

## Is Crypto Collapsing?

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November 15, 2022

November 11, 2022, brought news of yet another massive crypto bankruptcy filing. One of the largest crypto exchanges, FTX, filed a petition for bankruptcy protection in Delaware. FTX, Alameda, and other affiliates estimated in their filings that they have more than 100,000 creditors. With their estimated range of between \$10 and \$50 billion worth of assets and liabilities, this could well be the largest crypto-related bankruptcy ever filed.

This follows a slew of other big names in crypto which have filed bankruptcy petitions recently, including lender Three Arrows Capital (3AC) and the Celsius crypto exchange. Others have sought similar protections overseas, such as Zipmex's proceeding in Singapore.

Why are these companies filing bankruptcy? The reasons vary.

- Business models built on unsustainable growth rates in cryptocurrency prices
- Collapse in cryptocurrency prices, leading to "runs on the bank"
- Financial irregularities

Is your crypto safe? That depends on what it is and where you park it. Some newer tokens and wallet software may not have been extensively tested, and so may have weak points that an attacker might exploit. Even "safe" currencies like Bitcoin can be hacked if stored in a hot wallet. Of particular interest, customers of a bankruptcy exchange may find it difficult to recover their crypto deposits because their investments may be treated as mere unsecured claims against the exchange, drastically reducing the odds of recovery.

Filings by crypto-based entities come with a host of thorny issues. The most obvious is whether a crypto exchange's bankruptcy estate owns the tokens it holds for others. But there are many others, including privacy concerns with respect to what previously were anonymous transactions and questions about the propriety of large financial withdrawals by high-ranking individuals in the days surrounding the filing of bankruptcy petitions.

The authors of this alert have researched, lectured, and written on cryptocurrency issues, and are well-positioned to assist you on these or similar issues.