

FTX collapse gives crypto sector 'another black eye'

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The collapse of FTX — a cryptocurrency platform worth \$32 billion at the beginning of the year -- raises many questions, analysts say.

Even for a sector regularly rocked by bankruptcies, the collapse of FTX — a cryptocurrency platform worth \$32 billion at the beginning of the

year—came as a shock.

FTX founder Sam Bankman-Fried had cultivated friends in Washington and basked in glowing tributes when he stepped in to rescue other ailing crypto companies earlier in the year.

Yet, all it took for his firm to unravel was a report on a specialist website raising doubts about FTX's accounts, followed by a few tweets from his big rival Changpeng Zhao, boss of Binance.

Just days later, Zhao—who had feuded for weeks on Twitter with Bankman-Fried—announced on Tuesday he had signed a letter of intent to buy FTX after the firm asked him for help owing to a "major liquidity crisis".

Bitcoin fell in the process to its lowest level in two years.

"This is another black eye for the industry," said David Holt, a cryptocurrency industry expert at CFRA.

Other spectacular collapses this year include virtual currency terra, which was supposed to be pegged to the US dollar, and cryptocurrency investment platform Celsius.

With questions swirling about the viability of many crypto projects and the broader drop in tech investment since the rise in [interest rates](#), Holt questioned the "longevity and overall survival of a lot of these companies".

'Red flag'

FTX fell quickly when Zhao said he would get rid of Binance's holdings of FTX's in-house token FTT, sparking a collapse in its value and

evaporation of confidence in the firm.

Dan Dolev, an analyst for Mizuho, said the failure showed "liquidity in crypto exchanges could be very fickle".

"There is little actual capital backing crypto tokens," he said in a note.

And he added that FTX's rapid fall was a "red flag" for platforms such as Coinbase, which mainly offers token and digital currency trading.

Fans of cryptocurrencies and blockchain-related technologies have become used to a vicious cycle of booms and busts since bitcoin was launched in 2009.

The notional value of the cryptocurrency market rose to \$3 trillion in November 2021 before falling back below \$1 trillion in June.

It is still too early to determine the wider impact of FTX's rout, said Jamiel Sheikh, founder of several companies in the crypto world.

"Centralized exchange balance sheets are opaque, and so it is impossible to determine which exchange can withstand a run," he said.

But he added that Binance was offering to take over FTX's assets one-for-one, which showed "some confidence" in the business.

'A lot of craziness'

For Kevin March, co-founder of brokerage Floating Point Group, the question now is who will fill the void left by FTX.

"Binance, who already controls half the market? Or the hoard of similar but less successful exchange players offering offshore derivatives," he

asked.

He speculated that the event "could certainly accelerate US market regulation".

There is a "need for clear custody disclosure requirements from exchanges and a sensible story around what happens in the case of bankruptcy", said March.

But Sam Lessin of the venture capital firm Slow Ventures saw some positives in bitter rivals Bankman-Fried and Zhao coming together in a time of crisis.

"These guys can both simultaneously deeply compete with each other but they all have such a vested interest overall in the ecosystem they'll help each other out as well," he told CNBC.

But he added that the sector was still in effect the Wild West where "there's a lot of craziness, there's a lot of volatility, and there's a lot of scams, alongside a lot of deep innovation and really valuable stuff for the future".

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