diffusetap
Virtual Event Series

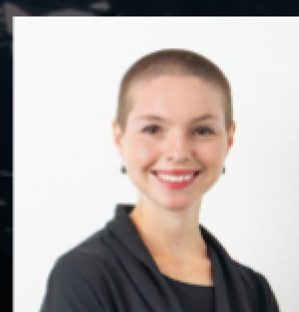
CFO-Led Business Turnaround

Guest Speaker:

Joshua Markou
Chief Financial Officer
FTX US Derivatives

Hosts:

Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: CFO-Led Business Turnaround

Last time on DiffuseTap, Joshua Markou, CFO of FTX US Derivatives, talked to us about how the CFO plays a key role in a company's success, the difference between the role of a CFO in a small startup versus a large corporation, and key areas that CFOs need to focus on to accelerate growth.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)… straight from your armchair like a boss.

Meet the Speaker

Joshua Markou is the CFO of FTX US Derivatives, a federally regulated crypto derivatives exchange. In his 20 years of industry experience in startups and multinationals, Josh has played a key role in designing and implementing new enterprise-wide reporting and BI analytics. Josh is also a founding member of The F Suite, an independent, invitation-only CFO peer community.

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About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.

KENNY ESTES: You're all here to hear from Mr. Josh Markou. So Josh, would you mind giving a brief intro on background and what you're up to over at FTX?

JOSH MARKOU: Thanks Kenny and Ayla for inviting me. I didn't realize I was so close to the 100th episode, just short by two. I appreciate it. Hi, everybody. My name is Josh Markou. I'm the CFO of FTX US Derivatives. I started my career about 20 years ago at Ernst and Young as an auditor, doing multinational public SEC client audits.

After about four years of that, I went to McDonald's Corp here in Chicago, and spent a little over five years in both the International and U.S. side, doing a variety of corporate finance roles. I'd say after the first 10 years of my experience of big brands, I got a really good understanding of sophisticated financial and accounting processes and controls, and how it works at big, large corporations.

And so, I decided to take a bit of a risk and move to a startup. I went as CFO of a small startup that needed some turning around, and I was able to learn how to apply what I had learned in my first 10 years of my career to a small startup space. I've continued doing that ever since.

AYLA KREMB: Beautiful. We'll hop straight into the questions here. Josh, how did you get into this role of flipping businesses? It's one thing to start as a CFO in a smaller business, but what does it mean to go in there from day one, knowing the things you would like to change, and knowing how to turn this business around?

JOSH: Great question. I got into this type of role when I realized I could use what I learned during the first 10 years of my career at big, public companies and apply it to a start-up environment. Most of that knowledge is around how large, sophisticated accounting and finance teams operate and the accounting processes and controls that are in place at large companies. It can actually be easier to apply at a small, start-up company because there are significantly less transactions. So you can create a very sophisticated environment at the start-up level relatively quickly. However, entering these situations can be tough. Typically there's some turmoil and unfortunately the leadership/ownership needs improvements quickly. So from the beginning I don't always have the time to tackle everything, just the immediate priorities.

One of the biggest things that helps me is having the full support of the leadership team, owner and investors. This is critical in order for me to do an effective job. Every time I've entered a situation, it’s always one day at a time. You start with some of the small stuff, but at the same time, you have to be a bedrock. You do have to make changes almost immediately.

That’s because typically, by the time I come in, you've got financial statements that are being issued late or inconsistently. You’ve got either the investors, or the president, or the CEO that is heavily involved in Accounting and Finance product-type areas. And so, I think it's critical to really take it one day at a time, and start making improvements where you can. But also, again, I rely heavily on my experience and know that I can do this. I think that's important as well.

KENNY: Gotcha. You started at Ernst and Young, and now you're at FTX. I don't think you have a large background in crypto, so how did that transition go for you?

JOSH: It's really interesting. For me, number one is I have this blend of both large corporate exposure, and experience doing this turnaround, CFO-type role at small startup companies. I think it's important to realize that not everybody that's good in large company settings can also be good in small company settings. One of the first things that I learned was this "roll your sleeves up" mentality. I think it's absolutely critical.

When you're looking at a startup CFO, you have to have somebody that is willing to do whatever, like book journal entries, shop for insurance, work on any audits that come through, help apply for all the bank accounts, and everything that needs to be done in order to take some of the busy work off of the CEOs and presidents.

For me, I had no crypto experience prior to FTX. And they weren't looking for it. I actually started with Ledger Holdings, or Ledger X, and we merged with FTX last October. But Ledger Holdings wasn't looking for somebody with a ton of crypto experience. They were looking for somebody like me, who can handle audits, is very adept at technical accounting knowledge, and knows accounting and finance processes really well. I think the reason for that is the regulatory component of what we do, what we have been doing, and what we're doing today.

For everybody on the call, if you look at what's happening in the crypto industry today, and you look at all the leaders like Coinbase, or any of the major exchanges, they're all promoting this idea of going to the regulators and wanting to be regulated, and wanting to have clear instructions on how to be regulated.

I think what's important is that they have people such as myself that have this industry rigor that can read regulations, read the accounting standards, and apply them correctly. Without question. That's how I ended up here, and it's been a wonderful experience.

AYLA: Let me ask about one thing I'm very curious about. A lot of folks on this call are investors in various portfolio companies, and I think "we would love a CFO" is one of the big mantras and chants that we hear from growing companies. What should an investor specifically be looking out for when they're engaging with a company, and they're trying to explore that company's back end, how they're managing their financials, do audits, and all that stuff? What should they look out for?

JOSH: That's a good question. I'd say, a lot of the times that I come in, again, it's not exactly a healthy situation. There often needs to be a lot of work done. I think the things that investors can look for are inconsistency with the financial statements. For example, you could compare the most recent set of financial statements to those issued six months ago. You could check if there are major changes in some of the accounts and some of the reporting.

I think another thing that usually stands out is that the information is late. For example, it's April 13 today. If you're looking at a fund or something to invest in, and they're only sending you statements from last September, last October, or even December, that's usually a red flag. If the financial statements aren't current, that's usually a red flag.

Another important thing that I see a lot is not only revenue generation, but how revenue is being recorded and reported in the financial statements from a fund perspective. A lot of the revenue that's being generated is either trading gains and losses, or management fees. I think it's extremely relevant to understand or at least ask the question of how those are getting reported in the financial statements because number one, that's impacting your K-1, and you're going to have to pay taxes on that.

Number two, it could be an indication that something is wrong. You don't need to know the accounting standards in terms of how to do that, but you just have to ask the question. I think that can enlighten you in terms of whether they can actually give you an intelligent answer, in terms of how those things are being recorded, because it's really impactful. When you look at some of the returns that some of the funds have gotten in just the crypto space in general, you want to be deadly accurate with revenues. I think that's the third critical thing.

KENNY: That's almost like an Elizabeth Holmes strategy. I like it. Jim had a question about FTX, and it's about the major league baseball umpire uniform deal. How did that come down?

JOSH: Yeah, I actually don't know about that. That was before my time because, again, we only merged with FTX in October, and they had already inked that deal beforehand. But I get that question a lot. I don't know if other people have noticed this as well, but we also have a deal that involves fortune cookies. You might order a fortune cookie from a Chinese restaurant in the U.S., and when you get the fortune cookie, out pops the FTX logo on the actual fortune itself. So, that's interesting. I wish I knew that story. I'm sorry.

KENNY: You have to figure that out. AJ had a question. Crypto assets can be a little difficult to value. There are lots of different markets over there. How involved are you in that? What are the best practices for trying to figure out how you're writing things in your balance sheet?

JOSH: Yeah, that's a really good question. I'm actually very involved. This bleeds into that same conversation about wanting the crypto industry to be regulated. From my end, I'm working that angle from the accounting side, because the accounting standards aren't exactly clear. Now, the valuation of digital assets depends upon what type of business you are. You either treat them as inventory and try to impair them, or you're trying to do a fair value measurement.

If you do a fair value measurement, you've got three different levels, and you're trying to figure out a price that you can value these assets. Unfortunately, the standards aren't very clear. Right now, I'm actually working with one of our audit partners at Grant Thornton who is trying to communicate with the FASB to get a clearer understanding of how to value a lot of these digital assets.

That's because not only are the rules unclear, but at the same time, with the volatility in some of the spot prices month to month, you could be looking at changes in hundreds of million dollars, and it's really hard to keep up with that. Generally speaking, I look at a lot of the markets like Coinbase, Kraken, Gemini, and FTX that have a lot of high volume trading on it, and I try to use the spot rate at UTC to do a fair value assessment of our digital assets at that point in time.

AYLA: I have another question here, which is around building a team and using technology. When you came into FTX, was there a team already? Were they well established? Did you come in to organize things your way? And did you start using technology to do your work? I think one common thing that we're noticing through all crypto funds is that there is a lot of stuff to keep track of, and doing it manually is not easy.

JOSH: Yeah. I think this applies to more than just FTX and the crypto industry in general, but I think it applies to any type of startup role. Like we were talking about before, when you're at a large company, you might have a 500-person finance team, globally. In this case, you can have people that can just hide. But in a startup, you can't hide. So, in terms of building and inspiring a great team, you have to find the right people with the right set of skills.

Oftentimes, I've come into startup-type environments, and to begin with, somebody's in an accounting role that doesn't have any accounting experience. That's one of the major things that I've seen. But there is a good reason for that. That's because at first, you might start with one or two different people. After a while, maybe the team grows to 10. But all of a sudden, it's 50 people, and you still have that person that's doing a bunch of accounting roles with no accounting experience. Finding the right people with the right skills is important.

I think the other critical piece when I think about startups, and especially FTX because we're a pretty flat organization, is we're generally hiring younger people. These are people with one to four years of experience. Now, the issue is that sometimes, it can be intimidating to talk to the executive team at that level. And so, I think one of the things that we need to do as leaders is we need to empower our employees to be able to build relationships and, for instance, to be able to talk with the CEO of FTX. That's critically important.

I think the last thing in terms of building a really great, inspiring team, especially when we think about the virtual workspace today, is creating open and very honest communication. One of the many things that I like about being in startups and being in FTX is, especially when I compare it to big companies, is the concept of feedback at big corporations. They've got a biannual or annual review. And oftentimes, you need to wait for a year to give any feedback. But in the startup culture, you can't do that. You have to be able to provide instant feedback almost right away. Because if it's 12 months, and somebody needs to work on something, it's way too late at that point.

That’s especially true in the crypto space, where things change so quickly. What we know today, what all of us on this call know today, is going to change in six months, or even three months. I think having channels of open and honest communication, and then being able to provide direct feedback right away is really helpful.

KENNY: Makes sense. We have six people at Diffuse who are still in school as undergrads, so I know that there is a real problem of getting any communication to go through us.

JOSH: Yeah. It’s one of the issues that I find most common. It really can be intimidating to be in a situation where it’s like, ”Hey, you have to talk to Brett Harrison, the president of FTX US.” That can be very, very intimidating, especially if you're not around that C suite all the time.

KENNY: There is a question here from the chat about institutional interest in crypto derivatives. Are you seeing a lot of it? Are you seeing that expand? What do you think the barriers to adoption are?

JOSH: The institutional interest in crypto is really large. We already have institutions trading on the Ledger X platform today. We have fully collateralized derivative products, as well as institutional interest in what we're looking for in the future. Currently, we have our open margin application with the CFTC, and we think very highly of what's going to happen. The institutions are extremely interested in it as well. That's the bottom line there.

Our goal is to get the margin application approved by the CFTC and then launch margin futures, to begin with. Our expectations are very high, and we're having discussions on a daily basis with institutions that are interested in the product. From that perspective, it's enormous. And just like anything, it's really built off the retail interest.

The retail interest has provided much of the backbone in the interest in crypto. A lot of these returns, a lot of this value started with all the retail traders. And now, the institutions are getting into it. When you look at 2021, and when you think about the returns and a lot of the prices that happened that year, at least from what I'm hearing, the question is no longer “are you invested in crypto? How much? What percent of your portfolio?” I'm sure you guys are hearing that as well. There's a tremendous opportunity with the institutions.

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Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on

Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on

Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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