GROUP WORK PROJECT # 2
GROUP NUMBER: 1251

MScFE 560: FINANCIAL MARKETS

FULL LEGAL NAME	LOCATION (COUNTRY)	EMAIL ADDRESS	MARK X FOR ANY NON-CONTRIBUTING MEMBER
Marin Yordanov Stoyanov	Bulgaria	azonealerts@gmx.com	
Wangjie Xu	Japan	wangjieeu@yeah.net	
Filippo Buoncompagni			X

***Remember:** *Any group members who did **not** contribute to the project should be given all zero (0) points for the collaboration grade on the GWP submission page.*

Statement of integrity: By typing the names of all group members in the text boxes below, you confirm that the assignment submitted is original work produced by the group (excluding any non-contributing members identified with an "X" above).	
Team member 1	Marin Yordanov Stoyanov
Team member 2	Wangjie Xu
Team member 3	

Use the box below to explain any attempts to reach out to a non-contributing member. Type (N/A) if all members contributed. **Note:** You may be required to provide proof of your outreach to non-contributing members upon request.
Filippo Buoncompagni never replied neither me nor Wangjie Xu when we asked him to join us with the work of GWT2

Roles:
Journalist = J

Non-technical interviewee = NT

technical interviewee = T

J:
Let's start from the beginning, how did the FTX default happen?

NT:
It was due to lack of enough money to be able to give it back to the investors that wanted to withdraw their money back, which is basically the definition of a default.

T:
FTX is a cryptocurrency exchange platform that allows users to trade cryptocurrencies.

Cryptocurrency exchanges typically use a system of margin trading, in which users can trade with borrowed funds. This allows traders to make larger trades than they would be able to with their own funds, but also increases the risk of losses.

In the default of FTX, FTX privately provided its customers' funds to affiliates for risky trading, and had to file for bankruptcy after increasing losses.

J:

What are the outcomes for the crypto / fiat financial system?

NT:
I think that the main issue is that the trust in the crypto system as an alternative payment system to the fiat one is lost.

T:
In the short term, it could raise concerns about the stability and security of cryptocurrency exchanges and the cryptocurrency market. Under these circumstances, the investment in the cryptocurrency market could decrease in a significant level, thus leading to the overall cryptocurrency industry suffering a setback to a cycle ago.

But in the longer term, this concern could lead to increased regulation and oversight of these types of platforms. The overall trend of the cryptocurrency market is towards greater maturity and stability, and events like the FTX default are likely to become less frequent and impactful as the market continues to evolve.

J:

What are the repercussions for the crypto world? Lack of security, regulations and trust?

NT:
Obviously there is an urgent need of regulations and security measurements, monitoring and many more changes to be made in order to gain a bit more trust in the system

T:
It could lead to increased regulation and oversight of cryptocurrency exchanges, which could have implications for the broader cryptocurrency market.

J:

Who is the one to blame: the regulators or the scammers?

NT:
If everything was done deliberately, then the scammers are the one to blame because they did it by design. Furthermore, regulations are always late to the party. They show up when everything has gone wrong and then start thinking how to fix it. They act reactively.

T:
If the exchange was engaged in fraudulent or unethical practices, then the exchange and its owners or operators would bear primary responsibility for the losses suffered by customers.

However, the regulators are also responsible because they failed to adequately supervise and regulate the exchange. It is important for regulators to construct a more mature regulation system to actively monitor the possibility of similar events like the default of FTX.

J:

How could this have been avoided?

NT:
Maybe some kind of accounting or auditing would have helped avoiding all of this.

T:

1. Better risk management: The exchange could have implemented stronger risk management practices, such as limiting the amount of customer funds that were exposed to high-risk investments or limiting the amount of leverage that could be used in trading.
2. More transparent reporting: The exchange could have provided more transparent reporting to its customers, allowing them to better understand the risks associated with the investments and the use of their funds. This could have included regular financial statements, audits, and regular reporting on the exchange's investment activities.
3. Better regulation system from the regulators: The regulators could have built a more mature regulation system to monitor the abnormal amount of assets investment and financial movement of exchange, making it harder to illegally make use of funds from customers to other investments that is nor pre-negotiated with customers.

J:

What steps should be taken in order so that we never happen to deal with these kinds of issues?

NT:
All kinds of steps towards transparency and accountability are welcome and very much needed in this case.

T:

1. Strict regulatory oversight: Financial regulators should enforce strict regulations on cryptocurrency exchanges, to ensure that they are operating in a safe and secure manner.
2. Regular audits and inspections: Cryptocurrency exchanges should be subject to regular audits and inspections to verify that they are following safe and responsible practices and the funds are being used appropriately.
3. Transparency and accountability: Cryptocurrency exchanges should provide transparent and accurate reporting to customers, to allow them to make informed decisions about their investments, and to hold the exchanges accountable for the safe management of customer funds.

J:

What about the moral hazard or the conflict of interests with Alameida Research?

NT:
Well this is a very interesting topic which I am not very well informed about, but there is a word that somehow there was a special software to make money go from FTC to Alameida Research without being visible to others participants, auditors and regulators.

T:
Yes there are some speculations over this topic, but everything is still in progregress of proving. In case of proving it this means that there is a lot much more than moral hazard or the conflict of interests. It would mean that this was a ponzi scheme where the capital from investors was sent to Alameida Research (stolen from investors and sent to Alameida Research), which means that everything was a very well prepared high-tech theft.

J:

What should FTX do towards its investors?

NT:
Obviously a liquidation should be done and the investors should receive at least some of their initial deposits / investments.

T:
This is easier said than done, because FTX has bought a lot of shitcoins that are not liquid at all and even if they try to sell them there would be a lot of slippage which would lower the prices of assets being sold even more. Whatever they do they cannot regain the value that was written in their accounting books (if they had at all). I also think that the best case is liquidation of all their assets, especially the real estate that they bought with other people's money (or they may call it bonuses for the good work). Sell everything connected with FTX and Alameida Research and give it back to their investors.