

Video Segment 4: The FTX Scandal as a Case Study for Analytics Due Diligence

“In this particular case, where profits are flowing and FTX appears to be very profitable on paper, people were waiving due diligence.” -Dr. Daniel Taylor

NOTE-TAKING GUIDE

What happened at FTX, including the players, and what lessons can we take from this scandal to underscore the need for analytics-driven regulation in the world of finance? Make note of some of your key takeaways from the video clip:

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6.

Reflection: Financial innovation is creating Web3, an era of cryptocurrency and digital assets stored on the blockchain. Experts say it *is* the future of finance. How are you engaged in the metaverse economy? Do you own NFTs? Are you investing in crypto? Have you purchased goods with bitcoin? Are you using VR and AR? Share your personal experiences with this brand of digital finance and what you have learned. Also consider how this more “open” approach to finance empowers you, the consumer, and fits with the rise of big data and analytics.

THE LANGUAGE OF BUSINESS

(Linked terms are defined in the Wharton Global Youth Video Glossary)

[Assets](#)

[Health Care](#)

[Blockchain](#)

[Hedge Fund](#)

[Liability](#)

[Household Finance](#)

[CEO or Chief Executive Officer](#)

[Private Sector](#)

[Company](#)

[Public Company](#)

[Cryptocurrency](#)

[Regulations](#)

[Crypto Industry](#)

[Token](#)

[Financial Services](#)

[Web3](#)

Accounting Fraud: A business scandal that involves manipulating the finances of a company in some way – often for personal financial gain.

Alameda Research: Co-founded by Sam Bankman Fried, Alameda is a quantitative trading firm specializing in cryptocurrencies. In the fallout from the recent accounting scandal, Alameda filed for Chapter 11 bankruptcy along with FTX.

Audit: An independent examination of financial information for a company.

Balance Sheet: A statement of the assets, liabilities and capital of a business.

Beyond Business: An ongoing conversation at the Wharton School of the University of Pennsylvania that explores the most complex and pressing issues impacting individuals and organizations across the world. Each year Wharton Global Youth creates [Explore Business mini-sites](#) around different Beyond Business themes.

Big 4 Auditor: A person who conducts an audit, which is an independent examination of financial information for a company, from one of the largest Big 4 accounting firms, including PwC, Ernst & Young, Deloitte and KPMG.

Daniel Taylor: A Wharton School Professor of Accounting and Director of the [Wharton Forensic Analytics Lab](#).

Data Analytics (or just Analytics): The systematic computational analysis of data or statistics. It is used for the discovery, interpretation and communication of meaningful patterns in data.

Due Diligence: Conducting a detailed examination of a company's financial records and business transactions before entering an agreement or deal.

Erika James: Dean of the Wharton School with research interests in crisis leadership, workplace diversity and management strategy.

Metaverse: A computing platform that provides digital experiences as an alternative to or a replica of the real world.

Financial Accounting: The field of accounting concerned with the summary, analysis and reporting of financial transactions related to a business.

Financial Reporting System: The system in place to track, analyze and report a company's business income.

FTX: A large cryptocurrency exchange that recently went bankrupt due to an alleged financial scandal.

Internal Control Weakness: A failure in the effectiveness of a company's internal controls that can lead to fraud access. For example, failure to assess risks in an ongoing basis is an internal control weakness.

Michael Roberts: A Wharton School Professor of Finance.

Profits: A financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.

Renaissance Technologies: Also known as RenTec, this Long Island, N.Y.-based company is a hedge fund that specializes in systematic trading using quantitative models derived from mathematical and statistical analysis.

Sam Bankman Fried (aka SBF): The former CEO of cryptocurrency exchange FTX who is at the center of the company's alleged accounting fraud.

Trading Strategy: Buying and selling in markets (like the stock market) with predefined rules used to make trading decisions.

The Wharton School: The Wharton School, also referred to as just Wharton, is the business school of the University of Pennsylvania, a private Ivy League university based in Philadelphia, Pennsylvania. Wharton is a world leader in business education and a hub for academic research in all areas of business.

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