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Sam Bankman-Fried's verdict will weaken mainstream demand for cryptocurrency

Article

The news: Last week, FTX founder Samuel Bankman-Fried was convicted in a financial fraud case with one of the most substantial price tags in US history.

- He was found guilty of two counts of fraud and five counts of conspiracy in a major victory for the U.S. Justice Department's crackdown on financial corruption.

How we got here: Bankman-Fried's series of ill-judged—and illegal—decisions that led FTX into bankruptcy and resulted in his guilty verdict, including:

- The misuse of $8 billion in customer funds for personal gain and non-essential expenditures—think luxury real estate and paying for a Tom Brady endorsement
- Bankman-Fried's strategy of buying his own tokens, ultimately contributing to misrepresentation of the firm's financial stability
- The high-risk investments of Alameda Research, a cryptocurrency trading firm that Bankman-Fried founded—including injecting $100 million into a Kazakhstan-based mining facility and $1 billion into Genesis Digital Assets

Reactions from the financial industry: Traditional US financial institutions (FIs) have always been wary of fully embracing cryptocurrency, but the publicity surrounding the trial hasn't helped.

- Prior to FTX's collapse, four major US banks catered to cryptocurrency businesses. Since Bankman-Fried's downfall, regulators have shut down three, and the remaining bank has exited the crypto scene.
- The bigger obstacle preventing FIs from jumping into the crypto scene is the lack of regulatory framework around cryptocurrency.

Reactions from the general public: According to a YouGov poll, the more significant damage could be to US consumers' perception of cryptocurrency.

- In fact, **the 6% drop in cryptocurrency ownership since last November coincides with the fall of FTX.**
- Over the same period, **the share of respondents who think most cryptocurrency companies are a scam grew by 4 percentage points—bringing the total to 19%.**
- About half of the survey respondents had heard about the fraud trial, and 73% of those individuals thought Bankman-Fried should be convicted.

Reactions from Silicon Valley: There really aren't many. That's because:

- Cryptocurrency isn't the shiny, new technology at the center of conversations anymore, per the New York Times.
- Tech insiders view this as a natural waning of crypto's hype—the end of a cycle that may start over again in a few years.
- Legal and market experts say the industry can move forward, now that this chapter is closed—attributing the collapse to "old school fraud" rather than to the nature of cryptocurrency.

Key Takeaways: This trial serves as a reminder of the regulatory ambiguity that prevents FIs from fully dealing in cryptocurrency. The bigger question is whether the general public's desire to own cryptocurrency will revive following Bankman-Fried's verdict.

- With his sentencing in March 2024, the topic is unlikely to disappear from the news—meaning the public's not going to forget what happened any time soon.

Ownership/Interest in Cryptocurrency According to US Adults, May 2023

% of respondents

Have you ever bought cryptocurrencies?	
Yes, I currently own some cryptocurrencies	20%
Yes, I bought them in the past but no longer have any	31%
No, never	50%
How likely are you to invest in cryptocurrencies over the next 12 months?	
Definitely will invest	18%
Probably will invest	25%
Probably will not invest	17%
Definitely will not invest	30%
Don't know	10%

Note: n=940 ages 18+ who have heard about cryptocurrency; numbers may not add up to 100% due to rounding
Source: Consensys, "Global Survey on Crypto and Web3" conducted by YouGov, June 26, 2023

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