The Crypto Comeback

0:00

[Music]

0:00

from The New York Times I'm Sabrina

0:02

Tavern and this is the

0:05

[Music]

0:09

daily FDX founder Sam bankman freed was

0:12

sentenced to 25 years in federal prison

0:15

when the influential cryptocurrency

0:17

exchange FTX collapsed in

0:21

2022 it lost billions of dollars in

0:24

customers money The Man Behind one of

0:26

the biggest Financial frauds in American

0:28

history lost $10 billion of customer

0:30

deposits all while living a relatively

0:32

lavish lifestyle in the Caribbean

0:34

cryptocurrencies have spent the better

0:35

part of this year in a tail spin fueled

0:38

by Financial losses of public but in a

0:40

surprising twist earlier this month

0:43

those customers were told they would get

0:45

their money back today my colleague

0:49

David yaffi bellany on what was behind

0:52

this change in fortune and on what it

0:55

says about the improbable Resurgence of

0:58

crypto it's Tuesday May

1:05

21st David welcome back to the show

1:08

thanks so much for having me so the last

1:11

time we spoke Sam bankman freed the

1:14

disgraced founder of the company FTX and

1:16

in many ways you know the face of the

1:18

crypto industry was about to go on trial

1:21

for stealing money from his customers

1:23

and it really looked like that money was

1:26

never going to come back billions of

1:28

dollars disappeared but then something

1:30

surprising happened tell us about it

1:34

you're right when FTX collapsed

1:35

customers were in total despair you know

1:38

they were convinced they were never

1:39

going to see this money again and Sam

1:41

bankman freed was convicted of fraud

1:44

stealing this money and sentenced to 25

1:46

years in prison but after the company

1:49

collapsed a team of bankruptcy

1:51

professionals came in these are people

1:53

whose specialty is going into collapse

1:56

companies figuring out what went wrong

1:58

and trying to put pieces back together

1:59

together and over time they started

2:02

cobbling together a pool of assets

2:05

Investments that Sam had made in other

2:07

companies cryptocurrencies that he had

2:09

stashed over the years and as they did

2:12

this they built up a large supply of

2:14

assets and what they announced just a

2:17

few days ago is that not only are they

2:19

going to be able to repay customers but

2:21

they'll be able to repay them in full

2:23

with interest incredible and this is

2:26

really a shocking conclusion to this

2:27

whole Saga and it's line with a few

2:31

really surprising things that have

2:32

happened in the crypto industry over the

2:35

last year or so since it reached its low

2:37

point back in November 2022 with ftxs

2:40

collapse okay so let's dig into that

2:43

explain to us how this failed company

2:46

ended up being able to return billions

2:49

of dollars how did it do that so the

2:51

first thing that's important to

2:52

understand is where the money went it

2:54

wasn't simply vaporized sure you know

2:57

some of it was spent on expensive

2:59

material possessions but not all of it

3:02

Sam put a lot of this money into

3:05

investments in other startups

3:07

investments in

3:09

cryptocurrencies and this was stealing

3:11

this was money he wasn't supposed to use

3:13

it was supposed to be set aside for

3:15

customers right but some of those

3:17

Investments actually turned out to be

3:18

really good so give me an example what

3:21

turned out well one of Sam bankman

3:23

Freed's pet issues was artificial

3:25

intelligence he was obsessed with AI he

3:28

was convinced that it was a Potential

3:30

Threat to civilization and his version

3:33

of a solution to that problem was to

3:34

invest in AI companies that were

3:36

committed to developing the technology

3:39

responsibly and so one of the companies

3:41

that he invested in was called anthropic

3:44

and he put in about $500 million in

3:47

2021 now over the last three years the

3:50

AI industry has exploded and companies

3:53

like anthropic have become much much

3:55

more valuable and so just in the last

3:57

few months those bankruptcy experts who

3:59

are now running FTX sold off a portion

4:03

of that stake for close to a billion

4:05

dollars so that's a tidy profit on the

4:08

investment that FTX initially made okay

4:11

so part of the explanation is AI and

4:13

kind of riding the AI wave what about

4:16

all of the money FTX had in

4:19

cryptocurrencies I mean it was an

4:21

exchange for cryptocurrencies after all

4:23

yeah I mean in theory FTX was supposed

4:25

to be sitting on a huge number of

4:27

cryptocurrencies because that's what

4:28

people were storing on the platform and

4:30

it turned out that a lot of those assets

4:32

had disappeared or they've been

4:33

converted into other cryptocurrencies

4:35

and so it wasn't as simple as the

4:36

Bitcoin that you'd stored on the

4:38

platform was still there but one

4:40

cryptocurrency that bankman freed

4:42

maintained a large supply of was called

4:45

salana you know back when FTX collapsed

4:47

salana was trading at something like

4:49

under $20 per token really at a low but

4:53

since the collapse salana has surged

4:55

again and in March it hit about $200 wow

4:59

and the estate sold a large quantity of

5:02

it and generated billions of dollars to

5:05

return to creditors from that sale and

5:07

the rise in salana is really part of a

5:09

larger story in the crypto Market a

5:12

Resurgence that's happened over the last

5:14

year that's really shocked people and

5:16

has sent these volatile assets back to

5:18

some of their all-time highs okay so

5:20

essentially it's the crypto Market

5:22

that's going to give FTX customers their

5:24

money back at least in part there's been

5:26

this upswing in the pendulum in recent

5:28

months and that is what accounts for

5:30

this reversal of Fortune but explain to

5:33

me how that's possible how that's

5:36

happened with crypto I mean the last

5:37

time we talked crypto was really down

5:40

for the count so it's a combination of

5:42

factors one is a kind of perception

5:46

within the crypto industry that the Bad

5:48

actors have been washed out Sam bakman

5:51

freed is in jail he's serving his

5:53

sentence changen Pang Xiao who's the

5:55

chief executive of another troubled

5:57

crypto company binance also just got

6:00

sentenced to prison time and so there's

6:02

this feeling you know right or wrong in

6:04

the crypto industry that a new chapter

6:06

is beginning and that the bad guys are

6:09

out of the picture but the real driver

6:11

of this kind of market-wide surge is

6:13

Bitcoin the original most important most

6:16

valuable

6:18

cryptocurrency and the cause of the

6:20

surge is a recent court case the outcome

6:23

of this case has essentially brought

6:24

Bitcoin Into the Heart of the US economy

6:27

and mainstreamed it in a way that it's

6:29

never been

6:32

before so tell me about this case so the

6:36

case involves a crypto company called

6:38

grayscale and what grayscale wanted to

6:40

do was offer a Bitcoin ETF that's an

6:44

exchange traded fund which is

6:46

essentially a basket of assets that

6:49

somebody can invest in instead of

6:51

investing in the assets themselves

6:54

directly you're investing in the basket

6:57

that contains the asset so it's a little

6:59

bit

7:00

indirect and in the case of Bitcoin it

7:02

would mean you could just go onto your

7:05

brokerage account and buy a share in a

7:08

basket of Bitcoin you don't have to

7:10

worry about downloading an online wallet

7:14

and figuring out the complications of

7:17

cryptocurrencies this was a way to open

7:19

up the possibility of Bitcoin investment

7:22

to more people but the federal

7:24

government was very resistant to this

7:26

you know ETFs are a pillar of the

7:28

mainstream Financial system MH they a

7:31

vehicle where people store their

7:33

retirement savings and other crucial

7:35

Investments and the federal government

7:37

basically said this is too risky we

7:40

don't want people's money to be locked

7:43

up in this market that is super volatile

7:46

and that just over the last couple of

7:48

years has plunged

7:51

significantly right I mean it just had

7:54

this massive crash recently right so you

7:56

wouldn't really think that like putting

7:58

these things directly into American

8:00

retirement accounts would be a good idea

8:03

so makes sense to me that the government

8:04

objects so what happens well there's a

8:07

huge buildup to the resolution of this

8:10

case Financial giant Fidelity now

8:13

entering a new crypto race on Wall

8:15

Street over these Bitcoin ETFs while

8:18

this case is pending a bunch of other

8:20

companies jump on board and apply to

8:22

offer their own Bitcoin ETFs and that

8:25

includes pillars of the mainstream

8:27

Financial system that have generally

8:30

been cautious about dealing with digital

8:32

assets Asset Management giant black rock

8:34

took the first steps yesterday to launch

8:35

a spot Bitcoin off a sudden Flor have

8:38

activity or race if you will to file the

8:41

spot you the whole crypto industry is

8:43

watching it's considered very very

8:45

crucial Wall Street is getting invited

8:47

in anticipation of The Greatest Show on

8:49

Earth and so everyone in the industry is

8:51

waiting to see what the court will do

8:54

and finally the ruling arrives in August

8:57

we're following new developments in the

8:58

crypto world today as a US federal court

9:01

paves the way for the first ever Bitcoin

9:03

ETF and the industry wins a watershed

9:06

moment for the crypto industry happening

9:08

today Bitcoin ETFs set to begin trading

9:11

uh in just about 2 hours from now it was

9:13

a very long road to regulatory

9:17

approval the court finds essentially

9:20

that the SEC has failed to meet its

9:22

burden to show that these investment

9:25

products shouldn't be allowed that

9:26

they're unsafe for the investing public

9:29

and what that means is that in January

9:31

the SEC kind of grudgingly says okay you

9:34

know our hand has been forced and these

9:37

companies can go out and offer Bitcoin

9:39

ETFs and so the ETFs start trading

9:42

shortly after and they become really

9:44

really popular JP Morgan points out

9:46

there's now been a total of 20 billion

9:49

dollar of inflows into these ETFs that's

9:51

excluding people are seemingly very

9:53

enthusiastic about putting their savings

9:56

into these investment vehicles Fidelity

9:58

and Black Rock and the other companies

10:00

that are offering them have to buy lots

10:02

of Bitcoin in order to support these

10:05

investment offerings and as a result the

10:08

value of the cryptocurrency Bitcoin

10:10

raced to an all-time high today

10:12

bitcoin's price surges

10:15

72,000 the latest it hits its all-time

10:18

record which is about $770,000 and

10:21

remember this was an asset that was

10:23

dipping below

10:24

$20,000 back a year and a half ago in

10:27

November 2022 and so it's just an amaz

10:29

in Surge so suddenly Fidelity and black

10:32

rock are trading these investment

10:35

vehicles these ETFs with Bitcoin at the

10:38

heart of them which means that Bitcoin

10:40

is no longer Fringe it's mainstream

10:42

absolutely and this is a huge change

10:44

because during the last crypto collapse

10:47

one thing that was striking about it was

10:49

that people who worked in the crypto

10:50

industry or had investments in crypto

10:53

they suffered as a result but the rest

10:54

of the economy was basically walled off

10:57

the fact that Bitcoin lost almost all of

11:00

its value in a year that didn't affect

11:02

normal people because most normal people

11:04

didn't own Bitcoin and so what this

11:06

change has done is set the stage for

11:10

Bitcoin to essentially affect a much

11:12

broader swath of the population and the

11:15

precedent set by this major victory and

11:18

the introduction of Bitcoin ETFs is

11:20

maybe the crypto industry can get What

11:22

It Wants maybe it can defeat the federal

11:24

government and really intersect with

11:27

every other part of the mainstream

11:28

economy

11:33

which is pretty remarkable considering

11:35

where it was just two years ago

11:37

absolutely I mean we were at a point

11:39

where people were declaring that crypto

11:41

is dead that always sounded a little bit

11:43

premature to me but the turnaround we've

11:45

seen over the last year is nothing that

11:48

anyone ever expected and this time the

11:52

stakes are even higher

11:57

[Music]

12:00

we'll be right

12:02

[Music]

12:14

back so crypto as it turns out is not

12:17

dead and in fact it's no longer even

12:19

Fringe right it's mainstream what does

12:22

that mean David for the next time

12:24

there's a big crypto crash I mean I'm

12:27

assuming the federal government is going

12:28

to feel some pressure to be on the hook

12:31

for it because these aren't just

12:33

speculative internet Investments right

12:35

they're solid retirement Investments for

12:38

average Americans so there are two

12:40

schools of thought on this and how it

12:42

could go if you ask a crypto proponent

12:45

they would point out that even though

12:47

crypto has endured these sort of boom

12:49

and bust Cycles over the years the

12:51

overall trend is up you know if you

12:53

bought Bitcoin 10 years ago you've seen

12:56

massive gains and so giving more

12:59

Americans a way to access that asset is

13:01

a potentially positive thing that's the

13:03

industry argument but certainly there

13:05

are a lot of people who are really

13:07

really concerned about this because last

13:09

time crypto crashed the rest of the

13:11

economy the mainstream economy was

13:13

essentially walled off if you owned

13:15

crypto and you'd experimented with

13:16

digital currencies in some cases you

13:19

lost all your savings and really

13:20

suffered but everybody else you know

13:22

they might not even have noticed and

13:24

that could change I mean now that the

13:26

Bitcoin ETFs are rising in popularity

13:28

you know more and more people are likely

13:30

to be connected to this volatile

13:32

industry and so another downturn could

13:34

ultimately harm a much broader SWA of

13:37

the population so a bigger chance for

13:40

contagion to the rest of the US economy

13:42

should something go wrong with crypto

13:44

yeah exactly I mean is the ETF alone

13:47

going to bring down the American economy

13:49

probably not but it's a first step in

13:51

the direction of a kind of more systemic

13:53

risk okay so what are we really looking

13:55

at here I mean now that these Bitcoin

13:57

ETFs have been approved are we looking

14:00

at a future where other forms of crypto

14:03

enter the mainstream as well there's

14:06

actually a broader legal battle that's

14:08

going on between the federal government

14:10

and the industry you know the SEC is

14:13

arguing in all sorts of court cases that

14:16

a cryptocurrency is no different from

14:19

you know stock essentially like a share

14:21

in a company that you might buy and that

14:23

it should be regulated like that meaning

14:25

that someone can't just create a new

14:28

cryptocur and start selling it it has to

14:30

be properly registered they have to make

14:32

all sorts of disclosures associated with

14:34

this product all of those rules that

14:36

apply to public companies that are

14:38

trading their shares on Wall Street

14:40

right and the agency frames this as a

14:42

matter of investor protection this is

14:44

how you ensure people know what they're

14:45

buying when they kind of get into this

14:48

weird and volatile industry MH crypto

14:50

people are opposed to that and they have

14:52

a few different visions of how the

14:54

industry should actually be regulated in

14:57

one version they kind of compare

15:00

cryptocurrencies to Collectibles like

15:02

beanie babies or trading cards and say

15:05

that the way in which a cryptocurrency

15:08

acrise value over time is more akin to

15:10

that than to you know shares in a

15:12

company that rise in value some say we

15:16

need entirely new rules Congress should

15:18

start from scratch and come up with a

15:19

new system just for governing

15:21

cryptocurrencies so essentially this is

15:23

a very big new battle the government's

15:26

saying the wild west needs a sheriff but

15:28

we still don't know if it's going to get

15:30

one right if it's going to Prevail well

15:32

the government is trying to be that

15:34

sheriff it is actively suing a whole

15:37

bunch of crypto companies including some

15:39

of the biggest in the United States the

15:41

most obvious example is coinbase the

15:43

largest US crypto company currently

15:45

getting sued by the SEC and the

15:48

potential outcome here is really really

15:50

damaging for these companies the

15:52

government is arguing that they've been

15:53

operating as illegal Securities

15:56

exchanges and if the government prevails

15:59

we could see massive fines on such a

16:01

scale that they could even bankrupt some

16:02

of these companies and the ultimate

16:05

outcome there is crypto getting driven

16:07

out of the US companies moving offshore

16:10

all those weird startups with dog names

16:12

relocating to Singapore or you know

16:15

whatever jurisdiction happens to be

16:16

flavor of the month and in fact we're

16:19

already seeing that to some extent there

16:21

has been a flight from the US by a few

16:24

crypto startups that are kind of worried

16:25

about how this might work out but then

16:29

there's another scenario the one that

16:31

the Bitcoin ETF Victory almost previewed

16:34

for us where the crypto industry

16:37

actually wins you know the the federal

16:39

government is unable to prove that these

16:41

digital currencies should be regulated

16:43

like Securities and the industry

16:45

flourishes in the US it becomes more and

16:48

more mainstream and every day Americans

16:51

start pouring their savings into it

16:53

which again seems quite risky it's

16:55

definitely a major major risk and even

16:59

when the SEC approved the Bitcoin ETF

17:01

back in January Gary gendler the SEC

17:04

chair who's this huge villain in the

17:06

crypto industry he you know very opposed

17:09

to the kind of expansion of the industry

17:11

he kind of couched his approval of this

17:13

product with all sorts of warnings these

17:15

products are dangerous bitcoin's price

17:17

goes up and down all of the time it was

17:20

a sort of moment of victory for the

17:21

industry that was framed by the SEC as

17:23

this real cautionary episode where will

17:27

this be decided David these cases are

17:30

likely to reach the Supreme Court I mean

17:32

it's difficult to predict of course but

17:35

given the way some preliminary rulings

17:36

have gone I think that we're likely to

17:38

see a sort of split situation where we

17:41

have Divergent rulings coming from

17:43

different judges and that's the type of

17:45

scenario where you ultimately need the

17:47

Supreme Court so David going back to the

17:50

beginning of our

17:51

conversation all of this explains why

17:55

customers of FTX are going to get their

17:57

money back should did this change the

17:59

way we think about Sam bankman freed I

18:03

do remember him saying that he just

18:04

needed a little bit more time to come up

18:06

with the money and he was kind of

18:08

laughed at and and then he went to jail

18:10

but now that investors are getting their

18:12

money back crypto is back up and kind of

18:15

really in the swing of things was he

18:18

right I think Sam bankman freed would

18:21

love to claim this news as a moment of

18:24

vindication for him but it really isn't

18:26

frankly legally it doesn't actually make

18:30

that much of a difference you know this

18:31

issue of recoveries for customers came

18:34

up at trial and what the judge said

18:36

basically was that if you rob the bank

18:39

you steal $1,000 and you use the ,000 to

18:42

buy lottery tickets and you end up with

18:44

a million dollar and you can repay the

18:46

bank you still robbed it in the first

18:49

place you know there are laws in place

18:50

preventing that because most of the time

18:53

you don't end up winning the lottery on

18:55

the other hand there is kind of an

18:56

alternate history here a version of

18:59

events where there isn't a bank run on

19:01

FTX in November of 2022 and the company

19:04

doesn't collapse in which all of these

19:07

Investments That SP SPF has made you

19:09

know profit to some degree and he

19:11

actually does get the money back and is

19:14

in a position to repay people it's a

19:17

totally theoretical universe and who

19:20

knows if it ever would have played out

19:21

that way maybe he would have just stolen

19:23

more money but there's definitely a

19:25

certain irony in the way that things

19:27

have played out if the timing had been

19:29

slightly different you know the whole

19:30

course of spf's history could have been

19:33

changed so that's one irony but there's

19:36

also another which is that what the

19:39

crypto industry has achieved over the

19:41

past couple of months is essentially

19:43

what Sam bankman freed set out to do in

19:46

the first place like the reason he

19:48

became the face of crypto went before

19:50

Congress advocated for regulation is

19:53

that he wanted crypto to go mainstream

19:56

he wanted average Americans to have

19:58

access access to it through his platform

20:00

and now they sort of do yeah absolutely

20:02

crypto is as important as it's ever been

20:05

it's becoming more and meshed in the

20:08

American economy people are pouring

20:10

money back in the numbers on the lines

20:13

are going up but I would caution against

20:15

seeing crypto success only in terms of

20:18

How High the price has gone or how much

20:20

money ftxs customers might get back

20:24

because crypto was initially sold to the

20:26

public by evangelists who describe it as

20:29

a system that was supposed to be about a

20:31

lot more than just price it was supposed

20:34

to transform Finance overhaul how we're

20:37

using money you know offer access to the

20:40

financial system to people who' been

20:41

locked out and so far it just

20:47

hasn't the industry's never actually

20:49

produced something that Americans really

20:52

embraced as a practical use I mean for

20:56

most people this is just an investment

20:58

and the industry's role in the economy

21:01

has expanded in ways that are

21:03

potentially dangerous and it's done that

21:05

without actually solving any of these

21:08

problems or answering any of these

21:10

unanswered questions that have lingered

21:12

for years at this

21:15

[Music]

21:20

point David thank you thanks for having

21:24

me Sabrina

21:27

[Music]

21:37

we'll be right

21:40

[Music]

21:47

back here's what else you should know

21:50

today on Monday the chief prosecutor at

21:53

the world's top criminal court announced

21:56

that he was seeking arrest warrants for

21:58

the leaders of both Israel and Hamas on

22:01

charges of crimes against humanity the

22:04

request must still be approved by the

22:06

judges from the international criminal

22:08

court and that could take months but it

22:11

represents one of the harshest rebukes

22:13

to date of Israel's war strategy and of

22:17

its leader Benjamin

22:19

Netanyahu and Iranian authorities sought

22:23

to project a sense of order and calm

22:26

after the deaths of the president and

22:28

foreign minister in a helicopter crash

22:30

over the weekend the country's first

22:33

vice president assumed the role as

22:34

acting president and new presidential

22:37

elections were scheduled for June

22:39

Iranian State media reported on Monday

22:42

that the crash happened because of a

22:43

quote technical failure the deaths leave

22:47

the country without two influential

22:49

leaders at a particularly tumultuous

22:52

moment of international tension and

22:54

domestic discontent although analysts

22:57

and Regional officials expect little

22:59

change in Iran's foreign or domestic

23:04

policies today's episode was produced by

23:07

Will Reed Olivia Nat Jessica Chung and

23:10

AA chatra it was edited by Brendan

23:13

clingen Berg and Lisa Chow contains

23:17

original music by Dan Powell and Marian

23:19

Lozano and was engineered by Chris Wood

23:23

our theme music is by Jim brunberg and

23:25

Ben Lanser of wonderly

23:32

that's it for the daily I'm Sabrina

23:35

Tavern see you tomorrow

23:38

[Music]