

FTX – Billions of Dollars to a Firm with No Controls

Things change, at least sometimes. Take Crypto assets. They began as a way to “get off the grid.” Over time some came on to the grid as their popularity increased. Others stayed off. And still others began trading at venues that often look like, but are not, securities exchanges. Trading and speculating in the assets continues at some venues. There continues to be huge price gyrations.

One crypto exchange that did not come in is FTX. It remained “off the grid.” No regulation here. Nevertheless, it quickly obtained a billion dollar plus valuation; its popularity increased. The co-founder’s legend grew as he moved across the horizon, even reaching out to help others in an industry that spawned DoucheCoin, at first a joke, but which is still being traded. And now the reason TSX stayed off the grid is clear – it is an illusion. *SEC v. Samuel Bankman-Fried*, Civil Action No. 1:22-cv-10501 (S.D.N.Y. Filed December 13, 2022); *CFTC v. Samuel Bankman-Fried*, Civil Action No. 1:22-cv-10503 (S.D.N.Y. Filed December 13, 2022). The Department of Justice also filed criminal charges.

In 2018, Defendant began work on a crypto asset trading platform. Gary Wang and Nishad Singh joined the effort. Together the three founded FTX. The firm began operations in May 2019. The new trading platform was closely associated with Alameda Research LLC, a firm that had operations in the U.S., Hong Kong and The Bahamas. Known as a “crypto hedge fund,” its CEO was Defendant Bankman-Fried. He became the ultimate decision maker.

Defendant Bankman-Fried raised over \$1.8 billion from U.S. and other investors who acquired an equity stake in FTX. Investors were repeatedly told that the firm had the necessary and appropriate controls – it was not off the grid. FTX was the grid; it was the second largest crypto trading platform. Mr. Bankman-Fried fostered this belief throughout the period of operations. Yet from the beginning Mr. Bankman-Fried diverted investor assets from FTX to Alameda.

Related Capabilities

- Securities & Financial Services Litigation & Enforcement
- Investment Funds
- Investment Management
- Technology

As the cash diversions continued Defendant touted FTX as having “top-notch, sophisticated, automated risk measures in place to protect customer assets, that those assets were safe and secure . . .” Alameda was portrayed as just another investor, not a funnel for investor cash to Defendant.

Throughout its operations Mr. Bankman-Fried spent lavishly on office space and condominiums in The Bahamas. Billions of dollars in customer funds were put into speculative investments. These activities continued even as FTX began to crumble. Indeed, as the house-of cards collapsed, funds were still being diverted to Alameda. For example, in the summer of 2022 Defendant moved millions of dollars in customer funds to himself. At the same time investors were continually reassured that the platform was successful, right up to the end. With the filing for bankruptcy on November 11, 2022, however, it was clear that FTX had never come in from being off the grid – millions and billions of investor dollars were put into what was essentially an empty box without internal controls -- except perhaps a path to move investor cash to Defendant. The complaint alleges violations of Securities Act Section 17(a) and Exchange Act Section 10(b). The case is pending.