The Daily Dish

FTX Takeaways

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Eakinomics loves a good scandal – especially among the rich, famous, and connected – as much as the next policy-oriented, personal-therapy blog. So what can one learn from the implosion of the crypto trading platform FTX? Thomas Wade has his take on the issue. Here's another.

To recap: On November 11, cryptocurrency exchange FTX (once valued at $32 billion) filed for bankruptcy in Delaware, along with a number of other companies founded and run by crypto entrepreneur Sam Bankman-Fried. Bankman-Fried started with his firm Alameda Research that specialized in crypto trading and then founded FTX as a platform on which crypto trades could be executed, often using FTX's own cryptocurrency FTT as the medium of transaction. Rumors of FTX's inability to redeem FTT caused a run on FTX ("here's your damn FTT, give me back my real money") that created a $6 billion liquidity shortfall and the rapid spiral from illiquid to insolvent.

There are lots of elements to the story. What matters?

First, ignore the personal story of Sam Bankman-Fried. Too much will be made of his meteoric rise to billionaire status, his even faster decline to mere millionaire, his political connections and contributions, his sponsorship deals, his real or faux altruism, his girlfriend's involvement in his business, his hair, and other TMZ-like fodder. Puhleeeze. Spare us.

Second, do not obsess over the "victims" of FTX's collapse. In contrast to the picture often painted by the media and politicians, crypto investors are not naïve young people trying to eke out an investment living. The dominant dollars in crypto investing are the same deep-pocketed, experienced, and affluent individuals and institutions that dominate other asset classes. They lost money, but it was avoidable and their choice.

Third, do not fear for the stability of the U.S. financial system. This movie is not Subprime Armageddon II. This is Rich Kid's Toy Got Broken. Sad!

Fourth, do pay attention to the abysmal governance structure of FTX. CEO Bankman-Fried resigned and who was there to step in? Nobody. There was no board of directors. No CFO. There are better organized lemonade stands, and the folks who entrusted hundreds of millions of dollars should have done due diligence and gone long in lemons.

Fifth, do pay attention to the fact that apparently customers' deposits at FTX were transferred to Alameda Research and invested elsewhere. This sounds blatantly fraudulent (and makes this more about con than crypto). It is also where the rubber hits the road on regulatory supervision. (Hat tip to Mr. Wade for this point.) If you think of FTT as a security (there will be debate over this) then the Securities and Exchange Commission would have the responsibility of supervising the integrity of FTT, including segregating customer deposits to back redemptions. Lots of interesting questions there.

Sixth, do pay attention to the future of other crypto assets/firms and the regulatory framework. There is enormous heterogeneity among the former that should be respected and accommodated in the latter. Treating all of crypto as FTX-alikes run by SBF clones is a mistake.

Buckle up. Congress is promising to investigate, lawsuits are inevitable, and there has already been a tsunami of coverage of it all. But keep your eye on the real issues.