

Why the Crypto Collapse Matters

The failure of the cryptocurrency exchange FTX put the entire industry under scrutiny.



By Erin Griffith

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How could a \$32 billion company vaporize overnight? That's what anyone watching the sudden collapse of FTX, a hot cryptocurrency start-up that plunged into bankruptcy last week, might be puzzling over.

It will take time — and multiple federal investigations — to fully understand what happened behind the scenes at FTX, a Bahamas-based crypto exchange. But the impact is already becoming clear. Lawmakers are calling for more oversight. Crypto die-hards are trying to distance themselves. Critics of this sector of finance are crowing. And for those of you who had, until now, managed to ignore the rise and rise and rise of crypto as a phenomenon? First of all, good for you. And second, you may want to watch this one play out. I'll explain why shortly.

But first, here is the simplest explanation of what happened that I can manage: FTX let people and companies buy and sell digital currencies, holding billions of dollars' worth of customer deposits. FTX's founder, Sam Bankman-Fried, also created an investment fund that trades cryptocurrencies called Alameda Research. The businesses were supposed to be separate, but this year, Alameda needed cash and apparently dipped into FTX's customer deposits. Then, this month, FTX customers became worried about their deposits and rushed to withdraw them, setting off a bank run and pushing FTX into bankruptcy.

The apparent commingling of funds between Alameda and FTX is highly suspicious and could lead to criminal fraud charges and lawsuits. The Securities and Exchange Commission and Justice Department are investigating. I want to explain today why the disintegration of FTX matters — it's more than simply one man's financial catastrophe.

Three reasons

1. Crypto went mainstream in the pandemic. Regulation has yet to catch up.

Cryptocurrencies were part of overlapping investment manias — including meme stocks, trading cards, NFTs and sneakers — that got people chasing speculative investments over the past few years. But not everyone buying in understood the level of risk involved.

If a bank fails, the government might step in and bail it out. A hallmark of crypto is that it is largely unregulated — buyer beware. Hacks can't be reversed, misplaced funds can't be retrieved by calling customer service, and a failing crypto exchange is not likely to get a government bailout. Investors have few protections.

Risky bets at several crypto projects once deemed valuable have already led to “death spirals” this year, incinerating billions of dollars' worth of investors' money. But FTX and Bankman-Fried stand out. He appeared on magazine covers, schmoozed regulators, grew his profile in philanthropy and politics and even sponsored a sports arena in Miami. He made hundreds of investments in smaller crypto projects and aggressively bailed out failing ones.

Evangelists for cryptocurrencies and their underlying technology promote them as investment vehicles that eliminate the need for faith in people and institutions. But Bankman-Fried made a point of fostering trust: from investors, journalists, politicians and charities. Now he's a pariah, and he brought all of the crypto industry under scrutiny.

2. FTX's collapse is connected to the broader tech industry retreat.

Bankman-Fried is already drawing comparisons to Bernie Madoff. And just as Madoff's Ponzi scheme fell apart during the 2008 financial crisis, FTX's collapse arrives amid a broader pullback for the tech industry. Tech stocks have crashed. Venture capital funding is drying up. Nearly 800 tech companies have laid off more than 120,000 workers this year, with cuts hitting Meta, Amazon and Twitter.

The tough times in tech can be traced to interest rates for borrowing money. For more than a decade, rates were low, pushing investors to chase risk and pour money into high-growth tech companies. Now, rates are rising, just as the pandemic-fueled growth of the last two years fades. The rate increases have hurt tech company valuations and access to capital — including those focused on crypto.

3. There's more to come.

FTX's bankruptcy filings list more than one million creditors. In addition to people who used the platform to store their cryptocurrency investments and investors who backed the company directly, numerous funds and crypto start-ups had assets locked up there.

Investment managers that dabbled in crypto "should really be considering whether they should have relatively new, relatively unproven, relatively unregulated assets in their retirement plans," said Marcia Wagner, founder of the Wagner Law Group, a firm focused on employee benefits. "There are certain types of assets that frankly don't belong."

More tech

- Bankman-Fried criticized regulators in a blunt interview with Vox.
- SpaceX employees say they were fired for speaking out about Elon Musk.
- Musk gave Twitter employees a deadline to decide whether they want to stay at the company.
- Don't delete your account just yet. Here's how to prepare for life after Twitter.
- The latecomer's guide to crypto.

THE LATEST NEWS

Elections

- Republicans clinched control of the House of Representatives, giving them a check on President Biden's agenda. Here's how they did it.
- A slim majority and ideological gulfs among Republicans will make the House difficult to manage, The Times's Carl Hulse writes.
- Karen Bass, a Democrat, became the first woman to be elected mayor of Los Angeles.
- Senate Republicans re-elected Mitch McConnell as their leader.
- Hard-right conservatives endorsed Donald Trump's 2024 bid, but other former allies shunned it.

Politics

- A bill to protect same-sex marriage rights cleared a Senate hurdle, with 12 Republicans joining Democrats to break a filibuster.
- The House passed a bipartisan bill that limits the use of nondisclosure agreements to silence victims of sexual misconduct.
- The House is considering seating a nonvoting representative from the Cherokee Nation, which would fulfill a promise in an 1836 treaty.

Education

- The law schools of Yale and Harvard are withdrawing from U.S. News & World Report rankings, saying the system devalues efforts to recruit working-class students.
- Part-time faculty members at the New School in New York are striking for better pay.

Other Big Stories



The site of an explosion this week in Poland near the border with Ukraine. Ugc, via Reuters

- Tensions are easing over a strike in Poland that killed two people. NATO officials said that it was probably a Ukrainian missile, but that Russia was to blame.
- China's leader, Xi Jinping, briefly scolded Justin Trudeau, Canada's prime minister, accusing him of leaking details of a conversation they had.
- Britain's criminal justice system disproportionately prosecutes and jails Black people, a Times investigation found.
- Protect your pets and livestock: About 10,000 mink are running loose in Ohio.

Opinions

Welcoming Chinese students to the U.S. is critical to combating Xi's rising authoritarianism, **Diana Fu** argues.

Trump faces five serious investigations. **Ankush Khardori** documents how he could wriggle out of them.

MORNING READS



The tidying guru Marie Kondo. Nastassia Brückin

Marie Kondo is back: Move over, hygge. It's time for kurashi.

Etiquette: Do handwritten thank-you notes still matter? (Short answer: yes.)

A Times classic: Most Americans live pretty close to their moms.

Advice from Wirecutter: This slow cooker makes dinner while you're away.

Lives Lived: Virginia McLaurin was born a sharecroppers' daughter in the Jim Crow South. In 2016, she danced with Barack Obama and Michelle Obama at the White House. She died on Monday. She was 113 by her own accounting. (She had no birth certificate.)

SPORTS NEWS FROM THE ATHLETIC

A third Cy Young Award: The Astros ace and current free agent Justin Verlander picked up his third career A.L. Cy Young Award, an astounding feat at 39. The Marlins' Sandy Alcantara unanimously won on the N.L. side.

Nets and Simmons at odds: The Brooklyn Nets have grown increasingly frustrated with Ben Simmons' lack of availability and passion for the game, The Athletic's Shams Charania and Sam Amick write, another wrinkle in what has been a nightmare season for the Nets.

ARTS AND IDEAS

The National Book Awards

This year's National Book Award, one of the most prestigious literary prizes, was awarded last night.

Nonfiction: Imani Perry, a professor of African American studies, won for “South to America,” in which she travels to the American South, where she is from, to examine race, culture, politics and identity. “I write for my people. I write because we children of the lash-scarred, rope-choked, bullet-ridden, desecrated are still here, standing,” Perry said.

Fiction: Tess Gunty won for “The Rabbit Hutch,” which focuses on the daily dramas of tenants in a Midwestern housing complex. The Times called it a “prismatic and often mesmerizing debut.”

For more: Here’s a list of winners.

PLAY, WATCH, EAT

What to Cook



Johnny Miller for The New York Times

This creamy fettuccine honors Bronte, Sicily, a town renowned for its pistachios.

Seven Days to Thanksgiving

If you’re planning a vegetarian Thanksgiving, Alexa Weibel has recipes for a blockbuster centerpiece — an ombré gratin — and four sides that use fall vegetables.

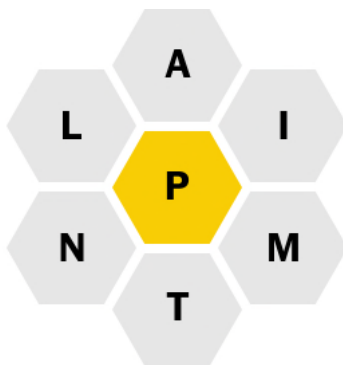
Theater

The lure of fascism comes disguised as adolescent romance in “Camp Siegfried,” Bess Wohl’s disturbing new play.

Late Night

The hosts joked about Trump's campaign announcement.

Now Time to Play



The pangram from yesterday's Spelling Bee was *lightbulb*. Here is today's puzzle.

Here's today's Mini Crossword, and a clue: Syrup flavor (five letters).

And here's today's Wordle. After, use our bot to get better.

Thanks for spending part of your morning with The Times. See you tomorrow.

P.S. Jane Gross, a Times journalist who in 1975 became the first woman known to report from the locker room of a professional basketball team, died last week at 75.

Here's today's front page.

"The Daily" is about Israel. On the Modern Love podcast, falling for your sperm donor.

Matthew Cullen, Lauren Hard, Lauren Jackson, Claire Moses, Ian Prasad Philbrick, Tom Wright-Piersanti and Ashley Wu contributed to The Morning. You can reach the team at themorning@nytimes.com.

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