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Behind the Collapse of FTX: What Happened to FTX?

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<https://www.btcc.com/en-US/academy/research-analysis/behind-the-collapse-of-ftx-what-happened-to-ftx>

After a precipitous fall from favor, cryptocurrency exchange [FTX](#) filed for Chapter 11 bankruptcy on November 11, 2022. Founder and former CEO Sam Bankman-Fried saw his net worth of \$16 billion drop to almost nothing as the company's valuation plummeted from \$32 billion to bankruptcy in a couple of days.

The volatile [cryptocurrency](#) market lost billions of dollars after FTX's collapse, falling to below \$1 trillion. The effects of FTX's precipitous fall and collapse are expected to reverberate throughout the cryptocurrency industry for some time, and may even weigh down larger markets.

It was alleged in a class action lawsuit filed in federal court in Florida on November 16, 2022, that Sam Bankman-Fried had concocted a fraudulent cryptocurrency scam to exploit naive investors from all around the United States. Steph Curry, Shaquille O'Neal, Shohei Ohtani, Naomi Osaka, Larry David, and Kevin O'Leary are also being sued for their claimed roles in assisting Bankman-Fried in the scheme.

After the FTX crash, the U.S. House Financial Services Committee will hold a hearing in December 2022. In this article we will talk about what happened to ftx crypto exchange.

MAIN POINTS

- After a story by CoinDesk in early November 2022 raised concerns about the leverage and solvency of trading firm Alameda Research, the cryptocurrency exchange FTX shut down shortly thereafter.
- When rival exchange Binance explored buying a stake in FTX, it soon changed its mind. FTX

was experiencing a liquidity issue and needed emergency funding.

- By 11 November 2022, FTX had filed for bankruptcy and the CEO had resigned.
- Hundreds of millions of dollars' worth of FTX tokens may have been stolen in a hack that occurred in the hours that followed.

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Bankman-Fried, then only 28, started FTX, a cryptocurrency exchange that has since grown to be worth \$32 billion in just three years. Super Bowl commercials and buying the naming rights to the Miami Heat's arena were only two examples of the aggressive marketing tactics employed by Bankman-Fried. He gained notoriety as a political donor and lobbyist who also helped the Bitcoin business as a whole. During the early part of 2022, when cryptocurrency prices were plummeting, he helped broker transactions worth around \$1 billion to rescue enterprises that had run into financial difficulty due to the falling value of their tokens.

What Happened to FTX?

The fall of FTX occurred over the course of 10 days in November of 2022. The issue was sparked by a report published by CoinDesk on November 2 detailing a \$5 billion position in FTX's native token, FTT, owned by Alameda Research, another quant trading business run by Bankman-Fried. In addition to fiat currency and other cryptocurrencies, the report showed that Alameda's investment foundation was also invested in FTT, the token that its sister business had produced.

The cryptocurrency industry as a whole began to worry about the leverage and financial stability of Bankman-enterprises Fried's because of this.

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Binance Announces It Will Offer FTT Token Sales

The largest cryptocurrency exchange, Binance, said on November 6 that it would liquidate its entire holding of FTT tokens, or about 23 million tokens with a market value of nearly \$529 million. After the Terra (LUNA) crypto token failed earlier in 2022, Binance CEO Changpeng “CZ” Zhao announced the exchange would be liquidating its FTT holding for risk management reasons.

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Binance Agreement and the FTX Liquidity Crisis

FTX ran out of money the following day. Bankman-Fried tried to reassure FTX investors that their assets were secure, but in the days after the CoinDesk revelation, users demanded withdrawals totaling \$6 billion. Before coming to Binance, Bankman-Fried attempted to raise cash from venture investors. In just two days, FTT lost 80% of its value.

When Binance, the largest cryptocurrency exchange in the world, revealed on November 8 that it had struck a nonbinding deal to purchase FTX’s non-U.S. company, it was, in effect, saving its close competitor.

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Binance Cancels FTX Bailout Deal

Binance reneged on the rescue agreement one day after it was announced. As a result of questions revealed during corporate due diligence regarding the potential misuse of customer cash, the exchange announced on November 9 that it would cancel the FTX agreement.

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The Freezing of FTX Assets and Related Matters

After hearing that Bankman-Fried was looking for up to \$8 billion in capital to bail out the exchange, the Bahamas securities commission seized the assets of FTX's Bahamian affiliate, FTX Digital Markets, on November 10.

The same day, FTX was the subject of an announcement from California's Department of Financial Protection and Innovation.

On the same day that a liquidity crisis arose, Bankman-Fried tweeted an apology and stated that FTX's international exchange lacked the necessary money to meet consumer demands. Bankman-Fried said that "poor internal labeling" led to FTX's inaccurate estimates of debt and liquidity. He also predicted that Alameda's trade would eventually come to an end in the same post.

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Bankman-Fried Resigns as CEO; FTX Files for Chapter 11

On November 11th, Bankman-Fried resigned as CEO of FTX and was replaced by John J. Ray III, who previously oversaw the collapse of energy trading business Enron.

On the same day, FTX filed for Chapter 11 bankruptcy protection and said that about 130 related

entities were also involved. According to its bankruptcy papers, FTX had assets and debts totaling between \$10 billion and \$50 billion.

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FTX “Unauthorized Transactions”

After declaring for bankruptcy, FTX immediately said it had been the victim of “unauthorized transactions” and would be transferring its digital assets to cold storage to protect them.

According to independent researchers, the suspected intrusion may have resulted in a loss of \$477 million for FTX.

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The Bahamas Assumes Authority Over FTX Digital Assets

On November 18th, the Securities Commission of the Bahamas (SCB) assumed possession of FTX’s bitcoin holdings following the exchange’s bankruptcy. The SCB claimed that it had requested that Bankman-Fried transfer cryptocurrency to the regulator’s wallet.

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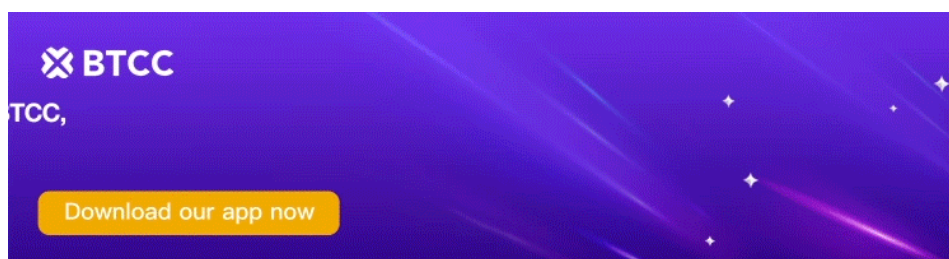
Future of FTX and Collapse Consequences

A bright future for FTX as a cryptocurrency exchange is in grave danger. A note on the FTX website states that the corporation “highly advise[s] against depositing” as of the middle of November 2022, and that withdrawals have been disabled as a result.

Time is needed for the broader effects of the FTX debacle on the cryptocurrency sector to become clear. As the greatest drop in cryptocurrency history, FTX may discourage investors who are already wary of the industry because to concerns about its stability and security. There is a risk that FTX users will never get back their investments, which could lead to litigation. In light of FTX’s demise, the U.S. Securities and Exchange Commission (SEC) and other authorities may be more inclined to step in and draft new regulations governing digital tokens and exchanges, and Congress may be more likely to pass such laws.

Shock waves will be felt throughout the cryptosphere for some time after the shocking collapse of the third-largest exchange by volume. Client withdrawals from crypto lending platform BlockFi were temporarily halted on November 11th, 2022, amid speculations of the company’s possible instability. On November 12-13, 2022, withdrawals on Crypto.com spiked. The cryptocurrency lending division of Genesis Global Capital is temporarily closed to withdrawals. It’s likely that this is just the beginning of the unintended consequences.

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How did FTX fail?

Bankruptcy papers for FTX were filed on November 11th, 2022, following a precipitous drop in customer deposits earlier in the month. Sam Bankman-Fried, the CEO, has been candid about the company's inability to keep up with customer demand and admits that they do not have enough resources on hand.

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Did FTX get hacked?

FTX was hacked only hours after declaring bankruptcy. Elliptic discovered "unauthorized transactions" on the exchange, which may have resulted in the theft of around \$500 million in assets. For days, the hacker used a technique known as "on-chain spoofing" to steal from victims' wallets. According to reports, the hacker put the money into Ether (ETH).

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The future of FTX is uncertain

The securities regulator in the Bahamas has frozen FTX's assets as of the middle of November 2022, and the company is urging customers to not make any deposits. There are also other regulatory inquiries that are still active at this time. There are also civil lawsuits being initiated. To name just a few, Tom Brady, Larry David, Naomi Osaka, Shaquille O'Neal, and Steph Curry are just some of the superstars cited in a class-action lawsuit against FTX and its creator, Sam Bankman-Fried.

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Conclusion

Over the course of about 10 days in November 2022, the FTX cryptocurrency exchange completely failed. The exchange ran into a liquidity crisis when a report raised questions about its debt and viability, prompting it to try and arrange a bailout from rival Binance, talks for which ultimately failed. Within a few of days, FTX's assets were blocked, its CEO resigned, and the company filed for bankruptcy protection. It is difficult to predict what the future holds for FTX and the cryptocurrency sector as a whole.

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