FTX Proves ‘FUD’ Is Dangerous Weapon in Crypto’s Game of Thrones

Michael P. Regan, Bloomberg News

Sam Bankman-Fried, founder and chief executive officer of FTX Cryptocurrency Derivatives Exchange, speaks during the Institute of International Finance (IIF) annual membership meeting in Washington, DC, US, on Thursday, Oct. 13, 2022. This year’s conference theme is “The Search for Stability in an Era of Uncertainty, Realignment and Transformation.” Bloomberg

(Bloomberg) — Not even the king of crypto is immune from “FUD.”

The acronym for “fear, uncertainty and doubt” has long been used to mock the drumbeat of warnings about risks that has served as the background music throughout the history of cryptocurrencies.

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Bankman-Fried’s FTX controversy — once described as FUD (false information) — has become a cornerstone of the industry. This phenomenon is not unique to crypto. It caused liquidity concerns that morphed into solvency issues for leveraged major banks in the global financial crisis. And most recently, FUD speculation has been at play in forcing Credit Suisse AG to embark on capital-raising efforts. Yet in crypto, FUD — often aimed at highly leveraged targets — is often lurking just below the surface, even when it comes to the most respected, billionaire-minting firms that dominate the industry.

In this case, the FUD started less than a week ago when the crypto news website CoinDesk reported a troubling link between two separate companies in billionnaire Bankman-Fried’s cryptocurrency empire: the FTX exchange and the trading firm Alameda Research. According to the report, the $14.6 billion in assets on Alameda’s balance sheet were heavily comprised of a cryptocurrency called FTT, a coin issued by FTX that grants users discounts on FTX trading fees and other perks. Meanwhile, Alameda’s balance sheet showed $8 billion of liabilities dominated by $7.4 billion in loans. (Alameda CEO Caroline Ellison responded in a tweet that the company had more than $10 billion of assets elsewhere).

The report was followed by tweets from billionaire Changpeng “CZ” Zhao, the founder of rival exchange Binance Holdings, who said that “due to recent revelations that have come to light,” his firm decided to sell its holdings of the FTT token received from its exit from an investment in FTX last year. “Regarding any speculation as to whether this is a move against a competitor, it is not,” he added. The industry is still in its nascent phase, he wrote, “and every time a project publicly fails it hurts every user and every platform.”

Still, the tweet swiftly undermined confidence in FTX’s finances and helped spark an exodus of users from the FTX.com exchange, as well as a crash in the value of FTT.

The digital-asset equivalent of a run on the bank was underway, with all eyes on a pair of billionaires known by their initials SBF and CZ, already prone to the occasional Twitter scuffle. Bankman-Fried responded on Twitter to say that “a competitor is trying to go after us with false rumors” and assets on FTX are “fine.” Yet the comment did little to ease the FUD.

“You invest in illiquid assets and all of a sudden people want your money back, you’ve got a problem,” said Cam Harvey, finance professor at Duke University and author of the book “DeFi and the Future of Finance.” “The thing that struck me the other day was once SBF had to say, ‘Oh yeah, we’re OK, we’ve got enough money to cover.’ As soon as you have to say that, then everybody knows that the game is over.”
what makes its latest chapter in the crypto train wreck of 2022 so surprising is that Bankman-Fried had made so many headlines this year as the leader of other crypto companies, propped up the crypto platform BlockFi, and tried to save Digital, with a large loan.

Sam Bankman-Fried Expands Crypto Empire During $2 Trillion Rout

"You have to prepare for these scenarios because there are not black swan events," Duke's Harvey said. "This is not unexpected. To be under stress because of something that we've seen multiple times in terms of the price movements I guess is just the nature of the game of crypto at this point."

Adding to anxiety in the crypto world is the fact that more than five hours after SBF announced the emergency takeover on Twitter, details of its terms were nowhere to be found and speculation was rampant that FTX investors were in for serious pain. That triggered deep losses in prices of cryptocurrencies, which had stabilized briefly after the announcement.

As of yesterday, SBF was worth about $15.6 billion, making him the 95th richest person on Bloomberg's list of billionaires. CZ was worth $18.3 billion, making him No. 75.

Where those figures land when the dust settles from Tuesday's developments is anybody's guess.

--With assistance from Muyao Shen.

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