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The Absence of basic controls of ethics

FTX's $8 Billion Fraud and Why Governance Is Not Optional

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The Absence of Basic Controls of Ethics - A Case of Poor Decision Quality

In November 2022, one of the largest cryptocurrency exchanges in the world collapsed in a matter of days. FTX, founded by Sam Bankman-Fried and valued at $32 billion at its peak, revealed an $8 billion hole in customer funds. The subsequent bankruptcy proceedings revealed something remarkable: a company handling billions of dollars in customer assets had operated without a CFO, an independent board, a clear separation between customer funds and company operations, and accounting practices that a first-year auditor would have flagged as catastrophically inadequate.

FTX's collapse is often framed as a cryptocurrency story or a fraud story. But at its core, it is a decision-quality story, specifically a story about what happens when the basic infrastructure of good decision-making is deliberately dismantled or never built in the first place. The $8 billion didn't disappear because of sophisticated criminal schemes or complex financial engineering. It disappeared because no one with authority was asking basic questions, and the systems that would normally force such questions simply didn't exist.

Governance as Decision Infrastructure

Consider what proper governance provides. An independent board asks questions that management might prefer to avoid: Where is the money? What are our actual liabilities? Are customer funds segregated as required? A CFO maintains financial records that can be audited, reconciled, and verified. Internal controls ensure that no single person can move large sums without oversight. External auditors provide independent verification that reported numbers reflect reality. These aren't bureaucratic obstacles to innovation, but they are the basic infrastructure that enables trust, and trust is what permits financial institutions to function at all.

FTX had none of this. Bankman-Fried controlled the company absolutely. Alameda Research, the trading firm he also controlled, allegedly had access to FTX customer funds through a 'backdoor' that bypassed normal accounting. When crypto markets declined, and customers wanted their money back, the money wasn't there. It had been lent, invested, spent, or lost, but no one could say precisely where it went because no one had been tracking it with appropriate rigor.

The decision to operate without basic controls was itself a decision. And, arguably the most consequential decision FTX ever made. It was a decision that traded short-term speed and flexibility for catastrophic long-term risk. It was a decision that prioritized the founder's control over stakeholder protection. And it was a decision that could only persist because no one with power had the incentive or ability to challenge it.

The BRIEF© Framework and Governance

The BRIEF© framework's Foundation pillar includes Ethics as a core construct because ethical infrastructure is not separate from decision quality, but it is constitutive of it. Organizations that lack ethical governance structures don't just face compliance risk; they also face decision-quality risk. When there are no mechanisms for challenging questionable decisions, when dissent is structurally impossible, when transparency is absent, decision quality inevitably degrades regardless of how smart or well-intentioned individual decision-makers might be.

FTX also underscores the importance of the Risk construct. The risks FTX faced were not exotic or unforeseeable. Commingling customer funds is a known risk with known consequences. It is why regulations exist to prevent it. Operating without financial controls is a known risk. Concentrated power without oversight is a known risk. These weren't black swans; they were predictable consequences of predictable decisions. The failure was not in risk identification but in risk management. Or rather, in the deliberate choice not to manage risks at all.

Personal Governance and Decision Quality

The FTX story has implications beyond corporate governance. Each of us operates with personal 'governance structures'. It is the habits, relationships, and systems that either support or undermine our decision quality. Do we have people in our lives who can challenge our assumptions without fear of retaliation? Do we maintain records that let us understand where our resources are going? Do we have mechanisms for catching our own errors before they compound?

The entrepreneur who dismisses the need for a board because it would slow them down, the executive who surrounds themselves with yes-people, the individual who avoids tracking spending because they don't want to know. Each is making the same essential decision that Bankman-Fried made: trading governance for convenience, control for accountability, short-term flexibility for long-term stability. The scale differs; the pattern is identical.

Building Decision Quality Infrastructure

The Decision Quality Platform helps organizations and individuals build the governance infrastructure that FTX lacked. Assessment reveals propensities that might lead to governance shortcuts. Excessive confidence, discomfort with oversight, impatience with process, to name a few. Development pathways build appreciation for why governance matters, not as a bureaucratic burden but as an enabler of sustainable success. Organizational deployment creates cultures where basic controls are expected and maintained.

FTX's $8 billion lesson is stark but simple: there are no shortcuts to trustworthiness. The basic controls that seem to slow things down actually enable sustainable operation. The governance that feels constraining actually enables the trust that permits growth. Decision quality requires infrastructure. It needs not just smart people making smart choices, but systems that support good judgment even when individuals might prefer to avoid it. Without such infrastructure, even brilliant people can make decisions that destroy everything they've built.

MESSAGE:

At the heart of every transformative outcome lies a quality decision—yet most individuals and organizations still lack a systematic understanding of how they decide. This is the gap we are committed to closing. Our mission is to elevate decision quality from an assumed competency to a developed discipline—one that can be measured, understood, and continuously improved. Through the BRIEF© framework and our Decision Quality Platform, we are building the tools and insights to help leaders decode their decision-making DNA and cultivate the judgment required for an era defined by complexity and AI-augmented possibility. When people make better decisions, they build better organizations and more meaningful lives—and we are honored to partner with you on that journey.

“Ethical judgment is a core dimension of Decision Quality; without it, even analytically sound decisions can undermine governance and enterprise credibility.”

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