-and-forth on Twitter between him and Rep. Maxine Waters (D., Calif.), the chairwoman of the committee. Earlier this month, he declined to testify, saying he wanted to wait until he finished learning and reviewing what caused FTX's swift downfall.

Ms. Waters pushed back, tweeting this past week: "Based on your role as CEO and your media interviews over the past few weeks, it's clear to us that the information you have thus far is sufficient for testimony."

The FTX collapse has rocked the crypto world. Before FTX's November bankruptcy filing, the exchange was an industry titan, and Mr. Bankman-Fried its smiling public face. This past spring, Mr. Bankman-Fried's offers to buy struggling crypto companies were widely compared to actions financier John Pierpont Morgan took more than a century earlier. FTX raised money from some of Silicon Valley's most sophisticated investors, at a valuation of $32 billion.

FTX lent billions of dollars worth of customer assets to fund risky bets by its affiliated trading firm, Alameda Research, The Wall Street Journal has reported, setting the stage for its quick collapse.

The Senate Banking Committee also has scheduled a hearing to probe the FTX collapse next week. Its leaders, Sens. Sherrod Brown (D., Ohio) and Pat Toomey (R., Pa.), sought to compel Mr. Bankman-Fried through a subpoena to appear if he doesn't do so voluntarily.

Lawyers said the threat is likely empty given Mr. Bankman-Fried's location outside the U.S. Mr. Bankman-Fried is living in the Bahamas.

Before the exchange's collapse, Mr. Bankman-Fried frequently appeared in Washington, testifying before Congress, speaking on panels and mingling with members of Congress and their staffers. Mr. Bankman-Fried sought to influence how his firm and the crypto industry would be policed. Currently, cryptocurrency largely falls outside the rules that govern other aspects of the financial system.

Mr. Bankman-Fried personally gave some $40 million to politicians and political-action committees ahead of the midterm elections, according to the Center for Responsive Politics, a nonpartisan group that tracks campaign donations. Mr. Bankman-Fried was the No. 2 overall top donor to Democrats in 2022 election cycle, behind George Soros. Ryan Salame, another top FTX executive, donated more than $23 million, mainly to Republicans and conservative groups.

Among the lawmakers set to face Mr. Bankman-Fried on Tuesday are several members of the so-called Blockchain Caucus -- allies of the crypto industry on Capitol Hill. The committee also includes six of the eight lawmakers who signed a March letter to Securities and Exchange Commission Chairman Gary Gensler questioning the agency's investigations of crypto firms.

The letter didn't mention any specific companies. The Journal has since reported that the SEC is investigating FTX. A person familiar with the matter said that the probe was ongoing in March. An SEC spokesman declined to comment.

On Friday the Journal reported that Mr. Bankman-Fried was part of a Signal group chat, titled "Exchange coordination," with senior executives at large crypto exchanges, according to people familiar with the chats.

In one of the chats, on Nov. 10, Changpeng Zhao, chief executive of crypto exchange Binance, confronted Mr. Bankman-Fried, according to the people and chats viewed by the Journal.

"Stop trying to depeg stablecoins. And stop doing anything. Stop now, don't cause more damage," Mr. Zhao told Mr. Bankman-Fried, according to the messages viewed by the Journal.

The confrontation stemmed from trades by Alameda Research that the Binance CEO and others feared were aimed at destabilizing tether -- a stablecoin pegged to the dollar. Because of tether's importance in crypto markets, a drop in its price could have pushed down other cryptocurrencies.

The industry players believed Alameda was trying to lower its liabilities, much of which are denominated in volatile tokens whose value would have shrunk in the event of a broad market collapse.

Mr. Bankman-Fried denied the claims in the Signal messages and in a statement to the Journal.

The confrontation shows the scale of the jitters in the crypto market about potential contagion. It also underscores the unconventional business practices in the crypto market. Such a chat group would be unthinkable in the world of traditional exchanges, due to concerns about collusion and potential antitrust violations.

The chat group also included Paolo Ardoino, chief technology officer of stablecoin issuer Tether Holdings Ltd.; Justin Sun, founder of crypto network Tron; and Kraken co-founder Jesse Powell.

Alexander Osipovich and Alexander Saeedy contributed to this article.

CO ftxdig : FTX Trading Ltd

IN icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS c13 : Regulation/Government Policy | ccat : Corporate/Industrial News | gcat : Political/General News | c16 : Bankruptcy | gpol : Domestic Politics | gvcng : Legislative Branch (Discontinued from 10th January 2023) | neqac : Equities Asset Class News | npag : Page One Stories | cactio : Corporate Actions | ccfd : Corporate Financial Difficulty | gpir : Politics/International Relations | gvbod : Government Bodies (Discontinued from 10th January 2023) | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Details On Crypto Exposure Are Sought**

BY By Paul Kiernan
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LP

WASHINGTON -- The Securities and Exchange Commission is asking public companies to detail their exposure to distressed crypto entities following the collapse of trading platform **FTX** and its affiliates.

In a notice posted to its website Thursday, the SEC said companies may have disclosure obligations related to the direct or indirect impact that recent crypto bankruptcies may have had on their businesses. It provided a list of sample questions that agency staff may pose to certain issuers based on their circumstances.

TD

The information gathering comes as regulators are scrambling to understand the fallout from the sudden implosion last month of FTX, until recently one of the largest crypto exchanges.

FTX's subsequent bankruptcy has revealed a web of creditors, many of whom haven't been publicly identified.

Some of the SEC's queries focused on counterparty risk that public companies may have to crypto-market participants that have filed for bankruptcy, faced heavy redemptions or suspended withdrawals from customers.

"We note that you own or have issued crypto assets and/or hold crypto assets on behalf of third parties," one of the sample questions said. "Explain whether these crypto assets serve as collateral for any loan, margin, rehypothecation or other similar activities to which you or your affiliates are a party."

The SEC didn't mention any specific firms in the notice. Agency staff expect the companies receiving the queries to number in the dozens.

CO ftxdig : FTX Trading Ltd | seexc : US Securities and Exchange Commission

IN iinv : Investing/Securities | ifinal : Financial Services | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | icryxch : Cryptocurrency Exchanges | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS c13 : Regulation/Government Policy | c16 : Bankruptcy | neqac : Equities Asset Class News | cactio : Corporate Actions | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **SEC Faces Calls to Boost Crypto Enforcement**

BY By Dave Michaels
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LP

WASHINGTON -- Pressure is mounting on the Securities and Exchange Commission to step up enforcement of key hubs of the crypto industry after the collapse of **FTX**.

FTX's bankruptcy put the focus on crypto exchanges, the primary hubs for individual investors that offer such services as digital-coin sales, lending and the safekeeping of assets. Despite investigating parts of the industry for over six years, the SEC has yet to sue a major crypto exchange.

TD

The SEC has investigations under way focusing on exchanges including Coinbase Global Inc. and the U.S. businesses of Binance and FTX, according to people familiar with the matter and regulatory disclosures, and it fined or sued dozens of token developers over the past six years.

The SEC has said many cryptocurrencies qualify as securities that should have been sold under rules for stocks and bonds. SEC Chair Gary Gensler has said exchanges are breaking the law by selling those unregistered securities and not following rules that the Nasdaq Stock Market and the New York Stock Exchange observe.

Some lawyers say despite such assertions, the SEC's enforcement efforts haven't gone far enough as the market has gone mainstream and everyday investors are entrusting their savings to crypto companies. Mr. Gensler "is risking significant criticism if he doesn't get things moving," said John Reed Stark, a former SEC enforcement attorney. "It was a gap in their strategy to not go after these entities," Mr. Stark said.

After the SEC in July sued a former Coinbase employee and said the company sold seven illegally issued securities, the exchange continued trading six of them. The SEC could have sued Coinbase but didn't. A Coinbase spokeswoman said the company believes none of the six digital coins are securities.

Crypto exchanges say the SEC is wrong about which U.S. laws apply to them and have resisted the agency's warnings. Lawyers close to the industry say the SEC's strategy for dealing with crypto is showing wear and tear after years of using its enforcement arm to prod the industry into coming under the agency's oversight. The operations of crypto exchanges are so different from securities exchanges, these industry lawyers say, that complying with the SEC's rules is impossible.

"Because the SEC has taken such indefensible positions, the industry doesn't take the SEC as seriously as it used to," said Jake Chervinsky, head of policy at the Blockchain Association, whose members include many large crypto firms.

The SEC stepped up its warnings in the wake of FTX's collapse. Mr. Gensler said in a recent interview that the "runway is getting shorter" for exchanges to register with the SEC and adopt rules that stock exchanges must follow.

"Enforcement is ready to stand up," David Hirsch, chief of the SEC enforcement division's crypto assets and cyber unit, said at a conference last month, echoing the chairman's comments a few days earlier.

Since 2017, the SEC pursued issuers of digital tokens sold to the public, arguing developers should have at a minimum registered the sales as public companies do with initial stock offerings. In some cases, the SEC accused issuers of fraud.

Mr. Gensler put more enforcement emphasis on crypto exchanges and brokers when he took over, according to people familiar with the matter.

Regulators knew building enforcement cases would take time, the people said. Cases against exchanges are more likely to require litigation, they added. Big exchanges are unlikely to settle with the agency because a deal would likely mean wholesale adoption of SEC rules and having to cut off some profitable activities.

In addition to its investigations, Mr. Gensler's agency has tried to negotiate with exchanges on a model for registering with the SEC. Coinbase met with regulators but isn't close to a framework that it believes works, according to a person familiar with the talks.

Before its downfall, FTX had been involved in an effort to gain SEC approval to trade digital assets, according to people familiar with the matter. The plan involved a partnership with the stock-exchange operator IEX Group, in which FTX took a minority ownership stake in April. IEX discussed with the SEC this year how it could offer digital assets without running afoul of rules that govern how stocks, bonds and other securities are traded, the people said. If the plan had come to fruition, it could have been a breakthrough for the companies and Mr. Gensler.

Coinbase has considered how it might give up acting as an exchange and focus on brokerage services if it were to register as a broker-dealer with a federal regulator such as the SEC, according to the person familiar with its thinking.

A Coinbase spokeswoman said the company has "no plans to change the operations of this exchange, which the SEC reviewed during our public listing process just last year. We are of course always willing to and often do engage in discussions with regulators about potential additional business models."

"As we have said previously, we would welcome a regulatory framework that would enable us to offer digital-asset securities in the United States," she added.

CO coinba : Coinbase Global Inc | ftxdig : FTX Trading Ltd | seexc : US Securities and Exchange Commission

IN ivicu : Virtual Currencies/Cryptocurrencies | icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | ibnk : Banking/Credit | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology

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THE WALL STREET JOURNAL.

HD **Public Crypto Firms Flash Accounting Red Flags**

BY By Ben Foldy and Jean Eaglesham
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LP

Investors bemoan the lack of disclosure in the crypto industry. But many crypto companies disclose a lot of information, and some of it is worrisome, a review of financial statements shows.

The blowups of **FTX** and Celsius Network LLC exposed hidden risks that might have raised red flags for investors, including related-party transactions, commingled customer funds, sketchy record-keeping and questionable accounting. Some of these problems often appear in disclosures by public crypto companies, including weak systems used to keep numbers accurate.

TD

A look at 19 of the publicly traded crypto miners showed that 16 disclosed significant internal-control weaknesses in the past four years, some of which were "alarming," according to Bedrock AI, which makes software that analyzes financial filings. Crypto miners build powerful networks of computers that process transactions and are rewarded in newly generated currency.

The bitcoin miner Riot Blockchain Inc. filed an annual report in March that identified four material weaknesses in internal controls. One of those weaknesses raised questions about how the company determines its revenue, one of the simplest and most important numbers in accounting.

On the day before Thanksgiving, the company filed its second amended version of the March report to say that auditors didn't assess internal controls on a third of the company's revenue and assets. They hadn't analyzed two of Riot's significant acquisitions from 2021, the company said.

A spokeswoman for Riot said the filing was amended because the notice that the subsidiaries had been excluded from the assessment was inadvertently left out of the company's disclosures.

"Crypto auditing and accounting is very much still a work in progress," said Sean Stein Smith, an accounting professor at Lehman College, City University of New York.

Another large bitcoin miner, Marathon Digital Holdings Inc., disclosed problems with internal controls tied to revenue and its assets. It added that it hadn't effectively designed a control to detect significant revenue misstatements.

The company said it would work to remedy the problem by adding staff in financial and information-technology roles.

Marathon has also invested in related parties. In September, the company invested $30 million in a private company called Auradine Inc., whose business isn't described in Marathon's filings. Marathon's chief executive officer, Fred Thiel, serves on Auradine's board, and another Marathon board member is a 10% shareholder of Auradine, according to Marathon's disclosures.

A Marathon spokesman said Auradine is an early-stage company that is a strategic investment for Marathon.

Basic accounting and operational controls can take a back seat to growth at crypto companies, as the Celsius implosion indicated. The bankrupt lender failed to ensure that customer funds in certain deposit accounts were set aside from the rest of its crypto holdings, an independent examiner appointed in the company's chapter 11 case found.

"Due to time pressure and lack of engineering resources, Celsius chose [instead of controls] to rely on manual reconciliations and transfers of crypto assets. . .for the custody program," the examiner wrote in November.

Celsius didn't respond to a request for comment.

The lack of standardized accounting rules for cryptocurrencies can mean that even audited financial statements might fail to convey the true state of a company's finances. Crypto doesn't fit neatly into the definitions used to categorize assets. It lacks the government or commodity backing needed to be treated as cash, it is too volatile to be a cash equivalent and it isn't necessarily a financial instrument or security either, said Vivian Fang, an accounting professor at the University of Minnesota.

Regulators and accounting rule makers are working to fill the void in crypto accounting standards. The Financial Accounting Standards Board, the U.S. standards setter, aims to issue proposed rules next year.

CO aspnbi : Riot Blockchain, Inc. | wnxdwz : Celsius Network LLC

IN iinv : Investing/Securities | ifinal : Financial Services | i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS cintau : Corporate Audit/Internal Control | neqac : Equities Asset Class News | c41 : Management | ccat : Corporate/Industrial News | ccpgvn : Corporate Governance | cesg : Environmental/Social/Governance | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

SE Technology

HD **FTX Hires Team To Track Assets**

BY By Alexander Gladstone

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LA English

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LP

FTX's new management has hired a team of forensic investigators from advisory firm AlixPartners to help track the billions of dollars that have gone missing from the failed cryptocurrency exchange, people familiar with the matter said.

The AlixPartners team is led by Matt Jacques, a former chief accountant for the Securities and Exchange Commission's enforcement division, people familiar with the matter said. Mr. Jacques didn't respond to a request to comment.

TD

AlixPartners will be tasked with conducting asset-tracing to identify and try to recover missing digital assets, the people said.

The firm's work will complement efforts undertaken by FTX's bankruptcy counsel Sullivan & Cromwell LLP, restructuring adviser Alvarez & Marsal and investigative firm Nardello & Co.

A lawyer for FTX said in bankruptcy court last month that a substantial amount of its assets are either missing or stolen.

FTX founder Sam Bankman-Fried told The Wall Street Journal that he couldn't explain what happened to billions of dollars sent from FTX to a related trading firm, Alameda Research.

FTX's new chief executive, John Ray, has said the firm's financial reporting is untrustworthy, and described Mr. Bankman-Fried and his colleagues as "potentially compromised." Mr. Ray also said FTX used software to conceal the misuse of customer funds.

FTX has said the individual and institutional customers affected by its collapse number in the millions.

The 50 largest creditors are owed more than $3 billion, court papers show.

CO alvmar : Alvarez & Marsal Inc | sulcro : Sullivan & Cromwell LLP | ftxdig : FTX Trading Ltd

IN ibcs : Business/Consumer Services | icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | ivicu : Virtual Currencies/Cryptocurrencies | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | i835 : Legal Services | i83951 : Management Consulting | iacc : Accounting/Consulting | icnsl : Business Consultancy

NS c16 : Bankruptcy | neqac : Equities Asset Class News | c411 : Management Moves | c41 : Management | cactio : Corporate Actions | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | ncat : Content Types | nfact : Factiva Filters | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Lawmakers Want Answers From Silvergate About FTX Transfers**

BY By David Benoit
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LP

Lawmakers are demanding information from Silvergate Capital Corp. about transfers of customer funds between **Sam Bankman-Fried**'s collapsed trading firm, Alameda Research, and his cryptocurrency exchange, **FTX**.

In a letter to the bank Monday, Republican Sens. John Kennedy of Louisiana and Roger Marshall of Kansas, along with Democratic Sen. Elizabeth Warren of Massachusetts, said an Alameda depository account at Silvergate "appears to be at the center" of the transfer of **FTX** customer funds to the trading firm. Failure to detect this "scheme," the senators said, could mean the bank broke anti-money-laundering laws.

TD

Silvergate had no comment Tuesday. On Monday, Chief Executive Alan Lane said the bank did "extensive due diligence" on FTX and Alameda before taking them on as customers.

"By performing our risk management procedures and fulfilling our regulatory obligations, Silvergate plays a key role in helping law enforcement identify bad actors," Mr. Lane said. "We take this responsibility seriously."

Mr. Bankman-Fried's cryptocurrency empire collapsed last month after it came to light that Alameda used FTX customer money to fund risky bets. Mr. Bankman-Fried has blamed the use of customer funds on outdated systems and risk-management failures. In its early days, he has said, FTX didn't have a bank account, so customers looking to trade on the exchange wired money to Alameda's bank accounts. Some of that money appears to have been transferred to an account at Silvergate.

"Your bank's involvement in the transfer of FTX customer funds to Alameda reveals what appears to be an egregious failure of your bank's responsibility to monitor for and report suspicious financial activity carried out by its clients," the senators wrote. "The public is owed a full accounting of the financial activities that may have led to the loss of billions in customer assets, and any role that Silvergate may have played in these losses."

Silvergate's stock price has fallen sharply since FTX filed for bankruptcy. Mr. Lane has tried to reassure investors, saying the bank's processes would have flagged any irregularities to the relevant authorities.

"When Silvergate received payments directed to Alameda Research and credited it to the account of the same name, this was consistent with the instructions from the sender of the wire and industry practice," he wrote Monday.

Silvergate shares lost 4.7% Tuesday. The stock is down more than 80% so far this year.

The bank last month said its average daily deposits were down to about $9.8 billion following FTX's collapse. It has kept most of its deposits in short-term securities it could quickly sell or use to borrow from the Federal Reserve's discount window.

The bank has said its relationship with FTX and Mr. Bankman-Fried's broader empire was limited to deposit-taking. FTX and related companies had about $1 billion in deposits at Silvergate.

The senators asked for more information about the broader relationship and whether the bank ever flagged any irregularities to regulators.

CO	ftxdig : FTX Trading Ltd | slvrcc : Silvergate Capital Corporation
IN	ivicu : Virtual Currencies/Cryptocurrencies | i814 : Banking | ibnk : Banking/Credit | icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | i81402 : Commercial Banking
NS	c16 : Bankruptcy | gpol : Domestic Politics | gvcng : Legislative Branch | neqac : Equities Asset Class News | nimage : Images | cactio : Corporate Actions | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | gcat : Political/General News | gpir : Politics/International Relations | gvbod : Government Bodies | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter
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THE WALL STREET JOURNAL.

HD **Banking & Finance: More Crypto Exchanges Verify Reserves**

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LP

Cryptocurrency exchanges are setting up systems to verify certain assets and liabilities intended to reassure investors and customers in the wake of **FTX**'s collapse last month, but these measures give limited insight into the companies' finances.

Several crypto exchanges, including Binance Holdings Ltd. and Crypto.com, in recent months have hired outside auditors to provide a proof of reserves report, an increasingly popular type of attestation that can show the business is solvent and has enough assets to cover its liabilities. Most crypto exchanges are privately held, meaning they don't have to file financial statements with the Securities and Exchange Commission or get them audited.

TD

The process aims to give investors certainty that their tokens are covered by reserves and their funds are safe, but the reports aren't as thorough as an audited financial statement.

Binance last Wednesday said it appointed accounting firm Mazars to independently verify its reserves. Crypto.com plans to release an audited proof of reserves in the coming weeks, a spokeswoman said. Several other exchanges have announced their own efforts to build out their proof-of-reserves systems in varying ways, not all of them involving an outside accounting firm.

These auditors don't personally sign the attestations, unlike reviews of a public company's annual financial statements. The proof-of-reserve attestations aren't public, but some companies such as Kraken share reserves data with their customers. Kraken allows customers to independently verify that their balances are backed by assets secured by the exchange. Binance couldn't be reached for comment and Kraken declined to comment.

Some crypto exchanges and their audit firms have said they are verifying reserves based on standards set by the American Institute of Certified Public Accountants, which sets rules for the auditing of U.S. private companies.

Concerns over the solvency of currency platforms have taken center stage amid the implosion of FTX, which lent billions of dollars from its own customers to an affiliate, Alameda Research, and prevented FTX customers from accessing their money. FTX, however, also had conducted a full audit of its finances over the past two years from its auditors Armanino LLP and Prager Metis CPAs LLC, an uncommon move within the industry.

"Things like, you know, proof of reserves is helpful," said Sam Bankman-Fried, the founder of FTX, during a New York Times event earlier this week. He added that customers of crypto exchanges should "look for as rigorous of that as you can look for regulatory reporting."

Such a third-party verification represents a step toward more transparency around crypto exchanges, but there are significant shortcomings, some academics said. Investors usually don't get to know whether the platforms have pledged customers' assets for loans or made changes to their calculations of assets or liabilities in between when the snapshots of reserves are provided. The exchange also gets to determine the frequency with which these attestations are done.

"Investors might assume that this attestation is similar to a full audit when in reality it is not complete and does not disclose the full assets or liabilities nor does it discuss any controls," said Deniz Appelbaum, assistant professor of accounting and finance at Montclair State University.

A proof-of-reserves report captures a glimpse of certain exchange-owned assets, such as crypto holdings and fiat cash, which is a government-backed currency with no fixed value, at a specific point in time. But it typically doesn't include, for example, noncrypto assets such as shares of a stock trading platform or commercial paper. The verifications are useless unless auditors constantly provide them due to the high trading volatility of crypto values, Ms. Appelbaum said.

Exchanges could have hidden liabilities and have creditor claims to their digital assets, but such details won't be clear from a proof-of-reserves statement, said Vivian Fang, a professor of accounting at the University of Minnesota. "Whether somebody else has claims over these digital assets isn't certain," she said.

Companies using third-party verification also don't have to provide auditors with information about assets or liabilities that are off the blockchain, which means there may not be visibility on their nondigital assets.

U.S. regulators are facing growing pressure to force crypto firms into compliance with investor-protection laws. The SEC under Chair Gary Gensler has vowed to crack down on the crypto market and has called for more exchanges to register with the regulator, but hasn't directly commented on platforms' use of proof of reserves.

The regulator in March told companies that report to the SEC, including cryptocurrency exchanges, to disclose the digital tokens they hold for customers on their balance sheets. Companies have complied with this since it went into effect in June. Coinbase Global Inc. last month reported $95.11 billion in both customer crypto assets and liabilities for the quarter ended Sept. 30, up from $88.45 billion the previous quarter, filings show. The SEC declined to comment.

The SEC's audit watchdog, the Public Company Accounting Oversight Board, can't inspect the audits of private crypto companies, such as BlockFi Inc. and FTX, which both recently filed for bankruptcy.

Still, the PCAOB encourages investors to review reports on the work those companies' auditors have done, Chair Erica Williams said at a conference Tuesday.

Proof of reserves will likely become more popular among crypto firms in the coming months, in part to maintain trust from customers, said Campbell Harvey, a finance professor at Duke University.

"They are desperate to do something because the level of trust has plummeted," he said. "Right now the level of opacity is unacceptable, so they have to do something and this is one thing that they can do."

CO hlicay : Binance (Cayman Islands) | ftxdig : FTX Trading Ltd | seexc : US Securities and Exchange Commission

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THE WALL STREET JOURNAL.

HD **Questionable Assets Ruined FTX Rescue**

BY By Shane Shifflett, Rob Barry and Coulter Jones

WC 1,085 words
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LP

When crypto exchange **FTX** was struggling to raise cash early last month, it seized billions of dollars worth of collateral from its trading arm, Alameda Research, and used it to try to convince investors of its financial health, former **FTX** Chief Executive **Sam Bankman-Fried** said.

But much of it didn't add up. A big chunk of the assets consisted of four thinly traded crypto tokens closely connected to Mr. Bankman-Fried and **FTX** employees and mostly held by Alameda. The tokens were likely worth far less than the $6.4 billion marked on the balance sheet **FTX** was shopping to investors in the hope of a bailout, according to market data and crypto researchers.

TD

"It wasn't meant to be casting a judgment or making a decision for people on what they thought was their worth from a liquidity perspective," Mr. Bankman-Fried said.

The four tokens taken from Alameda were listed as assets in documents dated Nov. 10, Mr. Bankman-Fried said in an interview Friday and according to documents reviewed by The Wall Street Journal. By then, the value of the tokens had roughly halved in less than a week, market data and FTX's balance sheet show.

The seizure of the tokens as collateral partially explains the multibillion-dollar cash shortfall that led to the bankruptcy at FTX. Alameda borrowed billions of dollars from FTX, and when FTX called the loans, the collateral was worth far less than needed. It also highlights Mr. Bankman-Fried's strategy of launching tokens and using them to raise money.

The tokens follow the same pattern Mr. Bankman-Fried used for FTX's own token, FTT, which played a big role in the company's collapse.

FTX and Alameda controlled most of FTT, which helped them raise and borrow billions of dollars. FTX faced a run by customers after a report showed that an outsize chunk of Alameda's assets was made up of FTT and that it might have overvalued the token.

The four tokens seized as collateral by FTX were part of a plan by Mr. Bankman-Fried and his associates to draw in large numbers of potential new traders to their crypto-trading ecosystem. One, called Serum, was designed to be a crypto exchange that automatically matched buyers and sellers. A second token, Bonfida, backed a project to create trading tools for Serum. Alameda funded both projects.

Tokens from two other firms -- Oxygen, a brokerage that lent money to traders, and Maps.me, an offline mapping service that planned to bring in customers using a wallet in the app -- also were connected to Serum and backed by Alameda.

The ecosystem Mr. Bankman-Fried envisioned is crumbling without the support of Alameda and FTX. The day before FTX filed for bankruptcy, the value of Serum, Bonfida, Maps and Oxygen tokens were in free fall, cutting the value of those assets on the exchange's balance sheet by more than half to $2.9 billion.

Serum and three other tokens didn't appear on FTX's balance sheet until November, when it claimed funds Alameda used for collateral after the trading firm ran out of cash, Mr. Bankman-Fried said.

Two-thirds of all possible Serum coins were held by FTX and Alameda. Much of the trading in Serum was driven by Alameda. Oxygen and Maps.me said in a statement after the bankruptcies that FTX and Alameda held 95% of all of their tokens. The liquidity dried up after the bankruptcies.

Serum, launched with help from Mr. Bankman-Fried in mid-2020, was supposed to be an autonomous decentralized crypto exchange, governed by its users, not FTX, the platform's documentation says. Instead of depositing funds with a centralized exchange like FTX, bots would automatically facilitate trades between buyers and sellers.

Mr. Bankman-Fried helped promote Serum. He said in the interview that he likes to support projects like these, especially when he knows the founders. He hired at least one person to respond to Telegram messages where users discussed issues, while a public-relations firm that promoted FTX also helped market the new exchange, according to employees.

Before long, Serum seemed to be thriving. In September 2021, each of its tokens traded as high as $12.50, driving the value of its tokens to more than $127 billion -- though only a tiny fraction were actually trading.

In January, Serum's backers announced they had raised $100 million from 18 investors. By February, the platform was handling nearly $1 billion in transaction volumes a day, according to crypto data provider CoinGecko -- making it the third-largest such exchange in the world at the time.

But in reality, FTX employees still had control. They held the credentials allowing coders to make changes to the platform, according to two people familiar with the project's development and a Journal review of Telegram chat logs.

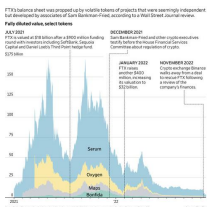
Serum's links to FTX, Alameda and Mr. Bankman-Fried were known in the crypto world. When heavily traded currencies bitcoin and Ethereum were dropping in value, financial-services firm Blockchain.com pulled loans from Alameda, according to people familiar with the matter. It wouldn't accept other coins such as Serum on the company's balance sheet because of their close ties to Mr. Bankman-Fried.

The tokens were also red flags for Olaf Carlson-Wee, founder of the cryptocurrency fund Polychain Capital. Mr. Carlson-Wee said in a tweet that his firm was given 24 hours by Mr. Bankman-Fried to decide whether to invest. He repeatedly declined in part because of concerns that the Serum and FTT tokens as well as those issued by Oxygen and Maps.me were overvalued.

Together, the Maps.me and Oxygen tokens raised $90 million. Mr. Bankman-Fried was an adviser to both projects and Alameda an investor.

Both Oxygen and Maps were led by two men, Alex Grebnev and Viktor Mangazeev. Mr. Mangazeev said in a LinkedIn message that he ended his involvement in the projects in February. Mr. Grebnev didn't respond to emails seeking comment.

Maps.me was owned by the Russian internet conglomerate Mail.ru Group, now called VK Co., and in late 2020 the project was sold to a Cyprus-registered firm, according to a news release, before the token was announced. "We would rather not elaborate on products and related plans which are no longer applicable to the group," a VK spokeswoman said.



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THE WALL STREET JOURNAL.

HD **FTX Founder Can't Explain Lost Billions**

BY By Alexander Osipovich
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LP

NASSAU, Bahamas -- **FTX** founder **Sam Bankman-Fried** said he couldn't explain what happened to billions of dollars that customers of his failed cryptocurrency exchange sent to the bank accounts of his trading firm, Alameda Research.

And he said he couldn't rule out the possibility that money deposited by **FTX** customers who were told their money was theirs alone was in fact lent to Alameda.

TD

In an interview with The Wall Street Journal, Mr. Bankman-Fried distanced himself from Alameda, saying he had stepped back from running the firm and had little insight into its workings even though he owned 90% of it.

Some FTX customers made deposits by wiring money to Alameda-controlled bank accounts, with the intention that the money be used to fund their FTX accounts. That was a legacy of the exchange's early days when FTX didn't have its own bank account, Mr. Bankman-Fried said. Over time, FTX customers deposited more than $5 billion in those Alameda accounts, he said. Now those funds are gone.

"They were wired to Alameda, and . . . I can only speculate about what happened after that," Mr. Bankman-Fried told the Journal.

"Dollars are fungible with each other. And so it's not like there's this $1 bill over here that you can trace through from start to finish. What you get is more just omnibus, you know, pots of assets of various forms," he added.

Mr. Bankman-Fried's remarks suggest that FTX customer funds flowing into Alameda bank accounts could have been recorded in two places -- both as FTX customer funds and as part of Alameda's trading positions. Such double-counting would have created a huge hole in FTX's and Alameda's balance sheets, with assets that weren't really there. Mr. Bankman-Fried denied that double-counting affected FTX's financials -- but acknowledged that Alameda's liabilities might not have been fully recorded.

"There are lots of ways that one could have done this in a responsible way," he said. "Clearly what we did was not one of them."

Until its demise last month, FTX was one of the world's biggest cryptocurrency exchanges and the 30-year-old Mr. Bankman-Fried one of the crypto industry's biggest stars. Crypto enthusiasts from around the globe deposited money into FTX so they could buy and sell digital assets. Alameda was a buyer and seller on FTX too -- one of the exchange's biggest participants.

FTX filed for bankruptcy Nov. 11, unable to satisfy a wave of customer withdrawals. Alameda, which made a series of bad outsize trades, is bankrupt, too.

The fate of the missing billions is central to the bankruptcy proceeding, but unraveling it will be messy. FTX's new chief executive has said the firm's financial reporting is untrustworthy, and he described Mr. Bankman-Fried and his colleagues as "potentially compromised." He said FTX used software to conceal the misuse of customer funds.

Mr. Bankman-Fried said he didn't realize the size of Alameda's trades at FTX due to flawed internal systems. A dashboard that FTX administrators used to monitor big traders' bets failed to properly account for customer funds wired to Alameda bank accounts, an oversight that ended up obscuring the huge size and riskiness of Alameda's trades, he said.

Mr. Bankman-Fried said he was too swamped with work as head of FTX and too distracted by other projects to pay attention to the risks welling up in the trading firm he founded in 2017. "I didn't have enough brain cycles left to understand everything going on at Alameda if I wanted to," he said.

Echoing his comments in a blitz of recent media interviews, Mr. Bankman-Fried denied committing fraud or intentionally misusing customer funds.

Still, speaking to the Journal, he didn't rule out the possibility that FTX had broken its terms of service.

FTX allowed customers to borrow to make bigger trades than they could have made with only their own funds, a high-risk practice known as margin trading. The funds they borrowed came from a pool filled by other customers who signed up to be lenders.

But only some customers agreed to participate in this margin lending. For the other customers, FTX's 62-page terms-of-service document says that the digital assets in a user's account belong to that user and not to FTX -- a provision that should have prevented them from being lent out and put at risk.

"I don't know of a violation of the terms of use," Mr. Bankman-Fried said. "I don't know every line of the terms of use. I can't confidently say there wasn't, but I don't know of one."

The interview with Mr. Bankman-Fried took place in Albany, the luxurious gated community in the Bahamas where he lives, in an empty condominium that was home to a group of FTX employees until they left the island country after the company's collapse. Mr. Bankman-Fried said he has been holed up to avoid paparazzi, some of whom filtered into Albany in recent days to cover a professional golf tournament.

"I pretty much never leave the apartment," he said. "Most of my closest friends and colleagues are not -- I think probably don't want to talk with me right now."

A self-described nerd who majored in physics at the Massachusetts Institute of Technology, Mr. Bankman-Fried shot to fame when he became a crypto billionaire. He recruited celebrities such as football star Tom Brady and supermodel Gisele Bundchen to promote FTX. Now, he says fame might have clouded his judgment.

"It's not even that I enjoyed it particularly," he said. "It opened a lot of opportunities and doors that seemed very exciting to be exploring. And my mind wandered and I got really distracted."

Critics of Mr. Bankman-Fried in the crypto community have questioned the idea that someone with his intelligence could have blundered into losing billions of dollars, suggesting that he took the money knowingly.

Mr. Bankman-Fried says it wasn't theft.

"I ask myself a lot how I made a series of mistakes that seem -- they don't just seem dumb," he said. "They seem like the type of mistakes I could see myself having ridiculed someone else for having made."

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THE WALL STREET JOURNAL.

HD **U.S. News: CFTC Chairman Calls for Crypto Oversight**

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LP

WASHINGTON -- Lawmakers should pass legislation that would impose strict rules on cryptocurrency exchanges, including rules to limit or prohibit the conflicts of interest that contributed to **FTX**'s collapse, Commodity Futures Trading Commission Chairman Rostin Behnam said Thursday.

Speaking to members of the Senate Agriculture Committee, Mr. Behnam said he still supported a bill that would give his small agency authority to police trading in bitcoin, ether and other digital assets classified as commodities. **FTX** and its founder **Sam Bankman-Fried** also lobbied in support of the legislation before the firm's collapse last month.

TD

The immediate future of the legislation is unknown. FTX's support of the bill raises questions about its influence over it. FTX's goal was to steer oversight of crypto into the hands of what was perceived to be a friendlier regulator than the Securities and Exchange Commission, which has authority to write stricter rules that most crypto companies oppose.

Mr. Bankman-Fried's empire blew up last month amid reports that his exchange, FTX, misused customer funds by sending them to an affiliated trading firm, Alameda Research, that had made risky venture investments. Mr. Bankman-Fried has said in interviews that he neglected risk management at FTX, but denied knowing that customer money was wrongly used.

Senate Agriculture Committee Chairwoman Debbie Stabenow (D., Mich.) said her committee's legislation addresses the risks posed by practices that took down FTX.

"When exchanges accept customer funds for trading, they must not be allowed to gamble with those funds," Ms. Stabenow said.

The bill written by Ms. Stabenow and Sen. John Boozman (R., Ark.) would regulate trading in bitcoin, ether and some other cryptocurrencies through the commission. Giving the CFTC, a relatively small agency, authority to police trading in the most valuable crypto assets would mark a substantial expansion of its authority.

Rules written for Wall Street should largely apply to the crypto market, Mr. Behnam said. The market is now mostly unregulated in the U.S. Crypto exchanges, including FTX, often vertically integrate many functions that are provided by separate entities in regulated financial markets, including trade execution, lending, custody, and clearing trades.

"We should essentially model any regulation for crypto around what has worked in the past," Mr. Behnam said.

He called for making sure that exchanges don't have affiliated entities that trade with customers on the platforms.

For the CFTC, the legislation would expand its regulatory domain, while the Senate Agriculture Committee would also get a chance to carve out an expanded role, because it oversees the CFTC and its budget. Mr. Behnam was asked several times Thursday whether FTX and other crypto firms favor his agency as a regulator because its oversight model is softer than the SEC's. "I patently reject that suggestion," he said.

The legislation would provide a pathway to U.S. regulatory compliance for crypto exchanges, potentially expanding their customer base beyond hedge funds, individual traders and a handful of large asset managers that have tested the waters. FTX had hired several former CFTC officials who helped the company chart a path through Congress and regulatory agencies.

SEC Chair Gary Gensler is among those who have raised issues with the bill. One concern is whether it would hand authority to the CFTC that should be given to the SEC.

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THE WALL STREET JOURNAL.

HD **Early Staffers of FTX Founder Say They Quit Over Risky Bets**

BY By Gregory Zuckerman
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LP

Years before **Sam Bankman-Fried**'s crypto empire collapsed, a group of employees quit in a power struggle -- after becoming concerned about what they say was his cavalier approach to risk, compliance and accounting.

The employees worked at his trading firm, Alameda Research, and were some of his earliest colleagues, including Alameda's co-founder, Tara Mac Aulay. They left in 2018, well before the crypto exchange **FTX** grew out of Alameda. Both **FTX** and Alameda are now bankrupt.

TD

Mr. Bankman-Fried placed huge bets on crypto assets but paid little heed to the risk of those bets, brushing off the staffers' concerns, according to people familiar with the matter. The firm commingled trading capital with operating cash and had poor record-keeping that left its profits and losses unclear, they said.

"He didn't want to feel constrained," said Naia Bouscal, a former software engineer at Alameda who left with Ms. Mac Aulay and the others. "But as a result we ended up not really knowing how much money we even had."

Mr. Bankman-Fried told The Wall Street Journal that the staffers left the firm because of personal disputes and their lack of productivity, and that Alameda addressed the accounting, risk and other issues they raised. "Right now, I'm focusing on doing what I can to do right by FTX customers," Mr. Bankman-Fried said.

Some of the issues identified by the group of former employees are similar to those identified recently by FTX's new chief executive brought on to manage the firm through bankruptcy, people familiar with the matter said.

"I and a group of others all quit, in part because of concerns over risk management and business ethics," Ms. Mac Aulay tweeted Nov. 16. "My heart goes out to all of the victims whose trust was betrayed, savings lost, and livelihoods destroyed."

Alameda was started in Berkeley, Calif., by a group led by Mr. Bankman-Fried and Ms. Mac Aulay in fall 2017, two years before the launch of the FTX exchange. Most early employees said they were dedicated to effective altruism, or EA, a movement that aims to give more-effective charitable donations. They viewed Alameda as a way to make a lot of money trading cryptocurrencies -- profits that could be funneled to charitable causes employing EA principles, the people said.

The firm began with a few million dollars of borrowed money from wealthy investors, including effective-altruism adherents recruited by Ms. Mac Aulay, and grew past $100 million by early 2018, according to people familiar with the fundraising.

Early on, though, employees became worried, people familiar with the matter said. Mr. Bankman-Fried had worked at quantitative trading giant Jane Street Capital LLC, a firm that has extensive risk controls. But when colleagues at Alameda proposed setting up rigorous structures and systems for risk, compliance and accounting, Mr. Bankman-Fried was dismissive of the idea, according to the people.

He said such extensive controls could crimp Alameda's activity and limit how fast the firm could move to place trades, the people said.

Alameda built a trading algorithm to make a large number of automated, rapid-fire trades, but some at the firm feared it couldn't keep track of all the activity, the people said. The staffers said Alameda needed to do a better job tracking its trading to account for its gains and losses, but Mr. Bankman-Fried rejected the idea, according to the people.

Staffers also had concerns about how the firm's trading capital was commingled with money dedicated to run the firm, the people said. That made it harder to track Alameda's performance and its operating expenses, they said.

Within months, Mr. Bankman-Fried had placed a series of big bets, including one on the price of ether, ignoring the advice of some colleagues, the people said. Alameda made some solid profits with arbitrage trades, or those profiting from different crypto prices in different markets, but then suffered losses from other wagers betting on price moves.

Some staffers were frustrated by what they said were poorly kept records and balance data, for example. They resulted in a series of transfers of XRP tokens that were delayed in arriving, which led to several million dollars of losses.

According to documents written by Mr. Bankman-Fried, dated 2018 and viewed by the Journal, Mr. Bankman-Fried acknowledged that Alameda's lack of accounting and risk controls led to trading losses.

"No one was ultimately making sure that our trading and accounting were OK. We did a lot of sloppy trades, many of which some people were at the time worried about," Mr. Bankman-Fried wrote, saying that the issues helped precipitate "a number of clashes" at the firm.

According to Mr. Bankman-Fried's documents, the firm addressed the problems in March 2018, and Alameda built systems to better calculate the firm's profits, losses and transfers, leading to a more profitable trading system.

Some of those employees who departed said they had shared their concerns about Mr. Bankman-Fried and the firm's lack of risk controls with some of Alameda's investors and members of the effective-altruism community, though it couldn't be determined how detailed their warnings were. They never shared their concerns with regulators, the people said, but Alameda was a relatively small firm that invested only for deep-pocketed individual investors.

Former Alameda employees offered Mr. Bankman-Fried a $1 million buyout that he rejected, according to Mr. Bankman-Fried's documents.

By April 2018, Ms. Mac Aulay and the others had quit, leaving Alameda with about a dozen less-experienced employees. Alameda's assets fell to about $30 million in the spring of 2018 as some investors withdrew money, the people said.

The employee departures occurred partly because Mr. Bankman-Fried and his allies had taken effective control of the firm, freezing out the others, according to some of those who left.

"We looked at Sam and his actions, his decisions, the way he treated people and the way he ran the company and came to the conclusion he's not a person we wanted to be in business with or associate with," Ms. Bouscal said.

"There are many things I wish I had done differently at Alameda," Mr. Bankman-Fried wrote in the documents. "I was unempathetic, rarely complimented people, and curt with feedback." But Mr. Bankman-Fried says in the documents he changed his treatment of his colleagues after the group left, leading to "a significantly more cooperative, happier, and more productive company."

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THE WALL STREET JOURNAL.

HD **U.S. News: FTX's Bankman-Fried Denies Knowing Scale of Alameda Bets**

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LP

Sam Bankman-Fried said that he didn't intend to commit any fraud or use customer funds to back leveraged bets that went wrong at Alameda Research, a crypto hedge fund attached to **FTX** that pushed the exchange to bankruptcy.

"I didn't knowingly commingle funds," Mr. Bankman-Fried said via live stream at the DealBook Summit in New York on Wednesday. He also was surprised at the size of Alameda's bets that went wrong, "which points to another failure of oversight on my part," he said.

TD

"I didn't know exactly what was going on," Mr. Bankman-Fried said. "I learned a lot of these things as they were going on" in early November, he added.

He tried to deflect some of the blame for FTX's collapse away from himself, citing an extensive public relations campaign designed to inflict chaos on the exchange. He also said he believed most U.S. exchange customers should be able to recover their locked-up crypto but that FTX's international customers may not be able to.

The comments came at Mr. Bankman-Fried's first known public appearance since he resigned from FTX and the firm collapsed into the largest-ever bankruptcy by a cryptocurrency platform. The firm, long a chaotic mess despite its public image of stability, failed after dipping into customer funds to back billions of dollars in risky bets by Alameda, its affiliated trading firm.

The failure of FTX and Alameda has unleashed a wave of financial distress among cryptocurrency firms, tipping lender BlockFi Inc. into its own chapter 11 case and threatening the financial health of other platforms.

Responding to a question about whether FTX and Alameda were more closely connected than previously understood, Mr. Bankman-Fried said that they were "tied together more than I would have ever wanted it to be."

Mr. Bankman-Fried maintained that he didn't knowingly commingle FTX client funds. He said he started to get concerned late on Nov. 6 of problems with Alameda's position on FTX and later that day started to get concerned that "things might end quite badly here."

"Alameda's position was big on FTX," he said.

New managers hired to steer FTX through bankruptcy are only beginning to sift through the firm's liabilities and hunt down assets that left it before it failed. They have said that the company was plagued by an unprecedented lack of corporate controls, and cryptocurrencies deposited by millions of customers are still frozen on the exchange, with little indication of how much they will get back, or when.

CO ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

CLM Wonder Land

HD **The Moral Vanity of FTX**

BY By Daniel Henninger

WC 918 words

PD 1 December 2022

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LA English

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LP

The Covid-19 pandemic may have ended in the U.S., but there is no vaccine yet for this country's pandemic of moral vanity. Its latest victim is **FTX** founder **Sam Bankman-Fried**.

As his cryptocurrency company's value soared into vaporous billions, Mr. Bankman-Fried said he wasn't in it for the money. He described himself as a proponent of "effective altruism," or high-return charity, an idea he learned while at MIT from a philosophy graduate student. Mr. Bankman-Fried, 30, said he might keep 1% for himself and give the rest away through his **FTX** Foundation.

TD

What interested me about Mr. Bankman-Fried's commitment to effective altruism is his notion of what qualified. As this newspaper reported on the FTX founder's philanthropy, "Sam Bankman-Fried said he wanted to prevent nuclear war and stop future pandemics." It gives new meaning to thinking big. It's also delusional, which has become a political characteristic of his generation.

During Elon Musk's pursuit of Twitter, Mr. Bankman-Fried's effective-altruism mentor, Will MacAskill, texted Mr. Musk on behalf of Mr. Bankman-Fried, who he said "has for a while been potentially interested in purchasing it [Twitter] and then making it better for the world."

And that is the telling point here -- not make the social-media platform better, but make it better for the world.

There was a time when people engaged in doing good addressed problems that, so to speak, you could get your arms around, such as improving school performance, providing potable water or preventing malaria. But at some point, the impulse to do good transformed into a combination of moral tendentiousness and grandiosity.

Remember "save the whales"? That morphed into "save the planet." Don't blame Mr. Bankman-Fried's generation entirely for its credulousness. No-longer-serious teachers -- the so-called adults in the room -- told them repeatedly they needed to save the planet. The Ford Foundation's homepage announces, "We're building a world where everyone has the power to shape their lives." It's no surprise Mr. Bankman-Fried would think his cryptocurrency profits could prevent nuclear war.

Still, inside the Bankman-Fried fairy tale rests a smaller tipping point, which suggests his generation senses that their preachy elders may have led them down a moral garden path.

In an exchange with Mr. Bankman-Fried, a writer for Vox asserts, "You were really good at talking about ethics." He replied that "I had to be" because of "this dumb game we woke westerners play where we say all the right shibboleths and so everyone likes us."

He is describing what has come to be known in our time as virtue signaling, which is the current version of moral vanity -- the presumption that doing good deserves the public's support and esteem. But why has this urge to assert public virtue in outsize ways become a mass movement? People who did good used to be humble. Now they won't get out of our faces.

One inevitably cynical answer is politics. The political left embraced the technique known as "controlling the narrative," which is a euphemism for propaganda. The new element in our time is that these "narratives" always include sweeping, if vague, claims of moral certitude and superiority.

"Environmentalism" wasn't getting the job done, so it became "the climate crisis." Reducing racial inequality gave way to "social justice." During the Covid-19 pandemic, the citation of "science" became a moral cudgel.

The purpose of this moral grandiosity isn't to engage one's opponents but to marginalize them, to place them beyond the pale of what the new gatekeepers of virtue define as acceptable discourse.

The pity in this is that there remains much good to be done, if the left's insistence on politicizing virtue doesn't discredit the idea.

Overlooked in the Bankman-Fried saga is the implicit admission inside the idea of effective altruism that capitalism -- for-profit enterprise -- is the indispensable means to good ends. It's a recognition that capitalism is the most dynamic force in American life. That's progress. What is left to debate is the role of the U.S.'s least dynamic sector -- government.

The U.S. has the world's biggest private economy and biggest government. Something new is needed, such as more effective intermediating institutions, to fill the space between those two poles, which is filling up with seemingly unsolvable problems like opioid addiction, the violent mentally ill and chronic public-school underachievement. In California, Gov. Gavin Newsom is in a wheel-spinning battle with mayors over what to do about the state's epidemic of homelessness.

There are thousands of family foundations in the U.S., often supporting specific nonprofit projects. The traditional criticism of such efforts, whether charter schools or private-school voucher programs, is that it is too hard to scale them up to the magnitude of something like educating millions of students. Only government, they say, has the capacity.

I recognize that argument, but it's time to get past it. Charters and choice, which are succeeding, should be seen not as a threat but as a natural evolution away from aging public systems and toward more entrepreneurial, focused alternatives. Call it effective altruism. But hold the moral vanity.

Write henninger@wsj.com.

(See related letter: "Letters to the Editor: Bankman-Fried Would Fit in 'Atlas Shrugged'" -- WSJ December 14, 2022)

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THE WALL STREET JOURNAL.

HD **Crypto Lender BlockFi Files for Chapter 11 --- Company plans to use bankruptcy to recover what it can from failed exchange FTX**

BY By Alexander Gladstone

WC 856 words

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LP

Cryptocurrency lender BlockFi Inc. filed for chapter 11 on Monday, following **FTX** into bankruptcy and spotlighting the contagion effects that the failure of the crypto exchange has unleashed.

BlockFi blamed its chapter 11 filing on the downturn in cryptocurrency prices this summer and this month's failure of **FTX**, a big exchange with ties throughout the largely unregulated industry. **FTX**'s affiliated trading firm, Alameda Research, defaulted on $680 million owed to BlockFi this month, the firm disclosed in court papers.

TD

Bankruptcy gives BlockFi a chance to formulate a repayment plan for creditors and get back what it can from FTX, though any potential recoveries are a long way off. BlockFi said it is hopeful it can quickly exit chapter 11 and provide a recovery for customers, though the firm's financial adviser, Mark Renzi, acknowledged in a court filing the "full extent of the fallout from FTX's collapse remains to be determined."

BlockFi's top 10 creditors alone are owed close to $1.2 billion, according to its filings with the U.S. Bankruptcy Court in Trenton, N.J., with the total amount of its liabilities to customers to be far larger. The firm's liabilities include about $730 million outstanding to Ankura Trust Co. LLC, trustee for BlockFi's interest-bearing customer accounts in the U.S.

The firm, founded in 2017 by Zac Prince and Flori Marquez and backed by Thiel Capital spinout Valar Ventures, lends money to customers using their crypto as collateral. The business grew rapidly as cryptocurrency gained in popularity and by March its gross loan originations had expanded to more than $47 billion, according to Mr. Renzi's filing.

BlockFi halted withdrawals and limited activity on its platform earlier this month after disclosing it had "significant exposure" to FTX. The Wall Street Journal reported earlier this month that Jersey City, N.J.-based BlockFi was preparing to file for bankruptcy and planning layoffs in part because of its troubled relationship with the exchange.

Valar Ventures, a venture-capital firm spun out from Silicon Valley investor Peter Thiel's venture firm, owns 19% of BlockFi's shares, according to documents filed Monday, making it one of the company's largest shareholders. Earlier this year, Vauld Group, another crypto lender that Valar backed, froze customer withdrawals and filed for protection from its creditors in Singapore. Mr. Thiel is known as a prominent crypto bull, having told the audience at the Bitcoin 2022 conference in Miami in April that bitcoin represented a "revolutionary youth movement."

Even before FTX's collapse, BlockFi was hurt by the decline in digital-currency prices this year that pulled several other crypto firms into insolvency. According to Mr. Renzi, BlockFi suffered "material losses" lending to Singapore-based hedge fund Three Arrows Capital, which was ordered by a court to liquidate in June.

The failure of Three Arrows Capital tipped crypto firms Voyager Digital Ltd. and Celsius Network LLC into chapter 11, revealing how problems at one crypto firm can blow holes in balance sheets elsewhere without a lender of last resort to swallow bad assets and stem contagion.

As investors' confidence in digital currencies slipped, they pulled assets from crypto platforms, reducing BlockFi's lendable assets to less than $2 billion as of this month from more than $12 billion in January, Mr. Renzi's court filing said.

BlockFi shored up its liquidity by taking out a loan from FTX that included an option for FTX to acquire the firm. For BlockFi, the support from FTX's highly visible brand "bolstered customer confidence in the strength and safety of BlockFi's platform," Mr. Renzi's filing said.

"Unfortunately, FTX's apparent 'rescue' was short-lived," he said. The firm received $275 million in stablecoins under the loan deal, but not the additional funding that BlockFi requested this month. BlockFi also held cryptocurrencies on FTX that are now trapped because of FTX's chapter 11 filing, and made loans to Alameda partly secured by FTX's FTT tokens.

BlockFi's chapter 11 "underscores significant asset contagion risks associated with the crypto ecosystem, and, potentially, deficient risk management processes," said Monsur Hussain, senior director at Fitch Ratings.

BlockFi went to some lengths to distinguish its bankruptcy filing from FTX's, which lacked basic information or a restructuring strategy as the exchange scrambled to assemble financials and a list of customers. BlockFi's financial information appears trustworthy, Mr. Renzi said.

In February, BlockFi agreed to a $50 million settlement of Securities and Exchange Commission charges that the firm failed to register the offers and sales of its crypto-lending products. Its bankruptcy petition lists $30 million of that settlement as unpaid.

A preliminary restructuring proposal by BlockFi would return its remaining cash, crypto and shares in the business to customers as compensation. The firm stressed that its strategy for exiting chapter 11 could change if there are interested buyers for its assets or other options emerge.

Jonathan Randles and Alexander Saeedy contributed to this article.

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LP

Cryptocurrency lender BlockFi Inc. filed for chapter 11, following **FTX** into bankruptcy in a stark illustration of the contagion effects that the failure of the crypto exchange has unleashed.

TD

Disney chief Iger told employees he would empower the company's creative teams and emphasize profitability over growing subscriber numbers at its streaming service.

The Fed's Williams said he expects inflation pressures to recede over the next year and said current risks of a recession were elevated.

U.S. stocks declined, with the S&P 500, Nasdaq and Dow losing 1.5%, 1.6% and 1.4%, respectively.

Biden called on Congress to pass legislation to adopt a tentative labor agreement to avert a rail shutdown that could hurt the economy before the holiday season.

Some of the biggest U.S. banks are devising a plan to compensate customers who fall victim to scams on their Zelle payment network.

Shell PLC agreed to buy Denmark's Nature Energy Biogas AS for nearly $2 billion in a push into renewable fuels.

Elon Musk said Apple is threatening to remove Twitter from its App Store and criticized the tech giant for what he called censorship.

A European regulator fined Facebook owner Meta Platforms the equivalent of about $276 million for a data-protection failure.

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THE WALL STREET JOURNAL.

HD **Banking & Finance: Miami Fights to Break FTX Ties, Arena Name Curse Strikes Again**

BY By Ryan Dezember and Deborah Acosta
WC 553 words
PD 29 November 2022
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LP

It is something of a rite of passage: A once-hot company's name is removed from a major sports arena following its sudden and -- for investors, employees and others -- painful demise.

For **FTX**, that scene is playing out in south Florida along Biscayne Bay, where Miami-Dade County is pushing to end its arena naming-rights agreement with the failed cryptocurrency exchange.

TD

Miami-Dade County has asked the judge in the FTX bankruptcy case to terminate the 19-year, $135 million deal so it can find a new sponsor for the arena where the National Basketball Association's Miami Heat play. The county's lawyers argue FTX has breached terms of the deal by running afoul of laws governing financial exchanges and the sooner the agreement ends, the smaller Miami-Dade's claim will be in the bankruptcy case.

"These breaches appear to have been repeated, recurring and incurable," the county lawyers wrote in a motion for relief.

They pointed to investigations by the Justice Department, Securities and Exchange Commission and Commodity Futures Trading Commission, as well as former FTX Chief Executive Sam Bankman-Fried's admissions on Twitter that customer funds were mismanaged and the current chief executive's description of an unprecedented mess that he has been assigned to unwind.

The liquidating executive, John J. Ray III, has been called upon for decades to navigate free-fall bankruptcies. Sports venues are often involved.

On behalf of creditors he ran the reorganized Enron Corp., which had its name removed from the Houston Astros ballpark after the energy giant collapsed in 2001. Mr. Ray also steered Fruit of the Loom Inc. through its 1999 bankruptcy, after which its Pro Player brand name was stripped from Miami's football stadium.

There is said to be a stadium-name curse. The National Car Rental Center, Adelphia Coliseum, Chesapeake Energy Arena, Trans World Dome, PSINet Stadium, MCI Center: Each was renamed following insolvency or worse.

Getting its name on an NBA arena beamed FTX into millions of households around the world and seemed to vault the upstart into the upper echelon of corporate America alongside airlines and banks.

It was the start of a sponsorship binge that put FTX's bar-chart logo where the potential customer would see it: a Formula One racing car, the floor of NBA arenas, esports events, a chess tournament. FTX patches were sewn to the shirts of Major League Baseball's umpires.

Crypto trading was taking off when Miami-Dade shopped naming rights for the county-owned property, which had been called American Airlines Arena since opening in 1999.

Executives from a Cleveland firm that brokers naming deals told Miami-Dade officials in 2018 that a new sponsorship would pay at least three times the $2.1 million a year that American had been paying, county records show.

The county hired the firm, Superlative Group, to find one. Superlative sounded out more than 100 companies and negotiated with several before landing on FTX, according to the records.

Miami-Dade's Office of the Inspector General looked into FTX and produced a 42-page dossier on the company, its affiliates and top shareholders before the county commission voted on the deal.

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THE WALL STREET JOURNAL.

HD **FTX's Fall Halts Push For Light Oversight**

BY By Paul Kiernan
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LP

WASHINGTON -- **Sam Bankman**-**Fried**'s multimillion-dollar Washington charm offensive revolved around a small financial regulator and a group of senators with whom the purported crypto billionaire found common cause in a bid for light-touch regulation of digital assets.

For **FTX**, the crypto exchange Mr. Bankman-Fried founded, the goal was to steer oversight of crypto into the hands of what was perceived to be a friendlier regulator than the Securities and Exchange Commission, which has been promising a more stringent approach.

TD

His effort dovetailed with desires of other regulators and legislators to hold sway over a new, fast-growing industry. The Commodity Futures Trading Commission, which has had periodic turf battles with the SEC, wanted to expand its regulatory purview, while the Senate committee that oversees it saw a rare chance to carve out an expanded role for itself.

Then FTX collapsed. Legislation to provide light-touch regulation is on hold. The CFTC's dealings with FTX are drawing scrutiny. Mr. Bankman-Fried, once the friendly, confident face of crypto, is toxic. And crypto firms face the prospect of far stricter enforcement by the SEC.

Meanwhile, Mr.Bankman-Fried's ascent in Washington shows how, by doling out enough cash to politicians and interest groups, a 30-year-old in cargo shorts can win a seat at the table for critical policy debates.

So far, crypto is largely unregulated. But that state of play wasn't likely to last. The crypto market swelled to around $3 trillion in 2021, before crashing this year. Stunning gains drew in big-name institutional investors and hordes of individual investors. Even Wall Street began to engage with some crypto products.

With crypto becoming more intertwined with traditional markets, policy makers grew concerned about the risks it posed to investors and the broader financial system.

The crypto industry began a concerted lobbying effort to influence the debate. In the U.S., the key question is which regulatory agency -- the CFTC or the SEC -- should be the main cop on the beat.

Crypto firms prefer the CFTC, and Mr. Bankman-Fried became a champion of this push. A 700-person agency that regulates derivatives like corn futures and interest-rate swaps, the CFTC hasless experience than its larger sibling in policing the sort of conduct that can harm ordinary investors.

The CFTC also has less than one-sixth the staff of the SEC. The markets it regulates -- futures, options and swaps -- are geared toward companies hedging risk and professional investors who generally need less protection than individuals saving for retirement.

To regulate crypto, it would need to write rules from scratch -- a process that would likely take years. Still, cryptocurrencies represented an opportunity for the agency and its chairman, Rostin Behnam, to gain additional power, though Congress would need to pass legislation.

Mr. Bankman-Fried proved a powerful ally. Along with FTX and executives at the firm, he showered politicians on both sides of the aisle with $70 million in campaign contributions ahead of the 2022 elections.

Aiding FTX's effort to gain influence was a cast of former CFTC officials who helped Mr. Bankman-Fried build trust with policy makers, claiming FTX supported reasonable regulation. The agency's former chairman, Chris Giancarlo, set up introductory meetings between Mr. Bankman-Fried and regulators. Mark Wetjen, a former Democratic CFTC commissioner, joined FTX in November 2021 as the firm's head of policy in Washington. A former CFTC attorney, Ryne Miller, was the firm's general counsel.

At the same time as it was lobbying Congress to increase the agency's jurisdiction and funding, FTX was seeking CFTC approval for a unique way to handle leveraged crypto-linked products.

"The finances and futures of both the CFTC and FTX were tied together," said Ty Gellasch, chief executive of the Healthy Markets Association, an investor trade group. "It raises questions about the agency leadership's engagement with FTX."

The CFTC has declined to disclose how many times its chairman, Mr. Behnam, met with Mr. Bankman-Fried and his deputies, or to release Mr. Behnam's meeting calendar. Other agencies, including the SEC and Federal Reserve, regularly publish their leaders' meeting calendars.

A CFTC spokesman said the agency plans to make Mr. Behnam's calendars public soon. He noted FTX has withdrawn its application with the CFTC and said the company "had no input into our work" with the Agriculture Committee on the crypto bill.

As momentum built for the bill, Mr. Bankman-Fried donated the individual maximum of $5,800 to Sens. Debbie Stabenow (D., Mich.) and John Boozman (R., Ark.), the chairwoman and ranking member of the Senate Agriculture Committee, which oversees the CFTC. FTX officials also donated $3 million to a political committee affiliated with Senate Majority Leader Chuck Schumer (D., N.Y.) and $6 million to a committee affiliated with House Speaker Nancy Pelosi (D., Calif.). Another FTX executive contributed $2.5 million to the Senate Leadership Fund, associated with Sen. Mitch McConnell of Kentucky, the chamber's GOP leader.

In the spring, FTX also hired a lobbyist, former Republican Senate staffer Eliora Katz, whom it paid $270,000 per quarter to push for the Stabenow-Boozman bill in Congress and regulatory agencies, according to official disclosures.

Ms. Stabenow and Mr. Boozman introduced the crypto bill on Aug. 3. Mr. Schumer indicated to FTX officials a willingness to tack the bill onto a broader spending package if it could pass the Agriculture Committee by December, several people familiar with the matter said.

"No one industry stakeholder had significant input in the content of this bill -- including FTX. In fact, none of the substantial changes FTX requested were included in the legislation," a spokesman for Ms. Stabenow said.

Mr. Schumer's press office didn't respond to requests for comment. The Agriculture Committee has scheduled a hearing this week titled "lessons learned from the FTX collapse, and the need for congressional action." Mr. Behnam is set to testify. Reached by a Wall Street Journal reporter, Ms. Katz hung up the phone.

Mr. Giancarlo said FTX was a client of his law firm, Willkie Farr & Gallagher LLP. Mr. Miller couldn't be reached for comment. Mr. Wetjen said, "Like many, I was shocked and dismayed to read the allegations in the company's bankruptcy filing." Mr. Bankman-Fried didn't respond to requests for comment.

The Stabenow-Boozman bill would have authorized the CFTC to regulate spot markets for the largest cryptocurrencies, bitcoin and ether, and increased the agency's head count. It also would have provided a new revenue stream -- user fees from crypto exchanges -- to reduce the agency's dependence on congressional appropriations.

For Mr. Bankman-Fried and FTX, the legislation would have provided a pathway to U.S. regulatory compliance, a status no crypto platform enjoys.

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THE WALL STREET JOURNAL.

HD **U.S. News: Bahamas Defends Handling of FTX**

BY By Amrith Ramkumar

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LP

The Bahamian attorney general defended the island nation's actions during the collapse of **FTX** Digital Markets Ltd. and urged patience while authorities investigate the embattled cryptocurrency exchange.

In a national address late Sunday, Ryan Pinder disputed recent statements by **FTX**'s new chief executive and lawyers in U.S. bankruptcy court questioning whether Bahamian regulators had the authority to take control of the local **FTX** subsidiary's assets around the time of its bankruptcy this month.

TD

A fight over which FTX entity controls customer assets could influence how and when customers get money back and whether that path goes through a bankruptcy court in Delaware or a liquidation in the Bahamas.

Mr. Pinder reiterated that local regulators and authorities are investigating FTX. U.S. regulators and prosecutors are also investigating the firm founded by Sam Bankman-Fried.

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THE WALL STREET JOURNAL.

HD **Inside View: Crypto's Final Price Could Be Zero**

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LP

There aren't many leveraged buyouts of technology companies, and for good reason. Technology and debt, like Red Bull and milk, don't mix. Why? Because when technology works, it commands high valuations. You can't LBO Google. But when technology moves on to the next new thing, there isn't much residual value in the form of assets and collateral to call on in case of debt defaults. **FTX**, Elon Musk and SoftBank are learning this lesson.

TD

Twitter, which last turned a profit in 2019, now has $1 billion a year in debt payments. Wall Street can't off-load Twitter's buyout debt, now maybe 60 cents on the dollar, without losing money. Mr. Musk even told employees "bankruptcy isn't out of the question." Of course, he has benefited from selling his own highly valued (though declining) Tesla shares, recently another $4 billion for a total of more than $19 billion. As Chief Twit, Mr. Musk proclaims Twitter will operate under free-speech principles. Advertisers are fleeing. So are employees. If he defaults and walks away, the only thing left is some aging code and a few plastic blue birds to sell at auction.

The new poster child for the toxic cocktail of technology and debt is Sam Bankman-Fried, with his imploded FTX and Alameda empires. Sure, these companies misappropriated, to put it nicely, customers' assets. And yes, withdrawals that acted like a bank run drove the company into Chapter 11. But the company's original sin was to borrow against its own FTT token, which was held up by nothing but air.

This was crypto's mass delusion. FTT was so thinly traded that FTX could set any price, but not forever. FTX and Alameda borrowed against tokens they themselves were manipulating, including Solana and others, which some called Sam Coins, now Scam Coins. The fatal conceit: They thought FTT would stay high forever, so they invested in often illiquid positions. FTX was even paying employees, vendors and whoever else would take it in FTT tokens, whose total market cap used to be almost $10 billion and is now about $400 million.

You can't manipulate something forever. Reality eventually replaces delusion. All it took was someone to touch a pin to the bubble. After Coindesk leaked a copy of Alameda's balance sheet loaded with FTT tokens, Binance CEO Changpeng Zhao started selling. FTT went from $22 to under $3 in 48 hours. So much for collateral. When the smoke clears, FTX/Alameda may have $8 billion to $15 billion in debt outstanding, with little to sell for repayment. It will take years to sort out who gets what.

Meanwhile, others also barreled in. A cottage industry of firms emerged to lever up crypto. This is when things turned toxic. The first task was to lure customers by paying interest on their crypto holdings. The Anchor Protocol behind the spectacularly imploded Terra-Luna algorithmic tokens was paying up to 20%.

Other platforms such as Binance and Crypto.com would pay 4%, 8% or more on crypto as well, suckering in the masses who could earn only 0.01% interest from, well, real banks. But how could anyone pay interest on crypto? By turning around and lending it out to hedge funds and others who also used leverage. Insanity.

Genesis Global Capital created a lending platform to facilitate borrowing crypto. Lending against what? Again, just air. Firms such as Gemini, set up by the Winklevoss twins, were paying 8% interest, so customers could harvest yields. Why was there any yield on crypto? Good question. It worked on the

way up, not so much on the way down. Crypto was lent out like a hot potato until someone got stuck with the value down 90% and everyone else left with defaulted debt. This was probably the only way the delusion could have ended.

Most of these platforms are now frozen and might disappear as customers caught with a hot potato frantically demand withdrawals in the wake of the FTX collapse. Of course, all these crypto lenders had to do was ask: What's the underlying collateral? Where are the assets? With no good answer, no sane lender would have lent against it. But no one asked.

Another debt example: Remember in 2020 when a SoftBank fund was revealed as the "Nasdaq Whale" using derivatives and leverage to buy technology shares and eventually losing big? Well, besides SoftBank's zero on its $100 million investment in FTX, here's a strange twist: Its CEO, Masayoshi Son, may owe his company nearly $5 billion. According to the Financial Times, "Son has pledged both his stake in the funds and a portion of his SoftBank stake as collateral for the amount he owes the company." The funds have sunk, and SoftBank stock value has declined 50% since early 2021.

Technology, like Red Bull, is a supercharger until it wears off. Debt, like milk, can kill you when it spoils. They don't mix.

Write to kessler@wsj.com

CO ftxdig : FTX Trading Ltd | sftbnk : SoftBank Group Corp.

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THE WALL STREET JOURNAL.

HD **After FTX, Bahamas Picks Up the Pieces**

BY By Matt Grossman and Angel Au-Yeung
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LP

NASSAU, Bahamas -- Last year, an FTX executive walked into a bank office here and put $4.5 million of the company's money behind an ambitious plan to buy an oceanside parcel of land and turn it into the crypto giant's new headquarters.

The executive, Ryan Salame, closed the deal in short order, people familiar with the matter said, just part of the company's whirlwind real-estate shopping spree in and around Nassau. In April, the Bahamas prime minister appeared with FTX executives at a ceremonial groundbreaking on the new land. But construction never really got under way. FTX collapsed this month, its real-estate holdings now subsumed in bankruptcy.

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The never-built new headquarters illustrates the promise that FTX brought to the Bahamas and the frustration it left in its wake. The island nation has been encouraging crypto firms to make themselves at home, promising a copacetic regulatory touch -- exactly what founder Sam Bankman-Fried was looking for when he decided to move FTX headquarters from Hong Kong last year.

FTX wasn't the only crypto player in town, but it was the flashiest, leasing fleets of cars for its employees to drive, The Wall Street Journal reported. It snapped up units in a luxe resort called Albany -- a private neighborhood that has counted Tiger Woods and Justin Timberlake as investors. Now, local caterers, drivers and cleaners who depended on FTX for work are in a bind.

So is the prime minister, Philip Davis. Across the archipelago, locals are second-guessing his government's commitment to crypto.

"The Bahamas is getting a black eye at every turn on this," one of the Bahamas' largest newspapers, the Nassau Guardian, wrote in an editorial this past week that criticized Mr. Davis's embrace of FTX.

In a speech to parliament last week, Mr. Davis described FTX's collapse as merely one example of broader problems in the tech industry and not an indictment of regulatory oversight in the Bahamas. He said the government would investigate FTX thoroughly.

Most everything in the Bahamas centers on the island of New Providence, including FTX. The 80-square-mile island is home to the Bahamas' capital, Nassau, and about 275,000 residents, the bulk of the country's citizens.

The country's economic anchors are tourism and offshore banking, which together make up 85% of gross domestic product, according to the U.S. Commerce Department.

Mr. Davis, elected in September 2021, has made digital assets a centerpiece of his agenda. The island country had been hit hard by Hurricane Dorian in 2019 and the coronavirus in 2020, both of which kept tourists away. Mr. Davis's government promised that crypto would be a critical piece of the recovery. "My government's initial success in attracting significant digital-asset business is only the beginning," Mr. Davis told the Bahamas' House of Assembly in April.

For many locals, FTX's arrival in New Providence last year felt like a path forward. The company's spending seemed unbounded.

At its offices in a nondescript office park, FTX spent more than $100,000 a week on catering and set up a private shuttle service to cart workers around the island, according to people familiar with the matter.

One chef who delivered meals to FTX offices recalled tables already stacked with containers of food. One former employee described an hourly rotation of food deliveries during lunchtime. Chinese food was a fixture, according to people familiar with the matter, given that many FTX employees had moved from Hong Kong. FTX provided fleets of cars -- including BMWs, Toyotas and Hondas -- for employee use.

FTX also hired dozens of Bahamians, the Journal reported. The jobs were often for logistics, such as helping organize events, and regulatory compliance.

Earlier this year, FTX employees were given the opportunity to buy equity in the cryptocurrency exchange. Excited to be part of what seemed like a promising new industry, some local hires spent thousands of dollars to buy FTX equity, the Journal reported.

The sites where Mr. Bankman-Fried and his closest associates lived and worked were part of a finance-centric enclave on the western half of New Providence. There, Nassau's tourist resorts, restaurants and Black residential neighborhoods give way to the offices of foreign banks and wealth managers, a Berkshire Hathaway real-estate office and Deltec Bank & Trust Ltd., a bank where Tether -- a popular stablecoin -- does business.

FTX spent millions of dollars on housing for executives in exclusive beachside developments, the Journal reported.

FTX bought a handful of units in the Albany resort, a gated neighborhood of homes and sleek condominium towers arranged around a marina. There, Mr. Bankman-Fried shared a $30 million penthouse with some of his top FTX lieutenants.

Some Bahamians are now questioning the role of the crypto sector in their country's economy, stung by thoughts of how FTX's rapid collapse has shaped their country's reputation.

"In the eyes of many people, we're a joke," Pamela Musgrove, a Bahamas-based financial-services executive, said on a Nassau radio show this month.

Many of the big-spending young foreigners FTX employed -- Americans, Asians and Europeans -- departed quickly after the company's collapse, the Journal reported. Bahamian security guards found themselves protecting nearly vacant buildings.

Mr. Bankman-Fried apologized in a recent note to employees. "You were my family," he wrote. "I've lost that, and our old home is an empty warehouse of monitors."

Alexander Osipovich, Dave Michaels and Caitlin Ostroff contributed to this article.

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THE WALL STREET JOURNAL.

HD **Sequoia Apologizes for FTX Loss, Tells Investors It Will Do Better**

BY By Berber Jin
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LP

Sequoia Capital apologized to its fund investors for the $150 million it lost on crypto exchange FTX, said people familiar with the matter, a rare moment of contrition for the storied venture-capital firm.

Sequoia's partners told fund investors on a call Tuesday that the firm would improve its due-diligence process on future investments and that it believed it was misled by FTX based on the exchange's recent bankruptcy filing, the people said.

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Sequoia, an early backer of Apple Inc., Alphabet Inc.'s Google, and Airbnb Inc. is seen as the gold standard in the venture industry for its high investment bar. Earlier this month it wrote off its entire investment in FTX -- one of the largest investments in the company by a venture-capital firm -- after the crypto exchange struggled to meet a wave of withdrawals. FTX filed for bankruptcy protection on Nov 11.

In the call, a Sequoia partner said that the firm in the future will be in a position to have even early-stage startups' financial statements audited by one of the Big Four accounting firms, the people said.

Sequoia was one of scores of venture investors who piled roughly $2 billion into FTX amid last year's boom in crypto investment. Eager to get into the hot startup, they shirked traditional corporate controls such as external board oversight that are typical for such large investments.

Sequoia partners said the firm conducted due diligence on FTX but believed it was misled by the company's founder, Sam Bankman-Fried, on the exchange's connections with Alameda Research, the people said.

FTX, based in the Bahamas, and its U.S. arm used a pair of smaller auditing firms to sign off on their 2021 financial statements earlier this year, according to documents viewed by The Wall Street Journal. The executive hired to shepherd FTX through bankruptcy has expressed "substantial concerns" about the quality of FTX's audited statements.

The ties between FTX and Alameda were central to FTX's implosion. Mr. Bankman-Fried has told investors and employees that FTX lent customer funds to Alameda, which lost billions of dollars after crypto prices fell earlier this year. He told investors FTX faced a funding gap of up to $8 billion.

Sequoia invested the bulk of its cash in a Series B funding round for FTX in July 2021, when investor fervor for cryptocurrency startups hit an all-time high, people familiar with the matter said.

Attracted to a founder they saw as visionary, investors put aside customary oversight safeguards when backing FTX, which earlier this year was valued at $32 billion, making it one of the most valuable startups in the world.

When Sequoia and other shareholders asked for a seat on the company's board of directors, Mr. Bankman-Fried repeatedly pushed back, telling them their ownership in the company was too small to warrant it, people familiar with the matter said. Boards typically have to approve transactions with so-called related parties like Alameda.

John J. Ray, the restructuring specialist who replaced Mr. Bankman-Fried as CEO of FTX and helped oversee some of the biggest bankruptcies ever including Enron's, said in a filing that he had never seen "such a complete failure of corporate controls and such a complete absence of trustworthy financial information" as FTX.

Eliot Brown and Alexander Osipovich contributed to this article.

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LP

A substantial amount of **FTX**'s assets are either missing or stolen, a lawyer for the failed crypto exchange said, vowing to cast a wide net to secure potentially billions in funds that passed through the firm he called Bankman-Fried's "personal fiefdom."

Sequoia Capital apologized to its fund investors for the $150 million it lost on **FTX**, said people familiar with the matter.

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Digital Currency Group said 2022 revenue is on track to reach $800 million, down about 20% from what the company expected to generate last year.

Investor buying of homes slid 30% in the third quarter, a sign that factors pushing traditional buyers to the sidelines are causing these firms to pull back, too.

HP Inc. said it would slash up to about 10% of its workforce, with a sharp slump in demand for PCs expected to stretch into next year.

U.S. stocks posted gains, with the S&P 500 and Nasdaq both rising 1.4% and the Dow advancing 1.2%.

Best Buy and Dick's Sporting Goods reported mixed quarterly results but said sales wouldn't fall as much as previously expected.

A U.K. regulator is deepening an investigation into the market power it says Apple and Google exert over some mobile-device software.

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SE PERSONAL JOURNAL

HD **On Trend: Why Investors Love The Slovenly CEO**

BY By Jacob Gallagher

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LP

As the rubble settles around **Sam Bankman**-**Fried**'s shattered crypto empire, one fact is clear: The 30-year-old **FTX** founder wore some seriously ill-fitting T-shirts.

Since he splashed into public several years ago, the erstwhile monetary whiz kid was rarely seen in anything other than an oversize shirt and equally baggy khaki shorts. Slovenly attire was the centerpiece of the **Sam Bankman**-**Fried** brand.

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There he was, dressed like a wayward college student next to Tony Blair and Bill Clinton on a conference stage, or appearing in a social-media video with Tom Brady (an FTX ambassador), or pitching his company on a financial-news network.

At times, Mr. Bankman-Fried seemed unfamiliar with how clothes were supposed to be worn. When he suited up to visit Congress in 2021, the laces of his dress shoes were tied in a tangle that looked like a pile of Silly String. Naturally, crypto fanboys turned his messy laces into a meme. Today you can still buy a sticker of the contorted shoelaces for $2.57 online.

Initially, Mr. Bankman-Fried's everyman shtick was compelling, if not outright endearing. Profiles of the mop-topped moneymaker nearly always mentioned his disarmingly juvenile uniform.

"He branded himself as a slob, and it makes him more authentic and people like it more," said Michael Pachter, a research analyst at Wedbush Securities who famously criticized Mark Zuckerberg in Facebook's early years for wearing a hoodie to rally Wall Street investors, calling it a sign of the budding exec's immaturity.

While he still thinks a startup founder's attire should match the decorum of a given meeting, Mr. Pachter noted that Mr. Bankman-Fried's persistent T-shirt wearing may have made him effective at getting money from equally dressed-down backers (the venture-capital space isn't exactly a hotbed of ties).

An adherent of the movement known as effective altruism, the FTX founder claimed he was amassing wealth just to give it all away. In a CNBC interview published two months before FTX's collapse, Mr. Bankman-Fried said he planned to spend "maybe like one percent" of his fortune on himself.

His seen-better-days T-shirts, often with their collars stretched out from use, were a wearable demonstration of his personal thrift.

The seismic flameout of FTX -- once valued at $32 billion, the company filed for bankruptcy and faces Securities and Exchange Commission and Justice Department investigations -- helps deflate one of the startup world's great myths: the underdressed genius founder. Since Steve Jobs first shed his preppy bow ties in favor of futuristic Issey Miyake turtlenecks, Silicon Valley has swooned over founders who don't dress like the stodgy old suits.

Savvy execs have since exploited the idea that wearing something off-kilter, and even slovenly, can draw in investors.

"You don't want to look like you're trying too hard because you want to look like the time and your attention is going to the venture," said Laura Huang, professor of entrepreneurship at Harvard Business School, in reference to the calculatedly casual look of founders such as Mr. Bankman-Fried.

Ms. Huang's research is in the "gut feelings" that investors use to make decisions about what companies to pour money into. She noted that everything from the gender of the founder to what they wear can impact how much an investor is willing to sink into a company.

If there's one man responsible for popularizing the slovenly CEO myth it's Mr. Zuckerberg, who wore interchangeable, oh-so-average zip-up hoodies and gray T-shirts throughout Facebook's early years as he drummed up investment and pitched the company at tech conferences. The hoodie was as integral to the Facebook brand as the "like" button, presenting the CEO as someone with no time for frivolities like shirt buttons.

He spawned a legion of hoodie-wearing, keyboard-jockey clones, all out to prove that they too had no time for style when there was coding to be done. To this day, neutral T-shirts and drab hoodies of the Zuckerbergian variety proliferate at tech companies across the country.

For tech bros, "it's popular to be antiestablishment, and attire is the first thing you see," said Mr. Pachter. "If you don't dress the way they expect you to dress, [outsiders] look down on you."

Then there's Elizabeth Holmes, the founder of biotech startup Theranos who more directly echoed the Apple founder by wearing similar black turtlenecks to the office and on the covers of magazines including Inc., Forbes and Fortune.

Both founders now face choppy waters. Meta, Facebook's parent company, has watched its stock lose nearly $800 billion in just over a year, as Mr. Zuckerberg has steered the company toward as-yet-unproven projects like the metaverse. And Ms. Holmes, who appeared in court in blouses not turtlenecks, was sentenced to more than 11 years in prison last week for four charges that she misrepresented her defunct startup's technology, finances and business prospects to investors.

If these examples prove anything, it's that execs in T-shirts and turtlenecks are just as capable of sending a company into a tailspin as those in Enron-era ties.

But norms are difficult to break down, particularly in Silicon Valley where founder origin stories are retold like biblical lore. It is unlikely that we'll see a pivot to suits from sweats anytime soon. "There's a uniform," said Prof. Huang, "every profession has a uniform."

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THE WALL STREET JOURNAL.

HD **Regulate Crypto or It'll Take Down the Economy**

BY By Elizabeth Warren
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LP

The dramatic collapse of **Sam Bankman**-**Fried**'s crypto exchange, **FTX**, may have come as a shock to the Miami Heat, Tom Brady, Twitter bots and financial-news talking heads. But crypto is following a well-worn path of financial innovations, such as subprime mortgages and credit-default swaps, that began with dazzling rewards and ended with crippling losses.

Proponents say crypto holds great promise for making the financial system more efficient and inclusive. Maybe. But we've heard that story before. History is littered with financial schemes promoted by criminals and charlatans who claimed that the latest and greatest tools had evolved beyond the need for regulation or a cop on the beat. During the 2008 collapse and every financial crisis before that, these claims have proved dangerously delusional. Crypto is no exception.

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FTX's implosion should be a wake-up call. Regulators must enforce the law before more people get cheated, and Congress must plug the remaining holes in our regulatory structure -- before the next crypto catastrophe takes down our economy.

Crypto executives who break the law are just like any other crooks, and the Justice Department should use its full range of tools, including criminal penalties, against them. If Mr. Bankman-Fried and FTX executives committed fraud, then federal prosecutors should send them to prison. But FTX's fall, like the collapse of Lehman Brothers before it, isn't limited to one out-of-control company.

That means the Securities and Exchange Commission needs to suit up as well. Market manipulation, theft, insider trading -- the SEC has decades of experience in rulemaking and monitoring retail investment and knows how to root out fraud and hold cheaters accountable. The longstanding legal test defining securities gives the agency the power -- but power is worthless if the cop on the beat won't use it. The SEC has brought some enforcement actions related to fraudulent and unregistered crypto offerings over the past few years, but it has fallen far behind as the crypto industry has drawn in millions of new investors.

The Treasury Department has also moved, using existing law to impose sanctions on two crypto mixing services, Blender and Tornado Cash, which were used to launder billions of dollars worth of virtual currencies, including hundreds of millions stolen by hackers. Crypto lobbyists howled, but Treasury was right to use its authority to force these entities to comply with the law. A few cases are good, but Justice, SEC and Treasury are the frontline enforcers, and they need to act like it every single day. Federal agencies should use their expansive authority to crack down hard on crypto fraud. Congress should back up these law-enforcement agencies and financial regulators with more funding. Many crypto executives have armies of lawyers, PR advisers and paid celebrity supporters, and they seem to think they can escape the laws that apply to everyone else. If the financial cops are going to take on crypto criminals, they need adequate resources to fight and win.

Crypto, like the subprime mortgages of 2008 and the penny stocks of a century earlier, flourishes in the regulatory gaps. Crypto executives should never be allowed to create tokens to prop up their insolvent companies. Every crypto exchange should be barred from giving great deals to insiders and bad deals to customers. All crypto platforms should be required to implement the same kinds of cybersecurity and operations procedures that other financial companies must use. The SEC already has authority to do this across most of the crypto market, and where there is uncertainty about that, Congress should act quickly to erase any doubts.

Crypto has created new opportunities for money laundering. Terrorists, drug dealers, ransomware criminals, tax cheats and outlaw nations can hide their illegal activities by trading billions of dollars of cryptocurrencies with complete anonymity. The U.S., along with other nations, requires banks to comply with know-your-customer rules and track large transfers of money to prevent money laundering. This requirement extends to all other financial transactions, including dealings with stockbrokers, purchases on credit cards, transfers on Venmo and even use of Western Union to send money to relatives in other countries. When banks violate the rules, they deserve sanctions, but many crypto transactions occur outside the reach of current know-your-customer rules. Congress should stitch up that loophole.

Finally, crypto-mining firms polluting and straining power grids should be required to disclose their emissions and energy consumption to the public. The Energy Department has the tools to require these disclosures, but if it's unwilling to use them, Congress should step in.

Many say crypto is a scam. Crypto advocates tout the technology's world-transforming potential and argue that naysayers just don't understand. Either way, it is past time for crypto to be subjected to the same basic rules as other financial activities. If the crypto industry can succeed without stealing from investors or providing money-laundering services to terrorists and drug dealers, that's great -- but we won't know that until the loopholes are closed and the laws are rigorously enforced.

Ms. Warren, a Democrat, is a U.S. senator from Massachusetts.

(See related letters: "Letters to the Editor: Sen. Warren and the New Wild West of Crypto" -- WSJ Nov. 28, 2022)

(See related letter: "Letters to the Editor: Blowing the Whistle on Misconduct in Crypto" -- WSJ Nov. 30, 2022)

(See related letters: "Letters to the Editor: What Kind of Regulation Is Fit for Crypto?" -- WSJ Dec. 7, 2022)

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HD **FTX Clients Seethe, Fearing Money Gone**

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LP

Customers of beleaguered crypto exchange **FTX** are losing hope they will ever see their money again.

The company's massive financial problems began spilling into the open early this month, and **FTX** was quick to halt withdrawals from its international unit. U.S. customers had hoped they might be luckier, but many of them haven't been able to get their money out either.

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"My blood is boiling," said Matthew Way, a fundraiser for an Illinois orchestra who has about $1,800 stuck at FTX.

Where the money could be -- and whether it will ever arrive -- is anyone's guess. FTX filed for bankruptcy on Nov. 11. John J. Ray, the company's new CEO who also unwound Enron, said in a court filing Thursday that "only a fraction" of FTX's digital assets have been located and secured. Determining how much cash is left has been difficult too, according to the bankruptcy filings, since FTX didn't keep an accurate list of its bank accounts.

FTX said in a statement Saturday that it is working "to maximize recoverable value for stakeholders."

"I respectfully ask all of our employees, vendors, customers, regulators and government stakeholders to be patient with us as we put in place the arrangements that corporate governance failures at FTX prevented us from putting in place prior to filing our Chapter 11 cases," Mr. Ray said in the statement.

Mr. Way, the orchestra fundraiser, was drawn to FTX in part by the buzz. The exchange came recommended by the social-media influencer Kevin Paffrath, known on YouTube as Meet Kevin.

Mr. Way parked the money at FTX late last year and kept it in cash, intending to buy bitcoin if its price ever fell back to its lows of early 2020. He never got the chance.

On Nov. 10, FTX founder Sam Bankman-Fried tweeted that the U.S. arm of FTX, known as FTX US, "was not financially impacted by this shitshow" and was "100% liquid." To Mr. Way, it felt like a bluff. He decided to yank his money out and got an automated email saying his request would be processed within one business day.

The next morning, FTX filed for bankruptcy, and Mr. Bankman-Fried resigned.

As of Sunday, a message from Nov. 10 remained highlighted at the top of the FTX US website: "Withdrawals are and will remain open." Mr. Way, 43 years old, is still waiting for his money.

He has soured not just on crypto but on the people who hyped it, including Mr. Paffrath, the internet star. Mr. Paffrath, who has said he can earn millions of dollars a year giving investment recommendations on social media, apologized in an interview and said: "This is a scar on me as an influencer."

In an email to The Wall Street Journal on Friday, Mr. Bankman-Fried continued to say that customers of the U.S. unit should be fine.

"To my knowledge, FTX US has funds to process customer withdrawals," he wrote. "However the Chapter 11 team apparently is unwilling to process them."

The new FTX CEO and the company's bankruptcy lawyers made clear in court filings that Mr. Bankman-Fried doesn't speak for them or FTX. The former CEO "continues to make erratic and misleading public statements," Mr. Ray, the new CEO, said in a court filing.

FTX is hardly the first crypto exchange to collapse, but its demise has been particularly jarring. Until this month, it was one of the five largest in the world. Mr. Bankman-Fried was often viewed as a steadying force in a volatile industry, throwing lifelines to other companies in need.

But behind the scenes, FTX played loose with customer money. It lent billions of dollars of customer assets to fund risky bets at its sister trading firm, Alameda Research. In traditional finance, brokers must keep customer money separate from other funds.

The crypto firms that relied on FTX are now feeling the pain as well, a sign that the destruction in the crypto industry will be felt far and wide.

Drake Lyle of Nashville, Tenn., deposited $2,700 into FTX last year and used it to buy small positions in bitcoin, ether and litecoin. He expected the value of his crypto holdings to slide around. He didn't expect FTX to implode. "It definitely seemed credible, like a Charles Schwab of crypto," Mr. Lyle, 25, said.

He tried without success to withdraw his money, which he said had shrunk to $800, before the bankruptcy filing. "That's a nice vacation for me and my girlfriend," Mr. Lyle said.

Mr. Lyle is considering joining a class-action lawsuit filed last week against Mr. Bankman-Fried and the celebrities who endorsed FTX, such as Tom Brady and Stephen Curry. Adam Moskowitz, an attorney involved in the suit, estimates his office fielded more than 1,000 calls and emails from investors around the world in the 24 hours after the suit was filed.

FTX spent heavily to attract new customers in the crypto boom, emblazoning its name on the venue where the National Basketball Association's Miami Heat plays and making a Super Bowl commercial.

Many crypto newbies had never given much thought to the likes of bitcoin, but the pandemic gave them time to experiment, and the rising prices were easy to get excited about.

Some customers embraced active trading, using platforms such as FTX to try to time the market. Others thought they were taking a safer route by using FTX to park their money as if it were a bank deposit -- but paying a much higher yield.

Florida resident Joseph DiBella was drawn to FTX by the 8% interest rate the exchange offered on crypto deposits, he said. The company's ubiquitous branding also helped.

"It was just all over the place," he said. "That definitely was a factor in my thought process."

He now believes he has about a 50-50 chance of getting his $4,000 back.

George Gonzalez, 38, received $10,000 that he withdrew Nov. 8. But he is still waiting for $15,000 that he tried to get out the following day. That money represents about two years of savings.

Mr. Gonzalez, a software engineer in California, was a big fan of Mr. Bankman-Fried's and followed his many media appearances closely. Now, Mr. Gonzalez has turned to meditation to try to stay calm.

"The odd thing is the feeling of shame and embarrassment which overwhelms the anger that I have for Sam and his inner circle," Mr. Gonzalez said. "It just takes my legs out from under me."

CO ftxdig : FTX Trading Ltd

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THE WALL STREET JOURNAL.

HD **Bahamian Regulator Says It Froze FTX Unit's Assets --- Securities commission appoints a provisional liquidator for Digital Markets unit**

BY By Alexander Gladstone

WC 236 words

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LP

The Securities Commission of the Bahamas said that it froze the assets of **FTX** Digital Markets Ltd. and related parties on Thursday, and that it appointed a provisional liquidator.

FTX Digital Markets, based in the Bahamas, is a subsidiary of cryptocurrency exchange **FTX** Trading Ltd., led by founder **Sam Bankman**-**Fried**.

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The powers of the directors of FDM have been suspended and no assets held by the firm can be transferred without the provisional liquidator's approval, the commission said.

The commission said that it is aware of statements suggesting that clients' assets were mishandled, mismanaged or transferred to Alameda Research, a trading firm also run by Mr. Bankman-Fried.

Any such actions would be "contrary to normal governance, without client consent, and potentially unlawful," the commission said in a statement.

The Wall Street Journal reported on Thursday that FTX had lent billions of dollars in customer assets to fund risky bets by Alameda Research.

The Securities Commission of the Bahamas determined that the prudent course of action was to put FDM into provisional liquidation to preserve assets and stabilize the company, according to the statement.

Earlier Thursday, Mr. Bankman-Fried said on Twitter that "one way or another, Alameda Research is winding down trading."

FTX didn't respond to a request for comment.

CO ftxdig : FTX Trading Ltd | sutcbh : Securities Commission of the Bahamas

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THE WALL STREET JOURNAL.

HD **Bankman-Fried Deputy Was Key Player at FTX**

BY By Hannah Miao and Justin Baer
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LP

On a video call in early November, employees at Alameda Research dialed in to learn the fate of the trading firm, which was teetering on the brink.

It was up to Caroline Ellison to deliver the bad news. Alameda was at the center of **Sam Bankman-Fried**'s collapsing **FTX** empire. Ms. Ellison, who had just turned 28 years old, was at the center of Alameda. And they were all in crisis.

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Alameda and crypto exchange FTX were both the brainchild of Ms. Ellison's friend Mr. Bankman-Fried, and he had picked her to help lead Alameda the year before. For a time, they rode the crypto wave together, with FTX eventually notching a blockbuster valuation of $32 billion. This month, it all came crashing down in a matter of days.

Customers had grown fearful about the companies' financial health, yanking their money from FTX in a short, frenzied period. The firms scrambled to stay afloat, but they filed for bankruptcy shortly after Ms. Ellison's call with employees. Mr. Bankman-Fried resigned as FTX's chief executive.

Prosecutors, regulators and even FTX's new CEO are investigating what happened. Customers are losing hope they will ever see their money again. Lawsuits have followed, and many top employees have left. Ms. Ellison has been fired along with Gary Wang and Nishad Singh. They were also top deputies of Mr. Bankman-Fried's.

Before the crash, Mr. Bankman-Fried hugged the spotlight, promoting crypto and lobbying for its interests in Washington, while Ms. Ellison remained in the engine room. Alameda, a trading firm owned almost entirely by Mr. Bankman-Fried, had one overarching purpose: Make money. Ms. Ellison was tasked with keeping it running.

In a handful of podcasts and other public appearances, Ms. Ellison was quick to summarize her rapid ascent as almost accidental. She joined Wall Street straight from graduating Stanford University in 2016, though the move was less a calling than an answer to the question she found herself asking in college: What are math majors supposed to do with their lives, anyway?

It was at her first job, at quant-trading powerhouse Jane Street Capital, that she met another 20-something trader, Mr. Bankman-Fried. Like her, he had been raised by two professors. Like her, he spoke highly of a movement called "effective altruism," or the idea of making big money to give away.

When Mr. Bankman-Fried left to start Alameda, Ms. Ellison soon followed in what she called "a blind leap into the unknown." She was still barely out of college -- but she was also one of the more experienced traders there, she said in an FTX podcast in 2020.

Ms. Ellison grew up in the Boston suburbs, daughter of two MIT economists. At 5, she read the second "Harry Potter" book to herself, she said on the podcast. At 8, she wrote an analysis of stuffed-animal prices, according to Forbes. Her father, inspired by his daughters, wrote advanced-math textbooks for children bored by basic lessons.

She and Messrs. Bankman-Fried, Wang and Singh comprised the board of what they called the Future Fund, with the goal of making grants to nonprofits and investments in "socially impactful companies."

Critics say the effective altruism worldview can encourage excessive risk taking -- since people can always argue that bigger paydays lead to bigger donations.

Messrs. Bankman-Fried, Wang and Singh all owned stakes in at least some of the FTX companies, according to a filing in bankruptcy court by the new CEO.

At times, Ms. Ellison and Mr. Bankman-Fried were romantically involved, The Wall Street Journal previously reported.

When Ms. Ellison arrived at Alameda, she was surprised at how it made even fast-paced Jane Street look slow. "It was like, wow, the process for doing things is just someone suggests something and then someone codes it up and releases it," she said in the FTX podcast. "An hour later and it's already happened."

Everything in Mr. Bankman-Fried's orbit seemed to move at the same breakneck speed. He launched an Alameda sister firm, FTX, in 2019, and it took just a few years for it to become one of the biggest crypto exchanges in the world. For a while, Mr. Bankman-Fried was CEO of both companies.

Use of stimulants was common among his upper echelon, the Journal previously reported.

"Nothing like regular amphetamine use to make you appreciate how dumb a lot of normal, non-medicated human experience is," Ms. Ellison tweeted last year.

Alameda and FTX had employees in both Hong Kong and the Bahamas. Ms. Ellison, like Mr. Bankman-Fried, had recently been working from the Bahamas much of the time, according to a person familiar with the matter.

Among Alameda's trading strategies was arbitrage -- buying a coin in one location and selling it elsewhere for more. FTX, meanwhile, emerged as a key marketplace for investors large and small to buy and sell crypto. As a major player in digital currencies, Alameda traded frequently on FTX's platform.

Around 2020, Alameda began "yield farming," investing in tokens that pay interest-rate-like rewards. At first, Ms. Ellison pushed back. In an FTX podcast in early 2021, she recalled arguing about whether the firm should engage, and said she had concerns about the riskiness. "I lost that argument," she said in the podcast.

Over time, Alameda's aggressive trading strategies relied more on intuition and indicators like Elon Musk's social-media posts, according to tweets in 2021 by Sam Trabucco, then another rising star at Alameda.

By fall 2021, cryptocurrency prices were approaching their all-time high and FTX was celebrating its recent deal for the naming rights of the University of California, Berkeley's football stadium. Mr. Bankman-Fried named Ms. Ellison and Mr. Trabucco as co-CEOs to run Alameda so he could focus on FTX. They inherited a 25-person operation, according to Alameda's news release at the time.

Though Mr. Bankman-Fried was no longer CEO, Alameda was still his company, too. According to FTX's bankruptcy filings, he owned 90% of the trading firm. Mr. Wang owned the other 10%.

By early 2022, digital currencies were in free fall. Many of the industry's biggest investment and lending firms began to buckle, then give way. As panic swept through the crypto world, Mr. Bankman-Fried sought to appear as a rescuer, buying out some troubled firms and extending credit to others to help stabilize the market.

Behind the scenes, Alameda was far from immune from the shakeout. Mr. Bankman-Fried's vaunted trading firm was getting margin calls, too.

In August of this year, Mr. Trabucco said he was stepping down as co-CEO. In a lengthy Twitter thread, he said working at Alameda had been "difficult and exhausting and consuming."

By early November, the spotlight that Mr. Bankman-Fried so often courted began to reveal his companies' troubles. A CoinDesk report raised concerns about the financial health of Alameda and FTX. Changpeng Zhao, head of rival exchange Binance, tweeted that his firm would dump its holdings of FTT as a risk-management move. FTT is a digital currency of FTX.

As Mr. Zhao and Mr. Bankman-Fried sparred over Twitter, Ms. Ellison tried to cool the fire. "If you're looking to minimize the market impact on your FTT sales, Alameda will happily buy it all from you today at $22!" she tweeted, tagging Mr. Zhao. A few minutes before, FTT had traded around $22.15, according to CoinDesk data.

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When asked on Twitter why Ms. Ellison had made the offer, Mr. Bankman-Fried replied, "I mean that's up to her to answer, but they said they were worried about impact which this would solve for them, and this is just quicker and easier." Binance contacted her about the offer but never heard back, the Journal reported.

Ultimately, the close ties between Alameda and FTX were their undoing. FTX used customer money to lend billions of dollars to Alameda for risky trades and investments, according to previous reporting by the Journal. In traditional finance, regulators require brokerages to segregate customer funds from any capital they use for trading.

In the video meeting in early November, held late in the evening Hong Kong time, Ms. Ellison told employees that FTX used customer money to help Alameda meet its liabilities, the Journal previously reported. She apologized and said that she had disappointed the staff, the Journal reported. By then, the companies' financial problems had spilled into public view, but the companies hadn't yet filed for bankruptcy,

Ms. Ellison also told employees that she, Messrs. Bankman-Fried, Singh and Wang were aware of the decision to send customer money to Alameda.

Many Alameda employees quit the next day, the Journal reported.

Dave Michaels, Alexander Osipovich, Elaine Yu and Mark Maremont contributed to this article.

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THE WALL STREET JOURNAL.

HD **Exchange Creditors Due $3.1 Billion**

BY By Caitlin McCabe
WC 693 words
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LP

FTX owes its 50 largest creditors about $3.1 billion, the failed cryptocurrency exchange said in a bankruptcy court filing Saturday. The filing didn't name the creditors but listed them as customers. Two creditors are each owed more than $200 million.

FTX's lawyers have said in all there could be more than one million creditors across **FTX**'s various entities.

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Also Saturday, a statement from John J. Ray, the company's new chief executive officer, struck a slightly more optimistic tone about the possibility of recovering assets to repay those creditors. On Thursday, the veteran bankruptcy executive said he had never seen anything as bad as FTX in 40 years in the restructuring business.

"We are pleased to learn that many regulated or licensed subsidiaries of FTX, within and outside of the United States, have solvent balance sheets, responsible management and valuable franchises," said Mr. Ray, who was hired to oversee the company during its bankruptcy process, on Saturday.

FTX's new management hired an investment bank to help sell viable parts of its business and discovered there were more than 200 accounts containing positive cash balances. A separate filing in federal bankruptcy court identified 216 bank accounts with positive balances, offering the possibility that there was some value left in FTX's wreckage for creditors to recover. It verified account balances valued at about $564 million, according to the filing. Much of that money, however, is either held in outside entities that directly filed for bankruptcy protection or is considered restricted cash, meaning others may lay claim to it.

The cryptocurrency exchange imploded this month after its chaotic finances spilled into public view. Prosecutors are investigating its collapse. The company's founder, Sam Bankman-Fried, resigned as CEO on Nov. 11, when FTX filed for bankruptcy.

FTX said it would look in coming weeks to preserve or sell what businesses it can as part of strategic review of the company's global assets to "maximize recoverable value for stakeholders," the statement said. The company hired investment bank Perella Weinberg Partners LP to spearhead the sale of different business units and subsidiaries.

FTX said it doesn't yet know the total amount of cash that the crypto exchange or its related entities hold because of "historical cash management failures and the deficiency of documentation controls," one of the Saturday filings to bankruptcy court said. As of Nov. 16, the filing said, the company had been able to verify the balances in only some of the bank accounts held at 36 banks worldwide.

FTX said the company was seeking to locate additional bank accounts by "reviewing the available books and records, speaking with bank personnel and interviews with employees."

The filing said that entities including FTX EU Ltd. and West Realm Shires Services Inc. -- which includes the business known as FTX US -- have some of the largest verified account balances so far. To date, FTX's new management teamhas verified $49.3 million of total cash for FTX EU and $48.1 million for West Realm Shires Services.

The efforts by FTX's new management to track down assets has been further complicated in recent days by a dispute with securities regulators in the Bahamas for control of FTX's insolvency proceedings.

Last week, FTX said in court papers, citing purported texts by Mr. Bankman-Fried, that it appears regulators in the Bahamas instructed him to transfer assets from the exchange to a digital platform controlled by local government officials.

The Securities Commission of the Bahamas, the lead local authority investigating FTX's collapse, said last week that it directed the transfer of all digital assets of FTX's Bahamas subsidiary, FTX Digital Markets Ltd., "to a digital wallet controlled by the Commission, for safekeeping."

The movement of hundreds of millions of dollars from FTX accounts in the early hours after the exchange filed for bankruptcy sparked fears of a hack. It remains unclear if and how much of the funds moved went to Bahamian custody or were taken by an unauthorized actor.

Caitlin Ostroff and Vicky Ge Huang contributed to this article.

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THE WALL STREET JOURNAL.

HD **Crypto Bank Silvergate Battles FTX Contagion Fears**

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LP

Earlier this month, Silvergate Capital Corp. gathered its staff to celebrate its transformation into the go-to bank for the crypto market. Then the crypto market blew up.

The collapse of crypto exchange **FTX** has raised questions about how close the bank was to the empire of **Sam Bankman-Fried**. The price of Silvergate's stock has been cut in half this month and is down nearly 90% over the past year.

TD

Silvergate has issued multiple statements and preannounced some results to reassure investors of its stability. It said it had capital to handle withdrawals and had no loans outstanding to FTX or Mr. Bankman-Fried. The bank disclosed that its deposits were down, but that volume on its network for crypto investors had risen. It says it still has no losses on bitcoin-backed loans. But the stock has continued to plunge.

"This is a fundamental misunderstanding as to the role that Silvergate plays," Chief Executive Alan Lane said on CNBC on Friday.

The market is asking a bigger question: What happens to a bank that has remade itself from a small commercial lender into a middleman of the crypto world if the crypto world collapses?

On Friday, crypto-trading platform FalconX told its customers it was no longer using Silvergate. FalconX said the elevated risk in the crypto market required extra caution and told customers its decision was "consistent with other market players."

"You now have a situation where Silvergate is being viewed as being vulnerable because of the central role it plays within the system," said BTIG analyst Mark Palmer. Silvergate shares are now trading at levels that imply "a very dire scenario," he said.

Short bets against Silvergate have doubled this year. It is the second-most heavily shorted regional bank, based on percent of shares outstanding, according to data from S3 Partners. (The most shorted bank has a pending merger, and betting against it is part of an arbitrage strategy.)

Other banks that hold assets for crypto clients, including Signature Bank and Customers Bancorp Inc., haven't been hit as hard. Signature is down 17% this month, while Customers has fallen 4.5%. Both have a more diverse mix of businesses that are less dependent on crypto companies.

Signature said its exposure to FTX was small, while Customers said it had no exposure. Both said their deposits are stable.

Silvergate is known as an on-ramp to cryptocurrency exchanges. It helps institutional investors move dollars into and out of crypto-trading platforms through its Silvergate Exchange Network, which links the bank accounts of investors and exchanges.

A decade ago, it was a commercial real-estate lender with a handful of branches in the San Diego area. Today, some 90% of its total deposits are tied to cryptocurrency clients. It has shed branches and has shrunk its lending book. It doesn't hold cryptocurrencies, only dollars.

As FTX imploded, investors sold down the bank's stock, worried about deposits fleeing.

Silvergate said that it only held FTX deposits and that it had no other lending or investment exposures. It said it now has $9.8 billion in digital deposits, down by $2.2 billion, including removing all of the FTX deposits, since the end of the third quarter.

FTX held some deposits at Silvergate in what's known as an omnibus account -- meaning the assets belonged to FTX customers. It was FTX's responsibility to keep a ledger tracking the underlying customer assets, a common setup for firms that aren't banks themselves.

The Wall Street Journal has reported that FTX used customer assets to help fund its related trading operation, Alameda Research. Short sellers on Twitter and social media have asked questions about what Silvergate could have seen or should have flagged about movements between the two.

Silvergate wouldn't have had visibility into the omnibus account to know whether FTX or its underlying customers were moving assets, people familiar with the relationship said. FTX has halted withdrawals, and Silvergate has told customers it cannot take direct requests to withdraw from the FTX accounts.Bank monitoring looks for transactions that fall outside a client's expected patterns, which could be complicated by FTX and Alameda's wide overlap.

Even if the FTX deposits do all leave, the bank says it is structured to protect itself from huge outflows. It holds almost all its assets in highly liquid securities like Treasurys, which it says can be quickly sold or borrowed against.

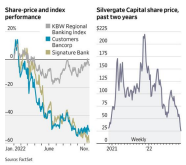
"No bank in the world can honor every deposit held on its balance sheet with cash, although Silvergate might be the closest, in our view," KBW analyst Michael Perito wrote.

Silvergate had other plans for this month. It had gathered all its staff in California for the first time since the pandemic, people familiar with the bank said. On Nov. 7, it announced it had promoted Ben Reynolds, its crypto-industry point man, to president. It also named a new chief risk officer.

Instead of celebrating, executives found themselves answering calls and watching rumors swirl on Twitter about a potential run on the bank, the people said. They focused on making sure the network was working properly.

Average daily volume on the network has risen to $1.9 billion so far this quarter from $1.2 billion last quarter, the bank said.

"After [third-quarter] earnings, we posed the question: 'Is the worst behind them?' " Bank of America analysts wrote in downgrading the stock. "We were wrong."



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THE WALL STREET JOURNAL.

HD **Life Science: What Donald Trump and Sam Bankman-Fried Have in Common**

BY By Allysia Finley
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LP

FTX founder Sam Bankman-Fried's crypto empire went bankrupt gradually, then suddenly, to borrow a line from Ernest Hemingway. Maybe that's how we will look back on Donald Trump's political currency too. The two disruptive figures operate on different ends of the political spectrum, yet both achieved success in similar ways and have fallen into disrepute for similar reasons.

Both became famous by building a marketing juggernaut, befriending celebrities and projecting an aura of success. Both exploited the political predispositions of their supporters -- for Mr. Trump, conservative grievances against America's liberal ruling class; for Mr. Bankman-Fried, progressive intellectual vanities.

TD

Consider Mr. Bankman-Fried. Not only was the 30-year-old vegan the second biggest donor to Democrats this election cycle, he championed fashionable progressive causes such as carbon neutrality, inclusive capitalism and "effective altruism."

He even tapped Brazilian supermodel Gisele Bundchen as FTX's "Environmental and Social Initiatives Advisor." "I came to FTX after I spoke to Sam's dad" -- Joseph Bankman, a Stanford law professor -- who was "really into environmental education," Ms. Bundchen told Forbes in April. "When Sam made it clear that he was really committed to giving back, they asked me to help them understand what could create the biggest impact."

Mr. Bankman-Fried touted cryptocurrency as a means of making finance more "inclusive." "One of the biggest benefits of crypto is equitable access to finance," the FTX founder said in the same joint Forbes interview. "With overdraft fees, some people can barely get access to their own assets." After the past two weeks, FTX customers may never have access to their assets again.

The former president and the crypto mogul both cast themselves as saviors -- for Mr. Trump of America's working class; for Mr. Bankman-Fried of failed crypto firms, which he has spent hundreds of millions of dollars to rescue over the past year. Both betrayed their supporters.

Mr. Trump sold the false narrative that the 2020 presidential election had been stolen. He then gulled his base into voting for GOP candidates who echoed his conceit in this year's primary elections -- nearly all of whom went on to lose in November. As a result, Republicans will have a harder time pushing back against the progressive agenda.

Mr. Bankman-Fried assured customers that his exchange would safeguard their deposits as it lent out more than half of them to his Alameda Research trading house to fund risky bets. Many customers who sought to withdraw their funds earlier this month weren't able to because FTX had lent them to Alameda.

Neither man has owned up to or apologized for his deceptions. Mr. Trump still claims the 2020 election was stolen and blames GOP losses in key Senate races on Mitch McConnell. Mr. Bankman-Fried insisted last week that nothing he told customers was technically inaccurate because Alameda, not FTX, invested their deposits. He blamed FTX's collapse on "messy accounting" and claimed his biggest mistake was putting the company into Chapter 11 bankruptcy.

Now both fallen heroes seek redemption. Mr. Trump has announced his bid for president in 2024. Mr. Bankman-Fried is soliciting a bailout for his bankrupt enterprise. "I have 2 weeks to raise $8b," he wrote in a Nov. 15 Twitter message to Vox's Kelsey Piper. "That's basically all that matters for the rest of my life."

Yet there's one striking difference: Most Republicans didn't buy Mr. Trump's election lies, and many GOP leaders called them out. By contrast, a sycophantic press and sophisticated investors -- including BlackRock, Sequoia Capital and SoftBank -- seem to have disregarded the glaring red flags about Mr. Bankman-Fried.

These include FTX's cozy relationship with Alameda. The companies shared a corporate campus in the Bahamas where an FTX affiliate reportedly spent $74 million on luxury resort and condo properties. Mr. Bankman-Fried dated the Alameda CEO, who frequently accompanied him to meetings. FTX's financial reports acknowledged that some staff worked for both firms.

As for corporate governance, FTX had only three directors on its board, including Mr. Bankman-Fried and another company executive. A profile on Mr. Bankman-Fried published by Sequoia Capital, titled "Sam Bankman-Fried Has a Savior Complex -- And Maybe You Should Too," showed the FTX founder playing videogames during meetings.

Media puff pieces likened him to J.P. Morgan and Warren Buffett, yet none seemed to ask about the source of the $37 million he donated to Democrats or the hundreds of millions he used to rescue distressed crypto firms. Why? Perhaps because he championed their progressive hobbyhorses and used their favorite buzzwords.

It was all a ruse to win positive PR, Mr. Bankman-Fried acknowledged last week to Ms. Piper: "I feel bad for those who get [harmed]," he wrote, using an obscenity, "by this dumb game we woke westerners play where we say all the right shiboleths [sic] and so everyone likes us." Mr. Bankman-Fried may not believe in anything greater than himself any more than the former president does.

FTX failed because Mr. Bankman-Fried's supporters lost confidence in him. That may be how Mr. Trump finally crashes and burns too.

(See related letter: "Letters to the Editor: Trump vs. Bankman-Fried" -- WSJ Nov. 30, 2022)

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- Bankman-Fried Sold $300 Million Piece Of His Stake in FTX**

BY By Eliot Brown, Caitlin Ostroff and Berber Jin
WC 854 words
PD 19 November 2022
SN The Wall Street Journal
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LP

When **FTX** raised $420 million from an array of big-name investors in October last year, the cryptocurrency exchange said the money would help expand the business, improve user experience and allow it to engage more with regulators.

Left unmentioned was that nearly three-quarters of the money, $300 million, went instead to **FTX** founder **Sam Bankman-Fried**, who sold some of his personal stake in the company, according to **FTX** financial records reviewed by The Wall Street Journal and people familiar with the transaction.

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Mr. Bankman-Fried's cashout was large by startup-world standards, where such sales historically were taboo because they allow founders to reap profits before investors. Mr. Bankman-Fried told investors at the time it was a partial reimbursement of money he spent to buy out rival Binance's stake in FTX a few months earlier, according to some of the people familiar with the transaction.

The deal offers a glimpse at the swirl of money between Mr. Bankman-Fried and multiple entities he controlled while his crypto business flourished, a funding stream that helped finance a burst of political donations, philanthropic commitments and a large purchase of Robinhood Markets Inc. stock in the past year.

That swirl is now under scrutiny in the sprawling bankruptcy of FTX and Alameda Research LLC, Mr. Bankman-Fried's crypto hedge fund. FTX, which lent customer funds to Alameda, faces a funding gap of roughly $8 billion, Alameda and FTX executives have said.

John Ray, FTX's new chief executive installed to oversee the bankruptcy, said in a court filing Thursday that the process would involve the "comprehensive, transparent and deliberate investigation into claims against Mr. Samuel Bankman-Fried" and other co-founders of the entities.

The filing highlighted numerous failings, including "the concentration of control in the hands of a very small group of inexperienced, unsophisticated and potentially compromised individuals."

Mr. Bankman-Fried's sale of stock in October 2021 came in the midst of a six-month fundraising blitz that ultimately brought in roughly $2 billion from investors including Sequoia Capital, funds managed by BlackRock Inc. and the Singapore sovereign-wealth fund Temasek.

The October 2021 fundraising valued the company at $25 billion. In a press release, Mr. Bankman-Fried said he was happy "to partner with investors that prioritize positioning FTX as the world's most transparent and compliant cryptocurrency exchange."

The amount raised contained numerical references to marijuana and oral sex: $420.69 million raised from 69 investors. An article published by one of FTX's investors, Sequoia, called that fundraising a "meme round," referring to the embedded jokes.

Three months earlier, in July 2021, Mr. Bankman-Fried bought out the roughly 15% stake owned by Binance, FTX's first outside investor. Binance CEO Changpeng Zhao tweeted this month that the amount totaled $2.1 billion, paid in a combination of FTT, FTX's in-house cryptocurrency, and BUSD, Binance's stablecoin, whose value is pegged to the U.S. dollar.

It couldn't be learned where Mr. Bankman-Fried came up with the money for the Binance stake. At the time, crypto was booming and Alameda was highly profitable, Mr. Bankman-Fried has said.

Those finances came under question this week from Mr. Ray, who said prior numbers were unreliable and Alameda lacked audited financials.

After the July 2021 sale, the FTX shares Binance previously owned ended up in Paper Bird Inc., according to FTX documents. Paper Bird is an entity 100% owned by Mr. Bankman-Fried, according to documents on FTX filed with Miami-Dade County, in Florida.

Soon after Mr. Bankman-Fried bought out Binance's stake, he spoke publicly about differences in the way he and Mr. Zhao ran their businesses and their approaches to regulators.

It couldn't be determined what Mr. Bankman-Fried did with the $300 million and whether the money was plowed back into FTX or kept separate. FTX's 2021 audited financial statements, viewed by the Journal, said the money was retained by the company for "operational expediency" on behalf of a "related party."

FTX came back to investors for more money in January 2022, when it raised an additional $400 million.

Generally, venture investors frown on large sales of stock by founders before a company goes public, in part because they dislike the idea of a founder who put little or no money into a business getting rich before investors can cash out. But during the frenzied years of startup investing of the past decade, the practice became more common, venture-capital investors say, as investors lowered their standards to push their way into deals.

"It just isn't a great sign," said Charles Elson, a professor at the University of Delaware who studies corporate governance. It shows the company's founder thinks there's a better place to invest. "Anytime you see a founder selling shares in a secondary offering, you have to really ask them pretty tough questions," he said.

Peter Rudegeair contributed to this article.

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THE WALL STREET JOURNAL.

HD **EXCHANGE --- FTX's Books Contained Lack of Detail, Red Flags**

BY By Jonathan Weil
WC 680 words
PD 19 November 2022
SN The Wall Street Journal
SC J
PG B11
LA English
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LP

The saga of **Sam Bankman-Fried**'s bankrupt crypto empire isn't just about collapsing tokens, missing billions and sunny offshore tax havens. There were also red flags in its books.

At the core of **FTX** Trading Ltd.'s financial statements was a series of related-party transactions. But the company didn't say who those parties were.

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On its balance sheet, the largest asset as of Dec. 31 was a "related party receivable" valued at $1.2 billion, or 44% of its assets. Its liabilities included a $362 million "related party payable."

FTX Trading last year paid $250 million, or 25% of its revenue, to an unnamed related party for "software royalties," as previously reported by The Wall Street Journal, which viewed the documents. As a closely held company, FTX Trading didn't disclose its financial statements publicly, though they were shared with investors.

In a footnote to the financial statements, the company said its "primary shareholder is also the primary shareholder of several related entities which do business with the company." It didn't say who the related parties were for any specific transaction it disclosed.

The standard accounting rules for disclosing related-party transactions are vague and have long been considered a weakness in the system. There is no clear-cut rule requiring companies to disclose the players in a related-party transaction. The rules do say, "If necessary to the understanding of the relationship, the name of the related party shall be disclosed."

Jack Ciesielski, founder of asset manager R.G. Associates in Towson, Md., and a member of the Financial Accounting Standards Board's Emerging Issues Task Force, said, "I think it's a hole that needs to be fixed." He added: "The auditors would have to know who the related party is. Why not just put that in there? How hard can it be? By keeping it purposely opaque it's defeating the purposes of the footnote."

FTX's new chief executive, John J. Ray, said in a bankruptcy-court filing on Thursday that the company's financial information wasn't trustworthy and that it was controlled by "a very small group of inexperienced, unsophisticated and potentially compromised individuals."

Mr. Bankman-Fried and several other former executives of FTX didn't respond to requests for comment.

The lack of detail echoes past scandals. Enron Corp., in its 1999 financial reports, didn't disclose that its related-party transactions involved its chief financial officer, Andrew Fastow, only describing the person as a senior officer of Enron. The energy-trading company eventually did identify Mr. Fastow in connection with the transactions. That information helped set its downfall in motion.

Unlike Enron, the FTX empire wasn't a public company. And FTX Trading, based in the Bahamas and incorporated in Antigua, was just one of more than 100 companies in Mr. Bankman-Fried's network of holdings. FTX Trading said in its report that it followed U.S. generally accepted accounting principles, and it hired an outside auditor, Prager Metis CPAs LLC, which vouched for its books.

Prager Metis, in an email, said that "we stand behind our audit opinion" for FTX Trading and that "all disclosures were presented in accordance with GAAP." The firm said it was "only the auditor for the financial statements of FTX Trading Ltd." and not other FTX-related companies.

In the footnote, FTX Trading described the $1.2 billion related-party receivable as "an intercompany account with these related entities to facilitate certain corporate transactions" as part of its "treasury management arrangements." It said that had been paid down to $600 million sometime earlier this year, but it provided few other details about it.

A disclosure for another set of transactions described certain "currency management" activities. It said "these related companies also entered into an 'FTX equity-for-FTT Crypto' option agreement" in connection with FTX Trading's 2020 purchase of a majority stake in a company called Blockfolio Inc. FTT is a digital coin created by FTX.

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THE WALL STREET JOURNAL.

HD **FTX Fall Was Years in Making --- Crypto empire had few boundaries, personal or financial**

BY By Alexander Osipovich, Caitlin Ostroff, Patricia Kowsmann, Angel Au-Yeung and Matt Grossman

WC 4,428 words

PD 19 November 2022

SN The Wall Street Journal

SC J

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LA English

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Corrections & Amplifications

FTX was slammed with customer withdrawals on Nov. 6. A Page One article on Saturday about the collapse of the crypto empire incorrectly said the withdrawals took place Nov. 7.

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(WSJ November 21, 2022)

(END)

NASSAU, Bahamas -- Sam Bankman-Fried's $32 billion crypto-trading empire collapsed in an incandescent bankruptcy last week, prompting irate customers, crypto acolytes and Silicon Valley bigwigs to ask how something that seemed so promising could have imploded so fast.

The emerging picture suggests FTX wasn't simply felled by a rival, or undone by a bad trade or the relentless fall this year in the value of cryptocurrencies. Instead, it had long been a chaotic mess. From its earliest days, the firm was an unruly agglomeration of corporate entities, customer assets and Mr. Bankman-Fried himself, according to court papers, company balance sheets shown to bankers and interviews with employees and investors. No one could say exactly what belonged to whom. Prosecutors are now investigating its collapse.

Mr. Bankman-Fried's companies had neither accounting nor functioning human-resources departments, according to a filing in federal court by the executive brought in to shepherd FTX through bankruptcy. Corporate money was used to buy real estate, but records weren't kept. There wasn't even a roster of employees, to say nothing of the terms of their employment. Bankruptcy filings say one entity's outstanding loans include at least $1 billion to Mr. Bankman-Fried personally and $543 million to a top lieutenant.

The lives of the people who ran FTX and its related companies were similarly blurred. Ten of them lived and worked together in a $30 million penthouse at an upscale resort in the Bahamas. The hours were punishing, and the lines between work and play were hard to discern. Romantic relationships among Mr. Bankman-Fried's upper echelon were common, as was use of stimulants, according to former employees.

Mr. Bankman-Fried, 30 years old, kept a hectic schedule, toggling between six screens and getting by on a few hours of sleep a day. He was at times romantically involved with Caroline Ellison, the 28-year-old CEO of his trading firm, Alameda Research, according to former employees.

"Nothing like regular amphetamine use to make you appreciate how dumb a lot of normal, non-medicated human experience is," Ms. Ellison once tweeted. A lawyer for Ms. Ellison declined to comment.

To the outside world, Mr. Bankman-Fried was the mayor of cryptoland, the man charged with convincing lawmakers, investors and enthusiasts that he'd built a new kind of finance. He urged Congress and regulators to approve his model for crypto trading. On his cryptocurrency trading exchange, FTX, positions and risk were cross-checked by computers, and algorithms would react within milliseconds to

protect bad trades from spilling over to hurt other customers, he said. On Twitter, he admonished competitors for practices he called unsafe.

But behind the scenes, Mr. Bankman-Fried was taking huge risks himself. Though he said publicly that Alameda was just a regular user on the exchange, the firm ran up a bill of $8 billion buying stakes in startups, trading on credit that no other user could get. Much of that money, much of which belonged to FTX's customers, is likely gone.

FTX's swift collapse -- it went from paragon to bankrupt in just over a week -- has renewed questions about crypto's viability, its unregulated status and how so many well-heeled investors could have been misled for so long. Investors have poured hundreds of billions of dollars into digital currencies in recent years. Staid financial institutions were finally getting in on the action, too.

The executive tapped to guide Mr. Bankman-Fried's companies through bankruptcy said the state of FTX's affairs was the biggest mess he had seen in a decadeslong career that includes unwinding the accounting scandal that was Enron Corp. In a court filing he said many of the firm's records of its digital assets seemed to be missing or incomplete; in many cases, he was unable to locate relevant bank accounts.

In last week's bankruptcy papers, a Kenya-based money-transfer company was listed as an FTX entity. That surprised its CEO, Elizabeth Rossiello.

In a 2021 financial report, FTX said it had agreed to buy her company for about $220 million. FTX never did. There was no agreement, at any price, said Ms. Rossiello. "We were going to be their exclusive partner in Africa," she said, nothing more.

"From compromised systems integrity and faulty regulatory oversight abroad, to the concentration of control in the hands of a very small group of inexperienced, unsophisticated and potentially compromised individuals, this situation is unprecedented," John J. Ray III said in court papers.

A full accounting of what went wrong at FTX is likely months away, but a reconstruction of what the firm did and how its executives operated makes plain its public image -- a team of brilliant quants bringing a sophisticated, digital approach to risk -- was a mirage.

Mr. Bankman-Fried has blamed the misuse of customer funds on sloppy record-keeping and a flood of unexpected customer withdrawals.

"I'm sorry. That's the biggest thing," he tweeted Nov. 10. "I f---ed up, and should have done better."

Mr. Bankman-Fried's combination of bravado and humility captivated crypto bros and the Davos set. Investors poured billions into the firm run by the mop-headed "League of Legends" fan who wore ratty T-shirts and slept on a beanbag chair. He was raised on the Stanford University campus by two well-known professors, fluent in the language of the highly educated.

FTX, unlike most young startups, seemed to be turning a tidy profit taking a cut of billions of dollars in daily crypto trades. Mr. Bankman-Fried wasn't like the other crypto founders. He said he was amassing a fortune for the sole purpose of giving it away, part of a movement known as effective altruism. He lobbied lawmakers to tame the wily crypto market.

Mr. Bankman-Fried's businesses appeared to be pillars of stability. FTX was seemingly flush with cash after having raised about $2 billion from investors such as Sequoia Capital and Ontario Teachers' Pension Plan.

Yet late last year, the company started calling Bahamian banks with an unusual offer: Deposit your cash in FTX's crypto-lending platform in exchange for interest of as much as 12%, according to bankers.

Then, in May, the crypto market crashed, taking down several crypto firms. Mr. Bankman-Fried played the role of white knight.

FTX and Alameda, the trading firm, extended hundreds of millions of dollars in credit to prop up one struggling lender, BlockFi, and made an unsuccessful bid to keep lender Voyager Digital out of bankruptcy.

Mr. Bankman-Fried's heroics drew comparisons to John Pierpont Morgan's private bailouts that helped end the Panic of 1907.

"There really was significant and irresponsible risk that was taken on by some of the smaller names that are running into problems," he told The Wall Street Journal in July.

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Behind the scenes, Alameda the trading firm and FTX the exchange were far more entangled than outsiders realized.

One potential investor was concerned about the seeming lack of barriers between the two firms. Alex Pack first met Mr. Bankman-Fried in December 2018 in the Cafe Gray Deluxe on the 49th floor of Hong Kong's Upper House hotel.

Then a managing partner with Dragonfly Capital, a crypto-focused venture firm, Mr. Pack was considering an investment in Alameda. He was captivated by the disheveled founder, who shuffled in 20 minutes late for the meeting, dressed in shorts and a T-shirt.

A monthslong due-diligence process turned up an April 2018 trading error that cost Alameda more than $10 million. Dragonfly only learned about the loss after chatting with Alameda's traders; the financials the firm supplied didn't go back far enough to reveal it, Mr. Pack said. Mr. Bankman-Fried seemed nonchalant when asked about the loss, Mr. Pack said. "We were like, this is some pretty reckless risk-taking," said Mr. Pack, now a managing partner with Hack VC.

The talks fell apart when Mr. Bankman-Fried revealed that Alameda was working on the crypto exchange that would become FTX -- but only wanted Dragonfly's money for Alameda, not for the new project. "Alameda and FTX were tied at the hip," Mr. Pack said. "Proposing to use our money, if we were to invest, to finance his new business to the detriment of the business we were investing in -- that left a pretty sour taste in our mouths," he said.

Mr. Bankman-Fried often said Alameda played by the same rules as any other trader on FTX. "There are no parties that have privileged access," he told the Journal in July.

He had long extolled the virtues of FTX's "risk engine," a system that monitored traders' bets across a dizzying array of cryptocurrencies. If someone's bet was going bad, the system would demand more collateral. If the trader didn't top up their account in time, FTX could liquidate the trader's assets.

Yet Alameda, according to bankruptcy-court documents, had a "secret exemption" that allowed it to avoid liquidations in certain circumstances. The documents didn't spell out details of the exemption.

Alameda's special status allowed it to effectively rack up an $8 billion bill with FTX. Much of that money was spent buying stakes in startups and obscure digital currencies that couldn't easily be sold to raise cash, according to a financial document prepared by FTX dated Nov. 7 that was viewed by the Journal.

Alameda spent $1.1 billion buying stakes in Genesis Digital Assets between August 2021 and April 2022, the document shows. Bitcoin mining companies such as Genesis Digital have plunged in value in recent months.

Alameda also invested in Anthropic, an artificial-intelligence startup founded last year by devotees of the effective-altruism movement. Anthropic said in a press release that Mr. Bankman-Fried and some senior colleagues at FTX had led a $580 million investment round in the company. Documents say the investment was actually made with company money.

In addition, Alameda invested in venture-capital funds that backed FTX, including $200 million in two funds run by Sequoia Capital and $20 million in a Paradigm-run fund, according to the document.

Before they collapsed, Alameda and FTX valued their venture and crypto investments at more than $5 billion, all told, the document said.

The fates of Mr. Bankman-Fried's trading firm and exchange were intertwined in another big way. Alameda was highly dependent on its holdings of FTT, a cryptocurrency that FTX launched in 2019, according to the financial document viewed by the Journal.

Humans have ascribed value to objects for eons. A dollar bill is just a piece of paper, after all. But its value comes from traditions and agreements, laws and practices formed over hundreds of years. Cryptocurrencies compress that into the stroke of a key: Make a cryptographic token with some code, give it a name, and get someone to believe it's worth $10. If you hold a hundred thousand of these tokens, you now have an asset worth a million dollars -- in theory.

Crypto investors saw the FTT token as similar to shares of FTX, and its value soared as FTX grew into one of the world's biggest digital-currency exchanges.

Alameda holds the lion's share of FTT in existence. Before it collapsed, Alameda had marked the value of its FTT at $5.5 billion, according to the document.

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The tokens provided Alameda with a sort of superpower: The firm could post its stash of FTT as collateral and borrow other coins to fund its trading strategies.

The strategy had one big flaw: If the price of FTT crashed, Alameda's money spigot would dry up.

The document also listed holdings of $5 billion of serum and $1.7 billion of solana, tokens that were sometimes called "Sam coins" because of Mr. Bankman-Fried's role in promoting them. Alameda created serum in 2020 while solana was launched by a startup that was backed by Alameda. FTX listed the tokens on its exchange, giving them credibility among crypto investors and helping to boost their price, while Alameda counted their value toward the assets on its balance sheet.

One of Mr. Bankman-Fried's most vaunted deals helped keep his own ship from sinking. Going into the summer, BlockFi held hundreds of millions of dollars worth of FTT as collateral for loans, according to people familiar with the matter. If the lender failed, the liquidation of those tokens would have crashed FTT. FTX extended a $400 million revolving credit facility to BlockFi that kept the lender afloat.

"BlockFi was not aware of or involved with any improper business conduct done by FTX or its counterparties," a spokeswoman said.

On June 6, as a wave of layoffs rippled through the crypto industry, Mr. Bankman-Fried tweeted that FTX would "keep growing as others cut jobs."

Later that month, FTX laid off around 20 people, mostly in the Bahamas, people familiar with the matter said, without public notice. FTX required some to sign nondisclosure agreements, they said.

Mr. Bankman-Fried founded Alameda in 2017 and FTX two years later. The exchange specialized in exotic investments like perpetual futures, leveraged tokens and options. Such markets, which U.S. regulators keep off-limits to Americans, allow traders to make huge, debt-fueled bets.

After a stint in Hong Kong, Mr. Bankman-Fried and FTX made their home in the Bahamas, moving in 2021 to take advantage of the island country's crypto-friendly regulatory regime.

On the archipelago's New Providence island, an 80-square-mile oasis that feels to its financial elite like a small club, FTX landed with a splash, according to people on the island. The company rapidly acquired high-end real estate.

Locals said they were excited to be part of what felt like a new wave of industry. The Bahamian prime minister, Philip Davis, hoped FTX would help center his country as a nexus of the crypto world, he said in several public speeches. When given the chance to buy FTX equity earlier this year, one Bahamian FTX worker said employees spent thousands of dollars each on shares.

Mr. Bankman-Fried got his start at Jane Street, a high-tech trading firm, after leaving the Massachusetts Institute of Technology. For fun, he and some colleagues played games that tested their intellects, such as Bughouse chess, a fast version of the game played by four players on two boards.

FTX laid out tens of millions of dollars on residences to turn part of the waterfront resort into an extension of FTX, according to people familiar with the matter. The resort kept a restaurant open 24 hours a day with FTX employees in mind, the people said.

In 2021, Silicon Valley was in a full crypto craze. Coinbase Global Inc.'s direct listing gave the company a blockbuster $65 billion market capitalization after its first day of trading. Venture capitalists poured more than $9 billion into crypto and blockchain startups in the first half of 2021, according to PitchBook, nearly triple what they invested in all of 2020.

FTX never really had the red-ink phase common to startups. The exchange generated an operating profit of $14.4 million on revenue of $89.9 million in 2020, its first full year in business, according to financial statements reviewed by the Journal. Mr. Ray, the executive charged with seeing FTX through its bankruptcy, in court papers said he has doubts about the company's past financial statements.

Mr. Bankman-Fried was able to dictate the terms of any deal, people familiar with the matter said. One investment firm that Mr. Bankman-Fried pitched was told it had less than a week to decide whether the firm was in, one of the people said. When the firm asked to see more information about FTX's balance sheet, the startup declined to provide it, that person said.

Potential investors said Mr. Bankman-Fried appeared uninterested compared to the typical founder scrounging for money. He frequently deferred to another executive, Ramnik Arora, and moved on to other tasks.

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On a call pitching Sequoia Capital, the firm that has backed some of the biggest companies in Silicon Valley, Mr. Bankman-Fried was simultaneously playing the video game "League of Legends," according to an article Sequoia published on its website about FTX in September that it has since removed.

In all, dozens of investors plowed around $2 billion into his firm in just seven months, flocking as a herd to bet on one of the world's hottest startups.

Mr. Bankman-Fried was giving multimillion-dollar donations to Democratic politicians and to fund a variety of causes, including combating climate change and curing tropical diseases. He plunged deeper into the effective-altruism movement.

FTX spent big to attract new customers. The company last year agreed to pay $135 million over 19 years to emblazon the basketball arena where the Miami Heat play with its logo.

The deal seemed to vault FTX into an upper echelon of corporate America. Additional sponsorships followed, with a Formula One racing team, a prestigious chess tournament, esports organizations and other NBA teams.

Its advertisements featured sports stars including Tom Brady and Stephen Curry. The message in most was that it wasn't important to understand crypto to join the frenzy, just the FTX app.

In one commercial, retired Boston Red Sox slugger David Ortiz is watching a game on television when he receives a phone call.

"You're getting into crypto? With FTX? Steph and Tom are in?" Mr. Ortiz says. "Oh I'm in, bro."

This year's crypto meltdown put a chill on Silicon Valley. But Mr. Bankman-Fried needed more money. He wanted another $1 billion to buy beaten-down crypto startups and consolidate his control over the industry.

He painted a grandiose vision to potential investors, floating the idea of acquiring Robinhood Markets Inc., according to two investors who spoke to Mr. Bankman-Fried.

But he struck out in Silicon Valley. Mr. Bankman-Fried turned to Middle East sovereign-wealth funds rich with oil money. At the Saudi Future Investment Initiative last month, he met with officials from the Public Investment Fund and pitched them on the company. From there he flew to Abu Dhabi, looking for an investment from the emirate's wealth funds.

He came home empty-handed.

The first cracks appeared in Mr. Bankman-Fried's empire on Nov. 2, when crypto website CoinDesk published an article with details from a leaked copy of Alameda's financials. It revealed that the trading firm's balance sheet was puffed up with billions of dollars worth of FTT and various "Sam coins."

Alameda's Ms. Ellison tweeted that the leaked balance sheet reflected only "a subset of our corporate entities," but the damage had been done.

The CoinDesk report drew the attention of Changpeng Zhao, the billionaire head of Binance, the world's largest crypto exchange. Binance was a significant holder of FTT, with more than $500 million of the token.

On Nov. 6, Mr. Zhao tweeted that Binance would sell its FTT holdings, a move that threatened to crash the price. Although many observers chalked up the move to his long-simmering rivalry with Mr. Bankman-Fried, Mr. Zhao said he was protecting Binance from the risks of holding an illiquid token.

Ms. Ellison tweeted that her firm would "happily" buy the entire pile of FTT tokens at $22 per coin. Binance contacted her about the offer but never heard back, a person familiar with the matter said.

In a few tweets Mr. Zhao had ignited a run on FTX. On Sunday, Nov. 7, the crypto exchange was slammed with some $5 billion worth of withdrawals.

If FTX had managed customer funds as traditional brokerages do, it would have kept them separate from other parts of its businesses.

But FTX had loaned billions of dollars worth of customer funds to Alameda to cover its liabilities, people familiar with the matter said.

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Mr. Bankman-Fried has disputed reports that FTX intentionally loaned customer funds to Alameda. In a text exchange published by Vox on Wednesday, he blamed "messy accounting," adding: "I didn't realize [the] full size of it until a few weeks ago."

The hidden loans turned the flood of withdrawals into a deathblow. Mr. Bankman-Fried wrote in a tweet on Nov. 7, which has since been deleted, that "FTX is fine. Assets are fine." Behind the scenes he was scrambling to find a deep-pocketed investor to plug the hole. He approached rival crypto exchanges Coinbase and Kraken, according to people familiar with the talks, but those discussions went nowhere.

He was forced to turn to his nemesis: Binance.

The evening of Nov. 7, Mr. Zhao was in his office in Dubai editing notes for his upcoming speech at a conference of global leaders in Bali when he received a message from Mr. Bankman-Fried over Signal, an encrypted messaging app, a person familiar with the matter said. The FTX CEO congratulated his rival and described Binance as the perfect buyer for FTX, the person said.

On the morning of Nov. 8, Mr. Bankman-Fried sent a message to his team. He apologized for the chaos and thanked them for their efforts.

"It was clear the game was over," says Nathaniel Whittemore, who was a senior marketing specialist at FTX.

That morning, Binance announced a non-binding deal to acquire FTX. The news shocked investors who had believed in Mr. Bankman-Fried's vision and stunned his employees, the vast majority of whom had no idea of FTX's problems.

As Binance executives pored over FTX's books, they were confronted with a confusing mess, a person familiar with the matter said. Moreover, the hole that needed to be plugged was growing: FTX first put it at $2 billion, then $5 billion, then finally more than $8 billion, the person said.

Many of FTX's lawyers quit while the talks were under way, part of a broader exodus of employees from the company, according to people familiar with the matter.

On Nov. 9, Mr. Bankman-Fried messaged Binance to ask for an update: "Hey all, we are still extremely excited to work on this with you guys. We are obviously seeing a lot of public pieces coming out claiming leaks but obviously we don't know if that is real. We would love to get clarity from you guys about this."

Three minutes later, Mr Zhao wrote back to the FTX chief. "Sam, I'm sorry," he said, "we won't be able to continue this deal. Way too many issues. CZ."

Mr. Bankman-Fried hustled to raise money from other investors, who pressed him on what happened to the customer funds. In one call on Nov. 9, he told prospective investors that FTX had taken in $16 billion of customer assets denominated in various cryptocurrencies and loaned more than half of it to Alameda.

Mr. Bankman-Fried searched for words. "There was a . . . a . . . a . . . let's call it ballpark $8-ish-billion of um um um margin position size and it was quickly going to get to the point where we are not gonna have enough liquid assets to meet withdrawals," he told the prospective investors, according to a recording of the call heard by the Journal.

In a Nov. 9 video meeting with Alameda employees, Ms. Ellison, the CEO, apologized and said that she had disappointed the staff, according to a person familiar with the matter.

Ms. Ellison said she, Mr. Bankman-Fried and two other FTX executives knew about the decision to send customer funds to Alameda, people familiar with the matter said.

Stunned by the revelations, many Alameda employees quit the next day, according to people familiar with the matter.

With her large-framed glasses, Ms. Ellison was known to be sociable with those who shared similar interests, one former colleague said. But she tended to turn quiet during high-pressure trading situations, the person said, and could get bulldozed by louder and more outwardly confident peers, especially Mr. Bankman-Fried.

On Nov. 10, the Journal reported that FTX had used customer funds to prop up Alameda. The crypto community was turning sharply against the FTX chief, who was being called "Scam Bankrun-Fraud" on social media.

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"I'm really trying to control my rage," Kraken CEO Jesse Powell tweeted. "This isn't about aiming high and missing. This is about recklessness, greed, self-interest, hubris, sociopathic behavior that causes a person to risk all the hard-won progress this industry has earned over a decade, for their own personal gain."

The next day, FTX filed for bankruptcy.

Its collapse has shaken the crypto world. BlockFi halted withdrawals on Nov. 10 and is preparing to file for bankruptcy. Crypto lender Genesis, which paused withdrawals on Nov. 16, said in a tweet it has hired advisers and is exploring all options.

FTX hired a Bahamian security firm to guard FTX headquarters shortly before the collapse. After the news, the majority of non-local FTX employees left the island. The security guards said they found themselves protecting nearly vacant buildings.

Mr. Bankman-Fried and a skeleton crew of remaining employees spent the past weekend trying to raise funds to plug FTX's $8 billion hole and repay customers.

Before the company collapsed, FTX staffers frequented Island Brothers, an upscale French bistro a stone's throw from the company's headquarters, restaurant employees said. The owner got to know Mr. Bankman-Fried's father, Stanford tax-law scholar Joseph Bankman, during his visits to Nassau to spend time with his son.

Last week, FTX's downfall brought Mr. Bankman to Island Brothers in a somber mood. After a few pleasantries, the restaurant owner said, Mr. Bankman broke down in tears.

Vicky Ge Huang, Gregory Zuckerman, Paul Vigna, Eliot Brown, Peter Rudegeair, Berber Jin, Elaine Yu, Rachel Louise Ensign, Ben Cohen, Shane Shifflett, Coulter Jones, Julie Steinberg, Rory Jones, Jonathan Weil, Justin Baer, Hannah Miao, Gina Heeb, Ryan Dezember, Dave Michaels contributed to this article.

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IN ivicu : Virtual Currencies/Cryptocurrencies | iinv : Investing/Securities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | icryxch : Cryptocurrency Exchanges | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities

NS ccfd : Corporate Financial Difficulty | c16 : Bankruptcy | ncor : Corrections | ncrx : Corrected Items | neqac : Equities Asset Class News | nimage : Images | npag : Page One Stories | npeo : People Profiles | reqrbc : Suggested Reading Banking/Credit | reqris : Suggested Reading Investing/Securities | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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LP

FTX suffered a "complete failure of corporate controls" that culminated in an "unprecedented debacle," the company's new CEO said in a filing to federal bankruptcy court.

TD

Meta has fired or disciplined more than two dozen employees and contractors over the past year whom it accused of improperly taking over user accounts, in some cases allegedly for bribes.

Macy's and Kohl's said sales fell in the most recent quarter as shoppers delayed their holiday purchases.

Big U.S. companies are stepping up their spending on capital projects, putting expenditures on pace to set a quarterly record even amid worries about a potential recession.

Twitter suffered a new wave of employee departures after Musk set a deadline for them to commit to working "long hours at high intensity" or leave.

Southeastern Grocers, the operator of Winn-Dixie and Harveys stores, is exploring a sale, a move that comes about a year after it canceled plans to go public.

U.S. stocks slipped, with the S&P 500 and Nasdaq both losing 0.3% and the Dow edging down 0.02%.

Italy's Enel is readying a massive solar-manufacturing push in the U.S., including plans for a factory that will make solar cells.

Alibaba posted one of its weakest revenue expansions since going public, underscoring the persisting effects of Beijing's zero-Covid policy.

CO bilo : Southeastern Grocers Inc

IN	i64 : Retail/Wholesale | i641 : Food Retailing | i6411 : Supermarkets/Grocery Stores | i654 : Specialty Retailing | iretail : Retail
NS	ccat : Corporate/Industrial News | ncdig : Corporate Digests | ncolu : Columns | npag : Page One Stories | ncat : Content Types
RE	usa : United States | namz : North America
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THE WALL STREET JOURNAL.

HD **New CEO Says FTX Fiasco Is Without Precedent --- Unaudited statements, absence of records led to abuses at crypto platform, filing says**

BY By Alexander Saeedy, Soma Biswas and Eliot Brown

WC 1,416 words

PD 18 November 2022

SN The Wall Street Journal

SC J

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LA English

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LP

FTX suffered a "complete failure of corporate controls" that culminated in an "unprecedented debacle," its new chief executive officer said Thursday.

John J. Ray, who has helped oversee some of the biggest bankruptcies ever, including Enron 's, said in a filing to federal bankruptcy court that he has never seen anything as bad in 40 years of restructuring firms.

TD

The filing paints a vivid picture of the chaos that characterized the cryptocurrency company's finances, accounting and leadership under founder and former CEO Sam Bankman -Fried. The Securities and Exchange Commission and the Justice Department are investigating FTX following its implosion this month, and FTX said this week it has been in contact with investigators.

In Mr. Ray's first detailed description of the state of FTX and a related trading firm, Alameda Research LLC, since taking over last Friday, he wrote that the company can't trust prior financial information produced by Mr. Bankman-Fried.

Lax controls over billions of dollars in cash and cryptocurrency assets under Mr. Bankman-Fried have left current management scrambling to establish just how much money the bankrupt crypto platform has now, the filing said.

Corporate funds were used to buy homes for employees in the Bahamas without any form of internal documentation, according to the court filing. Mr. Bankman-Fried often communicated decisions to his employees through messaging applications that auto-deleted his statements, the filing said.

"Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here," Mr. Ray said in the filing. "From compromised systems integrity and faulty regulatory oversight abroad, to the concentration of control in the hands of a very small group of inexperienced, unsophisticated and potentially compromised individuals, this situation is unprecedented."

The filing Thursday was the most explosive development in the FTX bankruptcy case.

FTX lawyers alleged that Mr. Bankman-Fried and the government of the Bahamas have worked to siphon and transfer FTX assets into accounts outside the control of management, even after the company filed for bankruptcy in Delaware last week. Filing for bankruptcy usually ensures that a company's assets are ringfenced and can't be touched without court authorization.

"The Bahamian government is responsible for directing unauthorized access to the debtors' systems for the purpose of obtaining digital assets of the debtors," FTX's lawyers said Thursday. The Securities Commission of the Bahamas didn't reply to a request for comment.

The Bahamas-appointed liquidator has requested that a separate court in New York grant a request to move some of FTX's legal proceedings from U.S. bankruptcy courts to local courts in the Bahamas, seemingly in competition with FTX's plans to proceed through chapter 11 in Delaware.

FTX has requested that any dispute over the company's bankruptcy be handled inside Delaware courts, where the company voluntarily filed for chapter 11 last week, instead of New York. A Delaware judge has scheduled a hearing over the venue dispute for Monday.

Meanwhile, the Singapore investment company Temasek Holdings said it would write down its full $275 million investment in FTX in light of the crypto exchange's financial position. Temasek invested $210 million in FTX and $65 million in FTX US across two funding rounds from October 2021 to January this year. The government-owned company said it had conducted extensive due diligence on FTX over eight months and believed the exchange had a "fee income model with no trading or balance-sheet risk."

"It is apparent from this investment that perhaps our belief in the actions, judgment and leadership ofSam Bankman-Fried, formed from our interactions with him and views expressed in our discussions with others, would appear to have been misplaced," Temasek said.

Mr. Bankman-Fried attempted to walk back on Twitter comments he made that called into question his sincerity about regulators and his view that the company shouldn't have filed for bankruptcy protection.

On Wednesday, the news website Vox posted an article with screenshots of direct messages exchanged on Twitter between Mr. Bankman-Fried and a reporter, Kelsey Piper. In a part of the exchange, Mr. Bankman-Fried said "f--- regulators" and asserted that "they make everything worse." He also implied that his advocacy for better crypto regulation in Washington was "just PR."

Mr. Bankman-Fried said to the reporter that he regretted filing for bankruptcy protection, saying that if he hadn't done that, "withdrawals would be opening up in a month with customers fully whole." Many FTX customers have been unable to withdraw funds since the firm's troubles started in earnest this month.

"Sometimes life creeps up on you," Mr. Bankman-Fried said in one of the direct messages, according to Vox, when discussing how FTX and his separate trading firm, Alameda, became so intertwined.

In his Twitter thread following the release of the article, Mr. Bankman-Fried retreated from some of those comments. He said regulators have an "impossible job" and that some agencies have deeply impressed him.

"Some of what I said was thoughtless or overly strong -- I was venting and not intending that to be public," he tweeted.

Also Thursday, The Wall Street Journal reported that the cryptocurrency lender Genesis was seeking an emergency loan of $1 billion from investors before it told clients it was suspending redemptions this week.

A confidential fundraising document viewed by the Journal said Genesis needed access to the credit facility by Monday, citing a "liquidity crunch due to certain illiquid assets on its balance sheet." The firm didn't get the money.

In the FTX bankruptcy court filing Thursday, Mr. Ray took aim at Mr. Bankman-Fried, who stepped down last week but has talked publicly about FTX and attempts to make FTX's customers whole.

Mr. Bankman-Fried "continues to make erratic and misleading public statements," Mr. Ray wrote. He added that the company has made clear to the public and employees that "Mr. Bankman-Fried is not employed by the Debtors and does not speak for them."

The filing went on to detail many areas of apparent abuse at the crypto exchange.

Mr. Ray said that while many of FTX's balance sheets show the company holding substantial assets that exceed their liabilities, he has no confidence in those financial statements because many weren't audited and said the court shouldn't rely on them to be accurate.

For example, Alameda, which acted as a "crypto hedge fund" inside of FTX, reported assets of over $13 billion and liabilities of over $5 billion, Mr. Ray said. Among its assets, Alameda lists a $1 billion direct loan to Mr. Bankman-Fried and a $543 million loan to founder Nishad Singh, the court filing shows.

The lack of audited financial statements is one of the many "unacceptable management practices" that Mr. Ray lays out. Other failings he cites include no record of board meetings and inadequate internal controls over cash management.

Mr. Ray said FTX didn't have an accurate list of bank accounts holding its cash. The company has asked that the court give it until January to submit financial statements detailing assets and liabilities.

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Mr. Ray added that FTX used the lack of oversight to help "conceal the misuse of customer funds" and keep little record over internal decision-making. To date, FTX has secured about $740 million in cryptocurrency that belongs to FTX entities including Alameda Research, which is only "a fraction" of FTX's digital assets that the company hopes to recover, Mr. Ray said.

FTX employees also "submitted payment requests through an online 'chat' platform," and supervisors gave their approval "by responding with personalized emojis," according to the filing.

Mr. Ray said there was $372 million in unauthorized transfers on the day the company filed for bankruptcy. He has ordered a team of investigators to look into "what may be very substantial transfers of Debtor property in the Case days, weeks and months" before the filing.

Mr. Ray said he has been working alongside advisers including Alvarez & Marsal , Sullivan & Cromwell LLP , Nardello & Co. and others to answer questions from regulators including the SEC, the Commodity Futures Trading Commission and the U.S. attorney's office in the Southern District of New York.

Elaine Yu and Eric Wallerstein contributed to this article.

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THE WALL STREET JOURNAL.

HD **U.S. News: FTX Auditors Cheered On Crypto Industry**

BY By Jean Eaglesham and Patricia Kowsmann
WC 929 words
PD 18 November 2022
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LP

When FTX faced a liquidity crunch, the auditor of its U.S. unit seized the moment to promote its services for other crypto companies that were under the spotlight.

It is a "great time to remember" Armanino LLP 's specialized crypto assurance, the firm tweeted last week, referring to a product that verifies customer assets held by crypto firms.

TD

When FTX's former chief executive, Sam Bankman -Fried, gave evidence to a congressional committee in December, the firm cheered him on. "Let's go buddy!" the firm tweeted.

There is a race among crypto brokers, lenders and exchanges to calm their anxious clients by getting the blessing of an auditor. But the type of audits they are getting and the collapse of an audited firm such as FTX shows how far that sector is from a traditional regulated, scrutinized industry.

A spokesman for Armanino said the firm "has been and will continue to be an advocate for enhanced trust, transparency, and regulation in the digital assets industry."

FTX US, which Armanino audited last year, is one of scores of FTX companies that last week filed for the biggest crypto-related bankruptcy ever.

Binance , the biggest crypto exchange, said it is working on a "proof of reserves" report, a type of third-party verification that falls short of a full audit of the company's books.

Binance is facing delays, however, because the auditor it wanted to use was busy doing proof of reserves for others, Changpeng Zhao , the exchange's founder, said Tuesday. Another issue: The auditor is one of two that audited FTX companies. He declined to name the firm. "There is a bit of scrutiny there," he said, adding the exchange is working on an alternative.

The type of audit Binance said it was getting won't necessarily protect investors. Proof of reserves checks are designed to tell customers that their money is still in their accounts and hasn't been lent elsewhere, but may not reveal much more.

"Proof of reserves is not sufficient . . . . to prevent another disaster from happening," said Mriganka Pattnaik, chief executive of Merkle Science, a risk and compliance firm. "It's a good start, but it is not an audit."

FTX was a relatively rare example of a crypto company that did have a full audit under generally accepted accounting principles. Mr. Bankman-Fried, who founded FTX and resigned as CEO last week, hailed this as a milestone. Private companies aren't required to audit or publish their financial statements.

The audit reassured several FTX marquee investors, according to people familiar with the matter. But John J. Ray, the company's new chief executive, said Thursday he had "substantial concerns as to the information presented in these audited financial statements," particularly in relation to FTX Trading Ltd . The statements shouldn't be relied on as a reliable indication of the financial circumstances of the companies, Mr. Ray said in a bankruptcy court filing.

FTX Trading , the crypto exchange's main international operation, was audited by midsize firm Prager Metis CPAs LLC . It is the first accounting firm to open an office in the metaverse, according to its website, which includes that virtual world in Prager Metis's 24 global locations. The firm's Hackensack, N.J., office gave FTX Trading a clean audit opinion for last year, the financial statements show. Armanino's audit opinion for last year for FTX US, a smaller company focused on U.S. customers, was also clean.

One weakness of the audits is that they didn't cover the effectiveness of the FTX companies' internal controls. Checks on these controls are mandatory for audits of most large public companies, under a law passed after the Enron Corp . accounting scandal. But no such requirement exists for private firms, such as FTX.

Weak internal financial controls at FTX might have contributed to its failure. The company lent billions of dollars worth of customer assets to fund risky bets by its affiliated trading firm, Alameda Research. FTX suffered a "complete failure of corporate controls and . . . a complete absence of trustworthy financial information," Mr. Ray's court filing said.

"If there had been a rigorous internal control audit done at the standards of what's typically done by the Big Four [accounting firms], it would have revealed significant deficiencies in FTX's internal controls," said Daniel Taylor, director of Wharton Forensic Analytics Lab at the University of Pennsylvania . "And it is likely that the [financial problems] would have been revealed earlier."

Prager Metis said it stands behind its audit opinion. "According to media reports, the issues at FTX that led to its demise . . . long postdated the last period we audited," it said. Armanino is "confident that it complied with all applicable professional standards in the conduct of its audit work," a spokesman said. The firm hasn't done any work for FTX US since issuing its audit opinion, the spokesman added.

FTX and Mr. Bankman-Fried didn't respond to requests for comment.

Armanino's tweet from its crypto Twitter account supporting Mr. Bankman-Fried was unusual because auditors are required by regulators to maintain a "professional skepticism," including an alertness to significant errors and fraud, when assessing a company's finances.

Prager Metis, the other FTX auditor, said on its website in June it was "proud to support FTX US." The now-deleted post was illustrated by a photo of Prager Metis auditors at a Yankee game with FTX.

Peter Rudegeair contributed to this article.

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THE WALL STREET JOURNAL.

HD **Wall Street Turns Sour On Coinbase Exchange**

BY By Sam Goldfarb
WC 1,030 words
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LP

A year ago, cryptocurrencies were roaring and Coinbase Global Inc., considered the Charles Schwab of crypto exchanges, was fresh off an IPO that valued the firm at $85 billion. Today, one market-based measure suggests that investors have doubts about whether the company can survive.

As a publicly traded entity, the U.S. firm, which originated in San Francisco but says it has no headquarters, seems to have steered clear of the complex financial maneuvers that helped fell **FTX**, a competitor whose collapse has rocked an already-reeling industry. Nonetheless, Coinbase has been burning through its cash and losing the confidence of investors. Its shares are down 81% since the start of the year, its market capitalization has shrunk to $11 billion, and its bonds are trading at a little more than half face value.

TD

The declines raise questions about the future of digital currencies and the companies attached to them.

Issued in September 2021 -- when bitcoin traded at nearly triple its current price -- Coinbase's 3.375% unsecured bonds due in 2028 changed hands Wednesday at around 57 cents on the dollar, according to MarketAxess. One interpretation, analysts said, is that investors think it is roughly a tossup whether Coinbase pays back its debt in full or loses so much value that it sticks bondholders with steep losses in a bankruptcy.

Representatives of Coinbase declined to comment.

By wide agreement, Coinbase is a standout in the crypto world for its transparency and relatively staid business model, which is based on taking a small cut of the trades that occur on its platform. For many, it is hard to envision a crypto industry without Coinbase. But it is also becoming harder to trust that crypto's future looks like anything close to its thriving past, with interest rates higher, crypto prices hovering around multiyear lows and FTX customers wondering if they will ever get their money back.

"If this thing stays for whatever reason -- these crypto tokens -- then they are definitely one of the leading providers in the U.S. for that," said Dan Dolev, a senior equity analyst at Mizuho Securities USA. But, he added, "The problem is the inherent industry that they operate in."

Even at this difficult moment, Coinbase's stock price reflects some chance the company will be a highly profitable leader of the digital future, because stock investors would take part in the success.

By contrast, bond prices are largely unaffected by best-case scenarios because all that matters to debt investors is that a company can make interest and principal payments.

One argument made by Coinbase bondholders is that analysts should look at the yields on Coinbase bonds rather than their prices.

Because interest rates have climbed so much this year, even some investment-grade corporate bonds with low annual interest rates are trading at deep discounts to par. Otherwise, they would offer worse returns than U.S. Treasurys.

Still, according to MarketAxess, Coinbase's 2028 bonds traded Thursday with a yield of around 15%, or 11 percentage points more than the comparable U.S. Treasurys.

A Treasury spread of at least 10 percentage points is considered a sign of financial stress. From 1996 to 2021, bonds in that category had a 38% chance of defaulting within 12 months, according to Marty Fridson, a high-yield bond analyst who is chief investment officer of Lehmann Livian Fridson Advisors.

Coinbase's cash war chest is one reason to believe that the firm has time to prove itself, some investors and analysts argue.

The company had $5 billion in cash and cash equivalents as of Sept. 30, thanks in large part to its success before 2022 and its opportune bond sales last year, which raised billions of dollars at minimal cost. Its nearest-term major debt maturity, assuming it doesn't convert to stock, is a $1.4 billion issue of convertible notes that isn't due until 2026. Its $2 billion in unsecured conventional bonds, due in 2028 and 2031, comprise effectively all of its remaining debt load.

The question, though, is the sustainability of the business. Last quarter, Coinbase burned through $278 million in cash, according to S&P Global Market Intelligence. That happened even though it saved $391 million in cash outlays by paying employees with stock -- an unsustainable amount, some investors argue, given the declining stock price.

Bond investors who believe in Coinbase argue that the company could easily cut costs by reducing spending on ancillary business lines, such as nonfungible tokens. For them, it is good news that the company is already laying off employees, after going on a hiring spree last year.

Ultimately, Coinbase's business depends highly on the price of digital currencies in general and bitcoin in particular, which makes up more than 40% of its customers' crypto assets.

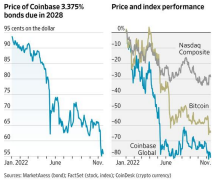
The company charges a roughly 1% fee on trades by individual investors and a much lower rate for institutional investors. That means as the price of bitcoin falls, it gets less revenue for each bitcoin traded. On top of that, trading volume can decline as bitcoin prices fall, delivering a double hit to the company.

There are also regulatory risks. Securities and Exchange Commission Chair Gary Gensler has said that most crypto tokens should be considered securities. If broadly enforced, that designation could force Coinbase to freeze trading in tokens that make up at least 30% of its customers' crypto assets, by some estimates.

Opinions about Coinbase tend to split between those who see a future for cryptocurrencies and those who don't. "Investors have always wanted an alternative to the conventional system of money," said Bill Zox, a high-yield bond portfolio manager at Brandywine Global, which holds Coinbase bonds. Crypto, he said, is similar to gold and better in some ways.

With Coinbase's bonds trading at such low levels, Mr. Zox added that it would be smart for the company to buy back all of its debt near current prices. Such a move, he said, would boost confidence among investors while still leaving it with billions of dollars of cash.

Paul Vigna contributed to this article.



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THE WALL STREET JOURNAL.

HD **FTX Failure Is Latest Blow to Ad Market**

BY By Suzanne Vranica
WC 679 words
PD 18 November 2022
SN The Wall Street Journal
SC J
PG B10
LA English
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LP

Cryptocurrency exchange FTX spent tens of millions of dollars over the past couple of years on slick marketing efforts, including sports-sponsorship deals and celebrity-laden TV ads featuring Tom Brady and Larry David.

Then, last week, FTX filed for bankruptcy protection in the midst of a liquidity crisis, sending shock waves through the crypto world and putting in question an important revenue stream for advertising, sports-sponsorship and media businesses already coping with a softening ad market.

TD

On national television, three major crypto companies spent $153.9 million on advertising this year through the end October, $58.1 million of which came from FTX. That is more than triple the $46.2 million the companies spent during all of last year, the TV ad-measurement firm iSpot estimates.

Ad experts expect other crypto brands to pare back their marketing spending now that FTX is out of the mix, because of reduced competition as well as the cloud now hanging over crypto in general.

FTX's bankruptcy isn't expected to have any near-term financial effect on Dentsu Inc., which handles some ad-buying and creative-development tasks for the crypto exchange, a Dentsu spokesman said. Dentsu had required payments from FTX in advance, a person familiar with the matter said.

Before the implosion of FTX, crypto brands began to slow their spending as cryptocurrency valuation fell earlier this year and as scrutiny from regulators grew over some of the sector's marketing practices.

Estimates from iSpot showed crypto brands spent $3.5 million on TV ads from August through October. By comparison, the sector spent $84.6 million in February.

The Super Bowl was the culmination of crypto companies' efforts to make their names as ubiquitous as Coca-Cola. The game, during which 30 seconds of ad time went for as much as $7 million, featured commercials from FTX, Crypto.com, Coinbase Global Inc. and eToro Group Ltd.

FTX signed deals with a rash of celebrities, such as Mr. Brady; the National Basketball Association star Stephen Curry; and the retired basketball star Shaquille O'Neal. Mr. Brady and model Gisele Bundchen starred in a $20 million ad push that helped introduce FTX to the masses in 2021.

FTX's two crypto exchanges -- Bahamas-based FTX Trading Ltd. and U.S.-based FTX U.S. -- spent more than $220 million on sales and marketing last year, up from about $6 million in 2020, according to their 2021 financial statements, copies of which were viewed by the Journal.

FTX didn't respond to a request for comment.

The slowdown by the crypto sector comes at a vulnerable moment for the advertising and media business. Digital companies such as Snap Inc., Alphabet Inc.'s Google, some U.S. TV networks and some news publishers have already felt the effects of a pullback in ad expenditures.

Ad experts expect the sports-sponsorship business to suffer the most from the unraveling of FTX. During the boom, FTX and other crypto companies splurged on stadium-naming rights, league

sponsorships and sports-related marketing efforts. Crypto companies signed roughly 70 new sports sponsorship deals last year, spending an estimated $200 million on the agreements, according to IEG, about $35 million of which came from FTX.

FTX Trading and FTX U.S. committed to spend more than $900 million on sponsorships as part of multiyear deals, according to both companies' 2021 financial statements.

The partnerships included naming the venue where the NBA's Miami Heat play FTX Arena, as well as having the company labeled as the official cryptocurrency exchange for Major League Baseball.

Miami-Dade County and the Miami Heat said last week that they were ending their $135 million, 19-year naming-rights deal with FTX, a pact signed in 2021. The Mercedes-AMG Petronas Formula One Team suspended its deal with FTX last week.

Ad executives said it will be hard for sports leagues to replace the cryptocurrency category quickly given the sector's onetime prominence and the dimming economic outlook.

NS ccspon : Corporate Sponsorship | c16 : Bankruptcy | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | c31 : Marketing | gcele : Celebrities | neqac : Equities Asset Class News | nimage : Images | reqrap : Suggested Reading Advertising/Public Relations/Marketing | cactio : Corporate Actions | cdom : Markets/Marketing | gcat : Political/General News | glife : Living/Lifestyle | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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THE WALL STREET JOURNAL.

CLM REVIEW & OUTLOOK (Editorial)

HD **Sam Bankman-Fried, ESG Truth-Teller**

WC 465 words

PD 18 November 2022

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LA English

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LP

Crypto dark knight **Sam Bankman-Fried** may have deceived investors, customers and various journalists and politicians. But now the **FTX** founder is at least telling the truth about a few things. Lo, he says that environmental, social and governance (ESG) investing is a fraud, and so was his progressive public posturing.

Mr. Bankman-Fried on Wednesday tweeted a rambling account attempting to explain how he managed to lose billions of dollars in **FTX** customer funds. "I was on the cover of every magazine, and **FTX** was the darling of Silicon Valley," he noted. As a result, "we got overconfident and careless." There's an understatement for the digital ages.

TD

Mr. Bankman-Fried virtue-signaled by committing to make FTX "carbon neutral" and donating generously to fashionable progressive causes such as a foundation working to provide solar energy in the Amazon River basin. "We're giving millions each year to launch sustainability related initiatives," he said in an April Forbes magazine interview with -- you can't make this up -- Brazilian super-model Gisele Bundchen.

Meanwhile, he was leveraging FTX customer funds to make risky, ill-timed bets. "Problems were brewing. Larger than I realized," he tweeted. "In the future, I'm going to care less about the dumb, contentless, 'good actor' framework," he added. "What matters is what you do -- is *actually* doing good or bad, not just *talking* about doing good or *using ESG language*."

Mr. Bankman-Fried is also acknowledging that he genuflected to regulators and Democratic lawmakers to win political protection. ESG ratings company Truvalue Labs even gave FTX a higher score on "leadership and governance" than Exxon Mobil, though the crypto exchange had only three directors on its board. The directors were Mr. Bankman-Fried, another FTX executive and an outside attorney. Truvalue Labs says FTX was given an overall "laggard" score.

"ESG has been perverted beyond recognition," Mr. Bankman-Fried confessed in an interview this week with Vox in which he also acknowledged that his advocacy for strong crypto regulations was "just PR."

He said he feels "bad for those who get" harmed by "this dumb game we woke westerners play where we say all the right shiboleths [sic] and so everyone likes us." Ah, yes, the poor saps who invest in companies because they claim to be sustainable.

For the record, Mr. Bankman-Fried denies wrongdoing. "It was never the intention" to bilk customers, he said. Maybe not. But here is an object lesson for investors and the American public in how progressive virtue-signaling is used to conceal business vices. Some people will believe anything if you wrap a chance to get rich quick in political fashion.

(See related letters: "Letters to the Editor: Winners, Losers, Lessons from SBF and ESG" -- WSJ Nov. 22, 2022)

CO ftxdig : FTX Trading Ltd

IN iinv : Investing/Securities | iresinv : Sustainable Investment | i81502 : Trusts/Funds/Financial Vehicles | ialtinv : Alternative Investments | ifinal : Financial Services | icryxch : Cryptocurrency Exchanges | i831 :

Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

NS gvbod : Government Bodies | cesg : Environmental/Social/Governance | c16 : Bankruptcy | ccpgvn : Corporate Governance | ncolu : Columns | nedi : Editorials | neqac : Equities Asset Class News | c41 : Management | cactio : Corporate Actions | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | gcat : Political/General News | gpir : Politics/International Relations | gpol : Domestic Politics | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **U.S. News: House Hearing Set On Crypto Exchange**

BY By Paul Kiernan

WC 289 words

PD 17 November 2022

SN The Wall Street Journal

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PG A2

LA English

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LP

The ranking members of the House Financial Services Committee , Reps. Maxine Waters (D., Calif.) and Patrick McHenry (R., N.C.), said Wednesday they would hold a hearing in December to investigate the collapse of cryptocurrency exchange **FTX**.

The committee said it expects to hear from **FTX** founder **Sam Bankman** -**Fried**, as well as his trading firm, Alameda Research LLC, and rival platform Binance .

TD

"The fall of FTX has posed tremendous harm to over one million users, many of whom were everyday people who invested their hard-earned savings into the FTX cryptocurrency exchange, only to watch it all disappear within a matter of seconds," Ms. Waters said. "Unfortunately, this event is just one out of many examples of cryptocurrency platforms that have collapsed just this past year."

Mr. Bankman-Fried and attorneys representing FTX didn't respond to requests for comment.

FTX filed for bankruptcy protection last week, and Mr. Bankman-Fried resigned as chief executive. The bankruptcy means that it could be a long time before FTX customers and creditors are able to recover their funds, if ever.

The Manhattan U.S. attorney's office is investigating FTX's collapse, according to people familiar with the matter. One focus for prosecutors, at least initially, is likely to be examining reports that FTX lent customer funds to Alameda.

Mr. Bankman-Fried has been a familiar face in Washington in recent years, both lobbying lawmakers and making public speaking appearances. FTX was the third-largest source of 2022 campaign contributions after Democratic megadonor George Soros 's firm and cardboard-box manufacturer Uline.

Cryptocurrency industry executives, including Mr. Bankman-Fried, appeared in December 2021 before the same House committee.

CO hfnsrc : House Financial Services Committee | ftxdig : FTX Trading Ltd

IN ivicu : Virtual Currencies/Cryptocurrencies | icryxch : Cryptocurrency Exchanges | iinv : Investing/Securities | i831 : Financial Investment Services | i83106 : Securities/Commodity Exchange Activities | ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology

NS c16 : Bankruptcy | gvcng : Legislative Branch | neqac : Equities Asset Class News | cactio : Corporate Actions | ccat : Corporate/Industrial News | ccfd : Corporate Financial Difficulty | gcat : Political/General News | gpir : Politics/International Relations | gpol : Domestic Politics | gvbod : Government Bodies | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

HD **Crypto Lender Genesis Suspends Withdrawals**

BY By Caitlin Ostroff and Vicky Ge Huang
WC 627 words
PD 17 November 2022
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LP

Cryptocurrency lender Genesis told clients that it is suspending redemptions and new loan originations following the collapse of cryptocurrency exchange **FTX**.

The swift demise of **FTX**, which filed for bankruptcy last week, created unprecedented turmoil for Genesis , causing the company's lending arm to be unable to meet all withdrawal requests, the company told clients on a Wednesday call.

TD

The company said it would deliver a plan next week for its lending business.

Derar Islim, the interim chief executive, read from a statement, and Genesis officials didn't take questions from clients after, according to people familiar with the call. The call lasted only a few minutes, they said.

Genesis also said via Twitter that it has hired advisers in the industry to explore all possible options.

Genesis had $2.8 billion in active loans outstanding at the end of September, down 43% from $4.9 billion at the end of June, the company said in its recent third-quarter report.

The company also has been hurt by its involvement with Three Arrows Capital, a crypto hedge fund that filed for bankruptcy this summer. Genesis previously lent $2.4 billion to Three Arrows, according to court documents.

Genesis 's parent company, Digital Currency Group , has a $1.2 billion claim against the bankrupt hedge fund.

The Wall Street Journal previously reported that Genesis had loans outstanding to Alameda Research, an affiliated trading firm of FTX, with FTX's own cryptocurrency used as collateral.

Genesis previously said via Twitter that it hedged and sold collateral, resulting in a total loss of about $7 million across all counterparties, including Alameda. The company also said its derivatives business has about $175 million in locked funds in the firm's FTX trading account.

"We have taken the difficult decision to temporarily suspend redemptions and new loan originations in the lending business," a Genesis spokeswoman said on Wednesday. "We are working diligently to shore up the necessary liquidity to meet our lending client obligations."

In August, Genesis laid off 20% of its 260-person workforce amid a restructuring that saw the departure of then-Chief Executive Michael Moro .

Genesis is a lending partner of cryptocurrency exchange Gemini 's earn program, which allows users to lend their cryptocurrencies to certain borrowers and get interest. Gemini said that it would work to help customers redeem their money from the program.

On its website, Gemini says that it partners with borrowers who are "vetted through our risk management framework which reviews our partners' collateralization management process."

The company added that it reviews partners' cash flow, balance sheet and financial statements "on a periodic basis."

Gemini didn't return a request for additional information about when users might be able to recoup invested funds.

Crypto exchange Binance said it doesn't rely on Genesis for its earn program.

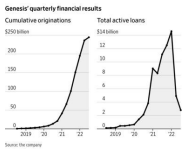
Max Boonen, co-founder of crypto market maker B2C2, said in an interview that his company was exploring purchasing some of Genesis ' outstanding loans at a discount.

Mr. Boonen said he thinks that B2C2 could make money from such a transaction but also that it was an opportunity to help a company that has become a key part of the crypto ecosystem.

"Genesis in crypto is about as systemic as it gets," he said.

Genesis is the latest crypto lender to pause withdrawals after the swift and sudden collapse of FTX founder Sam Bankman -Fried's crypto empire.

BlockFi, which acknowledges "significant exposure" to FTX, halted withdrawals last week and is preparing a potential bankruptcy filing, the Journal has reported. SALT, a smaller crypto lender, paused withdrawals on Tuesday. The firm said in an email to customers that the "collapse of FTX has impacted our business."



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THE WALL STREET JOURNAL.

HD **Banking & Finance: Binance Chief Offers Ways to Shore Up Market**

BY By Patricia Kowsmann
WC 584 words
PD 16 November 2022
SN The Wall Street Journal
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LA English
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LP

Changpeng Zhao, founder of dominant crypto platform Binance, made a series of proposals in recent days, seeking to restore order to the digital-currency universe following the collapse of **FTX**.

His own success may depend on it. By assuming the role of a de facto central banker for the unruly and unregulated crypto world, Mr. Zhao helps make Binance appear safer from the storms that enveloped its rival.

TD

"By process of elimination, he became one of the last men standing representing big centralized crypto exchanges," said Ilan Solot, co-head of digital assets at London financial firm Marex. "Out of principle or survival instinct, he will need to adjust to the changing world."

A Binance spokesman declined to comment.

Mr. Zhao said Binance, by far the biggest hub for digital-currency trading, will create an industry recovery fund, and vowed to make customers' digital-coin holdings transparent. He has pushed others to do the same.

"Crypto is not going away. We are still here. Let's rebuild," Mr. Zhao tweeted.

Mr. Zhao has over the past few years built Binance into a behemoth, processing more crypto transactions than most of its nearest rivals combined. Traders treat his pronouncements, usually made to his 7.7 million followers on Twitter, with serious heft. Last month, Binance contributed $500 million to Elon Musk's takeover of the social-media company.

Skeptical tweets by Mr. Zhao earlier this month inspired an exodus of cash from FTX. He briefly engaged in talks to take over his rival before saying it was too far gone.

His calls for reform represent a turn of events for Binance and Mr. Zhao. Binance has been the target of critics who say it has done too little to promote transparency. The exchange transacts dozens of billions of dollars daily, yet has long operated without an official headquarters and without registration in many countries. Under pressure from regulators, it has started to set up offices and get licenses.Binance's U.S. arm has been subject to probes by the Securities and Exchange Commission.

On Monday, Mr. Zhao tried to reassure users, saying his exchange has taken neither loans nor investments from venture-capital firms, and hasn't moved money out of the platform, all things that FTX did.

The Wall Street Journal reported that FTX lent cryptocurrencies from its customers to an affiliate, Alameda Research, creating a hole at the exchange. When customers tried to get their money out, they couldn't.

Among Mr. Zhao's proposals is for crypto exchanges to do something called a Merkle-tree proof-of-reserves, a way of showing customers that their deposits are inside the exchange. "Binance will start to do proof-of-reserves soon. Full transparency," he said on Twitter.

As of September, Binance had 62% of the market share for derivatives trading, up from 53% at the start of the year, according to data provider CryptoCompare.

The exchange gained market share this year after other trading platforms crashed in May.

While most exchanges are laying off staff and cutting costs, Binance has been hiring. Its workforce is expected to reach 8,000 by the end of the year, up from about 6,000 in the summer, Mr. Zhao told The Wall Street Journal this month.

Mr. Zhao told the Journal that trading volumes and the number of users on Binance took a hit in recent months, but less so than for competitors.

CO hlicay : Binance (Cayman Islands)

IN ibnk : Banking/Credit | ifinal : Financial Services | ifmsoft : Financial Technology | itech : Technology | ivicu : Virtual Currencies/Cryptocurrencies

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THE WALL STREET JOURNAL.

CLM REVIEW & OUTLOOK (Editorial)

HD **The Crypto Politics of Bankman-Fried**

WC 486 words

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LA English

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LP

Cryptocurrency mogul **Sam Bankman**-**Fried**'s Icarus-like crash could make compelling Netflix material. One story line that deserves more attention is how the **FTX** founder tried to buy influence with Democrats in Washington.

Mr. Bankman-Fried became a celebrity and spokesman for the crypto-currency industry by embracing progressive causes and giving liberally -- literally. Last year **FTX** committed to making its trading platform "carbon neutral" and promised millions of dollars to climate causes.

TD

He also supported a nonprofit that gave to progressive media outlets such as ProPublica, Vox and the Intercept. In an interview with the New York Times last month, he said he planned to give away most of his fortune over the next couple of decades to "effective altruistic" causes. After FTX's collapse, he might not have any to give.

The media loved the 30-year-old. But reports that he leveraged customer funds to make risky bets are making his bank-rolling of liberal causes inconvenient. Mr. Bankman-Fried was Democrats' second biggest donor this election cycle after George Soros. Democrats accounted for more than 90% of his nearly $40 million in political giving.

During a September interview on NBC, he said his goal was "to support great public servants" -- apparently, his code for Democrats. He also said his top issue was Covid. No doubt lockdowns and pandemic transfer payments helped boost trading on his platform. Rival exchange Coinbase reported a surge in deposits tied to Congress's first Covid relief bill.

Notably, Mr. Bankman-Fried's individual donations mainly went to Democrats who will be crucial to enacting crypto legislation that would affect his company, including Senate Agriculture Committee members Debbie Stabenow, Kirsten Gillibrand, Cory Booker and Tina Smith. He also gave to ranking Republican John Boozman.

FTX backed legislation by Ms. Stabenow and Mr. Boozman that would assign primary jurisdiction over crypto-currencies, brokers and exchanges to the Commodity Futures Trading Commission. Securities and Exchange Commission Chairman Gary Gensler is seeking to regulate crypto-currencies as securities, which would have limited Mr. Bankman-Fried's profit-making activities.

The debate over how to regulate the crypto industry isn't playing out on partisan lines. But Mr. Bankman-Fried probably hoped to befriend Democrats in Congress in the hope that they'd keep Mr. Gensler off his back. He also reportedly met with Mr. Gensler this year.

That personal lobbying wasn't always appreciated by others in the industry. Binance CEO Changpeng Zhao triggered a run on FTX by selling some $500 million of its tokens and flogging the platform's conflicts of interest. "We won't support people who lobby against other industry players behind their backs," he tweeted.

Trying to protect your company from political depredations is no crime. But Mr. Bankman-Fried seemed to bet his success as much on regulatory as financial arbitrage. That can be as risky as crypto.

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THE WALL STREET JOURNAL.

HD **FTX Founder Attempts To Raise New Cash**

BY By Caitlin Ostroff, Vicky Ge Huang and Berber Jin
WC 411 words
PD 16 November 2022
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LA English
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LP

FTX filed for bankruptcy last week, but the cryptocurrency exchange's founder still thinks he can raise enough money to make users whole, according to people familiar with the matter.

Sam Bankman -**Fried**, alongside a few remaining employees, spent the past weekend calling around in search of commitments from investors to plug a shortfall of as much as $8 billion in the hopes of repaying **FTX**'s customers, the people said.

TD

The efforts to cover that shortfall have so far been unsuccessful. The Wall Street Journal couldn't determine what Mr. Bankman-Fried is offering in return for any potential cash infusion or if any investors have committed.

FTX filed for bankruptcy protection Friday, and Mr. Bankman-Fried resigned as chief executive of the company. He remains its largest shareholder. The bankruptcy announcement shocked FTX customers who had hoped they could recover assets. Now-deleted tweets from Mr. Bankman-Fried in the days before the filing assured users that the company was "fine."

Companies under bankruptcy protection sometimes receive loans meant to help maintain operations. Debtor-in-possession financing means that if companies survive, the first funds they earn will go toward paying down that lifeline. It is less common for a company to try to raise fresh equity capital early on in the bankruptcy process, since debtholders hold priority over any remaining assets.

Even if Mr. Bankman-Fried succeeds in raising funds, he would likely have to negotiate with creditors and gain approval from bankruptcy-court officials.

In Mr. Bankman-Fried's case, the funds aren't meant to sustain a bare-bones staff but to repay individual traders and institutional clients who have been unable to get funds out, the people said.

FTX lent billions of dollars worth of customer assets to fund risky bets by its affiliated trading firm, Alameda Research, The Journal has reported, setting the stage for its quick collapse. Mr. Bankman-Fried told investors last week he needed emergency funding to cover a shortfall of as much as $8 billion due to withdrawal requests.

FTX's bankruptcy could involve more than one million creditors, its lawyers said in court filings. Before the chapter 11 filing, Mr. Bankman-Fried had spoken to companies including rivals Coinbase Global Inc . and Kraken, plus hedge funds and venture-capital investors in the hope of a bailout, according to people familiar with those talks.

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NS ccfd : Corporate Financial Difficulty | c16 : Bankruptcy | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

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THE WALL STREET JOURNAL.

CLM Heard on the Street

HD **FTX Could Drag 'Good' Crypto, Too --- Decentralized finance doesn't solve many of the sector's woes, nor will it be left alone by regulators**

BY By Jon Sindreu

WC 728 words

PD 16 November 2022

SN The Wall Street Journal

SC J

PG B14

LA English

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LP

[Financial Analysis and Commentary]

For many proponents of digital currencies, the demise of crypto exchange **FTX** shows the line between "bad" centralized crypto and its "good" decentralized counterpart. Unfortunately, the two are more intertwined than fans care to admit.

TD

The FTX debacle has spread, prompting investors to dump digital currencies and quit other centralized crypto venues. Trading house Alameda Research, an affiliate of FTX that blew a hole in its balance sheet, used to have a big role in market making, and its absence is worsening price swings, according to analytics firm Kaiko. The latest ructions follow a round of failures among crypto lenders that started in May, triggered by excessive risk and opaque practices.

It looks like a final indictment of crypto's efforts to ape Wall Street with its own answers to Goldman Sachs and JPMorgan . If this is a game of trust, nobody should put their faith in a crypto king rather than a banker with a direct line to myriad liquidity providers -- including the central bank -- and the protection of deposit insurance.

Yet some in the crypto sphere see a silver lining, believing the crisis will refocus the ecosystem on its original purpose of cutting out the middleman -- its motto being "verify, don't trust." Decentralized finance or DeFi protocols like MakerDAO, Aave and Curve offer services such as lending and trading through liquidity pools, where nobody acts as an intermediary liable to bank runs. "Smart contracts" automatically unlock transactions between parties once conditions are met. Despite this year's crypto implosion, these protocols worked as intended.

"The 'back to DeFi' argument will be the dominating narrative," said Clara Medalie, Kaiko's director of research. "In decentralized finance you can see everything on the chain, so you can never have a situation like FTX's."

However, as Joshua Peck, founder of TrueCode Capital, points out, "DeFi just moves the risk around: Counterparty risk shifts over to technology risk, and to trust in the management of the DeFi token." On top of coding bugs, DeFi comes with the danger of hacks, which are worryingly commonplace.

Another big problem in the current environment is that DeFi 's growth since 2017 happened in symbiosis with centralized crypto, not as an alternative to it.

Defunct crypto bank Celsius Network showed how centralized crypto is a big borrower in DeFi pools, muddying their transparency benefits. To be sure, these loans are often overcollateralized, which is why Celsius ended up paying back its DeFi debts even before going bust in July. Still, using crypto as a guarantee raises the risk of vicious selling spirals. Also, overcollateralization generally happens when the money is used for speculation, not productive investments.

Furthermore, growth in decentralized lending has been closely linked to "stablecoins," which are overwhelmingly pegged to the U.S. dollar to overcome crypto's volatility problem. Any peg to the greenback is dependent on the U.S. government , and is kept alive by some intermediary holding dollar

assets or arbitrage and collateral-based mechanisms that can fail. This happened to the TerraUSD stablecoin in May, just as it did in conventional finance to money-market funds in 2008.

While the most popular stablecoin, Tether, hasn't yet broken down, it suffered $3.5 billion of redemptions this month and persistently trades under $1. Kaiko data suggests Alameda was borrowing Tether on Aave and selling it on Curve, putting it under heavy pressure in DeFi markets.

Neither regulators nor investors are likely to differentiate much between centralized and decentralized crypto finance. As a result, DeFi protocols will probably struggle to raise venture-capital money and pools could dry up. The total value locked in DeFi tokens is $43 billion, 74% less than at the end of March. On top of falling crypto token prices, there have likely been withdrawals: Measured in ether, a popular digital currency, the loss is 30%.

The lesson to learn from FTX isn't just that opacity is bad, but that all of crypto is a deeply interconnected ecosystem in which assets are created without relation to real-world wealth and then used as collateral to further inflate what boils down to a single, enormous credit risk -- crypto itself.

RF page,5043

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THE WALL STREET JOURNAL.

HD **Banking & Finance: Fed Regulator Flags Broad Cryptocurrency Risk**

BY By Andrew Ackerman

WC 288 words

PD 16 November 2022

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LA English

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LP

WASHINGTON -- Tumult in the cryptocurrency market represents a red flag to the broader financial system, the Federal Reserve 's top banking regulator told the Senate Banking Committee Tuesday, while pressing for tougher guardrails in the wake of the rapid collapse of crypto exchange **FTX**.

Michael Barr , the Fed's vice chairman for supervision, said crypto-related activities need to be regulated in a manner similar to more traditional financial-services providers.

TD

"Recent events in crypto markets have highlighted the risks associated with new asset classes when not accompanied by strong guardrails," Mr. Barr told lawmakers. He didn't identify any crypto companies by name.

Mr. Barr, in written testimony, said crypto-market meltdowns "remind us of the potential for systemic risk if interlinkages develop between the crypto system that exists today and the traditional financial system."

In addition to Mr. Barr, Tuesday's oversight hearing before the Senate Banking Committee included two other top banking regulators: Michael Hsu, the acting Comptroller of the Currency, and Martin Gruenberg , the acting head of the Federal Deposit Insurance Corp .

Sen. Cynthia Lummis (R., Wyo.) said FTX's collapse was "awful and simultaneously not all that surprising," pointing to highly leveraged products it had previously offered mom-and-pop customers outside the U.S. She defended draft crypto legislation that she introduced earlier this year that she said would have imposed guardrails on the industry and prevented the collapse of FTX. "It is obvious that Congress needs to regulate digital assets," she said.

All three agencies are working together "to assess the risks and opportunities posed by a range of crypto-asset-related activities," Mr. Barr said in his prepared remarks.

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THE WALL STREET JOURNAL.

HD **FTX's Digital Coin Was At Heart Of Fiasco**

BY By Patricia Kowsmann, Caitlin Ostroff and Vicky Ge Huang
WC 877 words
PD 15 November 2022
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LA English
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LP

A little-traded digital currency created by **Sam Bankman** -**Fried**'s now-bankrupt **FTX** cryptocurrency exchange played a crucial role in the company's collapse.

The digital currency is FTT, which was created by **FTX**. It isn't unusual for a crypto exchange to issue its own currency, both to allow founders and early investors to profit if the value rises and to motivate traders to use the exchange.

TD

FTT was different though because of the tight connection between FTX and Mr. Bankman-Fried's trading firm, Alameda Research, which also collapsed last week. Alameda played an unusual dual role by holding most of the FTT outstanding and being the main trading partner for the currency, according to people familiar with the transactions.

Alameda then used FTT as collateral to get hundreds of millions in loans, people familiar with the matter said. The Wall Street Journal also reported FTX lent cryptocurrencies from its own customers to Alameda. It couldn't be determined if FTT was used as collateral for the customer loans.

Mr. Bankman-Fried, FTX and Alameda didn't respond to requests for comment. Ryne Miller, general counsel for FTX's U.S. arm, said he isn't answering media requests.

The arrangement also proved to be Mr. Bankman-Fried's undoing. A report on CoinDesk, a news site specializing in digital currencies, that a chunk of Alameda's assets were made up of FTT, and that it may have overvalued those holdings, set off a run on FTX. Last week, Mr. Bankman-Fried said people repeating that claim were spreading "false rumors."

FTX allegedly used customer money to prop it up, a person familiar with the order flows said.

An FTX spokesman last week declined to comment.FTX and Alameda filed for bankruptcy on Friday.

Before FTT's price cratered last week, Alameda owed a total of $1.5 billion in loans to counterparties outside of FTX, the Journal previously reported. Alameda made a series of venture investments using the loans, The Wall Street Journal reported.

At the same time, FTX was also on a spending spree, buying stadium naming rights and spending on Super Bowl ads. Mr. Bankman-Fried said in a tweet this past week the exchange had borrowed more than 1.7 times the value of its assets.

A blurred line existed between FTX and Alameda's finances, people familiar with the matter say. On one recent occasion, an Alameda bank account paid millions of dollars to an FTX contractor, one of the people said.

The CoinDesk report that set off the run on FTX said Alameda had $5.82 billion in the tokens as of June 30, out of $14.6 billion in assets. At that valuation, Alameda's holdings would have been worth more than the tokens' $3.4 billion market capitalization at the time.

The news sent FTX customers and investors scrambling to withdraw their money from FTX, fearful Mr. Bankman-Fried's businesses were less solid than they looked. Most have been unable to get their money back.

Some crypto exchanges have issued their own tokens, with founders and other early investors keeping a chunk to themselves and hoping their value will soar as customers trade them. To motivate buying, the exchanges offer trading discounts for users who hold their tokens. They also try to list the digital coins in several exchanges to increase their liquidity.

While the coin isn't quite analogous to a stock, it does act as a barometer of how optimistic or pessimistic people feel about the platform. If traders have confidence in FTX's growth, it's an incentive to buy and hold. When that faith is shaken, traders sell.

Some FTX employees opted to take all or part of their salaries in FTX's cryptocurrency, according to people familiar with the matter.

FTT, which was created in 2019, was a top-25 token by market capitalization at the start of the month. But the dollar-value of its daily trading only stood at roughly $60 million, according to CoinMarketCap.

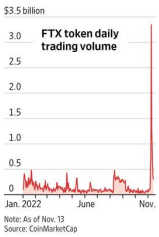
On the same day, BNB , which is a token issued by competitor exchange Binance , had $1.3 billion in trading volume.

Companies that accepted FTT as collateral from Alameda included crypto lender Genesis, according to people familiar with the matter. The Wall Street Journal couldn't determine the size of those loans. Genesis has said that it hedged and sold collateral last week, resulting in a total loss of roughly $7 million across all counterparties, including Alameda.

Alameda has long used FTT tokens as collateral, people who interacted with the company said. In the summer of 2021, Alameda approached cryptocurrency market maker B2C2 to borrow $100 million, using FTT collateral, said Max Boonen, the B2C2's co-founder. The company declined to offer the loan, Mr. Boonen said.

After the CoinDesk report was published, investors started selling the token heavily, according to cryptocurrency data provider Kaiko. For a while, however, price moves were modest, indicating there were buyers on the other side.

When the value of FTT fell, FTX allegedly used customer money to prop it up, a person familiar with the order flows said.



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THE WALL STREET JOURNAL.

HD **U.S. News: Crypto Agenda in D.C. Faces Setbacks**

BY By Paul Kiernan
WC 741 words
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LP

The collapse of crypto exchange **FTX** has dealt a blow to the crypto industry's hopes of pushing favorable legislation through Congress in the near term and ratcheted up pressure on the Securities and Exchange Commission and other regulators to crack down.

The Senate Agriculture Committee last week scrapped a tentative plan to mark up its bipartisan crypto bill this week, according to people familiar with the matter. The bill, crafted with input from **FTX**, had gained wide support from the crypto industry. Meanwhile, the SEC and the Justice Department have launched wide-reaching investigations of **FTX**, its U.S. affiliate and their connections to the founder's trading firm, The Wall Street Journal reported last week.

TD

SEC Chair Gary Gensler criticized the Agriculture Committee's bill in an appearance last week, saying it would undermine 90-year-old laws that govern the $100 trillion securities market. It is unusual for regulators to publicly oppose pending legislation, which they see as the purview of Congress.

"Some of that legislation was promoted by the same folks that failed in the last two days, and you sort of wonder why: because it was too light-touch," Mr. Gensler said.

FTX founder Sam Bankman -Fried became the face of crypto's effort over the past year to steer U.S. policy makers toward tailored, industry-friendly rules and away from enforcement of longstanding financial regulations. The firm's implosion shocked many Washington lawmakers and regulators, many of whom had either met personally with him in recent months or benefited from his firm's $70 million of campaign contributions. Mr. Bankman-Fried resigned as CEO on Friday when the company filed for bankruptcy protection.

Some top Democrats, meanwhile, have urged the SEC to speed up its policing of the crypto market following the FTX debacle.

Lobbyists and congressional aides said lawmakers were likely to hit the pause button on any new legislation that might be viewed as crypto friendly.

Of various crypto bills floating around Congress, the Senate Agriculture Committee's proposal had been seen by lobbyists as having the best chance of advancing by the end of the year. It was introduced in August by the committee's leaders, Sen. Debbie Stabenow (D., Mich.) and Sen. John Boozman (R., Ark.), with input from the Commodity Futures Trading Commission . The bill would assign oversight of the two largest cryptocurrencies to the CFTC.

It was also pushed by Mr. Bankman-Fried and his deputies at FTX, who had a hand in crafting it, several lobbyists said. Mr. Bankman-Fried praised the bill in frequent posts on social media and in public appearances and urged others in crypto to support it.

The bill would shield the largest cryptocurrencies, bitcoin and ether, from regulation by the SEC by assigning jurisdiction to the smaller CFTC, which would have to write rules from scratch. It would give firms that currently operate outside of the regulatory perimeter a veneer of compliance that could help them attract institutional investors.

The Agriculture Committee oversees the CFTC. But rather than committee markups and votes to advance the bill, lobbyists and congressional aides now expect lawmakers to first push for hearings on what went wrong at FTX.

Milan Dalal, a lobbyist who works on behalf of crypto firms including Coinbase Global Inc . and Bitwise Asset Management Inc., said FTX's collapse will likely push the needle in Washington further toward enforcement.

Mr. Gensler last week said time is running out for crypto platforms to come into compliance with federal securities laws. He has said many of the digital tokens listed by such firms are securities, meaning the platforms should have registered as exchanges with the SEC before listing them.

The SEC enforces civil investor-protection laws, and it has taken more than 100 enforcement actions against cryptocurrency entities in recent years. It is also litigating a case against the backers of one of the largest digital tokens, XRP. But it has yet to bring a case against a major trading platform, despite Mr. Gensler's warnings.

Even routine SEC investigations typically take two years to yield formal allegations of wrongdoing. Moreover, enforcement cases against exchanges can be harder to build than those against companies that issue crypto tokens.

There is also the risk that an SEC lawsuit against an exchange could precipitate the sort of collapse suffered by FTX, harming ordinary investors.

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LP

Cryptocurrency traders faced increased anxiety over the weekend as a midsize exchange said it mishandled a $400 million transaction and collapsed **FTX** said it was the victim of an alleged hack, adding to worries following **FTX**'s bankruptcy filing last week.

TD

The Fed's Waller said the central bank needs to keep raising interest rates to get inflation under control, even after last week's report revealed that it slowed in October.

JPMorgan avoided most of 2022's so-called hung deals that have cost competitors billions of dollars in paper losses on loans backing takeovers of companies that later fell in value.

The exodus of advertisers from Elon Musk 's Twitter is accelerating, and it could be hard for the billionaire to bring them back soon.

Musk heads to court this week to defend his multibillion-dollar pay package at Tesla in a suit brought by a shareholder of the electric-vehicle company.

U.S. voters said yes to tens of billions of dollars for road-paving, school-building and other local projects last Tuesday, promising a new wave of bonds for eager investors.

"Black Panther: Wakanda Forever" from Disney 's Marvel Studios grossed $180 million in North America and $150 million overseas in its opening weekend.

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LP

Cryptocurrency platform **FTX** filed for chapter 11 protection in the largest crypto-related bankruptcy ever and CEO Bankman-Fried resigned, a demise remarkable for its swiftness as well as its size.

TD

Disney CEO Chapek announced companywide cost-cutting measures and told division leaders that layoffs are likely, according to an internal memo viewed by The Wall Street Journal.

SoftBank reported a profit of more than $21 billion for the latest quarter after it aggressively unwound its stake in e-commerce giant Alibaba , interrupting two quarters of losses.

Twitter appears to have stopped offering its paid subscription service after people were using it to impersonate companies, brands and celebrities, sowing confusion on the platform.

Stocks capped a volatile week with the biggest gains in months, as the S&P 500, Nasdaq and Dow advanced 5.9%, 8.1% and 4.1%, respectively, over the five sessions.

The U.K. economy shrank in the three months through September, as high energy prices and rising interest rates push the country toward what policy makers expect will be a long-lasting recession.

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