



## Crypto assets: FTX briefing note

10 November 2022

### FTX financial stress

- There are concerns about the financial health and solvency of FTX, one of the largest global crypto exchanges. This week, the press has [reported](#) that FTX was suffering 'a significant liquidity crunch', with over US\$6b in withdrawals in the last 3 days. This follows:
  - revelations that a substantial portion of a related entity's (Alameda Research) balance sheet holdings were in FTX's digital token (FTT); and
  - a tweet on Sunday from the CEO of Binance, a competitor crypto exchange, that Binance would sell its holdings of FTT, which exacerbated the pressure on FTX.
- On 9 November 2022, following press reports, **FTX confirmed to ASIC that Binance had entered into an agreement to acquire FTX** and that due diligence has commenced. The offer excluded the US and Australian businesses, among others.
- On 10 November 2022, press reports indicate that **Binance has withdrawn its offer**, including due to reports of mishandled customer funds and US agency investigations.
- There has been a ripple effect across crypto markets. The share prices of listed crypto exchange Coinbase and trading platform Robinhood each fell by over 20% to US\$46 and US\$8.40 respectively. Bitcoin fell by around 20% to below US\$16,000, its lowest level since November 2020.
- The **negative sentiment did not immediately flow through to equity markets**, with the US S&P500 and Australian ASX200 both up ~0.5% on Tuesday/ Wednesday respectively. A drop on Wednesday/ Thursday was more likely attributable to US mid-term elections.

### FTX Australia

- FTX Australia Pty Ltd (FTX Australia) holds an AFSL and FTX Trading Limited is its corporate authorised representative.
  - In May 2022, FTX Australia had around 4,500 clients (comprised of 1,644 retail clients and 2,780 sophisticated investors) and held \$501 million in client assets.
  - FTX Australia currently offers crypto futures (retail and wholesale clients) and leveraged crypto tokens (wholesale clients only).
  - On 30 October 2022, FTX Australia lodged a licence variation to add dealing in securities, non-cash deposit services and custodial services.
  - Today, FTX Australia advised it remains compliant with its financial requirements.
- FTX Express Pty Ltd (FTX Express), a digital currency exchange registered with AUSTRAC, offers spot crypto trading (not regulated by ASIC).
- FTX Australia confirmed that **FTX's overseas entities cannot draw down on FTX Australia** or FTX Express.
- FTX Australia will provide an update to ASIC by Friday, 11 November, including the current number of clients and the value of their assets with FTX Australia, the entities involved in the proposed Binance transaction and any changes to the transaction terms.

## ASIC's surveillance of FTX Australia

- In March 2022 Market Supervision commenced a surveillance activity following a [media report](#) that FTX was to start offering crypto derivatives in Australia with 20:1 leverage.
  - We tested whether the crypto derivatives were CFDs subject to the leverage ratio limit of 2:1 in ASIC's CFD product intervention order. It appears that the derivatives are only offered to wholesale clients, who are outside the scope of the Order;
  - We then tested whether clients were being correctly classified as retail, sophisticated and wholesale. s 37(2)(b), s 47C, s 47E (d), s 37(1)(a)

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s 37(2)(b), s 47C, s 47E (d), s 37(1)(a)

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s 22

Prepared by s 22, Market Supervision