

# The spectacular collapse of a \$30 billion crypto exchange should come as no surprise

Monday 14 November 2022, by [HAWKINS John](#) (Date first published: 11 November 2022).

**Last week, one of the world's biggest cryptocurrency exchanges collapsed in spectacular fashion after accusations of improper handling of funds triggered a good old-fashioned bank run. Once valued at more than US\$30 billion, the Bahamas-based firm FTX is now on the brink of collapse. This shouldn't be too surprising, writes John Hawkins - cryptocurrencies, he says, are "a game of pass-the-parcel, in which speculators try to sell them to someone else before the price collapses". But the promise of rapid riches offered by cryptocurrencies can be hard to resist.**

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Not long ago, [FTX](#) was one of the world's largest trading platforms for cryptocurrencies. Founded in 2019, the Bahamas-based [crypto exchange](#) had a meteoric rise to prominence, and was [valued at more than US\\$30 billion](#) earlier this year.

All that has changed in the past two weeks. First, [concerns emerged](#) about links between FTX and an asset-trading firm called Alameda Research, including [suggestions that customers' funds have been transferred from FTX to Alameda](#).

A few days later, rival firm Binance (the biggest crypto exchange) [announced](#) it would sell its holdings of FTT tokens, a crypto that reportedly comprises much of Alameda's assets.

Panicked customers rushed to withdraw funds from FTX, and the company is now on the brink of collapse, with a banner message on its website announcing it is "currently unable to process withdrawals".

This is not the first such [rapid disintegration](#) we have seen in the loosely regulated world of cryptocurrency, and it's unlikely to be the last.

## No rescuers in sight

The majority owner of both FTX and Alameda, [Sam Bankman-Fried](#), had rescued other troubled crypto companies earlier this year. Now he is desperately [looking for an investor with a lazy \\$8 billion to save his companies](#).

Many firms have [already written off](#) the value of their stakes in FTX. So it will not be easy for Bankman-Fried to find investors willing to put in new funding.

Binance thought about taking over the troubled company outright. It decided against, citing concerns about [allegations of misconduct and an investigation](#) by the US Securities and Exchange Commission.

The price of FTT has now plunged. A week ago it was trading at US\$24. Now it is at [less than US\\$4](#).

## **Cautionary lessons**

Trading in “assets” with [no underlying fundamental value](#) on loosely regulated exchanges is always going to be a very risky endeavour. For many, it is likely to end in tears.

Other kinds of asset are different. Company shares have a fundamental value based on the dividend (or at least an expected future dividend) paid from the company’s profits. Real estate has a fundamental value that reflects the rent the investor earns (or the owner-occupier saves). The value of a bond depends on the amount of interest it pays. Even gold at least has some practical uses, for jewellery, dental fillings or electronics.

But crypto so-called currencies such as Bitcoin, Ether and Dogecoin (and thousands more “alt-coins” and “meme-coins”) have no such fundamental value. They are a game of pass-the-parcel, in which speculators try to sell them to someone else before the price collapses.

Unregulated financial institutions are prone to the equivalent of a Depression-style “bank run”. Once doubts emerge about their soundness, each person has an incentive to be early in the queue to withdraw their money before the money runs out.

In a recent [interview](#), Bankman-Fried gave a description of his business model that seems to rely heavily on [funds injected by new investors](#), rather than on future returns based on the intrinsic value of the assets themselves.

## **Impact on crypto**

These events have further eroded confidence in the crypto ecosystem. Prior to this latest fiasco, the “value” of cryptocurrencies had already dropped from a peak of more than US\$3 trillion to US\$1 trillion. It has now [fallen even lower](#).

Just as a few stars such as Amazon emerged from the wreckage of the dot-com bubble, so it is possible that only a handful of applications of the blockchain technology that underpins crypto have enduring utility.

And the idea of an electronic form of currency is being realised in the form of [central bank digital currencies](#). But as Hyun Song Shin, the chief economist of the Bank of International Settlements, [put it](#), “everything that can be done with crypto can be done better with central bank money”.  
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