

US authorities investigate crypto exchange FTX

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An advertisement for Bitcoin cryptocurrency is displayed on a street in Hong Kong, on Feb. 17, 2022. Bitcoin slumped to a two-year low, Wednesday, Nov. 9, and other digital assets sold off following the sudden collapse of crypto exchange FTX Trading, which has been forced to sell itself to larger rival Binance. Credit: AP Photo/Kin Cheung, File

The swift collapse of cryptocurrency exchange FTX sent more shockwaves through the crypto world on Thursday, with authorities now investigating the firm for potential securities violations and analysts bracing for a further downturn in crypto prices.

FTX had agreed earlier this week to sell itself to bigger rival Binance after experiencing the cryptocurrency equivalent of a bank run. Customers fled the exchange after becoming concerned about whether FTX had sufficient capital.

A person familiar with matter said that the Department of Justice and the Securities and Exchange Commission are examining FTX to determine whether any criminal activity or securities offenses were committed. The person could not discuss details of the investigations publicly and spoke to The Associated Press on condition of anonymity.

This week's developments marked a shocking turn of events for FTX CEO and founder Sam Bankman-Fried, who was hailed as somewhat of a savior earlier this year when he helped shore up a number of cryptocurrency companies that ran into financial trouble.

The investigation into Bankman-Fried and FTX by those in the crypto world as well as securities regulators is centering on the possibility that the firm may have used customers' deposits to fund bets at Bankman-Fried's hedge fund, Alameda Research. In traditional markets, brokers are expected to separate client funds from other company assets. Violations can be punished by regulators.

Meanwhile, investors in popular digital currencies got some relief from the latest crypto crisis Thursday after days of selling. Bitcoin rose to \$17,691 after dropping as low as \$15,512 on Wednesday. Ethereum rose 12%. The gains came after a government report showing inflation cooled a bit last month gave a lift to riskier assets.

The crypto world had hoped that Binance, the world's largest crypto exchange, might be able to rescue FTX and its depositors. However, after Binance had a chance to look at the books of FTX, it became clear that the smaller exchange's problems were too big to solve.

A person familiar with the dealings between FTX and Binance described the books as a "black hole" where it was impossible to differentiate between the assets and liabilities of FTX the exchange and those of Alameda Research. This person spoke on condition of anonymity because they weren't authorized to speak publicly about the matter.

This person said Bankman-Fried committed the "ultimate sin" by tapping into FTX's custodial assets to fund Alameda Research.

In a further illustration of FTX's financial straits, Bankman-Fried asked his investors Wednesday for \$8 billion to cover withdrawal requests, according to The Wall Street Journal, citing unnamed sources.

In a series of Tweets on Thursday, the FTX founder and CEO said that he did not have enough liquidity to cover withdrawals and that he was more leveraged than he had thought.

"I f(asterisk)(asterisk)(asterisk)ed up, and should have done better," he said.

The latest crisis in the crypto industry prompted renewed calls for stricter regulation. White House press secretary Karine Jean-Pierre said the FTX developments "highlights why prudent regulation of cryptocurrencies is indeed needed. The White House, along with the relevant agencies, will again closely monitor the situation as it develops."

The collapse of the cryptocurrency's third largest exchange is likely to cause further disruption across the entire crypto world, analysts say,

meaning Thursday's rally could be temporary.

"The unwinding of FTX, as well as its shock of confidence to the system, will cause crypto prices to fall even further leading to "a new cascade of margin calls," said analysts at J.P. Morgan in a note to investors. This would be similar to the selloff that happened after the collapse of the stable coin Terra earlier this year, where prices continued to decline weeks after its failure.

"This deleveraging is likely to last for at least a few weeks unless a rescue for Alameda Research and FTX is agreed quickly," J.P. Morgan analysts wrote.

The crypto industry is waiting to see what other companies are impacted by the FTX collapse. The venture capital fund Sequoia Capital said Thursday it is writing down its total investment of nearly \$215 million in FTX.

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