

Two Executives in Sam Bankman-Fried's Crypto Empire Plead Guilty to Fraud

Caroline Ellison, the former chief executive of Alameda Research, and Gary Wang, a founder of FTX, are cooperating in the federal criminal case against Mr. Bankman-Fried.



By David Yaffe-Bellany, Matthew Goldstein and Benjamin Weiser

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Two former top executives of Sam Bankman-Fried's crypto trading empire have pleaded guilty to federal criminal fraud charges and are cooperating in the prosecution of the disgraced crypto entrepreneur, the U.S. attorney for the Southern District of New York said on Wednesday night.

The two are Caroline Ellison, 28, who was the chief executive of the cryptocurrency hedge fund Alameda Research, and Gary Wang, 29, a founder of FTX, the crypto exchange. They were key lieutenants in Mr. Bankman-Fried's vast business empire, an international web of investments and enterprises that began with the founding of Alameda and FTX.

Two federal regulatory agencies, the Securities and Exchange Commission and the Commodity Futures Trading Commission, also filed civil fraud charges against Ms. Ellison and Mr. Wang on Wednesday, building on fraud complaints they brought against Mr. Bankman-Fried last week.

The guilty pleas and cooperation agreements are a major advance in the federal prosecution of Mr. Bankman-Fried, who is in U.S. custody after agreeing to be extradited from the Bahamas to face trial in the Southern District of New York.

The combination of criminal and civil charges against the former top executives puts Mr. Bankman-Fried, 30, in an even more perilous legal position. The federal government has accused him of orchestrating a sweeping, yearslong fraud that culminated in the bankruptcy of FTX last month after the crypto equivalent of a bank run. Now two of his closest advisers are cooperating with the government as it pursues that case.

Mr. Wang and Ms. Ellison were not just close colleagues of Mr. Bankman-Fried. The three lived together in a luxurious penthouse in the Bahamas, where FTX was based, and Mr. Bankman-Fried and Ms. Ellison were at times romantically involved.

In the charges against Mr. Bankman-Fried, prosecutors and regulators have accused him of diverting billions in customer money for other uses, including buying real estate in the Bahamas, trading cryptocurrencies at Alameda, making campaign donations and investing in other crypto companies. Prosecutors contend he defrauded customers of, investors in and lenders to his crypto trading firm.

The charges revealed on Wednesday show that prosecutors and regulators believe Mr. Bankman-Fried was far from alone in running his scheme and worked with a close circle of colleagues, who followed his directions and played a key role in executing the fraud. The S.E.C. said that Ms. Ellison had misused FTX customer deposits to fund Alameda's trading activity and that Mr. Wang had created software that allowed that diversion of funds to take place.

"Ellison and Wang were active participants in the scheme to deceive FTX's investors and engaged in conduct that was critical to its success," the S.E.C. said in a statement.

The collapse of FTX and the prosecution of Mr. Bankman-Fried have been a major blow to the crypto industry, which has reeled for months as the prices of digital assets such as Bitcoin and Ether have plunged and a procession of major companies have filed for bankruptcy. The sudden implosion of FTX has unsettled customers of other crypto trading platforms, which are scrambling to assure investors that their money is safe.

The guilty pleas by Ms. Ellison and Mr. Wang could push other former high-ranking executives to cooperate with the authorities in the case against Mr. Bankman-Fried, who faces charges including fraud, money laundering and campaign finance offenses.

In a videotaped statement on Wednesday night, Damian Williams, the U.S. attorney, said Mr. Wang and Ms. Ellison were charged "in connection with their roles in the frauds that contributed to FTX's collapse."

Mr. Williams also reiterated a point he made last week when his office filed the criminal charges against Mr. Bankman-Fried. "If you participated in misconduct at FTX or Alameda, now is the time to get ahead of it," he said. "We are moving quickly, and our patience is not eternal."

Mr. Williams added that Mr. Bankman-Fried was in F.B.I. custody and being brought back to the United States from the Bahamas, and would be presented before a judge as soon as possible. The crypto entrepreneur is expected to appear in Federal District Court as early as Thursday.

Lawyers for Ms. Ellison declined to comment. Ilan Graff, a lawyer for Mr. Wang, said, "Gary has accepted responsibility for his actions and takes seriously his obligations as a

cooperating witness.”

During a two-week media blitz before his arrest on Dec. 12, Mr. Bankman-Fried claimed he had done nothing wrong and never intended to defraud anyone. He also claimed he wasn’t fully aware of what was happening at Alameda.

A spokesman for Mr. Bankman-Fried declined to comment.

While the guilty pleas by Ms. Ellison and Mr. Wang still appear to be sealed under court orders, their plea agreements were released by prosecutors on Wednesday night. Ms. Ellison pleaded guilty to seven counts: two counts of wire fraud and five conspiracy counts involving wire, securities and commodities fraud and money laundering. Mr. Wang pleaded guilty to wire fraud and three conspiracy counts, which involved wire, securities and commodities fraud.

In the agreements, which were signed on Monday, Ms. Ellison and Mr. Wang pledged to “cooperate fully” with the U.S. attorney’s office, the F.B.I. and other law enforcement agencies, and to “truthfully and completely disclose all information concerning all matters” they are asked about.

In its complaint, the S.E.C. said Ms. Ellison, under direction from Mr. Bankman-Fried, had manipulated the price of a digital currency that FTX created, called FTT, by buying large quantities to prop up its price. Alameda was one of the major firms that was trading FTT and had used the crypto token as collateral for loans it got from other big crypto firms to fund its trading.

Authorities have said that investors, lenders and customers were not aware of how closely connected FTX and Alameda were and that they operated essentially as one entity.

The Commodity Futures Trading Commission charged that Ms. Ellison had helped Mr. Bankman-Fried by making deceptive and misleading statements about the supposed separation between Alameda and FTX.

Mr. Wang helped further those close ties by creating systems that gave Alameda an unfair advantage over other customers in executing trades on the FTX platform, according to the commission.

Ms. Ellison met Mr. Bankman-Fried at the quantitative trading firm Jane Street, where she worked after graduating from Stanford University. Both were involved in effective altruism — a community focused on using data to maximize the long-term impact of charitable donations.

Mr. Bankman-Fried left Jane Street and eventually founded Alameda in 2017. Ms. Ellison joined him in 2018 and soon became a member of his inner circle. She followed him to Hong Kong, and took over as the chief executive of Alameda after Mr. Bankman-Fried founded FTX with Mr. Wang in 2019.

Mr. Wang was also part of the effective altruism community. Before he started working with Mr. Bankman-Fried, he was a software engineer at Google, where he developed price aggregation systems for Google Flights. Since FTX's founding, he has kept a low public profile, allowing Mr. Bankman-Fried to become the face of the exchange.

But behind the scenes, Mr. Wang played a key role in FTX, as one of the executives responsible for writing the platform's software code, according to the S.E.C.

As FTX collapsed, Ms. Ellison gathered a group of Alameda staff members who were working from the company's office in Hong Kong, and confessed that the firm had used customers' deposits to fill a shortfall in its accounts, The New York Times previously reported. She told them that she, Mr. Bankman-Fried, Mr. Wang and another executive, Nishad Singh, had all been aware of the scheme.

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