

**Article Review on**

***“FTX Founder Sam Bankman-Fried Charged With Fraud by SEC After Arrest  
in the Bahamas”***

## **Introduction**

This paper aims to critically review the online article, “FTX Founder Sam Bankman-Fried Charged With Fraud by SEC After Arrest in the Bahamas” by Andrew R. Chow published on December 13<sup>th</sup>, 2022 in TIME Magazine. The article reports a violation of financial reporting fraud as well as other financial criminal charges by the business entity FTX Trading Ltd. and its CEO Bankman-Fried. The article reveals that FTX has raised over \$1.8 billion directly from its equity investors who trusted the cryptocurrency trading platform, only to find out that their funds were illegally being diverted to Alameda Research (Bankman-Fried’s privately held hedge fund for crypto research). Other related criminal charges of FTX include securities fraud, wire fraud conspiracy, wire fraud, money laundering and securities fraud conspiracy. The article reports in depth what went on inside FTX and how the financial fraud was revealed by the SEC, what repercussions followed FTX’s CEO Bankman-Fried, and how the company that was once hailed as the face of Crypto and its CEO as the saviour of Crypto went completely bankrupt. This article review will summarize the issues presented in the chosen article as well as inform the audience about the intricacies of choosing this article. The paper will also present the relevance of reviewing this article and will also provide lessons for Australian corporate accountants.

## **Body**

### **Summarizing the Article**

The parties involved as reported in the article mainly include Sam Bankman-Fried who was the leading CEO of FTX now former CEO of the bankrupted corporation. Furthermore, other significant involved parties were Nishad Singh, the former FTX engineering director who also partook in approximately six criminal counts; Gary Wang who is the former chief technology officer of FTX also participated in the scandal; as well as Alameda Research’s former CEO Caroline Ellison who is guilty of defrauding investors within FTX along with Bankman-Fried. Other significant parties even though were not involved in the scandal itself, were responsible for bringing this whole thing out in the open to the public and stakeholders including the SEC (U.S. Securities and Exchange Commission). Other FTX and Alameda Research employees were also parties who directly or indirectly, deliberately or inadvertently were participants in the whole altercation surrounding the FTX scandal. For instance, James Bromley who was formerly the lawyer of FTX made a statement about the company and its workforce in a bankruptcy hearing meeting that goes along the lines of how the company was run by unsophisticated, potentially-personally compromised, and inexperienced individuals.

Several financial reporting practices were violated by FTX and its CEO Bankman-Fried along with other key parties and defrauders such as Alameda Research's CEO and many more key members or stakeholders of the company. The primary financial fraud violation charge is for defrauding the company's (FTX) investors by U.S. Regulators like the SEC. The civil complaint holds that FTX raised over \$1.8 billion from its equity investors and diverted the majority of the funds to Alameda Research which was the CEO's own privately held hedge fund for crypto research. FTX which was once hailed as the most secure platform within the larger crypto ecosystem or industry fell from grace when its CEO was finally arrested on the primary charges. However, his fall was further cemented due to the subsequent charges brought on by the SEC which amounted to separate financial fraud charges like wire fraud conspiracy, securities fraud conspiracy, wire fraud, money laundering, and securities fraud. FTX was also secretly insolvent and owed approximately \$3 billion to over one million creditors. As per the expert opinions of banking and legal experts, FTX customers are unlikely to get their money back because the company cannot by any means pay all of its debts back. This is why FTX filed for bankruptcy on November 11<sup>th</sup> 2022 and soon thereafter the thirty-year-old Sam Bankman-Fried resigned as the CEO of FTX. This scandal is considered to be one of the most difficult and abrupt company collapses in corporate American history.

The primary investigation was held by the SEC and other related U.S. regulatory organizations and agencies. After the accusations and allegations made by the SEC as well as the myriad of proof provided by the SEC in addition to evidence from the guilty cooperation of key players, on 2023 November 2<sup>nd</sup> Sam Bankman-Fried was found guilty by a New York jury on all the seven counts of financial fraud concerning the fall or collapse of the cryptocurrency platform or exchange, FTX. The primary charge was for defrauding investors and customers of FTX as well as Alameda Research lenders. However, Bankman-Fried was arrested on 12<sup>th</sup> December 2022 on multiple charges of financial fraud like money laundering, campaign finance violations, securities fraud, and wire fraud. This also resulted in the bankruptcy of FTX as well as the resignation of Bankman-Fried as the acting CEO of FTX. The investigations also revealed that Bankman-Fried's privately owned hedge fund for crypto research, Alameda Research had derived the majority of its revenue or value from FTX's speculative funds scam or its cryptocurrency tokens that were originally supposed to go to either customers or the investors of the company. Instead, these funds went directly to the accounts that were controlled by Alameda Research. Thus, the outcomes of the investigation resulted in the fall of what was once considered one of the most secure as well as reputable companies within the entire crypto industry.

### **Difficulty in Article Selection**

It was a bit difficult at first to select an article related to the FTX financial reporting scam (which was chosen as the financial reporting fraud case study for this paper) as most of the articles found initially did

not report the whole spectrum of the truth surrounding the case. Most of the articles that were available at first reported what went on before the final verdict was passed on the FTX scam case, while others primarily focused on the aftermath of the verdict and what consequences followed the CEO Bankman-Fried as well as other parties involved in the financial fraud. Thus, after reading several articles and comprehending the full story behind the FTX scam case, this particular article was chosen. Several online websites were also searched for access to a proper article that reported the case in its entirety. In the beginning, online websites of CNN, BBC News, The Guardian, AASB, ASIC, The Sydney Morning Herald, and many more were searched with the key terms “FTX financial reporting fraud” and “FTX financial scam”. While the search did reveal several relevant articles and media that could have been chosen for this article review, however, the focus of the article reviewer was on selecting an article that would not only contain the intricate details of the financial reporting scam before its peak period but will also include what happened to the key parties involved as well as the stakeholders of the company who was affected due to the financial scam.

The selected article, “FTX Founder Sam Bankman-Fried Charged With Fraud by SEC After Arrest in the Bahamas” was crafted by Andrew R. Chow and was published on December 13<sup>th</sup>, 2022 in TIME Magazine. This article provides a good overview of the financial reporting scam and also highlights what the verdict was as well as what followed in the aftermath. It also highlights how the crypto firm that once helped other damaged crypto companies by loaning them approximately \$750 million came to meet its fall. The article also briefly highlights the repercussions faced by the CEO Bankman-Fried as well as the opinions and perspectives of important stakeholders and investigators on this issue. The article also briefly highlights how the fall of the crypto saviour will likely affect the entire crypto industry and will leave long-term implications for its customers and investors.

The issues in selecting this article could have been prevented if the financial reporting case study topic had been decided early on for this article review assignment. There are several interesting financial reporting case study topics to choose from however the FTX financial reporting fraud or scam case study was selected because of its unique industrial aspects and its infamous name as “one of the most difficult and abrupt organization collapses in corporate American history”. Moreover, the FTX case study is recent and its verdict came out in 2023, November 2<sup>nd</sup> and the arrests were made back in 2022 December. The collapse of FTX as a crypto trading platform was reported in November 2022 following the investigation reports made by CoinDesk. Thus, it is clear why the FTX financial reporting case study was chosen as the financial fraud to focus on. However, due to the infamous nature of the scam and the fact that it is a well-known financial fraud that affected the crypto industry deeply, there are many articles on this topic available in the online databases mentioned before. Selecting one that reports on the issue accurately and also provides a factsheet on the entire case study was the main challenge that could have been avoided at the last minute to

surpass the time constraints for the paper. The selection of the article should have taken precedence over creating a layout for the paper and researching the issue to understand the financial fraud case better.

### **Article Relevance for Unit**

The chosen article provides information on the financial statement fraud case study of FTX which was one of the most famous and used companies in the crypto trading ecosystem of America. The article highlights what happened that led to the fall and bankruptcy of the organization and why its CEO was arrested and given a lifetime imprisonment, as well as how it foreshadows the downfall of the American crypto industry. This unit focuses on financial statements and how to report them ethically and without any legal complications. The unit highlights the significance of legal compliance regarding financial reporting for any type of reporting entity from any industry. In terms of this, the chosen article not only helps to promote an idea about the actions and decisions that can cause harm in this sector but also highlights the types of regulations and consequences that can follow if someone does not abide by these regulations. In essence, the article acts like an ethical guideline for all those reading this paper as it imparts the idea and inculcates the principle that it is necessary to comply with ethical and legal regulations when it comes to financial reporting of statements.

### **Lessons for Australian Accountants**

Based on the findings, two lessons that Australian corporate accountants can take away from this case include; the implementation and execution of regular reviews and audits that can identify any type of financial transaction or promptly report irregularities or anomalies; and fostering open collaboration and communication with relevant regulatory agencies to remain informed about any necessary regulatory changes. In both cases, it should be ensured that all stakeholders have open access to the required information and data. In terms of auditors, Australian accountants must ensure that they can provide all information necessary to support external and internal auditors. Lastly, Australian Accountants who work in the corporation should also ensure that they are complying with the relevant regulations and laws of the industry.

### **Conclusion**

Therefore, it can be concluded from above that the article review is extremely relevant for studying in this unit as it helps to understand the intricacies of financial statement reporting as well as why it is necessary to comply with industry-specific regulations and laws. It is also necessary to ensure ethical and legal compliance with financial reporting in all types of industries. Furthermore, the article review focuses on the article that reports about the FTX financial scam case study which is both a recent as well as an

interesting case surrounding the American crypto industry. The investigations surrounding the case were made and handled by the SEC and some other related regulatory bodies. This case and the paper have also highlighted the lessons that Australian accountants can take away from this case study.

## **References**

Chow, A. R. (2022, December 12). FTX Founder Sam Bankman-Fried Charged With Fraud by SEC After Arrest in the Bahamas. Time.com. <https://time.com/6240579/ftx-sam-bankman-fried-arrested-bahamas/>