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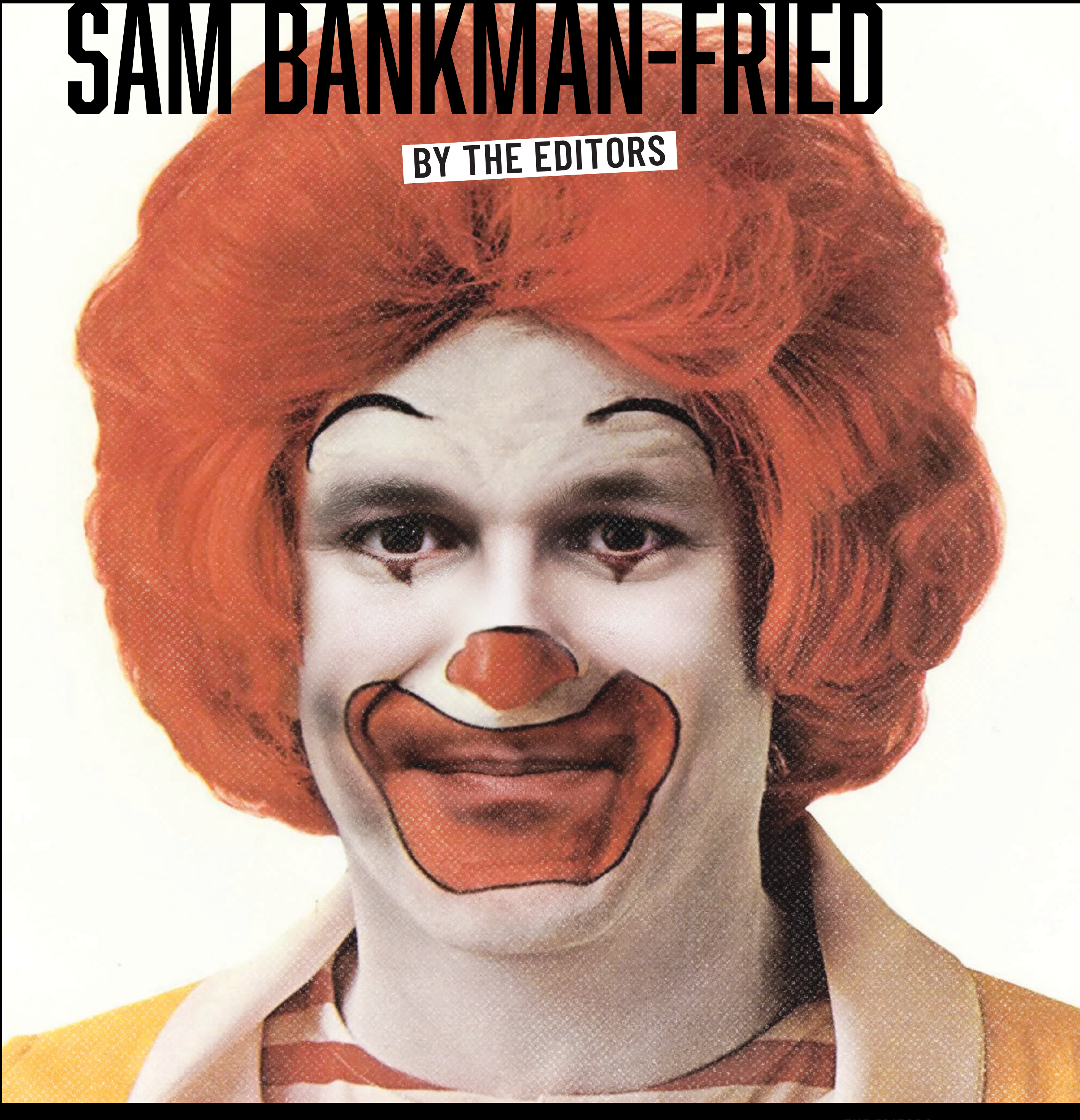
THE **BROKE** ISSUE

GOING FOR BROKE: THE RISE AND FALL OF SAM BANKMAN-FRIED

BY THE EDITORS



The Times

03/Jan/2009

Chancellor on brink of second bailout for banks

This now infamous inscription in Bitcoin's genesis block made clear that the inappropriate fractional reserve banking and predatory loan fiascos of our regulated banking industry were to be put to rest once and for all by this emergent monetary protocol. From now on, a completely transparent and decentralized ledger would de-incentivize fraud and prevent obfuscation of illicit activity. A new competitor to the dollar arose from the ashes of the meltdown, and with it, a new standard for financial fairness, complete with predictable issuance, controlled once and for all by the people, for the people.

Yet even in this system, built to fix the problems of the incumbent systems by innovating away from them, bad actors persist. The story of Bitcoin has certainly had its fair share of nefarious characters, criminal activity, bad haircuts, and worse wardrobes, but our antihero du jour has seemed to outdo them all — in customer funds lost (at least $1 billion), altruistic virtue signaling, political scheming, and countless other manipulations perfected in the legacy systems that Bitcoin seeks to replace — Sam Bankman-Fried could be the most disingenuous fraudster we've seen yet.

Still, the fall of Sam Bankman-Fried has only served to underscore Bitcoin's resolve, its resistance to the Ponzi schemes and single points of failure that plague so many broken institutions and the digital projects that seek to emulate them. This latest crypto contagion has shown that, once again, fraudulent actors who attempt to co-opt Bitcoin's decentralized revolution for their own tired schemes will inevitably go broke themselves.

A VILLAIN'S ORIGIN STORY

Sam Bankman-Fried, better known by the three-letter acronym SBF, seemingly burst onto the crypto scene at the peak of the 2017 bubble, founding cryptocurrency trading firm Alameda Research that September — just four years after graduating from an internship into a full-time position at one of the world's largest market makers, Jane Street Capital.

He is the son of Stanford Law professor and founder of left-wing super **PAC Mind The Gap Barbara Fried**, and Stanford professor Joseph Bankman, an expert on tax shelter laws and government regulation. He attended MIT from 2010 to 2014, where he was introduced to a philosophy known as "effective altruism", the attempt to do the most good for the most people based on evidence and reason, values he frequently trumpets.

At the start of 2018, SBF had struck digital gold while taking advantage of the arbitrage opportunity presenting itself through a higher demand for bitcoin in the Asian market, colloquially known as the ***"kimchi premium"***. By the end of the year, and after amassing a considerable fortune from this high-volume bitcoin/dollar spread, he officially moved to Hong Kong, formally founding the derivatives exchange FTX the following spring.

IN JULY 2021,
FTX raised $900 million at an $18 billion valuation from investors that included Softbank and Sequoia Capital.

IN SEPTEMBER 2021,
it moved its headquarters to the Bahamas.

Perhaps then it should have been clear that SBF and FTX were less interested in getting in on crypto because they could "make the biggest global impact for good" (as one FTX ad phrased it) and more interested in recycling the types of financial obfuscation that for decades have been perpetrated by operations with massive inflows of cash in the Bahamas. But the coming implosion was hard to predict, in no small part because the mainstream media (an increasingly broken institution itself) quickly became enamored with SBF, continuously running glossy profiles that presented him as a young crypto wizard billionaire.

He graced the covers of **Forbes in 2021 ("Meet The World's Richest 29-Year-Old")** and of **Fortune in 2022 ("The Next Warren Buffet?")**. He was glorified for sleeping in a bean bag chair by Business Insider. This fawning media coverage was often framed around his outspoken disdain for personal wealth and professed desire to make the world a better place, for instance with Bloomberg running the headline **"A 30-Year-Old Crypto Billionaire Wants To Give His Fortune Away".**

And if that was not enough coverage, FTX pursued a bloodthirsty marketing campaign focused on professional sports in 2021 and 2022, spending **$135 million** to name the arena of the **NBA's Miami Heat**, an undisclosed sum to become the official cryptocurrency exchange brand of **Major League Baseball**, and millions more on television commercials featuring **Tom Brady.**

THE EDITORS

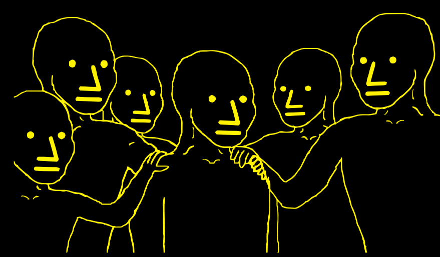
"#41 / **Sam Bankman-Fried on the 2022 Forbes 400** / One of the richest people in crypto, thanks to his FTX exchange and Alameda Research."

CHASE PETERSON-WITHORN,
Forbes Staff

STEVEN EHRLICH,
Director of Digital Asset Research at Forbes

The world's richest twentysomething just got a lot richer. Sam Bankman-Fried's cryptocurrency exchange, FTX, announced Thursday that it's raised another $421 million, pushing its valuation to $25 billion—adding billions of dollars to its 29-year-old cofounder and CEO's already-historic fortune.

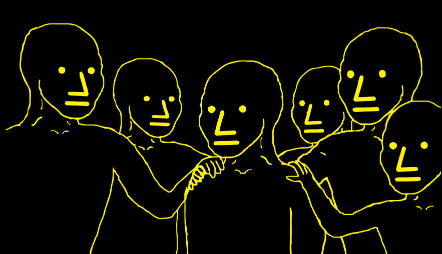
Forbes estimates that Bankman-Fried is now worth $26.5 billion, up from $22.5 billion just a month ago, when the crypto wunderkind graced the cover of this year's Forbes 400 issue as the second-richest under-30 in history.

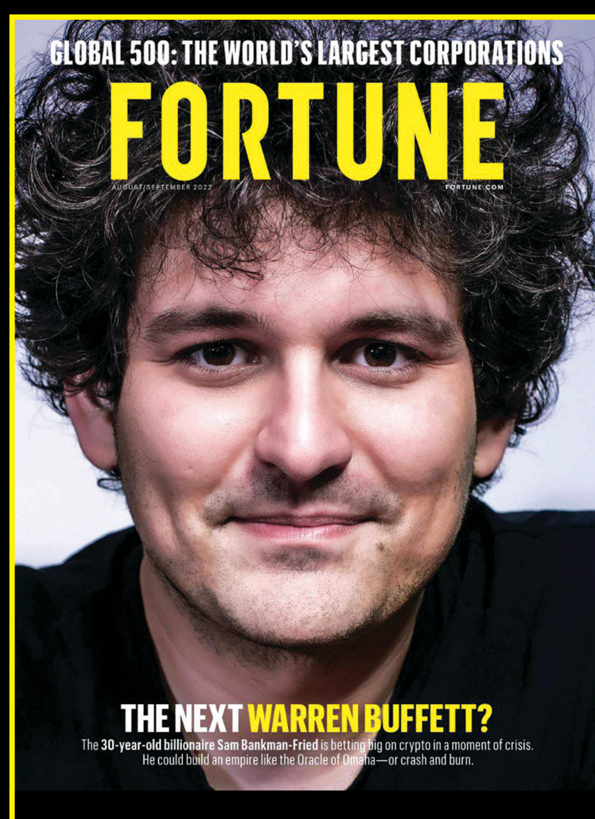


"**EXCLUSIVE:** 30-year-old billionaire **Sam Bankman-Fried** has been called the next **Warren Buffett**. His counterintuitive investment strategy will either build him an empire—or end in disaster"

BY JEFF JOHN ROBERTS,
Crypto Editor at Fortune Magazine
August 1, 2022

Sam Bankman-Fried does not look like the most powerful man in crypto. Friendly and rumpled, with an unruly halo of curly hair, the 30-year-old widely known as SBF has an affinity for League of Legends, fidget spinners, and other trappings of nerd culture. But underneath the goofy facade is a trading wunderkind whose ambition knows no limits.





PLAYING POLITICS

SBF and FTX also embarked on an aggressive spending spree to secure the most decidedly broken legacy institution of all : POLITICS.

SBF and his team contributed more than **$70 million to election campaigns** between 2020 and 2022, with SBF personally contributing **$40 million** to politicians and political-action committees leading up to the 2022 midterm elections.

These sums made him the second-largest Democratic donor in the 2022 election cycle, and he has since claimed that he made similar donations to Republican candidates but hid that fact from reporters. Searching for FTX on FEC.gov brings up **456 individual campaign contributions from SBF, FTX CEO Ryan Salame, and others.**

And SBF has put his mouth where his money is.He has not only funded career politicians who are incentivized to sustain the broken system as it is, but he's frequently advocated for that system to become more heavily involved in his own industry.

IN FEBRUARY 2022,

he told the Senate Agriculture Committee that recent high-profile hacks and scams demonstrated "the need for Federal oversight of the cryptocurrency industry", adding that he was concerned about "scams, Ponzi schemes and pump-and-dumps".

IN OCTOBER 2022,

just one month before FTX filed for bankruptcy, SBF published a draft set of standards for the cryptocurrency industry to "protect customers while waiting for full regulatory regimes". The manifesto called for regulators to crack down on any assets that "misrepresent or make materially misleading marketing claims", among other things.

The natural question is why someone who was actively defrauding customers would invite more scrutiny into their practices, and fund those who would supposedly hold them accountable for their actions. Perhaps SBF believed that the same broken regulatory system that allows fiat financial institutions to break rules and escape with slaps on the wrist would be a welcomed addition to his own industry. Perhaps he sought to instill more consumer confidence in his offerings with a show of good faith. What is for sure is that, while Bitcoin is ultimately permissionless and ungovernable, overregulation of the cryptocurrency industry would negatively impact the Bitcoin users and service providers who seek to maintain pseudonymity and privacy — a net negative for the parallel system building outside of our broken ones.

THE EDITORS

SBF AND HIS TEAM CONTRIBUTED MORE THAN $70 MILLION TO ELECTION CAMPAIGNS BETWEEN 2020 AND 2022

CONTAGION SPREADS

ON MAY 5, 2022,

only a few days after SBF hosted a keynote with former U.K. Prime Minister Tony Blair and President Bill Clinton at the FTX-organized Crypto Bahamas conference, one of the largest-ever over-the-counter bitcoin purchases was announced by the LUNA team; 37,863 BTC at $1.4 billion. It proved to be a defining moment in Bitcoin's struggle to exist outside of the broken system, one that cascaded into a year of cryptocurrency firm insolvencies bookmarked by FTX, ongoing retail devastation, and a reaffirmation that altcoins largely seek to recreate the problems Bitcoin hopes to escape.

Terraform Labs and the non-profit **Luna Foundation Guard**, two entities headed by South Korean entrepreneur **Do Kwon**, had begun a campaign to purchase bitcoin as a reserve asset in the event that its algorithmic stablecoin, UST, **deviated from its $1 peg**. The campaign was driven by the lofty goal of **stacking over $10 billion** in the hardest digital commodity known to man. This purchase was financed with **Three Arrows Capital,** or 3AC, and was facilitated by cryptocurrency broker **Genesis** (at the time of this writing, 3AC has filed for bankruptcy and Genesis is under investigation by securities regulators).

While it's easy to dismiss stablecoins as merely redressed forms of fiat, carrying all of the broken incentives along with them into the digital age, accumulating such a large stack of bitcoin made Kwon an undeniably influential figure in the Bitcoin space. With the bitcoin reserves of **Luna Foundation Guard (LFG) totalling 80,394 BTC**, valued at over **$3.1 billion** following the momentous purchase, **LFG became one of the top 10 bitcoin holders in the world.**

But only for a moment. For while it might feel like a lifetime ago, what happened next should look awfully familiar; the peg was attacked, the recently purchased bitcoin fortune was liquidated, major cryptocurrency exchange **Binance**, led by **CEO Changpeng Zhao (CZ)**, aptly halted all trading on LUNA and UST pairs — with notable exceptions to its own stablecoin BUSD — and Kwon seemingly fled outside of U.S. jurisdiction to Asia.

Perhaps unsurprisingly, **SBF spoke out in defense of Kwon at the time**, arguing that the historic failure of the LUNA/UST peg was **forgivable because it was not built on an outright lie**, merely on the same misleading commercial tactics that have been propping up fundamentally broken offerings for all time.

> "THE LUNA/UST MECHANISM WASN'T MISREPRESENTED – IT WAS, IN FACT, VERY TRANSPARENT,"
> – SBF TWEETED ON MAY 14.

THE EDITORS

" Luna was a case of mass enthusiasm, excitement, and — frankly — marketing and memes — driving people to believe in something which was going to falter according to publicly available information... Similarly, people will now accuse anything that people lose money on of being a Ponzi scheme."

Less than a month after **SBF's public defense of Kwon**, cryptocurrency lending and yield platform **Celsius imploded**, and a **$1.19 billion hole** was discovered in its balance sheet (the company was found to be claiming **$600 million worth of its own CEL token** as an asset). Celsius executives admitted to taking customer funds and speculating in futures instruments with them.

FTX served as the primary exchange for CEL trading, and at least one blockchain analyst noted in a tweet on May 12, 2021 that **FTX held more than 24 million CEL tokens**. Celsius' Chapter 11 filing revealed that it owed a firm called **Pharos $81 million,** twice as much as it owned its second-largest creditor; an investigation by Bloomberg found that many of Pharos' employees were linked to SBF. It also owed **Alameda $12.8 million.**

FTX was set to acquire Voyager Digital, a cryptocurrency lender that filed for bankruptcy in July, for **$1.4 billion** before SBF's exchange filed for bankruptcy itself.

Also in July, SBF reached a loan agreement with beleaguered cryptocurrency lending platform **BlockFi,** but FTX's own implosion has forced it to file for bankruptcy as well.

CELSIUS EXECUTIVES ADMITTED TO TAKING CUSTOMER FUNDS AND SPECULATING IN FUTURES INSTRUMENTS WITH THEM.

FTX SERVED AS THE PRIMARY EXCHANGE FOR CEL TRADING AND HELD MORE THAN 24 MILLION CEL TOKENS.

BROKE ALL ALONG

Throughout most of 2022, however, SBF seemed immune to the spreading contagion. In late October, reports surfaced that he was considering investing as much as $8 billion to help Elon Musk purchase Twitter and it seemed at the time like he could afford it.

BUT ON NOVEMBER 2,

CoinDesk reporter Ian Allison released findings that over a third of all assets — around $5.8 billion of $14.6 billion — on the balance sheet of SBF's Alameda Research was intrinsically, and soon to be fatally, linked to FTX's exchange token FTT. A "bank" run commenced, and after three days of nearly $6 billion in withdrawals, FTX was left with literally one single bitcoin.

ON NOVEMBER 6,

CZ announced Binance would liquidate a remaining portion of FTT it had acquired from exiting FTX's equity, having received around $2.1 billion in BUSD and FTT. Minutes after his announcement, Caroline Ellison, SBF's partner and the CEO of Alameda Research, offered to purchase the tokens at $22 each, in an over-the-counter fashion.

BY NOVEMBER 8,

CZ and SBF had a phone call and seemingly came to a tentative deal for acquisition, reserving the right to back out of the deal at any time, while interestingly also leaving both U.S.-based proprietary exchanges, Binance.us and FTX.us, outside of the scope of the deal.

> "THINGS HAVE COME FULL CIRCLE, AND FTX.COM'S FIRST, AND LAST, INVESTORS ARE THE SAME: WE HAVE COME TO AN AGREEMENT ON A STRATEGIC TRANSACTION WITH BINANCE FOR FTX.COM (PENDING DD ETC)", SBF TWEETED.

Later that evening, FTX officially suspended all asset withdrawals. As part of the conditions of the acquisition, SBF was forced to open FTX's books and show the bottom of his pockets; seeing more sand than dollars, CZ backed out of the deal.

BY NOVEMBER 9,

the day after the elections, SBF had reportedly lost 94% of his net worth, down to $1 billion from more than $15 billion, leaving him with THE LARGEST SINGLE-DAY LOSS BY A PERSON, according to the Bloomberg Billionaire Index.

Early in the morning of November 10, SBF took to Twitter to explain what happened, writing "I'm sorry. That's the biggest thing. I fucked up, and should have done better", before making a specific note :

"THIS IS ALL ABOUT FTX INTERNATIONAL, THE NON-US EXCHANGE. FTX US USERS ARE FINE!"

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On the eleventh day of the eleventh month of 2022, FTX 11
and Alameda Research officially filed for Chapter 11 bankruptcy protection, and SBF stepped down as CEO. In addition, 130 affiliated companies connected or 11
associated with FTX also commenced voluntary proceedings under Chapter 11. The tide had 11
gone out and nearly everyone involved got caught swimming naked, as a near-endless tidal wave of dollar-denominated liquidations made quick work of SBF's 33
broken empire.

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THE EDITORS

BEYOND REPAIR?

While seemingly riding the wave of a booming digital asset revolution, gathering celebrity endorsements and political allies alike, it turns out SBF was drowning in debt and capital misallocation among the loud, mainstream praise.

He masterfully leveraged the tried-and-true schemes of numerous broken legacy systems — philanthropic virtue signaling, offshore financial deception, media flattery, political influence, and more — and put them to work in a dubious crypto ecosystem borne from Bitcoin's legitimate innovation. At the time of this writing, most of **FTX's cryptocurrency has not yet been recovered**, **it owes its 50 largest creditors some $3.1 billion**, and about **$370 million** may be missing as a result of a hack perpetrated after the bankruptcy filing. SBF has been accused of transferring **$10 billion worth of customer deposits from FTX to Alameda Research**.

Yet, nearly a month on from the revelation that the emperor has no clothes, SBF has still not been formally accused of a crime, let alone arrested. While authorities are investigating, he has been featured in remarkably tempered interviews by several mainstream media outlets, including a Times Of Israel piece titled **"Collapse Of Crypto Exchange FTX Endangers Founder's Philanthropic Gifts".**

IF SBF CAN RISE AND FALL SO QUICKLY, AND MAYBE EVEN GET AWAY WITH IT, IT COULD BE THAT THE CRYPTO ECOSYSTEM ISN'T SO DIFFERENT FROM THOSE THAT CAME BEFORE IT.

But there could be a solution.
In the weeks that have followed FTX's epic collapse, on-chain Bitcoin data has shown **a surge in withdrawals of BTC from centralized exchanges to self-custody**. Recently, Glassnode found that these **withdrawals were hitting historic levels**, reaching some 106,000 bitcoin per month. It seems that SBF may have unintentionally minted a new wave of convicted bitcoin HODLers.

Sadly, some investors may never recover from their losses; they will join the many other victims of our broken systems. But others will survive having learned the most valuable lesson of their lives; Bitcoin fixes this.