Crypto industry grapples with FTX fallout as trial looms

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As former FTX chief Sam Bankman-Fried heads to trial, regulators face a reckoning.

The collapse of cryptocurrency platform FTX, whose disgraced former

boss goes on trial this week, sparked shock waves worldwide, with regulators still seeking to get to grips with the sector.

Sam Bankman-Fried, once the wunderkind of crypto, will appear in a federal New York court on Tuesday facing seven counts of fraud that could see him spend decades in prison, capping a spectacular fall from grace.

FTX, once the world's second-biggest crypto exchange, collapsed last November amid accusations that client money was being funneled to prop up its investment arm Alameda.

Investors pulled their money as the rumors snowballed, sinking FTX into bankruptcy and making Bankman-Fried a financial pariah.

The crisis also prompted a mass exodus of capital from the highly speculative industry and a string of other business failures.

FTX stoked concern over a sector dubbed by critics the "Wild West", with its promises of high returns in a volatile marketplace and a lack of oversight—two aspects that can appeal to criminals seeking to launder money.

Collapsing 'like dominos'

Crypto firms with large exposure to FTX fell by the wayside, including the trading firm Genesis and the BlockFi platform, as well as a host of lenders.

"I'm seeing the crypto collapses from last year like dominos" following FTX, said Erica Stanford, a fintech specialist at law firm CMS.

Several other cryptocurrency projects unrelated to FTX also bit the dust.

"Many were clear Ponzi schemes," Stanford told AFP, referring to pyramid investment scams designed to con consumers with the lure of a quick buck.

Stanford, author of best-selling book "Crypto Wars", said the FTX bankruptcy had also affected a lot of "people from the industry".

Bankman-Fried had carefully styled himself as the poster-boy of the crypto world—so his fall tarnished everyone.

US prosecutors accuse Bankman-Fried of diverting funds from FTX clients, but also wire fraud, securities and commodities fraud, and money laundering.

The turmoil ultimately sparked the demise of a virtual trading business that at one point had been valued at $32 billion.

A vast amount of cash was pulled from digital assets, particularly in a climate of rising global interest rates.

"Capital is scarce in crypto these days," said Banafsheh Fathieh, general partner at US digital asset investment group Faction.

"Venture dollars are down for five consecutive quarters and crypto trading volumes are at the lowest levels we have seen in about four years," Fathieh told AFP.

Missed momentum?

Most cryptocurrencies, including bitcoin, the world's most popular unit, are powered by blockchain technology that is decentralized—and therefore tended to operate off the regulatory radar.

The FTX furore sparked a crackdown from global regulators.

The US Securities and Exchange Commission in June pressed a raft of charges against Binance, the world's biggest cryptocurrency exchange, and the leading US player Coinbase.

The SEC has argued for years that certain digital currencies are in fact financial securities, like stocks or bonds, and should be subject to its supervision as an investment product.

The European Union meanwhile adopted its Markets in Crypto-Assets regulation this year for comprehensive oversight to protect investors and consumers alike.

But US authorities "perhaps... missed the momentum" to create crypto-focused legislation in the immediate aftermath of the FTX bankruptcy, said Arthur Carvalho, a specialist at Miami University.

"It hurts the industry not having proper regulations in place," he told AFP.

The sector was further shattered by the failures of tech-industry lender Silicon Valley Bank earlier this year, hot on the heels of the demise of US crypto lenders Silvergate and Signature.

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