

[Transcript] The Daily / Sam Bankman-Fried Goes on Trial

From hedge funds, to angel investors, to bull markets.

In the world of finance, names can sometimes be a bit misleading.

Take this one for instance, LSEG, aka London Stock Exchange Group.

LSEG is in London, and they have a stock exchange, but that's just part of what they do.

Today they connect the news, information, insights, and systems that make the global financial markets work.

You see, others do some of what they do, but not everything they do.

LSEG.

My colleague David Yaffe Bellamy, on the trial of the man who was supposed to save crypto, and what its verdict could tell us about why he did it.

It's Tuesday, October 3rd.

David, welcome back to the show.

Thanks so much for having me.

So the last time you were on the show, David, that was almost 10 months ago, we talked about the spectacular rise and pretty incredible fall of the crypto firm FTX.

And of course, its founder, Sam Bankman-Freed.

And as a way to remind people, FTX and Bankman-Freed weren't just another crypto firm.

They were the crypto firm that was going to legitimize crypto, make it mainstream.

But then it turned out that what we thought was the success and this example, this model, was actually smoke and mirrors.

He had to refresh all your memories.

Sam Bankman-Freed was the kind of figurehead of the crypto industry.

The Michael Jordan of crypto, if you will.

His parents were Stanford law professors.

He had this kind of fancy academic background.

He drives a Toyota Corolla to FTX's offices in the Bahamas.

He lives with 10 roommates and a golden doodle named Gopher.

And he was saying all the right things.

Maybe I should try earning a gift, which is to say, try seeing how much I could get to be able to donate.

Ten years ago, when he was in college, he decided that he wanted to dedicate his life to doing good for the world.

He had this sort of veneer of ethics.

He was this guy who was going to make crypto clean.

I think what this highlights is the need for federal oversight of the cryptocurrency industry.

He was going to turn it into something that could help everyday Americans

and that would provide this sort of useful alternative to the inefficiencies

and the inequalities of the traditional financial system.

Meme stocks and cryptocurrency allowing several millennials to make a splashy debut on the Forbes 400.

And that whole project also made him extremely rich.

The FTX founder is now worth an estimated \$11 billion.

He was worth billions and billions of dollars.

He was donating to politicians.

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He lived in a fancy penthouse in the Bahamas.

Nobody has ever gotten that rich, that young, except for Mark Zuckerberg.

And then everything changed for him very quickly.

It does appear that they are filing chapter 11 at FTX.

FTX went from a \$32 billion company to bankruptcy in a matter of just four days or so.

There's so much we don't know.

Well, here's what we know.

He's broke.

And he's in big trouble.

He's in big trouble.

He was arrested in his luxurious penthouse in the Bahamas where he and his colleagues had lived for the past year and a half and quickly extradited to the United States to face the charges.

And he tweeted this morning.

He says, I'm really sorry again that we ended up here.

Hopefully things can find a way to recover.

And he was charged by the federal government in the U.S. with a series of very serious financial crimes.

And remind us what exactly Sam Bankman Freed was charged with.

The prosecutor's charged him with things like wire fraud, securities fraud and money laundering.

But what the charges really boil down to is that he misused his customer's money.

And remember, FTX is a crypto exchange.

It's the place that everyday investors go where they can deposit their dollars and use those dollars to buy different types of cryptocurrencies like Bitcoin.

But it's also kind of like a bank.

They keep their dollars and their Bitcoin and their other crypto on the platform and effectively in the possession of Sam Bankman Freed.

And they assume that when they come back and want it, it will be there.

Exactly.

And what Sam is accused of doing is taking that money

and instead of keeping it for his customers, spending it on all sorts of things.

Donations to politicians, charitable contributions, investments in other companies, even luxury real estate purchases in the Bahamas.

And what the prosecutor says that the mechanism for this

was that Sam would transfer this money over from FTX to a related hedge fund that he also ran called Alameda Research.

In theory, Alameda was just another customer that could trade cryptocurrencies on FTX.

But in reality, the companies were deeply entangled.

Sam and his friends ran this whole business empire together.

The CEO of Alameda, who was handpicked by Sam, was his on and off girlfriend, Caroline Ellison.

Caroline also lived with him in a penthouse in the Bahamas with eight other FTX executives.

The Alameda offices were in the same areas.

The FTX offices, you know, in public, Sam and Caroline would insist that there was a wall separating the two companies.

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But as we've learned more about it, it's become clear that was a complete fiction.

I mean, pretty cozy relationship, quite literally, between these two companies.

Yeah, absolutely. And this actually ended up becoming the seeds of the downfall of the whole business empire.

Because in the middle of last year, when the crypto market entered a steep decline, Alameda started losing money.

It was a hedge fund and it made a number of bad bets.

And before long, there was a giant hole in Alameda's accounts.

And we're not talking about just some minor financial difficulties here.

We're talking about a hole on the scale of \$8 billion.

Crazy.

And the leadership of the FTX Alameda empire started looking for ways to solve that problem.

And what prosecutors say they ultimately did was fill the hole in Alameda's accounts with customer funds from FTX.

OK, so huge hole.

And when customers go to retrieve their money, it wasn't there.

It had gone out the door through a secret trap door, according to prosecutors, to Alameda, right?

On paper, it's a totally different company.

But in practice, it's a company whose fortunes completely depended on FTX.

Exactly. There was a classic bank run scenario, kind of frantic three or four days where everybody was trying to withdraw their money and it just wasn't there.

Eventually, FTX had to shut down withdrawals and a couple days later, it was filing for bankruptcy.

And the prosecutors say this was an intentional fraud, that FTX and Alameda had been set up so that Alameda could effectively steal customers' deposits

and that Sam and his closest lieutenants had defrauded investors in the companies, defrauded lenders and, of course, defrauded customers as well.

Those are very, very serious crimes.

If Sam Bankman Freed is convicted, he could face decades in prison.

What would amount to a life sentence?

OK, so at a high level, according to prosecutors, this was actually a plot.

It wasn't some accounting error or just bad business luck.

It was a conspiracy.

And as we know from other cases like this, unraveling these kinds of schemes can take years of painful financial forensics.

Yet prosecutors in this case charged him really quickly.

You said within weeks, how'd that work?

So the crucial break that prosecutors got is that they convinced several close colleagues of Sam Bankman Freed to flip on him.

And those colleagues were under enormous pressure.

I mean, they were facing charges with the potential to lead to decades in prison.

But they weren't the main target Sam was.

And so they flipped Caroline Ellison, the Alameda chief executive, who's Sam's ex-girlfriend.

She pleads guilty, says, I participated in a criminal conspiracy with this guy.

Another top executive at FTX, actually one of the co-founders of The Exchange, a guy who Sam had

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known since high school math camp, also flipped.

And then there was a third guilty plea from another top executive, someone who'd known Sam and his family for years.

He was the best friend of Sam's younger brother.

And between the three of them, that gave the prosecutors the ability to sort of bring this case very, very quickly.

And so that basically means that they decided to be witnesses for the prosecution to testify against their friend in court.

Exactly. His best friends, his closest professional colleagues, standing up and saying this guy is guilty.

This is kind of incredibly dramatic dynamic of friends turning against friends.

But Sam pleads not guilty, insists that he's innocent, and vows to fight the charges.

Okay, so he's back in the U.S. and he's going to fight.

Exactly. And instead of getting thrown in jail, he's released on bail.

And Sam sort of settles into a relatively comfortable existence.

He's under house arrest, wearing an ankle monitor, and under house arrest, Sam spends a lot of time working on his legal defense.

But he's also working on his image in advance of the trial.

And we actually have a lot of insight into how he was thinking about defending himself.

Because while he was under house arrest, he started writing.

And he wrote a kind of series of treatises that run to more than 250 pages on Google Docs, including one long one that took the form of a giant self-justifying Twitter thread, which he never posted,

but which is full of various legal defenses and justifications for his actions.

And what did he say?

So at one point, and I think this is probably the best example of his mindset,

he says, quote, I'm broke and wearing an ankle monitor and one of the most hated people in the world.

And the truth is that I did what I thought was right.

But it doesn't really sound like the words of someone who's contrite.

No, and this was definitely part of his strategy.

You know, he would be a little bit kind of self-flagellating and take some blame, but ultimately shift responsibility onto others as well.

And that was a narrative that he was advancing all the time while he was under house arrest, meeting with reporters, inviting other guests, and really trying to sort of replace the image that people had in their minds of him.

Right.

I remember from our last episode, he spent a lot of time talking to reporters.

Yeah, absolutely.

I mean, he talked to reporters all the time, and that actually continued during his house arrest.

And in fact, last summer, I took a trip of my own to his parents' house in Palo Alto, kind of a surreal experience.

They live in this sort of quiet suburban neighborhood,

but there was a security guard out front who had to collect my phone on the way in.

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That was part of his bail conditions that nobody could bring a kind of internet-connected device into the house.

And, you know, I walked in the front door.

I think one of his parents actually opened the door for me and met with him.

So this is pretty incredible.

You're going to meet him and talk with him in person.

This man, under indictment, whose every move could come back to haunt him in court.

What did you guys talk about?

You know, we talked about a lot of things, and most of the meeting was off the record, so obviously I can't go into all the details of that.

But one significant thing he did, which he later made public, is that he shared with me private writings written by his ex-girlfriend, Caroline Ellison, who, of course, is also a crucial witness for the prosecution.

She and Sam would communicate using Google Docs, writing long messages that were sent back and forth.

And so these documents were kind of very raw, personal reflections, not just like short emails or text messages, but like pages and pages of sort of diary-like reflections addressed to him.

And the writings are just very sad.

They're the reflections of somebody who is deeply insecure.

She expresses concerns about her own ability to run a company as successful and big and important as Alameda.

She expresses all sorts of insecurities about her relationship with Sam, talks about how difficult it is to work with somebody that she's recently broken up with, how difficult it is to hear people praising him all the time.

It's really a window into the mind of somebody who is incredibly unhappy for the, you know, nine months to a year leading up to her guilty plea.

So he gives you the private writings of his girlfriend, who's also someone accused in the case.

Why would he do that?

You know, obviously I can't read his mind and figure out exactly what he was intending, but one thing we know about this guy is he's someone who's constantly trying to shape PR narratives about himself and about what happened.

And I think it's fair to assume that he saw some sort of benefit from getting this information out.

So that is a real legally risky move for him, right?

It was certainly very risky.

I mean, the legal backdrop to this is that twice already during his house arrest, he'd pushed the limits of what he was allowed to do.

First, he'd tried to contact another witness in the case, sending a message that basically said, hey, let's talk and get on the same page.

And he'd also used a virtual private network to access the internet, a sort of secret way to navigate the web.

And these two incidents were seen by prosecutors as examples of Sam behaving in a way that was sneaky and manipulative and seemed as if he was trying to evade their scrutiny.

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And the judge basically agreed and said, hey, you've got two strikes here. If you cross me one more time, I'm going to throw you in jail. And that's exactly what ended up happening. After I got a hold of those documents that Caroline had written, we immediately decided that they were worth publishing because they provided a window into the thought process of someone who pleaded guilty to a massive fraud. So we put them out there and they were sourced anonymously. We didn't say where we'd gotten them. But once the story was published, the prosecutors became furious. And the defense lawyers immediately admitted that Sam had been the source. It's not totally clear why, but in the end, the judge said this is enough. He had essentially tried to intimidate witnesses in the case and he could no longer remain free. Oh, wow. So in August, he traveled from his home in Palo Alto to court in New York. His bail was revoked and he was immediately taken to the Metropolitan Detention Center in Brooklyn, which is this notorious jail where federal defendants are held. That's had all sorts of complaints over the years, you know, heating problems, staffing shortages, you name it. And he's had a hard time. He's a vegan and his lawyers complained in court that he hasn't been able to eat vegan food. He's essentially been surviving on bread, water and peanut butter. And he also, you know, more importantly, sort of struggled to get medication that he needed. And he's also had a very hard time accessing documents that are important to the case. This is a really complicated white collar case with millions of pages of evidence for him to review ahead of the trial. And his lawyers have said, you know, the laptop that he was given couldn't connect to the internet. Its battery life wasn't long enough and he's effectively had no ability to prepare for trial. So David, listening to this whole saga, it really seems like this is the moment when things are starting to become real for him. Like he was just this wonder boy who seemingly was able to get away with everything. He spent his bail at his parents' very nice California house, even talked to reporters. But when his bail is taken away and he goes to this Brooklyn jail, this would seem to be the time that reality does start to sink in. Jail is not a nice place to be. And for the first time, he's really not in control. Yeah, I think that's fair. Going to jail in New York is one of the most serious tastes of major consequence that Sam Bankman-Freed has faced as this is all played out. And the thing is, it could be about to get even worse for him. We'll be right back. So David, Sam Bankman-Freed is facing these really serious charges. His trial is about to begin.

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How are prosecutors in this case going to go about arguing that he intentionally defrauded people? That this was in fact a conspiracy?

Almost from the moment FTX collapsed, the prosecutors started collecting huge quantities of evidence.

They issued subpoenas to people who had worked for and with the company.

They gathered emails, text messages, spreadsheets with transaction data,

slack exchanges that had happened within the company,

all sort of illustrating how FTX and Alameda operated.

And they ended up with a trove of more than 6 million documents that will help them build their case.

And that's on top of the testimony that they've got from those three cooperating witnesses who were really the three most powerful people in Sam's empire underneath him.

And what's an example of something that they have actually found?

So remember that prosecutors have alleged in the charges that this money from FTX went out a kind of backdoor to Alameda.

Prosecutors actually say they found the snippet of computer code that allowed this to happen.

It was literally programmed into the system.

And the prosecutors say that bit of code, like a chain of numbers that wouldn't mean anything to an average person,

that that's how this crime was committed.

So basically the computer of one secretly talks to the computer of the other and that's how the money went through?

Yeah, absolutely.

And this is crucial because prosecutors have presented it as evidence of intent that had to be programmed in deliberately.

Someone had to make a decision, let's put this piece of information in the code.

So the backdoor appears to be proof that it wasn't just an accounting error,

that money flowed from FTX to Alameda by design.

And it's not the only useful piece of evidence they've got.

They've got contemporaneous material.

They have notes that Caroline took during meetings with Sam.

And probably most important, they have a recording that somebody made of a company-wide meeting,

an Alameda staff meeting that Caroline held just as FTX and Alameda were collapsing where she explained to her employees, this is what's happening.

A few months ago, we had this massive hole in our accounts.

We needed to fill it and Sam and I and a couple of other people authorized the decision to fill that hole using customer funds.

And this recording sounds like an admission of guilt

and it's pretty clearly going to be a powerful bit of evidence in the courtroom.

Wow. I mean, it sounds kind of like a smoking gun.

Yeah, definitely. The prosecutors have made a big deal out of it.

They've posted the whole transcript of the recording in court filings

and I think everyone who's followed the case closely is looking forward to actually hearing the thing.

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Okay, so that's the prosecution's case.

What defense will Sam Bankman Fried make?

It's not entirely clear yet, but based on what his lawyers have indicated, there are a few possibilities.

One thing that Sam has said all along is that this was just a massive screw-up that there was an accounting mix-up at FTX.

He never had any idea that Alameda had taken this much money and there was no conspiracy at all. It was just a mistake.

Another thing that Sam's been saying, though, is that it was everyone else's fault.

In particular, he's tried to shift a lot of blame to Caroline, the CEO of Alameda.

He's claimed he really didn't have much visibility into what was going on on that side of the business and that, frankly, Caroline wasn't that good at risk management, at making sure Alameda wasn't making dangerous bets that could cost both companies money.

And he's also tried to blame lawyers that worked with FTX and Alameda over the years.

He said, you know, look, everything that we did at this company went through lawyers.

I was constantly getting authorization for basic business decisions and how could it be a crime if these legal professionals signed off?

And what he said specifically is that two law firms that worked closely with FTX, ones called Sullivan and Cromwell, the others Fenwick and West, that those firms advised him super closely and signed off on a lot of what he did.

And interestingly, Sullivan and Cromwell is actually still very involved in this whole case.

After FTX collapsed, they were appointed to take over the bankruptcy, essentially, do the work of trying to recover whatever funds could be recovered and redistribute them to creditors.

And it's been incredibly profitable for them.

They've made something like \$100 million.

And one thing that Sam has argued over and over again is that this whole notion that he was at the forefront of a conspiracy is something that's partially concocted by Sullivan and Cromwell.

He's complained that, you know, these lawyers are just setting him up as the fall guy, maybe to protect themselves, to shield themselves from any kind of legal responsibility.

Are any of these defenses expected to work?

I mean, you never know. A jury is always a wild card,

but most legal experts think that he's very likely to lose this case for a lot of reason.

Partly it's those three cooperators.

Partly it's the fact that he's been sitting in jail as the case approaches.

But there is one other wild card here, which is that Sam might testify.

That's very unusual in these types of cases.

Defense lawyers almost always advise against it.

Then again, in a case like this, it could be sort of a useful Hail Mary type move.

By the defense, you know, whenever a defendant testifies, it really changes the tone of the whole trial.

Suddenly, you know, the jury becomes fixated on, is this guy credible?

Do I believe what he's saying?

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And if they don't, that's a problem for him.

If they don't, he's in big trouble.

But he might be banking on the fact that he has successfully charmed huge numbers of people over the years

and might think that he can do it again.

And, you know, we'll find out.

So David, stepping back for a minute here, you know, this alleged scam doesn't seem like it really had that much to do

with crypto itself.

Like, it's not about the blockchain, right?

It's just kind of old-fashioned, plain vanilla, stealing people's money and lying about it.

That's what prosecutors are saying.

Yeah, and on one hand, that's true.

You don't have to understand the intricacies of Bitcoin to understand what happened here.

Money that belonged to one person was taken and used for something else.

But I do think that simplifies the situation a little bit.

In a lot of ways, this case is all about crypto.

It's about a set of behaviors that was enabled because of the freewheeling lack of regulation that has defined crypto for the last few years.

FTX was a company that was set up in the Bahamas partly because it wanted to avoid stricter rules that other governments have.

It was enabled by all sorts of fancy experimental financial engineering that's really proliferated in the world of crypto.

And the consequences from it have had a dramatic effect on the crypto industry.

The market crashed. Prices have gone down.

Other crypto companies that were tied to FTX in all sorts of ways have faced major issues.

Some of them have even filed for bankruptcy.

And in response to this whole fiasco, the U.S. government, including some politicians who were taking money from Sam Bankman Freed, not that long ago,

has conducted a major crackdown on the industry.

The Securities and Exchange Commission has sued a couple big companies that were FTX's major rivals.

And it's much, much harder to operate in the U.S. as a crypto company now than it was before FTX imploded.

It's funny, you know, we started this conversation talking about how Sam Bankman Freed wanted to clean up the crypto industry.

And from what you've just described, he has, just not in the way that he might have expected.

Because FTX and its spectacular fall was really the catalyst in a lot of ways that is driving the change the industry's experiencing right now.

So from all of the conversations you've had with people in the crypto world, David, what are they saying to you about the trial?

What are they thinking right now?

So a lot of people in crypto are not happy that we're even talking about this.

They want us to forget about Sam Bankman Freed and just to move on.

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I was actually at a dinner a few weeks ago with a bunch of crypto guys who, when I brought up Sam Bankman Freed said,

oh, we haven't thought about him in months.

You know, we've totally moved on from this.

But there are other people in the industry who are watching this very closely and really want to see Sam Bankman Freed convicted.

Why? I mean, he's the paragon of crypto.

Why would they want him to be put in jail?

I mean, doesn't that say something bad about them?

I think it's a combination of things.

There's some genuine desire for vengeance, like a real bloodlust among the crypto boosters who trusted this guy and then saw him basically taint the reputation of their entire industry.

But I think there's also a sense among some of these people that maybe if he gets convicted, that will kind of close this chapter and offer this kind of moment of catharsis so that the industry can really move on.

I mean, isn't that a little delusional?

I mean, to think that people are just going to forget everything that happened.

Oh, I think it's completely delusional.

For one thing, this trial is going to put a huge spotlight on the crypto industry and on its worst behaviors for the next six weeks.

And that's going to be really embarrassing.

And then even after this case is over, regardless of what happens in the courtroom, there are going to be Netflix documentaries and movies made about this.

It's just going to continue to occupy an important place in the public imagination.

No matter what happens, the story of FTX is going to linger for years and years.

And it's going to be a memory of how a guy who presented himself as crypto savior turned out to be a fraud.

And for a lot of people, it's going to be a sign that he was leading the industry that's full of frauds.

David, thank you.

Thanks for having me.

We'll be right back.

In an act of vengeance that posed the clearest threat yet to McCarthy's tenure, the move was a rare form of political punishment.

And if it succeeds, could plunge the house into chaos.

It came just days after McCarthy moved to avert a government shutdown by relying on Democratic votes to push through a stopgap spending bill.

He did it over the objection of a block of hardliners in his own party, including Gates.

Under House rules, McCarthy will need to address the motion within two legislative days.

And former President Donald Trump spent the day in court on Monday for the start of a weeks-long civil trial in a lawsuit that could cost him control of Trump Tower and other prized New York properties.

The suit, filed by New York Attorney General Letitia James, charges that Trump committed fraud by inflating the value of his assets.

James seeks a financial penalty, and the trial, which is before a judge, not a jury, will determine the

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size of that.

James also seeks to stop Trump from doing business in New York State.

The properties are currently in legal limbo, pending the outcome of the trial.

On his way into the courtroom on Monday, Trump said James had charged him because he was performing so well in the polls.

Today's episode was produced by Will Reed, Ricky Nevetsky, Michael Simon Johnson, and Eric Krupke.

It was edited by Liz O'Bailyn, with help from Michael Benoit.

Contains original music by Marianne Lozano and Dan Powell, and was engineered by Alyssa Moxley.

Our theme music is by Jim Brunberg and Ben Lansverk of Wonderly.

That's it for the Daily. I'm Sabrina Tavernese. See you tomorrow.