Collapse of FTX Crypto Trading Firm

Why in news?

FTX, the world's second biggest crypto exchange, went bankrupt, affecting an estimated 10 lakh-plus people who were barred from withdrawing funds.

What is the issue about?

A cryptocurrency is a medium of exchange in digital format that uses encryption techniques to control the creation of monetary units and to verify the exchange of money.

Bitcoin is the largest in the world according to market capitalisation, followed by Ethereum.

To know more about how crypto currencies work, click here

- **FTX** - FTX is a cryptocurrency exchange that enable customers to trade digital currencies for other digital currencies or traditional money, and vice versa.
- FTX is run by Sam Bankman-Fried and is headquartered in the Bahamas.
- FTX has a native cryptocurrency token called FTT, which traders use for operations like paying transaction fees.
- **Reasons for the collapse** - Alameda's balance sheet was reported to be heavily stacked with its sister company FTX's native tokens instead of other cryptocurrencies, which led to a panic selling in FTT.
- The fear of insolvency in FTX Group over its financial positions started.
- When Binance,the world's largest cryptocurrency exchange, started to liquidate their holdings in FTT tokens, and later refused to bail out FTX, the situation worsened.
- FTX has also confirmed that there had been unauthorized access to its accounts.
- FTX filed for bankruptcy along with 130 additional affiliate companies.

What is the impact of FTX bankruptcy on crypto market?

- **Uncertainty** - The FTX Group's bankruptcy has sent shockwaves of fear, uncertainty and ambiguity across the crypto market worldwide.
- The issue reminds about the previous case of the Terra tokens collapse that wiped out billions of dollars in wealth.
- **Effect on other cryptocurrencies** - The collapse cast a shadow over the performance of bigger cryptocurrencies such as Bitcoin and Ethereum.
- Bitcoin, the largest cryptocurrency, is trading at an almost two-year low around 16,600 dollars while Ethereum dropped more than 8%.
- **Impact on retail investors** - There is a fear that lot of retail investors might go

inactive for a while due to the current volatility in the market.

- **Impact on institutional investors** - The institutional investors might like to capitalize on discounted assets at the moment and hedge their investments.
- **Stringent regulations** - Structural changes in the crypto ecosystem and much stricter regulations are expected after this episode.
- **Positive impact** - Other active exchanges could see a flurry of deposits coming in which depends on which exchange is in its best shape at the moment.

References

1. The Indian Express | What's happened to crypto exchange FTX?
2. Forbes | FTX Falls: What It Means For Indian Crypto Investors
3. Livemint | How will FTX bankruptcy impact crypto markets?

