

24-961

IN THE
United States Court of Appeals
FOR THE SECOND CIRCUIT

UNITED STATES OF AMERICA,

Appellee,

—v.—

ZIXIAO GARY WANG, CAROLINE ELLISON, NISHAD SINGH, RYAN SALAME,

Defendants,

FTX TRADING LTD., WEST REALM SHIRES INC,
ALAMEDA RESEARCH LLC, ALAMEDA RESEARCH LTD.,

Intervenors,

SAMUEL BANKMAN-FRIED, AKA SEALED DEFENDANT 1,

Defendant-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

APPENDIX FOR DEFENDANT-APPELLANT
VOLUME IV OF V
(Pages A-795 to A-1085)

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TABLE OF CONTENTS

	PAGE
District Court Docket Entries in <i>United States v. Bankman-Fried</i> , No. 22-cr-673 (LAK) (S.D.N.Y.)	A-1
Excerpts of Arraignment Transcript, dated January 3, 2023	A-86
Memorandum and Order Modifying Release Conditions, dated February 1, 2023 (Dkt. 58)	A-88
Order Modifying Release Conditions, dated February 14, 2023 (Dkt. 68)	A-95
Excerpts of Transcript of February 16, 2023 Pre-Trial Conference	A-96
Third Superseding Indictment, dated February 23, 2023 (Dkt. 80)	A-103
Fifth Superseding Indictment, dated March 28, 2023 (Dkt. 115)	A-142
Exhibits to Declaration of Christian R. Everdell in Support of Motion for Additional Discovery	
Exhibit 9 – Excerpts of Bankruptcy Hearing Transcript, dated February 6, 2023 (Dkt. 137-9)	A-185
Exhibit 10 – Emails dated February 16, 2023, and January 13, 2023 (Dkt. 137-10)	A-205
Exhibit 11 – Email dated December 16, 2022 (Dkt. 137-11)	A-211
Exhibit To Bankman-Fried’s Motion to Compel Discovery	
Exhibit 1 – Subpoena to Fenwick & West LLP (Dkt. 151-1)	A-213
Excerpts of Transcript of June 15, 2023 Pre-Trial Conference	A-361

	PAGE
Letter from Government to Hon. Lewis A. Kaplan Re Pretrial Filings, dated June 29, 2023 (Dkt. 171)	A-374
Excerpts of Transcript of July 26, 2023 Pre-Trial Conference.....	A-377
Excerpts of Transcript of August 11, 2023 Pre-Trial Conference.....	A-379
Sixth Superseding (Operative) Indictment, dated August 14, 2023 (Dkt. 202).....	A-381
Excerpts of Transcript of August 30, 2023 Pre-Trial Conference.....	A-399
Letter from Government to Hon. Lewis A. Kaplan Re Advice-Of- Counsel Defense Notice, dated August 18, 2023 (Dkt. 211)	A-401
Government’s Requests to Charge, dated August 21, 2023 (Dkt. 214) ..	A-404
Bankman-Fried’s Requests to Charge, dated August 21, 2023 (Dkt. 215).....	A-504
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Re Advice-Of- Counsel Defense Notice, dated August 23, 2023 (Dkt. 222)	A-554
Letter from Government to Hon. Lewis A. Kaplan Re Advice-Of- Counsel Defense Notice, dated August 29, 2023 (Dkt. 239)	A-557
Letter from Bankman-Fried to Hon. Lewis A. Kaplan In Response To Dkt. 239, dated August 30, 2023 (Dkt. 240)	A-565
Order On Motions To Exclude Proposed Expert Testimony, dated September 21, 2023 (Dkt. 287)	A-572
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Seeking Clarification And Reconsideration Of Rulings, dated October 2, 2023 (Dkt. 306)	A-577

	PAGE
Letter from Government to Hon. Lewis A. Kaplan Moving to Preclude Evidence Of Current Value Of Investments, dated October 8, 2023 (Dkt. 315)	A-582
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Seeking Permission To Cross Examine Gary Wang On Involvement of Counsel In Loan Structuring, dated October 9, 2023 (Dkt. 316) ...	A-585
Letter from Bankman-Fried to Hon. Lewis A. Kaplan In Response To Dkt. 315, dated October 10, 2023 (Dkt. 317)	A-588
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Seeking Permission To Cross Examine Caroline Ellison On Involvement of Counsel In Creating Auto-Deletion Policies, dated October 10, 2023 (Dkt. 318).....	A-590
Letter from Government to Hon. Lewis A. Kaplan Re Additional Requests To Charge, dated October 19, 2023 (Dkt. 326)	A-592
Bankman-Fried's Amended Requests to Charge, dated October 19, 2023 (Dkt. 327).....	A-598
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Re Objections to Government's Proposed Jury Instructions, dated October 24, 2023 (Dkt. 329).....	A-658
Letter from Bankman-Fried to Hon. Lewis A. Kaplan Providing Notice of Certain Direct Examination Testimony Regarding Involvement of Counsel, dated October 25, 2023 (Dkt. 338).....	A-664
Excerpts of Trial Transcript	A-670
 Government's Exhibits	
GX-532 FTX Investor Deck, dated March 2021	A-1220
GX-558 FTX Terms Of Service, dated May 13, 2022	A-1231
GX-866 @SBF_FTX Twitter Post, dated November 7, 2022.....	A-1293

	PAGE
GX-1005 Alameda Balance on FTX in 2022 Chart.....	A-1295
GX-1014 Alameda Borrowing From Third Party Lenders Chart ..	A-1296
Defense Exhibits	
DX-1617 Alameda LOC Principal Chart	A-1297
DX-1618 FTX User Accounts Balance Chart	A-1298
DX-1619 FTX User Accounts All Coins Balance Chart	A-1299
DX-964 (excluded) FTX Blogpost, dated October 28, 2020	A-1300
Exhibit to Bankman-Fried’s Sentencing Submission	
Excerpts of Exhibit E – November 15, 2022 Letter From James M. McDonald To Prosecutors (Dkt. 407-34).....	A-1304
Excerpts of Sentencing Transcript, dated March 28, 2024	A-1308
Notice of Appeal, filed April 11, 2024 (Dkt. 428).....	A-1311

NAB1BAN1 Ellison - Direct

1 Genesis.

2 MS. SASSOON: The government offers Government
3 Exhibit 17, which the parties have stipulated is a document
4 called Rough Balance Sheet, June 19, 2022, dated June 19, 2022.

5 MR. COHEN: No objection.

6 THE COURT: Received.

7 (Government's Exhibit 17 received in evidence)

8 MS. SASSOON: And Mr. Bianco, can you please publish
9 Government Exhibit 17.

10 BY MS. SASSOON:

11 Q. Ms. Ellison, what is this balance sheet?

12 A. This is the balance sheet that I sent to Matt Ballensweig
13 at Genesis.

14 Q. And this is the document you shared via Google Docs?

15 A. That's right.

16 MS. SASSOON: And Mr. Bianco, let's bring this up,
17 Government Exhibit 17, side by side with alternative 7 from
18 Government Exhibit 44.

19 Q. Just to orient you, on the left-hand side we have
20 Government Exhibit 17, which you said was the balance sheet you
21 sent to Genesis, and on the right-hand side we have alternative
22 7. How did these two documents compare?

23 A. They're the same.

24 Q. Did the balance sheet sent to Genesis identify that Alameda
25 had borrowed billions of dollars from FTX customers?

NAB1BAN1

Ellison - Direct

1 A. No.

2 Q. And how did the total liabilities on this balance sheet
3 compare to the internal version of your balance sheet?

4 A. The total liabilities on this one are only \$10 billion,
5 whereas the internal one had about \$15 billion.

6 Q. Did you consider the financial information that you sent to
7 Genesis to be dishonest?

8 A. Yes, I did.

9 MR. COHEN: Objection.

10 THE COURT: Overruled.

11 A. Yes, I did consider it to be dishonest.

12 Q. Why?

13 A. Because it falsely stated the amounts of our actual assets
14 and liabilities, and it—it hid the fact that we were borrowing
15 \$10 billion from FTX customers and made us look much safer than
16 we actually were.

17 Q. You just testified that you sent what you thought was a
18 dishonest balance sheet to Genesis. When you did that, did you
19 consider what you were doing was wrong?

20 A. Yeah, definitely.

21 THE COURT: Let's take our morning break here.

22 (Recess)

23

24

25

NABMBAN2

Ellison - Direct

1 A. Those are all either parts of the related-party loans or
2 investment in equity securities.

3 Q. Just to spell that out, is it your understanding that
4 related-party loans were spent on these types of investments?

5 A. Yes.

6 MR. COHEN: Objection. Leading.

7 THE COURT: Sustained. Rephrase.

8 Q. Can you explain how these categories under the long-term
9 column relate to the related-party loans, if at all?

10 A. The related-party loans were used on these investments.

11 Q. How did the total liabilities compare on the internal and
12 external version of the October balance sheet?

13 A. On the internal version, it's 15.6 billion. On the
14 external version, it's only 8 billion.

15 Q. In the fall of 2022, what did you believe about Alameda's
16 ability to repay the \$13 billion it had borrowed from FTX
17 customers?

18 A. I believe that we had no way to repay it currently, and we
19 would either hope for the crypto market to go up or raise a
20 large amount of money by selling FTX equity, or something along
21 those lines.

22 Q. Why was that your belief?

23 A. Because from looking at these balance sheets, you can see
24 that the FTX borrows number is \$13.7 billion and our liquid
25 assets are much less than that.

NAB1BAN3

Ellison - Direct

1 recipient of the loans listed here?

2 A. Sam was.

3 Q. And looking at row 48 as an example, it says there was a
4 loan of 20 million on October 1, 2021, that was used for GAP.
5 What is GAP?

6 A. GAP stands for Guarding Against Pandemics. That was Sam's
7 political lobbying organization.

8 Q. And what did you learn about how the money to GAP was
9 spent?

10 A. I learned that it was spent on donations to congressional
11 candidates and to political action committees.

12 Q. Overall, in the summer and fall of 2022, what did you
13 understand about where the money was coming from to make
14 additional venture investments?

15 A. I understood that it was coming from Alameda and that
16 Alameda's money was coming from FTX customer funds.

17 Q. In your view, by making additional investments in the fall
18 and summer of 2022, what effect did this have on Alameda's
19 ability to repay its debt?

20 MR. COHEN: Objection. Asked and answered.

21 THE COURT: Sustained.

22 Q. Let's turn to November of 2022.

23 At a high level, what happened in November of 2022?

24 A. Alameda's balance sheet got leaked to CoinDesk, a crypto
25 news outlet. This caused a general market concern about

NAB1BAN3

Ellison - Direct

1 Alameda that increased, ultimately FTT went down a lot, and
2 people started withdrawing a lot of money from FTX, and FTX did
3 not have enough assets to meet all of those withdrawals.

4 Q. And so what happened?

5 A. So FTX and Alameda went bankrupt.

6 MS. SASSOON: Let's pull up Government Exhibit 1087,
7 which is in evidence.

8 Q. Let's start first on November 2nd, which is a Wednesday.
9 Where were you on November 2nd?

10 A. I was on vacation in Japan.

11 Q. And what happened on that day?

12 A. Alameda's balance sheet was leaked to CoinDesk.

13 Q. And when we're talking about Alameda's balance sheet
14 getting leaked, is this the internal balance sheet or a version
15 of the external balance sheet that was shared with lenders?

16 A. This was a version of the external balance sheet that was
17 shared with lenders.

18 Q. And what did you do when you learned that Alameda's
19 external balance sheet was leaked?

20 A. I—I considered whether to comment for the article and
21 discussed the question in a group with Sam and others but
22 decided not to make any comment.

23 Q. Why is that?

24 A. I mean, most of the time by default I wouldn't comment on
25 articles, and there wasn't anything we could think of that

NABMBAN4

Ellison - Direct

1 would just sell it. So I wanted to point out that his real aim
2 in that tweet, as I saw it, was not to sell his FTT, but was to
3 hurt FTX and Alameda.

4 Q. Can you read the defendant's message in this thread.

5 A. Yeah. He says: I think the main point is just to counter
6 the PR/narrative here, and Binance probably won't take us up on
7 it. I also think, for what it's worth, that the market is more
8 likely to buy more if we tweet it, but I don't know.

9 Q. You wrote back: I am about to tweet. FTT will go up.

10 Did you post a tweet?

11 A. Yes, I did.

12 Q. And when you tweeted, were you trying to counter a
13 PR/narrative?

14 A. Yes, I was.

15 Q. What narrative?

16 A. The narrative that FTX and Alameda had serious problems and
17 were potentially insolvent.

18 Q. In your view, at that time, was Alameda and FTX potentially
19 insolvent?

20 A. Yeah, absolutely.

21 MS. SASSOON: Mr. Bianco, can you please show the
22 witness Government Exhibit 876.

23 Q. Do you recognize this tweet?

24 A. Yeah.

25 Q. What is it?

NABMBAN4

Ellison - Direct

1 enough money on the acquisition to backstop all FTX customer
2 assets.

3 Q. What was your reaction to that?

4 A. I was extremely relieved. If the deal went through, it
5 would mean that all of FTX's customers would get their money
6 back, which would be more than I was hoping for at the time.

7 Q. What happened to the deal with Binance?

8 A. It fell through when CZ backed out of it.

9 Q. How soon after the deal had been announced did it fall
10 apart?

11 A. It was pretty soon. I think it was within a day.

12 Q. After that, was FTX able to keep up with customer
13 withdrawals?

14 A. No, it wasn't.

15 Q. And was Alameda able to repay its lenders in full?

16 A. No.

17 Q. What happened on November 11, 2022?

18 A. I believe that was the day that FTX and Alameda declared
19 bankruptcy.

20 Q. And at the time that Alameda and FTX declared bankruptcy,
21 about how much money did Alameda still owe its lenders?

22 A. Its third-party lenders, do you mean?

23 Q. Yes.

24 A. Maybe in the ballpark of a billion dollars.

25 Q. Did there come a time after Alameda and FTX declared

NAB1BAN5

1 (Jury not present)

2 THE COURT: Okay, folks. Be seated.

3 I think we have two open items of business that may
4 affect the cross, right? We have this controversy about
5 mention of Anthropic and Mr. Cohen's letter of October 10th, to
6 which I think I have an answer for you.

7 The witness is out of the room.

8 Let me address a question to the government. I
9 understand the point about mention of Anthropic. Suppose that
10 the defendant had otherwise admissible evidence, fully
11 admissible, not about Anthropic or any other specific
12 investment but about what their letter of the 10th refers to as
13 the portfolio nature of venture capital investing. What would
14 be the government's position about that?

15 MS. SASSOON: So I think there are two distinct issues
16 here. One is pre-collapse and one is post-collapse. I think
17 anything about the portfolio post-collapse is totally
18 irrelevant. If we're talking about pre-collapse, there was
19 some testimony that these venture investments were speculative
20 and risky, and I think that's what the defense wants to
21 address. I think from the government's standpoint, it was
22 appropriate to elicit that information because the defense has
23 claimed a variety of the defendant—

24 THE COURT: But it's in already, so nobody's saying it
25 wasn't.

NAB1BAN5

1 MS. SASSOON: So I think that goes to the defendant's
2 knowledge and his intent. But the core issue here is whether
3 he misappropriated the money, and whether he put it into a
4 government bond or a venture portfolio, it's still fraud. And
5 so we think there's limited to no relevance to any evidence
6 that they want to bring in about how they could have shot the
7 moon with one of these investments.

8 THE COURT: So your position is even a general
9 discussion of a portfolio nature or portfolio approach to
10 venture capital investing would be irrelevant.

11 MS. SASSOON: One moment.

12 Yes, so we think that the safety or riskiness of the
13 investments is ultimately not relevant to the misappropriation.
14 On this question about the portfolio, I don't understand the
15 proffered relevance by the defense, but if they explain it now,
16 I would ask for an opportunity to respond.

17 THE COURT: Well, that's your cue, Mr. Cohen.

18 MR. COHEN: Thank you, your Honor.

19 A couple of things. The government has put on
20 evidence that one of the ways in which the loans from FTX to
21 Alameda were invested was in a series of venture investments,
22 which it has gone out of its way to describe as speculative and
23 risky. We had extensive testimony, including from today's
24 witness—yesterday and today—about her view of the riskiness
25 around making such investments, and the government is—although

NAB1BAN5

1 they claim it's not part of their case, they're doing it an
2 awful lot, Judge, and they're clearly trying to argue to the
3 jury that the fact that the investments were, in their view,
4 risky is itself proof of the crime. And the only way to rebut
5 that, your Honor, is for us to be able to proffer evidence,
6 either through cross-examination or otherwise, on a couple of
7 levels. One is that, as your Honor described it, the
8 portfolio—this venture investing is a portfolio approach. You
9 buy in ten startups; if two hit, you're doing great. If one of
10 them was, you know, Facebook, you'd—

11 THE COURT: It depends how much you put in the bad
12 ones—

13 MR. COHEN: Correct.

14 THE COURT: —and what the return on the good ones
15 were, and how much you put in the good ones.

16 MR. COHEN: Correct. And here—

17 THE COURT: So it could be a disastrous venture, or
18 not.

19 MR. COHEN: Correct. But here, just to give your
20 Honor context, the Anthropic investment was a \$93 million
21 investment that the trustee in bankruptcy sold for a hundred
22 million and is today worth a billion dollars.

23 THE COURT: Publicly traded?

24 MS. SASSOON: No, your Honor. This is a private
25 valuation, which, if you take this case as just one example,

NAB1BAN5

1 it's highly misleading about whether you could actually
2 liquidate for that amount of money. And this is part of the
3 concern about Anthropic specifically. It has the potential to
4 create a misleading impression with the jury about the nature
5 of this portfolio, which perhaps in hindsight, you could make
6 these arguments, but has no bearing on the fact that it was a
7 gamble at the time that these investments were being made.

8 MR. COHEN: So then why are they arguing that these
9 investments were risky and illiquid and so forth and trying to
10 suggest they were improper if it's not related to the crime?
11 Why are we having hours of testimony?

12 THE COURT: The crime charged is that he took the
13 money.

14 MR. COHEN: Right.

15 THE COURT: That's the crime.

16 MR. COHEN: Right.

17 THE COURT: And what he did with it afterward doesn't
18 matter. This is like saying that if I break into the Federal
19 Reserve Bank, make off with a million bucks, spend it all on
20 Powerball tickets and happen to win, it was okay.

21 MR. COHEN: Your Honor, they're offering evidence
22 exactly on your Honor's hypothetical. They are offering
23 evidence that you used the money for Powerball as proof of the
24 crime.

25 THE COURT: No, I don't see it that way. I mean, the

NAB1BAN5

1 crime is the misappropriation. That's it, it's finished, the
2 minute the misappropriation happens, whether it's used wisely,
3 foolishly, or whatever, and that's my view. I certainly would
4 never have let in the Anthropic because letting in the
5 Anthropic is kind of like trying to prove that you're a good
6 guy by looking around the room, picking your three best
7 friends, and asking them what kind of a guy you are, and
8 ignoring everybody else. Right? That doesn't work. You don't
9 get to pick your friends and do it that way. It's just
10 unrepresentative. It's meaningless. So—

11 MR. COHEN: But that takes us back to the more narrow
12 point about whether or not we can elicit the nature of venture
13 investing.

14 THE COURT: Well, it does take us back to that. And
15 so far as that is concerned, it might be one thing if you had a
16 qualified witness to talk about that. I'm not saying that
17 would be admissible. I have my doubts about that. But I can't
18 see how eliciting anything from Ms. Ellison on
19 cross-examination on this subject possibly overcomes all the
20 barriers to relevance and admissibility, and maybe you can
21 enlighten me on that.

22 MR. COHEN: Well, they have elicited this testimony
23 from Ms. Ellison. They have elicited from her that she viewed
24 the venture investments as risky investments, with the
25 implication that the defendant should not have made them and

NAB1BAN5

1 that they were reckless, the defendant was reckless for making
2 them, and one way to rebut that is to show they were part of a
3 portfolio approach to venture investing, which is very common.

4 THE COURT: Which might or might not have paid off.

5 MR. COHEN: Right.

6 THE COURT: And she had her opinion.

7 MR. COHEN: And if the witness doesn't know about the
8 portfolio theory of venture investing, then we are bound by the
9 answer.

10 MS. SASSOON: Your Honor, that testimony was admitted
11 for a proper purpose, which is to show the defendant's
12 knowledge of the misappropriation. One—

13 THE COURT: And her state of mind at various points.

14 MS. SASSOON: Her state of mind and the fact that the
15 money was not just sitting in a bank account ready to be
16 provided to customers, it had been misappropriated and spent on
17 other things, and there were discussions with the defendant
18 establishing that he knew that it was being spent on other
19 things and that this put them in a position of having to use
20 customer money for other expenses, which is exactly what
21 happened. And the fact that in 2021 she's warning the
22 defendant about these investments is inextricably linked to
23 what happened in June when they don't have the money and they
24 have to use customer funds, and it goes to his knowledge about
25 the use of funds to repay the loans because he knows that the

NAB1BAN5

1 money is tied up in illiquid venture investments.

2 THE COURT: Yes. The government's motion on this
3 point is granted, period. I'm not ruling now on the question
4 of whether somewhere down the road you want to proffer a
5 witness on this. I'll cross that bridge if, as, and when I get
6 to it.

7 MR. COHEN: Understood, your Honor.

8 THE COURT: Okay. Now the other issue is the
9 application by the defense with respect to auto-deletion, where
10 the witness said that she had been told, or the employees
11 generally had been told, that the defendant told people
12 generally to set auto-deletion on some of these messaging
13 accounts and had some other comments that she attributed to
14 him. How about that one, or have we really covered that
15 already? Mr. Cohen?

16 MR. COHEN: I'm sorry, your Honor. I apologize. I
17 didn't hear you. I'm sorry.

18 THE COURT: I said how about that, or have we covered
19 this already?

20 MR. COHEN: Well, I think it is covered in the letter,
21 and the testimony was elicited today about the involvement of
22 counsel, and we would like to be able to ask it—

23 THE COURT: And what was said about the involvement of
24 counsel—

25 MR. COHEN: Well, the—

NACMBAN3

Ellison - Cross

1059

1 Q. Take a moment and look at that for a minute, Ms. Ellison.

2 That way, we won't have to come back to it.

3 A. Um-hum.

4 Q. What did you mean by the phrase limited factors in scaling?

5 A. By limiting factors in scaling, I meant those were things
6 that were preventing Alameda from doing as well and making as
7 much money as we could.

8 Q. The first one you put down was called management and
9 vision.

10 You see that?

11 A. Yes.

12 Q. What do those entries refer to?

13 A. In that I was saying I thought the biggest factor was that
14 Trabucco and I weren't as good managers or leaders as we could
15 be, and we weren't pushing other -- pushing employees to make
16 new things or do better in the way that I wished we were.

17 Q. Then the next item was about the pros and cons of being in
18 different locations, is that correct?

19 A. Yes, that's right.

20 Q. The last item was your thoughts on the trading team.

21 A. Yes, that's right.

22 MR. COHEN: We can take that down.

23 Q. Now, coming back to the bug we have been discussing from
24 June 2022, how did you first learn about it?

25 A. I learned about it in a meeting with Sam, Gary, and Nishad.

NACMBAN3

Ellison - Cross

1060

1 This was an in-person meeting in the Alameda Bahamas office.
2 We came into this meeting to discuss Alameda's capital
3 situation because at the time I believed Alameda's NAV to be
4 negative or at least close to negative, that we were insolvent,
5 and I wanted to discuss what to do about the situation, whether
6 we would need to declare bankruptcy. But Gary came into this
7 meeting and said, oh, by the way, there is a bug in Alameda's
8 fiat liability, so your NAV numbers are actually off by several
9 billion dollars.

10 Q. When did you first become concerned that Alameda might be
11 insolvent?

12 A. I think this was in around May of 2022, when the crypto
13 market was going down.

14 Q. Is this what led to meeting with Gary, Sam, and Nishad?

15 A. Yes, that's right.

16 Q. Now, during this period in June, did you have other
17 meetings with just Gary and Nishad?

18 MS. SASSOON: Your Honor, objection to this period in
19 June.

20 Q. We will just say June.

21 A. None that come to mind.

22 Q. Did you have any Signal or other Slack communications with
23 Gary and Nishad about the bug?

24 A. Yeah. I think we had some Signal communications in the
25 chat that we shared with Sam.

NACMBAN3

Ellison - Cross

1061

1 Q. I'm asking now, ma'am, a different question, whether you
2 had Signal or Slack communications with Gary and Nishad that
3 Sam was not on.

4 A. Not that I recall.

5 Q. You don't recall that.

6 A. No.

7 Q. Now, you just told us that Gary took a look at this and
8 concluded that there had been a bug in the system, correct?

9 MS. SASSOON: Objection, form.

10 THE COURT: Sustained.

11 Q. Go over what Gary told you.

12 A. He said that he had found a bug in the calculation of
13 Alameda's fiat liabilities. That meant that our current
14 numbers were off by several billion dollars.

15 Q. And when the account was adjusted for the impact of the
16 bug, did that have an impact on whether or not Alameda was
17 solvent, in your view?

18 A. It made our NAV significantly positive.

19 Q. The NAV was significantly positive; it wasn't solvent?

20 A. I think that depends on market conditions and whether we
21 could realistically sell our assets.

22 Q. What was your reaction when Gary told you this?

23 A. At first, I was a bit skeptical and confused about how such
24 a large bug could have happened and no one had noticed or
25 caught it before now. But once I became convinced that it was

NACMBAN3

Ellison - Cross

1062

1 real, I was quite relieved.

2 Q. So you had not known about the bug previous to this
3 sequence you just told us about?

4 A. That's right.

5 Q. I think you told us one of your concerns -- withdrawn. Let
6 me start again.

7 After the bug was discovered, what happened in terms
8 of going forward?

9 A. There was a period of time where we were aware of the bug,
10 but it hadn't been fixed yet, so I tried to adjust for it in my
11 balance sheet calculations, and then eventually the bug was
12 fixed.

13 Q. What about the accounting in relation to the bug, what
14 happened to that?

15 A. Can you specify what you mean by that?

16 Q. Sure. After the bug was discovered, there had to be
17 another reconciliation of the fiat@ account, correct?

18 A. Yes, that's right.

19 Q. To your knowledge, did that happen?

20 A. Yes, it did.

21 Q. Do you know when that happened?

22 A. No.

23 Q. Moving to a period after the bug, did you ever come to a
24 view about whether the accounting for the fiat bug was in a
25 better situation than it had been before?

NACMBAN3

Ellison - Cross

1063

1 A. Yes. After the bug had been fixed, I believe that our
2 accounting was in a better situation.

3 MR. COHEN: Your Honor, I am about to start another
4 topic. This might be a good time for our lunch break.

5 THE COURT: OK. We will come back at 20 minutes to 2,
6 please.

7 (Luncheon recess)

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NACMBAN5

Drappi - Direct

1129

1 (At sidebar)

2 THE COURT: You both get A plus in evidence law, but
3 this is a colossal waste of time. There is absolutely no doubt
4 he owned the company. Ellison, the ostensible co-CEO or CEO,
5 runs all these decisions through him. He was obviously the
6 boss. What are we wasting this time for?

7 MS. KUDLA: Your Honor, the employee is a low-level
8 employee, and even from his level of employment he could see,
9 based on this day-to-day --

10 THE COURT: So what. So what.

11 MS. SASSOON: Your Honor, this is a misrep. The tweet
12 is him saying --

13 THE COURT: Of course it is. It's a misrep, no matter
14 what this guy says.

15 MS. SASSOON: They don't seem to be conceding that
16 these are misreps.

17 MR. EVERDELL: I don't concede that this witness has
18 the basis to be able to make this statement. That's all, your
19 Honor.

20 THE COURT: If you want to play this out this way,
21 fine. I will let you run evidence for introducing introductory
22 trial lawyers, but this is a joke.

23 MR. EVERDELL: I understand, your Honor. I am not
24 trying to waste time.

25 MS. KUDLA: Your Honor, we are only making very

NACMBAN5

Drappi - Direct

1130

1 limited points here that even in his low-level position, the
2 minimal things that he saw that he observed with Sam
3 Bankman-Fried providing direction.

4 THE COURT: Why don't you ask him that.

5 MS. KUDLA: I am getting to that point. It will only
6 take about ten minutes.

7 THE COURT: Some people don't have ten minutes left to
8 live.

9 MS. KUDLA: Fair.

10 MS. SASSOON: Your Honor, we can't assume that the
11 jury credits everything a cooperating witness says. It's
12 appropriate to corroborate the cooperator and to establish --

13 THE COURT: If your case rises and falls on whether
14 this guy believed that Sam Bankman-Fried was running the show,
15 you've got troubles. Could we move along. There doubtless are
16 things he saw perhaps. I say doubtless. I wasn't there.

17 MS. KUDLA: That's fine, your Honor.

18 (Continued on next page)

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NAC1BAN6

Prince - Direct

1165

1 was around \$650 million worth of value. A week before that it
2 had been a little higher than that, 800 million, but there had
3 been some payments, you know, in that week leading up to their
4 filing, but \$650 million was the amount that Alameda owed us at
5 the time of their filing.

6 Q. So just to be clear, when they filed their bankruptcy, was
7 that paid, had that been paid back to BlockFi, as a lender?

8 A. No. No, that was the—the outstanding balance that to date
9 has still not been paid.

10 Q. And then just one more question before we break, if that's
11 okay with your Honor. What happened to BlockFi after that?

12 A. As a result of FTX and Alameda's bankruptcy, because of our
13 lending to Alameda but also some exposure we had to the FTX
14 platform, BlockFi was forced into—into bankruptcy, and so the
15 clients on our platform have, you know, currently, in any of
16 the interest-earning products, an uncertain outcome in terms
17 of, you know, how much of the funds that they had on our
18 platform they will see back. Our shareholders—

19 MR. COHEN: Objection, your Honor.

20 THE COURT: What's the objection?

21 MR. COHEN: Speculative and beyond the question.

22 THE WITNESS: I'm sorry.

23 THE COURT: The question was: "What happened to
24 BlockFi after that?" The answer—

25 MR. ROOS: I think he was describing—

NAD1BAN1

Prince - Direct

1 (In open court)

2 THE COURT: The testimony stands, and Mr. Prince, if
3 you remember where you were, you can complete your answer. And
4 if not, Mr. Roos will take care of it.

5 A. I remember where I was. I was starting to talk about the
6 second important distinction between cryptocurrency lenders and
7 cryptocurrency exchanges, which was in how the market and
8 customers understood what would happen with assets that they
9 placed on those platforms.

10 THE COURT: Well, let's start with how you understood.

11 THE WITNESS: Sure.

12 A. So on crypto lending platforms, generally there was a
13 interest rate that was being earned when you held assets there,
14 and there was an understanding that the reason you were earning
15 that interest rate was because the lending platform was going
16 to take those funds and further lend them on. And there were
17 generally words that describe this; in BlockFi's terms of
18 service there were words that very clearly described this; in
19 our marketing materials there were words that very clearly
20 described this. We will lend, relend, pledge, rehypothecate,
21 which is a fancy legal word that means relend assets that
22 you're given. Contrast that to cryptocurrency exchanges,
23 where—

24 THE COURT: Let's focus on contrast it to
25 cryptocurrency exchanges with which you dealt.

NAD1BAN1

Prince - Direct

1 throughout that time period, adhered to all the terms in the
2 lending agreements like, you know, like we would expect a good
3 borrower to do. They made their interest payments on time; if
4 there were ever margin calls, they met them.

5 Q. Now moving ahead to May 2022, were there any changes to the
6 strength of the cryptocurrency market during that period?

7 A. Yeah. In May and—May and June of 2022, the cryptocurrency
8 market was experiencing downward volatility. The prices of
9 major cryptocurrencies were declining. There were, you know, a
10 few notable failures or blowups of cryptocurrency firms.

11 Initially there was a—a firm called—or a cryptocurrency
12 called Luna. The Terra Luna ecosystem blew up. Subsequently a
13 hedge fund—

14 THE COURT: What do you mean by Terra Luna ecosystem,
15 please?

16 THE WITNESS: Yeah. So Luna was a—was a
17 cryptocurrency. And think of like Bitcoin or Ethereum. Call
18 it a competitor to Bitcoin or Ethereum. Terra was a—it was
19 like a—what we call a stablecoin in cryptocurrency land. It's
20 another cryptocurrency trying to mimic the value of a dollar.
21 And each of these had their own kind of blockchain protocols
22 and they were connected to each other. One of the mechanisms
23 that was used to try and keep the coin that was supposed to
24 mimic a dollar at a value of a dollar was the other
25 cryptocurrency Luna. And this—that whole concept came

NAD1BAN1

Prince - Direct

1 crashing down. The dollar coin became not worth a dollar, the
2 Luna coin, you know, declined in price dramatically as well.

3 BY MR. ROOS:

4 Q. And what effect, if any, did these changes to the
5 cryptocurrency market in May 2022 have on BlockFi?

6 A. So Three—Three Arrows Capital was a—a kind of trading
7 firm or hedge fund that was also a borrower at BlockFi. They
8 defaulted on loans that they had with us in late May or early
9 June of 2022. So we had a very large collateral liquidation
10 process with them and ultimately, at the end of that process,
11 were sitting on—were sitting on some losses.

12 I'm not sure if I'm supposed to go into June of 2022.

13 Q. Let me stop you there. I'll ask another question.

14 So after that, were there any additional changes in
15 the cryptocurrency market that affected BlockFi's lending?

16 A. Sure. Well, the—the, you know, bigger than Three Arrows,
17 what had a big impact on us at that time is that two of the
18 other top cryptocurrency lending platforms, Voyager and
19 Celsius, paused their platforms, and ultimately both of them
20 filed for bankruptcy. But they, you know, they paused the
21 ability of consumers to be able to withdraw money from—from
22 their platform. So you can imagine what, you know, what effect
23 that had on—on BlockFi if you have a couple of crypto lending
24 platforms shutting—shutting their doors. You know, we were
25 experiencing the highest level of withdrawals that we had—that

NAD1BAN1

Prince - Direct

1 we had ever experienced in our—in our history as a company.

2 So consumer confidence in cryptocurrency lending platforms and,
3 you know, the broader cryptocurrency market was not in a great
4 spot at that time.

5 Q. So in light of those withdrawals on BlockFi, how, if at
6 all, did that affect the lending BlockFi was doing?

7 A. We—so, you know, if you think about our model, when folks
8 are holding funds on our platform to earn interest, we're then
9 lending that out to borrowers over here. If the folks that
10 were holding the funds go to withdraw their assets, we have to
11 close out the loans with the—with the firms that were
12 borrowing. And so, you know, in June of 2022, I believe we
13 called back, you know, essentially every single open-term loan
14 that we had on our—on our platforms. This was, you know,
15 billions of dollars in withdrawals from consumers and then
16 loans that were called back so that we could meet those
17 withdrawals.

18 Q. Did that include loans to Alameda?

19 A. It did.

20 Q. And when did you start calling back loans from Alameda?

21 A. I don't know the exact date, but it would have been last
22 week of May or first two weeks of June of 2022.

23 Q. And how was it that BlockFi was able to call these loans
24 back on such a short basis?

25 A. Because the structure of the loans was that they were, you

NAD1BAN1 Prince - Direct

1 know, open-term loans, so we had the right as the lender to
2 terminate the loan with, you know, a few days' notice.

3 Q. Did Alameda repay the loans?

4 A. Yes, in full.

5 Q. Now around this time did BlockFi enter into an agreement to
6 potentially sell itself to FTX?

7 A. Yes. In the—in the back half of June—

8 MR. COHEN: Objection. Could we have clarity by which
9 FTX entity we're talking about.

10 THE COURT: Sure.

11 MR. ROOS: Sure.

12 Q. Which FTX entity are we talking about?

13 A. It was the FTX.US entity, which I'm not a hundred percent
14 certain about this, but I think it—I think the FTX.US entity
15 had a corporate name of like WRS. I could have that wrong.
16 But it was—FTX.US was the, you know, counterparty that we did
17 that transaction with.

18 Q. I think you were in the middle of giving an answer about
19 this agreement to sell. So I'll pick back up there.

20 How did it come about that you were potentially going
21 to sell to one of the FTX entities?

22 A. Sure. So, you know, we—given the market volatility and
23 the action—the activity that we were seeing on our platform
24 and a, you know, hyperawareness that for a business like ours,
25 consumer sentiment and confidence was—was, you know, really

NADMBAN2

Prince - Direct

1 Q. What was the breakdown of, on the FTX exchange versus had
2 been lent to Alameda?

3 A. About 650 million lent to Alameda, about 350 million on the
4 FTX exchange.

5 Q. Yesterday, right before we broke, you testified that after
6 FTX and Alameda declared bankruptcy, BlockFi declared
7 bankruptcy. Can you explain why BlockFi had to declare
8 bankruptcy?

9 A. Sure. I mean, once it became clear that repayment of the
10 Alameda loans and being able to access the funds that we had on
11 FTX was impaired, once it became clear that that was not going
12 to be possible, our view of the financial health of BlockFi's
13 business was such that we needed to declare bankruptcy.

14 MR. ROOS: No further questions.

15 THE COURT: All right. We will take 15 minutes.

16 For your information, ladies and gentlemen, we are
17 going to break at 12:30 today.

18 (Recess)

19 THE COURT: OK, folks. Let's go. Get the witness,
20 please.

21 Defendant and the jurors are all present, as has been
22 true throughout.

23 Cross-examination, Mr. Cohen.

24 MR. COHEN: Thank you, your Honor.

25 CROSS-EXAMINATION

NAGMBAN1

Morad - Direct

1292

1 said it was balance sheet information that became public and
2 people were a little bit worried about their ability to access
3 all their funds and that they were experiencing -- that many
4 people were withdrawing funds from the platform.

5 Q. Were you following Mr. Bankman-Fried's Twitter feed at this
6 point in time?

7 A. Yes, I was.

8 Q. And do you recall reading any tweets Mr. Bankman-Fried
9 posted to Twitter around that time?

10 A. Yes, I do.

11 Q. Do you recall what they said?

12 A. One in specific was not to worry, all the funds were there
13 and all withdrawals would be covered by FTX.

14 Q. What, if anything, did you conclude after reviewing that
15 tweet and others like it by Mr. Bankman-Fried?

16 A. I was very relieved, happy to hear from the leader of the
17 company to know and reassuring and knowing that the money was
18 there and it was just rumors.

19 Q. Right after you saw that tweet, did you try and withdraw
20 funds from FTX?

21 A. No, I did not.

22 Q. Did there later come a time where you did try to withdraw
23 your funds from FTX?

24 A. Yes. The following day.

25 Q. Were you able to successfully withdraw your funds when you

NAGMBAN1

Morad - Direct

1293

1 tried?

2 A. No. It did not process or go through.

3 MR. RAYMOND: Ms. Cotto, can you show for the witness
4 what's been marked for identification as Government Exhibit
5 539.

6 Q. Mr. Morad, do you recognize Government Exhibit 539?

7 A. Yes, I do.

8 Q. What is it?

9 A. That is a screenshot I took at one time -- I put the date
10 there myself, November 10, 2022 at 1:19 p.m. It was when I
11 came across that banner across the top there. I wanted to make
12 sure that I had evidence or proof that I did have money on the
13 platform in case it wasn't functioning anymore or whichever.
14 It was a screenshot I took.

15 MR. RAYMOND: Your Honor, the government offers
16 Government Exhibit 539.

17 MR. LISNER: No objection to the document, except we
18 would request to redact the material that Mr. Morad added to
19 the document, which is the date in red.

20 MR. RAYMOND: Your Honor, I don't know the basis for
21 that. The witness has explained the source of it.

22 THE COURT: The request is denied. The document is
23 received in evidence.

24 (Government Exhibit 539 received in evidence)

25 MR. RAYMOND: Ms. Cotto, can you publish. Thank you.

NAGMBAN1

Morad - Cross

1294

1 Q. Mr. Morad, was this after you had attempted to withdraw
2 your funds?

3 A. Yes, it is.

4 Q. And can you describe how much funds in U.S. dollar
5 denominated were in your account as of that day?

6 A. \$257,948.53.

7 MR. RAYMOND: Ms. Cotto, can you go to the second page
8 of this document.

9 Q. Mr. Morad, did you have holdings in Bitcoin on FTX at that
10 time?

11 A. Yes, I did.

12 Q. Did you have holdings in Ethereum at that time?

13 A. Yes, I did.

14 Q. Mr. Morad, since November 10, 2022, have you been able to
15 withdraw the funds from FTX?

16 A. No, I haven't.

17 MR. RAYMOND: No further questions, your Honor.

18 THE COURT: Thank you.

19 Cross-examination.

20 CROSS-EXAMINATION

21 BY MR. LISNER:

22 Q. Good afternoon, Mr. Morad.

23 A. Good morning.

24 Q. Just a few questions and a couple of clarifications.

25 You were located in Canada when you opened your FTX

NAGMBAN3

Singh - Direct

1342

1 MR. ROOS: Now, we can take this down.

2 Q. Focusing on the period of late 2021 and early 2022, at that
3 time what did you believe the state of Alameda's finances were?

4 A. I thought it was fantastically wealthy.

5 Q. Just to be clear, what, if any, direct involvement in
6 Alameda's finances did you have at that point?

7 A. None.

8 Q. Did there come a time in 2022 when there was a change to
9 the cryptocurrency market?

10 A. Yes.

11 Q. What happened?

12 A. Are you referring to the crash in May?

13 Q. Let me ask you about that. What, if any, crash in
14 cryptocurrency prices happened in May?

15 A. Luna and UST, an associated stablecoin, had some
16 algorithmic failure and it crashed and, with it, brought down a
17 bunch of other crypto prices.

18 Q. Around that time what, if any, conversations did you have
19 with the defendant about the availability?

20 THE COURT: I'm sorry. Can we just back up.

21 What's an algorithmic failure?

22 THE WITNESS: It's a failure in this case in the
23 financial design of those two tokens and their interactions. I
24 suppose the algorithm itself operated as expected. It was just
25 not robust.

NAG1BAN4

Singh - Direct

1384

1

AFTERNOON SESSION

2

2:07 p.m.

3

(In open court; jury present)

4

THE COURT: The jurors and the defendant all are

5

present, as they have been throughout.

6

The witness is reminded he's still under oath.

7

Mr. Roos, you can continue.

8

MR. ROOS: Thank you, your Honor.

9

BY MR. ROOS:

10

Q. I want to change topics and talk to you about futures

11

trading and collateral.

12

Did FTX allow customers to trade cryptocurrency

13

futures?

14

A. Yes.

15

Q. And what's a cryptocurrency future?

16

A. It's a product that customers can buy such that if it goes

17

up, they'll make money, or short, that if it goes down, they'll

18

make money.

19

Q. So for example, what does a Bitcoin future do?

20

A. It's a product, a financial product, that eventually

21

resolves the price of a Bitcoin and so users can bet on Bitcoin

22

by trading it.

23

Q. What do you mean by resolves the price of a Bitcoin?

24

A. At some point the future will expire. When it does, it

25

will be—every—every future that is purchased will turn into

NAG1BAN4

Singh - Direct

1385

1 the price of Bitcoin at the time of expiry.

2 Q. So if I thought the price of Bitcoin was going to go up,

3 what would I do?

4 A. You would buy the future.

5 Q. What type of future?

6 A. The Bitcoin future.

7 Q. And what if I thought the price of Bitcoin was going to go

8 down?

9 A. You'd short the future, or sell it.

10 Q. Now to do futures trading—well, let me ask you, did

11 ftx.com allow futures trading?

12 A. From day one.

13 Q. And to do futures trading, what was required of a customer?

14 A. Customer had to deposit collateral.

15 Q. What's collateral?

16 A. Real liquid funds that the customer owned used as safety

17 buffer such that if they lose money, the customer can get

18 liquidated, their positions closed, before they lose the

19 entirety of their collateral.

20 Q. Okay. So to break that down, what can be collateral?

21 A. Liquid funds, things like dollars or Bitcoin or other

22 tokens.

23 Q. Did FTX treat different types of collateral differently?

24 A. Yes.

25 Q. How so?

NAG1BAN4

Singh - Direct

1388

1 negative and—and Sam and Gary or others would sort of manually
2 handle it however they saw fit.

3 Q. Now did Alameda do—I'm sorry. Did Alameda trade futures
4 on FTX?

5 A. Yes.

6 Q. You testified a moment ago that futures trading typically
7 required collateral. What, if any, conversations did you have
8 with the defendant about the collateral Alameda had to support
9 its trading, its futures trading?

10 A. I had a discussion in September, early September, about
11 this.

12 Q. What did you—

13 THE COURT: What year?

14 THE WITNESS: 2022.

15 Q. What did you discuss with the defendant in September 2022
16 about this?

17 A. That historically, according to a project that I'd run,
18 like a batch historical data, there were points when Alameda's
19 main account had not nearly enough collateral if you did not
20 include their enormous line of credit.

21 Q. Okay. So let's start with the timing of this conversation.
22 Do you remember approximately what date it occurred on?

23 A. Yeah. I believe it was either like August—sometime
24 between August 31st and September 2nd.

25 Q. You mentioned a calculation you did. What was the

NAG1BAN4

Singh - Direct

1404

1 a meeting immediately.

2 Q. What was your reaction about hearing Alameda owed

3 \$13 billion?

4 A. I was really afraid.

5 Q. What do you mean?

6 A. The June exercise, I thought Alameda had positive balances
7 on FTX, that it was borrowing lots in some places but that
8 overall they had more money than they didn't. This suggested
9 an entirely different reality. I was hoping that I didn't
10 really understand what Gary meant by borrowing, but if I did,
11 this was absolutely devastating.

12 Q. And how, if at all, did Alameda's borrowing \$13 billion
13 from FTX affect FTX customer funds?

14 A. The borrowing had to have been from customer funds in large
15 part because FTX itself didn't have—like, didn't own that much
16 money.

17 Q. How, if at all, did the defendant react when Caroline
18 Ellison said Alameda has—I'm sorry—when Gary Wang said
19 Alameda was borrowing 13 billion from FTX?

20 A. I was sitting next to Sam at the time. We were in the
21 office. So I got some real sense. He seemed unsurprised and
22 made up what I understood to be a false excuse for dodging the
23 meeting.

24 Q. So you mentioned the meeting. Did you in fact meet?

25 A. Yes.

NAG1BAN4

Singh - Direct

1405

1 Q. Okay. And then who did you meet with?

2 A. Just Gary and Caroline because Sam didn't come.

3 Q. What was your belief at this point as to whether Alameda
4 could repay the \$13 billion it owed?

5 A. Before the meeting I was really hoping that I misunderstood
6 what had been said and that Alameda could in fact close out and
7 repay what it owned. After the meeting I was significantly
8 less hopeful.

9 Q. Now did there come a time when you spoke to the defendant
10 about this topic?

11 A. That evening.

12 Q. And where did you speak with the defendant?

13 A. On the balcony of the Orchid 6 penthouse where we lived.

14 Q. Why did you meet on the balcony?

15 A. Sam and I almost never met; very, very rarely. I knew this
16 needed to be really private. I figured that if we went to our
17 two most common spaces to talk, which were my room or in the
18 office, that both of those were very frequently used by other
19 people for meetings and that others could stumble in on us, and
20 I knew that there was something really serious going on and I
21 didn't want people stumbling in.

22 Q. What time of day was this?

23 A. Evening into night.

24 MR. ROOS: Could we please publish Government
25 Exhibit 1554, which is in evidence.

NAG1BAN4

Singh - Direct

1415

1 A. You said in September?

2 Q. September 2022 onwards.

3 A. In one instance, I saw that spreadsheet we looked at
4 earlier that Jayesh showed me that had outlays—that described
5 outlays of future spend on endorsement deals. I was really
6 upset about that. There were way more than I knew about. Many
7 of the numbers are much bigger than what I'd been told. And
8 there was like a billion dollars headed out the door. If FTX
9 was making a billion dollars a year, this puts us like a year
10 of revenue behind with a hole. And so I approached Sam and
11 said: *You know, this is crazy. We need to cut as much of this*
12 *as we can. I thought you were on this.*

13 Q. And what, if anything, did he say?

14 A. He said he didn't think that these were bad spends, and he
15 sort of like challenged me to point to one that was worth
16 cutting. I did point to a couple. And for the ones I pointed
17 at, he agreed that they were bad, but he said that those
18 weren't his fault and that everybody proposing cutting them was
19 shortsighted because the cost associated with cutting them was
20 about like 70 percent of the cost of seeing them through and so
21 it wasn't worth it.

22 Q. Was there any other spending that you had disagreements
23 about in September 2022 to November 2022?

24 A. There are the others I mentioned, AZA and Embed.

25 Q. What about any—what, if any, proposed transactions did you

NAHMBAN2

Singh - Cross

1539

1 Q. New topic, Mr. Singh.

2 I want to go back. Counsel covered with you some
3 questions about certain of the code base features.

4 Do you recall your testimony about that yesterday?

5 A. Forgive me. I don't know what you mean by counsel.

6 Q. I mean Mr. Roos. I'm sorry.

7 A. I recall talking about code changes.

8 Q. Let me start with allow negative. My first question is a
9 when question. When did you first learn about the
10 allow-negative feature?

11 A. July 2019.

12 Q. How did you learn about that?

13 A. I was told to write it. I did.

14 Q. So you were the person who put it together?

15 A. In some sense, I wrote the code, but I was sort of given
16 pretty clear and explicit instructions from others.

17 Q. When you wrote it in 2019, what was the purpose of the
18 code?

19 A. It was to facilitate FTX admins moving FTT from designated
20 accounts or making trades in FTT from designated accounts and
21 to modernize an existing set of features that would allow
22 accounting-oriented accounts to go negative.

23 Q. Was this at all in connection with market-making functions?

24 A. I am not sure.

25 Q. Did there come a time that you came to believe that the

NAHMBAN2

Singh - Cross

1540

1 allow-negative feature was used in connection with
2 market-making functions?

3 A. Yes.

4 Q. When was that, sir?

5 A. I don't know precisely.

6 Q. Approximately is fine.

7 A. 2020.

8 Q. How did you learn of that?

9 A. I remember a conversation I had with Gary Wang in which I
10 was thinking about making some changes to some code related to
11 OTC trades, and I noticed that Alameda was the only provider --

12 Q. Could I interrupt you for a moment, sir. Can you tell the
13 jury what OTC trades are.

14 A. Over the counter. I don't think that does a great job
15 describing it. If I may.

16 Q. Does it mean not on the exchange?

17 A. No.

18 Q. Tell us what you are thinking.

19 A. It means not on an order book. So a customer could
20 basically request -- just say I want to buy one Bitcoin. Tell
21 me how many dollars that takes. They get back an answer. They
22 have some time before they have to accept -- before they can --
23 before that sort of quote expires. They can say I accept and
24 it happens. This is different from submitting an order on an
25 order book.

NAH1BAN3

Singh - Cross

1546

1 BY MR. COHEN:

2 Q. Let me see if I can just break this down.

3 You said that this situation arose when an account was
4 in danger or at risk of being closed out. Can you explain what
5 you mean by that.

6 A. Accounts were liquidated, under some circumstances; some
7 liquidations could result in ADL events.

8 Q. Okay. And by closed out, is this what we were talking
9 about—well, let me rephrase.

10 This means a customer has a position in an account and
11 a certain amount of collateral and the value of the position
12 starts to fall sufficiently that the—that that—actually, I
13 forgot to ask you one more thing.

14 Have you ever heard the term "risk engine"?

15 A. Yeah.

16 Q. Okay. Did FTX have a risk engine?

17 A. Yeah.

18 Q. How did that—what was that?

19 A. A lot of things that went into it, I suppose. Do you mind
20 clarifying some more.

21 Q. Did the risk engine have anything to do with closing out
22 positions?

23 A. Right. Liquidations were a part of the risk engine.

24 Q. Okay. And so if the risk engine, which was basically
25 computer run, noticed that an account was going below its

NAH1BAN3

Singh - Cross

1547

1 collateral limit, it would step in and liquidate that account,
2 correct?

3 A. That's almost right. If it noticed that it had
4 insufficient collateral to support its positions. There was
5 not a collateral limit at play.

6 Q. So it would go into the customer's account and sell the
7 positions to get it back in balance, correct?

8 A. That's not exactly how I'd put it.

9 Q. How would you put it, sir?

10 A. That the liquidation engine would sell, or buy, close out
11 their positions, because the customer could be long or short.

12 Q. Okay. And then you referenced something called a backstop
13 liquidity provider. What was that?

14 A. Designated accounts were used as the counterparties for
15 some of the trades that were required to close out these
16 positions.

17 Q. And was Alameda a backstop liquidity provider?

18 A. It was.

19 Q. Were other entities backstop liquidity providers?

20 A. Over time there were many.

21 Q. So if the engine was closing out an individual customer's
22 account and there weren't sufficient assets, the backstop
23 liquidity provider would step in, correct?

24 A. It didn't depend on if there were insufficient assets. The
25 customer would be getting liquidated because they had

NAH1BAN3

Singh - Cross

1548

1 insufficient assets.

2 Q. And if that were the case, then the backstop liquidity
3 provider would step in.

4 A. Right, under some further conditions.

5 Q. Okay. And what would happen if the backstop liquidity
6 providers didn't themselves have sufficient collateral?

7 A. If none of them did—this would be one criterion for
8 eligibility of a backstop to match against this liquidation.
9 If there were no such eligible backstop liquidity providers,
10 then the system would perform ADLs, or auto-deleveraging fills.

11 Q. What did that mean?

12 A. It meant—this area I'm a little uncertain about because I
13 didn't write the code, but I believe it's that it selected
14 other customers to perform the same role that the backstop
15 liquidity providers would have, and serve as counterparties to
16 the liquidation trade.

17 Q. Okay. So if customer A had an account that was going into
18 liquidity—liquidation and that account had insufficient
19 assets, the next stage would be the backstop liquidity
20 providers, correct?

21 A. Sorry. Could you repeat that.

22 Q. Sure. If the—I want to see if we can make this a little
23 bit more concrete for the jury.

24 So if customer A had an account that was being
25 liquidated and had insufficient assets, I believe you told us

NAH1BAN3

Singh - Cross

1549

1 the next step would be to take it the level of the backstop
2 liquidity providers.

3 A. It's getting liquidated because it has insufficient assets.

4 Q. Correct.

5 A. So in getting liquidated, it may go and get—it may enter a
6 mode in which it will be liquidated against backstop liquidity
7 providers.

8 Q. Correct. And then I think you told us that if they, the
9 backstop liquidity providers, had insufficient assets, we'd
10 have an auto-deleveraging event?

11 A. There were multiple conditions that could lead to a
12 backstop being ineligible. One of them is that they had
13 insufficient assets. If that—if those conditions are met for
14 all backstop liquidity providers, then the system would enact
15 ADLs.

16 Q. And that would mean the in—the account would be covered by
17 the assets of other customers on the exchange.

18 A. Not quite.

19 Q. Okay. Tell us quite.

20 A. There is not an exchange of value. There's a very small
21 exchange of value in a liquidation trade. It's not that—it's
22 not that the liquidating account is underwater and therefore
23 needs to get topped up by other customers. It's that—it's
24 that they have positions on that are risky that need to be
25 handed off to other customers. Those other customers, be them

NAH1BAN3

Singh - Cross

1550

1 backstop liquidity providers or those selected by ADL, receive
2 the positions at slightly better than market value, being that
3 in that moment they actually make some money. It's not that
4 they're giving up their collateral for it, but they are taking
5 on risk that they did not themselves put on.

6 Q. Right. So using our example now, customer B or customer C
7 or so forth, in your words, are having positions handed off to
8 them.

9 A. Yes.

10 Q. And they're going to get them at a favorable price, but
11 they themselves are now at risk, correct?

12 A. Right. But it may turn favorable quickly.

13 Q. Let me call your attention to July of 2020. Did FTX
14 experience an auto-deleveraging event?

15 A. I recall it—I recall one around early August, so it's
16 possible that this one was in July.

17 Q. Okay. Why don't you tell us what happened.

18 MR. ROOS: Objection, foundation.

19 THE COURT: Sustained.

20 Q. Okay. What do you recall about the auto-deleveraging event
21 that took place in July or August of 2020?

22 A. I recall that it happened that there were ADL fills for
23 what I think was the first time in FTX's existence, meaning
24 that the—forgive me, I'm using the abbreviation, or the
25 acronym—the ADL system had kicked in, which meant that there

NAI1BAN2

Easton - Direct

1740

1 A. So again, similar to the analyses before, we have a
2 transfer of customer funds through a series of Alameda Research
3 customer depository accounts, through to an Alameda Research
4 external account—in other words, this is an account that does
5 not hold customer funds—of 500 million, and in turn, the
6 bottom right-hand corner, a payment for the investment in
7 Anthropic.

8 Q. And how does the amount of the investment in Anthropic
9 relate to the amount we saw on that Slack message on the last
10 exhibit?

11 A. It is that amount.

12 MR. ROOS: We can take this down.

13 Could we please publish Government Exhibit 1032.

14 Q. Professor Easton, starting on page 1 of this exhibit, can
15 you explain what the exhibit shows.

16 A. Yes. So this is a summary of a purchase by Alameda
17 Research of Robinhood shares—here, a brokerage account called
18 ED&F Man. Importantly, this exhibit shows that customer funds
19 primarily were used to fund a transfer of 292 million out of
20 customer funds—of customer funds out of customer depositories
21 to Alameda Research to an account that already had 196 million
22 worth of Robinhood shares. In turn, Alameda Research purchased
23 another 292 million of Robinhood shares.

24 Q. And by "Robinhood shares," what are you referring to?

25 A. These are shares in a trading firm called Robinhood.

NAI1BAN2

Easton - Direct

1741

1 Q. When you say "shares," are they like shares of stock?

2 A. Yes.

3 Q. Okay. Let's look at what happens next.

4 MR. ROOS: Could we go to page 2 of this exhibit.

5 Q. And some additional information has been added to the
6 exhibit. What does it depict?

7 A. So in the first flow, the flow that we saw before we added
8 this piece, I was trying to summarize essentially what
9 happened. But in addition, Alameda Research—there was a
10 transfer out of Alameda Research of 491 million to Sam
11 Bankman-Fried and 54.6 million to Gary Wang. This amount was
12 exactly equal to the amount that was used to purchase Robinhood
13 shares.

14 MR. ROOS: So let's go to the next page.

15 Q. And what information is now added to the exhibit?

16 A. So this 468—400—\$546 million—I apologize—is—this
17 \$546 million was then transferred to an entity wholly owned by
18 Gary Wang and Sam Bankman-Fried called Emergent Fidelity
19 Technologies. This is the yellow box, identified yellow
20 because now it's a Bankman-Fried entity.

21 MR. ROOS: And let's go to the next page.

22 Q. And what does this new information on the exhibit depict?

23 A. Recall that the 546.1 million which went to Gary and Sam
24 Bankman-Fried goes to Emergent Technologies but then was
25 transferred back to Alameda Research, so there's a round-trip

NAI1BAN2

Easton - Direct

1742

1 transaction, if you like, that makes Alameda Research whole.

2 Q. And what then happened, if anything, in response to this
3 \$546.1 million transfer? And could we go to the next page.

4 A. So in turn, Robinhood shares were transferred to this
5 brokerage fund in the name of Bankman-Fried and Wang.

6 MR. ROOS: And let's go to the last page.

7 Q. So what does this last page now depict?

8 A. So the end result of all of those transactions, which I've
9 tried to summarize as clearly as possible—I hope it is
10 clear—is that customer funds ultimately went through Alameda
11 Research and did this big round-trip transaction so that they
12 ended up in an account owned by Wang and Bankman-Fried, which
13 then in turn purchased Robinhood shares.

14 Q. And so just to be clear, we've looked at straight green
15 lines previously. What do the sort of dashes indicate here?
16 Was this actually the flow of funds?

17 A. No. The dashes are there to indicate all of this—these
18 transactions that occurred in the background.

19 MR. ROOS: Okay. We can take this exhibit down.

20 Let's put back up Government Exhibit 1044. And if we
21 go to page 3.

22 Q. Professor Easton, we've talked about a bunch of instances
23 of payments or investments in businesses. Have you done any
24 analysis relating to payments for political contributions?

25 A. Yes, I have.

NAIMBAN3

Easton - Direct

1767

1 Q. Before we talk about that, let's talk about -- sorry.

2 Whose lenders?

3 A. Lenders to FTX.

4 Q. To FTX?

5 A. To Alameda. I beg your pardon.

6 Q. So let's talk about just the borrowing and lending before

7 we talk about the use of funds.

8 MR. ROOS: Can we please publish Government Exhibit

9 1013.

10 Q. Focusing on the first page of 1013, what does this exhibit

11 show?

12 A. So Alameda also borrowed funds from other -- from

13 third-party lenders outside of the firm.

14 Q. Like the Genesis you showed us in the beginning?

15 A. For example.

16 Q. What does this diagram or chart show?

17 A. This is, again, a daily chart. The Y axis is, again,

18 billions. You can see the amount borrowed increased over time

19 through the end of November 2021 to a max of 15.4 billion and

20 then declined over time.

21 MR. ROOS: Let's go to page 2 to add a marker.

22 Q. Do you see that this marker that was added on May 12, 2022,

23 it says Terra Luna (Luna collapse)?

24 A. Yes.

25 Q. What happened to cryptocurrency prices after that Terra

NAIMBAN3

Easton - Direct

1768

1 Luna collapse on May 12?

2 A. Terra Luna -- the Terra Luna collapse introduced a lot of
3 uncertainty to the market and crypto prices collapsed.

4 Q. Have you analyzed what happened with loans after this
5 period?

6 A. Yes, I have.

7 MR. ROOS: Let's go to the next page.

8 Q. What additional information has been added to the exhibit?

9 A. This is simply saying that, in the month of May 2022, there
10 were a total of three payments of \$1.3 billion to third-party
11 lenders.

12 Q. So Alameda repaid \$1.3 billion in May. What about in June?

13 MR. ROOS: Can we go to the next page.

14 A. So in June, a further 2.9 billion.

15 Q. What about July.

16 MR. ROOS: Can we go to the next page.

17 A. July, almost three-quarters of a billion repayments.

18 Q. During this period, have you been able to determine whether
19 any new loans were made to Alameda?

20 A. Yes, I have.

21 MR. ROOS: Why don't we go to the next page.

22 A. New loans were 1.7 billion during this period.

23 Q. And over what period were those new loans extended?

24 A. From the beginning of May through the end of FTX, 1111.

25 Q. We have added one more marker here at the end, and what

NAJ1BAN1

Sun - Direct

1897

1 different type of job?

2 A. Yes. In August '21 I left Fenwick & West to join FTX.

3 Q. I believe you said, but can you just repeat when you joined
4 FTX.

5 A. End of August 2021.

6 Q. What was your position when you joined FTX?

7 A. I was general counsel.

8 Q. What were your general responsibilities as general counsel
9 at FTX?

10 A. I headed up legal at FTX International.

11 Q. And what types of duties did that involve?

12 A. Included licensing regulatory strategy, internal corporate
13 work, everything from fundraising, cap tables, employment
14 agreements, stuff like that.

15 Q. As part of your responsibilities as general counsel, were
16 you involved in any work related to how FTX treated and dealt
17 with customer assets?

18 A. Yes.

19 Q. At any time as general counsel, did you approve lending FTX
20 customer money to Alameda Research?

21 MR. COHEN: Objection.

22 THE COURT: What's the objection?

23 MR. COHEN: Leading.

24 THE COURT: Sustained.

25 Q. At any time as general counsel, Mr. Sun, what, if anything,

NAJ1BAN1 Sun - Direct 1898

1 did you approve related to lending FTX customer money to
2 Alameda?

3 MR. COHEN: Same objection.

4 THE COURT: Overruled.

5 A. Never approved anything like that, and I would never have
6 done it either.

7 Q. And if you could just speak up a little bit, Mr. Sun. I
8 want to make sure the jury can hear you.

9 A. No, absolutely not.

10 Q. While you worked at FTX, did you have conversations with
11 the defendant about how FTX treated its customer assets?

12 A. Yes.

13 Q. And what, if anything, did the defendant tell you about how
14 FTX received customer fiat or dollar deposits?

15 A. That they were received, safeguarded, and segregated from
16 FTX's customer funds—sorry—from FTX's proprietary funds.

17 Q. And you mentioned that the defendant told you that customer
18 funds were segregated from FTX proprietary funds. What did you
19 mean by FTX proprietary funds?

20 A. So FTX's own funds as a company, funds that it uses to pay
21 for bills, to pay for, you know, website services, pay vendors,
22 those were FTX's own funds. FTX customers' funds were always
23 separated from those.

24 Q. And you referred to the defendant telling you that FTX
25 customer funds were segregated from proprietary funds. What

NAJ1BAN1

Sun - Direct

1899

1 does "segregated" mean?

2 A. It means it is held separately, in a separate account from
3 FTX's own proprietary funds.

4 Q. What did you understand was the purpose of segregating
5 customer funds from FTX proprietary funds?

6 A. To clearly identify them as customer funds so that they
7 would not be misappropriated.

8 Q. And when you say "misappropriated," what do you mean by
9 that?

10 A. Stolen, used for anything else other than what the customer
11 instructs us to do.

12 Q. Did you at any time observe public statements by the
13 defendant about how FTX treated customer assets?

14 A. Yes.

15 Q. In what forums?

16 A. On Sam's tweets; his public congressional testimonies; his,
17 you know, statements to investors; to regulators; other
18 conversations.

19 Q. And what kinds of things do you recall observing the
20 defendant say publicly about how FTX treated customer assets?

21 A. That all customer assets of FTX were safeguarded,
22 segregated, protected.

23 Q. You talked about customer dollar or fiat deposits. What,
24 if anything, did the defendant tell you about how
25 cryptocurrency deposits were received at FTX?

NAJ1BAN1

Sun - Direct

1900

1 A. They were received and kept in an omnibus wallet for all
2 customer funds that was separated from FTX's own proprietary
3 funds as well.

4 Q. And just to be clear, is that what the defendant told you?

5 A. Yes.

6 Q. And you mentioned—

7 THE COURT: I didn't hear that. I'm sorry. I didn't
8 hear an answer.

9 THE WITNESS: Yes.

10 THE COURT: Thank you.

11 Q. You mentioned that the defendant described an omnibus
12 wallet for customers. What do you mean by an omnibus wallet?

13 A. Right. So say if two customers each had one Bitcoin and
14 they deposit it into the platform. We would not have one
15 Bitcoin wallet for each customer; instead, we would keep both
16 of those customers' assets into one combined wallet, so that
17 one wallet would have two Bitcoins, but that is all customer
18 assets and it is separated from all of the remaining FTX
19 proprietary assets.

20 Q. As general counsel of FTX, were you familiar with something
21 called the key principles of FTX?

22 A. Yes.

23 Q. And what were those?

24 A. I used to be able to recite this, but—

25 Q. So before you recite them, can you explain what we're

NAJ1BAN1

Sun - Direct

1901

1 talking about when we talk about the key principles.

2 A. Sure. So Sam was on a movement to create a sensible
3 regulatory framework for regulating the crypto industry, and so
4 as part of that framework, FTX had a list of five
5 investor—sorry—key principles for investor protection, things
6 like market manipulation, things like market integrity,
7 prevention of financial crimes, safeguarding of customer
8 assets, and I can't remember the last one off the top right
9 now.

10 Q. And these principles, were they documented?

11 A. Yes.

12 Q. How were they documented?

13 A. It was on FTX policies website; it was in Sam's testimony
14 to Congress; and we also described it in various forums with
15 regulators we were working with around the world.

16 Q. And so based on your work with the defendant, what's your
17 understanding of his role in crafting and disseminating these
18 key principles?

19 A. He was very, very much involved.

20 Q. And what do you recall, at a general level, about what
21 these key principles said about the treatment of customer
22 assets?

23 A. Safeguarded and protected.

24 Q. As general counsel of FTX, did you get questions from
25 regulators about how FTX handled customer deposits?

NAJ1BAN1

Sun - Direct

1902

1 A. Yes.

2 Q. And what about from FTX customers?

3 A. Yes.

4 Q. And did you respond to those inquiries?

5 A. Yes.

6 Q. And how did you get the information to respond to those
7 inquiries?

8 A. Based on the information that Sam gave me, based on
9 information I got from other management at FTX, from the
10 finance team, and obviously all of the public statements that
11 we had talked about earlier.

12 Q. And so what types of things were you saying to regulators
13 and customers about how FTX treated customer assets?

14 A. They were safeguarded, segregated, and protected.

15 Q. Did you personally verify how customer dollar or crypto
16 deposits were treated by FTX?

17 A. I did not.

18 Q. Were you involved in any way in monitoring FTX's bank
19 accounts?

20 A. No, I was not.

21 Q. Did you have login access to the bank accounts or the
22 wallets?

23 A. No, I did not.

24 Q. You've talked about how assets were received. What, if
25 anything, did the defendant tell you about how customer

NAJ1BAN1

Sun - Direct

1903

1 deposits were treated upon being received into FTX's accounts
2 or wallets?

3 A. Are you talking about fiat or crypto or both?

4 Q. Why don't we start with fiat.

5 A. So fiat, it would be transferred into what we call FBO bank
6 accounts held by FTX at various financial institutions and,
7 again, separated from FTX's own proprietary assets.

8 For crypto assets, they would come in to what we call
9 a sweep wallet and then combined into an omnibus wallet and
10 also separated and segregated from FTX's own proprietary
11 assets.

12 Q. You mentioned a term called an FBO account. What does that
13 mean?

14 A. For the benefit of. Basically where a bank account is
15 owned in the name of one entity but that entity does not
16 actually have beneficial ownership of the funds in that
17 account, and the funds in that account are actually held for
18 the benefit of others—in this case, FTX's customers.

19 Q. Yes or no: In your role as FTX's general counsel, did you
20 have expectations about how customer assets should be treated?

21 A. Yes.

22 Q. And if you could just speak up. I see you're nodding,
23 but—

24 A. Yes, yes.

25 Q. And what were the expectations you had about how customer

NAJ1BAN1

Sun - Direct

1904

1 assets should be treated based on?

2 A. What is it based on? So my understanding is FTX protects,
3 safeguards customer assets a hundred percent, and it was based
4 on, you know, my conversations with Sam, conversations with
5 other management, conversations with the finance team, FTX's
6 general standing in the industry, our regulatory requirements,
7 Sam's public statements. Everything was unequivocally that FTX
8 protects customer assets a hundred percent.

9 Q. Did you believe that FTX customer deposits could
10 permissibly be commingled with other funds of the business?

11 A. No.

12 Q. And why not?

13 A. Those funds belongs to the customers and does not belong to
14 FTX.

15 Q. Based on your conversations with the defendant, what was
16 your understanding about how, if at all, FTX could use customer
17 assets?

18 A. Only at the direction of the customer.

19 Q. And what does that mean?

20 A. So if the customer wants to trade it, they can trade it; if
21 they want to withdraw it, they can withdraw it; but nothing
22 else.

23 Q. And what was your understanding as to whether FTX could
24 borrow customer money without express authorization?

25 A. None whatsoever.

NAJ1BAN1

Sun - Direct

1905

1 Q. What about whether Alameda could borrow customer money
2 without express authorization?

3 A. None whatsoever.

4 Q. When you say "none whatsoever," what do you mean?

5 A. So there's—there's none. There's none. There's, you
6 know, there's a borrow-lending program. If a user wants to
7 voluntarily, affirmatively choose to lend out their assets on
8 the platform, Alameda or other borrowers could borrow it, but
9 without express authorization from the user that they want to,
10 let's say, lend out their funds, neither FTX, Alameda, or
11 anyone had any rights to those assets because it belongs to the
12 user.

13 Q. While you worked at FTX, were you aware of an entity called
14 North Dimension?

15 A. Yes.

16 Q. What did you know about North Dimension based on your work
17 at FTX?

18 A. First time I saw it I think was in the spring of '22. I
19 was putting together an organization chart showing the
20 different FTX and Alameda entities. I saw that entity, wasn't
21 sure what it did, asked our finance team, and they mentioned
22 that it made some payments on behalf of FTX—of Alameda.

23 Q. Were you aware whether North Dimension was receiving
24 customer deposits of FTX into its bank account?

25 A. No, I was not.

NAJ1BAN1

Sun - Direct

1906

1 Q. And were you aware, prior to November 2022, of Alameda
2 receiving FTX customer deposits into its bank accounts?

3 A. I was not.

4 Q. As general counsel, would you have approved of Alameda
5 receiving FTX customer deposits?

6 MR. COHEN: Objection.

7 THE COURT: Sustained.

8 Q. If you had been told that Alameda was receiving FTX
9 customer deposits, would that have raised concerns for you as
10 general counsel of FTX?

11 MR. COHEN: Same objection.

12 THE COURT: What is it? What is the objection?

13 MR. COHEN: Calls for speculation and hypothetical.

14 MS. SASSOON: Your Honor, he was the general counsel.

15 THE COURT: Yes, I understand.

16 MR. COHEN: The phrase begins "If you had been told."

17 THE COURT: Sustained.

18 BY MS. SASSOON:

19 Q. While you worked as general counsel at FTX, were you aware
20 of an account within the FTX database called the fiat@ftx.com
21 account?

22 A. I was not aware.

23 Q. Did there come a time when you started working on terms of
24 service for FTX?

25 A. Yes.

NAJ1BAN1

Sun - Direct

1914

1 (In open court)

2 MS. SASSOON: Mr. Imperato, if we could publish

3 Government Exhibit 558.

4 BY MS. SASSOON:

5 Q. Mr. Sun, what is this? And just make sure the mic is

6 positioned so that we can all hear you.

7 A. Yes. This is the FTX terms of service.

8 Q. And which version of the terms of service?

9 A. This is the new version that was published May 13, '22.

10 Q. And are these the terms of service you described the
11 defendant approving?

12 A. Yes.

13 MS. SASSOON: If we could go to page 10, and look at
14 provision 8.2.6.

15 Q. Mr. Sun, is this a provision that you reviewed in the
16 course of finalizing the terms of service?

17 A. Yes.

18 Q. I want to direct your attention to (A), which says, "Title
19 to your Digital Assets shall at all times remain with you and
20 shall not transfer to FTX Trading."

21 First of all, what is FTX Trading?

22 A. That is the FTX entity providing services to customers
23 under the terms of service.

24 Q. And so how does this entity relate to ftx.com, the
25 international exchange?

NAJ1BAN1

Sun - Direct

1915

1 A. It was the entity providing services at ftx.com on the
2 website.

3 Q. And where it says, "Title to your Digital Assets shall at
4 all times remain with you," what did you understand that to
5 mean?

6 A. It means when a user deposits their assets onto the
7 exchange, they continue to own those assets.

8 Q. Directing your attention to provision (B), do you see where
9 it says, "None of the Digital Assets in your Account are the
10 property of, or shall or may be loaned to, FTX Trading"?

11 A. Yes.

12 Q. How does the language there correspond to discussions you
13 had with the defendant about the treatment of FTX customer
14 assets?

15 A. It's fully consistent.

16 Q. How so?

17 A. That customer assets, when deposited onto the platform,
18 continued to belong to the customers and FTX has no rights to
19 customers' assets.

20 Q. No. (C), it says, "You control the Digital Assets held in
21 your Account." What does it mean to control the digital assets
22 in your account?

23 A. You can choose to do whatever you want with the assets; you
24 can withdraw it, trade it, lend it, you know, do whatever you
25 want with it.

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Sun - Direct

1916

1 Q. "Digital Assets," what does that mean?

2 A. Cryptocurrencies.

3 Q. So this paragraph does not mention fiat currency. Did you
4 understand fiat currency to be treated differently by the
5 exchange?

6 A. No. Exactly the same.

7 Q. As far as you know, did this provision, 8.2.6, regarding
8 Digital Assets, exist in prior versions of FTX's terms of
9 service?

10 A. This exact language, not to my recollection.

11 Q. And in your view as general counsel, did the addition of
12 this exact language represent a change in FTX policy?

13 MR. COHEN: Objection.

14 THE COURT: Overruled.

15 A. No, it did not. It was the same policy.

16 Q. And so how do you explain the addition of this provision?

17 A. Again, it was fully consistent with FTX's policy
18 throughout. I like to make everything clear so the user knows,
19 you know, that assets deposited on the exchange continued to be
20 owned by them.

21 Q. So when was this language in the terms of service actually
22 finalized?

23 A. September '21.

24 Q. And at that point, in September 2021, did you consider the
25 obligations set out here to be an existing FTX policy?

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Sun - Direct

1918

1 As general counsel, did you hear the defendant
2 describe FTX's liquidation protocols?

3 A. Yes.

4 Q. And based on what the defendant described, what did you
5 understand to be the procedure for liquidating positions on the
6 FTX exchange?

7 A. So it is a multistep process. The first step happens is,
8 if your collateral—if the value of your account on the
9 exchange starts to decrease and it hits 3 percent of your
10 position size, that's when FTX's trading engine starts to
11 liquidate you on the market. If the market moves further
12 adversely to you, it goes further down. Let's say your
13 collateral, your value of your account drops to 1.5 percent of
14 your total position, notional size, then what happens is, your
15 positions are now moved to what we call backstop liquidity
16 providers, which are basically large market makers on the
17 exchange who signed up to accept these positions. Now if it
18 goes even further negative and the backstop liquidity program
19 is not able to actually take on these positions, then there's
20 an insurance fund that kicks in, which is basically money that
21 is set aside specifically for the purpose of covering these
22 losses that cannot be satisfied on the platform. And if that
23 insurance fund gets depleted, runs out, then there would be,
24 you know, socialized losses. But it has been FTX's consistent
25 position that they have never depleted the insurance fund, we

NAJ1BAN1

Sun - Direct

1919

1 have never clawed back users, and we have no intention of
2 clawing back users as well. It was one of FTX's main marketing
3 and selling points.

4 Q. So what you just described, are those things that you heard
5 the defendant talk about?

6 A. Yes.

7 Q. And where did you hear the defendant describing FTX's
8 liquidation engine and the selling points of that engine?

9 A. So it comes up in conversations with regulators, our
10 regulators around the world who asks us about our liquidation
11 and margin programs; it comes up in questions from our users
12 who asks about, you know, how our liquidation waterfall works;
13 it's something that a lot of large traders are very much
14 focused on because many other crypto exchanges do not have a
15 good liquidation program, and FTX won a lot of customers
16 because, you know, we marketed it as having a really good
17 program, you have an insurance fund that's never been depleted,
18 we've never done clawbacks.

19 Q. I want to break that down a little bit.

20 First of all, you said this was a selling point for
21 the exchange. Why was this a selling point?

22 A. So other crypto exchanges have had a lot of these losses in
23 the past basically where you have positions stuck in the system
24 that are in the negative that they have not been able to
25 liquidate, and so what other exchanges do—and there's a whole,

NAJ1BAN1

Sun - Direct

1920

1 you know, variety of ways as to how they do them—is they would
2 take people who make money in those markets and give it to the
3 people who lost money, to cover the losses. That is typically
4 known as a clawback—people who make money had their profits
5 taken away from them. And you can imagine that this is not
6 something that traders like. And so FTX prided itself on the
7 lowest rate of liquidations, on having an insurance fund, has
8 never been depleted, and not doing clawbacks.

9 Q. You talked about an insurance fund. Based on the
10 defendant's statements, what did you understand was the
11 insurance fund?

12 A. I understand that it was \$250 million sitting on the
13 ftx.com exchange and made readily available to cover losses.

14 Q. And I think you said earlier that you understood that the
15 insurance fund was money that was set aside. Why did you
16 understand that that money had been set aside?

17 A. Sorry. Why did I understand that money had been set aside?
18 It was a program created specifically for that purpose.

19 Q. And what, if anything, did the defendant tell you about how
20 the insurance fund had been used over time?

21 A. It started small, obviously, but it, you know, it grew as
22 FTX grew, and one of the key things I remember is that the
23 maximum drawdown from the insurance fund, meaning payouts to
24 cover losses from the insurance fund, is less than the profits
25 made by FTX on that day.

NAJ1BAN1

Sun - Direct

1922

1 may be subject to clawback due to losses suffered by other
2 Users."

3 In your conversations with the defendant, what, if
4 anything, did he say to you about clawbacks?

5 A. So I've not discussed the specific provision, to my
6 recollection, with Sam, but when I talked to Sam about
7 clawbacks, he's always made it clear that FTX does not claw
8 back money from users.

9 Q. And what, if anything, are you aware of that the defendant
10 said publicly about clawbacks?

11 A. That we do not claw back against users as well.

12 Q. And so you said that you don't recall discussing this
13 provision with the defendant. Did he ever say anything to you
14 that suggested he was aware of this provision?

15 MR. COHEN: Objection, leading.

16 THE COURT: Sustained.

17 Q. In your discussions with the defendant, what, if anything,
18 did he ever say to you about this provision, specifically?

19 A. I do not recall any conversations with Sam specifically
20 about this provision.

21 Q. And how does this last sentence in 16.4 compare to the
22 defendant's public statements about clawbacks?

23 MR. COHEN: Objection.

24 THE COURT: Sustained.

25 MS. SASSOON: Your Honor, he described hearing public

NAJMBAN2

Sun - Direct

1954

1 A. Yes, I did.

2 Q. And besides that one, did you receive any others?

3 A. No. That was the only loan I got.

4 Q. What was the amount of that loan?

5 A. 2.3 million.

6 Q. And for what purpose did you receive that loan?

7 A. As part of a management incentive program to incentivize
8 employees to move to the Bahamas. A hundred percent of it was
9 used for the purchase of a house in the Bahamas.

10 Q. When you got that loan, where did you think that money was
11 coming from?

12 A. Alameda's own money, profits.

13 Q. Mr. Sun, did you enter any agreements with the government
14 prior to your testimony today?

15 A. Yes.

16 Q. What type of agreement?

17 A. A nonprosecution agreement.

18 Q. What's your understanding of your obligations under the
19 nonprosecution agreement?

20 A. That I shall speak the truth.

21 Q. What, if anything, do you understand the agreement to
22 provide in return?

23 A. That I will not be prosecuted by the government if I speak
24 the truth.

25 Q. Did you request a nonprosecution agreement from the

NAJMBAN2

Sun - Direct

1955

1 government?

2 A. Yes.

3 Q. Why?

4 A. I had no idea that customer funds were being used. I
5 didn't do anything wrong. As general counsel I was involved in
6 transactions that now, in hindsight, may have involved the
7 misappropriation of customer funds, so, out of an abundance of
8 caution, I asked the government for protection.

9 MS. SASSOON: Your Honor, I have one more section. I
10 can continue and finish and then we can take a break, or we can
11 take a break now, whatever you prefer.

12 THE COURT: How long a section is it?

13 MS. SASSOON: Maybe 15 minutes.

14 THE COURT: Let's get it done.

15 Q. I want to talk to you about November of 2022, Mr. Sun.

16 Did there come a time in November 2022 when you
17 assisted in efforts to raise capital for FTX?

18 A. Yes.

19 Q. Who did you try to raise capital from?

20 A. Apollo Capital.

21 Q. What is Apollo Capital?

22 A. It's a large investment fund.

23 Q. What was your role in discussions with Apollo about raising
24 money for FTX?

25 A. So it was on the afternoon of November 7, at around 1 p.m.,

NAJMBAN2

Sun - Direct

1959

1 A. We shared the spreadsheet with Apollo.

2 Q. What happened after that?

3 A. About an hour or two after we sent out the spreadsheet, Sam
4 pulls me aside and he says he heard an update from Apollo.
5 They asked him for a legal justification as to why the funds
6 were missing and were at Alameda, and he asked me to come up
7 with legal justifications.

8 Q. Once the defendant asked you to come up with legal
9 justifications about the missing funds, what do you understand
10 had happened to the customer funds?

11 A. I mean, basically confirmed my suspicion that had been
12 rising all day that FTX did not have the funds to satisfy
13 customer withdrawals and that they had been misappropriated by
14 Alameda.

15 Q. And this conversation with the defendant where he asked you
16 to come up with a legal justification, where did it take place?

17 A. In the same Albany apartment.

18 Q. And in that conversation did the defendant identify any
19 legal justifications that he was aware of?

20 A. No.

21 Q. And in that moment did either of you provide a legal
22 justification?

23 A. No.

24 Q. What, if anything, did the defendant tell you in that
25 conversation had actually happened with the customer money?

NAJMBAN2

Sun - Direct

1960

1 A. He did not say anything about that.

2 Q. After this conversation where the defendant asked you to
3 come up with a legal justification, did you explore possible
4 legal justifications for the missing customer money?

5 A. Yes.

6 Q. And did you come to any conclusions?

7 A. Yes. That there were no legal justifications for the money
8 being taken away.

9 Q. Did you have a subsequent discussion with the defendant
10 about those conclusions?

11 A. Yes.

12 Q. Where did that conversation take place?

13 A. So it was right around 7:00 that evening, November 7. It
14 was still in the same Albany apartment. And Sam pulls me aside
15 and says he is talking to Apollo in 10, 15 minutes. He asked
16 me to go on a walk with him. I go on a walk with him and
17 basically tell him that there was no legal justification for
18 the funds being missing and taken by Alameda. I did tell him
19 that there were theoretical arguments, but none of them was
20 supported by the facts.

21 Q. You just testified that you told the defendant there were
22 some theoretical arguments but none were supported by the
23 facts. Did you walk through those theoretical arguments with
24 the defendant during this walk?

25 A. Yes.

NAJMBAN2

Sun - Direct

1961

1 Q. And what was the first one that you spelled out for the
2 defendant?

3 A. The first argument is section 9 of our terms of service
4 which deals with dormancy, or otherwise known as abandoned
5 property.

6 What happens is, if there is a prolonged period of
7 time where FTX is not able to contact the customer, then in
8 that scenario FTX would be able to charge a dormancy fee for
9 administering the user's funds.

10 Q. What, if anything, did you tell the defendant about whether
11 this was an adequate legal justification?

12 A. Yes. I told Sam that this would not justify the amount
13 that was taken away by Alameda.

14 Q. Why not?

15 A. The amount of active users on the exchange was very few,
16 and FTX had only been around since 2019, so the amount of funds
17 that we could even call dormant is very little.

18 Q. I just want to be clear. When you said certain users or
19 very few, did you say active or inactive?

20 A. Sorry. Inactive users with large account balances.

21 Q. Were what?

22 A. Very few.

23 Q. How did the defendant respond to what you said?

24 A. He acknowledged it.

25 Q. How did he acknowledge it?

NAJMBAN2

Sun - Direct

1962

1 A. Yup, yup.

2 Q. I'm sorry. When you just went yup, yup, is that what he
3 was saying?

4 A. Yes. That is what Sam said.

5 Q. And did you raise any other potential arguments with the
6 defendant on this walk?

7 A. Yes. The second theoretical argument is section 16 of our
8 terms of service, which provides that if a user voluntarily
9 affirmatively chooses to lend out their money to other users on
10 the platform, then if the borrower then defaults and unable to
11 return the money, then the lender's money is gone.

12 Alternatively, also under section 16 of our terms of
13 service, if a user decides to take his assets and use it as
14 collateral to trade on leverage, then he is pledging those
15 collateral -- pledging his assets as collateral to trade on
16 margin, and if he or she is liquidated, then those assets will
17 be taken away as well.

18 Q. What, if anything, did you explain to the defendant about
19 whether this argument was supported by the facts?

20 A. I had previewed this argument with Nishad and Ramnik before
21 the walk, and they had pulled some numbers that showed that it
22 was not supported by the facts as well.

23 Q. Did you relay that to the defendant?

24 A. Yes.

25 Q. And how did he respond to that?

NAJMBAN2

Sun - Direct

1963

1 A. He acknowledged as well.

2 Q. How did he acknowledge it?

3 A. He said yup, yup.

4 Q. Were there any other theoretical arguments you described to
5 the defendant?

6 A. Yes. There was a third one, which is some crypto exchanges
7 do not make it clear what is the relationship between a user
8 when they deposit funds onto the exchange and the exchange. I
9 told him that unfortunately that is not even feasible for us
10 because our terms of service make it very clear that when a
11 user deposits assets onto the exchange, those assets continue
12 to belong to the user.

13 Q. Did the defendant respond to this explanation?

14 A. Yes. He acknowledged as well.

15 Q. Did you offer any other theoretical arguments, or was it
16 primarily those three?

17 A. It was those three.

18 Q. Once you walked through those three arguments on this walk,
19 how did the defendant react to what you had told him?

20 A. I was actually expecting a bigger response, but it was very
21 muted. Sam basically said something like, got it. He was not
22 surprised at all.

23 Q. Did the defendant push back on what you said?

24 A. No.

25 Q. I couldn't hear you.

NAJ1BAN3

Sun - Cross

1981

1 Q. And you testified about that this morning on your direct,
2 correct?

3 A. Yes.

4 Q. Okay. And if we could go down to 8.2.6. Do you see that?

5 A. Yup.

6 Q. And you told us that this provision related to digital
7 assets and title to digital assets and all the other things
8 laid out in A, B, and C. I'm not going to go through it again.
9 Is that correct?

10 A. Yes.

11 Q. Now is it fair to say, Mr. Sun, that fiat was addressed in
12 different sections of the terms of service?

13 A. Yes, it's not covered by the definition of digital assets
14 here.

15 Q. Okay. Fiat is something different than digital assets,
16 correct?

17 A. Under the definitions, yes.

18 MR. COHEN: Okay. If we could look to the next page,
19 page 11, bottom of the page. Call out 8.3.

20 Q. This is a section called "Fiat currency," correct, sir?

21 A. Yes.

22 Q. And it called out whatever the obligations that FTX and the
23 customers had with regard to fiat, correct?

24 A. Yes.

25 MR. COHEN: All right. Continuing in the document, if

NAJ1BAN3

Sun - Cross

1983

1 MS. SASSOON: Objection, foundation.

2 THE COURT: Sustained.

3 Q. In connection with your work at FTX, did you ever—did you
4 ever look into how many—how many users took advantage of the
5 margin trading program?

6 MS. SASSOON: Objection. Also vague as to time frame.

7 Q. During the time you were the general counsel.

8 A. I do not recall.

9 Q. Okay. Before we—well, let me—before we move on, if you
10 could look at Section 16.4.

11 Do you recall giving testimony about that today, sir?

12 A. Yes.

13 Q. And if I might go through it with you.

14 MR. COHEN: At the top of the first—if you could
15 highlight the first sentence.

16 Q. It says, "Under certain market conditions, it may become
17 difficult or impossible to liquidate a position."

18 And then you described for us, sir, how, if there was
19 a difficulty liquidating a customer's account, the backstop
20 liquidity providers might have to be brought into it, correct?

21 A. That's right.

22 Q. And let's continue on.

23 MR. COHEN: If you could go, Brian, to the sentence
24 that begins, "In such an event." Right here. Highlight that
25 sentence.

NAJ1BAN3

Sun - Cross

1984

1 Q. "In the event that the customers did not have sufficient
2 assets, in such event, our backstop liquidity provider program
3 may come into play, but there is no assurance or guarantee that
4 any such program activities will be sufficient or effective in
5 liquidating your position." Do you see that, sir?

6 A. Yes, I see that.

7 Q. That was the next step you described to us earlier.

8 A. That's right.

9 Q. Okay. And then to complete that, "as a result, you may
10 lose all of your assets or incur a negative balance in your
11 account. In addition, even if you have not suffered any
12 liquidations or losses, your account balance may be subject to
13 clawback due to losses suffered by other users."

14 So is that—let me not try to—let me just ask you
15 your understanding of those sentences, sir.

16 A. So as it described, this is—describes our liquidation
17 waterfall. I would just maybe caveat by saying this is a very
18 shortened version that is drafted mostly for disclaimer
19 purposes. There is a much more detailed description of our
20 liquidation and risk engine on our help desk web page and also,
21 as I mentioned earlier today, that, you know, this does not
22 actually describe the insurance fund, which is something that
23 we have, and as I mentioned earlier today, my understanding is
24 that our insurance fund has never been depleted.

25 Q. You said this was describing, at least in part, something

NAJ1BAN3

Sun - Cross

1985

1 you called the liquidation waterfall. What do you mean by
2 that?

3 A. It basically means the order in which liquidations occur.

4 Q. Okay. And so at least according to this provision, there
5 could be a time when, even if a customer had not suffered any
6 losses of their own, their balances could be subject to
7 clawback due to losses suffered by other users; is that
8 correct, sir?

9 MS. SASSOON: Objection.

10 THE COURT: Sustained. It says what it says and we've
11 been over this at least twice.

12 MR. COHEN: Your Honor, he's the author of the
13 document.

14 MS. SASSOON: Objection. No, he's not.

15 THE COURT: He's not the author of the document. He's
16 somebody who participated, starting at a point where it was 80
17 to 90 percent finished, and in any case, the words are on the
18 page, and it doesn't help to read them six times.

19 MR. COHEN: Okay. I won't go for six, your Honor.

20 BY MR. COHEN:

21 Q. Mr. Sun, have you ever heard of the term
22 "auto-deleveraging"?

23 A. Yes.

24 Q. What's your understanding of that?

25 A. It means that when there is significant volatility in the

NAJ1BAN3

Sun - Cross

1986

1 market that could lead to losses, leveraged positions will be
2 automatically closed out as part of the liquidation mechanism.

3 Q. And in your understanding, sir, are there times when
4 auto-liquidation occurs when one customer's assets could be
5 used to cover the losses of another customer's assets?

6 MS. SASSOON: Objection.

7 THE COURT: What's the objection?

8 MS. SASSOON: Confusing and foundation.

9 MR. COHEN: He just said he knew it.

10 THE COURT: Give me a moment.

11 MS. SASSOON: Your Honor, the previous question was
12 about auto-deleveraging.

13 THE COURT: Yes, it was, and this question is about
14 something called auto-liquidation. Sustained. Let's try
15 again.

16 MR. COHEN: I'm sorry. Let's have the last question
17 read back, please. Two questions ago.

18 (Record read)

19 MR. COHEN: Okay. I take his Honor's point. I will
20 move on.

21 BY MR. COHEN:

22 Q. Now you were asked some questions about something called
23 segregation of assets. Do you recall that, Mr. Sun?

24 A. Yes.

25 Q. Can you describe for us what your understanding of

NAJ1BAN3

Sun - Cross

1992

1 A. I can't remember off the top right now.

2 Q. Nothing comes to mind.

3 THE COURT: That's what he said.

4 Q. Answer the next questions yes or no, please.

5 Did you ever talk with Dan Friedberg about data
6 retention issues?

7 A. Yes.

8 Q. Answer this question yes or no, please: Did you ever talk
9 to anyone at Fenwick & West about data retention issues?

10 MS. SASSOON: Objection.

11 THE COURT: What's the objection?

12 MS. SASSOON: 401, 403, raised before trial.

13 THE COURT: Sustained, on all grounds.

14 Q. During the time you were the general counsel of FTX, did
15 FTX ever receive subpoenas?

16 A. Yes.

17 Q. Did you participate in responding to those subpoenas?

18 A. Yes.

19 Q. In connection with responding to those subpoenas, did
20 you—answer this yes or no—did you have to deal with data
21 retention issues?

22 A. Yes.

23 Q. Have you ever heard of communications called Signal and
24 Slack?

25 A. Yes.

NAJ1BAN3

Sun - Cross

1996

1 Q. Did he tell you he wasn't really on the hook for them?

2 A. That he was not really on the hook for them. I think his
3 conversation with me was he was worried about his ability to
4 repay those loans and what was going to happen to those loans.

5 Q. Okay. Understood.

6 Okay. Now one more topic, Mr. Sun.

7 You mentioned that you're here today pursuant to a
8 non-prosecution agreement.

9 A. That's right.

10 MR. COHEN: Okay. Can we pull up Government
11 Exhibit 12 in evidence.

12 Oh, I'm sorry. I'm sorry. It's 3524-012 in evidence.

13 MS. SASSOON: This is not in evidence, your Honor.

14 MR. COHEN: Oh, it's not in? I'm sorry. I thought
15 you moved it in. Well, then let's do this. Just show it to
16 the witness.

17 THE COURT: I'm still not clear what it is you're
18 proposing to show to the witness. What exhibit?

19 MR. COHEN: 3524-012. It's in the 3500, your Honor.

20 THE COURT: And is it a government exhibit, is it a
21 defense exhibit, or has nobody bothered to mark it?

22 MR. COHEN: It's not marked outside of that, your
23 Honor. We could mark it.

24 THE COURT: Let's mark it.

25 MR. COHEN: Okay. What is the next DX number?

NAJ1BAN3

Sun - Cross

1997

1 MS. SASSOON: Your Honor, I think yesterday we marked
2 it using the same number but adding a DX, so to keep with the
3 convention—

4 THE COURT: That's fine. So it will be Defendant's
5 Exhibit 3524-012 for identification.

6 BY MR. COHEN:

7 Q. Take a look at this document, sir, and my question is
8 whether you recognize it.

9 A. Yes, I do.

10 Q. What is it?

11 A. This is the non-prosecution agreement.

12 Q. And if you can turn to the second page.

13 Is that your signature?

14 A. Yes.

15 MR. COHEN: Your Honor, we offer DX 3524-012.

16 MS. SASSOON: No objection.

17 THE COURT: Received.

18 (Defendant's Exhibit 3524-012 received in evidence)

19 Q. So this is a document you are—you mentioned you're
20 testifying here pursuant to a non-prosecution agreement; is
21 that correct?

22 A. That's right.

23 Q. And this is the agreement?

24 A. That's right.

25 Q. If we could call your attention to the second full

NAJ1BAN3

Sun - Cross

1998

1 paragraph.

2 MR. COHEN: And call that out.

3 Q. And look at the first sentence. It says, "On the
4 understandings specified below, the Office of the United States
5 Attorney for the Southern District of New York will not
6 criminally prosecute Mr. Sun for any crimes (except for
7 criminal tax violations, if any, as to which this Office cannot
8 and does not make any agreement) related to the schemes by
9 [Mr.] Bankman-Fried" and others, and so on.

10 So what is your understanding, Mr. Sun, of how this
11 provision works, or this agreement works?

12 A. My understanding of the agreement is I am to testify
13 truthfully on the stand. If I do so, I will not be prosecuted
14 by the government.

15 Q. And who makes the determination of whether you've been
16 truthful on the stand?

17 A. You know, I'm supposed to tell the truth here on the stand.
18 And that's—that's—

19 Q. Isn't it fair to say that's the government who makes the
20 determination?

21 A. I think I'm required to testify as to the truth on the
22 stand.

23 Q. If the government determines that you haven't been truthful
24 or you've provided incomplete or misleading testimony, this
25 agreement doesn't apply, correct?

NAJMBAN4

Boroujerdi - Cross

2022

1 A. That is -- yes, it is consistent with the terms of service
2 and agreement as well.

3 Q. What is the current value of the \$60 million investment
4 that Third Point made in FTX?

5 A. Zero.

6 MR. REHN: No further questions.

7 THE COURT: Thank you.

8 Cross-examination.

9 CROSS-EXAMINATION

10 BY MR. LISNER:

11 Q. Good afternoon. I know we are on the cusp of lunch, so I
12 will be brief.

13 You testified, Mr. Boroujerdi, that after the initial
14 investment you continued to pay attention to FTX, is that
15 right?

16 A. Yes.

17 Q. Do you recall reviewing audited financials for FTX after
18 your investment?

19 A. We looked at both unaudited and audited financials.

20 Q. And do you recall if the audited financial -- let me
21 rephrase.

22 Do you recall learning, from your review of FTX's
23 audited financials, that FTX relied on related parties or
24 currency and treasury management activities?

25 MR. REHN: Objection.

NAQMBAN1

Troiano - Cross

2065

1 participants on the chart here for number 29.

2 Q. Special Agent Troiano, you see the name -- one of the
3 participants is named Ryne Miller?

4 MS. KUDLA: Objection, your Honor.

5 THE COURT: Sustained.

6 This is not an exam for new eyeglasses. I assume he
7 can read it just as well as everybody in the jury box can read
8 it.

9 MR. EVERDELL: I am simply going to ask if he knows
10 who Ryne Miller is.

11 THE COURT: Why don't you just ask him that.

12 MS. KUDLA: Objection, your Honor, to that question.
13 It goes beyond the scope.

14 THE COURT: You can ask him who Johnny Podres was.
15 Let's move along. He pitched for the Brooklyn Dodgers.

16 MR. EVERDELL: Let's look at number 201, if we could.

17 Q. You see that row, number 201, that group -- the name of
18 that group is KYC/legal discuss, is that correct?

19 A. Yes.

20 Q. Do you see that the auto-delete function was enabled for
21 that group?

22 A. Yes.

23 Q. What was the duration of the auto-deletion function for
24 that group?

25 MS. KUDLA: Objection, your Honor, 403, and this goes

NAQMBAN1

2072

1 THE COURT: Now, how long do you expect the first two
2 witnesses to take?

3 MR. EVERDELL: Your Honor, I don't think that's going
4 to take very long. I can't speak for cross-examination, but I
5 believe Ms. Rolle will be 15 minutes, 20 minutes tops.
6 Mr. Pimbley about the same.

7 THE COURT: Now of course I received the relatively
8 lengthy letter from defense counsel last night raising various
9 issues with respect to the admissibility of certain areas of
10 proposed testimony by the defendant.

11 I have concluded that in order to determine all or
12 most of those issues, probably all, I am going to take the
13 testimony initially out of the presence of the jury because the
14 letter provides insufficient detail for me to rule on it.

15 The question is, do you have sufficient other
16 testimony, without touching those subjects, to put
17 Mr. Bankman-Fried on and go as far as we can go and then break
18 for the hearing out of the presence of the jury, or is there
19 simply no point of starting him without having that hearing
20 take place and resolved?

21 MR. COHEN: Your Honor, I think we have enough to
22 start.

23 THE COURT: Give me an idea of how much time, please.

24 MR. COHEN: As I mentioned on our call yesterday, I
25 think the direct will take about as long as Mr. Wang and

NAQMBAN3

Pimbley - Direct

2131

1 Looking at the left-hand side, which is the four
2 coins, how much total were the balance information as of that
3 date in November that you found from doing your data pull?

4 A. That was like 5.8 billion.

5 Q. Of that 5.8 billion, roughly, how much of that were in
6 accounts that were enabled for spot margin, spot margin lending
7 and had futures activity?

8 A. About 4.54 billion was in that category.

9 Q. And then the rest left over is 1.3 billion in the other
10 category?

11 A. That's correct.

12 Q. What are the rough percentages breakdown?

13 A. 78 percent in the category was spot margins, spot margin
14 lending enabled and the futures activity, 22 percent that are
15 not in that category.

16 Q. Skipping over to the right-hand side where you were
17 considering all currencies, all coins, what are the total
18 number -- what is the total balance number you arrived at as of
19 that date in November?

20 A. That total was \$8.9 billion.

21 Q. Again, the portion that was with those categories enabled
22 is what?

23 A. 6.91 billion.

24 Q. The rest is 2.03, right?

25 A. Yes.

NAQ1BAN4

2169

1 (Jury not present)

2 THE COURT: Okay. Be seated, folks.

3 Now just so that everyone who has taken the trouble to
4 get here today understands what is going on and why, there are
5 a number of areas of potential testimony from Mr. Bankman-Fried
6 that the defense wishes to elicit. The government asserts that
7 I shouldn't hear any of it, or, to be more precise, that the
8 jury shouldn't hear any of it. And despite a great deal of
9 effort on the part of everybody concerned, the amount of
10 information that I have to date is, in my judgment, inadequate
11 to resolve the admissibility of this testimony, in significant
12 part because it's not sufficiently detailed or specific.

13 I have the authority under the rules of evidence to
14 conduct a hearing so that the defendant can put in the evidence
15 for my ears alone, following which I'll be in a position to
16 rule one way or another as to whether the evidence is
17 admissible before the jury, in whole or in part, and if in
18 part, to what extent; and once that happens, we will then be
19 able to proceed with Mr. Bankman-Fried's testimony before the
20 jury, whatever the scope of it winds up being. That's what's
21 happening.

22 And so Mr. Cohen, I take it you're going to call your
23 client to testify in this hearing; is that right?

24 MR. COHEN: Yes, your Honor. The defense calls Sam
25 Bankman-Fried.

NAQ1BAN4

Bankman-Fried - Direct

2171

1 A. Slack is a workplace communications software where
2 basically employees can post threads, comment on those threads,
3 post files, react; there are various other channels that you
4 can use for whatever purpose, but we generally use them for
5 different topics.

6 Signal, it's a—it's a secure, encrypted peer-to-peer
7 communication platform that is one of the more used platforms
8 in the cryptocurrency industry, where you can form groups to
9 have conversations.

10 Q. And why were they used at FTX?

11 A. Both of them had advantages, especially for internal
12 conversations over email, for instance. With email, it's easy
13 to have a single message sent to a group of people, but
14 threaded conversations with multiple topics, each of which
15 expand into subtopics with comments on those, files uploaded,
16 are not displayed or sort of maintained nearly as clearly. So
17 we wanted something that involved more interactivity. Slack
18 and Signal both had that.

19 Q. Have you ever heard the term "encryption"?

20 A. Yes.

21 Q. How did that relate, if at all, to Slack and Signal?

22 A. So the—almost all internet access is encrypted at this
23 point. Signal in particular was encrypted in a stronger way,
24 which is to say that there was no third party that stored
25 unencrypted or raw versions of messages. Instead, the

NAQ1BAN4

Bankman-Fried - Direct

2172

1 participants had access to the raw versions of messages but
2 would only send the—what's called the encrypted version to
3 each other, you know, online or through the platform.

4 Q. What about Slack?

5 A. Slack was accessed via encryption in terms of the internet
6 access that people had, but the platform stored the raw text
7 that was sent.

8 Q. Was encryption important to FTX?

9 A. It was.

10 Q. Why?

11 A. There were a number of reasons, in different occasions.
12 One concern was always security threats from the outside.
13 There were constant hacking attempts on FTX from third parties.
14 And any unencrypted data was potentially vulnerable. So, you
15 know, one standard example of this, which we had concerns
16 about, was confidential user information. We didn't want any
17 breaches of our systems. We certainly didn't want information
18 like Social Security numbers of our customers that we had to
19 collect via the new customer process to be accessible by any
20 security breach, so we had, you know, more stringent
21 securities, including storing only encrypted versions of some
22 pieces of data and storing them in more secure locations.

23 There were also foreign policy concerns, for lack of a
24 better word. For most of FTX's existence, we were
25 headquartered in Hong Kong. There were some, you know,

NAQ1BAN4

Bankman-Fried - Direct

2173

1 political occurrences during our period there, which meant that
2 there was concern with employees about unauthorized access to
3 their devices.

4 And, you know, finally, there were concerns about
5 former employees, you know, having access to data that they
6 could sell to a competitor, for instance.

7 Q. You mentioned the risk of hacking.

8 A. Yeah.

9 Q. Did FTX ever get hacked?

10 A. Well, there were constant attempts to hack FTX. There was
11 never a core breach, I would say, of FTX's systems themselves,
12 but a number of the third-party services that it used had
13 breaches or what appeared to us at the time as being breaches,
14 of various sorts. Sometimes we weren't sure what caused them
15 exactly, but we could see the effect, and they would leak out
16 confidential information associated with FTX to the world.

17 Q. Have you ever heard the term "document retention policy"?

18 A. Yes.

19 Q. What did it mean to you?

20 A. It's a policy that a company keeps that specifies which
21 sorts of data have, you know—are retained, that is to say
22 stored in a company's files, for what periods of time, which
23 sorts of data are not stored, and sort of other related things.

24 Q. Did there come a time that FTX had put into place a
25 document retention policy?

NAQ1BAN4

Bankman-Fried - Direct

2174

1 A. Yes, it did.

2 Q. Can you tell his Honor how that came about.

3 A. Yeah. In short, in response to a number of things, one of
4 which was just the company growing and becoming relatively more
5 mature, at least, it began time for us to formalize a number of
6 the policies that we had. There were also constant regulatory
7 inquiries from regulators across the world. We were
8 interfacing with, you know, regulatory infrastructure in dozens
9 of countries, and those each had associated document retention
10 requirements in various cases, and so the chief—chief
11 regulatory officer, Dan Friedberg, along with Fenwick & West,
12 one of our external law firms, put together a document
13 retention policy which described in what circumstances FTX was
14 to have, you know, various forms or lack thereof of retention
15 or deletion of data and then worked with employees at FTX to
16 implement that.

17 Q. You described Mr. Friedberg as a chief regulatory officer.
18 Was he also an attorney?

19 A. Yes, he was.

20 Q. And he worked with Fenwick & West, which was an outside law
21 firm?

22 A. Yes, when I first met him, he was a—an attorney and later
23 a partner at Fenwick & West and one of our outside counsel that
24 we used. Subsequent to that, we hired him internally as a
25 in-house lawyer.

NAQ1BAN4

Bankman-Fried - Direct

2175

1 Q. Did Mr. Friedberg and the lawyers from Fenwick communicate
2 with you about what they were going to do with regard to this
3 policy?

4 A. Yeah. They came up with drafts, they communicated that to
5 myself, to other members of management, and discussed what the
6 details of an implementation of it might look like.

7 Q. In big picture, what was your understanding; what was your
8 takeaway?

9 A. My big-picture takeaway was that there were certain classes
10 of data that we had very clear retention requirements around.
11 Those tended to be regulatory. So a few subsidiaries had
12 particular regulatory requirements on them, and those had
13 particular document retention policies trying that out.

14 In addition, often when we had specific interactions
15 with the regulator, they would request that we retain a
16 particular class of documents or data, and so there were topics
17 that we had a duty to retain. Those topics tended to concern
18 compliance-related things, "Know Your Customer" policies being
19 an example of that. So that was one class of data for which
20 there were effectively mandates that we retain corporate
21 records related to it.

22 Separately, there were classes of data for which we
23 had requirements not to retain, at least not to retain beyond a
24 particular time or without particular sorts of security or
25 encryption. Those tended to be sensitive pieces of customer

NAQ1BAN4

Bankman-Fried - Direct

2176

1 information, customer passwords, customer Social Security
2 numbers, things like that.

3 And then beyond that, there were just broad topics
4 that, you know, I think for various channels on Slack—for
5 instance, we—the document retention policy, even if not
6 specifically mandated to by regulation, you know, said that we
7 would not have auto-delete features on, you know, channels
8 related to compliance to formal accounting records and other
9 things like that.

10 Q. If a category was not in one of the ones you described as
11 requiring deletion, what was your understanding of what the
12 participants could do?

13 A. Sorry. To be clear, if it was not in the required deletion
14 category.

15 Q. Like regulatory, for example.

16 A. Right. So for documents that were in the required
17 retention category, the answer was that any—at least any
18 formal business communications, anything memorialized, any
19 business policy, any decisions made or records thereof, would
20 be—would not be deleted. They would be, you know, in email or
21 Slack channel without any auto-deletion turned on.

22 For, I would say, informal chatter, obviously a lot of
23 that would happen verbally, a lot of questions would be asked
24 via that manner, and if we weren't in person, Signal was a
25 standard chat app to use for sort of informal questions, but

NAQ1BAN4

Bankman-Fried - Direct

2177

1 not for company policies or for decisions concerning them or
2 for, you know, formal document releases or anything like that.

3 Q. Coming back to the policy, did there come a time that
4 Mr. Friedberg and Fenwick completed the policy?

5 A. Yes.

6 Q. Okay. And did you understand they had completed it?

7 A. Yup.

8 Q. And what did it mean to you as CEO of FTX?

9 THE COURT: This would be a lot more helpful to you if
10 I was not getting just vague generalities about what he
11 understood, if you understand where I'm going with that.

12 MR. COHEN: Sure. I'm just trying to give your Honor
13 all the context. Obviously the defense's position that this is
14 presented in sort of snippets, so I'm trying to give your Honor
15 context.

16 BY MR. COHEN:

17 Q. Mr. Bankman-Fried, did you discuss with Mr. Friedberg the
18 policy?

19 A. Yes.

20 Q. Tell us what you discussed with him.

21 A. He presented to myself and a few other people at the
22 company drafts of this policy. He talked about it with us in
23 person and sent us documents drafting it. He had meetings with
24 myself and others to discuss which channels would fall under
25 various categories within this document retention policy. He

NAQ1BAN4

Bankman-Fried - Direct

2178

1 sent us a finalized version of it, and that was then
2 implemented.

3 Q. Okay. And after it was implemented did you believe you
4 acted in accordance with the policy?

5 A. To my knowledge, yes.

6 Q. Okay. Now when you communicated with the attorneys and
7 compliance people at FTX—

8 A. Yup.

9 Q. —what form did you communicate over?

10 A. It depended on what the message was. To give some
11 examples, if we were—if I had, for instance, an announcement,
12 if there was a company policy, that would generally be in a
13 Slack channel. It would generally be either in a general Slack
14 channel if it was intended for broad consumption or in a
15 compliance- or regulatory-deemed Slack channel. Those would
16 not have any auto-deletion set on them. They would be retained
17 forever.

18 If it was an informal question, like, you know,
19 describe to me what your off-the-cuff impression is of the
20 regulatory environment in some country we're not currently
21 operating in so that we can decide whether to allocate more
22 time into investigating whether to operate there, that could be
23 in person, it could be over Signal, it could be in a Slack
24 channel.

25 Q. Now the government has introduced—I don't want to give the

NAQ1BAN4 Bankman-Fried - Direct 2179

1 count, but—about half a dozen exhibits in which you were the
2 person who put auto-delete onto a message. Do you recall that,
3 sir?

4 A. Yes.

5 Q. When you did that, did you believe you were acting in
6 accordance with the policy?

7 A. Yes.

8 Q. Tell us why.

9 A. So as a general matter, those were not channels where there
10 would be formal business records or, for that matter, even
11 informal business records. Those were not channels in which
12 decisions would be made or announced, or enacted. And those
13 were not channels in which documents relevant to regulatory
14 inquiries or potential or otherwise were intended to be
15 discussed. Those would be for—for chatter, for conversation,
16 the types of, you know, workplace communications that would
17 often just be someone wandering over to my desk and saying:
18 Hey, Sam, you know, do you have any thoughts about the Japanese
19 regulatory environment right now?

20 MR. COHEN: Okay. Can we put up—it was introduced
21 this morning—Government Exhibit 1083, please.

22 Q. Okay. Mr. Bankman-Fried, if you could look at the first
23 page, and you see the entry for item 1 is hashtag organization?

24 A. Yup.

25 Q. Item 5 is direct messages between you and Ms. Ellison, and

NAQ1BAN4

Bankman-Fried - Direct

2180

1 item 6 is messages between you and Gary Wang.

2 A. Yes.

3 Q. And then the far right-hand corner, it says, "auto-deletion
4 turned off SBF."

5 A. Yes.

6 Q. Do you recall doing that, sir?

7 A. Yes, I do.

8 Q. And can you explain to us what happened.

9 A. Yeah. So these were Signal channels for which there had
10 previously been an auto-deletion policy, generally one week.
11 In November 2022, for a variety of reasons but including
12 because what had been communicated to me, what I understood to
13 be coming from regulators, I took an effort to disable
14 auto-deletion on, you know, any place that I found it, and so I
15 went through Signal's chats generally as they were used as
16 people messaged in them that I was a part of, and if I received
17 a message, saw that auto-delete was set, I would disable that,
18 and I also went through the ones that I could think of and, you
19 know, proactively disabled auto-delete on them.

20 MR. COHEN: Moving in the document to the next page,
21 if you could go to item—one page after, Brian. I'm sorry.
22 Item 29. The heading is Sensitive Chatter, and there's a
23 number of folks on that, description in the middle.

24 Q. Can you identify for us—it says—Gary Wang, we know. Who
25 is Can?

NAQ1BAN4

Bankman-Fried - Direct

2181

1 A. That was Can Sun, the general counsel of FTX International.

2 Q. Who was Ryne Miller?

3 A. That was the general counsel of FTX.US.

4 Q. Okay. And who was Brett Harrison?

5 A. Brett Harrison was the president of FTX.US at the time.

6 Q. And dropping down to the next entry, Small Group Chat, can
7 you explain who Rahul Sharma was, at the very bottom.

8 A. Rahul Sharma was—I actually don't know for sure who he was
9 employed by.

10 Q. Let me rephrase.

11 A. Yeah.

12 Q. Were there folks in this who were either in the legal group
13 or the compliance group?

14 A. Yes. Absolutely.

15 Q. Can you identify them for the Court.

16 A. Yeah. Ryne Miller, again, general counsel, FTX.US; Ryan
17 Mendel was—you could classify him as compliance; Kumanan—this
18 is a group that was created in November 2022 during the crisis
19 period. Kumanan was an employee of a consultant who was
20 brought in by the FTX debtor entity to work, my understanding
21 is, on compliance matters. And my understanding is that Rahul
22 was also a compliance specialist, I believe with FTX US
23 Derivatives, but I'm not a hundred percent sure on that.

24 MR. COHEN: Okay. And if we could continue to entry
25 252 on this exhibit.

NAQ1BAN4

Bankman-Fried - Direct

2182

1 Q. Mr. Bankman-Fried, the entry on 252 refers to
2 Privileged/Confidential CFTC. Do you see that?

3 A. I do.

4 Q. Who was on that?

5 A. Gary Wang, CTO; Nishad Singh, head of engineering; myself;
6 Ryne Miller, the general counsel of FTX.US; and Can Sun, the
7 general counsel of FTX International.

8 Q. And what was your understanding of what that referred to,
9 that entry?

10 A. That entry was for privileged communications between
11 management and the heads of the legal departments around our
12 interactions with the CFTC, the Commodities Futures Trading
13 Commission, with respect to regulatory applications and
14 inquiries that we had there.

15 Q. And for that entry, just to complete your testimony,
16 auto-deletion had been turned off, correct?

17 A. That's right, in the same November period.

18 THE COURT: By someone else.

19 THE WITNESS: That's right, by Gary Wang.

20 THE COURT: Long after you received the message, yes?

21 THE WITNESS: I'm not sure what message you're
22 referring to.

23 THE COURT: The one we're talking about.

24 THE WITNESS: That's correct. I was in many Signal
25 channels. There was no way to turn off auto-delete on all of

NAQ1BAN4

Bankman-Fried - Direct

2183

1 them at once, so I did that on any channel for which I received
2 a message or had a recent message that would have been deleted
3 otherwise, or for the channels I thought of. I'm guessing this
4 channel had not been used for a while prior to that, but I
5 don't recall for certain.

6 THE COURT: Thank you.

7 MR. COHEN: Let me move, your Honor—if your Honor is
8 fine with this, I'll move to another topic, or—

9 THE COURT: You're moving to another topic now?

10 MR. COHEN: Yes. Unless you want me to ask any more
11 questions on this.

12 THE COURT: It's up to you.

13 MR. COHEN: All right. Let me—

14 THE COURT: One thought that readily occurs: Where is
15 this policy?

16 Let's move on.

17 BY MR. COHEN:

18 Q. All right. Let me move to another topic,
19 Mr. Bankman-Fried.

20 Do you recall hearing about a company called North
21 Dimension?

22 A. Yes.

23 Q. Okay. What do you recall about that?

24 A. North Dimension was a subsidiary of Alameda Research, which
25 was incorporated for payment processing purposes. I believe it

NAQ1BAN4

Bankman-Fried - Direct

2184

1 was around 2020 that this happened.

2 Q. And how did it get set up?

3 A. Dan Friedberg, the chief regulatory officer of FTX

4 International, in combination with Fenwick & West, one of our

5 outside law firms, was—were the ones who drafted the

6 incorporation documents, had incorporated and also corresponded

7 with banks about opening up bank accounts for it. I believe

8 there were a few other employees who were involved as well.

9 Q. Do you recall whether the banks required North Dimension to

10 fill out any forms?

11 A. Yes. They had bank account opening forms.

12 Q. Okay. And who filled those out?

13 A. Dan Friedberg did, or at least he was the one who presented

14 them to me.

15 Q. And when Mr. Friedberg presented them to you, what did you

16 do?

17 A. I signed them.

18 Q. Why did you do that?

19 A. I had a lot of things that passed my desk each day to sign.

20 I trusted that they were proper forms. And they were necessary

21 for opening up a bank account. I also briefly reviewed them

22 and didn't see anything that looked obviously wrong to me.

23 Q. Did there come a time when the topic of an agreement for

24 Alameda to process FTX customer deposits came up?

25 A. Yes.

NAQ1BAN4

Bankman-Fried - Direct

2185

1 Q. Okay. What do you recall about that?

2 A. There is a payment agent agreement between Alameda and FTX
3 related to the payment processing.

4 MR. COHEN: Can we call up DX 245 for identification,
5 please.

6 Q. Mr. Bankman-Fried, why don't you go through this document.

7 MR. COHEN: And Brian, if you could scroll so he can
8 see the whole thing.

9 Q. Okay. Let's go to the first page. What is this document,
10 Mr. Bankman-Fried?

11 A. This is that payment agent agreement.

12 Q. And do you recall how it was presented to you?

13 A. Yeah. Dan Friedberg presented it to me.

14 Q. Okay. And what was your understanding of who had drafted
15 it?

16 A. My understanding is that it was drafted with Fenwick &
17 West, who was our primary external law firm at the time.

18 Q. And what was the purpose of the agreement?

19 A. It was to memorialize the ways in which Alameda Research
20 acted as one of the payment agents or payment processors for
21 FTX, which is to say a avenue via which customers could
22 deposit.

23 MR. COHEN: Okay. If you can go to the last page,
24 Brian.

25 Q. You see the signature page. There's a signature for

NAQ1BAN4

Bankman-Fried - Direct

2186

1 Alameda, and is that your signature underneath?

2 A. Yes.

3 Q. And there's also a signature for FTX. Is that your
4 signature underneath?

5 A. Even though they look a little bit different, yes, those
6 are both mine.

7 Q. Mr. Bankman-Fried, why were you signing both sides of that
8 agreement?

9 A. At the time that it was presented to me, I was the CEO of
10 Alameda Research and I was also the CEO of FTX.

11 Q. And you see there there's an entry, effective date?

12 A. Yep.

13 Q. What was your understanding of that?

14 A. My understanding is that that was the date that the
15 relationship had started, that this was memorializing that
16 relationship.

17 Q. Okay. So when customers wired funds into the Alameda bank
18 accounts or the North Dimension bank accounts, did you believe
19 that it was covered by this agreement?

20 A. Yup.

21 Q. And how did it work?

22 A. How did the—how did that process work?

23 Q. Yes, exactly.

24 A. Okay. So this was over the course of 2020 and 2021. This
25 was prior to FTX having its own customer bank accounts. So FTX

NAQ1BAN4 Bankman-Fried - Direct 2187

1 had attempted from inception to get bank accounts, what are
2 called FBO bank accounts, "for benefit of other" bank accounts,
3 that customers could deposit funds into. But it took a couple
4 years to get those bank accounts. In lieu of that, prior to
5 those, it used a number of different payment processors, but
6 the most used is—was Alameda Research. We put on the FTX
7 originally OTC page and eventually on the FTX website wire
8 transfer instructions for Alameda Research, where customers
9 could wire fiat currencies, generally dollars—I think maybe
10 exclusively dollars in—and have balances credited on their FTX
11 account to trade on FTX.

12 Q. Did you believe that this process of transferring or wiring
13 funds into Alameda North Dimension was permitted based upon the
14 payment agent agreement?

15 A. Yup.

16 MR. COHEN: We would offer it. Before the jury, we'd
17 offer the document, your Honor.

18 Let me move to another topic, Mr. Bankman-Fried.

19 You can take that down.

20 Before we do, if we could pull up Defendant's
21 Exhibit 255.

22 Take a moment and go through that, all the pages for
23 him, Brian.

24 BY MR. COHEN:

25 Q. The first question is whether you recognize it.

NAQ1BAN4

Bankman-Fried - Direct

2188

1 MS. SASSOON: Your Honor, I believe this is in
2 evidence as Government Exhibit 267.

3 MR. COHEN: Okay. Then let's use the GX number.

4 THE COURT: Thank you.

5 A. I do recognize that.

6 Q. And what is it, sir?

7 A. That is the form that was used to apply for a North
8 Dimension bank account with Silvergate Bank.

9 Q. And the first page, it notes name of compliance contact,
10 and it says Dan Friedberg, General Counsel and Compliance
11 Officer. Do you see that, sir?

12 A. Yes.

13 Q. What was your understanding of that?

14 A. This had been compiled and presented by Dan Friedberg, who
15 was the general counsel and the compliance officer of North
16 Dimension and of Alameda.

17 Q. And was this the diligence form that got filled out for
18 Silvergate Bank that you referred to a moment ago?

19 A. Yes, this was.

20 MR. COHEN: Okay. All right. We can take that down.

21 Q. Let me move to another topic, Mr. Bankman-Fried.

22 Do you recall that you and others made a number of
23 venture investments?

24 A. Yes.

25 Q. Okay. And where did the funds for those investments come

NAQ1BAN4

Bankman-Fried - Direct

2189

1 from?

2 A. They came from Alameda Research.

3 Q. Okay. And how was the transfer of funds structured?

4 A. It depended on the investment. There were various entities
5 that did the investing. If it was Alameda Research's core
6 trading entities that invested, then I believe funds were wired
7 straight from Alameda, or sent via the blockchain in the case
8 of investments done in the form of cryptocurrency. If it was
9 done via another entity—for instance, one of the Alameda
10 venture entities—then there would generally be an intercompany
11 loan in which Alameda Research would lend money to the
12 affiliate that was making the investment, and that affiliate
13 would then make the investment. And in some cases there were
14 affiliated entities that had heavily overlapping ownership with
15 Alameda Research, and there would be loans from Alameda to
16 myself and/or the other owners of that entity that would then
17 infuse the capital into that entity for it to make the
18 investment.

19 (Continued on next page)

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NAQMBAN5

Bankman-Fried - Direct

2190

1 Q. Let's start with that example. So there would be times
2 where the loans would go first to you?

3 A. Yup.

4 Q. Or Gary or Nishad?

5 A. Yup.

6 Q. Were those loans documented?

7 A. Yes.

8 Q. How were they documented?

9 A. There were promissory notes drawn up between us and Alameda
10 Research.

11 Q. Who drafted those?

12 A. The legal department drafted those memos, those promissory
13 notes.

14 Q. Do you ever recall -- let me rephrase.

15 Did you ever recall the issue coming up of whether to
16 denominate those transfers as loans or dividends?

17 A. At least in a few cases it did come up, and at the time I
18 remember concerns about risk of double taxation if they were
19 structured improperly. There were also cases where the
20 entities that we were investing in expressed strong preferences
21 about what entity invested in them.

22 Q. Who did you discuss these issues with?

23 A. I discussed them with counsel. It depended on the
24 particular instance which counsel. Some of them I discussed
25 with Fenwick & West there and attorneys there. Some of these I

NAQMBAN5

Bankman-Fried - Direct

2191

1 discussed with Dan Friedberg and Can Sun, and some with Ryne
2 Miller as well.

3 Q. Based on the conversation with these attorneys, what was
4 your understanding about the loan structure?

5 A. My understanding --

6 THE COURT: I'm sorry, Mr. Cohen. I'll let you get an
7 answer to this, but a better question would be, what did you
8 say to them and what did they say to you on that subject?

9 MR. COHEN: You are right, your Honor.

10 Q. Let's go with his Honor's question.

11 A. In those cases, maybe describing the earlier ones by the
12 later ones, a lot of the context had already been built up, I
13 described to them that ultimately there is an investment that I
14 wanted to make. I described that -- what the investment was,
15 that ultimately funds would be coming from Alameda Research to
16 do it, and gave the reasons why there had been some preference
17 expressed for it to not be Alameda Research itself, the entity
18 that ultimately made the investment, that that is, that was the
19 ultimate acquiring entity of these shares or assets. And I
20 then asked about what structures would be appropriate for doing
21 that. Ultimately, we decided on -- for some of them a personal
22 loan to myself coupled with an investment in the entity that
23 was itself making the ultimate investment.

24 Q. They shared with you their view that it ought to be
25 structured as a loan?

NAQMBAN5

Bankman-Fried - Direct

2192

1 A. That either it ought to or that it was one of the
2 permissible options, yes.

3 Q. What was your reaction to that?

4 A. I had no strong reaction to that. I was thinking about it
5 from a business perspective of trying to find a solution that
6 would check all the boxes. I was glad that we had found one.

7 Q. Did you take comfort from the fact that the lawyers had
8 structured the loans?

9 A. Yes, of course.

10 MR. COHEN: Pull up, I thought it was in evidence,
11 GX-240, please. We can just look at the first page. Maybe you
12 can make that bigger.

13 Q. What is this, Mr. Bankman-Fried?

14 A. That is -- can you go to the signature page.

15 OK.

16 Q. What is that?

17 A. That is one of the promissory notes in which Alameda gave a
18 loan to myself.

19 Q. That's an example of one of the documents you were just
20 discussing?

21 A. That is correct, yes.

22 MR. COHEN: We can take that down.

23 Q. Let's go to another topic, Mr. Bankman-Fried.

24 MR. COHEN: Can we pull up Government Exhibit 558 in
25 evidence.

NAQMBAN5

Bankman-Fried - Direct

2193

1 Take a moment and go through the pages for him.

2 A. I think we don't have to go through all the pages of this.

3 That's enough.

4 Q. What is this, sir?

5 A. That is the May 2022 updated version of the FTX

6 International terms of service.

7 Q. Did you ever see this document before?

8 A. Yes.

9 Q. About when did you see it?

10 A. I first was presented with drafts of it in, I believe,
11 early 2022, possibly late 2021, and I was presented with a
12 completed version of it around May of 2022.

13 Q. If you know, who worked on this document?

14 A. I know that Can Sun, who is the general counsel of FTX
15 International, was heavily involved in working on it and
16 interfacing with me on it. I know he worked with outside law
17 firms. I am not sure which ones.

18 Q. Did you speak with Mr. Sun about the terms of service?

19 A. Yes.

20 Q. Tell us what you discussed.

21 A. We discussed the fact that, at least in part because of the
22 Bahamian entity, FTX Digital Markets, which is regulated by the
23 Securities Commission of the Bahamas, we wanted to have an
24 updated terms of service and that he was working on drafting
25 and ultimately releasing one.

NAQMBAN5

Bankman-Fried - Direct

2194

1 Q. Did you believe that the terms of service addressed margin
2 trading?

3 A. Yes.

4 MR. COHEN: Can we go to section 16, please, Brian.
5 Page 16. I'm sorry. If we can call out section 16.

6 Q. Mr. Bankman-Fried, based on your review of that document
7 and your discussions with Mr. Sun, what was your understanding
8 of what it provided for?

9 A. My understanding is that this section provided for various
10 terms and disclosures related to customers engaging in margin
11 trading on FTX.

12 MR. COHEN: If we go to the next page --

13 THE COURT: Mr. Bankman-Fried, did you read this
14 entire document before it was promulgated?

15 THE WITNESS: I read parts in depth, parts I skimmed
16 over.

17 THE COURT: Go ahead.

18 Q. Turning to 16.4, Mr. Bankman-Fried.

19 A. Yup.

20 MR. COHEN: Can we call that out. Brian, can you call
21 that out, 16.4.

22 Q. Turning to the last two sentences, no need for me to read
23 them, can you tell us what your understanding was of these
24 provisions?

25 A. Yeah. Those provisions referred to a few different

NAQMBAN5

Bankman-Fried - Direct

2195

1 potential -- features isn't quite the right word -- properties
2 of FTX.

3 The first is referring to liquidations, to the fact
4 that if a user engaged in margin trading and their collateral
5 fell below a certain level, their positions might be forcibly
6 shut down in order to mitigate risk associated with their
7 account.

8 The second was what's called clawbacks or socialized
9 losses, which is that if another margin trading user suffered
10 losses, if the value of their collateral fell or their
11 obligations rose, to the point where the net value of their
12 assets minus liabilities, which is to say their net asset value
13 became negative, that if FTX itself was not able to cover that
14 shortfall, it could be effectively socialized on other users.
15 That was something we always hoped to avoid, but that was
16 always a risk.

17 Q. Based on this and other parts of the terms of service, did
18 you believe that Alameda borrowing funds from FTX exchange was
19 permitted under the terms of service?

20 A. Yes, in many circumstances.

21 MR. COHEN: Now, let's turn to schedule 5 of that
22 document and page 35.

23 Q. That's a service schedule. At the top it's entitled
24 futures market.

25 Do you see that, sir?

NAQMBAN5

Bankman-Fried - Direct

2196

1 A. Yes.

2 Q. We don't have to go through it in detail, but what is your
3 understanding of what this provided?

4 A. My understanding is that it provided for various terms that
5 only applied to futures trading and not to spot markets on FTX.

6 Q. And based on the terms of service, did you believe Alameda
7 was permitted to engage in futures trading?

8 A. Yes.

9 MR. COHEN: We can take that down.

10 Q. Any other conversations about the terms of service that I
11 have not covered today?

12 A. Around --

13 MS. SASSOON: Objection, your Honor.

14 THE COURT: Sustained.

15 Q. Let me ask a better question. Other than the conversations
16 you relayed with Mr. Sun, did you have any other conversations
17 with him about the terms of service?

18 A. About these particular terms of service?

19 Q. Yes.

20 A. We had conversations in which I authorized him to move
21 forward with the new terms of service so long as the exchange
22 infrastructure was prepared for them. I know there were
23 requirements in terms of going back through old users and
24 reaffirming some of their know-your-customer status in order to
25 release the new terms of service.

NAQMBAN5

Bankman-Fried - Direct

2197

1 Q. The terms of service we were just looking at were issued on
2 May 13, 2022?

3 A. Yup.

4 Q. To your knowledge, sir, were there versions of the terms of
5 service before that?

6 A. Yes.

7 Q. What is your basis for saying that?

8 A. I mean, FTX always had a terms of service. I believe from
9 day one I remember posting a terms of service on the website.

10 Q. How many versions were there prior to the May 13 version?

11 A. I know that there were a few main versions and likely a
12 number of edits. I am not sure exactly how many.

13 Q. Did you review those?

14 A. I reviewed the initial terms of service and would
15 occasionally skim through updated ones. I don't know that I
16 reviewed every single edit to them.

17 Q. Who prepared those?

18 A. They were originally prepared by Dan Friedberg and Fenwick
19 & West.

20 Q. Did you believe that you were managing FTX in accordance
21 with the earlier terms of service?

22 A. Yes.

23 Q. Let's move to another topic, sir.

24 THE COURT: Are you going to put the earlier terms
25 into evidence?

NAQMBAN5

Bankman-Fried - Direct

2198

1 MR. COHEN: We are. We are just getting them, your
2 Honor.

3 THE COURT: Go ahead.

4 Q. Let me move to another topic, Mr. Bankman-Fried.

5 While you were CEO of FTX, did you attempt to
6 safeguard customer assets?

7 A. Yes.

8 Q. How did you do that?

9 A. There were a variety of ways. The single biggest was the
10 physical security of the assets that FTX custodied. And in
11 terms of their physical security, one potential threat,
12 obviously, was a hacking attempt on FTX's core servers. That,
13 in practice, was not the most frequent attack that we faced,
14 however.

15 By far more frequent was fishing attacks on FTX
16 customers. In short, a fishing attack --

17 Q. Mr. Bankman-Fried, let me focus this more. I want to take
18 up the issue that the Court is concerned with.

19 A. Yes.

20 Q. I apologize.

21 Did you ever hear the term segregation of assets?

22 A. Yes.

23 Q. What did it mean to you?

24 A. What it meant to me in the context of FTX was segregating
25 FTX's corporate assets, which is to say the roughly \$1 billion

NAQMBAN5

Bankman-Fried - Direct

2199

1 of profit that it had accumulated versus the omnibus wallets
2 that stored net customer assets in them.

3 Q. How were individual customer assets stored?

4 A. There was no particular wallet for each individual
5 customer. We had millions of customers. And if we tried to
6 keep each customer's Bitcoin in a wallet specifically for that
7 customer, then every time there was a trade we would have
8 needed to do a transfer of that physical Bitcoin. It would
9 have been millions to tens of millions of dollars per day in
10 fees charged to users to cover those transfers. It would have
11 been completely impractical from a business perspective.

12 So what we had were what are called omnibus wallets
13 and omnibus bank accounts, which effectively mean one wallet
14 where we put all of the net customer Bitcoins in.

15 Q. All the customer Bitcoins were in one omnibus account?

16 A. That's right.

17 Q. Was that separated from the FTX operational account?

18 A. Yes.

19 Q. You got into the crypto industry in 2017?

20 A. Um-hum.

21 Q. And you worked in there through 2022?

22 A. Yeah.

23 Q. You traded on other exchanges?

24 A. Yup.

25 Q. You interacted with other leaders in the industry?

NAQMBAN5

Bankman-Fried - Direct

2200

1 A. Yes.

2 Q. Based on your exposure to that, did you form a view about
3 whether other exchanges used these omnibus wallets?

4 A. Yes, I did. Nearly all of them used omnibus wallets. In
5 fact, to my knowledge, every centralized exchange did.

6 THE COURT: Mr. Cohen, I'll let you do whatever you
7 want here, but this degree of persuasiveness to personal
8 knowledge that is not present when somebody says my view based
9 on everything I have heard in my life was X.

10 MR. COHEN: This last piece was just an industry
11 practice point, your Honor.

12 THE COURT: Similar point.

13 Q. Let me break it down to his Honor's question: How did you
14 get your knowledge that other exchanges used omnibus wallets?

15 A. A variety of means. I traded on, more or less, every large
16 exchange in the industry, on dozens of exchanges. In doing so,
17 I would deposit funds into accounts that I owned or controlled
18 on those exchanges. I would watch Blockchain explorers to see
19 where those funds originally went and where they ultimately
20 were pooled, and in doing so it became clear that there were
21 wallets generally identified explicitly by Blockchain explorers
22 in which all or at least a large segment of customer Bitcoins
23 would end up being pooled, the same with other
24 cryptocurrencies.

25 For instance, if you're depositing to Huobi, which was

NAQMBAN5

Bankman-Fried - Direct

2201

1 one of the larger cryptocurrency exchanges, and you
2 deposited -- when I deposited Bitcoin into accounts that I
3 operated there, I would originally send it to a Bitcoin address
4 that was specifically associated with my account, hoping it was
5 me that was sending the deposit, but immediately thereafter it
6 would be forwarded on to a wallet that was marked on a
7 Blockchain explorer as Huobi wallet number 3. I would see many
8 different deposit addresses for many different customers, all
9 being pooled in that omnibus wallet. And when I requested a
10 withdrawal from my Huobi account, it would be sent from one of
11 these omnibus wallets.

12 Later on, as I became more involved in the industry
13 and the people in the industry, especially after I moved to
14 Hong Kong, I had discussions with the leaders of other
15 exchanges about how we operated our platform, how they operated
16 their platform, and talked about how they managed their wallet
17 infrastructure. And every one of them that I talked to
18 confirmed that they used omnibus wallets, with the exception of
19 decentralized exchanges and of custodians that might have some
20 exchange-like qualities but were primarily not exchanges.

21 Q. What did you mean by decentralized exchanges?

22 A. So there was a variety of platforms, still is, in the
23 crypto industry called a DEX, a decentralized exchange. That
24 means it is sort of like a traditional exchange where you can
25 buy and sell assets. But rather than being run by a company

NAQMBAN5

Bankman-Fried - Direct

2202

1 and maintained in a cloud-computing service, like Amazon Web
2 Services, in the way that FTX was, it was hosted directly on a
3 Blockchain. SushiSwap was an Ethereum Blockchain based
4 decentralized exchange, Uniswap was another Ethereum Blockchain
5 based decentralized exchange.

6 On decentralized exchanges, there was no central
7 custody of assets. Instead, you would interact with them
8 directly from your own wallets. What this meant was, there is
9 no intermediary. It also meant, though, that any time you did
10 a trade on one of those decentralized exchanges, there was a
11 fixed cost of whatever the blockchain gas fees were at the
12 time, generally a few dollars per transaction, because they did
13 have to do an actual blockchain transfer for every trade, and
14 chiefly, because of that, decentralized exchanges had a far
15 smaller volume than centralized exchanges.

16 THE COURT: One other question. You used the phrase
17 Blockchain explorer.

18 THE WITNESS: Yes.

19 THE COURT: What is that?

20 THE WITNESS: A Blockchain explorer -- the Blockchain
21 itself is a ledger of all transfers that have ever happened, so
22 there is an Ethereum Blockchain, which is a ledger involving
23 Ethereum transfers. It is formally maintained in a
24 decentralized manner, which is to say, a lot of different
25 validators for the network all agree, come to consensus on what

NAQMBAN5

Bankman-Fried - Direct

2203

1 that Blockchain is.

2 However, for almost all purposes you don't want to
3 have to be running a sophisticated computer system to be able
4 to ask the question, did someone send an Ethereum token on this
5 day to this address. So there are a variety of providers that
6 created websites that listed out in a centralized but
7 easy-to-view fashion all of the transfers on the Blockchains,
8 and there are a variety of these. For each of the major block
9 chains Etherscan was, by far, the most used for the Ethereum
10 Blockchain.

11 THE COURT: Etherscan?

12 THE WITNESS: Yes.

13 THE COURT: Thank you.

14 Go ahead, Mr. Cohen.

15 MR. COHEN: Thank you.

16 Q. The larger exchanges, like FTX, used omnibus wallets,
17 correct?

18 A. Yes.

19 Q. Let me just go back to a point his Honor made before.

20 MR. COHEN: If we can pull up DX-165, please.

21 Q. Take a look and we can go through it, if you would like.

22 My question, sir, is whether you recognize this.

23 A. Yes, I do.

24 MR. COHEN: Let's go to the last page.

25 Q. What is this, Mr. Bankman-Fried?

NAQMBAN5

Bankman-Fried - Direct

2204

1 A. That is an older version of the FTX terms of service.

2 Q. DX-179, same question.

3 A. Same answer. It's an older version of the FTX terms of
4 service.

5 Q. And DX-434. Same question.

6 A. Same answer, an older version of the FTX terms of service.

7 Q. Mr. Bankman-Fried, one more topic.

8 I want to move now to November. Did there come a time
9 that you met with the securities commission of the Bahamas at
10 their offices?

11 A. A number of times, yes.

12 Q. How did this come about?

13 A. This was immediately following the bankruptcy filing of FTX
14 International and just before that the joint provisional
15 liquidators being appointed for FTX Digital Markets, the
16 Bahamian entity.

17 Q. For these next questions, Mr. Bankman-Fried, I want you to
18 answer yes or no. OK?

19 A. OK.

20 Q. Did you attend the meeting?

21 A. Yes.

22 Q. You said there were a number of meetings. Do you recall
23 when the first one was?

24 A. I believe that it was November 12, 2022.

25 Q. Did anyone attend with you?

NAQMBAN5

Bankman-Fried - Direct

2205

1 A. Yes.

2 Q. Who was that?

3 A. So in the meeting itself that I was part of, there is
4 myself; Krystal Rolle, Bahamian counsel; my father; then there
5 was Christina Rolle, the head of the securities commission of
6 the Bahamas; Brian Simms, one of the joint provisional
7 liquidators; and staff for both of them. In addition, Gary
8 Wang, the CTO of FTX, was in the building at the time but not
9 present in the meeting itself.

10 Q. For these questions I do not want you to reveal any
11 conversations between yourself and Krystal Rolle. OK?

12 A. Understood.

13 Q. How long did that meeting you just described last?

14 A. It took a few hours.

15 Q. Were you asked questions?

16 A. Yes.

17 Q. After the meeting, where did you go?

18 A. After the meeting, the group of us, roughly the same group
19 of people as had been at that meeting, but also including Gary
20 Wang and consultants from PricewaterhouseCoopers who had been
21 with Gary in the outer office, all drove to the FTX
22 headquarters in Nassau, Bahamas.

23 Q. What happened there?

24 A. At the FTX headquarters, I don't know whether this will
25 have already been covered, but the day prior to that, there was

NAQMBAN5

Bankman-Fried - Direct

2206

1 a hack on FTX's assets. This was immediately following the
2 transfer of control and bankruptcy filing. In response to that
3 there had been urgings to move FTX's assets.

4 Q. Let me move on, Mr. Bankman-Fried.

5 A. Yup.

6 Q. When you came to the office, this was Christina Rolle, the
7 SCB commissioner there?

8 A. Yes.

9 Q. Do you recall if she read anything?

10 A. She did, yes.

11 Q. What did she read?

12 A. She read an order that Gary and I assist her in
13 transferring assets that we had access to through FTX's systems
14 to the custody solution that they had set up.

15 Q. Did you and Gary comply with that order?

16 A. Yes, we did.

17 Q. That same night did the Bahamian Police come to your
18 office?

19 A. Yes.

20 Q. What happened then?

21 A. The officers showed up, they had conversations with
22 Christina Rolle, the head of the SCB; with Krystal Rolle; my
23 counsel; and with myself.

24 We agreed that I would voluntarily attend meetings
25 with them that following week and that in the interim I and

NAQMBAN5

Bankman-Fried - Cross

2207

1 Gary would surrender our passports.

2 Sorry. Just to clarify, we agreed that Gary and I
3 would both voluntarily attend meetings with them that following
4 week.

5 Q. Did you surrender your passport?

6 A. Yes.

7 Q. Did you ultimately go to those meetings?

8 A. No. Prior to those meetings, prior to when they were to
9 have been had, I was informed that they were no longer
10 necessary.

11 MR. COHEN: One moment, your Honor.

12 Nothing further, your Honor.

13 THE COURT: Thank you.

14 Ms. Sassoon.

15 MS. SASSOON: May we have a short break, your Honor?

16 THE COURT: Sure.

17 MS. SASSOON: Fifteen minutes, your Honor. Is that
18 reasonable?

19 THE COURT: Yes.

20 (Recess)

21 THE COURT: You may proceed.

22 MS. SASSOON: Thank you, your Honor.

23 CROSS-EXAMINATION

24 BY MS. SASSOON:

25 Q. Mr. Bankman-Fried, I want to begin by talking to you about

NAQMBAN5

Bankman-Fried - Cross

2208

1 Signal. I want to drill down a little bit more on your
2 testimony.

3 A. OK.

4 Q. Did you discuss your use of Signal with lawyers?

5 A. Yes.

6 Q. When did you first discuss your use of Signal with lawyers?

7 A. More or less as soon as I began using Signal. I think this
8 was sometime around 2020 or so. And there were lawyers who
9 were involved in some of the original Signal chats.

10 Q. Which lawyers?

11 A. At the beginning, Dan Friedberg, who was the general
12 counsel at the time, and then ultimately with most of the
13 lawyers who joined the company.

14 Q. Did you discuss with lawyers auto deletion of Signal
15 messages?

16 A. I discussed with them the fact that there was auto
17 deletion, and it was a topic that had come up in connection
18 with the various data-retention policies. I don't know if
19 there is something more specific you are asking about.

20 Q. When did you first discuss with lawyers that you were going
21 to be auto deleting your Signal messages?

22 A. The earliest memories that I have of it were about
23 particular channels, particular channels that lawyers were
24 added to somewhat early on. I am not sure if you are referring
25 to -- sorry. I think the answer was, you know, shortly after I

NAQMBAN5

Bankman-Fried - Cross

2209

1 started using Signal, although not originally in the context of
2 a formal policy.

3 Q. Let me ask you this. When, as a general practice, did you
4 start setting your Signal messages to auto delete?

5 A. I can't recall the exact date.

6 Q. Was it around the spring of 2021?

7 A. That sounds pretty plausible to me.

8 Q. And before you started doing that, as a matter of general
9 practice, did you discuss doing that with any attorneys at FTX?

10 A. I mentioned it. I don't know that we had formal
11 discussions about it.

12 Q. When you say you mentioned it, what does that mean?

13 A. It means that I mentioned that I was going to be -- I
14 think -- at least what I remember is at some point changing the
15 default toggle on my Signal app. I am not sure there is
16 another incident there, but that toggle I think I changed to
17 one week for chats -- for new chats that were created at some
18 point in time. The spring of 2021 sounds like it may have been
19 the right period for that to me.

20 Q. Before you changed that setting for your Signal chats to be
21 set to auto delete, did you seek approval of that decision from
22 a lawyer?

23 A. I don't know that I sought specific approval for that, no.

24 Q. So you mentioned a document-retention policy?

25 A. Yes.

NAQMBAN5

Bankman-Fried - Cross

2210

1 Q. Was that a written policy?

2 A. Yes.

3 Q. When did that go into effect?

4 A. I believe that went into effect around late 2021.

5 Q. Whose idea was it to enact a document-retention policy?

6 A. Originally, it was Dan Friedberg's idea.

7 Q. What was the scope of that policy?

8 A. The scope of that policy was for official workplace
9 communications for FTX.

10 Q. Did that written policy include any provisions specifically
11 about the use of Signal?

12 A. I don't remember whether it was mentioned by name.

13 Q. Did that policy, as far as you recall, have any provisions
14 specifically about auto deletion of Signal messages?

15 A. It had various policies that would have applied to Signal,
16 but I don't know that it had any that specified -- that singled
17 out Signal as a platform.

18 Q. What about any policies in this written document that you
19 can recall that pertained to the destruction or deletion of
20 company communications?

21 A. There were -- I mean, there were a number of parts of it
22 that discussed the time periods at which it was or it wasn't
23 appropriate for some subsets of communications to do so. There
24 were also conversations -- I am not sure whether or not they
25 are in connection with that -- around mandates that we had from

NAQMBAN5

Bankman-Fried - Cross

2211

1 various regulators for specific pieces of data to have no
2 longer than a particular shelf life.

3 Q. I think you said something like there was some subset of
4 communications to do so. I didn't understand what that means.

5 Did the policy specifically say anything about the
6 permissibility of deleting or destroying company documents?

7 A. Yeah. It said that in various circumstances it was not
8 permissible and in other circumstances it was permissible.

9 Q. What do you recall the policy saying about when it was
10 permissible to destroy company communications?

11 A. So I remember -- my memory of the policy is that it laid
12 out various circumstances in which it was not permissible to do
13 so or in which there needed to be a lengthy retention period
14 for company communications, and that outside of those sets of
15 topics or forums, there was permissibility to have effectively
16 whatever data-retention link or setting felt appropriate.

17 Q. Do you recall that policy --

18 THE COURT: Excuse me a minute, Ms. Sassoon. What
19 does it mean that there was permissibility about that? Does
20 that mean you could do whatever you wanted?

21 THE WITNESS: Sorry.

22 THE COURT: Yes. That was from me.

23 A. So long as there was no particular reason that you didn't
24 do a particular thing, yes.

25 Q. Is it your recollection that the policy expressly

NAQMBAN5

Bankman-Fried - Cross

2212

1 authorized deleting company communications that did not fall
2 within the regulated categories?

3 A. That is my memory, yes.

4 Q. Where is this written policy?

5 A. I'm not sure if my answer is admissible.

6 THE COURT: Don't worry about that. You worry about
7 Blockchain explorers. I will worry about what's admissible.

8 A. When I was a member of the company, I remember interacting
9 with the policy and discussing it. As part of this case I
10 think we have been unable to serve the subpoenas we have
11 requested asking for it.

12 Q. You said that Signal was not expressly mentioned in the
13 policy. Did you talk to lawyers about whether Signal was
14 covered by the policy?

15 A. Yeah.

16 Q. And what were those conversations?

17 A. That Signal was treated in many ways like the other
18 communication platforms that we used. There were a few cases
19 where specific platforms were mentioned. I think there were
20 provisions specifically referring to email, for instance, in
21 the policy, but, otherwise, that it depends not on the app that
22 was used but on the nature of the communication.

23 Q. I think you said you mentioned in passing that you set this
24 auto-delete feature on Signal. Did you ever discuss with a
25 lawyer whether that was covered by this policy?

NAQMBAN5

Bankman-Fried - Cross

2213

1 A. Yeah.

2 Q. With who?

3 A. With Dan Friedberg.

4 Q. When?

5 A. This was around the time that he was discussing the auto
6 deletion and data-retention policy with us, which my memory was
7 late 2021.

8 Q. So which is it? Did you just mention that you were putting
9 on this setting or did you seek approval from Dan Friedberg?

10 A. I think -- I apologize. I may have misinterpreted. I
11 interpreted your early question as what conversations I had
12 contemporaneous with when I originally changed that setting,
13 which my memory it was prior to the discussions around the
14 auto-deletion policy. So there is no formal policy around it
15 when I had initially changed the default settings on my Signal
16 app to one week, but we did have formal discussions about it in
17 connection with the data-retention policy which happened some
18 number of months later.

19 Q. Just to make sure I follow your testimony, you implemented
20 this setting and later this policy was put into place?

21 A. I believe that is correct, yes.

22 Q. Did you discuss with lawyers the retention period that you
23 were placing on your auto-delete feature?

24 A. Yeah.

25 Q. How was the retention period decided upon?

NAQMBAN5

Bankman-Fried - Cross

2214

1 A. The retention period from my particular Signal -- like the
2 default on my particular Signal was just what it had been.
3 That was not meant to represent what the companies for official
4 communications or for memorializing business decisions or for
5 storing business documents would set on channels for which
6 retention was important or mandated.

7 Q. Did any lawyer authorize you to set auto delete for your
8 communications with Caroline Ellison, Nishad Singh, and Gary
9 Wang?

10 A. Via -- my memory is that, via the data-retention policy,
11 for communications that were not otherwise protected or
12 required to be retained that we were authorized to use whatever
13 retention period we felt like was appropriate.

14 Q. So you never sought out specific authorization for that?

15 A. It was, I think, explicitly authorized, although not
16 singled out by the data-retention policy. It was also
17 something that the lawyers were aware of.

18 Q. I think you testified that documents related to formal
19 business decisions, it was your understanding that those had to
20 be preserved based on your conversations with lawyers. Is that
21 accurate?

22 A. Documents that memorialized formal business decisions were
23 sort of finalized versions of those that were distributed to
24 the company or externally. That was my understanding.

25 Q. Can you explain what you mean by that.

NAQMBAN5

Bankman-Fried - Cross

2215

1 A. So effectively -- I apologize. I wish I had that policy
2 now. I am working off my memory of it -- is that the policy
3 considered communications which, as an example, we're sending
4 to the company, here is our policy on a particular topic or
5 that were compliance decisions that were made and communicated
6 to a department of the company, or that were us storing
7 know-your-customer related information or that were formal
8 discussions of accounting documents would be, but that, for
9 instance, there is not, to my knowledge, any requirement that
10 every rough draft of documents and the conversation around
11 those, especially informal conversations, be preserved.

12 (Continued on next page)

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NAQ1BAN6

Bankman-Fried - Cross

2216

1 BY MS. SASSOON:

2 Q. What about the decision, for example, to repay Alameda's
3 lenders, do you consider that a formal business decision?

4 A. So I would consider formal business document to be the
5 balance sheets that were sent out to Alameda's lenders. To the
6 extent that there was a communication to Alameda's employees
7 that there was some policy decision, I would expect that that
8 would be. Now I—

9 Q. Let me make this concrete. Do you recall Caroline Ellison
10 testified that she sent to you Government Exhibit 44, the
11 spreadsheet with seven alternative tabs via Signal?

12 A. Yeah.

13 Q. Do you recall that testimony?

14 A. I do, yes.

15 Q. And do you consider that document a formal business
16 document?

17 MR. COHEN: Objection. Beyond the scope of this
18 hearing.

19 THE COURT: Overruled.

20 A. I—to be clear, to the extent that there was a document
21 that was sent out or intended to be directly sent out to
22 lenders, I would have thought of that as the type of document
23 that, had it been an FTX document, I would have, you know,
24 posted in a semiformal way in Slack. I can't speak for certain
25 about what practices Caroline followed with respect to Alameda.

NAQ1BAN6

Bankman-Fried - Cross

2217

1 However, a rough draft of that that was still being workshopped
2 I would not have yet considered a formal business document that
3 had to be separately memorialized, nor would I have considered
4 the sending of that to one other person so they could look over
5 it to be a formal business decision.

6 Q. So just to be clear, I want to make sure I understand that.

7 A. Yup.

8 Q. It's your view that receiving that seven-tab spreadsheet
9 over Signal and that message getting deleted was consistent
10 with the company's policy?

11 A. Yeah.

12 Q. And what specific conversations do you recall with counsel
13 that informed that understanding?

14 A. We had conversations that effectively—I had conversations
15 with counsel that conversations that people had internally were
16 not in general required to be recorded; for instance, verbal
17 conversations were not required to be recorded, generally
18 messages between two specific people at the company were not
19 required to be recorded because those would generally not be,
20 you know, formal business decisions that were being
21 communicated to the company more generally as there were only
22 two people involved in that and—

23 Q. You were CEO of FTX, right?

24 A. Yes.

25 Q. And Caroline Ellison for a time was CEO of Alameda?

NAQ1BAN6

Bankman-Fried - Cross

2218

1 A. Yes.

2 Q. And it was your view that no one-on-one communications with
3 Caroline Ellison had to be preserved.

4 A. I don't know that I would make a statement quite that
5 strong. I would say in general that was the case, but I—I,
6 you know—one could probably come up with such a communication
7 that would make sense to preserve.

8 Q. Well, give me an example.

9 A. I don't actually have any examples. I can try and think of
10 one.

11 Q. Do you think you ever violated this policy by communicating
12 with Caroline Ellison in messages that were later deleted?

13 A. Not to my knowledge.

14 Q. So am I correct that all your messages with Caroline from I
15 believe around May 2021 onward until November 2022 over Signal
16 were auto-deleted, right?

17 A. I think that was for Signal communications, yes, not
18 necessarily communications via other methods.

19 Q. So it's your testimony that there were no communications
20 over that period that would have violated the policy by being
21 auto-deleted?

22 A. I can't think of any that I believe would have. I
23 obviously don't remember every message that was sent and don't
24 have, unfortunately, copies of that policy in front of me right
25 now.

NAQ1BAN6

Bankman-Fried - Cross

2219

1 Q. What about conversations over Signal with Gary Wang, Nishad
2 Singh, and Caroline Ellison about shutting down Alameda because
3 of a hole in the FTX balance sheet?

4 A. I'm not sure that's how I would characterize the
5 conversations that I think you're referring to there. If
6 you're referring to the—are you referring to the "we came, we
7 saw, we researched" document, or are you referring to something
8 else? Sorry. I may be misunderstanding.

9 Q. Did you have conversations over Signal with Gary, Nishad,
10 and Caroline about an approximately \$13 billion hole at FTX?

11 A. I don't specifically recall such conversations. I wouldn't
12 be surprised that they had sent a Signal message about it at
13 some point.

14 Q. And so that type of Signal message, do you think that was
15 covered by the retention policy?

16 A. I would expect that it would be. I would, but again, it's
17 a little—I can't be confident with a hypothetical message.

18 Q. Meaning that you would expect that it should be preserved
19 or that it could be deleted?

20 A. No, no. So it depends on the exact nature of the message.
21 It's hard to give a definitive general answer to it, because
22 for instance, they would communicate an official vetted company
23 number that action was to be taken based on, and that was to
24 be—you know, that would be different than a conversation in
25 which people were trying to hash out what a number was based on

NAQ1BAN6

Bankman-Fried - Cross

2220

1 various approximations, so it's hard for me to answer in the
2 abstract.

3 Q. Do you recall, were you here for Adam Yedidia's testimony?

4 A. Yes, I was.

5 Q. Do you recall him testifying about a conversation you had
6 with him saying preserving Signal messages would be all
7 downside, or something to that effect?

8 A. I recall something that is at least to some extent to that
9 effect. I don't recall the specific things that he said.

10 Q. Did you have a conversation with him along those lines?

11 A. I don't specifically recall that, but I very well may have.

12 Q. And did you have that view?

13 A. Have what view in particular?

14 Q. That preserving company messages would be all downside with
15 regulators.

16 A. I didn't have that view with respect to all company
17 messages. I had that view with respect to particular types.
18 Maybe to—to clarify that a little bit, I thought it was
19 important to memorialize and to store company decisions,
20 official company documents. On the other hand, I was very
21 concerned about what would happen if an employee was careless
22 about how they phrased something, made a statement that was not
23 in fact nefarious but which, taken out of context, could look
24 bad and unfortunately they didn't give the appropriate context
25 and that that in turn could be publicized and be effectively

NAQ1BAN6

Bankman-Fried - Cross

2221

1 embarrassing for the company.

2 Q. Did you share that concern with lawyers when crafting your
3 document retention policy?

4 A. I shared that conversation, that—sorry—that concern in
5 general with lawyers. I'm not sure whether I specifically
6 shared it in connection with the data retention policy.

7 Q. So you don't have a recollection of expressing that concern
8 with respect to formulating the data retention policy?

9 A. Yeah, I'm not sure either way about whether that was one of
10 the contexts in which we had that conversation, though I know
11 that prior to that and after that, I had had that conversation
12 with lawyers.

13 Q. What about when you mentioned to lawyers that you turned on
14 the auto-delete function, did you explain that one purpose was
15 to destroy things that could be downside with regulators?

16 A. I certainly would not have used that language or described
17 it that way. I don't recall such a conversation.

18 THE COURT: How would you have described it?

19 THE WITNESS: So what I would have said—to give some
20 context on this, the company I worked at prior to
21 joining—well, to founding Alameda and then FTX was Jane Street
22 Capital, and at Jane Street, there was frequent discussion of
23 something called "*The New York Times* test." Context for this
24 was effectively, anything that you write down might end up on
25 the front page of *The New York Times*. And so especially if

NAQ1BAN6

Bankman-Fried - Cross

2222

1 you're describing something which is sensitive, you should make
2 sure that you are considerate about how you write it down, that
3 you think about how it could be interpreted, and that you make
4 sure that it could not be misinterpreted, and this was combined
5 with various stories that were told about cases where there was
6 a very negative public or regulatory reaction to an inoffensive
7 actual behavior because of careless things that people had used
8 to describe it. And so that was the type of concern that I
9 chiefly had.

10 BY MS. SASSOON:

11 Q. And did you direct your employees to discuss legally
12 sensitive topics by Signal?

13 A. It depends on what sorts of discussions. For, I would say,
14 employees, like, spitballing questions to—to lawyers, I think
15 that often would happen either verbally or over Signal. If
16 this was asking what is our policy on a particular thing or
17 describing that policy or communicating it, that I would not
18 have suggested particularly be over Signal.

19 Q. Did FTX ever get subpoenas that resulted in a hold on
20 destruction of records?

21 A. Yup.

22 Q. Did you retain Signal records after you got those holds?

23 A. So my understanding was that we retained records that were
24 responsive to those holds. Not all Signal channels had
25 auto-deletion turned on, some of them did not, and many Slack

NAQ1BAN6

Bankman-Fried - Cross

2223

1 channels did not, and emails in general did not.

2 Q. Did you ever turn off your auto-delete function on messages
3 with Gary, Caroline, or Nishad in response to such a hold?

4 A. Just because—we're talking specifically about a group chat
5 with the three of us or are we talking about broader groups
6 that we may have been in?

7 Q. Groups that would have included only those individuals.

8 A. Got it. So those were some subset of the four of us.

9 Q. Yes.

10 A. I'm not actually sure if I was—what the deletion history
11 was with those chats. I don't recall specifically doing so.

12 Q. When you got such a hold, did you consult lawyers about
13 which Signal chats you should preserve?

14 A. Yes.

15 Q. Who did you discuss that with?

16 A. I remember discussing that with Ryne Miller and Dan
17 Friedberg.

18 Q. And what were you told?

19 A. I was told that we basically immediately had to come up
20 with a set of channels and forums that should be fully
21 retained, and I believe that we did so.

22 Q. And who decided which channels those would be?

23 A. I mean, there—I want to make sure I answer this correctly.
24 There were a bunch of us—no, a bunch—probably seven or so
25 people involved in that conversation. Ultimately it was Dan

NAQ1BAN6

Bankman-Fried - Cross

2224

1 and Ryan who made the judgment call on which channels did and
2 didn't fall into that, but with, you know, context given by a
3 few other employees.

4 Q. Did you tell Ryne Miller or Dan Friedberg that you were
5 discussing company business in Signal chats with, for example,
6 Gary, Nishad, and Caroline?

7 A. Yeah.

8 Q. And what guidance, if any, did they give you about
9 preservation of those messages?

10 A. They did not generally tell me that those had to be
11 preserved so long as they were not, you know, formal business
12 decisions or other similar things.

13 Q. They used the word "formal business decisions"?

14 A. I don't actually recall the specific phrase they used.

15 Q. So what phrase do you recall them using?

16 A. I don't recall a specific one.

17 Q. Well, what do you recall about the substance of what they
18 said?

19 A. I recall that the substance of what they said was that for
20 informal company communications, those were permissible to
21 happen in person or over Signal, but that for things that
22 looked like company records, for instance—

23 Q. So you're giving that as an example. I want to
24 understand—

25 MR. COHEN: Please let him finish his answer.

NAQ1BAN6

Bankman-Fried - Cross

2225

1 THE COURT: Yes.

2 A. But that for things that were like company records or
3 decisions announced to the company that employees were expected
4 to enact, or logs of customer information, that those would not
5 be happening over Signal.

6 Q. Did anyone use the words "informal business discussions"?

7 A. Yup.

8 Q. Did any lawyer tell you about sharing company spreadsheets
9 or informal business conversations?

10 A. I had conversations with lawyers in which we shared
11 business-related spreadsheets over Signal. I don't know if I'd
12 specifically asked them about that, but they were well aware
13 that that would sometimes happen. I would not use that as a
14 way to distribute a finalized spreadsheet. That was generally
15 a way that I would sometimes send it to a few people to look
16 over and see if I was messing anything up.

17 Q. And how did this policy you've described apply to anything,
18 any communications related to Alameda?

19 A. My understanding is that there was a version of this policy
20 for Alameda as well, although I don't know the details of it.

21 Q. Were you involved in forming that policy?

22 A. Not in any depth.

23 Q. What does that mean?

24 A. I was aware that it was happening. It was mentioned
25 sometimes in the same conversations as the ones that I had with

NAQ1BAN6

Bankman-Fried - Cross

2226

1 counsel about the FTX policy, but I don't know that I reviewed
2 the Alameda policy and I don't remember learning specifically
3 what channels were—were not going to be preserved at Alameda.

4 Q. When do you recall that taking place?

5 A. I think late 2021. I don't remember the exact time.

6 Q. And what was your involvement in Alameda at that point?

7 A. So this was after the CEO role had transitioned to Caroline
8 Ellison and Sam Trabucco. It was during a period where it was,
9 you know—Trabucco was slowly drifting effectively towards
10 retirement, so it was primarily Caroline. I was involved in a
11 few areas of Alameda. I was particularly involved in
12 venture-related investments, and later on I became involved in
13 hedging decisions. I was not on a day-to-day level involved in
14 other topics that I can recall—there—there may well be one or
15 two I'm forgetting there—although I would get periodic updates
16 from Caroline about it and she would sometimes elicit input
17 from me.

18 Q. Were you in a Signal group called Vertex?

19 A. Yes.

20 Q. Was that with Caroline, Sam Trabucco, and Ben Xie?

21 A. Yup.

22 Q. And were Alameda trade decisions discussed in Vertex?

23 A. I—yeah, occasionally.

24 Q. And was that chat set to auto-delete?

25 A. I don't recall. It may have been.

NAQ1BAN6

Bankman-Fried - Cross

2227

1 Q. Do you recall consulting with anybody about setting that
2 chat to auto-delete?

3 A. Not specifically for that chat.

4 Q. You've described some consultations with attorneys. Do you
5 have any paper records of these consultations?

6 A. I—no, I don't. I believe we've requested some of those
7 but have not been given them.

8 Q. When you say "requested some of those," what did you
9 request?

10 A. I requested both the data retention policy and all
11 communications surrounding that.

12 MS. SASSOON: Your Honor, permission to approach the
13 witness with a document.

14 THE COURT: Yes.

15 MS. SASSOON: I've provided a copy to defense counsel.
16 I'd like to provide one to the Court, and the witness. I don't
17 know if that leaves one for me, but—

18 BY MS. SASSOON:

19 Q. Mr. Bankman-Fried, could you just take a look at that and
20 tell me if you recognize this document.

21 THE COURT: Let's get it marked.

22 MS. SASSOON: We can mark that as Government
23 Exhibit 3000.

24 THE COURT: Thank you. For identification.

25 MS. SASSOON: Yes.

NAQ1BAN6

Bankman-Fried - Cross

2228

1 A. I—

2 MS. SASSOON: 4000. 4000.

3 THE COURT: 4000 for identification.

4 A. To be explicit, I do recognize this but not
5 contemporaneously. I'm aware of this, but I don't remember
6 becoming aware of this when it was actually enacted. I am
7 certain that I saw this starting, you know, on or around
8 November 2022.

9 Q. Is that the document retention policy you've been talking
10 about?

11 A. No, this is not.

12 Q. And does it resemble in substance what was in the retention
13 policy you've been talking about?

14 A. No, it does not.

15 Q. So the supposed policy you've been testifying about, you
16 have no record of it sitting here today.

17 A. That's correct. We have requested it numerous times.

18 Q. Okay. One moment.

19 I'm going to turn now—before I move on to another
20 topic, I just want to ask if, in your view, you ever violated
21 the document retention policy.

22 A. I don't have any knowledge that I did. Although, again,
23 I'm not now looking at a copy of it so I—I don't recall
24 precisely what it said.

25 Q. Okay. I want to talk to you about North Dimension.

NAQ1BAN6

Bankman-Fried - Cross

2229

1 A. Yup.

2 Q. First of all, whose idea was it to incorporate North

3 Dimension?

4 A. It was communicated to me by Dan Friedberg. I know there
5 were others involved. I'm not sure whose idea originally North
6 Dimension in particular was.

7 Q. You've described a couple things now where you've said that
8 something was Dan Friedberg's idea.

9 A. Mm-hmm.

10 Q. Can you explain generally the relationship between you and
11 Dan Friedberg, and generally, were you giving him direction or
12 was he just popping ideas on your desk?

13 A. There were some of each. That relationship, it changed a
14 little bit over different periods of time. I can just give an
15 overview. If there's a specific time period you want me to
16 zoom in on, I'm happy to do that as well.

17 Q. Let's focus first on North Dimension. Did you give Dan
18 Friedberg any direction about North Dimension?

19 A. I don't recall giving specific direction to him about it.
20 Yeah, no, I don't recall giving a direction to him about it.

21 Q. And why the name North Dimension for this entity?

22 A. I honestly don't know where the name came from.

23 Q. So is it your testimony you didn't come up with the name?

24 A. That is correct.

25 Q. And do you have any knowledge of why this entity didn't

NAQ1BAN6

Bankman-Fried - Cross

2230

1 have Alameda in the name?

2 A. I—I don't know for sure why it did not.

3 Q. I think you testified that FTX couldn't get bank accounts?

4 A. Yup.

5 Q. At first, were FTX customer funds getting wired to a bank
6 account in Alameda's name?

7 A. Originally customers were wiring deposits to Alameda
8 Research.

9 Q. Why did that stop?

10 A. Ultimately it stopped because FTX got its own bank
11 accounts, but I'm guessing you're talking about before then, is
12 that—

13 Q. Why did FTX transition from using bank accounts in the name
14 of Alameda to a bank account in the name of North Dimension?

15 A. My understanding from what I was told at the time was that
16 there were cases where various banks had difficulty wiring to
17 an Alameda Research bank account or—and/or various customers
18 did, and that it was smoother to process them using a North
19 Dimension bank account.

20 Q. Were you told that banks did not want to transfer money to
21 Alameda, a cryptocurrency hedge fund?

22 A. I don't know if I was told that explicitly, but I—it
23 wouldn't surprise me.

24 Q. Did you understand that at the time?

25 A. I knew that there were some banks that did not want to do

NAQ1BAN6

Bankman-Fried - Cross

2231

1 so. I didn't know whether that was the impetus for North
2 Dimension.

3 Q. Just to be clear, when North Dimension was created, you
4 were CEO of Alameda, right?

5 A. I believe that's correct, yes.

6 Q. And is it your testimony that as CEO of Alameda, you had no
7 insight into why Alameda stopped receiving customer funds into
8 a bank account in Alameda's name?

9 A. I—it is correct that I do not know why it incorporated
10 North Dimension. It wasn't a project that I was driving,
11 although it was one that I was made aware of. I had contextual
12 clues that I could try to draw on, but in general, I was—even
13 for companies that I was fully running day to day, there were a
14 lot of things that happened that I was either not informed of
15 or after the fact sort of summarily informed of, and at that
16 point with Alameda, I was still CEO, I was still involved
17 sometimes in the day-to-day operations, but I often was not. I
18 was, you know, about halfway, I would say, through
19 transitioning from running Alameda day to day to running FTX
20 day to day.

21 Q. So we've looked at, or you looked with Mr. Cohen at a bank
22 account application for North Dimension.

23 A. Yup.

24 Q. When you signed that, what was your understanding of what
25 you were doing?

NAQ1BAN6

Bankman-Fried - Cross

2232

1 A. My understanding was that Alameda wanted to open up a bank
2 account for North Dimension and this was a form that I had to
3 fill out to do so.

4 Q. Who told you that?

5 A. I knew that Dan Friedberg specifically told me that. I'm
6 not sure if I had conversations with other people about it as
7 well.

8 Q. What, if anything, did you discuss with Dan Friedberg about
9 the purpose of this bank account?

10 A. At the time of the—the form, or later on or—

11 Q. Before and at the time.

12 A. I'm not sure I remember having discussions before or at the
13 time about the purpose of the bank account. I know that there
14 had been—yeah. Sorry. I'm not sure that I did. I'm not sure
15 that I did entirely. I just don't recall any in particular.

16 Q. When did you learn that the purpose of the bank account was
17 to receive FTX customer funds?

18 A. I think I learned that when I saw that it had been—so I
19 think I learned when FTX rolled out North Dimension deposit
20 instructions for customers that at least one of the purposes
21 for it was going to be for customer deposits.

22 Q. Did that raise any concerns for you at the time?

23 A. I don't think it raised any particular concerns.

24 Q. Did you discuss with counsel that the purpose of the bank
25 account was to receive customer funds?

NAQ1BAN6

Bankman-Fried - Cross

2233

1 A. Sorry. Let me actually amend my previous answer. There
2 was a related thing that did raise a concern to me at the time,
3 that I did raise as a concern with counsel, which was, I saw
4 that one of the North Dimension entities was a US entity, and I
5 was surprised to see that a US entity was being used for—for
6 what seemed like payment processing.

7 Q. So as far as you understand it, whose decision was that?

8 A. Whose decision was it to roll it out for FTX or to open the
9 bank account or—

10 Q. To use North Dimension to receive FTX customer money.

11 A. I'm actually not entirely sure whose decision it originally
12 was. I think Nishad was the one who added it to the code base,
13 but presumably that was after conversations with other people.
14 I'm not sure who sort of made that decision initially.

15 Q. So it's your testimony you weren't part of that decision.

16 A. The original decision related to North Dimension, I don't
17 recall being a part of it. I do know that I became—certainly
18 became aware of it and had conversations with it as it was
19 happening, and I may have been in conversations around
20 difficulties that Alameda was having sometimes receiving wire
21 transfers. I don't recall being conversations around North
22 Dimension in particular until it was being implemented.

23 Q. What do you mean you may have been in conversations about
24 the account receiving customer money?

25 A. Sorry. Conversations—was this referring to the

NAQ1BAN6

Bankman-Fried - Cross

2234

1 conversations around difficulties with—

2 Q. Yes. I think you said "I may." So were you—what's your
3 testimony?

4 A. So, excuse me. I was in conversations that—in which it
5 was conveyed to me that sometimes people had difficulty wiring
6 to Alameda. I'm not sure if those were related. They may have
7 been.

8 Q. So what conversations, if any, did you have with lawyers
9 about the permissibility of using North Dimension to receive
10 FTX customer funds?

11 A. We had conversations around Alameda generally acting as a
12 payment processor, as a payment agent for FTX, which were, you
13 know, memorialized in a payment agent agreement, and I had
14 conversations with that at a high level with lawyers, and I was
15 at least aware of conversations that were happening with the
16 accountants and auditors around that as well. I know that
17 there were lawyers who were, I mean, involved in and driving
18 the incorporation and usage of North Dimension as part of this
19 payment agent. I'm not sure if I initiated a specific
20 conversation after seeing it around that, the—it was initiated
21 with me. But yeah.

22 THE COURT: So I take it the answer is you don't
23 remember; is that about it?

24 THE WITNESS: I don't remember that specifically. I
25 do know that lawyers were involved in that decision. I don't

NAQ1BAN6

Bankman-Fried - Cross

2235

1 know that I specifically—

2 THE COURT: No. The question was about conversations
3 you had.

4 THE WITNESS: That's right.

5 THE COURT: So the answer is you don't remember; is
6 that right or not?

7 THE WITNESS: Sorry. I want to make sure I'm
8 answering the right question. Conversations that I had with
9 lawyers around—

10 THE COURT: The permissibility of using North
11 Dimension to receive FTX customer funds. That was the
12 question.

13 THE WITNESS: Right. No, I—not unless you count
14 conversations I had around the permissibility of using Alameda
15 as a payment agent, and North Dimension was a wholly-owned
16 subsidiary of Alameda. I don't know that I had conversations
17 around the permissibility of North Dimension in particular.

18 THE COURT: Listen to the question and answer the
19 question directly.

20 BY MS. SASSOON:

21 Q. When you signed the bank account opening document for the
22 North Dimension bank account, at that time, I believe you
23 testified you did not know the bank account would be used
24 specifically to receive FTX customer funds; that was your
25 testimony?

NAQ1BAN6

Bankman-Fried - Cross

2236

1 A. I believe that's correct.

2 Q. And so at that time when you signed the account opening
3 document, you had not had any conversations with lawyers about
4 the permissibility of using the North Dimension account to
5 receive customer funds; is that accurate?

6 A. I don't recall having any, no.

7 Q. And is it likely you did, given that you are testifying
8 that you didn't know the purpose of the account?

9 A. I don't think that I did, but I can't be certain about the
10 order in conversations here. I'm relying on my memory here,
11 and this was not a thing I was focused on at the time.

12 MS. SASSOON: Well, let's look at Government
13 Exhibit 267.

14 Mr. Bianco, if you could pull that up.

15 Q. This is the bank account application document you signed,
16 right?

17 A. Yes.

18 MS. SASSOON: And if we could just go to the last
19 page.

20 Q. That's your signature?

21 A. Yes.

22 Q. And this is dated December 9, 2020, so you were CEO of
23 Alameda at the time?

24 A. Yes.

25 Q. And that's a wet signature, right?

NAQ1BAN6

Bankman-Fried - Cross

2237

1 A. I guess it looks like one.

2 Q. Sometimes you used DocuSign, right?

3 A. Yes.

4 Q. In this instance you did not?

5 A. It doesn't look like I did. I don't recall.

6 Q. And did you review this document before you signed it?

7 A. I reviewed it briefly.

8 Q. Did you discuss it with a lawyer before you signed it?

9 A. I—it was presented to me by a lawyer. I didn't have a
10 lengthy discussion with him about it, though.

11 Q. Did you have any discussion that you can recall, sitting
12 here today, about this document?

13 A. Not other than, I mean, him saying that there's a document
14 for you to sign related to a bank account opening for a
15 subsidiary of Alameda's, and I said, all right. That's all I
16 can recall from the moment of that signing. I'm not entirely
17 sure there isn't something I'm not remembering. I don't recall
18 anything other than that.

19 Q. Let's go to the first page.

20 A. Mm-hmm.

21 Q. And do you see here under 1, it says "Description of
22 business. Select all that apply"?

23 A. Yup, mm-hmm.

24 Q. And what's checked is "proprietary trading firm" and
25 "over-the-counter trading firm."

NAQ1BAN6

Bankman-Fried - Cross

2238

1 A. Yup.

2 Q. As far as you know, was North Dimension either of those
3 things?

4 A. I viewed it to be one. It was a wholly-owned subsidiary of
5 Alameda, which was both of those things.

6 Q. And as far as you understood it, was this bank account used
7 for either of those purposes?

8 A. I'm actually not entirely sure all the things that it ended
9 up being used for.

10 Q. Did you discuss this section of the application with Dan
11 Friedberg?

12 A. I don't recall discussing it with him.

13 Q. In the course of preparing for this trial did you review
14 reports of meetings the government had with Dan Friedberg?

15 A. I—I'm not sure. I—I think at least a little bit. I
16 don't know if I did.

17 Q. Did you review the witness notes and materials provided to
18 you by the government?

19 A. I reviewed some of them.

20 Q. And did you review some of the reports related to Dan
21 Friedberg?

22 A. Some, but I believe not all of them.

23 Q. And did you read in one of those reports that Friedberg
24 says he could not recall who asked for North Dimension to be
25 formed but it would have been either you or Andy Croghan?

NAQ1BAN6

Bankman-Fried - Cross

2239

1 A. I don't specifically recall reading that, no, but it very
2 well may have been in there.

3 Q. Is it possible that you asked Dan Friedberg to form North
4 Dimension?

5 A. I don't recall doing so.

6 Q. Do you recall reading in the report that Friedberg said he
7 was not part of any discussion of FTX customer funds depositing
8 into Alameda Research accounts?

9 A. I remember hearing that that had been there. I'm not sure
10 whether I read it myself or discussed it.

11 Q. And do you dispute that?

12 A. I can't know for sure what is intended by that. All I have
13 is discussion of the notes. That's not how I would have I
14 think described it myself, but I don't want to put words in his
15 mouth, as I don't know exactly what he intended by that.

16 Q. So I'm not asking you that. I'm asking whether, according
17 to you, Dan Friedberg was in fact part of discussions of FTX
18 customer funds depositing into Alameda Research accounts.

19 A. So just to clarify, I do think that Dan Friedberg—I do
20 remember Dan Friedberg being involved in discussions relating
21 to Alameda being—Alameda bank accounts being used as a way to
22 accept deposits from customers of FTX.

23 Q. And when were those discussions?

24 A. Those discussions were happening when we were discussing
25 the payment agent agreement. That was, as I understood it, the

NAQ1BAN6

Bankman-Fried - Cross

2240

1 primary purpose of the payment agent agreement was to describe
2 that relationship.

3 Q. And when did you discuss the payment agent agreement with
4 Dan Friedberg?

5 A. I don't recall exactly when it was. I think that it was
6 certainly at some points in 2020 and possibly at other times as
7 well.

8 Q. When did you sign the payment agent agreement?

9 A. I don't remember when I signed it.

10 Q. What's your best recollection of when you signed the
11 agreement?

12 A. I—in 2020 is my best guess, but I—that could be wrong.

13 Q. We looked at the effective date on the document, which was
14 2019.

15 A. Yup.

16 Q. Did you sign it on the effective date of the document?

17 A. No, I don't think so.

18 Q. Did you sign it after the effective date of the document?

19 A. Yeah.

20 Q. Possibly a year later?

21 A. It's possible.

22 Q. Possibly two years later?

23 A. Possible. I would have guessed it wasn't that late, but,
24 yeah, it could have been.

25 Q. Are there any other lawyers you talked to about North

NAQ1BAN6

Bankman-Fried - Cross

2241

1 Dimension being used to receive FTX customer funds?

2 A. I—that I—I personally did not have many discussions
3 around North Dimension. I know that—I'm honestly not entirely
4 sure.

5 Q. Did you have any conversations with lawyers about Alameda
6 spending FTX customer money that was deposited into its bank
7 accounts?

8 MR. COHEN: Objection, scope.

9 THE COURT: Overruled.

10 A. Can you repeat the question. Sorry.

11 Q. Did you have any conversations with lawyers about the
12 permissibility of Alameda spending FTX customer deposits that
13 were deposited into Alameda bank accounts?

14 A. I don't recall any conversations that were contemporaneous
15 and phrased that way.

16 Q. So what do you recall?

17 A. So there were certainly conver—I certainly had
18 conversations with lawyers far later about when we were trying
19 to reconcile things in November of 2022, and there were
20 conversations with lawyers around Alameda being used as a
21 payment processor, as a payment agent for FTX. I frankly don't
22 recall conversations with lawyers or otherwise about the
23 details of the funds or of the usage of the North Dimension
24 bank account or what would happen with assets after that. I
25 certainly, in retrospect, wish that I had. I wish I had had

NAQ1BAN6

Bankman-Fried - Cross

2242

1 conversations, that I myself had been more informed. I'm not
2 sure if other people were involved in conversations.

3 Q. So any conversations about this prior to November of 2022
4 with lawyers that you can recall?

5 A. Sorry. Give me one second. I just want to think about
6 conversations that may be scoped to be within that.

7 I recall having conversations with lawyers around some
8 things related to Alameda as a payment agent, including
9 stablecoin creations and redemptions, and I recall
10 conversations with auditors and accountants around it. I'm not
11 sure that I recall. And I was also involved in conversations
12 with lawyers around the general practice of using payment
13 processors and storing funds with payment processors. I'm not
14 sure there were ones specifically around this topic.

15 Q. Mr. Bankman-Fried, I want to be clear the answer to the
16 question I'm asking you, which is—

17 A. Yup.

18 Q. —prior to November of 2022, do you recall conversations
19 with lawyers about the topic of Alameda spending FTX customer
20 deposits that came into Alameda bank accounts?

21 A. I don't recall that specifically, no.

22 Q. And did you have conversations about that with auditors?

23 A. There were conversations with auditors around the fact that
24 deposits had gone to Alameda and that it was a liability owed
25 to FTX. I don't know if there were discussions around exactly

NAQ1BAN6

Bankman-Fried - Cross

2243

1 how Alameda used its—its assets.

2 Q. So I believe you said in your direct testimony that North
3 Dimension was created for payment processing purposes.

4 A. Yup.

5 Q. What is that understanding based on?

6 A. That understanding is based on, after having created it,
7 the ways in which I observed it being used.

8 Q. And so you saw directly it was being used for this purpose?

9 A. Yeah.

10 Q. And the payment agent agreement that we looked at during
11 your direct testimony, does it say anything about Alameda being
12 authorized to spend FTX customer funds?

13 A. So I believe that it authorizes—that it gives a fair bit
14 of discretion to Alameda about what it—how it acts in general,
15 clarifying that it has an obligation upon demand to FTX of that
16 amount of money, but not specifying that it has to be—what has
17 to—what Alameda has to do with any of it, of its assets. That
18 is my understanding of it.

19 Q. So is it your understanding that under the agreement
20 Alameda was permitted to spend FTX customer deposits?

21 A. I wouldn't phrase it that way. But I think that the answer
22 to the question I understand you to be trying to ask is yes.

23 Q. Well, let's look at Defense Exhibit 245.

24 A. Mm-hmm.

25 Q. And I'm happy to scroll for you, but maybe you could point

NAQ1BAN6

Bankman-Fried - Cross

2244

1 out to us where in this agreement you think Alameda is
2 permitted to spend FTX customer funds. And if you need us to
3 turn the page, just let me know.

4 A. So I should preface this by saying I'm not a lawyer. I'm
5 not giving a legal interpretation of this. I'm just giving, as
6 best I can, what my memory is. And the parts of this that jibe
7 with that, I, you know—I'm not trying to give a definitive
8 legal ruling on what this does or doesn't say. The—I'm not
9 sure that I would quite answer yes to the question as you most
10 recently phrased it. I'm going to try as best I can to give
11 the answer that I believe, which is that the—as—at least as I
12 remember understanding it at the time, FTX either itself or I
13 think as actually happened, without FTX as an intermediary,
14 customer's fiat funds would be sent to Alameda bank accounts,
15 FTX would retain a—effectively a debt from Alameda for those
16 and a—in the lien section here, a lien on Alameda's assets as
17 security for that ongoing liability, that it would be repayable
18 on direction from FTX in the return section here, and—and in
19 the payment directive section. And—one second.

20 And that the provider could hold or transfer the funds
21 as laid out in the FTX assets section unless or until directed
22 to return them to FTX.

23 All of that being said, I did not do a careful reading
24 of this document at the time contemporaneously, and I would
25 have treated it as effectively, yeah, as a liability from

NAQ1BAN6

Bankman-Fried - Cross

2245

1 Alameda to FTX, that it had a contractual obligation to—to
2 make whole.

3 Q. Is there any line in this exhibit you can point me to that
4 in your view authorized Alameda to spend the FTX customer
5 funds?

6 MR. COHEN: Objection. This has been covered.

7 MS. SASSOON: He didn't answer my question, your
8 Honor.

9 THE COURT: I agree. Overruled.

10 A. So I—there is the line that the—that FTX may, without
11 notice or demand, without notice to or demand on provider,
12 transfer any crypto or cash asset on hand to the provider, to
13 Alameda, to be held and/or transferred by provider. I would
14 have interpreted that as saying that Alameda had the right to
15 hold or transfer those assets and that—oh, sorry.

16 Q. Go ahead.

17 A. And that the—the—what these represented was, in the
18 return section, a secured liability, and that it was secured,
19 as described in the lien section, by a lien against the
20 provider, in this case Alameda, which would implicitly have
21 access to all of Alameda's assets, which is how I would imagine
22 describing a contractual loan obligation, effectively.

23 Q. Did any lawyer at FTX tell you that any language in this
24 agreement meant that Alameda could spend FTX customer deposits?

25 A. I don't know that I had contemporaneous conversations with

NAQ1BAN6

Bankman-Fried - Cross

2246

1 lawyers about exactly what this agreement meant.

2 Q. And any conversations you did have about what it meant were
3 in November of 2022?

4 A. With lawyers in particular, yes.

5 Q. As far as you know, was this agreement ever disclosed to
6 the public?

7 A. I'm not sure if it was.

8 Q. Are you aware of anywhere or any time that it was disclosed
9 to the public?

10 A. I'm aware of it being disclosed to auditors. I'm not sure
11 if that in turn turned out to be disclosed to other parties or
12 not. I'm not aware of any specific incidents in which it was.

13 MS. SASSOON: Your Honor, I apologize. I'm not going
14 to finish at 4:30. I'm happy to continue past 4:30 if the
15 Court would like. I'm going to move to the next topic, which
16 is the terms of service.

17 THE COURT: Keep going.

18 MS. SASSOON: Okay.

19 THE COURT: We're going to finish.

20 BY MS. SASSOON:

21 Q. Let's talk about the terms of service.

22 A. Yup.

23 MS. SASSOON: Mr. Bianco, can you pull up 558.

24 Q. I think you testified that you saw this as early as late
25 2021. Do I have that right?

NAQ1BAN6

Bankman-Fried - Cross

2247

1 A. I was sent it. I don't know that I looked through it in
2 detail then.

3 Q. And I think you said some parts you looked at more closely
4 than others; is that right?

5 A. Yeah.

6 MS. SASSOON: Can we go to provision 8.2.6, I think it
7 is.

8 8.2 and 8.2.6. Yeah, that's right. If we could zoom
9 in on 8.2.6.

10 Q. Is this one of the provisions you looked at closely?

11 A. I don't believe I looked at it closely at the time.

12 Q. What do you recall about your review of this at the time?

13 A. I recall at the time that I had interpreted this as
14 referring to purely spot trading on the platform and that this
15 was referencing, you know, omnibus segregated wallet setup for
16 spot assets.

17 Q. Did you discuss that understanding with any attorney?

18 A. I don't recall doing so, no.

19 MS. SASSOON: Let's look at Section 16. And let's go
20 to 16.4.

21 Q. Did you discuss 16—I think you talked about your
22 understanding of this provision. Did you discuss the meaning
23 of this provision at the time with any attorneys?

24 A. Not at the time, no, I didn't. I don't actually recall
25 discussing specific provisions, any specific provisions with

NAQ1BAN6

Bankman-Fried - Cross

2248

1 this at the time with attorneys.

2 Q. And do you know how this provision ended up in the terms of
3 service?

4 A. I'm not a hundred percent sure how it did, no. I don't
5 know who drafted which parts of it.

6 Q. This provision, as you understand it, does it have anything
7 to do with Alameda's fiat liability to FTX?

8 A. So as I understand it, this refers to assets of—that users
9 post as collateral for their margin positions, so I think that
10 what it would refer to is on a net basis, that—that set of
11 assets, not purely spot assets.

12 Q. But you think the fiat liability is encompassed within that
13 for this provision?

14 A. So when you discuss the fiat liability, at least as I
15 understand it—but I may be misinterpreting your question—I
16 think of that as being a liability from Alameda to FTX of a
17 particular size, rather than referring to the
18 particular—rather than referring to the nature of other
19 customers' accounts on the platform. So, sorry. Probably be a
20 little bit clearer. I think that this could potentially relate
21 to any liability on the platform, depending on the nature and
22 amount of assets that were posted in various methods to the
23 platform.

24 Q. When you reviewed and authorized the terms of service, I
25 believe you said to Can Sun—is that right?

NAQ1BAN6

Bankman-Fried - Cross

2249

1 A. Yeah.

2 Q. —did you discuss with him Alameda's line of credit on FTX?

3 A. I don't think I discussed it with him then, no.

4 Q. Did you discuss with him Alameda's "Allow Negative" feature
5 and whether it was consistent with the provisions of the terms
6 of service?

7 A. I—this was—you're referring to in May 2022, this is?

8 Q. Yes.

9 A. I don't know that I had any specific conversations with Can
10 when I authorized him to take action if he felt appropriate on
11 new terms of service.

12 Q. So did you—and I just want to make sure I'm clear on this.
13 Did you have any discussions with Can Sun related to Alameda
14 being exempt from auto-liquidation in connection with
15 authorizing Section 16 of the terms of service?

16 MR. COHEN: Objection, form.

17 THE COURT: Overruled.

18 A. I—same answer as before. I don't know that I had any
19 specific conversations about anything with Can when I
20 authorized him as general counsel to do what he felt was
21 appropriate with new terms of service.

22 Q. And at that point in time, May 2022, had you discussed any
23 of those topics I just outlined outside the context of the
24 terms of service with Can Sun?

25 A. I—certainly not by me. I'm not sure I was aware of those

NAQ1BAN6

Bankman-Fried - Cross

2250

1 topics by name at that time.

2 Q. Which topics were you not aware of by name?

3 A. I—you had asked—I was aware of the existence of some of
4 them and not others. I was aware of the existence of lines of
5 credit by name. I'm not sure that I was aware of the other
6 terms used by name.

7 Q. So "Allow Negative," in May 2022, you were not aware of it
8 by name?

9 A. I don't recall being aware of it then, no.

10 Q. What about Alameda's exemption from auto-liquidation?

11 A. I—I recall being aware that there was some form of delay
12 or something like that, or manual check. I don't recall being
13 aware of the specifics at that time.

14 Q. Can you explain what you mean by that.

15 A. What I—what I mean by that is—by—particularly the part
16 about delayed liquidation or more generally?

17 Q. You said you knew some things but not specifics. So I want
18 to understand what you mean by that.

19 A. I apologize. I thought I had gone through that. I can
20 repeat that though. So I don't believe that I was aware of
21 "Allow Negative" by name. I don't believe that I was aware at
22 that time—sorry. I was aware of the existence of lines of
23 credit at that time. And I—

24 Q. Sorry. I'm asking specifically about exemption from
25 auto-liquidation.

NAQ1BAN6

Bankman-Fried - Cross

2251

1 A. Ah, okay. So at that time I was aware that there were at
2 least some speed bumps in place on Alameda's account. I'm
3 not—I don't remember being aware of the exact nature of them.

4 Q. So what did you know about the speed bumps?

5 A. I knew that some had been put in place in response to
6 events in which Alameda—in which an improper liquidation had
7 been triggered or about to be triggered on Alameda's account,
8 which in turn caused chaos on the platform.

9 Q. And what was the nature of the speed bump, as you
10 understood it?

11 MR. COHEN: Objection. Beyond the scope.

12 THE COURT: Overruled.

13 A. I—I don't know that I was aware of any particular nature
14 of it. I—I wish I could tell you more, but thinking back to
15 contemporaneously, at that point in time, I don't particularly
16 recall knowing more specifically about it.

17 Q. You used the term "speed bumps," so can you explain to me
18 what you meant when you said you were aware of speed bumps in
19 May 2022.

20 A. So I—sorry. I apologize. This is—because of the order
21 that we're doing this in, this will be a somewhat substantial
22 digression if—for me to provide all of the context for that.
23 I'm happy to do it, though. Or I'm happy to give a summary of
24 it.

25 Q. I don't think my question calls for extensive context. I'm

NAQ1BAN6

Bankman-Fried - Cross

2252

1 asking you what you knew in terms of Alameda's exemption from
2 auto-liquidation. You used the term "speed bumps." What do
3 you mean by "speed bumps"?

4 A. I understand there had been prior incidents in which
5 liquidations had been erroneously triggered on accounts in
6 general and in some cases on Alameda's account, or had been
7 almost triggered, and in response to those, I had conversations
8 with Gary, Nishad, and others around putting in place some
9 checks to prevent an erroneous liquidation of Alameda's
10 account, which would cause chaos on the platform, and I
11 understood that they had implemented some features that would
12 do as such. That is roughly the extent of my specific
13 knowledge of it.

14 Q. So when you say "do as such," you understood these checks
15 would prevent Alameda from being liquidated like any other
16 account would?

17 A. That it would attempt to address the risk of improper
18 erroneous liquidations on Alameda's account by doing some
19 combination, I wasn't confident which, of having delays, having
20 annual checks, having alerts. I wasn't sure if it was a alert
21 that you had to click on to liquidate or not to liquidate. I
22 apologize. I wish I could give you a more specific answer. I
23 obviously now have a more specific set of answers to that
24 question, but at the time, that is my best recreation of the
25 state of my knowledge at that point in time.

NAQ1BAN6

Bankman-Fried - Cross

2253

1 Q. So at the time you understood that there were certain
2 checks or features in place such that Alameda would not be
3 liquidated in the same fashion as other accounts; is that
4 accurate?

5 A. I thought that there might be other accounts on similar or
6 the same program.

7 Q. What about with respect to the typical customer account?
8 At that time did you understand that the typical process for a
9 typical customer account did not apply to Alameda?

10 MR. COHEN: We're far afield of the topic of this
11 hearing, your Honor.

12 THE COURT: Overruled.

13 A. So at that point in time, in May 2022, I was well aware
14 that there were various programs that market makers
15 participated in that were gated on volume.

16 Q. Mr. Bankman-Fried—

17 A. Yeah.

18 Q. —I will allow you to answer the questions I ask, but
19 that's not the question I asked. The question I asked was
20 about a typical customer, not a market maker. As you
21 understood it in May 2022, did you understand that Alameda was
22 not subject to the same auto-liquidation as a typical customer
23 account?

24 A. If by typical customer you mean not a market maker, so a
25 very dissimilar account from Alameda, then yeah, I did.

NAQ1BAN6

Bankman-Fried - Cross

2254

1 Q. Okay. And you mentioned that at this time you were not
2 aware of "Allow Negative" by name.

3 A. Yeah.

4 Q. So I just want to clarify.

5 A. Yeah.

6 Q. Were you aware that Alameda could go negative regardless of
7 the name for that feature?

8 A. I was aware that Alameda and many other accounts on the
9 exchange, in fact most by volume, could go negative in a
10 particular asset. That was a core property of FTX as an
11 exchange. I'm not—but I—I'm sorry. I'm probably not
12 addressing your—your question.

13 Q. Let me rephrase it. I'm asking about Alameda and only
14 Alameda.

15 A. Yeah.

16 Q. Were you aware at that time in May of 2022 that Alameda
17 could have an overall negative balance on FTX?

18 A. By an overall negative balance, are you referring to a
19 negative balance, a negative net asset value, or are you
20 talking about a negative balance in a particular asset, or are
21 you—sorry. I just want to make sure I understand what you
22 mean by overall.

23 Q. That if you added up all the accounts, they could have a
24 overall negative balance.

25 A. And adding up all assets, not talking about particular

NAQ1BAN6

Bankman-Fried - Cross

2255

1 assets; is that correct?

2 Q. That's correct.

3 A. Okay. My understanding was that we were ensuring that
4 Alameda's—at that time my understanding was that we were
5 ensuring Alameda had a positive overall net asset value on FTX.
6 I was not sure whether that was enforced into a code base or
7 whether that was something that we inspected to confirm it was
8 true. It was something that I had discussed at various points
9 with Gary and others, and had checked that Alameda's overall
10 net asset value on the platform had remained positive.

11 Q. So when you said that you were not aware of "Allow
12 Negative" by name but you had some understanding of it, tell me
13 what you meant by that.

14 A. So I'm not sure that—I apologize. I might be
15 misunderstanding what the "Allow Negative" feature did.
16 I—I—I think I've given you what my understanding was, but I
17 suspect I might be wrong about what it—what it did.

18 Q. Well, let's talk about Alameda's main trading account. Are
19 you aware that that main trading account could go negative?

20 A. And so to clarify, you're talking about info@, the main
21 account, or the entire user?

22 Q. The info@ main account.

23 A. So account No. 9.

24 Q. Yes.

25 A. And by "go negative," you're talking about negative in a

NAQ1BAN6

Bankman-Fried - Cross

2256

1 particular coin or negative net asset value?

2 Q. Just have a negative balance, Mr. Bankman-Fried.

3 A. Sorry. I—

4 Q. Let me make this easier for you.

5 MS. SASSOON: If we could pull up Government

6 Exhibit 50 and go to Tab 2.

7 A. Okay. The—

8 MR. COHEN: Your Honor, I would object to this. The

9 issue for this hearing is the scope of counsel relationship.

10 This is a deposition now.

11 MS. SASSOON: May I respond.

12 THE COURT: Yes.

13 MS. SASSOON: They're asserting a presence of counsel

14 defense. It's relevant what he did or did not tell counsel,

15 and to understand that, it's also relevant what he did or did

16 not know at the time that he was not telling counsel certain

17 things.

18 MR. COHEN: That has no limiting principle, your

19 Honor. That could be let's do our entire case through

20 deposition and then ask him if he told counsel about it.

21 THE COURT: Well, look, I'm going to allow this. I

22 understand your point.

23 I've gotten beyond my tether here.

24 I'm going to allow this. I am going to acknowledge

25 the point you make, but all things are relative, and there is a

NAQ1BAN6

Bankman-Fried - Cross

2257

1 good deal to what the government says also, and part of the
2 problem is that the witness has what I'll simply call an
3 interesting way of responding to questions for the moment.

4 MR. COHEN: I would say, your Honor, with respect,
5 part of the problem is just the nature of this kind of a
6 hearing, where we're doing things sort of out of order, out of
7 sequence, because we have to address legal issues.

8 THE COURT: Well, Mr. Cohen, there's a simple answer
9 to that, and the simple answer to that is that if you want to
10 push ahead with the evidence you're seeking to introduce, it's
11 through this hearing, if at all.

12 MR. COHEN: Understood, your Honor. But I was just
13 responding to the last point, your Honor.

14 THE COURT: I understand. Let's go ahead.

15 (Continued on next page)

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NAQMBAN7

Bankman-Fried - Cross

2258

1 MS. SASSOON: Mr. Bianco, if you could just highlight
2 row 17.

3 Q. Mr. Bankman-Fried, in May of 2022, were you aware that
4 account ID 9 @AlamedaResearch.com could have an overall
5 negative value?

6 A. I am giving you my best guess at answering the question.

7 Q. I'm not asking for a guess. I'm asking what you understood
8 at the time.

9 A. I am going to answer what I think the question you are
10 asking is, but I apologize if I'm answering the wrong question.

11 I don't know exactly what that cell was referring to.
12 As of May 2022, I believe that I did not have any specific
13 knowledge about the extent to which, for instance, one
14 subaccount of Alameda Research's info@ account, as in, i.e.,
15 the account number 9, was treated as part of a collection of or
16 separate from other subaccounts of that user or other users
17 affiliated with Alameda.

18 What I believe I knew at that time was, or at least
19 what I believed at that time was that Alameda overall
20 maintained a positive net asset value on FTX. I don't think at
21 that time I had specific beliefs about how that did or didn't
22 apply to a particular subaccount of Alameda's.

23 I'm assuming that overall net asset value, rather than
24 value in a particular coin, is what I think that you are going
25 for here, so that's how I was answering that question. That is

NAQMBAN7

Bankman-Fried - Cross

2259

1 my answer as of that time.

2 THE COURT: Mr. Bankman-Fried, you have been asked
3 that question in one form or another quite a number of times
4 and not once did the question include the phrase net asset
5 value. Unless I'm mistaken, every single answer you have given
6 responded on the assumption that counsel had asked you about
7 net asset value.

8 Now, that's just an observation. If I'm mistaken,
9 I'll stand corrected, but it says what it says.

10 THE WITNESS: I apologize if that's correct.

11 A. If that's true, I don't know what you mean by negative
12 balance.

13 MS. SASSOON: I am going to move on, your Honor.

14 THE COURT: OK.

15 Q. On your direct examination you testified that, in May 2022,
16 that you thought in certain circumstances Alameda Research
17 borrowing funds from FTX was permitted.

18 Do you recall that testimony?

19 A. Yeah.

20 Q. Can you explain under what circumstances you believed
21 Alameda was permitted to borrow funds from FTX.

22 A. I apologize. I think you said this, but this was as of May
23 2022?

24 Q. Yes.

25 A. Yup. I believe that it was permissible for there to be

NAQMBAN7

Bankman-Fried - Cross

2260

1 borrowing from assets that FTX was holding that were acting as
2 security or collateral for margin or futures positions as of
3 that point in time and that that was what at least I was
4 internally treating as the core metric.

5 Q. Did that include withdrawing those assets off the exchange?

6 A. Potentially there would have to be a risk analysis
7 associated with doing so. But, in general, FTX's margin
8 programs did not differentiate between a position or borrow put
9 on by a trade or one put on by a withdrawal.

10 Q. Just to be clear and to understand the answer to my
11 question, when you just described the borrowing you thought
12 Alameda was permitted to do, did that include withdrawing those
13 assets off the exchange and using them somewhere else?

14 A. Potentially, subject to a risk analysis.

15 Q. Did you believe that Alameda had to post collateral to make
16 those withdrawals off the exchange?

17 A. I would have believed that it had to post security and that
18 the most straightforward and the version I would have been most
19 comfortable with that would have been collateral physically
20 posted to FTX. We did have discussions with other market
21 makers as well around assets that FTX couldn't physically
22 custody but could get contractual claims on. I would view that
23 as a possibility, albeit a less desirable one.

24 Q. I'm asking about Alameda only. In your view, in May of
25 2022, that Alameda's collateral could take the form of assets

NAQMBAN7

Bankman-Fried - Cross

2261

1 that were not posted to the exchange.

2 A. I had the view that it potentially could. I also had the
3 view that I would have been less comfortable on a relative
4 basis with that.

5 Q. Did you discuss that with an attorney?

6 A. At the time discuss that. In particular, are you referring
7 to the off-exchange assets, or are you referring to something
8 else?

9 Q. Yes, that.

10 A. As of May 2022, in that context, no.

11 Q. Did you discuss it with an attorney prior to November of
12 2022?

13 A. In the general context -- give me one second -- I discussed
14 some specific instances of potentially using off-exchange
15 assets as collateral with attorneys prior to November 2022. I
16 don't know that I had a general discussion around such a
17 practice.

18 Q. Which attorneys?

19 A. I believe that we had discussions involving -- I had
20 discussions with Ramnik, who described discussions with
21 attorneys around the potential of accepting some collateral
22 from Three Arrows Capital.

23 Q. OK. I am going to stop you. Ramnik is not an attorney,
24 correct?

25 A. That is correct.

NAQMBAN7

Bankman-Fried - Cross

2262

1 Q. I'm asking if you had direct conversations with any
2 attorneys about Alameda specifically using as collateral for
3 borrowing assets that were not on the FTX exchange prior to
4 November 2022.

5 A. I don't believe that I personally, rather than through an
6 intermediary, had discussions, particularly about Alameda doing
7 it prior to November 2022 that I can recall right now, no.

8 Q. The answer is no?

9 A. That is correct.

10 Q. When you had that you thought that Alameda could borrow
11 assets in this fashion, can you explain through what program?
12 Is this the borrow-lend program, something else?

13 MR. COHEN: Objection. Scope.

14 THE COURT: Overruled.

15 I'm sorry. Sustained.

16 Q. Let's talk about loans. Were all of your loans from
17 Alameda documented?

18 A. Are you referring to the personal loans?

19 Q. Yes.

20 A. I was under the belief at the time that they were all
21 documented. I am not sure today that the most recent ones had
22 been documented yet.

23 Q. Sitting here today, are you aware that some were not?

24 A. Sitting here today, I believe that some of the most recent
25 ones prior to the collapse had not yet been documented, that is

NAQMBAN7

Bankman-Fried - Cross

2263

1 correct.

2 Q. At any point in your discussions with counsel about the
3 structure of these loans, was it discussed that some of the
4 funds were coming from FTX customer money?

5 A. I would not classify that as particularly what happened,
6 so, no. That is certainly not how I discussed it with
7 attorneys.

8 Q. What was the reason that the investments were not made
9 directly from Alameda Research?

10 A. By the investments, you're referring to things like
11 Robinhood, is that correct?

12 Q. Let me be a little clearer. You described certain
13 investments being funded by loans that first went to you from
14 Alameda Research toward the investments. Why not just straight
15 from Alameda Research?

16 A. It depended on the particular circumstance. I will say
17 that the most frequent reason, according to my memory, is that
18 the investment target did not want Alameda Research to be the
19 investing entity for one reason or another, or, alternatively,
20 that -- yeah. That's the reason I can most frequently
21 remember. In some cases I honestly don't know what the reason
22 is.

23 Q. Were there occasions when you did not want Alameda to be
24 the investing entity?

25 A. Yeah.

NAQMBAN7

Bankman-Fried - Cross

2264

1 Q. For example, with Robinhood, is it right that you did not
2 want Alameda to be the investing entity?

3 A. Yeah.

4 Q. Did you disclose that to your attorneys?

5 A. Yeah.

6 Q. What was the reason you didn't want Alameda to be the
7 investing entity?

8 A. I was concerned about the potential for conflicts in
9 interest or at least the appearance of conflicts of interest.
10 In particular, Alameda had at various points engaged in talks
11 with Robinhood about potentially being a liquidity provider for
12 Robinhood's flow of cryptocurrency and I did not want anyone,
13 including Robinhood, to view this investment as related to
14 those discussions.

15 Q. Did you disclose that to your attorneys?

16 A. Yeah.

17 Q. Was the buyout of Binance through loans?

18 A. It was financed -- are you referring to personal loans or
19 intercompany loans?

20 Q. Any loans.

21 A. The buyout of Binance, I believe the bulk of it, the
22 international version, my memory is that it was financed
23 through -- it may have been a loan to Paper Bird. I believe
24 Paper Bird is the entity that ended up with that equity stake,
25 which is where the bulk of my equity stake in FTX was held.

NAQMBAN7

Bankman-Fried - Cross

2265

1 I'm not entirely sure if there is an intercompany loan, but I
2 would suspect there may have been associated with that. There
3 is separately the FTX US portion of the Binance buyout, which I
4 think was structured through personal loans.

5 Q. Were lawyers involved in that transaction?

6 A. Yup.

7 Q. Did you discuss with lawyers that some of the money was
8 coming from FTX customer funds?

9 A. That is not what I viewed to be happening, so that is
10 certainly not how I discussed it with attorneys.

11 Q. Let's talk, finally -- I have two more topics. They should
12 be shorter.

13 You talked about safeguarding of assets.

14 A. Um-hum.

15 Q. I think you mentioned in your testimony the physical
16 security of the assets to protect from hacks.

17 A. Yup.

18 Q. Is that the limit of your understanding of what it means to
19 safeguard assets?

20 A. No. I apologize. I think that answer was cut short a
21 small fraction the way it's written. There are a number of
22 things that I would have considered to be related to that.

23 Q. Would that include not embezzling customer assets, for
24 example?

25 MR. COHEN: Objection.

NAQMBAN7

Bankman-Fried - Cross

2266

1 THE COURT: Sustained.

2 A. Yes, it would include that.

3 MR. COHEN: You didn't have to answer if it has been
4 sustained. Haven't you been sitting here for four weeks.

5 THE WITNESS: I felt the need to answer that one.

6 Q. You talked about discussions with other industry
7 participants about omnibus wallets?

8 A. Yup.

9 Q. When you referred to omnibus wallets, are you referring to
10 omnibus FBO wallets?

11 A. Sorry. Are you referring to cryptocurrency wallets or FBO
12 bank accounts? I have not heard FBO as a term applied to
13 wallet, but I could guess what it would mean.

14 Q. I don't want you to guess.

15 When you talk about a crypto omnibus wallet, did you
16 understand that to be for the benefit of customers?

17 A. Yes.

18 Q. When you spoke to industry participants, did they say
19 anything about a practice of using funds from these customer
20 crypto wallets for their own purposes?

21 A. Of using them for their own purposes -- it depended on the
22 counterparty that I was talking to and the nature of their
23 business. I don't know that anyone would have described it
24 that way. The discussions were obviously different after I was
25 talking to a borrow lending desk, for instance.

NAQMBAN7

Bankman-Fried - Cross

2267

1 Q. Let's limit it to an exchange.

2 A. Limited to an exchange, I think the answer is no, but let
3 me just give you precisely what my answer would be, and you can
4 tell me if that is not responsive, which is that it did not
5 include industry participant exchanges saying that they would
6 use funds from omnibus customer wallets for the exchange's
7 corporate expenses. Does that respond --

8 Q. What about CEOs of these exchanges using customer funds for
9 any of their own spending?

10 MR. COHEN: Objection.

11 THE COURT: Form.

12 Q. Did you have conversations with CEOs of crypto exchanges
13 about whether it was proper to use customer money out of
14 omnibus crypto wallets for purposes other than customer trading
15 and withdrawals and the like?

16 MR. COHEN: Objection. Beyond the scope of the
17 direct.

18 THE COURT: Overruled.

19 A. Let me, A, apologize if this isn't responsive, so tell me
20 that. I will try to be responsive.

21 I certainly did not have conversations with CEOs about
22 them discretionarily taking funds from -- as CEO of the
23 exchange from customer omnibus wallets for their own personal
24 expenses.

25 Q. What about CEOs discussing using customer funds in omnibus

NAQMBAN7

Bankman-Fried - Cross

2268

1 crypto wallets for the spending of their affiliated companies?

2 MR. COHEN: Same objection.

3 THE COURT: Same ruling.

4 A. So, once again, I will give a specific answer, but if this
5 is not scoped correctly, tell me.

6 Q. Go ahead and give your answer, and I will ask another
7 question if it's not responsive.

8 A. Thank you.

9 I certainly did not have conversations with CEOs about
10 them as CEO of an exchange, taking -- using funds from omnibus
11 customer wallets for their own spending of any sort. However,
12 I'm not entirely sure what the implied relationship there was
13 between the CEO of the exchange and the affiliates, so it's
14 hard for me to answer that.

15 Q. Let me ask it another way. Did you have any conversations
16 with industry participants that led you to believe that it was
17 proper for you to spend customer cryptocurrency deposited into
18 omnibus crypto wallets for your affiliates?

19 MR. COHEN: Objection. Scope and form.

20 THE COURT: Overruled.

21 A. So let me again attempt to answer that.

22 What I did have discussions with industry participants
23 about was on margin wallets for margin exchanges that
24 customers, including in some cases affiliates, might have
25 borrows. They might have liabilities. And those would

NAQMBAN7

Bankman-Fried - Cross

2269

1 necessarily have come out -- been part of the net customer
2 balances. There were negative numbers in those customer
3 balances that added up to the overall customer balances. That
4 would be a separate thing from a flow-of-funds perspective than
5 the CEO not as a customer but as just the exchange or the CEO
6 of the exchange using funds from customer wallets for corporate
7 expenses.

8 Q. I apologize now. Now I'm apologizing. I don't know that I
9 understood that answer.

10 The wallets you are referring to are those the omnibus
11 wallets that you have been talking about, or different ones?

12 A. No. Same wallets, yeah.

13 Q. I want to talk to you about Dan Friedberg for a few
14 minutes.

15 A. Um-hum.

16 Q. You hired him?

17 A. Yes.

18 Q. Before you hired him, you had been reluctant to hire a
19 general counsel, correct?

20 A. I had been reluctant to hire the wrong general counsel is
21 how I would put it.

22 Q. The wrong general counsel, in your view, was someone who
23 would inhibit you from taking risks for the company, wasn't it?

24 MR. COHEN: Objection.

25 THE COURT: Ms. Sassoon.

NAQMBAN7

Bankman-Fried - Cross

2270

1 MS. SASSOON: Your Honor, they are asserting a
2 presence-of-counsel good-faith defense and it's relevant to
3 this, whether in good faith he hired an attorney who was a
4 respectable attorney.

5 MR. COHEN: Your Honor, that's a very thin soup.
6 Continued objection.

7 THE COURT: I think the question is appropriate,
8 without endorsing the use of the word respectable.

9 A. It depends on what exactly you mean by that. I did want to
10 find a general counsel who would be comfortable with the
11 business being allowed to take reasonable risks, so long as
12 they were otherwise permissible and consistent with its
13 obligations. I did not want a general counsel who would
14 permit -- who would restrict the company from taking any risks
15 or any significant risks under any circumstances, but I also
16 didn't want a general counsel that would permit it to take any
17 risks without bound. The answer, it depends on the specifics.

18 Q. Didn't you tell Caroline Ellison that Dan Friedberg was
19 unlike most lawyers you knew because he was not going to stop
20 you from taking risks?

21 A. I don't recall saying that in particular. Had I said
22 something like that, and I may have, it would have been, I
23 suspect, with further context that would have clarified the
24 sorts of risks that it did and didn't refer to.

25 Q. Were you aware when you hired Dan Friedberg that he had

NAQMBAN7

Bankman-Fried - Cross

2271

1 previously been general counsel at a company that suffered an
2 insider trading scandal?

3 A. I wasn't aware of the details of it, but I was aware at a
4 high level that there had been scandals with one of the
5 companies that he had been counsel for before, yes.

6 Q. Did you understand that when you hired him that he had been
7 at a company with a criminal scandal?

8 MR. COHEN: Objection.

9 THE COURT: Sustained.

10 MS. SASSOON: Your Honor, he said at a high level
11 scandal. It was not responsive to the question.

12 MR. COHEN: Well beyond the topic of this hearing,
13 your Honor.

14 THE COURT: The topic of this hearing includes
15 good-faith reliance, and I am going to allow the question.

16 A. I don't know that I know exactly what you are referring to
17 as a criminal scandal, and I don't know that I knew the details
18 of the incidents at the company or companies he had prior
19 worked at in much more specificity than the -- admittedly than
20 specificity I have supplied so far.

21 Q. Did you know there had been a criminal investigation at his
22 prior company?

23 THE COURT: Ms. Sassoon, let's move on.

24 Q. Were you aware that Dan Friedberg used illegal narcotics
25 with your employees?

NAQMBAN7

Bankman-Fried - Cross

2272

1 MR. COHEN: Objection.

2 THE COURT: Sustained.

3 Let's wrap it up.

4 Q. Alameda at one point had a general counsel? His name was
5 Bailey Korrell.

6 A. Something like that is correct, yes. I am not sure I know
7 exactly what his title was.

8 Q. Were you aware that Dan Friedberg fired Bailey Korrell?

9 MR. COHEN: Objection.

10 THE COURT: Sustained.

11 MS. SASSOON: Your Honor, may I be heard on this?

12 THE COURT: Yes.

13 MS. SASSOON: I would like to inquire of the witness
14 about whether he was aware of the reason Dan Friedberg hired
15 Bailey Korrell, which is relevant to the good-faith reliance on
16 counsel here.

17 THE COURT: That's for another day.

18 MS. SASSOON: This is my second-to-last question, if
19 not my last question.

20 THE COURT: Let's get on to the next one.

21 MS. SASSOON: May I have a moment, your Honor?

22 THE COURT: Yes.

23 MS. SASSOON: I'll do you one better. No further
24 questions, your Honor.

25 THE COURT: Thank you.

NAR1BAN1

2288

1 MR. COHEN: We're fine with that. We have something
2 to raise with the Court.

3 THE COURT: Yes. Go ahead.

4 MR. COHEN: Your Honor, in connection with yesterday's
5 hearing, a few things for the record.

6 We wish to continue our objection to the parts of the
7 cross-examination that we think went beyond the issue about
8 involvement of attorneys. We're not even sure that
9 cross-examination was necessary for the Court to make its
10 determination on the evidentiary issues, but putting that to
11 one side, we submit that that went far afield. The Court
12 should not consider that testimony in connection with whatever
13 ruling it comes to. And perhaps as importantly, we have an
14 application that that testimony not be used in
15 cross-examination of our client today or whenever we get to it,
16 or be used affirmatively, offered as affirmative proof. It
17 amounted to a deposition. Depositions are not typical in
18 criminal cases, and certainly not of the defendant. So we
19 think that that process was improper, and we want to note that
20 for the record and make that application.

21 MS. SASSOON: Yes, your Honor.

22 First of all, the defense waived a wholesale objection
23 to cross-examination because this objection was not raised
24 before cross-examination began.

25 THE COURT: Clearly correct.

NAR1BAN1

2289

1 MS. SASSOON: Cross-examination was also necessary in
2 part just to elicit the information about involvement of
3 counsel that was only addressed at the highest level during the
4 direct testimony, and the scope of cross-examination was
5 completely proper because it touched on conversations that the
6 defendant had with attorneys, whether or not he spoke to them
7 about the specific topics at issue, and also what he knew and
8 therefore what he did or did not share with counsel at the
9 relevant times. That said, the government intends to use the
10 testimony from yesterday only to the extent that the defendant
11 testifies inconsistently with his hearing testimony.

12 THE COURT: Okay. First of all, to the extent any
13 objections were made yesterday—and they were quite
14 limited—with respect to the cross, and certainly not
15 categorical, I ruled on them. The rulings stand.

16 I will not prohibit use of anything that the defendant
17 said yesterday on the grounds articulated by Mr. Cohen.

18 And to back up a little further, we've been having
19 this conversation about what I'll refer to—even acknowledging
20 that it's a misnomer—as the "quasi-advice of counsel defense"
21 that Mr. Cohen seeks to assert for a long time. There has been
22 extensive briefing; there has been a prior written opinion on
23 the subject. And the essence of the problem is that on the one
24 hand, there is a risk that the defendant, by introducing
25 alleged communications with counsel in the past on matters that

NAR1BAN1

2290

1 fall short of what traditionally is referred to—again,
2 improperly in my view, but referred to—as an "advice of
3 counsel defense," can have the effect of a suggestion from the
4 defense that because lawyers were involved in some degree or
5 another in pieces of what happened, the defendant was entitled
6 to take comfort from the involvement of the lawyers in assuming
7 or believing that he was acting within the bounds of the law.
8 That's an understanding of the defendant's position. The
9 problem, of course, is that it can be a very misleading
10 impression, depending on the facts. It is one thing for a
11 defendant to come in and to say: I had a proposed course of
12 action, I went to a lawyer, I put all of the relevant facts in
13 front of the lawyer, and the lawyer advised me that it was
14 lawful, and therefore when I engaged in that course of action,
15 I had no criminal intent. That's not what's happening here.
16 It's an impression that may be created. In order for me to
17 assess the balance between the potential harm to the public
18 interest in creating a misleading impression and the
19 defendant's right to present a defense, I have to know—I had
20 to know—exactly what happened.

21 Now when the government first moved to preclude any
22 testimony of this sort by the defendant, I declined to rule
23 because what the defendant had put before me was at such a high
24 level of generalization that the relevant facts were just not
25 articulated. So I didn't grant the government's motion. I

NAR1BAN1

2291

1 denied it subject to consideration once we had the facts. We
2 had the hearing yesterday for the purpose of my hearing
3 straight from Mr. Bankman-Fried's mouth what it is he proposed
4 to say. In order to get a full picture, it of course was
5 necessary for the government to question him also. I have a
6 slightly better sense of what's going on. All of this has been
7 done to ensure that the defendant had a full opportunity,
8 despite the shortcomings of detail in everything that had been
9 said before yesterday in the defense presentations, to make his
10 case for the proposition that what he was endeavoring to do
11 would not be unfairly prejudicial and would be appropriate.
12 He's had his shot.

13 Now there are a number of specific points on which
14 counsel has sought to elicit testimony about the involvement of
15 lawyers.

16 First, I heard testimony yesterday that Mr. Friedberg
17 and other counsel for FTX implemented data retention policies
18 for the company. That's no surprise to anybody. There is no
19 suggestion in this case that having a data retention policy in
20 and of itself is fraudulent, or criminal, or improper.
21 Companies do that. It's a common business practice. Everybody
22 knows it. And they're certainly not drafted by chief executive
23 officers, in my experience. I don't see sufficient harm to the
24 public interest in allowing the defendant, to the extent he did
25 it yesterday, to adduce evidence that counsel were involved in

NAR1BAN1

2292

1 preparing the data retention policy, whatever it may have been,
2 and for the government to cross-examine about what it was, how
3 the defendant knows what it was, and all sorts of related
4 questions. So to that extent, I'm granting the defense
5 application.

6 The other four items all involve circumstances in
7 which lawyers drafted plain vanilla legal documents and in
8 which the alleged problem was not the transaction in the
9 document per se, it was what was done and with what intent
10 collateral to the document. In the event there's a conviction,
11 I will write on this subject, no doubt, more extensively than
12 most people will care to read, but we're not going to allow
13 that here. That evidence would, in my judgment, be confusing
14 and highly prejudicial by falsely implying, given the testimony
15 yesterday, that the lawyers, with full knowledge of the facts,
16 all of the facts, blessed what the defendant is alleged to have
17 done. And I didn't hear that at all yesterday.

18 First of all, the relevance of all of that material is
19 exceptionally tenuous, if it has any at all, and my best
20 judgment is it has none at all. In any case, any probative
21 value of that evidence on the points at issue in this case
22 would be outweighed substantially by the risk of unfair
23 prejudice, confusion, and so forth.

24 Now just to illustrate, the fact that a lawyer was
25 involved in drafting a promissory note for a loan that

NAR1BAN1

Bankman-Fried - Direct

2296

1 SAM BANKMAN-FRIED,

2 the Defendant,

3 having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. COHEN:

6 Q. Good morning, Mr. Bankman-Fried.

7 A. Good morning.

8 Q. We've heard a lot about FTX over the last several weeks.

9 When did you found it?

10 A. 2019.

11 Q. Who did you found it with?

12 A. Gary Wang.

13 Q. What did FTX stand for?

14 A. Futures Exchange. The F and the T both come from the word
15 "futures."

16 Q. What was your vision for FTX when you founded it?

17 A. We thought that we might be able to build the best product
18 on the market, an exchange that would combine the elements that
19 we thought were best from traditional financial products with
20 the elements we thought were best from the big crypto
21 ecosystem, that it could move the—move the ecosystem forward.

22 Q. Did it turn out that way?

23 A. No, it turned out basically the opposite of that. A lot of
24 people got hurt—customers, employees—and the company ended up
25 in bankruptcy.

NAR1BAN1

Bankman-Fried - Direct

2297

1 Q. Did you defraud anyone?

2 A. No, I did not.

3 Q. Did you take customer funds?

4 A. No.

5 Q. We're going to talk in detail about what happened at FTX,
6 but can you tell us big picture.

7 A. Yeah. At a high level, there are multiple different types
8 of exchanges. There are spot exchanges, which is where a
9 customer deposits a hundred dollars to buy a hundred dollars of
10 Bitcoin, or hundred dollars of Ethereum. And there are margin
11 exchanges. On margin exchanges, customers might deposit a
12 hundred dollars to buy \$500 of Bitcoin or to sell \$200 of
13 Bitcoin that they don't have, to borrow; customers might also
14 deposit a hundred dollars to withdraw \$50 of Bitcoin that they
15 don't have, going negative in Bitcoin. FTX was predominantly a
16 margin exchange. The vast majority of activity happened on
17 margin on FTX. When you have a margin exchange, you know, you
18 can think of it in some ways like a mortgage. You know, if you
19 have a hundred-thousand-dollar house, you might take out a
20 \$10,000 mortgage against that. That would be the equivalent
21 of, you know, having a deposit of some number of Bitcoins,
22 withdrawing dollars against that. And the biggest risk for
23 margin exchanges in general, and for FTX, is what happens if
24 one of those is threatening to go bad; that is to say—

25 MS. SASSOON: Objection, your Honor. Narrative.

NAR1BAN1

Bankman-Fried - Direct

2298

1 THE COURT: Yes. Ask another question, please.

2 Q. Mr. Bankman-Fried, did you make any mistakes along the way?

3 A. Yes, I made a number of small mistakes and a number of
4 larger mistakes. By far the biggest mistake was we did not
5 have a dedicated risk management team, we didn't have a chief
6 risk officer. We had a number of people who were involved to
7 some extent in managing risk, but no one dedicated to it, and
8 there were significant oversights.

9 Q. Let me talk a bit about your background, sir. Where did
10 you grow up?

11 A. I grew up in Palo Alto.

12 Q. And did you go to college?

13 A. I went to MIT.

14 Q. Okay. What did you study there?

15 A. Physics.

16 Q. What years did you go to college?

17 A. 2010 to 2014.

18 Q. Okay. And where did you live there?

19 A. I lived at it was called an independent living group called
20 Epsilon Theta.

21 Q. Who did you live with in that house?

22 A. There were about 20 of us living there, including Gary Wang
23 and Adam Yedidia, and others who I'd come to work with later.

24 Q. Had you met Gary Wang before that?

25 A. I met Gary in high school when we went to the same math

NAR1BAN1

Bankman-Fried - Direct

2300

1 arbitrage.

2 Q. What is arbitrage?

3 A. Briefly, arbitrage is trying to buy low and sell high,
4 ideally at the same time. So if you could buy a share of Apple
5 for a hundred dollars and simultaneously sell it somewhere else
6 for a hundred dollars and 3 cents, you would make 3 cents of
7 profit on that, with—with very little risk.

8 Q. Just a bit more of terminology. You used the phrase
9 "long." Can you describe for the jury what it means to use
10 "long" and "short" in trading.

11 A. Sorry. Yeah. They effectively mean buy and sell. So if
12 you went long Bitcoin, that would mean you're buying Bitcoins;
13 if you went short Bitcoin, that meant you were selling, and in
14 fact selling more than you had, so that you ended up owing
15 Bitcoins.

16 Q. During your—what was your job at Jane Street? What was
17 your title?

18 A. I was a trader.

19 Q. Okay. And in the course of your duties at Jane Street, did
20 you interact with prime brokers?

21 A. Yeah, frequently.

22 Q. What were they?

23 A. Prime brokers—so a traditional broker, a place like
24 E*Trade or Schwab, is where an individual customer might go to
25 buy or sell stocks. Prime brokers are sort of souped-up

NAR1BAN1

Bankman-Fried - Direct

2301

1 versions of that for institutional trading firms. So when most
2 trading firms would connect to trade stocks, rather than
3 trading directly on an exchange, they would go through what's
4 called a prime broker. The prime broker would give them credit
5 in margin and interface between them and the exchanges.

6 Q. Did you receive training at Jane Street?

7 A. Yeah. On compliance and a number of other topics.

8 Q. Okay. Did you ever hear the phrase "front running"?

9 A. Yeah. It came up a lot.

10 Q. Tell the jury what "front running" meant to you.

11 A. "Front running" meant effectively a concern of a market
12 practice where one participant would be about to send an order
13 to buy something; another customer would learn one way or
14 another that that first customer was about to do that trade,
15 and race in to do that trade before them, thus buying up the
16 asset when it was cheaper and then maybe even selling it back
17 to that first customer when their order was finally processed.

18 Q. What, if anything, did Jane Street train you on with regard
19 to front running?

20 A. Not to do it.

21 Q. Okay. During that period did you ever hear the phrase "*The*
22 *New York Times* test"?

23 A. Yeah. It came up a fair bit at Jane Street.

24 Q. At Jane Street. Can you describe for the jury what you
25 meant by that.

NAR1BAN1

Bankman-Fried - Direct

2304

1 things that they own are trading at and, you know, find ways to
2 buy—buy low and sell high, effectively.

3 Q. How long did you work at Jane Street for?

4 A. About three and a half years.

5 Q. Did you enjoy your time there?

6 A. Very much. They were very good to me. I learned a lot
7 there. They did a really good combination, I felt, of sort of
8 giving responsibility to people while also giving mentorship.

9 Q. Did anyone work at Jane Street who later worked beside you,
10 who later worked for Alameda or FTX?

11 A. Yeah. Caroline Ellison, who was a trader and then later
12 CEO at Alameda, was a trader at Jane Street; Adam Yedidia, who
13 was a developer at FTX, was an intern at Jane Street when I was
14 there; and a few other people at various points of the
15 company's history had worked at Jane Street at various points.

16 Q. Mr. Yedidia was one of the people you lived with at MIT?

17 A. That's correct.

18 Q. Now after your time at Jane Street did there come a time
19 when you started a company called Alameda Research?

20 A. Yeah, in the fall of 2017.

21 Q. Why did you start it?

22 A. This was—this was when crypto was starting to become
23 really publicly visible for the first time, at least in the
24 circles I was in. You'd walk down the street in the fall of
25 2017, you'd see two people excitedly talking about something,

NAR1BAN1

Bankman-Fried - Direct

2305

1 there was a pretty decent chance that thing was Bitcoin, that
2 they had a friend who had a friend who had tried buying Bitcoin
3 for the first time. And in terms of pricing, Bitcoin went
4 from, you know, \$1,000 to \$10,000 in a few-month period, in
5 late 2017. There was a ton of excitement, a ton of demand, and
6 there was very little infrastructure in the space. Large
7 trading firms like Jane Street weren't trading cryptocurrencies
8 yet, the banks weren't involved, the brokers weren't involved.
9 It seemed like a place where there very well may have been a
10 pretty big demand for basically an arbitrage provider.

11 Q. When you first started to get into the crypto world, what
12 did you know about it?

13 A. Basically nothing. I knew that a Bitcoin was digital. I
14 knew there was no physical thing, that it was on computers, and
15 that you could trade it on websites called cryptocurrency
16 exchanges. I knew that there were other cryptocurrencies, like
17 Ethereum and XRP. And I had absolutely no idea how they
18 worked, what the technology behind them was, what the
19 difference was between different cryptocurrencies. I just knew
20 they were things you could trade.

21 Q. When you established Alameda, what was your goal for the
22 company from a business model?

23 A. At a high level, doing arbitrage, something similar to what
24 Jane Street did, but in the new market. In particular, there
25 were a lot of places you could buy and sell cryptocurrencies,

NAR1BAN1

Bankman-Fried - Direct

2306

1 called exchanges. Coinbase, Binance are two well-known
2 examples. And in late 2017, when I started looking into it, it
3 appeared, from my initial overview of public data, that there
4 might be really, really large arbitrage opportunities
5 available.

6 Q. Okay. Maybe if you could explain that for the jury. What
7 were you seeing? First of all, what public data were you
8 looking at and then what were you seeing?

9 A. Yeah. So I was looking at websites like coinmarketcap.com.
10 That is one of the two premier placing sources for
11 cryptocurrencies, CoinGecko being the other one. And all it
12 did was basically take data from all the various
13 cryptocurrency, you know, exchanges and tokens and summarize it
14 together. And what I saw, it looked like there were some
15 places where you could buy a Bitcoin for \$10,000, and others
16 where you could sell it for \$11,000, at the same time. That's
17 a 10 percent difference in price. And for context, at Jane
18 Street, if we could do a trade that was 1 percent good, that
19 was unheard of. We never found a trade even 1 percent good.
20 1 percent of 1 percent was a typical trade. So that would be
21 something you could buy for a hundred dollars and 3 cents and
22 sell for \$100.04 at the same time, making 1 penny on that
23 trade. It looked like the arbitrage opportunities in Bitcoin
24 might be a thousand times as large. It was—it was so large, I
25 wasn't sure I even believed it.

NAR1BAN1

Bankman-Fried - Direct

2307

1 Q. And where did Alameda's original funding come from?

2 A. The very original funding was the money that I had left
3 over after my work at Jane Street, and after that, we cobbled
4 together what we could, mostly lines of credit borrows from
5 people, originally from friends that we knew.

6 Q. Did you also borrow from third-party lenders?

7 A. Yeah. Over time we—we started to know more and more
8 third-party lenders. These were generally companies whose
9 businesses were borrowing and lending cryptocurrencies.
10 Genesis, Voyager, Celsius, BlockFi, those are four examples
11 that Alameda had borrowing relationships with. And that
12 ultimately was where the majority of its capital came from.

13 Q. And how did borrowing from third parties compare, if at
14 all, to what went on at Jane Street?

15 A. It was fairly similar. Jane Street had been around,
16 obviously, a long time. It was—well, a lot longer than
17 Alameda, at least. They'd been around for about 20 years.
18 Alameda had been around for about 20 months at the time that
19 we're talking about. So Jane Street had built up a large
20 amount of internal capital, just profits from its trading, but
21 in addition to that, it had borrows, lines of credit from
22 financial institutions. It was a similar story to Alameda,
23 although we had had far less time to build up the profit
24 portion of that.

25 Q. Where was Alameda's first office?

NAR1BAN1

Bankman-Fried - Direct

2315

1 A. I mean, in total, there were hundreds or thousands, but
2 there were 10 or so that had most of the volume and maybe 50 or
3 so that had any appreciable activity.

4 Q. So why start another one?

5 A. We felt like, especially for the margin exchanges, there
6 was a really big hole in the space. At the time we felt like
7 the design philosophies of most of the crypto derivatives or
8 margin exchanges were clunky and didn't make a lot of sense if
9 you wanted to trade, and when we tried trading on the leading
10 margin exchanges for crypto at the time, there were hundreds of
11 different wallets that you had to manage for a single account.
12 If you wanted to trade Bitcoin against dollars, you would have
13 to first use your dollars to buy physical Bitcoins, move them
14 into your Bitcoin-versus-dollar spot margin trading wallet, use
15 that as collateral. If you then wanted to go trade Ethereum
16 against dollars, you'd have to move those Bitcoins out, sell
17 them for spot Ethereum, move your Ethereum into
18 Ethereum-versus-dollars trading wallet and then do that trade.
19 It was a many-step process every time you wanted to do a
20 different trade.

21 Q. And were you trying to address that at FTX?

22 A. Yeah, that was one of the core things that we were trying
23 to do differently than how most other crypto margin exchanges
24 were built at the time.

25 Q. Let me ask you about another topic. Have you ever heard

NAR1BAN1

Bankman-Fried - Direct

2316

1 the phrase "cross-margining"?

2 A. Yes.

3 Q. What is that?

4 A. That is effectively the opposite of what I just described.

5 That's—cross-margining is what we were intending to build and

6 what we did build. The theory with cross-margining—at least

7 what we meant by it—was that you could deposit any one of a

8 number of assets as collateral and then you could trade any

9 market, or at least any—a number of products. With that, you

10 could buy, you could sell, you could deposit, you could

11 withdraw, and all the exchange monitored—or at least most of

12 what it monitored was just that on net, your account's value

13 was sufficient. You could go negative in any particular asset

14 as long as you had any other reasonable asset as security for

15 the borrowing that you did, rather than having what's called

16 isolated margin, where you had a completely separate system for

17 every single trade that you wanted to do.

18 Q. So if a customer had 20 subaccounts—

19 A. Yup.

20 Q. —and assets in each of them, how would that work for

21 cross-margining?

22 A. So for cross-margining, if you had different subaccounts,

23 you could isolate those from each other if you wanted to, but

24 if you had 20 different assets in your account, FTX would

25 basically just add up the total value of them, add up the total

NAR1BAN1 Bankman-Fried - Direct 2317

1 value of all of your borrows, of all of your liabilities, and
2 ensure that you had more assets than liabilities.

3 Q. Did you ever hear of the term "clawbacks"?

4 A. Yes.

5 Q. What did that mean to you?

6 A. So the risk associated with a margin system in general is
7 what happens if an account ends up with a negative overall
8 value, which is to say, what happens if the value of its
9 liabilities become greater than the value of its assets. In
10 that case, you know, we could try to reach out to that—that
11 user and request that they send us more assets that might or
12 might not work, depending on who the user was. We couldn't
13 rely on that for most users. And absent that, there would then
14 be, you know, a net debt that that user had that had to be
15 covered by someone. The exchange—FTX in our case—would try
16 to cover it, but if we couldn't, the risk was that it would
17 have to be socialized, what's called socialized loss or
18 clawback to many or all of the users on the platform where they
19 would cover the loss.

20 Q. Can you explain that, the last part, socialized loss.

21 A. Yeah. So let's say that there were an account that had a
22 thousand dollars of assets and was borrowing \$500 against those
23 assets. Maybe it had deposited a thousand dollars of Bitcoin
24 and withdrawn 500 US dollars. If Bitcoin fell in value by
25 50 percent, that would then be \$500 worth of Bitcoin left in

NARMBAN2

Bankman-Fried - Direct

2319

1 Q. Now, during your time at Alameda, before you founded FTX, I
2 think you mentioned you traded on other exchanges, is that
3 correct?

4 A. Yeah, that's correct.

5 Q. Did they provide for clawbacks?

6 A. Yes.

7 Q. What is futures trading?

8 A. So futures trading is -- it's another form of market or
9 leverage trading where instead of, for instance, trading an
10 actual Bitcoin, instead of depositing some number, you know, a
11 hundred dollars and buying 500 dollars of Bitcoins, you could
12 buy what's called a futures contract on Bitcoin. You can think
13 of it as something that will eventually turn into however much
14 a Bitcoin is worth. So if you bought a December Bitcoin
15 future, then in December that would turn -- and in December a
16 Bitcoin was worth \$20,000, that future would be worth \$20,000
17 at the end of the day. And futures trading generally happened
18 with leverage, so you might deposit \$100 of collateral and then
19 buy or sell \$500 of Bitcoin futures and gain or lose, depending
20 on whether Bitcoin went up or down in price.

21 Q. Last term. Have you ever heard the term spot margin?

22 A. Yes.

23 Q. What was that?

24 A. That's what I had been referring to as margin. It's
25 basically when you have spot assets rather than futures assets,

NARMBAN2

Bankman-Fried - Direct

2320

1 so these are actual Bitcoins. But where -- rather than being
2 fully collateralized and fully funded, you are borrowing. So
3 that was what was happening. If you deposited \$100 in order to
4 buy \$500 of Bitcoin, that would be spot margin trading.

5 Q. From time to time during your time as CEO of FTX, would you
6 prepare something called explainers?

7 A. Yeah.

8 Q. What were they?

9 A. These were pages that we posted on our website, generally
10 on Zendesk, which is sort of our customer support portal to
11 explain to customers how parts of the exchange worked.

12 MR. COHEN: Can we call up Defendant's Exhibit 978 for
13 the defendant only for identification entitled spot-margin
14 trading explainer.

15 Q. Can you go through this quickly, Mr. Bankman-Fried, and
16 tell us what it is.

17 A. Yeah.

18 MS. SASSOON: Objection. I don't believe this is in
19 evidence.

20 THE COURT: That's correct.

21 MR. COHEN: That's right. I am trying to lay a
22 foundation, your Honor.

23 MS. SASSOON: Your Honor, he just asked him to explain
24 to the jury what this document is.

25 MR. COHEN: Let me rephrase. I didn't mean to say

NARMBAN2

Bankman-Fried - Direct

2322

1 please, Brian.

2 Q. Look at the top. It says: How does borrowing and lending
3 work. You see that?

4 A. Yup.

5 Q. From time to time you would put out explainers about how
6 things in the market in the industry worked?

7 A. That's correct.

8 MR. COHEN: We can take that down.

9 Q. Let's move forward, Mr. Bankman-Fried.

10 Did FTX have something called a risk engine?

11 A. Yes.

12 Q. Tell us what that was.

13 A. The risk engine was basically a setup -- a system that
14 would attempt to monitor customer positions to watch to see if
15 any of them were in danger of becoming overall negative value
16 and, if so, would potentially learn about it and potentially
17 start to close down that position to prevent the risk of
18 losses.

19 Q. How did the risk engine at FTX compare, if you know, with
20 what went on at other crypto exchanges?

21 A. Yeah. FTX's risk engine was, first of all, cross-margined.
22 Most other crypto exchanges at the time, as I understood it,
23 were not cross-margined. So most others I understood to have a
24 separate risk engine effectively for every trade that you would
25 do, every market that you would do.

NARMBAN2 Bankman-Fried - Direct 2323

1 FTX has looked at users or accounts as a whole, just
2 looking at assets and liabilities overall, and it also had a
3 number of steps that were at least somewhat unique to FTX. It
4 was mostly automated. It would monitor markets 24/7. And it
5 would close down positions if necessary. It also had a
6 backstop liquidity provider system, which was something I
7 wasn't aware of other exchanges having at the time.

8 Q. We will come to that in a moment.

9 I realize I meant to ask you --

10 MR. COHEN: If we could call up just for the
11 witness --

12 Q. Before we do that, in addition to explainers, from time to
13 time would you set forth your views about terms in the
14 industry?

15 A. Yeah.

16 Q. How would you do that?

17 A. One of the ways was through blog posts that we would make.

18 MR. COHEN: Just for the witness, if we could call up
19 DX-964 for identification.

20 Q. If you could go through this and just tell us if you
21 identify the document, sir.

22 A. Yes, I do.

23 Q. What is this?

24 A. This is a blog post that I had written early on in FTX's
25 history about clawbacks and FTX's approach to them.

NARMBAN2

Bankman-Fried - Direct

2339

1 called Amazon Web Services, AWS. Basically, it was dozens of
2 computers that we needed to rent out. We needed backups for
3 it. We needed to be able to add more at a moment's notice if
4 the exchange grew. And we couldn't manage all of that
5 hardware, all of that -- we'd need a warehouse to make that
6 work. And Amazon is one of the companies that has a service
7 where you can rent servers, which are basically just computers
8 from them, on demand.

9 Q. Moving forward, once FTX was up and running, did it have
10 any business relationships with Alameda?

11 A. Yes, it did.

12 Q. I am going to talk about a few of them.

13 Have you heard the term market maker?

14 A. Yes.

15 Q. What is that?

16 A. A market maker is a company that intends to have buying and
17 selling offers out at most points in time for a product. The
18 purpose that we saw for market makers was, without them, if a
19 customer is signed up for FTX, they deposited dollars they
20 wanted to buy at Bitcoin, and no one on the exchange was
21 currently trying to sell a Bitcoin, no one was offering a
22 Bitcoin for any price, then there would be nothing to buy from
23 and the customer, they would go through all the work of
24 creating the account, funding it, they would realize they
25 couldn't actually buy a Bitcoin, there were no sellers, and

NARMBAN2

Bankman-Fried - Direct

2340

1 they would be angry and leave.

2 An important thing for customers was that at any point
3 in time they could open up their account and buy, if they
4 wanted to buy, and sell, if they wanted to sell. That meant
5 that we needed to have market makers. We needed to have people
6 who were always willing to buy for some price, sell at another
7 price, probably higher, but not that much higher, reasonable
8 prices.

9 And early on it was difficult to get market makers.
10 Early on we didn't have very much volume or activity on the
11 exchange. Market makers, they made a penny on every hundred
12 dollar trade that they did. Those were big companies, so they
13 weren't going to bother going through the process of trading on
14 FTX or market making on FTX if they are only getting to ten
15 trades a day and make ten cents a day, which meant that
16 until -- unless and until we got more customers and more
17 volume, we weren't going to get most of the market makers on
18 the platform. These were -- some of these were Wall Street
19 trading firms. Some of these were crypto-specific ones.

20 Alameda was a market maker, so Alameda was the primary
21 market maker on FTX at the beginning.

22 Q. Over time did that role change? Was Alameda still the
23 primary market maker?

24 A. It did change. Alameda was always a market maker. Where
25 it was something like half of all volume on the exchange for

NARMBAN2

Bankman-Fried - Direct

2343

1 question and he said yes.

2 MR. COHEN: Let me rephrase then, to your Honor's
3 point.

4 Q. Let's focus this one, Mr. Bankman-Fried. Was there any way
5 that having a line of credit related to acting as a market
6 maker in FTX?

7 A. Yes, there was.

8 Q. Can you tell us about that.

9 A. Yes. We wanted to have a substantial size of orders out,
10 of offers out in thousands of markets, that by the time FTX had
11 reached its peak in 2022 meant billions of dollars of orders
12 out at all points in time. By default that required
13 collateral. You had to have assets deposited on the system in
14 order to send those orders.

15 But in the particular case of market makers, they were
16 a service, the orders were a service to FTX. So we would often
17 give market makers lines of credit to make it more efficient
18 for them to be able to send those orders.

19 Q. Next concept. Have you ever heard the term backstop
20 liquidity provider?

21 A. Yes.

22 Q. What was that?

23 A. That was a term that FTX created to describe one of the
24 steps in our risk waterfall.

25 Q. Can you explain what you mean by the risk waterfall.

NARMBAN2

Bankman-Fried - Direct

2344

1 A. Yeah. If there was an account which had some level of
2 assets, some level of liabilities and the assets started
3 dropping or the liabilities rising, to the point where we
4 became concerned that it might not be able to repay its debts,
5 and that we might not be able to sell its assets to repay its
6 debts, we would start to do that, ideally before it dropped
7 into overall negative territory.

8 The first step of the risk waterfall was to just go
9 out into the order books and start selling off the assets of
10 the account. In the case of an account that had deposited say
11 \$500 of Bitcoin and withdrawn 250 U.S. dollars against that,
12 we'd start selling off those Bitcoins to recoup the dollars
13 that it had borrowed. That was the primary line of defense.

14 But sometimes that would look like it might be about
15 to fail. In other words, the assets would keep dropping or the
16 liabilities would keep rising, to the point where we didn't
17 think that we were going to be able to sell off all of those
18 assets in the market in time, that the account might end up
19 creating a hole if we weren't careful.

20 As a backup we had what were called backstop liquidity
21 providers. Those were generally market makers on FTX who
22 agreed that, in the event of a customer position that we were
23 liquidating, that we were closing down because we were
24 concerned about its risk, if it was too big to close down in
25 the market or markets were moving too fast, that, instead, we

NARMBAN2

Bankman-Fried - Direct

2345

1 could basically just hand the position to those backstop
2 liquidity providers.

3 In the hypothetical with \$500 of Bitcoin borrowing
4 \$250, we would hand basically that -- those Bitcoin and the
5 dollar liability over to the backstop liquidity providers, who
6 would then fill the liability out of their assets and, by doing
7 that, effectively take care of the liquidation.

8 Q. Was Alameda a backstop liquidity provider?

9 A. Yes, it was.

10 Q. Was Alameda also a customer on the FTX exchange?

11 A. Yes, it was.

12 Q. Did it have an account?

13 A. Yeah. It had a few accounts. It had one primary trading
14 account.

15 Q. Was it sometimes referred to as the main account?

16 A. Yes. So there is the info@ user. User refers to sort of
17 overall entity or person using the system, which had a number
18 of accounts on it, subaccounts. One of them, the main account
19 had most of the trading activity.

20 Q. Was that the info@AlamedaResearch.com account?

21 A. Yes. Info@AlamedaResearch.com was the user. Then the main
22 account of that was the primary trading account. That's right.

23 Q. As a customer of the exchange, was Alameda permitted to
24 borrow from the exchange?

25 A. Yeah.

NARMBAN2

Bankman-Fried - Direct

2346

1 Q. When it borrowed, where was the money coming from?

2 A. The money -- my understanding was that it was coming from
3 basically margin traders. It was coming from collateral or --
4 basically collateral from other margin traders or from assets
5 that were earning interest on the platform, and that those were
6 sent to FTX as security for borrowing other traders were doing
7 and was being lent out to traders, including Alameda, that were
8 borrowing.

9 Q. What could Alameda do with the funds it borrowed off the
10 exchange?

11 A. In general, FTX didn't have restrictions on what people
12 could do with funds that they borrowed. So the answer like for
13 other users was, anything -- so long as we believed that the
14 risk was being managed, which is to say, so long as we believe
15 that its assets were greater than its liabilities, we didn't
16 care if a user withdrew funds and used them to buy muffins, to
17 pay business expenses, to invest, or anything else.

18 Q. Let's move forward to the next topic, Mr. Bankman-Fried.

19 How did the volume of trading on the FTX exchange
20 change, if at all, over time?

21 A. It grew substantially. In the early days it was trading a
22 few million dollars a day. That grew to tens of millions of
23 dollars a day in 2019. In 2020, that grew to hundreds of
24 millions of dollars a day. And by 2022, it was 10 to \$15
25 billion per day of trading volume.

NARMBAN2

Bankman-Fried - Direct

2349

1 potential liquidation of Alameda's account which in turn,
2 because there was no backstop liquidity provider, would go to
3 the final phase of the risk engine, which was the phase we
4 always tried to minimize and hope to avoid, which was
5 socializing losses on all of the customers of the platform.

6 Q. Was there a name for what happened?

7 A. So the auto deleveraging was a name for liquidations
8 effectively closing it down, and then clawbacks was the name
9 for what was going to happen to most or all of the users on the
10 platform.

11 Q. And what was your reaction --

12 THE COURT: Excuse me for just a clarification.

13 You used the term realized probably more than once.
14 This was all an automated process, is that correct?

15 THE WITNESS: That is correct.

16 THE COURT: There were no human beings making
17 decisions along the way of what you have described.

18 THE WITNESS: That is correct.

19 THE COURT: Go ahead.

20 MR. COHEN: Thank you, your Honor.

21 Q. What was your reaction to this auto deleveraging event?

22 A. Well, it was potentially very bad for the platform. The
23 whole thing shouldn't have happened in the first place. It
24 should have been a routine liquidation of, I think, thousands
25 of dollars of an account with no large downstream events, but

NAR1BAN3

Bankman-Fried - Direct

2369

1 My next question is about several categories of assets. We
2 talked about spot margin trading and margin, and futures
3 accounts.

4 A. Yep.

5 Q. Let me ask you this: How did FTX safeguard customer assets
6 involved in spot margin trading?

7 A. So there were a few different pieces to that. One was
8 around physical security of those assets against hacking
9 attempts. The one that came up more was around the risk
10 management system.

11 Q. Can you explain that.

12 A. So a lot of that was the risk engine that we had talked
13 about that would monitor user accounts. The risk that it was
14 designed to prevent was a user account where the—basically
15 assets could no longer repay the liabilities, and that that
16 would cause a loss to the system, and if FTX couldn't fill it,
17 it would be socialized to other users. We felt at the time
18 that we had built a better risk management system than other
19 exchanges. It was something we put a lot of thought and time
20 into, how a risk engine worked, and that as such, we hoped that
21 we would reduce clawbacks and ideally avoid them entirely. We
22 had not had a clawback ever to that point. There had been some
23 small losses from accounts. FTX was able to cover those. That
24 was the—that was the goal of the risk management system.

25 Q. And was there a difference between spot margin and the

NAR1BAN3

Bankman-Fried - Direct

2371

1 A. Yes, I do.

2 Q. Okay. What is it?

3 A. This is the FTX terms of service that were created in May
4 of 2022.

5 Q. Okay. Did you ever have occasion to review these?

6 A. I did.

7 Q. Okay. Do you know about when you did that?

8 A. I skimmed it over a few times. I went through parts of it
9 in more detail after its release.

10 MR. COHEN: If we could go to page 17, please.

11 Back one page. I'm sorry.

12 Q. Do you see Section 16?

13 MR. COHEN: If you could call that out, Brian.

14 Q. That refers to margin trading. Was this one of the
15 provisions that you reviewed?

16 A. Yes.

17 MR. COHEN: Okay. And now continuing to the next
18 page. 16.4, if you can call out that paragraph.

19 Q. Without me reading the entire thing to you, sir, can you
20 tell the jury what your understanding of this provision was.

21 A. Yeah, my understanding was that this was referring to two
22 different features of the platform, not features as a
23 necessarily positive connotation, but the first was the risk of
24 liquidations. When it talks about, you know, liquidating your
25 position, that's—that's referring to the risk that if your

NAR1BAN3

Bankman-Fried - Direct

2372

1 assets fell in value, FTX might sell off your positions to
2 reduce risk in your account. The second part of this is
3 talking about clawbacks, or socialized losses, when it says
4 that even if you haven't suffered any losses yourself, your
5 balance might be clawed back if other users had losses, in
6 particular losses large enough that they created a hole in the
7 system.

8 MR. COHEN: Okay. And can we continue on to page 35.
9 And blow that up.

10 Q. It says Service Schedule. Futures Market. Do you see
11 that, sir?

12 A. Yup.

13 Q. And again, without having to read through the whole thing,
14 what was your understanding of what Schedule 5 provided for?

15 A. Yeah. My understanding was this provided terms that were
16 specific to futures trading rather than spot trading.

17 Q. Okay. And did it have the same provisions relating to
18 clawback you just discussed?

19 A. Yeah. My memory is it actually just ref—it referenced the
20 margin trading provisions.

21 Q. Okay. Good.

22 MR. COHEN: All right. If we could go to the middle
23 of that page, where it says Important.

24 Q. Okay. If you can just read the first sentence.

25 MR. COHEN: Brian, if you could highlight that.

NARMBAN4

Bankman-Fried - Direct

2412

1 A. Yes, that is correct.

2 Q. Who was Amy?

3 A. Amy was a former venture capitalist who we had hired to
4 work on and help lead our investment team as well.

5 Q. I don't want to go through all the investments. I just
6 want to talk about one.

7 Do you recall the investment in Solana?

8 A. Yes.

9 Q. Can you describe for the jury the due diligence, if any,
10 that was performed.

11 A. Yes. Solana is a cryptocurrency. It's a token, like
12 Bitcoin or Ethereum. In the spring of 2020, it was a new
13 cryptocurrency, had just been launched. We were investigating
14 various blockchains at the time to compare them and figure out
15 the pros and cons. I and others had calls with the leadership
16 of most of the major cryptocurrency teams in the space and
17 asked them questions about their technology, about their future
18 projections, how they were going to get there, what they were
19 prioritizing, and came away with the impression from those
20 calls that Solana was --

21 MS. SASSOON: Objection. Hearsay.

22 THE COURT: Yes.

23 Don't tell us what anyone else said,

24 Mr. Bankman-Fried.

25 Q. To his honor's point, just tell us what your takeaway is.

NARMBAN4

Bankman-Fried - Direct

2413

1 A. Understood.

2 MS. SASSOON: Objection. It is based on hearsay.

3 THE COURT: Sustained. That's another way of doing
4 it, but it's still hearsay.

5 Q. Following his Honor's ruling, say what you did.

6 A. I ended up believing --

7 MS. SASSOON: Objection.

8 Q. Just tell us --

9 MS. SASSOON: He can describe what he did, not what he
10 believed based on his conversations.

11 Q. Tell us what you did in connection with the Solana
12 investigation.

13 A. I ended up making a significant investment in the
14 cryptocurrency Solana at prices starting, I think, around 20
15 cents per token.

16 Q. Where did you believe the funds for the venture investments
17 came from?

18 A. I believe that they came from Alameda Research's operating
19 profits and, in some cases, from the loans that it had from
20 third-party borrow lending desks.

21 Q. What entities would make the investments?

22 A. It varied. Sometimes, especially for liquid -- for tokens
23 that were already trading, it would be Alameda Research's core
24 trading entities. For more early-stage projects, or things
25 that were not in the cryptocurrency sector, it would generally

NARMBAN4

Bankman-Fried - Direct

2424

1 answered.

2 THE COURT: Overruled.

3 A. The primary goal was helping to establish a regulatory
4 framework for crypto in general in the United States, and in
5 some cases specifically one that FTX would hopefully be able to
6 participate in.

7 Q. Now, FTX, the FTX we have been talking about, was an
8 international company, correct?

9 A. That's correct.

10 Q. So why were you interested in U.S. regulation?

11 A. There was a different company that, as you said, we have
12 not been talking about, FTX US. FTX US was a separate exchange
13 that I had started which was small, quite small, compared to
14 FTX international but which was U.S. based which did take U.S.
15 customers and which was seeking to offer crypto futures
16 products in the United States through regulatory frameworks
17 there.

18 Q. When did you start FTX US?

19 A. 2020.

20 Q. Now, did there come a time that you testified in front of
21 Congress?

22 A. Three times, yes.

23 Q. Approximately when was the testimony?

24 A. There was one in late 2021, I don't remember the exact
25 date, there was one in early 2022, and there was one in the

NARMBAN4

Bankman-Fried - Direct

2427

1 Q. I think you mentioned three times in the testimony. We
2 have talked about two. The third time was in the middle of
3 2022, is that right?

4 A. Yes, that's right.

5 Q. Who did you testify before then?

6 A. The house agricultural services committee.

7 Q. What was the reason for that testimony?

8 A. I think I mangled the name a little bit, but the house
9 agricultural committee.

10 FTX US Derivatives had an application before the CFTC
11 to expand its license, to allow it to actually offer
12 cryptocurrency futures in the traditional sense in the United
13 States.

14 There was -- I was aware of a fair bit of political
15 talk about this in Washington, D.C. The house agricultural
16 committee ended up hosting a hearing on FTX's application, FTX
17 US Derivatives application to the CFTC. So it was a house
18 committee hearing on the company that I owned, and there were
19 competitors of ours who I believed to be pushing back against.

20 MS. SASSOON: Objection. No foundation.

21 THE COURT: Beyond that, it's essentially all
22 unresponsive. The question was: Who did you testify before?
23 And the answer was: The house agricultural committee, and then
24 it went on from there.

25 MS. SASSOON: I believe the question was, what was the

NARMBAN4

Bankman-Fried - Direct

2428

1 reason for the testimony? And this portion of the answer, your
2 Honor, about what he believed competitors were doing, there is
3 a lack of foundation.

4 THE COURT: Thank you. Sustained.

5 MR. COHEN: Let me come back to that.

6 Q. Mr. Bankman-Fried, did you come to a view as to what
7 competitors were doing with regard to the agricultural
8 committee?

9 A. Yes.

10 MS. SASSOON: Objection.

11 Q. Before you answer --

12 THE COURT: What's the ground?

13 Q. What's the basis for it?

14 THE COURT: Excuse me.

15 MS. SASSOON: Leading.

16 THE COURT: Overruled.

17 Q. Don't tell me what they said. Just tell me what your basis
18 for it was.

19 A. My basis for it was conversations with staff both at FTX
20 and with staff of congressmen.

21 Q. What was your understanding then?

22 MS. SASSOON: Objection.

23 THE COURT: What's the relevance of this, counsel?

24 MR. COHEN: It's to round out why he was appearing on
25 this testimony which the government has played for the jury.

NARMBAN4

Bankman-Fried - Direct

2429

1 MS. SASSOON: Your Honor, not only is this not
2 relevant, but it's clear that the answer is derived from
3 hearsay conversations, not any firsthand observations by the
4 witness.

5 THE COURT: Sustained.

6 MR. COHEN: We will move on.

7 Q. New topic, Mr. Bankman-Fried.

8 Are you familiar with something called EcoSerum?

9 A. Yes.

10 Q. What was that?

11 A. It was an entity that was pushing for adoption of a token
12 called Serum, SRM.

13 Q. Did you ever hear of the phrase staking?

14 A. Yes.

15 Q. What does that mean to you?

16 A. Staking referred to a practice in the cryptocurrency
17 ecosystem where if you held some cryptocurrency asset, you
18 could do what's called staking it, which meant effectively
19 putting it somewhere, locking it up for some period, often so
20 it couldn't be withdrawn, and then giving an interest payment
21 as a reward for doing so.

22 Q. Could customers on FTX stake their Serum?

23 A. Yes.

24 Q. What would they receive if they did so?

25 A. They would receive tokens, chiefly Serum tokens, but also

NAR1BAN5

Bankman-Fried - Direct

2452

1 Q. What, if anything, did you observe with regard to Terra and
2 Luna in the May period?

3 A. In May 2022, Luna crashed close to zero from tens of
4 billions of dollars of value, and then Terra, which was backed
5 by the value of Luna, fell close to zero as well, losing its 1
6 dollar peg.

7 Q. Were you familiar with a company called Three Arrows
8 Capital?

9 A. Yes.

10 Q. What were they?

11 A. They were a cryptocurrency trading firm, sort of like
12 Alameda.

13 Q. Did you observe anything happening—what did you observe,
14 if anything, with regard to Three Arrows Capital during this
15 period?

16 A. Three Arrows Capital ended up going bankrupt in June of
17 2022, and I understood that that had been caused by, among
18 other things, them having—

19 THE COURT: Sir, sir, you were asked what you
20 observed, not what you understood.

21 Q. Just what you observed.

22 A. Understood. Three Arrows Capital went bankrupt in June of
23 2022.

24 Q. Okay. And continuing, I think earlier you mentioned
25 certain crypto lenders—

NAR1BAN5

Bankman-Fried - Direct

2453

1 A. Yeah.

2 Q. —do you recall that? And again, who were the large
3 lenders in the space?

4 A. Genesis, Celsius, BlockFi, and Voyager were four of the
5 larger ones.

6 Q. What, if anything, did you observe about them in the May to
7 June period?

8 MS. SASSOON: Objection, your Honor. Vague.

9 THE COURT: Rephrase, please.

10 MR. COHEN: Okay.

11 Q. All right. I'll take it one by one then.

12 Mr. Bankman-Fried, what, if anything, did you observe
13 in the market with regard to Celsius?

14 MS. SASSOON: Objection, your Honor. Same objection.

15 THE COURT: Sustained.

16 Q. Were you in communication with any of the lenders during
17 the May to June period?

18 A. Yes.

19 Q. Okay. And did you also observe what was happening to them
20 in the marketplace?

21 A. Yes.

22 Q. Okay. And what—just your personal knowledge, sir. What
23 did you observe?

24 THE COURT: Sustained.

25 MS. SASSOON: Objection, your Honor.

NAR1BAN5

Bankman-Fried - Direct

2454

1 THE COURT: Look, if somebody called in a loan on
2 which his company was on the hook, that's one thing, but that's
3 not what you're doing. You're asking much broader questions.

4 MR. COHEN: Okay, your Honor.

5 THE COURT: And you're calling for all kinds of
6 hearsay. And opinion.

7 MR. COHEN: Okay.

8 BY MR. COHEN:

9 Q. Did the decline in price in Bitcoin have any impact on
10 Alameda?

11 A. Yes, it did.

12 Q. What was that?

13 A. Alameda had been leveraged long the market for the prior
14 year. That basically means it had a bunch of assets that were
15 correlated with the market, and it had loans, liabilities, many
16 of which were in dollars, and as the market crashed, the value
17 of its assets fell.

18 Q. Okay. Let me go back. You said Alameda had been leveraged
19 long.

20 A. Yes.

21 Q. What does that mean?

22 A. So Alameda had a number of assets. Some of them—a few
23 billion, to my understanding—were from trading profits from
24 arbitrage. Substantially more than that, tens of billions, as
25 of late 2021, were from investments that it had made, venture

NAR1BAN5

Bankman-Fried - Direct

2455

1 investments. Those investments, it had financed in part
2 through borrowing of—from third-party lenders like Genesis and
3 Celsius and others. That meant that it had tens of billions, I
4 think, tens of billions—over 40 billion of assets at the peak
5 in late 2021, but it also had substantial liabilities. And it
6 was leveraged long because the exposure it had to the market
7 was that it made money if the market went up and it lost money
8 if the market went down. Many of its assets had that property.
9 Most of them did. And—

10 Q. If I could interrupt.

11 A. Yup.

12 Q. Long meaning you bought the stock?

13 A. Right. Long meaning we bought these companies rather than
14 short selling, which would be betting on them to decline. And
15 it was leveraged because it was more than a hundred percent of
16 its value was in its positions, because it had taken on debt to
17 make those investments.

18 Q. You also used the phrase "correlated with the market."

19 What does that mean?

20 A. It means that it had historically tended to be the case
21 that if the cryptocurrency market would increase in value—that
22 is, say, if Bitcoin and other major cryptocurrencies went
23 up—that the assets Alameda held would increase in price, and
24 conversely, that if the market overall were to decline, if
25 there were a market crash, that the assets Alameda held would

NAR1BAN5

Bankman-Fried - Direct

2456

1 decrease in value.

2 Q. So what happened to Alameda's value around May 2022?

3 A. Well, there were, you know, large decreases in—in market
4 prices, Bitcoin fell from \$65,000 or so at the peak in late
5 2021 to 30,000 in May 2022 and 20,000 in June 2022, and as a
6 result, Alameda's net asset value fell from above \$40 billion
7 at the peak in late '21 to around \$10 billion ultimately in
8 June of 2022.

9 Q. One more term. I'm not sure we defined "net asset value."

10 A. Ah, yes. So when a company has assets and also has
11 liabilities, the net asset value is those assets minus those
12 liabilities. So if you had \$10,000 of assets but you took out
13 a \$2,000 loan to purchase those, your net asset value would be
14 \$8,000.

15 Q. Are you familiar with the concept of hedging?

16 A. Yes.

17 Q. What is your understanding of that concept?

18 A. Hedging is putting on a trade to protect against the risk
19 of a market move.

20 Q. Did there come a time that you discussed the topic of
21 hedging with anyone at Alameda?

22 A. Yes.

23 Q. Who was that?

24 A. Chiefly with Caroline Ellison, sometimes with other people
25 as well.

NARMBAN6

Bankman-Fried - Direct

2471

1 general overhaul of FTX's accounting, given both this and other
2 things that were going on at the same time.

3 Q. Now, moving forward, did there come a time that the bug was
4 fixed?

5 A. Yeah.

6 Q. Who worked on that?

7 A. I know that Adam Yedidia and Nishad Singh both worked on
8 it.

9 Q. Do you know if the fix of the bug was recorded anywhere?

10 A. Yes. There is a memo they wrote up to memorialize it.

11 MR. COHEN: Can we call up DX-488 for identification.

12 Q. Take a moment to go through this, Mr. Bankman-Fried, and
13 let me when you have. If you need to see multiple pages, let
14 us know.

15 A. Yup, that looks like it.

16 Q. What is this document?

17 A. This is that memo that was written up.

18 Q. Did you see it at the time?

19 A. Yes.

20 MR. COHEN: The defense offers Exhibit 488, not for
21 its truth.

22 MS. SASSOON: Objection, your Honor.

23 THE COURT: Ground.

24 MS. SASSOON: 401 and hearsay.

25 THE COURT: Mr. Cohen.

NARMBAN6

Bankman-Fried - Direct

2472

1 MR. COHEN: Your Honor, we are just offering it for
2 the fact that the memorandum was done, not for the content of
3 the memo.

4 THE COURT: Memorandum being done divorced from the
5 content is not relevant.

6 MR. COHEN: Not for the -- your Honor, may we come to
7 sidebar?

8 THE COURT: No. This is straightforward.

9 Sustained.

10 Q. You also mentioned that one of the follow-up items was the
11 accounting. Do you recall what happened after that?

12 A. Yeah. There is -- there are two projects related to FTX's
13 accounting. One of them was to overhaul the entire accounting
14 system and the other was specifically to overhaul the parts of
15 it that were related to bank deposits and withdrawals.

16 Q. Do you know whether that took place?

17 A. The second one did take place and was completed. The first
18 one was begone but not fully completed.

19 Q. Who handled the project about bank withdrawals?

20 THE COURT: I think you misspoke. I think the witness
21 said deposits.

22 MR. COHEN: I'm sorry, your Honor.

23 A. Adam Yedidia.

24 MS. SASSOON: Your Honor, I want to make a foundation
25 objection. I don't believe it was elicited who was part of the

NARMBAN6

Bankman-Fried - Direct

2474

1 A. So in June 2022, around this date, I was told that there
2 was the bug, this \$8 billion miscalculation of Alameda's
3 net-asset value. And Gary and Nishad told me in person that
4 day in the conversation that it was stemming from something
5 called fiat@. That was the -- that it was related to bank
6 account deposits and withdrawals and two of those that had gone
7 through Alameda historically.

8 Q. Did you know what fiat@ was at the time?

9 A. No.

10 Q. Did you later learn?

11 A. Yes.

12 Q. How did you learn?

13 A. I ultimately learned what it was by looking it up in a
14 database that I ultimately got access to, although I had heard
15 bits and pieces about it in the interim.

16 Q. Did Gary and Nishad in that initial conversation discuss
17 the size of the liability?

18 A. There were some discussions about liabilities. There was
19 also a lot of uncertainty that they were still looking into. I
20 remember hearing that there was.

21 THE COURT: Excuse me, please. We will all get done
22 with this more efficiently if you would focus on the question
23 better.

24 The question was: Did Gary and Nishad in that initial
25 conversation discuss the size of the liability? They either

NARMBAN6

Bankman-Fried - Direct

2475

1 they did, they didn't, or you don't recall, presumably. Would
2 you answer that.

3 A. I don't recall them specifically discussing that liability,
4 no.

5 Q. Did there come a time where you had later conversations
6 with Gary and Nishad where you discussed the liability?

7 A. By the liability, are you referring to the fiat@?

8 Q. Yes.

9 A. Ultimately, by October of 2022, yes, there were explicit
10 conversations with them about the fiat@ liability.

11 Q. Now, you mentioned you also had conversations, I think you
12 said, with Ms. Ellison?

13 A. Yes.

14 Q. Do you recall those conversations about the liability?

15 A. I had conversations with her about Alameda's liabilities
16 and liabilities on FTX. I am not sure I had conversations with
17 her until later on about the fiat@ liability in particular.

18 Q. I think you also mentioned Mr. Yedidia.

19 A. Yes.

20 Q. Same question.

21 MS. SASSOON: Your Honor, form.

22 Q. Do you recall having a discussion with Mr. Yedidia about
23 the liability, fiat@ liability?

24 A. I don't recall having a discussion at the time with him
25 about the fiat@ liability size in particular. I don't recall

NARMBAN6

Bankman-Fried - Direct

2476

1 discussing that with him until November 2022, although I did
2 have other discussions with him.

3 Q. Did there come a time that you learned of the size of the
4 fiat@ liability?

5 A. Yes.

6 Q. What was the size?

7 A. Around 8 billion.

8 Q. Who did you learn that from?

9 A. I ultimately learned confidently that the fiat@ liability,
10 in particular its size, was 8 billion from a database.

11 Q. Can you explain that.

12 A. Yes. In around September and October of 2022, FTX's
13 developers had built a second database, a Google-hosted
14 database that was similar to but different -- but not the same
15 as the AWS primary database. The primary purpose of this was
16 to have a source that nondevelopers could interact with. They
17 had expressed the concerns to me that if I accidentally
18 requested too much data --

19 MS. SASSOON: Objection. Hearsay.

20 MR. COHEN: Your Honor, I might be able to streamline
21 this, if I might.

22 THE COURT: We are all on the same team on that.

23 MR. COHEN: Thank you.

24 THE COURT: That's not to say that you can elicit
25 hearsay like this.

NARMBAN6

Bankman-Fried - Direct

2477

1 MR. COHEN: I understand. I think there is a way to
2 shorten this. We shall see.

3 Q. This database you referred to, Mr. Bankman-Fried, when did
4 that come into effect?

5 A. I am not sure when it first came into effect. I believe I
6 got access in October of 2022.

7 Q. Was it a database that had been available to you before
8 October?

9 A. No.

10 Q. Did you go on the database?

11 A. Yes.

12 Q. What did you find?

13 A. Among other things, I found something called fiat@FTX.com.

14 Q. What did you conclude after finding that?

15 A. That there was an account with a negative \$8 billion
16 balance that was a subaccount of an Alameda affiliate.

17 Q. What was your reaction, if any, of finding out that Alameda
18 had a liability of \$8 billion?

19 A. I was very surprised.

20 Q. Why was that?

21 A. I had certainly, as of prior to this sequence, been under
22 the belief that Alameda's total liability to FTX was reflected
23 in the info@ account that I had looked at. That was Alameda's
24 primary trading account on FTX. I had seen liabilities of
25 roughly \$2 billion in that account and far more than that in

NARMBAN6

Bankman-Fried - Direct

2478

1 assets. Now I had come to realize that the total liability was
2 far more than that.

3 Q. How did this liability compare to what you had seen on the
4 info@ account?

5 A. So this liability was larger. It was about 8 billion
6 instead of about 2 billion, making roughly 10 billion in total,
7 and without substantial collateral posted directly on the FTX
8 account.

9 Q. Upon seeing this, what was your reaction?

10 A. I was surprised. I reached out to developers to confirm
11 what this was, and I started to think through what the
12 implications of it were.

13 Q. Did you believe that it could be paid back?

14 A. Yes.

15 Q. What did you base that on?

16 A. I had confirmed multiple times, and I did again, that
17 Alameda's net-asset value had already included all liabilities,
18 including this one, in other words, that Alameda had
19 approximately 10 billion more in the value of its assets than
20 in its liabilities, including this liability. As such, I was
21 of the view that Alameda had plenty in asset value to be able
22 to cover the liability.

23 Q. Did you consider any other assets?

24 A. By other assets, can you clarify, other than what?

25 Q. Of Alameda.

NARMBAN6

Bankman-Fried - Direct

2479

1 A. Yes. I looked at obviously the collateral on FTX. I
2 looked at its off-FTX assets, and I also looked into Paper Bird
3 and a few other things not on Alameda's balance sheet.

4 Q. Let me break that down. What was Paper Bird?

5 A. Paper Bird was a company that held my equity stake in FTX.

6 Q. Why were you looking at Paper Bird in connection with this
7 liability?

8 A. In connection with this liability, I wanted to check
9 basically, is Alameda going to be able to be good for it. Does
10 Alameda have enough in value to cover a total liability of \$10
11 billion. And that meant doing a more comprehensive view of
12 what assets it had access to.

13 Traditionally it had not put my holding in FTX equity
14 through Paper Bird on its balance sheets. It had treated those
15 as separate, but I was more than happy to pledge everything I
16 had, including that, as security for any of Alameda's
17 liabilities, including this one, and so it could potentially
18 act as backup security for liabilities.

19 Q. Let me go back for a moment. I meant to cover this.

20 You recall a conversation in June with Ms. Ellison
21 about repaying Alameda's lenders?

22 A. Yeah.

23 Q. Did that repayment take place?

24 A. Repayments did take place, yes.

25 Q. How much was repaid?

NARMBAN6

Bankman-Fried - Direct

2480

1 A. My understanding was, it was initially around a billion, in
2 total about two billion in June.

3 Q. How, in your experience, did that compare with other loans
4 that Alameda had paid back to lenders?

5 A. It was a sizeable but not extremely anomalous loan recall
6 amount.

7 Q. Where did you believe the funds to pay the lenders were
8 coming from?

9 A. From Alameda's assets. Alameda had at the time 5 to \$10
10 billion of highly liquid assets off of FTX in its wallets, bank
11 accounts, and other exchange accounts.

12 Q. Now, I think we discussed earlier that from time to time
13 Ms. Ellison would send you balance sheets.

14 Do you recall that?

15 A. Yup.

16 Q. How regularly would she do that?

17 A. Every month or two.

18 Q. What would the balance sheets show?

19 A. They would show Alameda's net-asset value and a
20 consolidated summary of its assets and liabilities.

21 Q. How long would they be?

22 A. The ultimate balance sheets would usually be one page,
23 maybe two pages.

24 Q. During the summer of 2022, do you recall speaking with
25 Alameda's lenders yourself?

NARMBAN6

Bankman-Fried - Direct

2491

1 THE COURT: Return to the future.

2 MR. COHEN: Thank you, your Honor.

3 Q. Stepping back.

4 A. Yes.

5 Q. Did the topic of hedging come up again?

6 A. Yes.

7 Q. Who did it come up with?

8 A. Chiefly with Caroline.

9 Q. Can you tell us what was discussed with Caroline.

10 A. Yes. Subsequent to the June market crash and the fiat@ bug
11 and fix, I became fairly concerned about Alameda's risk. It
12 had fallen 75 percent in asset value since late the previous
13 year as a result of market crashes. It had not hedged against
14 those market crashes, despite the many conversations, and I was
15 very concerned that if there was one or two more market crashes
16 subsequent to that, Alameda might go bankrupt.

17 Q. What would a hedge have done in connection with Alameda's
18 NAV?

19 A. Had there been a sufficient quantity of hedges late the
20 previous year, its NAV would still have been --

21 MS. SASSOON: Objection.

22 THE COURT: What's the objection?

23 MS. SASSOON: Speculative to say what exact effect a
24 hedge would have.

25 THE COURT: I think that's for cross-examination. He

NARMBAN6

Bankman-Fried - Direct

2492

1 has already qualified it by saying, a sufficient amount of
2 hedges. Who knows what that means.

3 MS. SASSOON: Yes, your Honor.

4 THE COURT: Let's go ahead.

5 Q. Please finish your answer, sir.

6 A. Its NAV would have fallen not very much from the previous
7 year. It would still be many times higher than it was that
8 day. In other words, it would have offset much of the losses
9 that its assets had suffered.

10 MR. COHEN: Can we call up GX-25B in evidence, please.
11 These are notes by Ms. Ellison.

12 Can we turn to the second page, please. Pull up the
13 paragraph entitled: Things Sam is freaking out about. First
14 entry is hedging.

15 Q. Do you recall discussing this with Ms. Ellison?

16 A. Yes.

17 Q. Were you freaking out?

18 A. I don't tend to show a lot of freakoutness, but relative to
19 my standard, yes.

20 MR. COHEN: We can take that down.

21 Q. Now let's move to September, Mr. Bankman-Fried.

22 A. Yes.

23 Q. Did there come a time when you considered shutting down
24 Alameda?

25 A. Yes.

NAUMBAN1

Bankman-Fried - Direct

2518

1 Q. Let's take your conversations first with Ms. Ellison
2 between June and September. About how many times did you speak
3 with her about the topic of hedging?

4 A. I spoke -- in June and July, I spoke chiefly once, followed
5 up a few times, and then in September we spoke a few times.

6 Q. Let's go to the June, July conversation. Where was that
7 conversation?

8 A. That was in the Orchid 6 apartment in the study.

9 Q. What did you say to her and what did she say to you?

10 A. I had organized the conversation. This was after the
11 market crash in mid June, when Bitcoin fell to \$20,000. This
12 is after the fiat bug had been found and fixed. So this was
13 when Alameda's net asset value was about \$10 billion, down
14 from --

15 MS. SASSOON: Objection.

16 THE COURT: Yes. All of that is stricken. It's
17 unresponsive.

18 Q. Just say what you said to Ms. Ellison and what she said to
19 you.

20 A. Understood.

21 I called the meeting with Caroline, and I told her
22 that I was very concerned about Alameda, about, to some extent,
23 its historical failure to hedge, but much more so about its
24 current market exposure.

25 Q. Go on.

NAUMBAN1

Bankman-Fried - Direct

2522

1 recall exactly in what context it came.

2 Q. Do you recall whether it was in person or over a chat?

3 A. I know that -- I don't recall confidently, no.

4 Q. Who was it with?

5 A. Caroline, Gary, and Nishad were all involved. I believe a
6 few other people were as well, but I am not a hundred percent
7 confident.

8 Q. What did you say and what did Gary, Caroline, and Nishad
9 say?

10 A. Just to clarify, with respect to the thread about shutting
11 down Alameda?

12 Q. The size of the liability.

13 A. The size of the liability. I remember looking into it to
14 some extent myself.

15 THE COURT: Sorry, Mr. Bankman-Fried. The question
16 was, what did you say and what did they say?

17 THE WITNESS: I remember numbers a bit north that -- I
18 don't remember specifically which one of them said the
19 number -- a bit north of \$10 billion of total liability being
20 discussed then.

21 MR. COHEN: Can we call DX-5 back up again. We can go
22 to the second page and call out the first entry, entry number
23 1.

24 Q. You just told us that was a project to get you and other
25 nondevelopers further access, correct?

NAUMBAN1

Bankman-Fried - Direct

2523

1 A. That's correct.

2 Q. Did there come a time that you did get such access?

3 A. Yes.

4 Q. When was that?

5 A. In October of 2022.

6 Q. Did there come a time that you used the new access to
7 review the database?

8 A. Yup.

9 Q. What did you determine?

10 A. I did a number of queries, but most relevantly in one of
11 them I found an account called something like Seoyun, a
12 Seoyun88, which had something with fiat in the name and a
13 roughly \$8 billion liability.

14 Q. What did you do after you found this account?

15 A. I reached out to a few people to confirm what this account
16 was.

17 Q. Who did you reach out to?

18 A. I don't remember the full list. I believe that it was a
19 few FTX developers.

20 Q. What did you do after reaching out to them?

21 A. So after reaching out to them, I learned that this was --

22 THE COURT: I'm sorry. The question is, what you did
23 after you spoke to them?

24 THE WITNESS: Yes. After I spoke to them, I started
25 to compile a list myself of all accounts on FTX that were

NAUMBAN1

Bankman-Fried - Direct

2526

1 for instance.

2 Q. You also mentioned a concept called solvency.

3 A. Yes.

4 Q. Can you explain that and how, if at all, it factored into
5 your analysis.

6 A. Yes. So solvency, at least as I was thinking of it,
7 referred to -- effectively to net-asset value, to whether -- to
8 the relationship between assets and liabilities. If a company
9 had more assets than liabilities, it was solvent. If it had
10 fewer assets than liabilities, it was insolvent. If Alameda
11 were insolvent, that, in my mind, would have been a very
12 significant problem. That would have been similar to the few
13 hours of crisis prior to the fiat@ bug fix in June.

14 Q. And in September, October, was it your view that Alameda
15 was insolvent?

16 A. No. My view was that it had about positive \$10 billion of
17 net-asset value, which is to say that whatever its liabilities
18 were, it had all of that and then another \$10 billion of
19 assets, and that that also wasn't counting some other assets
20 that were securing the position as well.

21 Q. Staying in October, did there come a time that you took a
22 trip?

23 A. Yes.

24 Q. Where did you go?

25 A. I took a few trips. The longest was to the Middle East.

NAUMBAN1

Bankman-Fried - Direct

2527

1 Q. Before we get to the Middle East trip, I should ask you, in
2 your duties as CEO of FTX, how often did you travel?

3 A. Probably too much in retrospect. About half the time I was
4 gone, more than a hundred days in 2022.

5 Q. What was the primary place you went to?

6 A. I went all over, but the single place I went to the most
7 was Washington, D.C.

8 Q. Why was that?

9 A. To meet with senators, with policy makers, with regulators
10 there, both about general crypto regulation of the United
11 States and about FTX US derivatives licensing application.

12 Q. Let's come back. You said you took a trip to the Middle
13 East in October, is that correct?

14 A. Yup.

15 Q. Did anyone go with you?

16 A. Yeah.

17 Q. Who was that?

18 A. From the company, Ramnik did.

19 Q. Just to remind everyone, what was Ramnik's role?

20 A. He was effectively -- he was the head of product base.
21 Also effectively the person in charge of both venture investing
22 and fundraising.

23 Q. What was the purpose of your trip to the Middle East?

24 A. There were multiple purposes. I had been invited to speak
25 at a conference there which was happening that month. I had

NAUMBAN1 Bankman-Fried - Direct 2528

1 earlier that year, or possibly late 2021, I don't remember the
2 exact date, been invited to visit Dubai and meet with the
3 regulators there. FTX had just secured a license with the
4 Dubai financial regulators, but I had cancelled that trip. And
5 the Dubai regulators I understood to have been asking that I
6 come visit them at some point, so I owed them a trip as well.

7 On top of that, there were prospective investors in
8 the Middle East who had wanted to meet in person, and there
9 were some government officials who wanted to talk about the
10 growth of the Blockchain industry, and we also had a few
11 employees in the Middle East and an office there that I wanted
12 to check out.

13 Q. Have you ever heard the term sovereign wealth fund?

14 A. Yup.

15 Q. What's that?

16 A. It's an investment firm or venture capital firm that is
17 funded by a government.

18 Q. Did that relate at all to your Middle Eastern trip?

19 A. Yeah.

20 Q. Can you tell us how?

21 A. Yeah. One of our larger investors had been a sovereign
22 wealth fund, Temasek, from Singapore, and in the Middle Eastern
23 trip we were going to meet with a few sovereign wealth funds
24 there.

25 Q. You just told us that in September you had done an analysis

NAUMBAN1

Bankman-Fried - Direct

2529

1 of this \$8 billion liability relating to the fiat@ account.

2 Do you recall that, sir?

3 A. Yup.

4 Q. Why did you go on a trip to the Middle East in October?

5 A. Because I viewed Alameda as solvent and FTX as solvent and
6 as decently liquid. Had that analysis come up the other way,
7 had it come up the way we briefly thought things were in June
8 of 2022, with Alameda being essentially bankrupt or borderline
9 bankrupt, I would have been in full-on crisis mode. But in my
10 view at the time that wasn't the case.

11 Q. Did you speak with any FTX employee before you went on the
12 trip?

13 A. Yeah. I spoke with a number, probably the most with Adam
14 Yedidia.

15 Q. Can you tell us what you said to Mr. Yedidia and what he
16 said to you.

17 A. Yeah. I described the trip that I was at that time
18 planning to go on, and he said that he was skeptical that I
19 should go on it, that it wasn't worth the time and wasn't worth
20 some other counterparty complications associated with it. I
21 laid out the reasons that I found it compelling but said I
22 wasn't confident. After hearing that, he said, oh, that
23 changed his mind, that particularly the excitement of investors
24 there. He didn't feel like it was worth the trip.

25 Q. You used the phrase counterparty complications.

NAUMBAN1 Bankman-Fried - Direct 2530

1 A. Yeah.

2 Q. Maybe you could explain that.

3 A. So FTX's largest competitor was Binance. Binance was the
4 largest crypto exchange in the world. It had 40 percent of
5 global roughly. Binance was headquartered in the Middle East
6 and the relationship between FTX and Binance was frosty at that
7 point and had been for a little while. So by traveling to the
8 Middle East, there is a risk that I would be upsetting Binance
9 by quote/unquote stepping on their turf.

10 Q. At the end of your conversation with Mr. Yedidia, what was
11 his view on whether you should go on the Middle Eastern trip?

12 A. He said he thought it definitely made sense.

13 Q. Did you take the trip?

14 A. I did.

15 Q. How did you regard the trip?

16 A. I thought it was overall pretty successful.

17 Q. Did you end up speaking with any investors?

18 A. I did.

19 Q. What was the reaction?

20 A. They were interested. They were going to do more
21 diligence.

22 MS. SASSOON: Objection.

23 THE COURT: Pardon?

24 MS. SASSOON: For him to speculate whether they were
25 interested.

NAUMBAN1 Bankman-Fried - Direct 2531

1 THE COURT: The answer is stricken.

2 A. They expressed --

3 THE COURT: Excuse me. Stop. I have ruled.

4 THE WITNESS: Understood.

5 Q. After you came back from your trip -- let's do it this way.

6 Let's move ahead now, Mr. Bankman-Fried, to November of 2022.

7 MR. COHEN: Can we call up, please, GX-1087.

8 This is a calendar of November 2022. I am going to
9 circle November 11.

10 Q. What happened on November 11, Mr. Bankman-Fried?

11 A. That was the day that FTX filed for bankruptcy.

12 Q. Now I am going to ask you a series of questions that relate
13 to the period from the 1st up through the 11th, OK?

14 A. Yup.

15 Q. Let me start with November 2. Did anything happen on that
16 day?

17 A. Yes.

18 Q. Why don't you tell us.

19 A. A CoinDesk article came out. CoinDesk is a crypto industry
20 news site which leaked an old copy of an Alameda Research
21 balance sheet.

22 Q. What, if anything, was your response to this CoinDesk
23 article?

24 A. I reached out to Caroline to ask if she wanted to comment
25 on it.

NAUMBAN1

Bankman-Fried - Direct

2533

1 what was that?

2 A. That was a company that held my and my Gary's equity stakes
3 in FTX.

4 Q. Continuing down to the next --

5 THE COURT: Who owned Paper Bird?

6 THE WITNESS: Gary and I did.

7 THE COURT: Go ahead.

8 Q. Continuing down to the next entry, it says: The balance
9 sheet breaks out a few of our biggest long positions. We
10 obviously have hedges that aren't listed.

11 What was your reaction to that, Mr. Bankman-Fried?

12 A. That seemed self-evidently true to me.

13 Q. Why was that?

14 A. There were no hedges listed on that balance sheet, and
15 Alameda had put on hedges.

16 Q. And continuing to the last entry: Given the tightening in
17 the crypto credit space this year, we returned most of our
18 loans by now.

19 What was your reaction to that, sir?

20 A. That seemed true to me.

21 Q. Why is that?

22 A. The loans that Alameda had taken out from third-party desks
23 had fallen by far more than 50 percent over the prior year.

24 MR. COHEN: We can take this exhibit down.

25 Q. Now, continuing in that period in November, let's go to

NAUMBAN1

Bankman-Fried - Direct

2534

1 November 6.

2 MR. COHEN: Let's pull up Government Exhibit 874 in
3 evidence. Brian, if we can expand that.

4 Q. Looking at the top of it, it says -- first of all, who is
5 this from?

6 A. That is CZ, Changpeng Zhao, the CEO of finance.

7 Q. It says: As part of Binance's exit from FTX equity last
8 year, Binance received roughly \$2.1 billion USD equivalent in
9 cash, BUSD and FTT. Due to recent revelations that have come
10 to light, we have decided to liquidate any remaining FTT on our
11 books.

12 Do you see that, sir?

13 A. Yes.

14 Q. I want to take it in steps. The first sentence says --

15 MR. COHEN: If you can highlight it Brian.

16 Q. -- as part of Binance's exit from FTX equity last year,
17 Binance received roughly \$2.1 billion and so on.

18 What does that refer to?

19 A. So in mid 2021, we had bought out Binance's equity holdings
20 of FTX. It had been the seed investor in FTX.

21 Q. Continuing on he says: Due to recent revelations that have
22 come to light, we have decided to liquidate any remaining FTT
23 on our books.

24 What did that refer to?

25 A. CZ was declaring that they were going to sell off the FTT

NAUMBAN1 Bankman-Fried - Direct 2535

1 that they had gotten from this equity buyout, which was around
2 \$500 million worth.

3 MR. COHEN: You can take that down, Brian, and you can
4 take down the slide.

5 Q. What, if anything, was your response to this tweet from CZ?

6 A. I discussed, again with Caroline and others, about whether
7 any of us should send a tweet in response to it.

8 Q. What, if anything, happened with respect to customer
9 withdrawals?

10 A. They increased massively.

11 Q. Can you explain to us what happened.

12 A. Yeah. Historically, FTX had seen roughly \$50 million per
13 day of net deposits or withdrawals. On Sunday, November 6, it
14 saw about \$1 billion of net withdrawals.

15 Q. What was your reaction, if anything, to the size of those
16 withdrawals?

17 A. I was concerned.

18 Q. Why were you concerned?

19 A. It signaled a potential, what I viewed to be a potential
20 run on the bank and a risk of a liquidity crisis if that
21 increased.

22 Q. Let me stop you. You used the phrase, run on the bank.

23 A. Yeah.

24 Q. What did that mean to you?

25 A. So what that meant to me was, if there is a bank and all of

NAUMBAN1

Bankman-Fried - Direct

2536

1 its customers --

2 MS. SASSOON: Objection.

3 THE COURT: Sustained.

4 Q. What did it mean to you in connection with FTX?

5 A. What it meant to me in connection with FTX was that it
6 was -- FTX was a marketing exchange. That meant that there
7 were borrows, that there was leverage, and that, because of
8 that, if many customers all at once wanted to close down their
9 positions and withdraw everything from the exchange, that would
10 necessitate closing down the other side of those positions and
11 recalling all borrows.

12 In other words, the only way to return all funds, the
13 only way to process all withdrawals for all users was to
14 liquidate every open margin position on the exchange and shut
15 down the business. Obviously, that would be in a most extreme,
16 100 percent withdrawals scenario. But \$1 billion was already
17 about ten times as much as I had ever seen in a given day.

18 Q. Did you discuss with anyone responding to CZ's tweet?

19 A. Yes.

20 Q. Who did you discuss it with?

21 A. I don't remember the exact list, but I know that Caroline,
22 Zane, Ramnik, Nishad, and Gary were all at least tangentially
23 involved.

24 Q. I think we all know the names. You mentioned Zane. Who
25 was that?

NAUMBAN1

Bankman-Fried - Direct

2538

1 A. So our understanding was that CZ was signaling that he was
2 going to sell \$500 million of FTT roughly over a three-month
3 period, roughly, and FTT had been trading above \$22 per token
4 and had been above that level for a fairly long time. This
5 represented a level that we had discussed and decided it would
6 make sense and be profitable for Alameda to buy those FTT
7 tokens at and an offer for CZ to do it in one big chunk to
8 Alameda rather than by working it out over the course of months
9 and hopefully saying hassle on both sides.

10 Q. In your view, did Alameda have the funds to purchase the
11 FTT at \$22?

12 A. Yeah. I remember checking and seeing that Alameda had \$5
13 billion, roughly, of liquid assets at hand.

14 MR. COHEN: We can take this slide down.

15 Q. As we move from November 6 into November 7, what, if
16 anything, did you observe with respect to withdrawals?

17 A. They didn't just continue at the pace of -- they increased
18 further. On Monday, Monday November 7, FTX saw about \$4
19 billion of net withdrawals from the platform. That was about
20 100 times an average day.

21 Q. What, if anything, did that mean to you?

22 A. That meant that we were -- that we might be, in my view at
23 the time, days away from a liquidating crisis if this
24 continued.

25 MR. COHEN: Let's move now to November 7, to the

NAU1BAN2

Bankman-Fried - Direct

2543

1 Alameda still had a net asset value of roughly positive
2 10 billion. FTX had no holes on its balance sheet. And there
3 had been no attack on the customer assets. And so my view at
4 the time was that the exchange was okay and that there, you
5 know, there was no—no hole in terms of assets.

6 MR. COHEN: Okay. Now let's call out No. 2, Brian.

7 Q. You said here, "FTX has enough to cover all client
8 holdings. We don't invest client assets (even in treasuries).
9 We have been processing all withdrawals and will continue to
10 be. Some details on withdrawal speed."

11 What does this all refer to, Mr. Bankman-Fried?

12 A. Yeah. So the last thing—the prior thing we looked at was
13 the BTC notes and the banking and stuff. The first pieces of
14 that, FTX itself had effectively no liabilities and just
15 assets. And FTX did not do any investments with customer
16 assets. So FTX just kept the customer assets it held in
17 wallets and bank accounts. We had discussed whether to invest
18 in treasuries. Hadn't done that. And as of the time this was
19 sent, Alameda, which was obviously a large customer on FTX,
20 still had far more in assets than in liabilities.

21 MR. COHEN: Okay. Okay. You can take that down.

22 Q. Going into the evening of November 7th, what, if anything,
23 did you observe with respect to customer withdrawals?

24 A. Yeah. They accelerated to about \$4 billion over the course
25 of the day.

NAU1BAN2

Bankman-Fried - Direct

2544

1 Q. And what did this mean to you?

2 A. It meant that we were on the verge of a liquidity crisis.

3 Q. Okay. Now we've spoken several times about hedges. Do you
4 recall that, sir?

5 A. Yes.

6 Q. And I think you told us hedges got put on in September.

7 A. That's right.

8 Q. What effect, if any, did they have now in November?

9 A. Well, so far they hadn't been relevant because there hadn't
10 been any market move. Alameda's assets and liabilities had
11 not, in my understanding at the time, moved that much since
12 mid-June. That would soon change, though.

13 Q. All right. So you said you thought there was a liquidity
14 issue. What did you mean by that?

15 A. So effectively, going into this, there had been roughly 5
16 to \$10 billion of liquidity on hand, which means ability to
17 immediately process or promptly process liquid customer
18 withdrawals. That was far more than had been needed before,
19 but in a two-day period, customers had withdrawn about
20 \$5 billion of liquid assets.

21 Q. What happened going into November 8th in terms of
22 withdrawals?

23 A. They were continuing at that same 3-to-\$4 billion-a-day
24 clip.

25 Q. And did anything else happen that—did anything happen that

NAU1BAN2

Bankman-Fried - Direct

2545

1 changed your view of Alameda at that point?

2 A. Yes.

3 Q. What was that?

4 A. On the evening—so beginning on the evening of November 7th
5 and continuing into the morning of November 8th, there was a
6 market crash.

7 Q. Can you explain what you mean by that.

8 A. Yeah. So assets that I understood to be associated with
9 Alameda declined massively in value. FTT, over a 12-hour
10 period or so, fell I think roughly 80 percent. Solana fell
11 roughly 50 percent. This was—overall, this led to an
12 approximately 50 percent crash in Alameda's assets, and that
13 was the 50 percent crash that drove its net asset value from
14 close to \$10 billion to only a little bit above 0.

15 Q. Okay. And what, if anything, did that mean to you?

16 A. That meant that Alameda was still solvent but that there
17 was very little margin for error left, that we were risking a
18 solvency crisis.

19 Q. And now coming back to the hedges we talked about.

20 A. Yes.

21 Q. What, if any, effect did they have?

22 A. Unfortunately none.

23 Q. Why was that?

24 A. The hedges had been in general market instruments, both
25 cryptocurrency and equities, things like Bitcoin. However,

NAU1BAN2

Bankman-Fried - Direct

2546

1 unlike all of the previous market crashes, the 70 percent
2 crashes over the first half of the year that had led to the
3 large decline in Alameda's NAV from 40 billion or so to
4 10 billion or so, this crash was not a broad crash. Bitcoin
5 had been down 70 percent over the first half of the year, but
6 on November 7th and 8th, 2022, Bitcoin basically didn't move.
7 Even though FTT was down over 50 percent, Solana was down
8 around 50 percent, Bitcoin was down maybe 10 percent, and
9 stocks basically didn't move at all. The hedges, which would
10 have been helpful against the prior crashes to protect income,
11 had effectively no benefit for what happened here.

12 MR. COHEN: Let's call up again Government
13 Exhibit 866. And call out the first entry.

14 Q. Where you say, "FTX is fine. Assets are fine."

15 A. Yup.

16 Q. Once you learned the information you just related, what, if
17 anything, did you do?

18 A. I took down this tweet thread.

19 MR. COHEN: All right. At this time, your Honor, I'd
20 like to read from Government Exhibit 2001, which is a
21 stipulation agreed upon by the parties, and in evidence.

22 "The exhibits set forth in attachment B below are
23 authentic copies of tweets and retweets posted at the dates and
24 times indicated on the exhibits, but which were later deleted
25 at dates and times listed in attachment B." And it lists

NAU1BAN2 Bankman-Fried - Direct 2547

1 Government Exhibit 866, deleted November 8, 2022, at 5:37 p.m.

2 BY MR. COHEN:

3 Q. Okay. All right. Now I want to pick up—well, let me just
4 ask you one question, and then we'll come back to it.

5 On November 8th, what, if anything, were you thinking,
6 what, if anything, did you do with respect to FTX and Alameda?

7 A. A few things. The first was, effectively began liquidating
8 Alameda. It had reached that critical threshold where its NAV
9 was barely positive, and started to get all liquidity it could
10 put together, begun closing down positions, and potentially
11 closing down the company entirely. And at the same time I had
12 calls with potential investors.

13 Q. Why were you calling potential investors?

14 A. Because in my view at the time, while Alameda was still
15 solvent, as was FTX, it was potentially going to be a lengthy
16 process to close down the company, to liquidate its holdings,
17 and with the run on the bank, customers—

18 MS. SASSOON: Objection. "Run on the bank."

19 THE COURT: Pardon me?

20 MS. SASSOON: "With the run on the bank."

21 MR. COHEN: He defined it in terms of FTX.

22 THE COURT: I don't think exactly, but I'll let it
23 stand. I think everybody understands what he's saying.

24 A. With the run on FTX. The—customers were requesting
25 billions of dollars immediately of—of withdrawals. And if we

NAU1BAN2

Bankman-Fried - Direct

2553

1 (At the sidebar)

2 MS. SASSOON: I'm not entirely sure where this is
3 going, but I asked for a sidebar because there is a
4 conversation described in Michael Lewis's book that is sourced
5 to the defendant that we consider a false exculpatory and
6 inadmissible hearsay, and I don't know if that is where you're
7 going, but I would ask for a preview outside the presence of
8 the jury to lodge any hearsay objections.

9 MR. COHEN: Sure.

10 THE COURT: Mr. Cohen.

11 MR. COHEN: Where this is going is, he had a
12 conversation—he, the defendant, had a conversation with Nishad
13 who said, *What do I tell Zane Tackett*, who was the person
14 dealing with institutional investors, and the defendant said, *I*
15 *don't think we did anything wrong. I don't think you did*
16 *anything wrong.* And Nishad said, *That's not good enough.* And
17 that's what I'm seeking to elicit.

18 MS. SASSOON: Your Honor, we would object to that as
19 hearsay. Does not go to his state of mind because it does not
20 meet the contemporaneous requirement of the state of mind rule.
21 It's after the collapse had effectively happened, the
22 defendant's been exposed, he's trying to cover his tracks and
23 he's trying to prevent—

24 MR. COHEN: That's the government's interpretation of
25 the evidence. We're entitled to bring it out and argue the

NAU1BAN2

Bankman-Fried - Direct

2554

1 opposite interpretation, which is that our client was
2 continuing to say that he thought neither he nor Mr. Singh had
3 done anything wrong, then Mr. Singh is acting in an opposite
4 way. It's really a relevancy objection.

5 THE COURT: Give me the offer of proof again exactly?

6 MR. COHEN: Sure. It's—I don't think it's the
7 passage counsel was thinking of, but anyway, the offer of proof
8 is, it speaks to Mr. — Nishad says to him, *I need to know what*
9 *to say to Zane Tackett*, who was head of institutional invest—

10 THE COURT: I know.

11 MR. COHEN: Okay. And Mr. Bankman-Fried says, *Well, I*
12 *will say tell him we didn't do anything wrong. I didn't, you*
13 *didn't*. And Mr. Singh says, *That's not good enough*. That's
14 the sum and substance I'm trying to elicit.

15 THE COURT: And you say that "that's not good enough"
16 is not admissible because?

17 MS. SASSOON: The whole thing of "we didn't do
18 anything wrong" is not admissible. It's not a statement of his
19 then-existing state of mind as to future intent or plan. It's
20 a retrospective statement to try to absolve himself of
21 responsibility and under the cases that interpret Rule 803(3),
22 like *Cardascia*, the state of mind exception focuses on the
23 contemporaneity of the statement and the unlikelihood of
24 deliberate or conscious misrepresentation. This conversation
25 has every indicia of deliberate or conscious misrepresentation,

NAU1BAN2

Bankman-Fried - Direct

2555

1 and this does not pertain to future intent or plans. It's
2 after the scheme has been exposed.

3 MR. COHEN: It's after the bankruptcy filing, your
4 Honor, on November 11th, when, according to the government, the
5 conspiracy is still in effect. This is the first time I've
6 heard in this trial that the conspiracy ended the first week of
7 November.

8 THE COURT: I don't think you heard that. I certainly
9 didn't.

10 MS. SASSOON: And—

11 MR. COHEN: Can I finish, please.

12 MS. SASSOON: I'm sorry.

13 MR. COHEN: And the fact that the defendant is
14 testifying to his own state of mind, that he believed he had
15 not done anything wrong during that period before the filing,
16 that he didn't think Mr. Singh had done anything wrong before
17 the filing, is certainly relevant to the issues in this case,
18 and certainly goes to his state of mind.

19 MS. SASSOON: Your Honor, there's no general exception
20 that any statement during a conspiracy is admissible under
21 803(3). Only the government is permitted to put in
22 co-conspirator statements. What the defense has to show is
23 that the statement itself pertains to future intent or plan.
24 The bankruptcy happened later, but at this point employees are
25 demanding answers, the defendant is in hot water, he's lying on

NAU1BAN2

Bankman-Fried - Direct

2556

1 Twitter, he's trying to cover—

2 MR. COHEN: That's their interpretation.

3 THE COURT: Stop interrupting, please.

4 MR. COHEN: I'm sorry. I'm sorry. I'm sorry.

5 MS. SASSOON: And if he wants to get on that stand and
6 say, "I didn't think I was doing anything wrong," that's one
7 thing, but to offer a self-serving hearsay statement that he
8 gave to his employee, who he wanted to enlist in not exposing
9 his crimes, does not meet Rule 803(3).

10 MR. COHEN: We just heard the government's summation
11 on that point. They're entitled to give it, your Honor, but
12 the defendant is entitled to say, at the time, not after the
13 fact, he didn't think—he did not think he did anything wrong,
14 and that's what he said to Mr. Singh. And Mr. Singh objected
15 to that. It goes to the weight of this, and not admissibility.

16 MS. SASSOON: Are you trying to offer this under
17 803(3) or another rule?

18 MR. COHEN: His statement comes in as 803(3), the
19 defendant's state of mind. How could it not?

20 MS. SASSOON: It requires that it be a statement of
21 the declarant's then-existing state of mind, such as motive,
22 intent, or plan, or emotional, sensory, or physical condition,
23 but not including a statement of memory or belief to prove the
24 fact remembered or believed. And—

25 THE COURT: Sustained.

NAU1BAN2

Bankman-Fried - Direct

2557

1 (In open court)

2 THE COURT: Objection sustained.

3 BY MR. COHEN:

4 Q. Okay. Mr. Bankman-Fried, you mentioned that during this
5 week, starting around November 8th, you started to contact
6 investors.

7 A. Yup.

8 Q. Did you have any contact with Binance?

9 A. Yes.

10 Q. What was that contact?

11 A. Beginning with the market crash, late on the 7th and early
12 on the 8th, I reached out to CZ, the CEO of Binance, about
13 potentially acquiring FTX.

14 Q. Did anything happen with respect to that potential
15 acquisition?

16 A. Yeah. Later that day they signed a letter of intent to
17 acquire FTX.

18 Q. And what happened with respect to that letter of intent?

19 A. About a day later they backed out of it.

20 Q. Okay. Did you speak with other investors that week?

21 A. I did, yes.

22 Q. Okay. Let me call your attention to the end of that week.
23 Did there come a time when you had a conversation with Can Sun?

24 A. Yes, I did.

25 Q. And just to remind everyone, who was he?

NAU1BAN2

Bankman-Fried - Direct

2566

1 Bahamas?

2 A. Yeah.

3 Q. Okay. And where was the meeting?

4 A. We had multiple meetings. They were at the headquarters of
5 the Securities Commission.

6 Q. Who was there?

7 A. Christina Rolle, the head of the Securities Commission of
8 the Bahamas; her staff; the joint provisional liquidators;
9 myself; Krystal Rolle, my Bahamian attorney; and my father; and
10 then for the first meeting there were others in the
11 headquarters but not in the meeting itself.

12 Q. Okay. And after the meeting what happened next?

13 A. Just to clarify, because there were multiple meetings, are
14 you—you're referring to the November 12th meeting?

15 Q. November 12th, yes. I'll get to the others.

16 A. Yeah. So in that meeting in particular, Gary Wang was at
17 the headquarters as well, although not in the interview itself.

18 THE COURT: Sorry. Mr. Bankman-Fried, the question
19 was: What happened next?

20 THE WITNESS: Yes. Understood.

21 A. So after that, most of the people who had been at the SCB
22 headquarters drove down to the FTX office.

23 Q. And what, if anything, happened at the FTX office?

24 A. At the FTX office, Gary and I were directed to help
25 transfer the remaining assets under FTX's custody to a custody

NAUMBAN3

Bankman-Fried - Cross

2601

1 platform?

2 A. I am not sure exactly what you are referring to. I made a
3 lot of public statements.

4 Q. Yes or no, do you recall making public statements that FTX
5 was a safe platform?

6 A. I can't think of a specific one off the top of my head.

7 Q. Generally, do you recall in substance making statements
8 that FTX was a safe platform?

9 MR. COHEN: Objection.

10 THE COURT: Overruled.

11 A. Some things that were sort of like that, yes. I am not
12 sure exactly what you are referring to. But I am not saying --

13 THE COURT: Mr. Bankman-Fried, the issue is not what
14 she is referring to.

15 Please answer the question.

16 Q. Putting aside what I'm referring to, I'm asking whether you
17 recall making statements as CEO of FTX that in substance stated
18 that the FTX platform was safe.

19 A. I remember things around specific parts of the FTX platform
20 that were related to that. I don't remember a general
21 statement to that effect. I am not sure there wasn't one.

22 Q. In media interviews isn't it true that you insisted on that
23 FTX had protections for retail customers?

24 A. Yup.

25 Q. You told your customers that users' funds and safety come

NAU1BAN4

Bankman-Fried - Cross

2663

1 Q. I'm asking you whether you had authorization to search the
2 database.

3 A. I have no idea whether someone had created an account in my
4 name that in theory was designed for me. If so, I never used
5 it.

6 Q. And so it's your testimony that until October 2022, you
7 never looked in the database.

8 A. That's correct. And even as of then, I never looked in the
9 AWS database.

10 Q. After FTX declared bankruptcy, isn't it true that one of
11 the first things you did was try to restore your administrative
12 access to the AWS database?

13 A. That's not how I would put it.

14 Q. Isn't it true that in the weeks following the bankruptcy,
15 you asked to have your access to the AWS database restored?

16 A. Not—I was not specifically looking for my personal access
17 to the AWS database.

18 Q. Isn't it true you were requesting AWS access?

19 A. I was requesting it on behalf of the joint provisional
20 liquidators in the Bahamas.

21 Q. So yes or no: You made requests to restore access to the
22 AWS database?

23 A. I'm not sure exactly what you're referring to here.

24 THE COURT: Look, could you just answer the question
25 instead of trying to ask the questioner what she's referring

NAU1BAN4

Bankman-Fried - Cross

2664

1 to?

2 THE WITNESS: Okay.

3 A. No.

4 Q. Isn't it true that you made to-do lists after FTX's
5 collapse that included things like "try to get AWS access"?

6 A. Probably.

7 Q. And so isn't it true that you were trying to get AWS access
8 after FTX declared bankruptcy?

9 A. Yes.

10 Q. Now putting aside the AWS database, you did know that
11 Alameda had a line of credit with FTX while you were CEO,
12 correct?

13 A. Yes.

14 Q. And it's true, isn't it, that most customers of FTX did not
15 have a line of credit, right?

16 A. That's correct.

17 Q. Most customers had to post actual assets with FTX in order
18 to borrow money, right?

19 A. Yes, that's correct.

20 Q. But you permitted Alameda to borrow without requiring that
21 it post collateral to the exchange, right?

22 A. To my knowledge, a number of market makers had lines of
23 credit.

24 Q. That wasn't my question, Mr. Bankman-Fried. My question
25 was: You permitted Alameda to borrow from FTX without

NAU1BAN6

Bankman-Fried - Cross

2710

1 THE COURT: So did you become director by mistake or
2 accident or something else?

3 THE WITNESS: No. I'm not saying I didn't approve
4 this transfer. I absolutely did approve this transfer.

5 MS. SASSOON: If we could show the witness what's been
6 marked as Government Exhibit 933.

7 And Mr. Bianco, if you can scroll. And my colleagues
8 can correct me if this is already in evidence.

9 My colleagues have indicated this is in evidence, so
10 we can go ahead and publish it.

11 BY MS. SASSOON:

12 Q. This is an affidavit that you filed in court, right?

13 A. I'm not sure.

14 Q. You don't recognize it?

15 A. I recognize the topic. I haven't read through the—I don't
16 know. Sorry. I didn't read through this one.

17 Q. Do you see on this page we're looking at here, it says
18 Affirmation of Samuel Bankman-Fried?

19 A. Yup. Yup. I see that.

20 Q. And this was submitted to a judicial court, correct?

21 A. Yes.

22 Q. And is it your testimony that you submitted an affirmation
23 to a court without reading it?

24 A. Sorry. I was saying I had not just now read it. I hadn't
25 gotten to the point of seeing what this was yet.

NAU1BAN6

Bankman-Fried - Cross

2726

1 Q. So when you say you didn't know at the time that the odds
2 were significant, you understood that that was a risk, correct?

3 A. There's always a risk with margin trading that there would
4 be clawbacks.

5 Q. That's not my question, Mr. Bankman-Fried. My question is
6 whether, in June of 2022, you knew that there was a risk that
7 Alameda specifically might not be able to repay its debts to
8 FTX.

9 A. I don't remember thinking of it that way. If you'd asked
10 me, I wouldn't have said that zero was the right number then or
11 ever for margin trading. I didn't think of there as being a
12 significant risk at that point in time. But it was not—I
13 would not have said that there was absolutely no risk.

14 Q. Mr. Bankman-Fried, I didn't ask you about margin trading.
15 I'm asking about Alameda's debt to FTX and whether you
16 understood, in June of 2022, that there was a risk that Alameda
17 could not repay that debt.

18 A. Okay. I did not think of that at the time as being a
19 significant risk, but I would not have said that there was no
20 risk at all.

21 Q. Just to be clear, Mr. Bankman-Fried, taking money from FTX
22 to pay back lenders, that's not margin trading, is it?

23 A. I'm not—I don't think that's what happened, and I'm also
24 not saying that's not margin trading.

25 THE COURT: Would you please answer the question.

NAU1BAN6

Bankman-Fried - Cross

2732

1 A. Or something like that, yeah.

2 Q. And that's the second tab of this spreadsheet.

3 A. That's right.

4 Q. Now by the time you testified, you knew that the government
5 had obtained Google metadata showing that you had viewed this
6 spreadsheet on June 19, 2022; isn't that right?

7 MR. COHEN: Objection.

8 THE COURT: Ground?

9 MR. COHEN: Lacks foundation.

10 THE COURT: Overruled.

11 A. I'm not sure how to interpret the metadata.

12 Q. Yes or no, Mr. Bankman-Fried.

13 THE COURT: You were not asked how to interpret the
14 metadata.

15 THE WITNESS: I'm sorry. Can you repeat the question.
16 I'm sorry.

17 Q. At the time you testified at this trial, you knew that the
18 government had obtained Google metadata showing that you viewed
19 this spreadsheet, this eight-alternative spreadsheet on
20 June 19, 2022, correct?

21 MR. COHEN: Objection.

22 THE COURT: What's the objection?

23 MR. COHEN: Same objection, your Honor.

24 THE COURT: Same ruling.

25 A. I know that—I know that the—there was metadata that

NAV1BAN1

Bankman-Fried - Cross

1 less involved in Alameda.

2 MS. SASSOON: Mr. Bianco, will you show the witness
3 what's been marked as Government Exhibit 2577.

4 Q. Do you recognize the names on this list as members of the
5 Alameda settlements team?

6 A. I recognize many of them.

7 MS. SASSOON: The government offers Government
8 Exhibit 2577.

9 MR. COHEN: No objection.

10 THE COURT: Received.

11 (Government's Exhibit 2577 received in evidence)

12 MS. SASSOON: Mr. Bianco, can you publish that.

13 BY MS. SASSOON:

14 Q. Let's take Lena Ngoy as an example. Do you recall that she
15 was a member of the Alameda settlements team?

16 A. Yup.

17 Q. She was not a trader, right?

18 A. She was involved in OTC trades.

19 THE COURT: Mr. Bankman-Fried, the question was
20 whether she was a trader.

21 A. Her title was not trader.

22 Q. And was she making trading decisions for Alameda?

23 A. I'm not sure.

24 Q. Are you aware of any trading decisions that Lena Ngoy made
25 for Alameda?

NAV1BAN1

Bankman-Fried - Cross

1 got fixed, and Adam was ultimately one of the people chiefly
2 working on it.

3 Q. You were in the courtroom for Adam Yedidia's testimony at
4 the start of this trial, correct?

5 A. I was.

6 Q. Do you recall his testimony that when he fixed the bug, he
7 told you that Alameda still owed \$8 billion to FTX customers
8 for their dollar deposits?

9 A. I recall something to that effect.

10 Q. And is it your testimony that when Adam Yedidia said that
11 under oath under a grant of immunity in this courtroom, that he
12 had it wrong?

13 A. I don't think I quite said that. I don't remember him
14 saying it in that way.

15 Q. So are you saying that Adam Yedidia had it wrong when he
16 described telling you that Alameda still owed \$8 billion to FTX
17 customers?

18 MR. COHEN: Objection.

19 THE COURT: Sustained.

20 Look, Mr. Bankman-Fried, did he tell you, in words or
21 in substance, after the bug was fixed, that Alameda still owed
22 \$8 billion to FTX customers for their dollar accounts?

23 THE WITNESS: I don't recall him telling that to me on
24 or around that day in words or in substance.

25 THE COURT: I didn't ask you about that day.

NAV1BAN1 Bankman-Fried - Redirect

1 queries in the AWS database?

2 A. No.

3 Q. You were asked a number of questions yesterday and today
4 about whether you had made disclosures to customers of FTX. Do
5 you recall that, sir?

6 A. Yup.

7 Q. Was FTX a public company?

8 A. No.

9 Q. It was a private company?

10 A. Yup.

11 Q. Did you believe you had a obligation to make daily
12 disclosures?

13 MS. SASSOON: Objection.

14 THE COURT: Sustained.

15 Q. What was your view of when you had to make disclosures to
16 customers?

17 MS. SASSOON: Objection.

18 THE COURT: Sustained.

19 Q. Mr. Bankman-Fried, in connection with your duties as CEO of
20 FTX, did you have occasion to review whether to make
21 disclosures to customers?

22 A. In some cases, yes.

23 Q. Okay. And what factors went into that consideration?

24 A. So specifically around customer positions on the exchange,
25 our general policy for disclosures was that if a customer

NAVMBAN3

1 and insert, voluntarily and with wrongful purpose.

2 That picks up your point, Mr. Rehn?

3 MR. ROOS: Yes. Thank you, your Honor.

4 THE COURT: Anything else through 14, line 14?

5 MR. REHN: Similarly, on page 12, at lines 23 and 24,
6 there is a sentence that says: Good faith is an honest belief
7 by the defendant that his conduct was not unlawful. I think
8 that's the inverse of what we just discussed and imports an
9 incorrect willfulness standard into the good-faith instruction.

10 THE COURT: And, therefore.

11 MR. REHN: Therefore, that sentence should be
12 stricken.

13 THE COURT: Mr. Dick.

14 MR. DICK: In our view, the sentence under discussion,
15 which goes from lines 23 to 24, on page 12 should read: Good
16 faith is an honest belief by the defendant that his conduct was
17 not unlawful or improper. The invert proposition Mr. Rehn was
18 referring to, we don't think is applicable, an honest belief
19 that one's conduct was not unlawful.

20 THE COURT: Picking up the language that we just
21 adopted on page 11, would it solve the concerns to say, good
22 faith is an honest belief by the defendant that his conduct was
23 not wrongfully intended?

24 MR. REHN: That would be fine with the government,
25 your Honor.

NAVMBAN3

1 THE COURT: Mr. Dick.

2 MR. DICK: Your Honor, we would ask for the original
3 charge, conduct was not unlawful. We think that's proper.

4 THE COURT: Overruled.

5 Anything else from either side to and including page
6 14, line 14?

7 MR. REHN: Nothing further from the government, your
8 Honor.

9 THE COURT: Mr. Dick.

10 MR. DICK: Your Honor, on the top of page 13, there is
11 what's been called the no-ultimate-harm instruction beginning
12 on line 3. It's the sentence, however. We made a submission
13 that we don't view that as necessary here. To the extent that
14 the evidence shows Mr. Bankman-Fried believed customers would
15 never be harmed, including in the short term, which is what we
16 submit the evidence shows, this instruction is not necessary,
17 and that's in our prior submission.

18 MR. REHN: Your Honor, there has been quite a bit of
19 evidence for them in the defense case about a belief that the
20 companies would be able to repay the customers, so there is a
21 factual predicate for this instruction in the record, and it's
22 an instruction that has been approved repeatedly in exactly
23 these terms by the Second Circuit when a factual predicate
24 exists in the trial record.

25 THE COURT: Overruled, Mr. Dick.

NAV1BAN4

1 THE COURT: All right. Now give me a couple of
2 seconds to look at these authorities.

3 Mr. Dick, *Peltz* and *Cassese*, if it adopted the
4 standard you said at all, did so for insider trading cases
5 alone; isn't that right?

6 MR. DICK: I think I disagree, your Honor, and if one
7 looks at the *Kaiser* decision, it seemed to say that for insider
8 trading cases only, the specific intent I mentioned—intent to
9 violate the securities law—was not required, but for a
10 misrepresentation on investors theory, it was required.

11 THE COURT: Mr. Rehn, what about it?

12 MR. ROOS: I believe he actually has that backwards.
13 I believe in the insider trading context—I don't have the case
14 in front of me, your Honor, but as I recall, the insider
15 trading cases sometimes do have a stronger willfulness
16 instruction than the more general misrepresentation on
17 investors cases, so on my recollection, that's what the *Kaiser*
18 case says. It certainly was the case in *Petit* that the Second
19 Circuit recently affirmed an instruction that the defendant
20 acted deliberately and with a bad purpose and said that there
21 was no further instruction required for willfulness.

22 *Petit*, I believe, was not an insider trading case; it
23 was just a general securities fraud case.

24 THE COURT: The government is right on this, so that
25 it will stand as written.

NAV1BAN6

1 I'm going to charge as I initially proposed, save with respect
2 to moving what is the second very large clause at page 8,
3 lines 2-5, into a separate sentence at the end of that
4 paragraph. That was not controversial. But the charge is I
5 think making clear that the government has to prove a false
6 statement in order to prove misappropriation. And that's how
7 it's going to go to the jury.

8 Now this ought not to be much of a problem for the
9 government because god knows there's more than sufficient
10 evidence of both, to get to the jury, obviously. And it's a
11 matter, in significant measure, of ordering the trial in a way
12 that is consistent with what everybody has said with good
13 intentions and avoiding other unintended consequences that
14 might follow from allowing the government to change its
15 position here, whether or not the position they took was
16 exactly what they thought they were taking. So that's the
17 answer.

18 Now should I have somewhere a letter from the defense
19 on the one point I was going to get a proposal for, as to
20 language?

21 MR. EVERDELL: We didn't file it on the docket, but we
22 can hand up a copy right now.

23 THE COURT: Okay. Hand it up and we'll get this all
24 put to bed.

25 And you've seen this, Mr. Rehn, right?

NB1MBAN1

Summation - Mr. Roos

2911

1 THE COURT: Good morning, everyone. Everyone can be
2 seated. The defendant and the jurors all are present.

3 A word to the jury about schedule. You are going to
4 hear closing argument today. We may finish them entirely today
5 or we may not. That depends on how the day goes. If we don't,
6 they will be finished tomorrow morning. In either case, you
7 will get the case tomorrow morning for decision.

8 If anyone would have a problem, should the need arise,
9 in staying beyond 4:30 tomorrow, please let me know in a note
10 this morning and what the nature of the problem is, because it
11 may become appropriate to ask you to stay late tomorrow if
12 there is no verdict. I am not suggesting there should or
13 shouldn't be. My operating assumption, which I will confirm
14 before I ask you to stay, if I ask you to stay, is that you
15 would get dinner on the government if you stayed. I don't
16 vouch for the quality, but you would be entitled to dinner.
17 And I think we might be able to provide car services if you
18 stay to a certain hour. But I'm holding myself available for
19 Thursday night if that would be helpful.

20 As for Friday, I'll keep you posted as the day goes
21 by, and indeed maybe even tomorrow.

22 We are now going to hear the closing argument on
23 behalf of the government.

24 Mr. Roos.

25 MR. ROOS: Thank you, your Honor.

NB1MBAN1

Summation - Mr. Roos

2914

1 And it wasn't just customers. The defendant's public
2 statements, FTX's ads, FTX's policy documents and its terms of
3 service all said the same thing. And advertisements like the
4 ones we saw with Tom Brady or Larry David. FTX said it was the
5 safest and easiest way to buy cryptocurrency. And in its terms
6 of service FTX said that assets are the property of its
7 customers and do not belong to FTX. In its policies FTX said
8 that customer assets, both fiat and cryptocurrency, are
9 segregated, that customer funds do not represent the property
10 of FTX, and that customer assets are held in trust.

11 Employees and investors all testified that they
12 believed the customer deposits belonged to the customers, that
13 they could not be taken or used or borrowed, and you heard
14 about the reaction of employees when they learned that FTX
15 customer deposits were being used. Adam Yedidia quit within a
16 half hour. Can Sun resigned. So did Christian Drappi. The
17 defendant's partners in crime said the same thing. Caroline
18 Ellison, Nishad Singh, Gary Wang, their understanding was that
19 customer funds were not allowed to be used by FTX or Alameda or
20 anyone else. They believed it was wrong and illegal. It
21 didn't matter if it was a customer, an investor, a lender, an
22 employee, or a coconspirator. It was a universal view from the
23 witnesses you heard. Customer funds belong to customers and
24 could not be used.

25 Third, there is no serious dispute that around \$10

NB1MBAN1

Summation - Mr. Roos

2915

1 billion went missing. The evidence you saw, and we will talk
2 about it again, shows that there was a huge difference between
3 what FTX's system said they were supposed to have for customers
4 and what FTX actually had for customers. Billions of dollars
5 missing in cryptocurrency, billions of dollars missing from
6 bank accounts, and there is no serious dispute about that.

7 Fourth, there is no serious dispute about where the
8 missing money went. Professor Easton traced the money. The
9 missing billions went to pay for investments, stock-share
10 buybacks, real estate purchases, donations, trading expenses,
11 and loan repayments. The clear uncontradicted evidence shows
12 that the defendant was responsible for these giant investments,
13 for stock repurchases, for real estate purchases, for political
14 donations.

15 Over the last month you have heard evidence about
16 Bitcoins and Blockchains, auto-liquidation and
17 auto-deleveraging, computer code, and so-called Korean
18 accounts, about a lot of other concepts. Here is the thing.
19 This is not about complicated issues of cryptocurrency. It's
20 not about hedging. It's not about technical jargon. It's
21 about deception, it's about lies, it's about stealing, it's
22 about greed.

23 What is the dispute in this case? One of the disputes
24 is whether the defendant knew. That's what they have said.
25 The evidence that the defendant knew that he was spending FTX

NB1MBAN1

Summation - Mr. Roos

2916

1 customer money, though, I submit, is beyond dispute.

2 The core dispute in this case is whether the defendant
3 knew taking the money was wrong. That's the core question.
4 And the answer is clear. He took the money. He knew it was
5 wrong. He did it anyway. Because he thought he was smarter
6 and better and he that he could figure his way out of it, he
7 could walk his way out of it and talk his way out of it, and
8 today, with you, that ends. You have sat through this trial.
9 You have seen the evidence. And, very simply, when you apply
10 your common sense and look at the evidence, you see the
11 defendant schemed and lied to get money, which he spent, and
12 now it's gone.

13 You see over and over and over again he and his
14 company were telling customers their money would be protected,
15 and they were using it at the same time for whatever the
16 defendant wanted to use it for. And you see over and over
17 again from his own statements, from his own conduct that he
18 knew what he was doing was wrong. There is overwhelming guilt,
19 overwhelming evidence of the defendant's guilt.

20 Before we dive into the evidence, let me say something
21 about the fact that the defendant took the stand in this case.
22 He didn't have to testify in this trial. He has a right not to
23 do that, and he doesn't have a burden to put on any evidence.
24 The burden is on the government, and we embrace that burden.

25 But the defendant did take the stand, and he told a

NB1MBAN1

Summation - Mr. Roos

2929

1 with that, and I did that.

2 As a result of Alameda's ability to go negative and
3 its \$65 billion line of credit, it was able to run up this
4 massive negative balance, billions of dollars. When I'm
5 talking about a negative balance, I'm talking about an account
6 that's in the red. It has got a negative sign in front of it,
7 which means it's in a deficit, it's in a hole, and Alameda was
8 in a multibillion dollar hole.

9 This presented really a massive, totally undisclosed
10 risk to FTX's customers. They were told that their assets
11 would be safe. They were told that if a customer's account
12 would go negative, the way they would be kept safe is by having
13 that customer's account liquidated or shut down.

14 And what they didn't know, what you all know but they
15 didn't know and what the defendant hid from them, is that
16 Alameda had this multibillion dollar negative balance in its
17 account. And Wang testified that that -- it was these special
18 features that allowed and caused Alameda to have such a large
19 hole at FTX, and Singh said the same thing.

20 Now what the defendant does -- actually, let me put it
21 this way. What the testimony from these witnesses tells you
22 about the defendant, about the core issue in dispute, is, it
23 tells you the defendant gave special secret privileges to
24 Alameda, knowing it would be allowed to take, to steal customer
25 money. It shows that he knew it was wrong to take money and

NB1MBAN1

Summation - Mr. Roos

2930

1 the way -- and this is critical -- the way you know that it
2 shows he knew it was wrong to take customer money is, if he
3 thought this was legit to just have a giant line of credit and
4 this allow negative feature and borrow from other customers,
5 why was it so secret? Why not just say, hey, Alameda, by the
6 way, has a \$65 billion line of credit? The reason it is secret
7 is because he knows it's wrong. Now because of these secret
8 features Alameda was not subject to the same rules as other
9 customers. And while there were limits on how other customers
10 could borrow, there were no limits on Alameda's borrowing. Let
11 me talk about one of those limits on other customers.

12 Other customers were not allowed to withdraw funds
13 advanced from a line of credit. Here is a customer contract
14 prohibiting it. That restriction, though, as you heard, did
15 not apply to Alameda's borrowing. So while other customers had
16 to have collateral on the exchange, while other customers could
17 not withdraw their lines of credit, it says it right in this
18 contract, Government Exhibit 69, that rule did not apply to
19 Alameda.

20 As a result of these special features, Alameda ran up
21 a huge negative balance on FTX. This is Government Exhibit
22 1002. This is Alameda's borrowing through its accounts that
23 were allowed to go negative. So this exhibit shows what
24 happened in the major cryptocurrencies in those accounts that
25 had that special allow-negative box checked. The box that we

NB11BAN2

Summation - Mr. Roos

2938

1 find the defendant guilty of fraud. He had customers send
2 their bank deposits, their money, fiat deposits, directly into
3 Alameda's bank accounts, and then he spent it. Here's how
4 Ellison described it.

5 "We received FTX customer funds directly into our bank
6 accounts as part of the FTX fiat deposit system."

7 Ellison explained to you that long before she was
8 Alameda's CEO, the defendant set up a system to receive FTX
9 customer deposits into bank accounts that belonged to Alameda,
10 and a lot of those deposits came through this entity that we've
11 heard some about called North Dimension. The defendant was
12 involved in opening that account. He signed the application.
13 That is his name right there, as the principal officer. This
14 is Government Exhibit 1348. So he knew.

15 Once FTX customers' deposits landed in Alameda's bank
16 accounts, they were used as a source of free cash. This is
17 Government Exhibit 1050. In some ways, the picture here just
18 tells you everything, right? Professor Easton traced the
19 money. Rather than holding the customers' money in custody, it
20 was moved all around, commingled, mixed, spent, transferred
21 from one account that received customer money for customers to
22 operating accounts, to FTX accounts, to out the door to all
23 sorts of expenditures, to the defendant's own company called
24 Paper Bird. And that's because, as Ellison told you, the
25 defendant said they could use the money to fund Alameda.

NB11BAN2

Summation - Mr. Roos

2945

1 that there was a huge, significant hole, right?

2 Go back an exhibit.

3 If the defendant is regularly reconciling
4 balances—that's the black line—against, as he said, what
5 money they had—the yellow line—he knows that there was a huge
6 gap. He knows that. And when he's saying everything is fine,
7 after saying, *we regularly reconcile*, he's lying. And that
8 tells you that he knows what he's doing is wrong.

9 Now yesterday morning on redirect, the defendant came
10 out and he said that he thought it was okay for Alameda to use
11 customer fiat deposits, and that's a claim that not a single
12 witness besides the defendant has made in this case, right?
13 Universally, they've said this was a bright red line. You
14 cannot touch that money. No one thought it was okay. And the
15 truth was that the defendant, he knew that Alameda was not
16 allowed to use that money, and again, the way you know it is
17 because he said something totally different to Congress.
18 Twice, the defendant told Congress that when an intermediary
19 like Alameda receives customer assets, they must ensure there
20 was "no delay in returning customer funds upon request, and no
21 shortfall where an amount lesser than the value of that
22 customer's assets can be returned." And he told Congress that
23 to ensure that happens, it's important that there be "a
24 restriction on the custodian"—so that's Alameda—"a
25 restriction on the custodian, including, for example, a

NB11BAN2

Summation - Mr. Roos

2946

1 restriction on the use of customer assets to finance other
2 business expenses and initiatives." Think about that last part
3 of his testimony here. He's saying the third party, the
4 intermediary that receives the money, there must be a
5 restriction on it on using customer assets to finance other
6 business expenses and initiatives. And if you're thinking,
7 well, that sounds familiar, that's because the defendant did
8 exactly the opposite. He used customer assets to finance other
9 business expenses and initiatives. But privately, in secret,
10 you know he knew exactly what was going on and he knew it was
11 wrong.

12 We've talked a lot about all the special advantages
13 and secret privileges that Alameda had. The defendant knew how
14 wrong and unfair these privileges were to every other customer
15 on the exchange, how these privileges flew in the face of
16 everything he said about trust and safety on the exchange. So
17 he lied about it, to cover it up.

18 And what was the defendant saying about the
19 relationship between FTX and Alameda? Throughout his time at
20 FTX, the defendant was saying things publicly like, Alameda is
21 treated just like everyone else. He tweeted that. "Alameda is
22 a liquidity provider on FTX but their account is just like
23 everyone else's." He was quoted in articles as saying that
24 Alameda is a wholly separate entity. And he told CNBC that he
25 "worked to eliminate conflicts of interest," and that he

NB11BAN2

Summation - Mr. Roos

2947

1 doesn't run Alameda anymore, and that Alameda is a "neutral
2 piece of market infrastructure." Those were lies. Privately,
3 the defendant knew that Alameda had all sorts of special
4 privileges and features on FTX. It wasn't wholly separate, it
5 wasn't just a piece of neutral market infrastructure, its
6 account was not like everyone else's. Unlike any other
7 customer, Alameda had the \$65 billion line of credit. It was
8 able to do unlimited amounts of withdrawals, make unlimited
9 amounts of borrowing, have its account go negative, not post
10 any collateral, not be liquidated, not be shut down. Its
11 borrowing wasn't just through the spot margin program. Much of
12 it wasn't even on FTX. If customers knew that the defendant
13 had directed these special privileges for its own affiliated
14 company, they would have run for the exits. It would have been
15 clear as day that their money wasn't safe, that the defendant
16 was treating their deposits as his personal piggy bank by
17 funneling that money to Alameda. And so the reason he made
18 these public statements is to conceal what he was doing,
19 because he knew what he was doing was wrong.

20 You know these were deliberate lies. He told
21 customers that backstopping customer assets was primary within
22 weeks of using customer money to repay his debts. He told
23 reporters that Alameda was totally separate in September, when
24 he was internally freaking out about the close relationship
25 between FTX and Alameda. And at the same time, in September