Short Assignment 7
Due: Nov 8
To be done by all students, regardless of major

Cryptocurrency exchanges often act as both brokers for purchasing cryptocurrencies and as virtual banks, 'storing' cryptocurrencies for people. It is not at all unusual for these exchanges to suffer significant losses, either through hacking or theft by the people who have control over the exchanges. For this assignment you are to find two (2) examples (news reports are fine) of significant (> $10 million) losses from cryptocurrency exchanges that occurred the past 3 years. You are to summarize the information in the report, including what kind of cryptocurrency(s) were being held by the exchange, how much was stolen, who was suspected of carrying out the theft (if known) and what legal consequences the thieves faced (if any). **You must provide clickable links to the reports you base your work on.** I expect this assignment to be 1-2 pages long in total.

Assignment Follows on Next Page

Poly Network

One of the largest hacks that has been performed on a cryptocurrency exchange was done to Poly Network in August 2021. The hack primarily stole three different cryptocurrencies, Ethereum, Binance Smart Chain, and Polygon. The amounts stolen totalled just over 600 million dollars, making it the second largest crypto hack in history, just short of the attack on the Ronin Network which was over 625 million dollars.

The hacker of this attack was never identified, but became known as "Mr. White Hat". A day after the initial attack the hacker communicated that they planned on returning the money and that the hack was done "for fun", and to "expose a serious security flaw". As a result of the communication from the hacker that the funds were going to be returned, Poly Network offered the hacker compensation for finding the security issue. Their offer included 500,000 dollars, and the opportunity to be the company's Chief Security Advisor. After this offer was made, the hacker cut all communications upon the return of all stolen funds. Still today this hacker has not been identified but still could be as they reportedly left a series of breadcrumbs in their attack to be able to potentially locate them. Additionally, Poly Network has come up with a bug bounty system, which allows individuals to be rewarded for finding significant security vulnerabilities in the system.

FTX

Another major cryptocurrency theft occurred on the FTX exchange in November of 2022. In the attack, several different cryptocurrencies were stolen, however the largest 4 include Pax Gold, Tether, Bitcoin, and Ethereum. The total amount of stolen assets amounted to over 470 million dollars.

It is still unknown who the original attacker was but several theories have been speculated. The first of which is that it was someone within the internals of FTX, as employees had access to assets for the purposes of moving them within the company for different reasons. More notably it's also been speculated that FTX's founder Sam Bankman-Fried was behind the hack, as the hack occurred shortly after he stepped down as CEO. It was discovered however that at the time of the transfer Bankman was in court and wouldn't have had access to the internet. Lastly, it's also speculated that North Korea or Russia was behind the attack as after the cryptocurrencies were stolen they were transferred to platforms with links back to the two countries and criminal organizations there.

As a result of the attack FTX founder Bankman-Fried was arrested and tried in a US court for fraud and several other charges. The jury convicted him of all counts in November of 2023 and in March of 2024 he was sentenced to 25 years in prison. FTX is now being restructured and made the commitment to repay clients and creditors as a result of the losses in the hack.

Sources

https://www.investopedia.com/news/largest-cryptocurrency-hacks-so-far-year/

https://www.cnbc.com/2021/08/13/poly-network-hack-nearly-all-of-600-million-in-crypto-return

https://www.elliptic.co/blog/the-477-million-ftx-hack-following-the-blockchain-trailed.html

https://www.investopedia.com/what-went-wrong-with-ftx-6828447