

The Collapse of FTX Crypto Exchange

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Summary of the Case

The collapse of the FTX, once the third largest crypto exchange, was a significant event that happened in early November 2022 in the cryptocurrency industry. The company collapsed with stunning speed after a report by CoinDesk as this report revealed questionable financial practices involving Alameda Research, the sister firm of FTX. This affiliated trading firm “derived most of its value from speculative cryptocurrency tokens” and shock the entire volatile crypto market. A run on deposits left FTX owing customers more than \$8 billion setting forth a series of events that has troubled the crypto community. This event had driven inquiry and inspection by the Justice Department and the Securities and Exchange Commission. Concerns over these practices led to a surge of customer withdrawals rendering FTX insolvent and pushing it into bankruptcy (*The Collapse of FTX*, n.d.). The founder and former CEO of FTX, Sam Bankman-Fried, was convicted in 2023 on several charges and faced civil and criminal charges for misappropriating customer deposits. On March 28, 2024, Sam Bankman-Fried was sentenced to 25 years in prison after his 2023 conviction. This event has had lasting consequences on the cryptocurrency market and had a domino effect causing widespread mistrust that led to the failure of other crypto services in the industry. The event led to increased calls for regulation and oversight to prevent similar incidents in the crypto industry in the future. The paper sheds light on the crisis at FTX that vaporized more than \$8 billion overnight in the highly speculative digital asset market as well as on the leadership, mission statement, financials, and market position of the company in the crypto market.

Company Background

FTX, the third largest cryptocurrency exchange was founded in May 2019 and incorporated in Barbuda and Antigua by Sam Bankman-Fried and Gary Wang. The company was headquartered in the Bahamas after moving in 2021 from Hong Kong. FTX had specialized in derivatives, spot markets, leveraged products, and volatility. It also supported trading for NFTs or Non-Fungible Tokens, popular cryptocurrencies, leveraged markets, and spots (*What Was FTX?*, n.d.). However, the company was never available for public trading. The company ran two trading arms namely FTX-US which is a separate US affiliate where only residents of the United States could trade and the FTX which is the major and international platform based in Bahamas. It is a platform for digital currency exchange where traders can buy and sell dogecoin, bitcoin, and other digital assets.

Company Leadership

Sam Bankman-Fried, the founder and former CEO of FTX, was a graduate of the Massachusetts Institute of Technology (MIT). Fried was also a “former Jane Street Capital international exchange-traded funds (ETFs) trader” (*What Was FTX?*, n.d.). The man quickly rose to prominence by founding a quantitative trading and cryptocurrency firm which Fried named Alameda Research prior to founding FTX. The reputation of Fried as a successful entrepreneur and trader in the crypto world emerged because of his background in quantitative finance and algorithmic trading. He was considered a notable player in the crypto world and was known in the trading and digital currency sectors. However, Fried’s success toot the horn for his fall due to claims of fraud against him and he was arrested in December 2022 and convicted of fraud and related charges in Nov 2023. However, John J. Ray who is the current CEO of FTX is known for his expertise in recovering funds from failed corporations. Professionally, Ray is a lawyer and a US attorney who is well-known for restructuring troubled companies. He was appointed CEO of FTX following the company’s liquidity crisis in 2022. Ray has stated that the situation crisis at FTX is a significant representation of the complete failure of corporate controls (Kelley, 2022).

Company History

The company experienced rapid growth and at its peak, FTX had over one million users led it to become one of the largest in the industry and the “third-largest cryptocurrency” exchange by volume. However, FTX filed for bankruptcy in Nov 2022 following a liquidity crisis that was triggered by a CoinDesk report. It raised concerns about FTX’s significant holdings in native token FTT and a trading firm namely Alameda Research that was closely associated with FTX. The situation worsened for the company when a rival exchange in the cryptocurrency industry, Binance, announced that it would sell its FTT holdings following the FTX liquidity crisis (Huang, 2022). This led to a significant projection in customer withdrawals because FTX failed to keep an appointment with the withdrawal demands. Thus, the potential demands fell through and the founder was arrested on charges of concerns over mishandled customer funds and financial offenses at the request of the government of the United States.

Mission Statement of the Company

FTX as an investor-owner company aims to grow the digital currency ecosystem while seeking sustainable returns over the long term. The company aims to invest in new and emerging sectors inspiring the loyalty of international traders to become a market-leading US-regulated cryptocurrency exchange. However, since FTX filed for bankruptcy in 2022 and its founder faced legal charges, the current status of the company might have affected its operations and mission.

Brief Financials or Market Position

FTX was valued at \$25 billion in the year 2022 and major venture capital groups invested almost \$2 billion in FTX. When the company faced a significant financial crisis, FTX revealed almost “\$900 million in liquid assets and \$9 billion in liabilities” on its balance sheets with approximately 130 affiliated companies commencing voluntary proceedings which affected investors, customers, and the crypto market at large (*The Collapse of FTX*, n.d.). The founder, Sam Bankman-Fried, tried to engage with potential investors to save the business through effective business discussions. Fried also admitted to mistakes in the management of FTX finance which led to a significant downfall of the cryptocurrency exchange market. In the crypto market, FTX’s collapse led to major financial losses for the company and widespread mistrust among investors because of the civil and criminal charges against Sam Bankman-Fried for financial misconduct and misappropriating customer deposits (“*A Complete Failure of Corporate Controls*”: *What Investors and Accountants Missed in FTX’s Audits*, n.d.). The fallout from FTX’s collapse and the events surrounding have underscored the risks and problems associated with cryptocurrency because the market position of FTX is now a cautionary tale in the crypto world and traders community. The collapse case is still ongoing with legal efforts and proceedings to recover lost funds and FTX’s financials that are continuing to affect the crypto community.

Bottom Lines

The cryptocurrency exchange giant which was created with the aim of innovation and quick expansion was fallout in a scam tale due to a dramatic turn in the crypto world when details of fraud, scams, regulatory scrutiny, and legal lawsuits surfaced in the bitcoin ecosystem. The cryptocurrency sector which evolves on the basis of regulatory compliance and ethical trade methods faced severe challenges with the significant downfall of FTX, once a top-tier exchange, which proves that even innovative initiatives are not immune to scrutiny and guarantee their long-term trustworthiness. The case emphasizes the significance of regulatory compliance and responsibilities for personalities as well as companies or projects determining the future of the cryptocurrency landscape in order to guarantee the long-term survival of the exchange company within the crypto community.

References

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