The Collapse of FTX: Lessons in Governance, Risk Management, and Digital Trust

Derek Hillman

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Professor: Rob Batchelder

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FTX was once viewed as a very successful cryptocurrency exchanges in the world. The company expanded quickly, attracted investors, gained public attention, and became one of the most recognizable names in digital finance. However, its collapse showed how fast a business can fail when growth is not supported by ethical leadership, strong governance, and effective risk management. FTX's downfall was not just a cryptocurrency problem. It was also a business failure, a leadership failure, and a systems failure. The company handled billions of dollars in customer assets, but it did not have the internal controls, transparency, or accountability needed to protect those funds. From a cybersecurity business perspective, FTX is an important case because it shows how digital trust can collapse when a technology company fails to protect users, assets, and information. FTX failed because its leadership prioritized growth, image, and control over ethics, governance, and risk management.

FTX was founded in 2019 by Sam Bankman-Fried and Gary Wang as a cryptocurrency exchange. The company allowed users to buy, sell, and trade digital assets, including cryptocurrencies and related financial products. FTX entered the market during a period when cryptocurrency was becoming more popular among retail investors, technology users, and financial institutions. Many people saw cryptocurrency as the future of finance, and FTX presented itself as a safer and more professional platform than many other exchanges. Bankman-Fried became the public face of the company and was often described as a young billionaire entrepreneur who wanted to make crypto more mainstream. The company's purpose was to provide users with a platform for digital asset trading, but its operations later showed serious issues in how customer funds and company finances were handled.

FTX's rise was extremely fast. The company benefited from the excitement surrounding cryptocurrency hype and the belief that digital finance would continue to grow. FTX also used marketing, sponsorships, public relations, and investor confidence to build its brand. The company appeared successful because it attracted customers, investors, and major public attention. Bankman-Fried also promoted himself as a responsible leader in the cryptocurrency industry. This helped FTX appear more trustworthy than some other crypto companies. Yet, the company's public image did not match the problems happening inside the organization. According to the Securities and Exchange Commission, Bankman-Fried was later charged with orchestrating a scheme to defraud equity investors in FTX, while allegedly concealing the diversion of FTX customer funds to Alameda Research, a crypto trading firm connected to him (Securities and Exchange Commission, 2022).

One of the biggest factors in FTX's fall was the misuse of customer funds. Customers believed that their assets were being held safely by the exchange. In a company that handles customer money, the separation between customer funds and company funds is very important for tracking and legal purposes. However, federal authorities stated that FTX customer funds were used improperly. The Department of Justice reported that Bankman-Fried was convicted of multiple fraud-related charges and sentenced to 25 years in prison for his role in fraudulent schemes connected to FTX (U.S. Department of Justice, 2024). This shows that the collapse was not simply caused by market conditions or a bad business model. It involved serious misconduct by company leadership.

Another major factor was the relationship between FTX and Alameda Research. Alameda was a crypto trading firm, while FTX was supposed to be a customer exchange. These two businesses should have been clearly separated because they had different purposes and different

risks. If a trading firm has special access to an exchange's customer funds, it creates a serious conflict of interest. Reuters reported that Bankman-Fried secretly moved $10 billion in customer funds from FTX to Alameda and that between $1 billion and $2 billion in client money was unaccounted for, according to sources familiar with the matter (Reuters, 2022). This relationship between FTX and Alameda weakened trust because customers and investors did not fully understand how connected the two companies were.

FTX also failed because of weak internal controls. A company that handles billions of dollars in customer assets should have strong accounting procedures, independent oversight, access controls, cybersecurity protections, compliance systems, and risk management processes. Instead, FTX operated with poor governance and limited accountability. After FTX filed for bankruptcy, John J. Ray III became CEO of the FTX Debtors. In his testimony before the House Financial Services Committee, Ray stated that the FTX collapse appeared to come from the absolute concentration of control in the hands of a very small group of grossly inexperienced and unsophisticated individuals who failed to implement appropriate controls (Ray, 2022). This statement is important because it shows that the company's failure was connected to both leadership and systems weaknesses.

The lack of independent governance was another major problem. Governance is the system a company uses to direct, control, and oversee its operations. Good governance helps prevent fraud, poor decision-making, and abuse of power. In FTX's case, too much authority was concentrated in the hands of a small group of leaders. This allowed risky decisions to be made without enough oversight. Strong governance would have required independent board review, clear accounting practices, regular audits, and separation between company operations and

customer assets. Without those controls, FTX became vulnerable to misuse of funds, inaccurate records, and poor risk decisions.

From a cybersecurity and systems perspective, FTX also represents a failure of digital trust. Cybersecurity is often discussed in terms of hackers, malware, passwords, or network defense. However, cybersecurity also includes protecting the confidentiality, integrity, and availability of systems and assets. If a digital platform cannot accurately protect customer balances or prevent unauthorized movement of funds, then that platform has failed its users. FTX customers trusted the platform to keep their assets safe and available. When that trust disappeared, the business collapsed almost immediately. This shows that cybersecurity and business risk are connected. A company can have advanced technology, but if its internal controls are weak, the system is still unsafe.

FTX's fall happened quickly once concerns about its financial stability became public. Customers began trying to withdraw their funds, but FTX could not meet the demand. This created a liquidity crisis and showed that the company did not have enough available assets to satisfy customer withdrawals. The collapse damaged customers, investors, employees, and the larger cryptocurrency market. It also caused regulators and the public to question whether crypto exchanges were being managed responsibly. The speed of the collapse shows how fragile trust can be in digital finance. Once users believe their assets are not safe, they will try to leave the platform, and the company can fail very quickly.

There are several lessons that can be learned from the failure of FTX. The first lesson is that fast growth must be supported by strong controls. A business can grow quickly, but if its internal systems do not grow with it, the company becomes unstable. FTX expanded its brand and reputation, but it did not build the governance, accounting, and risk management structure

needed for a financial technology company. The second lesson is that ethical leadership is necessary. Leaders are responsible for setting the tone of an organization. If leaders hide problems, misuse resources, or mislead customers and investors, the entire company can collapse.

Another lesson is that companies must protect customer assets. Any business that holds money, personal information, or digital assets for customers has a responsibility to safeguard those assets. This means customer funds should be separated from company operating funds. It also means there should be clear records, audits, and limits on who can access those funds. In FTX's case, the failure to protect customer assets became one of the central reasons the company lost public trust. For technology companies, especially those in finance, trust is not optional. It is the foundation of the business.

FTX also shows the importance of transparency. Cryptocurrency companies often promote innovation and decentralization, but those ideas do not remove the need for accountability. Customers and investors need accurate information about how a company operates. If a business hides risks or gives misleading information, people cannot make informed decisions. Transparency is especially important in high-risk industries like digital finance, where customers may not fully understand how the technology or business model works. FTX's failure shows that secrecy can become dangerous when it prevents oversight and accountability.

My own assessment is that FTX failed because it tried to look like a mature financial institution while operating without the discipline required of one. The company had the public image of a serious and successful cryptocurrency exchange, but behind the scenes, it lacked the controls and leadership needed to protect customers. FTX's collapse was not just about cryptocurrency prices or market volatility. It was about poor governance, unethical leadership,

and weak risk management. In my opinion, the company's biggest mistake was allowing power to be concentrated in a small group without enough oversight. That created an environment where bad decisions could continue until the company could no longer survive.

I also believe FTX is an important warning for future entrepreneurs in technology and cybersecurity-related fields. A company can have a strong idea and still fail if it does not build trustworthy systems. Technology alone does not make a company reliable. Businesses need ethical leaders, strong internal controls, clear reporting, and a culture that values honesty. For CYSE professionals, FTX shows that security is not only technical. It is also organizational. A weak organization can create just as much risk as a weak computer system.

In conclusion, FTX's collapse demonstrates how business failure can result from a combination of unethical leadership, poor governance, weak internal controls, and failed risk management. The company rose quickly by presenting itself as a trusted cryptocurrency exchange, but its internal practices did not support that image. Its failure harmed customers, investors, employees, and the reputation of the cryptocurrency industry. The main lesson from FTX is that innovation must be balanced with accountability. A business that handles digital assets must be transparent, secure, ethical, and well-governed. For future entrepreneurs, FTX serves as a cautionary tale that trust is not built through marketing or rapid growth. Trust is built through responsible leadership, strong systems, and honest business practices.

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