Testimony of Mr. John J. Ray III
CEO, FTX Debtors
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House Financial Services Committee

Chairwoman Waters, Ranking Member McHenry, distinguished members of the Committee: thank you for the invitation to appear before you today. I truly appreciate – and am very grateful for – your interest in this matter, and I hope my testimony can be helpful to you as the Committee continues its inquiry into the collapse of FTX and the efforts that are underway to help those who have been harmed.

I accepted the position of Chief Executive Officer of the FTX Group[1] in the early morning hours of November 11. Immediately, it became clear to me that Chapter 11 was the best course available to preserve any remaining value in the FTX Group, which was in deep financial distress. My first act as CEO was to authorize the Chapter 11 filings of over 100 FTX entities.

I, along with a comprehensive team, including experts and consultants with a wide array of relevant skills, are now working on behalf of the FTX Group to achieve one fundamental goal: maximizing value for FTX's customers and creditors so that we can mitigate, to the greatest extent possible, the harm suffered by so many.

To give you a sense of my background and how I ended up in this role: I have over 40 years of legal and restructuring experience. I have been the Chief Restructuring Officer or Chief Executive Officer in several large and vexing corporate failures involving allegations of criminal activity and malfeasance, including the Enron bankruptcy. I also have experience in bankruptcies involving novel financial and cross-border asset recovery and maximization.

[1] The "FTX Group" refers to the entities in the appended charts, with the ownership structure denoted therein.

Nearly all of these situations share common characteristics, ranging from gross mismanagement, excessive leverage, failures of internal controls, failures of external checks as a result of audit firm failures, or insufficient board governance. But never in my career have I seen such an utter failure of corporate controls at every level of an organization, from the lack of financial statements to a complete failure of any internal controls or governance whatsoever.

Although our investigation is ongoing and detailed findings will have to await its conclusion, the FTX Group's collapse appears to stem from the absolute concentration of control in the hands of a very small group of grossly inexperienced and unsophisticated individuals who failed to implement virtually any of the systems or controls that are necessary for a company that is entrusted with other people's money or assets.

Some of the unacceptable management practices at the FTX Group identified so far include:

- The use of computer infrastructure that gave individuals in senior management access to systems that stored customer assets, without security controls to prevent them from redirecting those assets;
- The storing of certain private keys to access hundreds of millions of dollars in crypto assets without effective security controls or encryption;
- The ability of Alameda, the crypto hedge fund within the FTX Group, to borrow funds held at FTX.com to be utilized for its own trading or investments without any effective limits;
- The commingling of assets;
- The lack of complete documentation for transactions involving nearly 500 investments made with FTX Group funds and assets;

- The absence of audited or reliable financial statements;
- The lack of personnel in financial and risk management functions, which are typically present in any company close to the size of FTX Group; and
- The absence of independent governance throughout the FTX Group.

With that understanding, as soon as I gained control on November 11, I began implementing a restructuring plan that will serve as the roadmap for navigating the FTX debtor entities through Chapter 11 and to a final resolution with its customers and creditors.

That plan has five core objectives:

The first objective, Implementation of Controls, is already well underway. That work involves building accounting, audit, cash management, cybersecurity, human resources, risk management and other systems that did not exist, or did not exist to an appropriate degree, prior to my appointment. We are not relying on prior management, but instead have hired a new Chief Financial Officer, a new Head of Human Resources and Administration and a new Head of Information Technology, all of whom have deep experience in their areas of core competency and have also managed other, large-scale corporate failures. In addition, I have engaged a team of independent third-party professionals in the necessary areas of restructuring, forensic accounting, tax disciplines, and cybersecurity, including Alvarez & Marsal, Alix Partners, Ernst & Young, respectively, along with a cybersecurity firm.

The second objective, Asset Protection & Recovery, is also a top priority. We are working around the clock to locate and secure the property of the estate, a substantial portion of which may be missing, misappropriated, or not readily traceable due to the lack of proper record keeping. We are working with Nardello & Company, Chainalysis, BitGo, Alvarez & Marsal and our cybersecurity firm on these recovery efforts. Thus far, we have secured more than $1 billion of digital assets to protect against the risk of theft or unauthorized transfers.

The third objective is Transparency and Investigation. Our investigative and cyber security teams, led by the law firm Sullivan & Cromwell, are already well into the process of gathering the evidence that will provide us with an understanding of what led to this collapse. They are working in close coordination with U.S. and foreign regulatory and law enforcement authorities. Their team includes attorneys who have served as Directors of Enforcement at the SEC and CFTC, and as Chiefs of the Securities Fraud, Money Laundering and Asset Forfeiture, and Complex Frauds and Cybercrime Units at the U.S. Attorney's Office in the Southern District of New York. We welcome the transparency of the Chapter 11 process and the oversight of the federal Bankruptcy Court.

In addition, the entire process is being overseen by our newly appointed independent Board of Directors, in consultation with its independent counsel at Quinn Emmanuel, a firm that also has deep investigatory experience. The independent Board of Directors is chaired by former U.S. Attorney and Chief Judge for the U.S. District Court for the District of Delaware, the Honorable Joseph Farnan.

Our fourth objective is Efficiency and Coordination, which requires cooperation and coordination with insolvency proceedings of subsidiary companies in other jurisdictions.

The fifth and final objective is the Maximization of Value for all stakeholders through the eventual reorganization or sale of the complex array of businesses, investments, digital assets, and physical property of the FTX Group.

A fundamental, overarching challenge with each of these objectives is that we are, in many respects, starting from near-zero in terms of the corporate infrastructure and record-keeping that one would expect to find in a multi-billion dollar international business. Still, in just over four weeks since assuming control of FTX, we have instituted meaningful steps to gain command and control and are well on our way to achieve the goals outlined above. Every week we gain a better understanding of what occurred and the path forward, which will be shared with interested and affected parties through the Chapter 11 processes.

The scope of the investigation underway is enormous. It involves detailed tracing of money flows and asset transfers from the time of FTX's founding, and highly complex technological efforts to identify and trace crypto assets. We are in the process of collecting and reviewing dozens of terabytes of documents and data, including records of billions of individual transactions, and we are leveraging sophisticated technology and expertise to identify and trace additional transactions and assets.

We are also summarizing this information in a manner that will make the information useful, not only to the bankruptcy estate, but also to governmental and regulatory stakeholders in the U.S., including the House Financial Services Committee, and around the world. We know that our investigative record will be the foundation for work done by many others, and we are committed to building a reliable foundation.

Questions have been raised as to why all of the FTX Group companies were included in the Chapter 11 filing, particularly FTX US. The answer is because FTX US was not operated independently of FTX.com. Chapter 11 protection was necessary both to avoid a "run on the bank" at FTX US and to allow our team the time to identify and protect its assets. Since the time of the filing, I have become even more confident this was the correct decision, as the books and records issues at FTX US and the many relationships between FTX US and the other FTX Group companies become clearer.

Questions also have been raised about what I think of the many opinions expressed by former CEO Sam Bankman-Fried and his recent offers to assist in the recovery effort. I will not comment on his statements other than to say that this is a professional investigation that is proceeding in a professional manner. We have a fact-finding process in place, and we will seek information from Mr. Bankman-Fried and others through that process, as appropriate.

In the absence of cooperation from responsible parties or any appropriate system to track and protect crypto assets, we are continuing our painstaking forensic efforts to account for all of the assets, both as to the FTX US and FTX.com exchanges, as well as Alameda. These efforts pose complex technical challenges that are made even more vexing by the massive amount of data that must be reviewed. At the same time, the review must be conducted in a highly secure fashion to avoid the risk of compromise or loss of assets.

While many things are unknown at this stage, and many questions remain, we know the following:

First, customer assets from FTX.com were commingled with assets from the Alameda trading platform.

Second, Alameda used client funds to engage in margin trading which exposed customer funds to massive losses.

Third, the FTX Group went on a spending binge in late 2021 through 2022, during which approximately $5 billion was spent buying a myriad of businesses and investments, many of which may be worth only a fraction of what was paid for them.

Fourth, loans and other payments were made to insiders in excess of $1 billion.

Fifth, Alameda's business model as a market maker required deploying funds to various third party exchanges which were inherently unsafe, and further exacerbated by the limited protections offered in certain foreign jurisdictions.

We are also making progress in repairing the regulatory relationships of the FTX Group around the world. I would like to especially say to regulators – in the U.S. and abroad – that I completely understand the depth of outrage and frustration with what happened. I have instructed my team to cooperate as comprehensively and completely as possible, and much of our time so far has been spent on the truly herculean task of gathering and organizing information responsive to the many requests we have received.

I know that the resolution of the Chapter 11 process, as well as the investigation into the causes of the FTX Group's collapse, are of keen interest to this Committee and to your constituents. Additionally, there are many others who need and deserve answers, including customers, creditors, investors, counter-parties, employees, and regulators. We are positioning ourselves to provide each of these constituents with the answers they deserve.

Although a bankruptcy proceeding of this unprecedented nature will take some time to run its course, I want you to know that I am committed to working as quickly as possible to investigate what happened in the lead-up to November 11 in order to formulate conclusions that can hopefully help to inform this Committee's work.

I should note that my ability to comment on certain matters today will be materially limited by the state of the FTX Group's books and records, ongoing bankruptcy proceedings, and the numerous, ongoing investigations by U.S. law enforcement and regulators.

But I look forward to answering your questions to the best of my ability.