

# THE RISE AND FALL OF THE FTX GROUP

**Raymond J. Elson, Valdosta State University**  
**Beverley Alleyne, Belmont University**

## CASE DESCRIPTION

*The case discusses the eight billion dollars of customer funds misappropriated at one of the world's largest cryptocurrency exchanges and the resulting 25 years prison sentence of its founder. The case exposes students to corporate governance policies within an organization, and the importance of establishing sound control environment principles even in a non-public entity. The case can be used in an undergraduate or advanced auditing class and students can utilize the Committee on Sponsoring Organization or COSO framework to formulate responses. The COSO framework defines internal control, including corporate governance, and provides a systematic approach to internal control evaluation and assessment. The case can also be used in a management course that discusses leadership and/or corporate governance issues. The case is designed to be taught in one class period and is expected to require approximately two hours of outside preparation by students. The case is based on real events as reported in various media outlets*

## CASE SYNOPSIS

*Sam Bankman-Fried (SBF) was known for a while as a corporate titan and one of the youngest billionaires in the world, with a net worth of over \$20 billion, and the rare, good guy in the crypto industry. In March 2024, he was sentenced to 25 years in prison for failing to safeguard \$8 billion in customer funds. The rise and fall of his firm FTX was rapid – in only four years, this high-flying crypto currency exchange collapsed from a \$32 billion entity to its chapter 11 bankruptcy filing. During its existence, FTX spent lavishly on political campaigns, and marketing and branding deals. At one point, FTX had business relationships with major sporting entities and personalities including the Miami Heat, Major League Baseball, the Golden State Warriors, Mercedes Benz Formula 1, Tom Brady, Shohei Ohtani, and David Ortiz. After the bankruptcy filing, members of the leadership team were arrested and most agreed to cooperate with federal prosecutors. These deals led to the indictment and the successful prosecution of the founder, SBF.*

## INTRODUCTION

Eight billion dollars in customer funds!

This was the amount allegedly misappropriated by the third largest cryptocurrency exchange in the world.

How could a \$32 billion entity with reported users and revenue of one million and \$1.02 billion respectively, at the end of 2021 be involved in such an allegation?

It happened with FTX, the once high-flying, three-year old, cryptocurrency exchange founded by two entrepreneurs and headquartered in Nassau, Bahamas, which ultimately filed for Chapter 11 bankruptcy protection in November 2022.

Its leader, SBF, was considered the richest person under 30 years old, with a net worth of approximately \$20 billion. He was considered a rare, good guy in the freewheeling crypto industry, his face plastered on billboards and magazine covers (Bellany, Goldstein & Moreno, 2023). Now Bankman-Fried has lost his sparkle having been sentenced to 25 years in prison and held responsible for the issues at FTX.

So, why did the organization fail? In brief, a surge in withdrawals resulted in an \$8 billion deficit for the exchange.

A look the FTX's history, organization structure, and governance might provide some clarity.

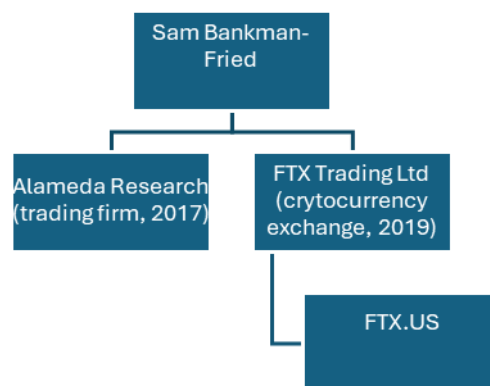
## THE ENTITY – FTX

### Brief History

In 2017, SBF at age 25, co-founded Alameda Research, a cryptocurrency trading firm, along with Caroline Ellison, and other employees of Jane Street Capital. The firm made money by buying Bitcoin and other cryptocurrencies through arbitrage (i.e., from one part of the world and then selling them in another), pocketing the difference. Needing money to fund Alameda's activities, SBF along with Gary Wang and Nishad Singh, founded a cryptocurrency exchange that would bring in additional revenue. This resulted in the birth of FTX Trading Ltd or FTX in 2019, a private Bahamian cryptocurrency exchange. FTX was founded in Hong Kong, incorporated in Antigua and Barbuda, and was moved to the Bahamas in 2021.

To address regulatory concerns, FTX created a US licensed exchange, FTX.US, to serve its US users. FTX.US described itself as a brand-new US regulated cryptocurrency exchange, whose mission was to grow the digital currency ecosystem and offer US traders a platform that inspired their loyalty while becoming the market leading US cryptocurrency exchange. It allowed users to trade a variety of digital assets such as Bitcoin, Ethereum, Solana, and Dogecoin. The relationship between these entities is shown in Figure 1 below:

Figure 1: Alameda and FTX



Alameda Research was a small entity with approximately 20 employees. It reportedly managed over \$1 billion in digital assets as of April 2022. In August 2021, SBF appointed Ellison and Trabucco (Sam) as co-CEOs of the entity, and both were named to Forbes Magazine’s list of “30 Under 30 in Finance” for 2022. However, in August 2022, Trabucco resigned from his position and Ellison became the sole CEO.

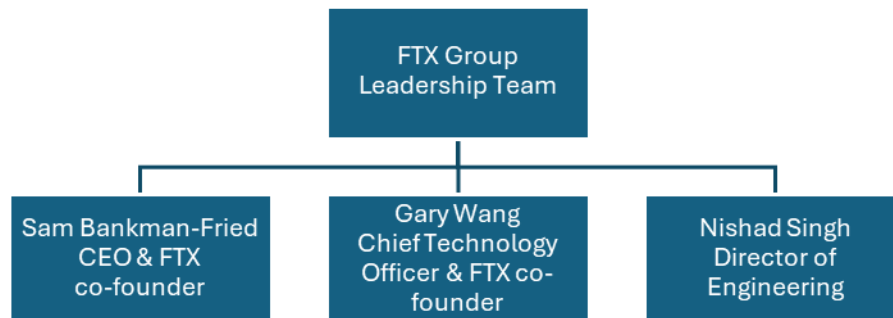
The relationship between FTX and Alameda centered on a token created by SBF – called FTT – that the exchange’s customers could use to store their crypto assets. Alameda serves as the token’s main market maker, buying and selling a majority of FTT. FTT was popular with the exchange’s investors, who were enticed by the trading discounts it offered, and Alameda began using its holdings as collateral for more loans to facilitate its trading activities.

### Leadership

Ellison, CEO of Alameda Research, and SBF were part of a group of ten individuals who lived together in a luxury five-bedroom Bahamian condominium penthouse owned by both FTX and SBF. The roommates met while either working with Bankman-Fried at a prior employer or were classmates at a premier US educational institution. Some of the roommates, including Ellison and SBF, were also involved in romantic relationships.

As noted in Figure 2, three members of the group provided core leadership for FTX Group. In addition to SBF, the team included Nishad Singh, a best friend to Bankman-Fried’s brother in high school; and Gary Wang, Bankman-Fried’s childhood friend.

Figure 2: FTX Group Leadership Team



The leadership team was supported by Constance Wang, the chief operating officer; Ramnik Arora, a former Facebook engineer and the head of product; Dan Friedberg, the compliance officer; Ryan Salame, co-CEO of FTX Digital Markets; Jen Chen, the chief financial officer; William MacAskill, the chief architect of effective altruism and SBF’s, mentor, and Ellison who shared close office space with the FTX Group.

## Structure

FTX, with approximately 300 employees, had more than 108 entities among its US and international firms. This group of interrelated firms, subsidiaries, and affiliates existed in over 27 regions including Hong Kong, Nigeria, Antigua, Seychelles, and the corporate headquarters in the Bahamas. Among the various entities are Clifton Bay Investments, a Delaware corporation; FTX Trading Ltd, an Antigua entity; West Realm Shires, Inc. or FTX US, a Delaware entity; and Alameda Research LLC, a Delaware entity.

Interestingly, the firm had no human resources or compliance departments, nor a board of directors. However, it had a public relations manager whose role was to arrange interviews for SBF.

## Funding

FTX raised billions of dollars in four years (January 2018 - March 2022) from approximately 37 investors which included venture capital firms, investment firms, and celebrities. It did so through seven funding rounds and by offering various share classes to these investors. Table 1 below provides a partial list of the firm's investors (now creditors) along with the investment type.

Table 1: Sample Investors List

Creditor's Name	Type of Firm*	# of Series B Preferred Shares
Sequoia Capital	Venture Capital firm located in Menlo Park (California)	4,769,173
Thoma Bravo	Private Equity firm based in Chicago	4,578,406
Temasek	Global investment company headquartered in Singapore	3,815,337
Softbank	A multinational conglomerate holding company located in Japan	2,861,504
Paradigm	An investment firm focusing on crypto/Web 3 companies	1,526,135
Dan Loeb (Third Point)	Hedge fund based in New York	1,335,369
Insight Partners	Venture capital and hedge fund based in New York	1,335,369
Lightspeed	eCommerce company based in Montreal	1,144,602
Multicoins Capital	A thesis driven investment firm that invests in cryptocurrencies, tokens and blockchain companies	953,835
Coinbase	Publicly traded cryptocurrency platform	929,989

Source: Ciccomascolo, 2024

\*This information was obtained through the creditor's websites

## **Operations**

FTX operated in an opaque environment since it conducted most of its business with related parties. For instance, FTX was able to operate effectively and clear massive volumes because it had a designated market maker (DMM) of its own. In traditional finance, a DMM is a firm that will buy and sell securities to and from customers, hoping to clear a profit in any difference in price, called the spread. From FTX's founding, Alameda was that market maker, snapping up and releasing cryptocurrencies on the exchange. Alameda and FTX's symbiotic relationship proved advantageous for both ends of Bankman-Fried's growing empire. As FTX matured, other market makers came online to offer liquidity, but Alameda was, and remained, FTX's largest liquidity provider.

In August 2019, SBF directed his team at FTX to program an exception into the exchange's code, allowing Alameda to "maintain a negative balance in its account, untethered from any collateral requirements." "No other customer account at FTX was permitted to maintain a negative balance," (SEC v Samuel Bankman-Fried, 2022). The negative balance meant that Alameda was allegedly effectively backstopped by customer assets while making trades.

FTX offered power users access to an API — an interface that allowed the user to bypass FTX's front-end platform and communicate directly with FTX's back-end systems. Normal users were still subjected to common-sense checks: verifying that they had enough money in their account, for example. Alameda traders could access a fast lane which let them shunt past other users and shave "several milliseconds" off their trade execution times, according to the CFTC. The kind of high-frequency trading that FTX users engaged in made that invaluable (Goswami & Sigalos, 2022).

## **CAPITAL OUTLAY**

### **Political Contributions and Family Ties**

FTX prided itself on its charity and outreach efforts and donated funds to help save lives, prevent suffering, and ensure a brighter future. It demonstrated this through its broad financial support, especially of sports personnel and sports-related events. Some examples of its sponsorship include the Mercedes Formula 1 racing team; naming rights for the Miami Heat basketball stadium; a 10-year naming rights stadium deal with the University of California at Berkeley; and sponsorship of such sports figures as Tom Brady, Naomi Osaka, and Steph Curry.

SBF and his FTX colleagues believed in philanthropy and used corporate assets to donate to charitable organizations and political campaigns. The contributions were often made through and to organizations with close family ties. Figure 3 below provides an example of SBF's contributions.

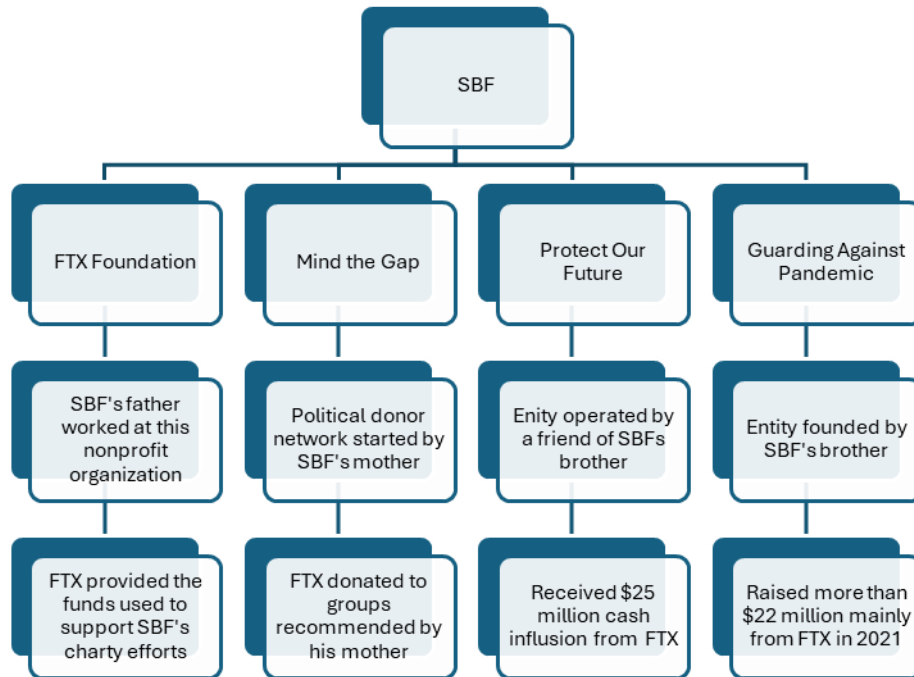
Guarding Against Pandemic was created in 2020 and is a pandemic-prevention organization that was founded by SBF's brother. It received \$22 million in the first half of 2021 which transformed it into a major Washington lobbying firm.

Protect Our Future is a political action committee that was created in 2022 and is mainly funded by SBF. The entity is operated by a friend of SBF’s brother and received approximately \$25 million in cash infusion from FTX.

Mind the Gap is a political donor network that was started in approximately 2018 by SBF’s mother and others. It operates in secret and supports political candidates to strengthen our democracy by providing them with evidence-based guidance on the electoral strategies, tactics, and programs that are likely to achieve the greatest impact in each election. FTX donates to groups and candidates recommended by his mother

SBF’s father supported the organization through his work with the FTX Foundation, a non-profit organization created in 2021 and funded by FTX. One of its main philanthropic areas was the FTX Future Fund which supported research that improved humanity’s long-term prospects. Although based in the USA, SBF’s father worked in the Bahamas office for approximately 11 months during 2021 and traveled at least monthly to FTX outside this period.

Figure 3: Sam Bankman-Fried Charitable Structure

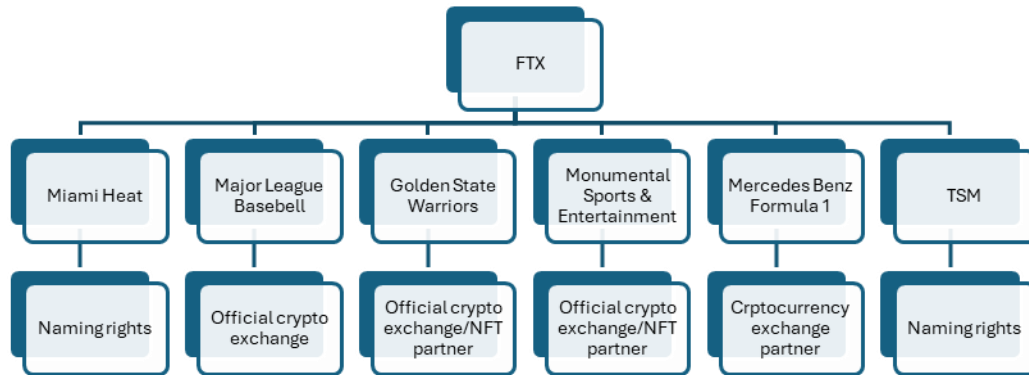


### Sports Marketing

Sports Marketing was one area on which FTX spent lavishly with the goal of creating the most press and visibility possible. It signed some of the top names in the major sports to lucrative equity deals as FTX ambassadors and invested heavily in sports teams and sports arena. Its roster of current and current athletes includes Tom Brady (Football), Naomi Osaka (Tennis), Steph Curry (Basketball), Shaquille O’Neal (Basketball), Trevor Lawrence (Football), Aaron Jones (Football), David Ortiz (Baseball) and Shohei Ohtani (Baseball).

As noted in Figure 4 below, FTX had an extensive relationship with sports teams and arena commitments and reportedly spent approximately \$375 million in sports commitments in the second half of 2021 alone. Some of the sports commitments are discussed in this section.

Figure 4: FTX and Sports



In June 2021, FTX signed a 19-year, \$135 million commitment with the Miami Heat for its arena's naming right renaming it FTX Arena. During the same month, FTX became the official crypto exchange of Major League Baseball which allowed the company's US exchange's name, FTX.US, to be displayed via a patch on every umpire's uniform. In June 2021, FTX signed a 10-year, \$210 million naming rights deal with Team SoloMid (TSM), an esports organization. Under the deal, the organization would be renamed TSM FTX, and use it gear on team gear and in players' social media profiles.

In August 2021, SBF, a video game fan, arranged for a seven-year, \$96 million sponsorship deal with Root Group, a video game developer. The deal provided for FTX to sponsor the league of Legends Championship esports league. FTX followed up this deal in September 2021, with the signing of a long-term deal with Mercedes Benz Formula 1 becoming its official cryptocurrency partner. While the terms were not disclosed, the FTX logo would be prominently displayed on both the driver and the cars.

In December 2021, FTX entered a multi-year deal with Monumental Sports & Entertainment, becoming its official crypto exchange and non-fungible token (NFT) partner. Although the deal terms are unknown, it provided FTX access to four sports teams: Washington Wizards (Basketball), Washington Mystics (women's Basketball), Washington Wizards (Hockey), and Capital City Go-Go (G-League Basketball). Also, in December 2021, The Golden State Warriors received a \$10 million commitment from FTX to become the team's official cryptocurrency platform and NFT marketplace. The deal allowed FTX to provide in-arena signage at the team's area and brand placement with its G League team and other brands.

FTX involvement in sports extended beyond professional sports and into the college ranks. In August 2021, FTX signed a \$17m deal with the University of California at Berkeley's Athletic Department for the naming rights to the field at its stadium. The field would be renamed FTX Field with the company's logo placed on both 25-yard lines. In November 2021, FTX

signed a name image and likeness (NIL) agreement with the University of Kentucky's basketball team. The team allowed the players to become brand ambassadors of FTX providing them with monthly stipends and the ability to create and sell their own NFT.

### THE FALL OF FTX

On November 8, 2023, Binance, the world's largest cryptocurrency exchange, agreed to buy FTX for an undisclosed sum. A day later, Binance abandoned the deal citing concerns over FTX's business practices and pending investigations by US financial regulators. Faced with liquidity pressures and no available lifeline, FTX filed for Chapter 11 bankruptcy protection. Its CEO, SBF, resigned from the organization effective immediately. The sister company, Alameda Research, and most of the related companies also filed for bankruptcy protection.

The sports marketing deals began to unravel upon FTX's bankruptcy filing. Mercedes-AMG-Petronas suspended its FTX sponsorship and removed the branding from its cars. The Miami Heat removed the company's name from its arena, while the Golden State Warriors stopped promoting or advertising the exchange. TSM suspended its FTX deal and removed its branding from jerseys and social media. Also, UC Berkeley suspended its deal and removed the company's logo from its football stadium field.

Clearly, any entity associated with FTX was distancing itself as quickly as possible.

### DISCUSSION QUESTIONS

Provide answers to the following questions:

1. The "tone at the top" is considered a key component of an organization's corporate governance process. Use the fundamental principles within the control environment component of the Committee of Sponsoring Organizations of the Treadway Commission (or COSO) framework to discuss:
  - i. The company's commitment to integrity and ethical values
  - ii. The Board of Directors' independence from management
  - iii. The structures, reporting lines, and appropriate authorities and responsibilities established by management in the pursuit of objectives
  - iv. The organization's commitment to attract, develop, and retain competent individuals
  - v. The organization's ability to hold individuals accountable for their internal control responsibilities

[Note: Use Appendix A to answer each of the above in terms of both the *design* and *operating* effectiveness of the control environment]

2. Comment on the effectiveness of the company's overall control environment
3. Comment on the effectiveness of the corporate governance process at the company
4. Was the fraud preventable? If so, identify steps that could have been taken to prevent it from occurring.

**APPENDIX A: THE COSO FRAMEWORK – CONTROL ENVIRONMENT**

<b>COSO Component – Control Environment</b>	<b>Related Principle</b>	<b>Comment on the design<sup>1</sup> or existence of this principle within the organization</b>	<b>Comment on the operating effectiveness<sup>2</sup> of this principle within the organization</b>
	i. The organization demonstrates a commitment to integrity and ethical values.		
	ii. The board of directors (BoD) demonstrates independence from management and exercises oversight of the development and performance of internal control.		
	iii. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.		
	iv. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives		
	v. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives		

---

<sup>1</sup> This refers to the initial design and establishment of a control to prevent errors, material misstatements, or fraud

<sup>2</sup> This refers to the ongoing performance of the control over time

## BIBLIOGRAPHY

- Barrabi, T. & Moynihan, L. (2022, November 14). Meet Caroline Ellison, Sam Bankman-Fried's top exec — and rumored ex-girlfriend. *New York Post*. Retrieved April 17, 2023, from <https://nypost.com/2022/11/14/meet-caroline-ellison-sam-bankman-frieds-rumored-ex-girlfriend/>
- Ciccomascolo, G. (2024, October 14). FTX shareholder list: Investors in SBF's bankrupt exchange in line for payouts. *CCN*. Retrieved November 19, 2024, from <https://www.ccn.com/news/crypto/ftx-shareholder-list-sbf-investors-bankruptcy-payout/>.
- Goldstein, M., Yaffe-Bellany, D. & Kelly, L. (2023, March 24). The Younger Brother Caught in the Middle of the FTX Investigation. *The New York Times*. Retrieved April 17, 2023, from <https://www.nytimes.com/2023/03/24/business/ftx-gabe-bankman-fried.html>
- Goldstein, M. & Yaffe-Bellany, D. (2023, February 4). FTX Inquiry Expands as Prosecutors Reach Out to Former Executives. *The New York Times*. Retrieved April 17, 2023, from [https://www.nytimes.com/2023/02/04/business/ftx-Bankman-Fried-inquiry-executives.html?name=stvl-ftx&region=TOP\\_BANNER&block=storyline\\_menu\\_recirc&action=click&pgtype=Article&variant=undefined](https://www.nytimes.com/2023/02/04/business/ftx-Bankman-Fried-inquiry-executives.html?name=stvl-ftx&region=TOP_BANNER&block=storyline_menu_recirc&action=click&pgtype=Article&variant=undefined)
- Goldstein, M. & Weiser, B. (2023, February 23). New details shed light on FTX's campaign contributions. *The New York Times*. Retrieved April 17, 2023, from <https://www.nytimes.com/2023/02/23/business/sam-bankman-fried-ftx.html#:~:text=Federal%20prosecutors%20on%20Thursday%20added,illegally%20donate%20to%20federal%20political>
- Goldstein, M., Stevenson, A, Farrell, M & Yaffe-Bellany, D. (2022, November FTX's Sister Firm, Alameda Research, Was Central to Collapse. *The New York Times*. Retrieved March 14, 2023, from <https://www.nytimes.com/2022/11/30/business/dealbook/ftx-alameda-research-sam-bankman-fried.html>
- Goswami, R. & Sigalos, M. (2022, December 19). How Sam Bankman-Fried swindled \$8 billion in customer money, according to federal prosecutors. *CNBC*. Retrieved April 16, 2023, from <https://www.cnbc.com/2023/01/10/ftx-investors-included-robert-kraft-paul-tudor-jones-new-filings.html>
- Griffith, E. (2023, April 15). The End of Faking It in Silicon Valley. *The New York Times*. Retrieved April 16, 2023, from <https://www.nytimes.com/2023/04/15/business/silicon-valley-fraud.html>
- McKenna, F. (2022, November 18). A Complete Failure of Corporate Controls': What Investors and Accountants Missed in FTX's Audits. *CoinDesk*. Retrieved April 27, 2023, from <https://www.coindesk.com/layer2/2022/11/18/a-complete-failure-of-corporate-controls-what-investors-and-accountants-missed-in-ftxs-audits/>
- Nover, S., Shendruk, A. & DiCamillo, N. (2022, November 17). The scrollable, annotated, incredibly complex org chart of FTX and Sam Bankman-Fried's fallen empire. *Quartz*. Retrieved April 16, 2023, from <https://www.yahoo.com/video/ftx-bankruptcy-filing-reveals-remarkably-193200722.html>
- Securities and Exchange Commission v Samuel Bankman-Fried, Case 1:22-cv-10501 (U.S. Dist. Ct. 2022) <https://www.sec.gov/files/litigation/complaints/2023/comp25616.pdf>
- Sorkin**, A., Mattu, R., **Warner**, B., **Kessler**, S., **Gandel**, S., **de la Merced**, M., **Hirsch**, L. & **Livni**, E. (2022, November 9). Crypto Investors Grapple With the Collapse of a Giant. *The New York Times*. Retrieved March 31, 2024, from <https://www.nytimes.com/2022/11/09/business/dealbook/ftx-binance-crypto-deal.html#:~:text=Prices%20of%20digital%20currencies%20have,by%20a%20top%20rival%2C%20Binance.>
- Tayeb, Z. (2023, March 16). FTX's Sam Bankman-Fried transferred \$2.2 billion to his personal account from parts of his crypto empire, new bosses say. *Business Insider*. Retrieved April 17, 2023, from <https://markets.businessinsider.com/news/currencies/ftx-sam-bankman-fried-inner-circle-received-billions-alameda-2023-3>

- Wang, T. (2022, November 29). Bankman-Fried's Cabal of Roommates in the Bahamas Ran His Crypto Empire – and Dated. Other Employees Have Lots of Questions. *Coinbase*. Retrieved March 31, 2024, from <https://www.coindesk.com/business/2022/11/10/bankman-frieds-cabal-of-roommates-in-the-bahamas-ran-his-crypto-empire-and-dated-other-employees-have-lots-of-questions/>
- Yaffe-Bellany, G. (2022, November 14). How Sam Bankman-Fried's Crypto Empire Collapse. *The New York Times*. Retrieved April 17, 2023, from <https://www.nytimes.com/2022/11/14/technology/ftx-sam-bankman-fried-crypto-bankruptcy.html#:~:text=The%20empire%20built%20by%20Mr,firm%20to%20file%20for%20bankruptcy>
- Yaffe-Bellany, G. (2023, January 17). FTX Executives Expressed Concern Over Use of Customer Funds, Documents Show. *The New York Times*. Retrieved April 17, 2023, from [https://www.nytimes.com/2023/01/17/business/ftx-sam-bankman-fried-documents.html?name=styl-n-ftx&region=TOP\\_BANNER&block=storyline\\_menu\\_recirc&action=click&pgtype=Article&variant=undefined](https://www.nytimes.com/2023/01/17/business/ftx-sam-bankman-fried-documents.html?name=styl-n-ftx&region=TOP_BANNER&block=storyline_menu_recirc&action=click&pgtype=Article&variant=undefined)
- Yaffe-Bellany, G. & Goldstein, M. (2023, March 30). Sam Bankman-Fried Pleads Not Guilty to Additional Set of Charges. *The New York Times*, Retrieved April 17, 2023, from [https://www.nytimes.com/2023/03/30/business/sam-bankman-fried-charges.html?name=styl-n-ftx&region=TOP\\_BANNER&block=storyline\\_menu\\_recirc&action=click&pgtype=Article&variant=undefined](https://www.nytimes.com/2023/03/30/business/sam-bankman-fried-charges.html?name=styl-n-ftx&region=TOP_BANNER&block=storyline_menu_recirc&action=click&pgtype=Article&variant=undefined)
- Yaffe-Bellany, G. & Goldstein, M. (2023, February 28). Third top FTX executive pleads guilty in fraud investigation. *The Boston Globe*, Retrieved April 17, 2023, from <https://www.bostonglobe.com/2023/02/28/business/third-top-ftx-executive-pleads-guilty-fraud-investigation>
- Yaffe-Bellany, D., Goldstein, M. & Moreno, J. (2023, November 2). Sam Bankman-Fried is found guilty of fraud and conspiracy. *The New York Times*. Retrieved March 31, 2024, from <https://www.nytimes.com/2023/11/02/technology/sam-bankman-fried-fraud-trial-ftx.html>
- Yaffe-Bellany, D. & Moreno, J. (2023, November 2). Sam Bankman-Fried sentenced to 25 years in prison. *The New York Times*. Retrieved March 31, 2024, from <https://www.nytimes.com/2024/03/28/technology/sam-bankman-fried-sentenced.html>