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Crypto Collapse: Cryptic Response

Introduction

On the heels of the collapse of the crypto exchange FTX and its associated trading company Alameda Research, former CEO Sam Bankman-Fried agreed to interviews by a number of well-known media outlets to explain what happened. Mr. Bankman-Fried, who has, since the collapse, been compared to Bernie Madoff, concedes that he is responsible for the failure of the two companies, yet asserts that he did not intend to commit fraud. His narrative is that he did not know Alameda was using FTX customer deposits to pay creditors and that his mistake was in not paying enough attention to managing risk. However, Alameda CEO Caroline Ellison claims Mr. Bankman-Fried did know the Company was using FTX customer deposits to cover Alameda margin calls. While this case is complicated and multifaceted, Mr. Bankman-Fried's fate largely hinges on what ongoing investigations uncover about what he did and did not know about Alameda's use of FTX deposits. Using our proprietary Tactical Behavior Assessment® (TBA) methodology, BIA examines statements from recent interviews to test the veracity of Mr. Bankman-Fried's claims about the issue. Below is what we discovered.

She Says He Did; He (Never Really) Says He Didn't

During his interview on ABC's "Good Morning America," Mr. Bankman-Fried is directly asked three times if he knew that FTX customer deposits were being used to pay Alameda creditors. In his responses, he repeatedly fails to answer, distracts attention away from the question and attempts to give the impression that he was unaware of this activity. At no point does he directly say that he did not know Alameda was using FTX deposits. Initially, Mr. Bankman-Fried responds by talking about Alameda's large position on FTX that was threatened by a collapse of its assets in the market, but he does not in any way address Alameda's use of FTX deposits. When pressed for an answer, Mr. Bankman-Fried pauses before responding, signaling that he is unable to answer spontaneously. If he truly didn't know, he should have been able to say so immediately. Instead, he eventually says "I don't know of FTX's assets being used to pay Alameda's creditors…which creditors are you referring to?" This statement is a weak denial because it narrowly hinges on "which creditors" the interviewer is referencing. This suggests that Mr. Bankman-Fried was aware at the time that FTX deposits were being used to pay creditors in some cases. Finally, he says "I can't speak for who knew what" to give the impression that he did not know what was going on, but again **this falls short of actually saying so and does not rule out that he did know how Alameda was using FTX deposits.**

By failing to refute Ms. Ellison's statement, Mr. Bankman-Fried's response suggests to BIA that he is unable to do so.

During his interview at the *New York Times's* Deal Book Summit, Mr. Bankman-Fried again responds to a question about Caroline Ellison's claim that he knew Alameda was using FTX client funds to cover margin calls. Specifically, he is asked to reconcile Ms. Ellison's statement with his original assertion that this was an $8 billion accounting mistake. Mr. Bankman-Fried brushes off the part of the question about Ms. Ellison's statement, saying: "I obviously don't know what anyone else is thinking here. I can only talk about it from what I know and from what I knew." He goes on to say that there was a discrepancy between the Company's financials and the dashboards he monitored, which is why he was surprised by the size of Alameda's position. **By failing to refute Ms. Ellison's statement, Mr. Bankman-Fried's response suggests to BIA that he is unable to do so.**

Mr. Bankman-Fried is also asked to address Ms. Ellison's claims in an interview with *Bloomberg*. The interviewer recounts the question and Mr. Bankman-Fried's response in an article published on December 1. The author writes that when confronted with the idea that Ms. Ellison discussed Alameda's shortfall with Mr. Bankman-Fried and his two top officers and that they decided to use FTX customer funds to cover it, Mr. Bankman-Fried paused, then said, "So it's not how I remember what happened." According to the article, he admitted that there had been a meeting, but that he was "only kibitzing on parts of the discussion" and that he felt it was a matter of extending more credit. The author makes no mention of whether Mr. Bankman-Fried confirmed or denied that the loan consisted of FTX deposits. Even so, Mr. Bankman-Fried's initial response, "it's not how I remember what happened," does not refute the notion that he agreed to use FTX customer funds. That he does not immediately take the opportunity to set the record straight is **strong behavioral evidence that leads BIA to believe that Mr. Bankman-Fried did, indeed, knowingly approve the use of FTX customer deposits to extend loans to Alameda.**

What Terms of Service?

Furthermore, when addressing questions about the use of FTX deposits to cover Alameda margin-calls, Mr. Bankman-Fried repeatedly emphasizes that one of the features of FTX is that international users can borrow and lend with one another. This would include Alameda, who traded on the FTX exchange. During the *ABC* interview, he is asked, given FTX's terms of service – that "none of the digital assets in your account are the property of or shall be or may be loaned to FTX Trading" – if Alameda's activity should have raised red flags. In response, he insists: "there's a lot of cases where that is actually explicitly part of the programs" to give the impression that the practice is normal. When pressed, however, he again pauses before saying, "there existed a borrow/lending facility on FTX. And I think that's probably covered, I don't remember exactly where, but somewhere else in the terms of service." The qualifications "I think" that the facility is "probably" covered and the statement "I don't remember exactly where" **suggest to BIA that while the practice occurred, Mr. Bankman-Fried is not sure that borrow/lending with Alameda was, in fact, allowed under the terms of service**. With this backdrop, Mr. Bankman-Fried is again asked, "yes or no," what his answer would be in a court of law if he was asked whether he knew FTX deposits were being funneled to Alameda. In response, he pauses then responds, "I did not know that there was any improper [pause] use of customer funds." Mr. Bankman-Fried's careful use of the word "improper" **suggests to BIA that he knew Alameda was using FTX deposits to pay creditors, and while he may not have viewed it as "improper" at the time, he is now aware that this may be viewed more severely by others.**

> **"I think that's probably covered, I don't remember exactly where, but somewhere else in the terms of service."**
>
> **– Sam Bankman-Fried**

It's Always Sunny in Nassau

Mr. Bankman-Fried repeatedly emphasizes that the demise of FTX was due to failure in risk management. While BIA interprets this as a concerted strategy to convince the public the Company failed due to negligence rather than fraud, the failure in risk management is clearly true. He says that he focused on risk management at the beginning of FTX, but that he was not focused on it for the last year or two. He states, "I got less grounded from that and started focusing on the bigger picture," and that there were "huge management failures" and "a lot of it was on the risk management side." Noting that large, well-known firms have invested money in FTX, the *NYT* interviewer asks if these investors ever asked about risk management. Mr. Bankman-Fried does not say whether anyone asked about risk management. He dismisses the idea that investors focus on risk management by saying that as "a venture capital firm, what you're thinking about primarily is upside" and that "at the point where you are dwelling on all of the various precise downside scenarios and risks for a prospective venture investment, that means you are not investing." However, the fact that Mr. Bankman-Fried does not say whether any investors asked about FTX's risk management suggests to BIA that some firms did ask. His commentary suggests that he was likely able to satisfy those inquiries by giving surface-level talking points that investors may have been hesitant to follow up on due to a desire to be chosen as investment partners. This is a common practice used when investors are not trained in how to ask more probing questions without disrupting a relationship. This, in turn, **suggests to BIA that even early on, despite his reported strength in risk management, he was aware that FTX's risk management protocols were inadequate.**

> **"Do I agree that I lied? I don't know of times when I lied."**
>
> **– Sam Bankman-Fried**

At the end of the *NYT* interview, Mr. Bankman-Fried is asked if he agreed that, over time, he lied. In response, he does not say "no." Instead, he repeats the question, asking, "Do I agree that I lied?" signaling to BIA his discomfort with the question. He then says, "I don't know of times when I lied," which is not a true denial and provides leeway for Mr. Bankman-Fried to change his story in the future. Finally, he admits that there were "certainly times when I was acting as a representative, as a marketer for FTX" and "when I was looking for how can I – in a way which is truthful – paint FTX in as compelling way as possible." He confesses, "I wasn't thinking about, and I wasn't talking about what are the risks involved with FTX." **This leads BIA to believe that Mr. Bankman-Fried was aware he was portraying an overly optimistic story to investors and the general public but relied on the hesitancy of investors to risk being perceived as anything but fully supportive.**

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