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A Stark Warning Emerges About Bitfinex and 'Wash Trading'

October 28, 2017 13:10 by [Tabassum Naiz](#)

A Stark Warning Emerges About Bitfinex and ‘Wash Trading’



Even though wash trading is illegal, Bitfinex continues to conduct it as a part of its operations, according to *BitCrypto'ed*, who has dedicated his time to exposing malpractice at Bitfinex. A two-part blog post outlines the exchange's suspected misconduct. The first part explains what happens and how the exchange benefits, with the second part touching on the reasons behind it.

Market manipulation increases with the surging volume of cryptocurrency market. The fact cannot be avoided.

fraud continues to rise along with security measures.

Quite confusing, right?

Before proceeding, let us clear up the term 'wash trading.'

What is Wash Trading?

Wash trading refers to a situation where an investor buys a share/any financial instrument from a broker via another broker. This type of trading constitutes market manipulation and is not legal.

Investors under wash trading buy & sell their own entity without incurring any market risk and also with the profits of such sales and purchases.

According to the Commodity Exchange Act, wash trading is illegal but the **bitcoin** exchange Bitfinex allows it. Here's how:

- Order to buy/sell bitcoin or any currency Bitfinex supports trading for,
- Opt an order that exactly match your earlier order,
- At last, trading will be executed against your own order.

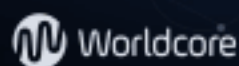
However, if there was no wash trading, then a system of such exchange must update that your own orders are not identical. It is evident that wash trading leads for the unexpected market manipulation that is the reason why some exchange platforms are not permitting it for their operations. *BitCrypto'ed* also provides some **video evidence** that shows what the most obvious form of wash trading looks like.

An Intentional Feature of Bitfinex's Trading Engine?

There is a lot of debate around certain exchange's trading engines, as to whether they are rigged or intentionally substandard. For instance, a new exchange platform "LedgerX" performs a **bitcoin** exchange as a commodity by Commodity and Futures Trading Commission. According to the LedgerX's API documentation, they explicitly allow orders that involve wash trading.

In contrast, Bitfinex does not have such an operation to prevent wash trading; therefore, the system easily allows investors to trade millions of dollars worth of bitcoin and other currencies that gives the impression of a high volume of the exchange and a higher value of their business.

Though this trading platform has also claimed that traders engaged in wash trading after August 1 and the launch of **Bitcoin Cash** (BCH), *BitCrypto'ed* pointed out that the trade engine was never fixed, which amounted to a violation of their Terms of Service.



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Under the statement, they claimed that BCH distribution is proposed to protect the lenders and stabilize the margin position, even though they were aware of wash traders. In this situation, many trades were likely to the greater advantage of such a distribution mechanism. The exchange determined market manipulation was detrimental to trading and the clients who engaged in this were violating the Bitfinex's terms of service.

Moreover, the interview with Phil Potter, Bitfinex's Chief Strategy Officer, sees him claim that there might be several reasons for wash trading and implicates that he knows the trade engine will perform such trades.

The post concludes with a **warning to traders**:

"Their engine allowing wash trading is intentional, it's not something they forgot to put into their platform for several years, and we're just now learning about it. It's not an oversight. It's deliberate, especially when they did not fix it after August 1."

There can be two situations now; either Bitfinex exchange denies the allegations, or they ensure they will stop wash trading by 'fixing' their engine, but the post highlighted that such a fix may just ban the practice for good, isn't a 'whale.'

Who is Wash Trading at Bitfinex, and Why?

In the **second part of the blog**, *BitCrypto'ed* examined who is behind the wash trading and the potential reasons. As previously reported by *BTCManager*, Bitfinex has experienced **banking issues**, while at the same time, have been raising funds from investors via their **BFX tokens**. The reasons why wash trading is allowed could be related to their persistent issues afloat, and it could be the case that, 'the trading engine **was modified** after they lost banking to support v as Bitfinex was in a fight for their lives.'

The post also argues that Phil Potter was trading on the Bitfinex exchange while trading a **bitcoin** hedge fund, demonstrating the management of the exchange could be using their inside information to profit.

Another reason that is put forward for why the exchange permits wash trades is money laundering. In fact

is pointed out as another suspicious operation, where the exchange could support a few ICOs to clean up the funds directly.

The implications? *BitCrypto'ed* advises, 'trade carefully,' as the spectacular rise in the **price of bitcoin** could be for fraudulent reasons. When, and if, a downturn comes, however, at least the wrongdoers will be cleansed from the ecosystem.

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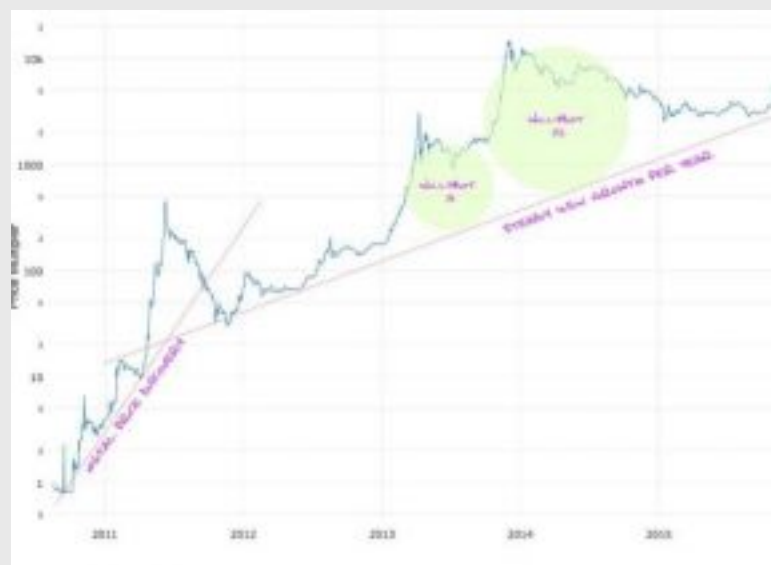
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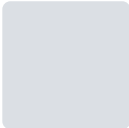
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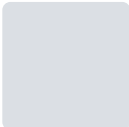


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