FTX Collapse: What the HACK Happened to FTX ?

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Given the recent demise of cryptocurrency exchange FTX, rival Binance now has a window of opportunity, while the future of the industry as a whole is called into question.

Binance, the largest cryptocurrency exchange in the world, backed out of an agreement to acquire its rival, the struggling FTX, bringing the latter to the verge of collapse due to a flood of withdrawal requests.

Up until recently, FTX, led by one of the crypto industry's most revered individuals, Sam Bankman-Fried, was assumed to be in good form. A $32 billion valuation was achieved in January after the company raised $400 million from Softbank and others, and as recently as last month, the company was discussing ambitious acquisition aspirations of its own.

However, Binance CEO CZ tweeted yesterday that FTX had "called for us help" that a rescue deal had been negotiated after FTX abruptly froze customer withdrawals (a forerunner to many a crypto crash).

Bankman-Fried assured his customers in his own thread that their funds were secure and that withdrawal requests would be fulfilled promptly. He expressed his gratitude to CZ, Binance, and all of their backers by writing, "A *huge* thank you." CZ "has done and will continue to do an outstanding job expanding out the global crypto ecosystem and establishing a freer economic world."

Another high-profile failure was the last thing the cryptocurrency industry needed after the demise of Three Arrows Capital, Celsius, and the Terra-Luna stablecoin in the past year. Finally, it looked like FTX had made it through its own crises unscathed.

Binance announced today that the deal was off because of the findings of corporate due diligence and news reports of misuse of customer monies at FTX.

> As a result of corporate due diligence, as well as the latest news reports regarding mishandled customer funds and alleged US agency investigations, we have decided that we will not pursue the potential acquisition of https://t.co/FQ3MIG381f.
>
> — Binance (@binance) November 9, 2022

Bankman-Fried and CZ

The problems for FTX began in July of last year, when an early investor, Binance, sold its investment in the exchange for $2.1 billion worth of FTT, a token developed by FTX. The split between Bankman-Fried and CZ over how to handle cryptocurrency regulation was widely considered as inevitable at the time.

CoinDesk published an article last week that seemed to reveal that FTX's sibling business, Alameda Research, had billions of dollars in FTT clogging up its balance sheet. This has been the source of FTX's issues ever since.

Because FTT cannot be easily converted back into cash, this discovery has caused concern about FTX and Alameda's financial stability. (For very some time, the nature of Alameda's partnership with FTX has been unknown.)

CZ responded with a stunning announcement on Twitter, saying that Binance would liquidate its entire FTT stake. Although he said he wanted to sell "in a way that minimizes market impact," the revelation caused a sharp decline in the price of FTT (the token has lost approximately 90% of its value) and a rush in withdrawals at FTX as users panicked about the security of their cryptocurrency.

On November 7, Bankman-Fried dismissed concerns about the company's financial stability, saying that "a competitor is trying to go after us with false rumors" and that "FTX is OK." (Twitter has removed these messages.) The corporation was obviously frantic to find a bailout as time went on.

Tim Mangnall, whose firm Capital Block has consulted for both Binance and FTX, claims this was a "shrewd" business maneuver by CZ that allowed him to "buy one of his biggest competitors for pennies on the dollar." CZ has denied allegations that he intentionally created a liquidity crisis at FTX ("I spend my energy building, not fighting") in a tweet on November 7.

CZ, the Supreme Ruler of Crypto

Those negotiations have been rejected by Binance. The turmoil at FTX will almost certainly boost the standing of FTX's chief competitor as the largest bitcoin exchange in the world. In terms of trading volume, Binance has already surpassed many of its rivals, including Coinbase, Kraken, OKX, Bitfinex, Huobi, and FTX.

As a result, Binance is expected to exert more influence over the coins that are made available for trade. Furthermore, CZ's standing as one of the crypto industry's most visible players will grow in discussions about policy and regulation.

Those who think cryptocurrency should represent decentralization will be troubled by the merger of two of the world's top exchanges. The goal of decentralization is to disperse authority and remove weak links, but FTX's demise bolsters neither goal.

Prices for bitcoin and ether dropped by almost 10% when Binance's rescue plan was first disclosed, wiping out over $60 billion from the market. They could go down even farther now.

The implosion of FTX will also lead to discussions about future measures to safeguard crypto asset holders. CZ suggests that all exchanges should be open about their "proof of reserves," or the cash they have on hand to cover withdrawal requests from customers. He tweeted that Binance would “soon” adopt this stance.

Coinbase CEO Brian Armstrong sympathized with FTX but also noted the company’s vulnerability as a result of “risky business practices” and “conflicts of interest,” both of which would be mitigated by mandatory disclosure. We hold all assets dollar for dollar,” Armstrong said on Twitter, addressing concerns that Coinbase could face a similar liquidity shortage.

Others, though, argue that this recent near-miss shows why people shouldn’t rely on exchanges to hold their riches. Pascal Gauthier, CEO of Ledger, which produces wallets for consumers to handle their own cryptocurrency, believes that “what we’re seeing now is a reminder of the necessity of crypto custody.” Unless you keep your cryptocurrency in your own private key storage, it does not legally belong to you.