**FTX failings could spark regulatory reform of crypto markets, says Mackrell.Solicitors**

Binance has taken the decision to walk away from the buyout of its rival FTX after its due diligence found issues that allegedly pointed to the mishandling of customer funds.

The fallout of this unfolding saga between the two giants may also lead to greater regulation of the market according to the international law firm, Mackrell.Solicitors.

During the due diligence process, Binance is alleged to have found a “black hole” in FTX’s accounts, with a significant gap between the exchange’s assets and liabilities.

This gap is thought to be related to Alameda Research, which is the trading firm set up by FTX’s founder, Sam Bankman-Fried before he created the exchange, and FTX allegedly using customers’ deposits to support Alameda’s activities.

This decision by Binance comes after a surge in withdrawals from the FTX exchange this week, totalling more than $6 billion (£5.2 billion) in just three days, which followed concerns about FTX’s financial health.

This has caused a liquidity crunch and led to the value of Bitcoin, Ethereum and many other cryptoassets plummeting in the following days.

It is now emerging that the US Securities and Exchange Commission (SEC) is also investigating FTX over how it has managed customer funds and its crypto-lending activities.

In particular, it is looking into whether the online platform had followed regulations that required customer assets to be kept separate and prevented the exchange from trading against its own users.

Taking a deeper look into the latest developments, Asim Arshad, Head of the Crypto & Blockchain Team at Mackrell.Solicitors, said: “Everything seems to indicate FTX was operating a fractional reserve type style of banking. There are a lot of moving parts to this saga, particularly in relation to Alameda using a propped-up FTT price to borrow non-FTT assets for its trading strategies, but in my view, the glaring issue here is FTX are an exchange, not a bank – so why were they using the exchange like a fractional reserve bank?

“An exchange should be operating as an exchange, profiting from transaction fees. However, here it appears that FTX decided to act as an unregulated fractional reserve, leveraging users’ assets hoping that not everyone will want their assets back at the same time – but all it took was a news article and a few tweets and they did.”

“The full details of what exactly has happened are yet to be revealed and will now be the subject of investigations by regulators, such as the SEC.”

Asim said that the factors in FTX’s collapse would likely lead to a re-examining of cryptoasset regulations worldwide, as nations attempt to protect investors and capital from similar practices in future.

“I think from these developments there will be increased resolve that exchanges should not be acting as unregulated banks and there is no good reason that consumers should be exposed to the risk of exchanges operating as fractional reserve banks,” said Asim.

“Institutions that operate fractional reserve banking are subject to regulations, including reserve requirements, so I think we will see increased scrutiny over the practices of prominent exchanges at consumer and regulator level. This may be a catalyst to regulations to ensure exchanges have to provide proof of reserves and other such reporting requirements

“This is something that Binance have already announced they will be doing, and many other exchanges have indicated they will follow suit, including Crypto.com and KuCoin. Other exchanges will likely follow – either under their own volition or if regulators introduce new rules that make it a requirement,” added Asim.

Unfortunately for some, any subsequent regulation will be too little too late. The collapse of FTX will once again see ordinary investors bear the brunt of the impact and lead to the consequential effects of bankruptcy, liquidations and personal insolvency.

“I can only imagine the anguish of some creditors who are impacted by this ongoing situation and are trying to consider what asset recovery methods may be available to them and weighing up the potentially prohibitively expensive and drawn-out processes involved.”

“I imagine a lot of consumers will also be keeping their eyes peeled for news of which other crypto entities have exposure to FTX”

To find out more about Mackrell.Solicitors’ legal services for the cryptoasset industry, please contact Asim Arshad by calling +44 (0) 20 7240 0521 or emailing asim.arshad@mackrell.com