

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

_____	)	
SECURITIES AND	)	
EXCHANGE COMMISSION,	)	
	)	
Plaintiff,	)	Civil Action No. 22-cv-10794
	)	
v.	)	
	)	JURY TRIAL DEMANDED
CAROLINE ELLISON and	)	
ZIXIAO “GARY” WANG,	)	
	)	
	)	
Defendants.	)	
_____	)	

**COMPLAINT**

Plaintiff Securities and Exchange Commission (the “Commission”), for its complaint against Caroline Ellison (“Ellison”) and Zixiao “Gary” Wang (“Wang,” together with Ellison, “Defendants”), alleges as follows:

**SUMMARY**

1. From at least May 2019 through November 2022, Defendants, together with Samuel Bankman-Fried (“Bankman-Fried”) and others, engaged in a scheme to defraud equity investors in FTX Trading Ltd. (“FTX”), the crypto asset trading platform of which Bankman-Fried and Wang were co-founders, at the same time that they were also defrauding the platform’s customers.<sup>1</sup> FTX raised more than \$1.8 billion from investors, including U.S. investors, who bought an equity stake in FTX believing that FTX had appropriate controls and risk management measures. Unbeknownst to those investors (and to FTX’s trading customers), Bankman-Fried

<sup>1</sup> Bankman-Fried was charged by the Commission on December 13, 2022, in *Securities and Exchange Commission v. Samuel Bankman-Fried*, 22-cv-10501 (S.D.N.Y.). The allegations herein are focused on the conduct and knowledge of Ellison and Wang, as well as Bankman-Fried. Other individuals were both aware of and participated in some aspects of the fraud scheme described herein.



was orchestrating a massive, years-long fraud, diverting billions of dollars of the trading platform's customer funds for his own personal benefit and to help grow his crypto empire.

Defendants were active participants in the scheme and engaged in conduct that was critical to its success.

2. Throughout this period, Bankman-Fried portrayed himself as a responsible leader of the crypto community. He touted the importance of regulation and accountability. He told the public, including investors, that FTX was both innovative and responsible. Customers around the world believed his lies, and sent billions of dollars to FTX, believing their assets were secure on the FTX trading platform. But Bankman-Fried and Wang improperly diverted customer assets to Alameda Research LLC and its subsidiaries ("Alameda"), the crypto asset hedge fund that they had founded and co-owned and that Ellison ran. Wang created and participated in the creation of the software code that allowed Alameda to divert FTX customer funds. Ellison, in turn, used the misappropriated FTX customer funds for Alameda's trading activity. And Bankman-Fried used those customer funds to make undisclosed venture investments, lavish real estate purchases, and large political donations.

3. Working with Bankman-Fried, Defendants hid the scheme from FTX's equity investors, including U.S. investors, from whom FTX sought to raise billions of dollars in additional funds. Bankman-Fried repeatedly cast FTX as an innovative and conservative trailblazer in the crypto markets. He told investors and prospective investors that FTX had top-notch, sophisticated automated risk measures in place to protect customer assets, that those assets were safe and secure, and that Alameda was just another platform customer with no special privileges. Defendants knew or were reckless in not knowing that these statements were false and misleading. In truth, Bankman-Fried and Wang, with Ellison's knowledge and consent, had

exempted Alameda from the risk mitigation measures and had provided Alameda with significant special treatment on the FTX platform, including a virtually unlimited “line of credit” funded by the platform’s customers.

4. Beyond its “line of credit” with FTX, Ellison, at Bankman-Fried’s direction, caused Alameda to borrow billions of dollars from third party lenders. Those loans were backed in significant part by Alameda’s holdings of FTT—an illiquid crypto asset security that was issued by FTX and provided to Alameda at no cost. Ellison, acting at the direction of Bankman-Fried, engaged in automated purchases of FTT tokens on various platforms in order to increase the price of those tokens and inflate the value of Alameda’s collateral, which allowed Alameda to borrow even more money from external lenders at increased risk to the lenders and to FTX’s investors and customers, all in furtherance of the scheme.

5. While Bankman-Fried spent lavishly on office space and condominiums in The Bahamas, and sank billions of dollars of customer funds into speculative venture investments, his house of cards began to crumble. When prices of crypto assets plummeted in May 2022, Alameda’s lenders demanded repayment on billions of dollars of loans. Despite the fact that Alameda had, by this point, already taken billions of dollars of FTX customer assets, it was unable to satisfy its loan obligations. Bankman-Fried, with Defendants’ knowledge, directed FTX to divert billions more in customer assets to Alameda to ensure that Alameda maintained its lending relationships, and that money could continue to flow in from lenders and other investors. Ellison then used FTX’s customer assets to pay Alameda’s debts.

6. Even as it was increasingly clear that Alameda and FTX could not make customers whole, Bankman-Fried and Defendants continued to misappropriate FTX customer funds. Through the summer of 2022, Bankman-Fried, with Defendants’ knowledge, directed

hundreds of millions more in FTX customer funds to Alameda, which he then used for additional venture investments and for “loans” to himself and other FTX executives, including Wang. All the while, Bankman-Fried continued to make misleading statements to investors about FTX’s financial condition and risk management. Defendants were aware that Bankman-Fried was making these statements, and knew or were reckless in not knowing that they were false and misleading. Even in November 2022, faced with billions of dollars in customer withdrawal demands that FTX could not fulfill, Bankman-Fried and Ellison, with Wang’s knowledge, misled investors from whom they needed money to plug a multi-billion-dollar hole. This brazen, multi-year scheme finally came to an end when FTX, Alameda, and their tangled web of affiliated entities filed for bankruptcy on November 11, 2022.

### **VIOLATIONS**

7. By engaging in the conduct set forth in this Complaint, Defendants violated Section 17(a)(1) and (3) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77q(a)(1) and (3)]; and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5(a) and (c) thereunder [17 C.F.R. § 240.10b-5(a) and (c)].

8. Unless Defendants are permanently restrained and enjoined, they will continue to engage in the acts, practices, transactions and courses of business set forth in this Complaint and in acts, practices, transactions and courses of business of similar type and object.

### **NATURE OF THE PROCEEDING AND RELIEF SOUGHT**

9. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. §§ 78u(d)(1)].

10. The Commission seeks a final judgment: (i) permanently enjoining Defendants

from engaging in the acts, practices, transactions and courses of business alleged herein;

(ii) ordering Defendants to disgorge their ill-gotten gains and to pay prejudgment interest thereon pursuant to Section 21(d)(5) and (7) of the Exchange Act [15 U.S.C. §§ 78u(d)(5) and (7)]; (iii) imposing civil money penalties on Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

(iv) imposing an officer and director bar on each Defendant pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)]; (v) prohibiting Defendants from participating in the offer or sale of securities including crypto asset securities pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)]; and (vi) ordering such other and further relief the Court may find appropriate pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)].

### **JURISDICTION AND VENUE**

11. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22 of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), and 77v], and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa]. In connection with the conduct alleged in this Complaint, Defendants, directly or indirectly, made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails.

12. Venue is proper in the Southern District of New York pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Among other acts, false and misleading statements that were part of the fraudulent scheme alleged herein were made to investors residing in this District.

# Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

## Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

## Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

## Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

## API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

## LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

## FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

## E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.