Crypto Contagion
The Collapse of FTX

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

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.

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.

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

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

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

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

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

FTX files for Chapter 11 Bankruptcy.

**THE DOWNFALL OF FTX**

**Nov. 2nd, 2022**
- CoinDesk publishes a report detailing the questionable relation between FTX and Alameda.

**Nov. 7th, 2022**
- CZ announced Binance would liquidate $530M in FTX’s token, FTT, leading to a 75% drop in FTT value.

**Nov. 8th, 2022**
- Facing liquidity issues, SBF announces that Binance would buy FTX, bailing them out.

**Nov. 9th, 2022**
- CZ retracts Binance’s offer citing FTX’s mishandling customer funds & a looming federal investigation.

**Nov. 11th, 2022**
- FTX files for Chapter 11 Bankruptcy.

**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

“Crypto brands and key players are all responding differently…”

“African web3 startup Nestcoin declares it held its assets in FTX, lays off employees”

“Crypto Fund Sino Global Regrets Its ‘Misplaced Trust’ in FTX, Reports ‘Mid-Seven’ Figure Losses Tied to Exchange”

“FTX-owned crypto exchange Liquid halts all withdrawals”

“BlockFi Prepares for Potential Bankruptcy as Crypto Contagion Spreads”

“FTX’s $1.4 Billion Deal for Bankrupt Lender Voyager Is Canceled”

“Crypto.com CEO downplays FTX contagion fears, says he’ll prove naysayers wrong as withdrawals rise”

“Binance’s CEO isn’t sweating the FTX implosion”

“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.”

- JANET YELLEN
  Secretary of the Treasury
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