

The
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The Economic Club of New York

115th Year
645th Meeting

Sam Bankman-Fried
Founder and CEO, FTX

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Webinar

Moderator: Anna Nikolayevsky
Founder and CIO
Axel Capital Management

Introduction

President, Barbara Van Allen

Good morning, and welcome to the 645th meeting of the Economic Club of New York in our 115th year. I'm Barbara Van Allen, President and CEO of the Club.

For our discussion today, we're going to kick off our first crypto-series event. And it's a pleasure for me to welcome our guest Sam Bankman-Fried.

Sam's an MIT graduate with a degree in physics, who started his career in financial markets with Jane Street. He traded a variety of ETFs, futures, currencies and equities and designed their automated OTC-trading system.

After Jane Street he founded the quantitative trading firm, Alameda Research, and in 2019 he created FTX. Which is now the largest crypto-trading exchange outside of China.

Today's program will be a conversation, which we're very fortunate to have Club member, Anna Nikolayevsky, Founder and CIO of Axel Capital Management as our moderator.

Thank you both for joining us today. We're going to end promptly at 11:30 due to tight schedules and as a reminder, this conversation is on the record and we do have media on the line. Without further ado, Anna, the mike is yours.

Conversation with Sam Bankman-Fried

ANNA NIKOLAYEVSKY: Thank you. Hi Sam. Your driving innovation on the financial and block-chain industries, right now, you've become the base of entrepreneurship in America. You have a very large following. Some of your followers are literally excessive and focus on whether or not you tie your shoes.

So, what's really impressive is that you had a vision and you were able to execute on the vision. Can you talk about how you went from an arb idea to an actual exchange formation?

SAM BANKMAN-FRIED: Yeah, I first got into crypto because there's just good trades to do. And the good trades are actually pretty easy to see at the time. You just looked at the price of a bitcoin on two different exchanges and you got two very different numbers. And that's where they started with what was literally just doing arbitrage on crypto currency exchanges. So I spent a year of doing that, basically. Buying on...there would be a 1% spread between Coinbase and Bitstamp, so I'd buy a \$10,000 bitcoin on

Coinbase, send it to Bitstamp and sell it for \$11,000, make a \$1,000 on that, was sort of like the core idea.

Some of them were a bit more elaborate to do than that, especially when you looked internationally and you found places where it was not easy to get the money back and forth, to be able to get money to and from Japan.

But that was sort of like how it started. And over time, what it grew into was a general sort of crypto currency quantitative trading firm, called Alameda Research that I spent the first year building out.

After about a year of this it was just becoming increasingly clear that there were really big problems with the infrastructure in the crypto-ecosystem. And you could sort of see this all over the place. You could see this when you looked at the blockchains themselves not having the throughput necessary to sustain the level of activity.

The biggest were the exchanges. The exchanges in crypto are the sort of full-stack trading infrastructure products. And you know they're losing a million dollars per day of customer funds to having incompetent risk controls. The match engines would crash whenever there was volatility.

The compliance departments were nonexistent in many of them. It was just overall a huge mess. And it meant that the space was not what it could be. We'd spent a year using those products and getting increasingly frustrated with them. And basically at the end felt like, fuck it, we can build something better than this. If this is the state of the art, this, we can beat.

And ultimately ended up building out FTX. And starting in late 2018 and launching in spring of 2019.

ANNA NIKOLAYEVSKY: Okay. So, how did you manage to come back to the Bahamas from Asia? What drove that and why the Bahamas? Why not Switzerland?

SAM BANKMAN-FRIED: There are very, very few jurisdictions in the world that have a license for a cryptocurrency exchange. Especially comprehensive licensing regime that accounts for futures and spot products, and stablecoins, and everything else. The Bahamas is one of those few. It was the largest reason that we chose here to be the international headquarters. It was a place that we could have a license, that we could have regulatory oversight.

And, you know, outside of that, it's really conveniently located. It's a nice place to be. There's open travel to and from it, which is not true of a lot of the world right now. And

that was one of the, actually, more sort of urgent impetuses was we need to be in a place where we can visit people, where people can visit us. Where international travel is possible. And in this day and age, that's actually a tall ask. That was another key driver behind the Bahamas.

ANNA NIKOLAYEVSKY: So, can you talk about your business and what parts are growing the fastest and in terms of, just in markets and geographies?

SAM BANKMAN-FRIED: Overall, if you look globally, the world GDP weighted is not a terrible proxy for where our volume is. We have users all over the place, outside of, other than sanctioned jurisdictions. And that's part of the answer is, just sort of well everywhere.

But our core demographic, historically, has been power users. It's been people who trade millions of dollars per day of volume. Rather than sort of retail consumers. We do have a wide variety of users, but again, the vast majority of volume today comes from the power users. And the vast majority of revenue.

That's sort of been the biggest piece of it historically. And today, I think, we're anticipating a lot of growth in the United States over the next year or so, as we build out a more comprehensive product suite there. Potentially using our CFTC license which

we're really excited about.

ANNA NIKOLAYEVSKY: How do you think about profitability versus market share?

SAM BANKMAN-FRIED: It's an interesting question and for us, we haven't done a ton of paid advertising. And so, we're not in a position where there's a huge split in terms of the difference between revenue and profit, for instance. We are profitable, and again, intend to stay that way.

I think one thing worth noting is, when you look at something like market share, you could measure it by people or you could measure it by volume. And again, historically we've been biggest on power users, which means that, historically we have had a lot more sort of revenue than user base count. So to speak in any sort of one metric of that, is, we have something like 3% as many users as Coinbase does, maybe 4% now, or something, but three times the daily trading volume on our platform, as on Coinbase's.

And so it's a very different core demographic, and while we have pretty low market share in terms of raw number of users, you know, we're working on that part. In terms of the power users, we've been one of the largest platforms globally.

ANNA NIKOLAYEVSKY: Okay. You're planning on getting into stock trading? Most of

the American companies who provide trading, do not provide free quotes. Most crypto exchanges, however, do. Are you planning on being even more disruptive and doing free quotes? How do you feel about potential commissions?

SAM BANKMAN-FRIED: It's worth noting that at the beginning, we're likely to be...the license we have right now is a broker/dealer license. It doesn't allow us to operate as a fully independent exchange. We are effectively a brokerage for other venues, today.

So, there's a limit to how much impact we can have with that model in terms of the core exchanges market data, but we will certainly be sharing any market data that we are allowed to. And to the extent that we are in exchange for products, we always intend to make all of our market data free and hope that we can expand that purview over time.

We do want to have, to be disruptive in that sense, because I think it's the right thing to do. I think that market structure makes a lot more sense if you can have, if everyone has access to the actual data of the markets they're trading on. I think it's sort of ridiculous to be forcing people to send orders blindly into a vault.

ANNA NIKOLAYEVSKY: Wow, that's actually huge. Can we talk about your vision for the future of social media interoperability and what that means to you and potential modernization ways?

SAM BANKMAN-FRIED: Yeah, absolutely. Right now, if you look at social media, every platform is effectively, completely independent. If you're on Facebook, someone else is on Twitter, and you can't communicate with each other. That causes, I mean, there's a lot of flow through effects from that. It means that there are big moats associated with them that is harder to get into the business because you would have to breakthrough that sort of network effect. It creates a fractured experience.

And it also means that you end up with extremely large moderation powers with a very small number of people. And I think one really cool thing that you can actually do with blockchain is end up in a world where an underlying decentralized blockchain stores people's actual interpreted social media messages. So those can then be accessible across platforms. Any platform could potentially draw on that same wealth of core messages. But each platform can build their own user experience on top of it. It means that they're interoperable with each other. It means you don't have one central party controlling all of the moderation on a platform.

I think it's pretty powerful in a lot of ways and I would be really excited to see that vision come to fruition.

ANNA NIKOLAYEVSKY: Can we talk about identity? Can you streamline an NFT, an individual, and then create a lending or a marketing or an insurance platform from it. So,

if you take my identity and where I went to school and where I worked, and my payment history, could I walk through the metaverse and be offered mortgages and crowd lending?

SAM BANKMAN-FRIED: Potentially, yeah. And I think that that's one of the powerful things that DeFi probably can get to, and a blockchain could get to is true interoperability across all types of platforms. Not just between two different social media networks or two different financial platforms, but between social media network, and some avatar identity system and NFTs and financial markets. So you could have all of those read from each other. All of those interface with each other. All compose natively with each other, as cleanly as if they were one program. I think that is really exciting. I think that's part of the potential promise of blockchain.

ANNA NIKOLAYEVSKY: So that obviously benefits the user. But how do you capitalize on that? How does an enterprise make money off that?

SAM BANKMAN-FRIED: Part of my answer is sort of like, well I think if it is valuable enough for the user, you should be able to find ways to monetize it and if you can't that's probably a sign that it didn't bring as much value as you thought it did to the end users.

But I think that there are lots of places where, in a competitive marketplace you could have or be associated with various pieces of that. And obviously people would switch platforms if they didn't like the fees on yours. But I think trading fees are like one example of that.

ANNA NIKOLAYEVSKY: What's your strategy for venture capitalism that you recently established?

SAM BANKMAN-FRIED: There are a few pieces, one is that we just more generally want to get involved in the VC space, both in crypto and outside of it, we want to be an active investor. We want to be supportive of the people that we invest in. We want to make sure that we are a good partner for them. That we don't get in their way. That, if we are intervening, it's because they want us to be, and helping, rather than just sort of causing a headache for them for no reason.

I think the last thing is, we're willing to take bets on companies that we think can have a lot of impact without needing to have certainty about where that will end up. And without needing to put charms in for investments that force sort of super risk averse behavior on behalf of our companies because we need to make some specific return or anything like that.

ANNA NIKOLAYEVSKY: Is anything over saturated right now, given the huge capital flowing into the industry in VC?

SAM BANKMAN-FRIED: Yeah, I think that some subareas certainly are, and I think that when you look at...I think in particular, there's sort of like some indiscriminate funding coming in, so I think especially places that I don't think have as much room to grow are probably getting too much capital flowing in.

I think you also see a public/private market split right now. But I think that one example is that I think there's not nearly enough work being done on sort of innovative NFT applications. And probably too much being done on existing NFT projects. And I would love to see that shift a little bit towards where I think future applications lie.

ANNA NIKOLAYEVSKY: So do you think more contracts are basically the largest TAM when it comes to the blockchain?

SAM BANKMAN-FRIED: I think it's probably right. I think certainly when you look at the blockchain layer itself as opposed to infrastructure layers put on top of it. I think that smart contracts are almost certainly the biggest TAM. And if you were to say, okay, but which is bigger that or the exchange layer or other things, then I think that becomes less clear.

ANNA NIKOLAYEVSKY: Is crypto the ultimate democratization of finance?

SAM BANKMAN-FRIED: I think it's a piece of it. It isn't the solution to everything, put together, bundled into one object. But I think it can help facilitate a lot of that. And I think social media is one example. The existence of crypto doesn't mean that social media is fixed or anything like that. But I do think that crypto can help address a lot of problems that we've seen. And I'm super excited for that. And I think that if you use blockchain technology correctly, it can help democratize financing. I think already it's a lot easier for most consumers to get direct equitable access to financial markets through crypto than through almost any other means.

ANNA NIKOLAYEVSKY: You've been pretty busy spending time on the Hill and you've been participating in many congressional hearings. Right now, you're basically paving the road in terms of regulation. Do you think that it's important for America to play a leading role in regulating crypto and why is it strategic?

SAM BANKMAN-FRIED: I do think it is. And I think that part of this is that, looking at American competitiveness, looking at wanting to have U.S. oversight of those markets. I think both of those are important. And you know, being able to strike the right balance between fostering economic growth and providing consumer protection and protecting its systemic risk in financial crimes. I think all of that require America playing an active

role in providing oversight and licensing for the industry rather than sitting on the sidelines.

ANNA NIKOLAYEVSKY: So what do you think is the biggest issue that's preventing regulation? Is it education, lack of knowledge, I mean, what do you think the largest issue is right now? Because it seems like people are definitely dragging their feet and there's a purposeful gray zone and regulation is by enforcement. So what do you think (audio cuts out).

SAM BANKMAN-FRIED: I think there are a lot of things that are sort of flowing into that. And I think it isn't just one thing. But I think a lot of this is that there is more education that's needed. I think it's also just really, if you look at legislation, for instance, it's really hard passing legislation right now. Not just in crypto but in anything.

And so to the extent that a legislative approach is necessary, that's not something that I expect to happen short term. And so because of that I think you're seeing more regulatory activity than legislative activity on the front.

I think a lot of this is trying to find the way to strike that balance. To have regulatory frameworks built out without immediately requiring new legislation. Enabling regulators to build licensing regimes for this space.

ANNA NIKOLAYEVSKY: Do you have a time-frame in which you expect progress? How would you do it?

SAM BANKMAN-FRIED: I think over the next year we are going to see a fair bit of progress. I think I'm fairly optimistic about that. I'm not saying it's all going to get fixed tomorrow or anything like that. But I do think that we're already starting to see some progress and I expect that to continue.

Overall I think that's maybe more optimistic than I used to be on this. What would I do? I think one thing is having a token registration system. Something like the current equities registration system but adapted to fit the properties that are sort of specific to tokens rather than equities. I think that's one piece of this that I'd be really excited for.

I think that another piece of this is having a, specifically a stablecoin registration system. And then the third thing that I would say would be, having just clear market oversight especially for spot markets in crypto, clarity around which regulator is overseeing those. Those are, I think the biggest things that I would be pushing on.

ANNA NIKOLAYEVSKY: So do you think that there should be a crypto czar that would coordinate between multiple agencies or would that be worse because it creates more complications with the SEC and other groups?

SAM BANKMAN-FRIED: Yeah, it's a good question, right, to the extent that there's too many cooks in the kitchen maybe you need someone to sort it out, but maybe that's just another cook in the kitchen.

I don't think you need a crypto czar here. I don't think that's a necessary part of this process. I think it could be a helpful part. But it could also be a harmful part. It basically totally depends on who it is and what their approach is. Rather than thinking of that as the missing piece to this, I think what I would say is, whatever role someone nominally has, if they're pushing for sensible regulatory oversight that's helpful. And if they're not, then that's unhelpful. I think that it's less a question of what role is needed and more a question of actually getting stuff done.

ANNA NIKOLAYEVSKY: As a trader, what do you think of the correlation between NASDAQ and crypto right now and is that sustainable? Because given the inflows, I thought maybe the correlations would change.

SAM BANKMAN-FRIED: I mean, we've certainly seen a pretty strong correlation recently. And I think the reason is basically that, what's been moving markets recently. Basically it's monetary, supply type news, inflation, and those things are going to have similar impact on crypto as they do on equities.

I think that when you're looking at economic news coming out as opposed to monetary news, you might see a bit of a decoupling, but when it's monetary news I do think that you're going to see tight coupling between crypto and stocks and that's what I think we've seen recently.

ANNA NIKOLAYEVSKY: Do you believe that if all of a sudden the Fed backed off, and would not hike rates, that, that would be beneficial for crypto?

SAM BANKMAN-FRIED: Yeah, I think it probably would be.

ANNA NIKOLAYEVSKY: Do you own crypto yourself?

SAM BANKMAN-FRIED: The basic answer is, through my companies I do. I don't like really do much finance outside of the companies I've invested in because anything that would make sense, it makes sense to do it through those.

ANNA NIKOLAYEVSKY: So one of the best and unique things about America is the culture of giving. Why do you care, at your age, particularly, about philanthropy?

SAM BANKMAN-FRIED: I think that in the end, the impact that we have, the positive impact we have on the world is what matters the most. I think that I am fortunate to be in

a position to be able to give. And I want to follow through on that. I think it's always been the thing that's been ultimately the most important to me. And that I want to be following through on. Supporting some of the best things going on in the world.

ANNA NIKOLAYEVSKY: What are you focused on in terms of philanthropy? What are your objectives? And what some end markets for that?

SAM BANKMAN-FRIED: So in the end I want to do whatever has the most positive impact on the world, whatever that might be. But more concrete things right now, things that I'm looking at, I think probably some of this is looking at neglected tropical diseases, malaria, schistosomiasis. Some of this is looking at animal welfare.

But the biggest thing that I've been looking at recently has been pandemic preparedness. You know, we were not ready for covid, how can we be more ready for the next pandemic. And what should we be doing today because the next pandemic might be substantially worse than covid was.

ANNA NIKOLAYEVSKY: The other day the New York Stock Exchange announced that they're planning on trading NFTs. So I think it's kind of ironic that you want to get into stocks and NYSE wants crypto and NFTs.

Do you think that they're going to gain share in that market? Or do you think it's going to stay with the natives?

SAM BANKMAN-FRIED: I think it depends on exactly how much they're going to be pushing in that direction. I would be surprised if they ended up making that big of a push there. But I could be wrong. Maybe this really is going to be a huge priority for them. It wouldn't have been my guess, but if it is, then they could certainly make a big impact there.

ANNA NIKOLAYEVSKY: Are you spending any time or are people on your team marketing to institutions and is there, what is the biggest conflict between institutional investing or basically what objections are you hearing, if any?

SAM BANKMAN-FRIED: I think it's less like specific objections that we're hearing. I think it's a lot more sort of nervousness and wanting to get clarity on the regulatory framework. Wanting to be sure that they're operating within bounds, in a world where the boundaries aren't clear. And I think that's been sort of the biggest tension there. I think that over time we're going to see people getting more comfortable. But it is going to take time. So we are actively talking with institutions. Some of them are signing up. I expect that, that's going to be a longer process. Because these tend to be somewhat slow-moving institutions.

ANNA NIKOLAYEVSKY: Do you think it's going to be a 5% to 10% asset class by the end of the decade. What growth do you expect?

SAM BANKMAN-FRIED: It's really hard to tell and I think a lot of that does depend on what the regulatory progress looks like. It depends on where institutions end up. I'm optimistic that we're going to see a lot of progress and that ultimately we will see a lot of growth over the next decade. I certainly wouldn't promise it.

And I think that another thing that you ultimately have to do is try to think about what exactly what do you mean by the industry. Right, when we look at crypto market cap right now, it's somewhat clear what we mean, but if we move into a world in which there are tokenized equities, for instance. You probably don't want to count all of Apple's market cap as crypto market cap, even if it is happening in tokenized format.

But I think that drives to one of the interesting aspects and one of the ambiguities in how you even measure crypto market cap going forward.

ANNA NIKOLAYEVSKY: So if you're looking at some VENX and NFTs, is the market cap basically unlimited?

SAM BANKMAN-FRIED: Yeah. I think that's basically right. Although it gets to the question of well, okay, what are you trying to do when you're measuring market cap.

What's your actual goal there? To the extent that your goal is to be deciding what investments make today, query what matters for that, because to some extent not all clouds can flow through to current tokens or anything like that.

So, I think you get sort of different answers depending on how you feel about that.

ANNA NIKOLAYEVSKY: It's been publicized that you only sleep four hours a day. Has that always been the case? Or are you just working harder now and spending more time sleeping on the bean bag, or less time? I guess, is that true?

SAM BANKMAN-FRIED: Yeah, I think I sleep a little bit more now than I used to, up to five or so on average a night. I don't sleep a ton. And I do still sleep on the bean bag many nights. In the end I think it's helpful for me to be able to stay sort of in the zone, to stay really focused on work. I think that there is a huge difference between when I'm only somewhat focused and when I'm very focused. And I want to be on the latter end of that.

ANNA NIKOLAYEVSKY: Thank you Sam.

SAM BANKMAN-FRIED: Thank you.

PRESIDENT BARBARA VAN ALLEN: That was an incredible conversation. Thank you

both, Sam and Anna, really wonderful. I know that we're on a tight schedule, so what I'm going to do for everyone attending is just say, please check our calendar. We're adding events all of the time. Here on the screen are a few. You can see we have a member conversation coming up February 22nd on the fragility of the grid. It's actually grids. So we're excited about that one. That will be off-the-record.

We have Dr. Nuzzo from John's Hopkins talking, a doctor, epidemiologist, about the virus and where things are headed. We have our annual Women in Business conference, March 7th. And we do that every year with the Consuls General of Canada and France. That's really going to be an exciting one. There are a number of different Zoom meetings and panels, so please mark your calendars for that.

We just opened recently the Crypto Series second event, with Michael Saylor, Chairman and CEO of MicroStrategy. And then on April 11th, Thasunda Brown Duckett, the new CEO of TIAA. And we have lots more being confirmed and added to the calendar. This is actually already out-of-date. So again, check, please, online.

Thank you all for joining us today. Have a great day.