FTX allegedly used customer deposits to prop up Alameda Research

Article

The news: Amid the **FTX** collapse, the Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) are investigating the crypto exchange for mishandling customer funds, per Banking Dive.

Probe upon probe: Prior to its liquidity squeeze, the failing crypto exchange was already under investigation by regulatory agencies for allowing customers to trade derivatives products without being registered with federal regulators.

- The SEC and the DOJ are now investigating FTX for mishandling customer funds, a finding that was revealed after rival crypto exchange **Binance** pulled out of its deal to save FTX due to concerns around its books.
- Also under investigation is trading firm **Alameda Research**. The firm is a major market maker for FTX and is owned by its CEO, Sam Bankman-Fried.
- Bankman-Fried reportedly funneled over $4 billion of FTX funds in the form of the exchange's FTT token and shares of trading platform **Robinhood** to Alameda Research to support it after it experienced large losses from failed deals. Some of the funds used were customer deposits, according to Reuters.

The Alameda Research website was taken down yesterday without any explanation and remains down.

What's next for FTX? As the deal between Binance and FTX fell apart, the beleaguered crypto exchange reported that unless it secured $8 billion, it would potentially need to file for bankruptcy. Bankman-Fried is now searching for a lifeline, but FTX customers are likely to lose out.

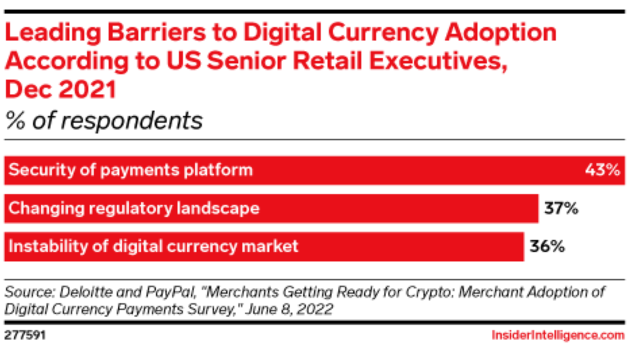
- Founder of the **Tron** cryptocurrency network, Justin Sun, said that he would work with FTX to find a solution to move forward—though it's unclear if Sun was referring to the entire FTX exchange, or only Tron-related tokens on the exchange.
- If FTX does file for bankruptcy, it will lose control of its assets. Bankman-Fried originally tweeted that customers' assets would be protected, but that tweet has since been deleted. It's becoming clear now that major investors, like venture capital firm Sequoia, will be given priority in repayment proceedings, but smaller investors will be wiped out completely.

Waves in the markets: Shockwaves from the bombshell news are hitting other exchanges and even stablecoins.

- The **Solana** blockchain postponed the unlocking of $800 million worth of its SOL token, as the price of the token plummeted on reports that Alameda would need to sell its stake in SOL to raise liquidity.

- Stablecoin tether (USDT) also depegged from the USD and briefly traded as low as $0.93 on fears of contagion due to the FTX fallout.

Our take: The latest crypto world drama suggests the crypto winter that has lasted much of 2022 shows no signs of a thaw. The continuous revelations of crypto exchanges' wrongdoings and sketchy behavior has gutted consumer confidence. If regulators don't act soon on the digital asset markets, they risk continuing to play catch up each time the messy truths behind crypto giants come out.



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