

FTX Market Event FAQ

9 November 2022 – 10 am CET

Updates 10 November 2022 – 10 am CET: [here](#) and [updated timeline](#)

Updates 11 November 2022 – 9 am CET: [here](#) and [here](#)

Updates 11 November 2022 – 6 pm CET: [here](#), [here](#) and [updated timeline](#), Summary:

- *On Nov 11, FTX declared bankruptcy*
- *21Shares USDY ETP suspended lending this week given current market turbulence. The ETP has no exposure to BlockFi or any other borrower.*
- *21Shares confirms no exposure to USDT.*

Updates 16 November 2022 – 6 pm CET: [here](#) and [updated timeline](#)

Below are the FAQs on the FTX situation beginning with a brief summary followed by full details. A timeline of events follows.

FAQ - TLDR

1. What happened with FTX?

Over the last week, reports emerged suggesting that the financial condition of Alameda Research, a proprietary trading and venture capital firm, contained critical vulnerabilities. It was reported that a large portion of Alameda's assets consisted of FTT tokens, which are issued by FTX, one of the largest and prominent crypto exchanges in the world. This means that Alameda's FTT tokens represented the majority of the supply of FTT. It's important to note that both Alameda Research and FTX are owned by Sam Bankman-Fried (most commonly referred to as "SBF"). This connection created concern in the market that Alameda could be vulnerable to insolvency in light of a drop in the price of FTT tokens. In light of Alameda's balance sheet revelations, Binance [chose](#) to liquidate any remaining FTT on its books (total holdings: over \$2 billion). A contagion effect then ensued, which led investors concerned about FTT to pull their assets from FTX — causing market concern that FTX could become insolvent. On November 8, 2022, FTX halted withdrawals from the exchange for several hours.

On the same day, a few hours later, Binance announced an intent of acquisition of FTX subject to a pending due diligence. This announcement reinforced the rumours of FTX and Alameda's insolvency causing large drawdowns across the majority of cryptoassets.

****Updates as of November 10***

On November 9, 2022, Binance [decided](#) to back out from the deal due to corporate due diligence and news reports regarding mishandled customer funds and alleged US agency investigations. While FTX continues to seek fresh capital in the coming week, in the absence thereof, there is fear in the market that the ultimate scenario may be a bankruptcy proceeding, driving the FTT token downhill. This scenario may also affect other cryptoassets and entities

associated with FTX. To get more details on the latest developments, read the “Timeline” section at the bottom of this document.

****Updates as of November 11***

On November 11, market fears turned out to be true. In a [press release](#), FTX Group announced that FTX.com, FTX US, Alameda Research, and affiliated companies have filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. According to the statement, the goal is to “develop a process to maximize recoveries for stakeholders”. In addition, John J. Ray III has been appointed CEO of the FTX Group. According to the press release, “Sam Bankman-Fried has resigned his role as CEO and will remain to assist in an orderly transition.”

****Updates as of November 16***

After filing for bankruptcy, FTX suffered a \$477 million hack on November 12. Most of the stolen assets were then swapped for ETH or DAI on decentralized exchanges. In a motion filed by FTX, they have more than 1 million creditors, most of whom are their clients. There are views in the market that counterparties of FTX including BlockFi could potentially file for bankruptcy due to the implosion of FTX. According to the latest update by Sam Bankman-Fried, FTX has a net -\$8 billion of liabilities in liquid assets. For semi-liquid assets and illiquid assets, their balance is \$5.5 billion and \$3.5 billion respectively. To get more details on the latest developments, read the “[Timeline](#)” section at the bottom of this document.

2. Why does this matter?

FTX and the company's founder, Sam Bankman-Fried are influential in the crypto space. During the summer volatility related to the LUNA collapse, Sam Bankman-Fried and Alameda played an important role in stabilizing crypto markets by providing financial support to firms facing trouble. FTX's potential insolvency was an unexpected event, which may impact market sentiment and lead to more withdrawals from crypto exchanges. Until the market gets more clarity on the FTX acquisition, the uncertainty may cause liquidity crunches, wider spreads and higher volatility levels across a range of crypto assets.

3. Which 21Shares ETPs have exposure to FTX?

Other than the impact on all products from movements in the price of crypto assets more generally, the following 21Shares ETPs have direct or indirect exposure to FTX or assets related to FTX. While 21Shares seeks to track the investment results of FTX Token, the company has no affiliation to FTX or FTT.

The following 21Shares ETP has direct exposure to FTT, the FTX Token:

21Shares FTX Token ETP (Ticker: AFTT) – seeks to track the investment results of FTT.

⇒ On Tuesday 8 November, AFTT's NAV was down 43%. Total AUM at market close (17:00 CET) was \$241,083 and the NAV per AFTT ETP was \$6.0267 (FTT reference price \$14.43).

No 21Shares basket ETP holds FTT, the FTX Token.

The following 21Shares ETPs may have indirect and attenuated exposure to FTX, primarily due to FTX's long-standing support of Solana and SOL, Solana's native token:

21Shares Solana Staking ETP (Ticker: ASOL) – Solana has been impacted because Alameda and FTX hold a large portion in the token.

Added as of November 11: We typically do not stake all of the underlying assets in ASOL, primarily so that we can satisfy redemptions. Lock up and unbonding period are key factors that we consider. To that end, for ASOL, we typically stake around 70% of the underlying assets. We reserve the flexibility to adjust the proportion staked based on market conditions.

⇒ On Tuesday 8 November, ASOL's NAV was down 16%. Total AUM at market close (17:00 CET) was \$31.4 million and the NAV per ASOL ETP was \$17.1645 (SOL reference price \$27.71).

In addition, the following basket ETPs issued by 21Shares have exposure to SOL:

ETP	Ticker	Weighting of SOL (%)*
21Shares Crypto Mid-Cap Index ETP	ALTS	7.535
21Shares DeFi 10 Infrastructure ETP	DEFII	1.963
21Shares Crypto Basket Index ETP	HODL	3.819
21Shares Crypto Basket 10 ETP	HODLX	1.369
21Shares Bitwise Select 10 ETP	KEYS	1.633
21Shares Crypto Layer 1 ETP	LAY1	7.022
Sygnum Platform Winners Index ETP	MOON	5.078

*as at 5pm CET on 8 November 2022 based on a SOL reference price \$27.640.

All 21Shares' ETPs continue to trade on the regulated stock exchanges on which they are listed and may experience wide spreads and important volatility. 21Shares will closely monitor the liquidity of both the underlying cryptocurrencies and the ETPs. Liquidity may be constrained under current market conditions and investors may want to consider trading carefully.

Authorised participants and market makers for 21Shares are using multiple exchanges to source the underlying and not relying on one exchange only. Currently, market makers are not reporting any pricing disruptions across 21Shares' ETPs.

****Point 4-6 added as of November 11***

4. What other exposure does 21Shares have to FTX?

21Shares has no other exposure to FTX.

5. Is FTX included in the pricing calculation for 21Shares ETP?

As of 17:00 CET on November 10, 2022, FTX has been removed as an eligible exchange for the pricing calculation for all 21Shares index ETPs. Each index provider has removed FTX because it no longer meets their eligibility rules for inclusion as a reliable pricing source. The index providers that have removed FTX include the following:

- Bitwise
- CryptoCompare
- Lukka
- Vinter

6. What is the impact on other 21Shares ETPs?

Due to the current market situation, 21Shares has decided to pause lending of the underlying collateral for USDY, one ETP out of the three 21Shares ETPs that are eligible to lend (CBTC, CETH, USDY).

CBTC and CETH did not engage in lending and continue to operate normally as physically backed products. 21Shares halted all loans on USDY and has no loans outstanding to lending partners, such as BlockFi. At the time of the halt, collateral levels on USDY were 160%. As the current projected yield of USDY is zero, 21Shares has waived fees until the market has stabilized and loans can be safely redeployed. As the underlying coin of USDY is USDC, **there is also no exposure to USDT.**

The amount of an ETP's underlying assets on loan are provided on a daily basis on the product's page on the 21Shares website. To get more details on the latest developments, read the "Timeline" section at the bottom of this document.

FULL DETAILS

1. What is FTX?

FTX is a cryptocurrency exchange that was founded in 2017 by CEO Sam Bankman-Fried and CTO Gary Wang. FTX is designed for both retail and institutional investors, and offers many derivatives trading products.

2. What is FTT?

FTT is the native token of the crypto exchange FTX. FTT provides holders a fraction of the exchange fees and the liquidation insurance fund. Proof of ownership of the FTT token allows investors to also get tighter OTC spreads on the venue or receive higher referral bonuses.

3. What is Alameda and what's the relationship with FTX?

Alameda Research is a proprietary trading and venture capital firm owned by FTX CEO Sam Bankman-Fried. The firm also provides liquidity in the crypto market. Even though Alameda and FTX are separate businesses operated by different teams, the division breaks down in a critical place: on Alameda's balance sheet. CoinDesk [published](#) an article leaking Alameda's balance sheet and showing that they were overexposed to FTT, representing an insolvency risk if FTT dropped significantly. According to the report, the firm had \$14 billion of assets as of June 30, of which \$5.2 billion (\$3.2 billion of fully-vested FTT tokens (i.e., no lockup periods)) was tied to FTT. Alameda's liabilities amounted to \$8 billion, including \$7.2 billion of loans.

4. What happened between Binance and FTX?

In light of Alameda's balance sheet revelations, Binance [chose](#) to liquidate any remaining FTT on its books (total holdings: over \$2 billion). CZ, Binance's CEO, also accused FTX of going behind their backs to US regulators. The announcement prompted a "bank run" on the FTX exchange, which had to halt withdrawals on November 8 due to liquidity crunches. On the same day, both [FTX](#) and [Binance](#) announced that Binance had signed a non-binding letter of intent (LOI) to acquire FTX (this doesn't include the US entities of both FTX (FTX.US) and Binance (Binance.US)). In the coming days, a complete due diligence process will be conducted but it is unclear how long that may take and what the outcome will be.

5. Why did FTT drop significantly?

FTT initially dropped after Binance announced it would sell all FTT on its books. This worried investors who wondered about how a declining price on FTT could impact FTX and its affiliated firm Alameda. Alameda reportedly holds \$3.66 billion in fully-vested FTT tokens (i.e., no lockup periods) according to the leaked balance sheet numbers reported by CoinDesk.

After it was announced that Binance had signed a non-binding letter of intent (LOI) to acquire FTX, the price of the token dropped substantially. It appears that the market is pricing in FTX insolvency. Since the sole purpose of the FTT token is to provide benefits to users of the FTX exchange this is weighing heavily on the market price of the token.

6. How does this affect SOL?

The CoinDesk report also showed that Alameda's balance sheet had large amounts of the Solana blockchain's native token SOL: \$292 million of "unlocked SOL," \$863 million of "locked SOL," and \$41 million of "SOL collateral." Alameda effectively owned 10% of SOL in circulation. Moreover, large amounts of SOL and Solana ecosystem tokens held by Alameda have been sold off to attempt to raise liquidity. Sam Bankman-Fried was an early investor in Solana.

TIMELINE

November 2:

- Coindesk [published](#) an article leaking Alameda's balance sheet and showing that they were overexposed to FTT, representing an insolvency risk if FTT dropped significantly.
- **Assets:** Alameda had \$14 billion of assets as of June 30, of which \$5.2 billion (\$3.2 billion unlocked) was tied to **FTT**.
- **Liabilities:** Alameda's liabilities amounted to \$8 billion, including \$7.2 billion of loans.

November 6:

- In light of these revelations, **Binance chose** to liquidate any remaining FTT on their books (total holdings: over \$2 billion). CZ, Binance's CEO, also accused FTX of going behind their backs to US regulators.
- **Alameda's CEO proposed** an "ask" price of \$22 for FTT to Binance's CEO.

November 8:

- **FTX** and **Binance** announced that Binance had signed a non-binding letter of intent (LOI) to acquire FTX (this doesn't include FTX.US nor Binance.US). In the coming days, a complete due diligence process will be conducted (ETA unsure).
- **FTT dropped by more than 80% in 24hrs.**
- **BTC** dropped below **\$17,500** hours after the news (as at approximately 20:00 CET on 8 November 2022).

November 9:

- Binance [decided](#) to back out from FTX rescue due to “mishandled customer funds and alleged U.S. agency investigations” of FTX.
- [Federal regulators](#) including SEC, CFTC, and DOJ are investigating FTX on potential fraud, mishandling customers’ funds, and the relationship of respective entities that are under Sam Bankman-Fried.
- Sam Bankman-Fried [told](#) investors he needed \$8 billion emergency funding to cover the shortfall due to withdrawal requests.
- U.S. Senator, Elizabeth Warren [urged](#) the SEC for more aggressive law enforcement on crypto platforms to protect consumers and financial stability.
- Coinbase CEO, Brian Armstrong [highlighted](#) that FTX was an offshore company not regulated by the SEC and he believed the problem is the SEC did not provide clarity in the U.S., causing investors to use offshore platforms.
- Companies including [Circle](#), [Tether](#), [Maple Finance](#), and [Coinbase](#) have announced that they have no exposure to Alameda nor FTX while [Genesis](#), [Galaxy Digital](#), [Wintermute](#), [Amber Group](#), and [Multicoin Capital](#) still have assets stuck on FTX.
- One of FTX’s investors, Sequoia has [marked down](#) FTX and FTX.US to \$0 in their Global Growth Fund III and SCGE Fund with a loss of \$150 million and \$63.5 million respectively.
- There was a price discrepancy of Tether’s USDT on [CoinGecko](#) showing that the stablecoin was trading -3% below parity when in reality it was trading close to parity (+-10 bps). CoinGecko founder and COO Bobby Ong [confirmed](#) that USDT did not depeg from the U.S. dollar, and that the price discrepancy stemmed from API connection issues with a few exchanges.

November 10:

- Founder of Tron, [Justin Sun](#), who just acquired Huobi Global, claimed he was putting together a solution with FTX.
- BlockFi [announced](#) that it has suspended client withdrawals, saying that it cannot operate suitably given the uncertainty around FTX.com, FTX US, and Alameda Research.
- BlockFi and FTX US announced this past July that the companies had agreed to a deal wherein FTX US would provide BlockFi a \$400 million credit facility, which would also allow the crypto exchange [the right to acquire BlockFi](#).
- Tether released a new USDT [attestation](#) of the stablecoin’s reserves as of September 30, revealing significant reductions in commercial paper investments to near zero and an overall increase in U.S. Treasury Bills.

November 11:

- In a [press release](#), FTX Group announced that FTX.com, FTX US, Alameda Research, and affiliated companies have filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. According to the statement, the goal is to “develop a process to maximize recoveries for stakeholders”.
- John J. Ray III has been appointed CEO of the FTX Group. According to the press release, “Sam Bankman-Fried has resigned his role as CEO and will remain to assist in an orderly transition.”

November 12:

- Blockchain analytics firm Elliptic [reported](#) \$477 million worth of assets were stolen from FTX's wallet due to malware in the FTX app. Over \$220 million of the tokens were being swapped for ETH or DAI.
- Financial Times [reported](#) that FTX held only \$900 million liquid assets with \$9 billion liabilities. FTX also held \$5.5 billion in "less liquid" crypto assets and \$3.2 billion in illiquid equities.

November 13:

- Reuters [reported](#) that FTX previously sent \$10 billion customer funds to Alameda, with between \$1 billion and \$2 billion now totally missing.
- Authorities in the Bahamas are [investigating](#) potential criminal misconduct surrounding the stunning implosion of crypto exchange FTX.

November 14:

- According to the [motion](#) filed by FTX, they may have more than 1 million creditors, most of whom are FTX's clients.
- The Securities Commission of the Bahamas [stated](#) that the Supreme Court had appointed two provisional liquidators from PwC to the case.

November 15:

- BlockFi is [preparing](#) a potential bankruptcy filing after halting user withdrawals.
- NBA teams Miami Heat and Golden State Warriors have paused all the promotional [deals](#) with FTX.
- Sam Bankman-Fried [tweeted](#) that their liquid assets are -\$8 billion, semi-liquid assets are \$5.5 billion and illiquid assets are \$3.5 billion.

November 16:

- Australia Securities & Investments Commission [suspended](#) FTX Australia's AFS license.
- Genesis decided to temporarily [suspend](#) redemptions and new loan originations in the lending business.

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