

November 2022

Crypto Contagion

The Collapse of FTX

NBCUniversal

The 10-Day Demise of FTX Was Driven By Two Key Factors, Working In Tandem...

Key Players

Alameda Research: Quant Trading Fund specializing in Crypto Margin Calls

FTX: Crypto Exchange & Trading Platform with low fees and advanced trading options

Binance: Crypto Exchange & Trading Platform (a key competitor of FTX)

Sam Bankman-Fried (SBF): Founder of Alameda Research & FTX, CEO of FTX

Changpeng Zhao (CZ): Co-Founder & CEO of Binance

FTT (FTX Token): a token that afforded token holders discounts on FTX trades

1

Mishandling of Customer Funds

Without informing investors and customers, FTX was loaning billions of dollars in customer funds to Alameda Research (which SBF was directly tied to). Loaning client funds is a standard practice most traditional banks engage in (with consent), however, FTX utilized a loophole to avoid the retention of the necessary liquidity to match customer funds.

With a liquidity crunch and looming federal investigations, FTX looked for a bailout but failed to secure one.

2

Alameda's Poor Management

Alameda would use FTX customer funds to make trades, and then leverage FTT as collateral (rather than a fiat currency). When FTT crashed, Alameda was left without collateral to pay back losses incurred, leading to more loans from FTX's customer funds. Simultaneously, customers were looking to withdraw from FTX, leading to the main issue where FTX didn't have enough money to pay for withdrawals.

THE DOWNFALL OF FTX

CoinDesk publishes a report detailing the **questionable relation between FTX and Alameda**

Nov. 2nd, 2022

CZ announced **Binance would liquidate \$530M in FTX's token, FTT**, leading to a **75% drop in FTT value**

Nov. 7th, 2022

Facing **liquidity issues**, SBF announces that **Binance would buy FTX**, bailing them out

Nov. 8th, 2022

CZ **retracts Binance's offer** citing FTX's **mishandling customer funds & a looming federal investigation.**

Nov. 9th, 2022

FTX files for Chapter 11 Bankruptcy

Nov. 11th, 2022

CUSTOMER IMPLICATIONS

1

After Nov. 2nd, FTX struggled to fulfill **\$6 billion** of customer withdrawals prior to bankruptcy

2

FTX misplaced between **\$1 billion and \$2 billion** worth of customer funds when transferring funds to Alameda

3

After bankruptcy, an **additional \$477 million** in customer funds were stolen from FTX in a **suspected hack**

4

The value of the crypto sector **dropped 12%** and experts warn of a **Lehman Brothers moment for crypto**

The Recent Events Are Sparking A Call For Regulation

"I think this is a space where investors and consumers should really be very careful... we have very strong investor and consumer protection laws for most of our financial markets, but in some ways the **crypto space has inadequate regulation.**"¹

- JANET YELLEN
Secretary of the Treasury

But crypto brands and key players are all responding differently...

"African web3 startup **Nestcoin** declares it held its assets in FTX, lays off employees"

TC TechCrunch

"Crypto Fund **Sino Global** Regrets Its 'Misplaced Trust' in FTX, Reports 'Mid-Seven' Figure Losses Tied to Exchange"

 coindesk

"FTX-owned crypto exchange **Liquid** halts all withdrawals"

 THE COINTELEGRAPH
future of money

"**BlockFi** Prepares for Potential Bankruptcy as Crypto Contagion Spreads"

THE WALL STREET JOURNAL

"FTX's \$1.4 Billion Deal for Bankrupt Lender **Voyager** Is Canceled"

Bloomberg

"**Crypto.com** CEO downplays FTX contagion fears, says he'll prove naysayers wrong as withdrawals rise"

 CNBC

"**Binance's** CEO isn't sweating the FTX implosion"

TC TechCrunch

Moving Forward: Brands Are Focusing On Transparency

“From day one, Gemini has prioritized the security of our customers’ assets ... For the avoidance of doubt, Gemini has no exposure to FTT tokens or Alameda and no material exposure to FTX. “

GEMINI
Email to Customers

“All crypto exchanges should do (proof of reserves). Binance will start to do proof of reserves soon. Full Transparency.”

CHANGPENG ZHAO
Tweet to Followers

While the FTX situation led to the crypto sector **dropping 12%** and experts warn of a **Lehman Brothers moment for crypto**, this will likely **not have intense economic ramifications across the broader financial services landscape.**

“At least it’s not deeply integrated with our banking sector and, at this point, doesn’t pose broader threats to financial stability,”

- JANET YELLEN
Secretary of the Treasury

