**FTX - and Crypto - hit the wall**

The strength and depth of **Mackrell International’s Blockchain & Crypto expertise** is unquestionable.

In a fast-growing, fast-changing and occasionally nebulous area, making sure you get the right advice and legal counsel is crucial.

In the article below, **Andrew Updegrove**, published author and Partner at MI member law firm **Gesmer Updegrove** in Boston, Massachusetts shines a light on the recent high-profile FTX crypto crash.

*“Last week saw the latest cryptocurrency implosion when FTX, the third largest coin exchange, entered bankruptcy. Once again, thousands of market players lost fortunes small and large. This time around, the biggest loser was FTX’s thirty-year old founder and CEO Sam Bankman-Fried. By financial reporting service Bloomberg’s accounting, his net worth dropped in less than a week from an estimated $16 billion to nothing* [*in less than a week*](https://www.cnn.com/2022/11/11/business/sbf-wealth)*.*

*What made this latest financial disaster remarkable was less its magnitude and speed of destruction, notable though both were, but the fact that Bankman-Fried had succeeded in persuading so many in the financial establishment that this time Crypto had grown up and could be trusted https://www.cnn.com/2022/11/11/business/sbf-wealth . This, despite the fact that the proof lay solely in Bankman-Fried’s self-espoused altruism and actions unrelated to his business rather than in reliable financials, transparency into the vastly complex web of FTX affiliates, or the existence of sound controls.*

*Indeed, FTX was organized in the Bahamas in order to avoid U.S. financial controls such as limitations on margin investing. And on November 14,* [*CNBC reported*](https://www.cnbc.com/2022/11/13/sam-bankman-frieds-alameda-quietly-used-ftx-customer-funds-without-raising-alarm-bells-say-sources.html?__source=iosappshare%7Ccom.google.Gmail.ShareExtension) *that Alameda Research, a US-based trading fund owned by Bankman-Fried, had borrowed billions of FTX assets to support its own trading activities, all without the knowledge of the FTX customers to whom those assets belonged. The collateral for those loans was a horde of coins issued by FTX itself, so when a run on FTX sent the exchange and its proprietary coins down in flames, Alameda crashed and burned as well, along with its ability to repay the loans.*

*In the months (and perhaps years) ahead, John Jay Ray, III, the turn-around specialist who unwound Enron after its own implosion, and a bankruptcy court will struggle to understand what actually happened to FTX and how much, if anything, can be salvaged from it and its Byzantine web of* [*over 130 affiliates*](https://techcrunch.com/2022/11/11/ftx-files-for-bankruptcy-ceo-sam-bankman-fried-steps-down/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuYmluZy5jb20v&guce_referrer_sig=AQAAAEP3eVFqM583wAulwHD7CRNqXKoGnTCmApjO13OJasZNcRDclM2RkA9COfjKqSyIwzHjOFolfetMGeO5XES7grAAhFm4qVIbZtqfGwhr3F1JUkfO8KO13WDGr9mw1-gC17-LYHBfDXzffVlQKCQkwiW0ngbKwdk1i8DyCcCxQt8M) *to pay off its creditors. In the U.S. the Securities and Exchange Commission and the Department of Justice will seek to determine whether, and what, laws might have been violated notwithstanding FTX’s off-shore legal status. Meanwhile, true-believer crypto investors will doubtless continue to invest, just as they have after so many previous disasters.*

*If there is a moral to this particularly epic meltdown, it is that appearances are no more than that. Regulations exist for a reason, and when a business bases itself offshore to avoid those regulations, no one should be surprised when the adverse effects those regulations were promulgated to avoid come to pass.”*

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