

From Poster Boy to Posting Bail: Sam Bankman-Fried Gets 25 Years for FTX Scandal

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On March 28, 2024, Sam Bankman-Fried, the founder of the now-bankrupt FTX cryptocurrency exchange, was sentenced to 25 years in US federal prison for stealing \$8 billion from customers, along with causing investors \$1.7 billion in losses and shorting lenders by \$1.3 billion. Bankman-Fried was found guilty on November 2, 2023 of seven counts of fraud and conspiracy, including wire fraud and conspiracy to commit wire fraud against FTX's customers, wire fraud and conspiracy to commit wire fraud against Alameda Research's lenders, conspiracy to commit securities fraud against FTX's investors, conspiracy to commit commodities fraud against FTX's customers, and conspiracy to commit money laundering.

This ruling is another example of the legal system in the United States clamping down on fraudulent activity in the crypto industry. While Bankman-Fried's sentencing serves as a warning to other stakeholders in the space, it is still unclear how this decision will impact the evolving landscape of the industry. Moreover, it is unclear how other jurisdictions, including Canada, will proceed with similar cases should they arise.

An Overview of the FTX Cryptocurrency Exchange and its Collapse

In July 2021, FTX was the world's largest centralized cryptocurrency exchange, specializing in derivatives and leveraged products. Once valued at \$32 billion, FTX filed for bankruptcy protection in the US in November 2022 after it had built up \$8 billion in liabilities that it could no longer pay to over one million of its creditors. FTX was founded in May 2019 by Sam Bankman-Fried and Zixiao "Gary" Wang, but the company started with Alameda Research LLC (Alameda) in October 2017. Alameda operated as a crypto hedge fund that bought and sold various cryptocurrencies on FTX's exchange. In September 2021, FTX's headquarters moved to the Bahamas from Hong Kong, and while the exchange did not offer services to U.S. residents, U.S.-based traders could access FTX US, a money services business registered with the Financial Crimes Enforcement Network (FinCEN).

The close relationship between FTX and Alameda drew scrutiny from the cryptocurrency industry as a potential conflict of interest as Alameda was once the largest trader on FTX, which brought liquidity to the exchange. The Securities and Exchange Commission (SEC) alleged that FTX granted Alameda special privileges, including the ability to access a virtually unlimited line of credit. In November 2022, [CoinDesk published an article](#) that highlighted a position held by Alameda valued at \$5 billion in FTT, the native token of FTX.¹ Among other revelations, this report showed that Alameda's balance sheet was majorly comprised

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of FTT. In addition, it was alleged that FTX valued the FTT tokens held by Alameda at prices greater than their market value and Alameda pledged these overvalued tokens as collateral against the line of credit from FTX. Shortly after this report was released, Binance, a rival cryptocurrency exchange, announced its intention to sell and then soon after sold all of their holdings in FTT, worth a total of \$529 million. Binance also proposed to buy all of FTX's non-US business, but this acquisition was dropped after initial due diligence inquiries raised concerns of the mishandling of customer funds.

The value of FTT fell by more than 80% in two days and customers demanded withdrawals of \$6 billion. In addition, FTX reported a hack of approximately \$473 million and announced that both FTX and FTX US intended to move remaining funds to offline cold storage (or, in other words, in digital wallets not connected to the internet). Simultaneously, Alameda announced that they were winding down and FTX filed for bankruptcy. Following this collapse, Bahamian authorities took control of FTX assets and launched an investigation into the company, arresting Bankman-Fried before he was extradited to the US, charged by the US Attorney for the Southern District of New York's office with fraud, conspiracy to commit money laundering, and conspiracy to defraud the US and violate campaign finance laws, and released on a \$250 million bond.

The Trial of Sam Bankman-Fried

Sam Bankman-Fried was on trial for over a month in the United States District Court for the Southern District of New York, with [some commentators noting that the entire cryptocurrency industry was "on trial with him."](#)² However, the central allegation in this trial was that Bankman-Fried used customer funds to prop his own risky investments in Alameda; make loans to himself and others; engage in investments, acquisitions, real estate purchases, political donations, and marketing campaigns, and used millions of the profit on his own luxury lifestyle. Federal prosecutors argued that Bankman-Fried "gained influence and power through investments, contributions, tens of millions of dollars in political contributions, congressional testimony and a publicity campaign that involved celebrities"³ and painted him as someone who deliberately set out to steal customer funds. Conversely, Bankman-Fried's defence team argued that he was an "overworked businessman who made the mistake of assuming the company funds he used belonged to those companies, rather than their customers or investors."⁴

After five hours of deliberation, Bankman-Fried was found guilty on all seven charges. The [prosecution told the jury that FTX](#) was a "pyramid of deceit built by [Bankman-Fried] on a foundation of lies and false promises [...] leaving countless victims in its wake."⁵ Following this verdict, [Manhattan US Attorney Damian Williams said that Bankman-Fried](#) had "perpetrated one of the biggest financial frauds in American history."⁶ While prosecutors sought a prison sentence of 40 to 50 years, Bankman-Fried was sentenced to 25 years in federal prison [with the intention that](#) it "will prevent [him] from ever again committing fraud and is an important message to others who might be tempted to engage in financial crimes that justice will be swift, and the consequences will be severe."

What Does this Mean for the Cryptocurrency Industry?

Since the collapse of FTX, the SEC has initiated multiple crypto-related cases. During the trial of Bankman-Fried, [SEC Chair Gary Gensler made a public statement](#) calling the crypto industry “a field rife with fraud, scams, bankruptcies and money laundering.” The FTX saga led to countless individuals losing life savings and may have also prompted further wariness from investors and regulators alike as to the future of the industry. This decision has only exacerbated the already existing unrest between industry stakeholders seeking clarified rules of the road and the SEC’s mandate of investor protection and holding market wrongdoers accountable.⁷ Until regulators and proponents of digital assets can reach a compromise, US jurisprudence will likely continue to be the main source of the developing body of “crypto law” south of the border.

What Does this Mean for Canada?

In Canada, where there has been substantially less litigation in the cryptocurrency industry than in the US, it remains even more unclear how regulators will proceed with similar cases. However, Canadian regulation has closely followed that of in the US – for example, in March 2021, the Ontario Securities Commission announced the requirement that cryptoasset trading platforms (CTPs) that offer trading in derivatives or securities become compliant with Ontario securities laws. With regard to FTX, these regulations limited the services that FTX could offer in Ontario until it was registered and obtained restricted dealer status in the province. Instead of proceeding with registration, [FTX considered the acquisition of an already-registered Canadian trading platform](#) to gain access to registrations in Canada. While this acquisition was terminated, Canadian clients were protected from some of the impact of FTX’s collapse due to the regulatory requirements placed on Canadian CTPs.

Takeaways

The sentencing of Sam Bankman-Fried in the FTX matter [serves as warning](#) that the US Department of Justice will not tolerate “nefarious, criminal, white collar criminal behaviour in the cryptocurrency sector and industry.” In Canada, the collapse of FTX and the criminal charges that followed for Bankman-Fried suggest that Canadian platforms should be diligent in both considering ongoing changes in regulation and potential foreign merger & acquisition partners.

For more information on how this decision may affect you or your organization, we welcome you to contact our [Blockchain & Digital Assets Group](#) to assist you further.

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¹ Ian Allison, "Divisions in Sam Bankman-Fried's Crypto Empire Blur on His Trading Titan Alameda's Balance Sheet" (2 November 2022), *CoinDesk*.

² See for example, David Yaffe-Bellany & Matthew Goldstein, "Crypto Goes on Trial, as Sam Bankman-Fried Faces His Reckoning" (2 October 2023), *New York Times*.

³ The Associated Press, "FTX founder Sam Bankman-Fried convicted of defrauding cryptocurrency customers" (2 November 2023) online: <[cbc.ca/news/world/bankman-fried-convicted-1.7017241](https://www.cbc.ca/news/world/bankman-fried-convicted-1.7017241)>.

⁴ Nikhilesh De & Sam Kessler, "Sam Bankman-Fried Guilty on All 7 Counts in FTX Fraud Trial" (3 November 2023) online: <coindesk.com/policy/2023/11/02/sam-bankman-fried-guilty-on-all-7-counts-in-ftx-fraud-trial/>.

⁵ Victoria Bekiempis, "Sam Bankman-Fried built 'pyramid of deceit', jurors hear in closing arguments" (1 November 2023), *The Guardian*.

⁶ Bob Van Voris, Chris Dolmetsch & Yueqi Yang, "Bankman-Fried Found Guilty of Fraud at FTX Criminal Trial" (2 November 2023), *BNN Bloomberg*.

⁷ Declan Harty, "Crypto faces world of legal clashes even after SBF trial" (2 November 2023), *Politico*.

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