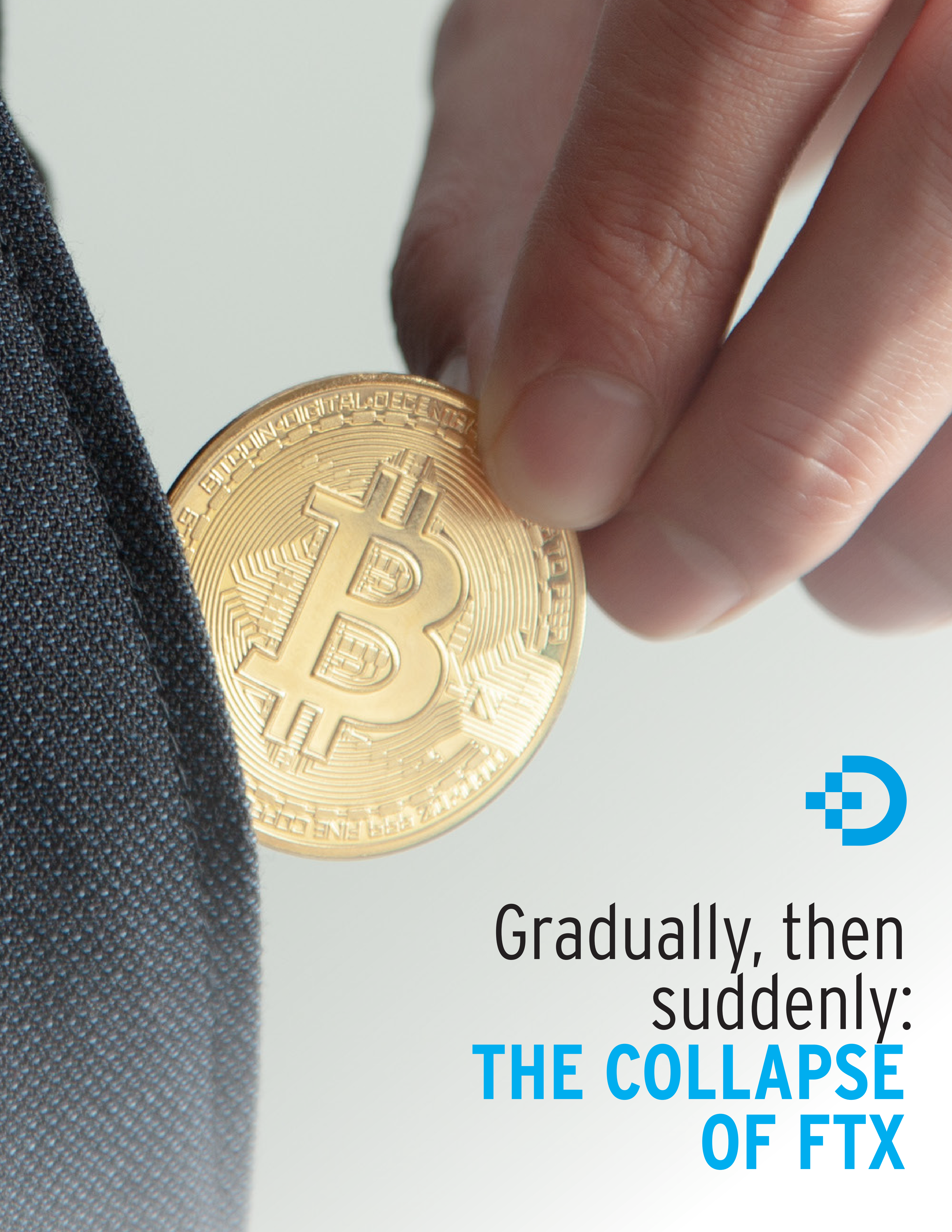


Gradually, then suddenly: **THE COLLAPSE OF FTX**

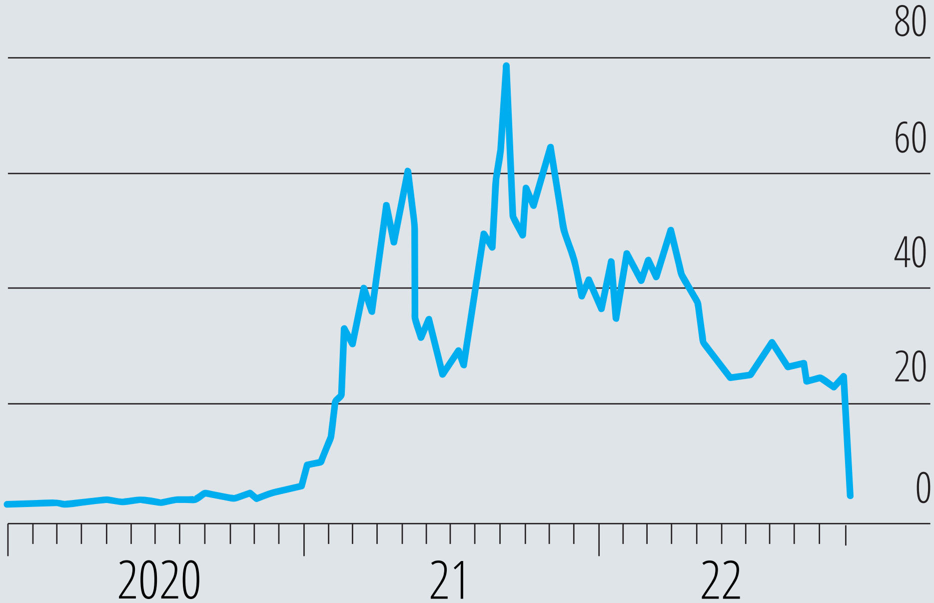
The Collapse of FTX and ensuing industry contagion or “Crypto Winter” is creating a dark and even more turbulent time for Crypto Currencies around the world. The shock FTX Investors had on November 2nd when they came to find their FTX investment was being spent by the FTX’s CEO and founder Sam Bankman-Fried’s trading firm Alameda. Before November 2nd and CoinDesk’s news report on FTX, the company was the industry’s third largest exchange now FTX has filed for bankruptcy causing a panicked sell out of the 15 largest cryptocurrencies, which combined lost over 152 billion dollars.

So, what does the collapse of FTX mean for the crypto world and its future?

In an industry already heavily scrutinized for lack of regulation, trust, and stability, crypto investors should have realized something was out of the ordinary at FTX when CEO Sam Bankman-Fried became the so called ‘Crypto’s Savior’ by bailing out BlockFi. On July 1st, then Zac Prince, BlockFi’s chief executive, said that its credit line from FTX had been increased to $400m, and included an option to acquire BlockFi for up to $240m. (The Economist) This came at a time when the industry saw SBF as one of the most trustworthy, regulator friendly, and politically powerful crypto leaders in the field. During the summer FTX went out to save and prop up many floundering coins and crypto lenders like BlockFi in what news outlets called his “JP Morgan Moment,” whether the news or investors’ trust was to blame for the ensuing collapse is unknown. What was known is that CoinDesk began investigations on FTX beginning in the fall, that’s **when the corrupt nature of FTX’s business model became**

WTF SBF

FTX Token price, $



Source: CoinMarketCap

clear to all.
They reported that tokens issued by FTX made up two-fifths of Alameda's assets, and were worth $5.8bn, it later emerged the exchange had lent $10bn of the $16bn of crypto-assets customers had entrusted with it to Alameda, which the trading firm is alleged to have used to make risky bets.

Nearly overnight FTX's token, (FTT) which is used as a crypto form of investment in the company, began a **stark downfall of value, bottoming out at $8 billion.** When the report first released there seemed to be a brief window of opportunity to sell the company to competitor Binance who had been one of FTX's earliest investors, but CEO Changpeng Zhao retracted from their public offering after they had access to FTX's books. They then went on to liquidate as much of their assets in FTX as they possibly could, further exacerbating the market downfall and driving FTX to bankruptcy. Some speculate that the collapse may have been orchestrated by Binance in a shrewd way to undermine and undercut FTX's progress, however, it seems that from the beginning FTX had been a cash reserve for SBF's more lucrative ventures with his Alameda firm.
With billions of dollars lost in what seems to be another crypto scam, investors and industry leaders have been completely shaken by the truth that was uncovered. Extremely low interest rates have encouraged investors to seek riskier asset allocation alternatives to better remunerate their capital. In the context of rising interest rates around the world, cryptocurrencies are starting to compete with more traditional investment alternatives (such as fixed income) and may continue to face challenges regarding their confidence. But while crypto currency investors understand full well the risk that they embark on when entering a highly unregulated and lucrative environment, they at least had taken comfort with **FTX as it was seen as the gold standard in**

trust and reputation for the industry.

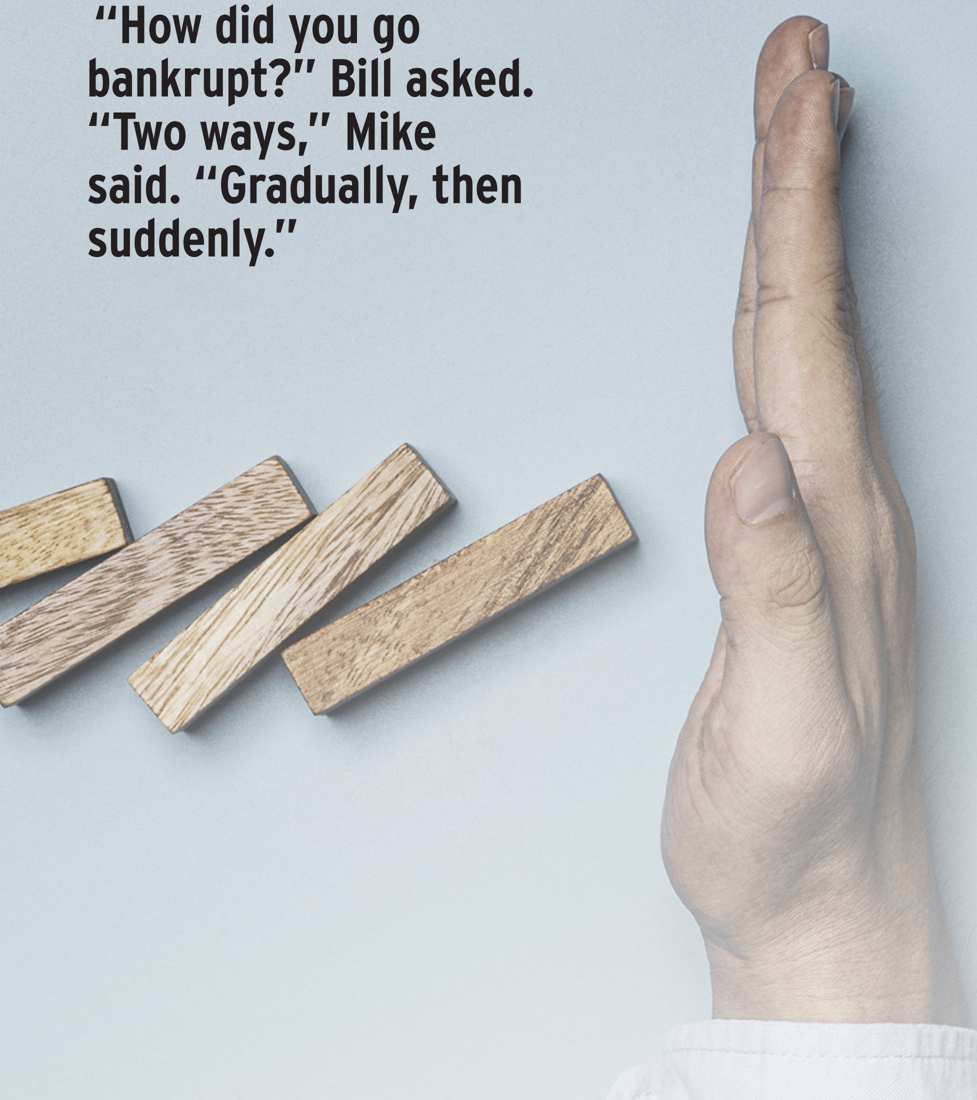
This corporate drama is highly akin to the Bernie Madoff and Theranos scandals that had preceded it, but with a far worse outcome in its respective industry. Many hopeful investors saw 2022 a cleansing in the market, a large amount of meme coins and crowdfunded schemes were being irradicated in the instability of global markets and the looming possibility of recession, but for FTX to have been complicit and leading the forefront of fraudulent crypto was a world changing invent for investors.

BlockFi the crypto lender that FTX extended their credit line to, is now issuing bankruptcy, a direct effect of FTX's implosion as some of the first of many institutions that took years of development to prop up the crypto market. It's abundantly clear that the crypto space will have a rough winter ahead and a long march through 2023 to regain the momentum and trust of investors to restart the market, but before it seems that regulators and the government are going to need to step in. The Security and Exchange Commission is currently investigating SBF's role and intention in creating FTX's business model with Alameda **in what may be the largest crypto corporate investigation in history.** Officials hope the investigation will give a playbook to understanding how so many crypto scams can go on without detection, however, the volatile and secretive nature of crypto makes prosecuting difficult, much less returning the money which has now undergone a multitude of transformations and transactions to the victims of FTX's scheme. Some of the victims that were hardest hit were hedge funds and investing firms like Sequoia Capital, but other smaller organizations that backed FTX like the Ontario Teacher's Pension Fund, which lost millions of dollars, have little to no chance in having the money reappropriated. The dangers of crypto and trusting the right company, coin, or exchange **is becoming ever present and scaring away moderate investors, like pension funds, at mass.**

The best way to comprehend the collapse and subsequent contagion in the crypto industry perhaps can be seen in Ernest Hemmingway's novel the Sun Also Rises.

"How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually, then suddenly."

In the case of FTX there had been signs of the impending collapse since the summer, propping up other coins and lenders to keep the flow of crypto moving in an unnatural manner, secrecy and distraction looming around the company's books and business model, and then the CoinDesk report that stop the gradual decline and kick started a sudden sell off. Later Binance's retracted offer coupled with the anxiety of current global markets made FTX a thing of the past. As one domino falls so do, they others and it seems that the foreseeable future will be marked with imploding crypto currencies until a gradual rise can form again, and investors can find **a new company executive in which to trust out of genuine record,** not speculation. Crypto market regulation advocates, such as US Treasury Secretary Janet Yellen, argue that asset segregation is needed. "In other regulated exchanges, you would have segregation of customer assets," she said. "The notion you could use the deposits of customers of an exchange and lend them to a separate enterprise that you control to do leveraged, risky investments — that wouldn't be something that's allowed."



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