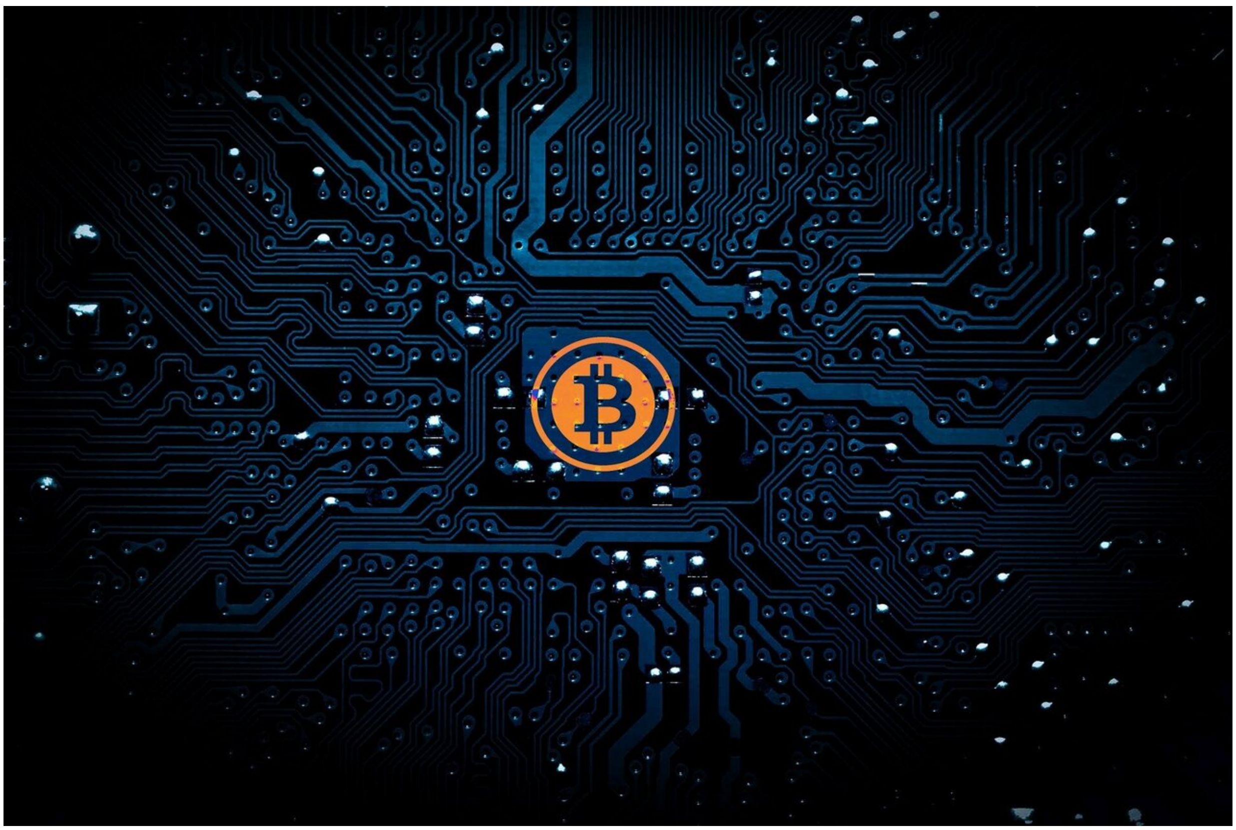
Have celebs learned their lesson from the FTX debacle?

January 20 2023, by Brian Contreras



Credit: Pixabay/CC0 Public Domain

Strolling out of a football stadium, Tom Brady makes his pitch for the crypto trading platform FTX.

"It's better," the revered quarterback says as he reviews a skyward-bound investment portfolio on his phone. "And I like better."

The advertisement, posted to FTX's Instagram account in September, wasn't the first time Brady had thrown his formidable weight behind the tech company—but it was likely the last.

A month and a half later, a balance sheet leaked from Alameda Research, a trading firm that FTX's former chief executive Sam Bankman-Fried co-founded, triggering a meltdown of epic proportions.

The Bahamas-based FTX is now bankrupt, and Bankman-Fried sits in Palo Alto, California, under house arrest as he faces charges of fraud. Some of the wunderkind's closest confidants have flipped on him; he's pleaded not guilty.

If the collapse has not totally subsumed Brady, he hasn't gotten out fully unscathed either. The pro athlete is among several celebrities being sued in a class action lawsuit alleging that they helped to promote the sale of unregistered securities in the form of yield-bearing FTX accounts.

The litigation, filed in Miami, has cast a spotlight on the important role that high-profile athletes, actors and other entertainers played in promoting FTX. Although some legal experts think it will be tough to prove liability, the federal case is forcing a reexamination of how celebrities have engaged with the controversial crypto industry.

"FTX's paid endorser program was clearly designed to use the positive reputation associated with specific celebrities to convince consumers that FTX was a safe place to buy and sell cryptocurrency," the suit reads. "Celebrities have a moral and legal obligation to know that what they are promoting is unlikely to cause physical or financial damage to customers."

Before its extraordinary implosion, FTX strung together a red carpet's worth of celebrity sponsors, lending glitz and glamor to the ill-fated house of cards.

Larry David starred in an FTX Super Bowl ad that framed crypto as a world-historical innovation on par with the wheel or the lightbulb.

Shaquille O'Neal asked would-be investors: "I'm all in. Are you?"

Other household names—Steph Curry, David Ortiz, Shohei Ohtani, Naomi Osaka, Kevin "Mr. Wonderful" O'Leary—promoted the company too. All are listed as defendants.

"It's a warning to these celebrities," said Adam Moskowitz, one of the lawyers bringing forward the suit. "If you're going to take the risks, there's going to be consequences."

An attorney representing Brady and David declined to comment. Representatives for O'Neal, Curry, Ortiz, Ohtani, Osaka and O'Leary did not respond to requests for comment. O'Neal has distanced himself from the company, framing his role as that of a "paid spokesperson." O'Leary, known for his role as a celebrity investor on "Shark Tank," told CNBC's "Squawk Box" that his involvement with FTX was the result of "groupthink."

In addition to any lasting reputational damage, Brady and his supermodel ex-wife, Gisele Bündchen, have likely lost most or all of the sizable financial stake they had in FTX.

The crypto space has long been awash with A-listers. Matt Damon, LeBron James, Reese Witherspoon, Snoop Dogg, Steve Aoki and Steven Seagal have all boosted various crypto products. A year ago, Jimmy Fallon and Paris Hilton awkwardly shilled non-fungible tokens, a specific class of crypto, on "The Tonight Show." Crypto trading featured prominently in a 2021 music video put out by Post Malone and the Weeknd.

And with celebrities come celebrity scandals, especially in an industry as lightly regulated as crypto. The SEC charged Floyd Mayweather Jr. and DJ Khaled in 2018 with not disclosing that they'd been paid to promote crypto tokens; Kim Kardashian met a similar fate in October. (At the time, Kardashian's attorneys said the socialite fully cooperated and was pleased to have resolved the matter.)

FTX's downfall has impacted others in the entertainment industry, including former CAA agent Michael Kives, whose fund received a $300-million investment from Bankman-Fried, according to the Information. The former CEO reportedly wanted to ink a sponsorship deal with music powerhouse Taylor Swift that never materialized.

That the star power of Hollywood seems to overlap quite frequently with what is otherwise a fairly niche financial vehicle is no coincidence, experts say.

"Celebrity endorsements have been critical to crypto for a very long time," said Yesha Yadav, an associate dean at Vanderbilt Law School whose work focuses on securities regulation. The sector has "relied on celebrities to give it mainstreaming; for celebrities to use their existing social media networks and their credibility and their reputation to push an asset class that has been unfamiliar to many people."

"They're really using the celebrity as a pawn to convince unsuspecting consumers to invest," said Bonnie Patten, executive director of the consumer watchdog group Truth in Advertising.

Moskowitz, the lawyer behind the class action suit, said he's been pursuing fraud cases related to cryptocurrency for a while now: first with low-level scammers, such as a Kazakhstani teen, and then around more formal crypto platforms over the last two years.

Now the attorney wants to hold accountable the many celebrities he says let Bankman-Fried piggyback on their reputations. Going after celebrity sponsors offers a faster path toward recovering what FTX's victims are owed, Moskowitz told The Times, than trying to get the money out of the embattled Bankman-Fried and his tattered empire.

"We have people that lost millions of dollars … because they were told for 8% interest this is the safest investment," said Moskowitz, who claims that some of his clients lost their life savings after being convinced by FTX's celebrity sponsors that it was a secure place to park their money.

"People respect celebrities," he added. "Right or wrong, people respect them, and you kind of gain acceptance in society" by recruiting them as sponsors.

Founded in 2019 and valued at $18 billion by 2021, FTX was a poster child for the crypto industry in part because Bankman-Fried proactively curated political relationships, including via campaign donations, and sought to create an aura of respectability that much of the rest of the crypto industry—awash with scams and price fluctuations—lacked. This summer, as the sector struggled, FTX offered other crypto firms buyouts and acquisition offers, even as the Federal Deposit Insurance Corp. ordered it to stop suggesting that crypto investments were backed by the government.

The company's reputation began to truly collapse in November with the leak of the Alameda Research balance sheet, which set off the domino-chain reaction that has led to bankruptcy, house arrest and Moskowitz's class action suit.

In addition to that case, the attorney is also pursuing one in Florida state court against Brady, Ortiz and O'Leary, which he hopes will lead to a ruling about whether FTX's interest-bearing accounts constituted unregistered securities.

For Moskowitz, that question is straightforward: "These are unregistered securities, you promoted them, you're liable."

But others aren't so sure.

"We don't know if these things are going to ultimately be deemed securities," said Sheila Warren, chief executive of the Crypto Council for Innovation trade group. "There's a very strong argument that they are not at all and never are; there's an argument that they start off as securities. … All those arguments exist, and it is unsettled."

"Our regulatory framework for the broader crypto market has not really caught up," said Yadav, the Vanderbilt Law associate dean. "When we're talking about particular financial institutions like FTX that transact in crypto tokens, because the tokens themselves don't have any consensus about what they are legally, then the institutions that transact them also don't."

It's unlikely that a court would decree a regulatory model for crypto on its own accord, Yadav added; more conceivable is that some of the celebrities named in the suit opt to settle the case to protect their reputations.

Class action cases are hard to win, said Truth in Advertising's Patten, and it won't be easy to prove that the celebrity sponsors named in this one caused investors harm.

"I would not bet on the side of consumers," she said.

Regardless, the reputational damage of the FTX implosion may prove scarier to celebrity affiliates than any dollar amount would. Brady and the rest lent Bankman-Fried their prestige when he was on top of the world; now they're stuck with the fallout.

That could precipitate a longer-lasting shift in how A-listers engage with crypto.

"I do think that we will see a little more caution in terms of assessing what might be the reputational issues if I do go into something that ... I maybe don't understand," said Warren, the Crypto Council CEO. "Maybe we should be thinking about what it means to get engaged with something that's very new."

The crypto industry may now turn to sources of validation other than famous people, Yadav predicted—legitimation through regulation, for instance.

"I think celebrities now no longer are going to do this," she said. "Certainly not the big names."

Citation: Have celebs learned their lesson from the FTX debacle? (2023, January 20) retrieved 26 April 2024 from https://techxplore.com/news/2023-01-celebs-lesson-ftx-debacle.html