

# Opinion

## The FTX Collapse Looks an Awful Lot Like Enron

**Alameda and FTX were built on false asset values driven by deceptive self-dealing. So was America's most notorious corporate fraud.**

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The corpses of FTX and Alameda Research are barely cold, but financial coroners are already deploying scalpels and bone saws to try and figure out what went wrong. These autopsies are far from complete, but the findings so far suggest deep parallels between the Alameda and FTX blowup and the most infamous business fraud in American history – the Texas-based [energy trading con Enron](#) (ENE).

Those parallels are extensive and nuanced, even apart from the strange twist that Enron's former lawyer is the [new CEO of FTX](#). But one core similarity is the role of publicly-traded, equity-like assets ultimately linked to the performance of the firms themselves. In both cases, these internal assets flowed between entities that were nominally or even legally separate, but that in fact served the same masters. This enabled egregious financial self-dealing in the form of balance sheets pumped up by fictional valuations, a very fragile form of bootstrap leverage that unwound rapidly as soon as the falsely-inflated assets began to waver.

FTX's FTT token appears to have been the largest linchpin of Sam Bankman-Fried's house of cards. The token was nominally intended to give FTX users a discount on trading fees. But in practice its market price reflected sentiment about the performance of FTX itself, much as a stock tracks the performance of a public company. CoinDesk's Ian Allison reported on Nov. 2 that a [huge portion](#) of Alameda Research's balance sheet consisted of the FTT token, including some valued at its public price, and locked positions valued at half of that.

This raised alarms for a number of reasons, including by undermining the (already tenuous) idea that FTX and Alameda Research were truly separate operations. It remains unclear how exactly Alameda wound up with the FTT in the first place, but one theory is that the fund participated in the initial sale of FTT. If FTX and Alameda operated in

tandem, which seems increasingly clear, this could be considered fraudulent price manipulation.

The findings were also concerning because the FTT tokens were accounted for at prices much higher than they likely could have actually fetched on the open market. Alameda reportedly held [half of all existing FTT](#), a position that would have been impossible to liquidate without tanking the price. This became clear when rival exchange Binance began [selling its own FTT stake](#) in reaction to CoinDesk's reporting, immediately triggering a 75% collapse in the token's price.

As my colleague Tracy Wang noted last night in a [Twitter Spaces event](#), FTT was not the only asset on FTX or Alameda's balance sheets subject to similar dynamics. Both entities also held large illiquid stakes in tokenized projects either [launched or heavily backed](#) by FTX or Bankman-Fried, including SRM (Serum), MAPS ([Maps.me](#)), OXY (Oxygen Network) and FIDA (Bonfida). By providing initial funding, FTX would have played a major role in setting the initial value of these projects' tokens. Moreover, there is strong evidence that these were, like Alameda itself, [not truly independent projects at all](#).

*See also: [4 Key Takeaways from the FTX Fiasco](#) / *Opinion**

That would mean the value of any of those tokens reflected on Alameda or FTX's balance sheets were effectively fictional. Very, very fictional: a [leaked FTX balance sheet](#) claimed holdings of SRM worth \$2 billion dollars, when the entire market value of the token was \$88 million.

## **MAPS, OXY, FIDA and ... Blockbuster?**

These dynamics are damningly similar to at least two methods by which Enron artificially inflated its stock price: the use of spinoff entities to hide debt, and the use of [mark-to-market accounting](#) to claim revenues that didn't exist.

The most prominent of the spinoff gambits was [Chewco](#), a supposedly independent investment firm created to buy out the California state pension fund CalPERS' position in a prior partnership with Enron called JEDI. That project had failed badly, but Enron couldn't afford for the failure to become obvious by letting CalPERS sell its position on the open market.

So Enron created Chewco to bid on the CalPERS position. Chewco was nominally independent, but was in fact funded, owned and run by Enron and its executives, and ultimately backed by the value of Enron's own stock through a secretly guaranteed bank loan. Chewco bought out CalPERS at an inflated, and fundamentally fraudulent, price.

In nearly the same way, any trade in FTT tokens between Alameda and FTX, or use of FTT for loan collateral, would have reflected a false valuation, because Alameda was not independently pricing the true value of the FTT tokens. The presence of tokens like MAPS and OXY on the Alameda and FTX balance sheets, and their [possible use as](#)

[collateral](#) for borrowing, similarly echo Enron's use of mark-to-market accounting to manipulate its revenue.

Enron's most infamous mark-to-market maneuver was an early 2000 deal with Blockbuster Video, then a popular retail chain for movie rentals, to build a video streaming service.

This sounds like a well-timed idea, and Enron thought so too – it immediately claimed [\\$110 million in profits](#) from the project, before a single wire was laid or line of code written. This revenue helped pump Enron's stock price in the quarter the deal was announced, in turn giving it more leverage to deploy in similarly circular fashion. Unfortunately, the Blockbuster streaming project collapsed soon after when movie studios objected, meaning those already-announced profits evaporated retroactively. That ultimately helped unwind the entire Enron fraud.

*See also: [From Enron to Wirecard: How Blockchain Tech Could Have Helped](#)*

One of the fundamental flaws of using venture-style investing to launch publicly tradable tokens is that the same deceptive mark-to-market pricing dynamic is in some sense “baked in.” Unlike a private investment, these tokens immediately begin circulating in public markets, valued based on implied future revenue.

But the FTX tokens circulated only in very small amounts, while the prices derived from that thin trading were translated back to FTX and Alameda's huge illiquid holdings. This profound distortion of financial reality is sometimes referred to as “low flow, high FDV,” for “fully diluted value.”

When the curtain was pulled back and reality reasserted itself, both for FTX and Enron, the whole charade fell apart.