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## Chicago trading firms will feel shock waves from FTX bankruptcy

DRW and Jump, along with CME and Cboe, already are active players in cryptocurrencies.

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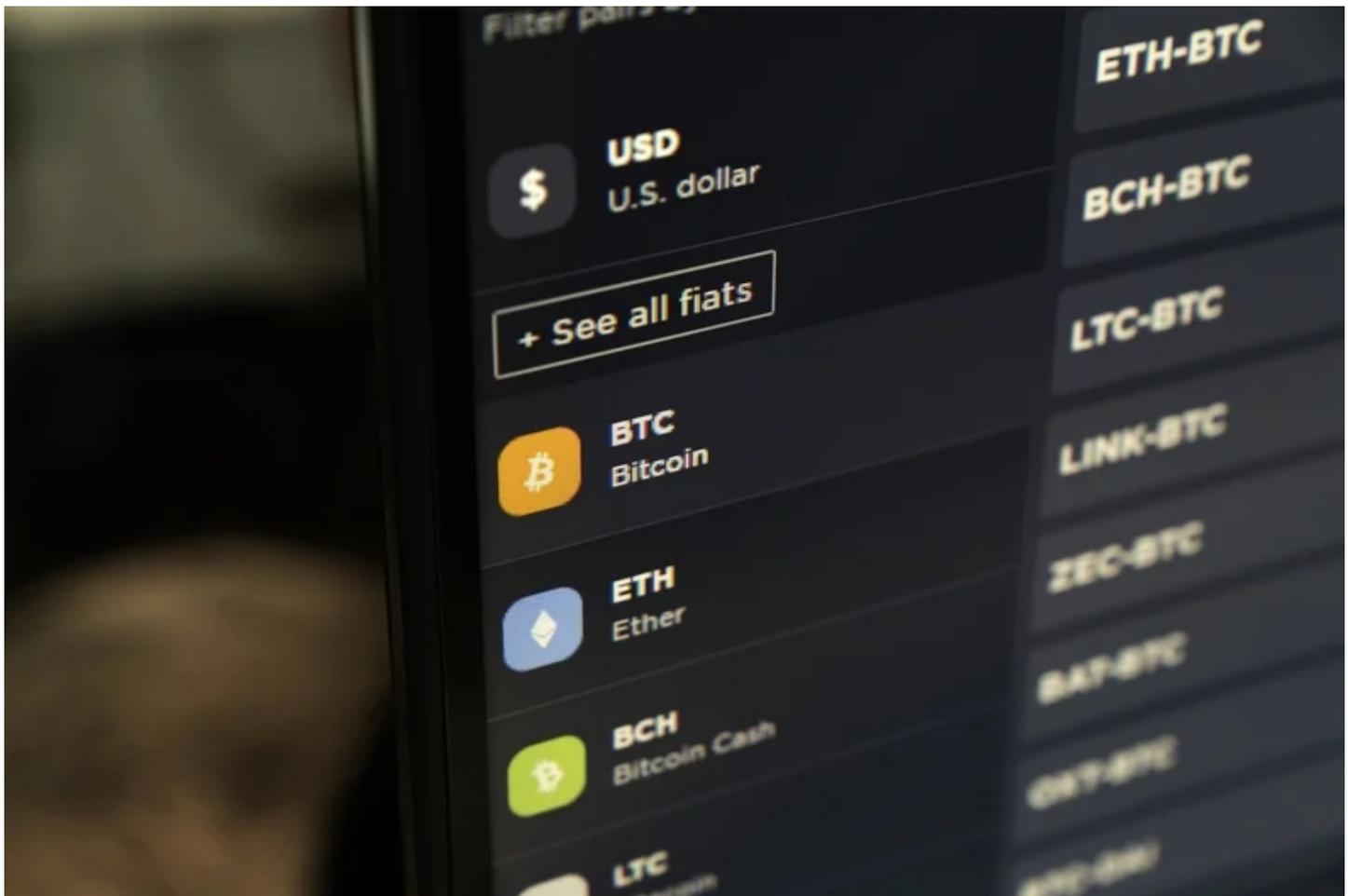
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It's going to take a while to assess the damage from the collapse of cryptocurrency exchange FTX, which filed for bankruptcy Friday and was then hit by an outflow of unauthorized withdrawals worth an estimated \$477 million.

Cryptocurrencies took a hit in trading. But the bigger worry is whether the woes of FTX, which is based in the Bahamas, spread directly to Chicago trading firms and financial exchanges, or whether the bankruptcy undermines confidence in crypto and increases the likelihood that already-wary regulators will step in.

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The turmoil in crypto could fuel volatility that benefits traders and exchanges, such as CME Group, which reported record trading volume in crypto futures and options Tuesday. Longer term, it could push investors to look toward regulated markets, which would benefit Chicago.

"The risk in events like this collapse (of FTX) is it causes an erosion in trust in crypto, which is inherently fragile," says Eric Budish, an economist at University of Chicago's Booth School of Business and an expert on financial markets who has done research on cryptocurrencies. "A lot of the blockchain idealism is about trust without the rule of law. This collapse is a reminder of the value of the rule of law."

Two of Chicago's largest trading firms, DRW and Jump Trading, have crypto-trading units. Chicago's commodities exchange companies, CME Group and Cboe Global Markets, have dipped their toes in the crypto waters to varying degrees in recent years. Another Chicago company connected to cryptocurrency is CoinFlip, a fast-growing startup that operates bitcoin ATMs.

FTX briefly had its U.S. headquarters in Chicago but [moved to Miami in September](#), when its Chicago-based U.S. president, Citadel Securities veteran Brett Harrison, left the company.

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Crypto investors on social media are wondering who will end up holding the bag after FTX's demise.

DRW's Cumberland crypto-trading unit wrote in a tweet Wednesday that "while we had virtually no exposure to FTX, and our operational controls enabled us to provide deep liquidity to a market in search of it, the exchange consolidation we saw was unfathomable 60 hours ago.

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"Much will be uncovered about what happened, and we'll welcome participation in those conversations. For today, however, our focus is squarely on serving our counterparties as they navigate what we expect will continue to be a volatile market."

A DRW spokeswoman declined to comment further.

Jump Crypto, which has 170 employees led by University of Illinois alum [Kanav Kariya](#), tweeted over the weekend: "We, like all of you, were shocked by the events that unfolded over the past week. Jump's exposure to FTX was managed in accordance with our risk framework and we remain well capitalized. 2/ This is a massive blow to the industry, but we continue to believe in this space and work alongside others building towards its future."

More broadly, the FTX woes could make mainstream investors and financial markets more cautious about crypto.

"The impact on the traditional market will be slowing down adoption, investment and innovation in traditional offerings tied to crypto," says Sarit Markovich, who teaches a fintech course at Kellogg School of Management at Northwestern University.

## IMPACTS ON CBOE, CME

When it comes to Chicago's traditional financial markets, Cboe has the larger presence in crypto, dealing for crypto exchange ErisX a year ago. The deal, allowing traders to use Cboe to buy and sell crypto futures as well as the tokens themselves on a spot market, closed in May at what was up to then one of the worst moments for digital assets.

It wasn't long after the deal was completed that Cboe concluded it had overpaid substantially for ErisX. It took a noncash \$461 million write-off on the investment at the end of the second quarter, according to a Securities & Exchange Commission filing. Cboe hadn't disclosed the value it placed on ErisX when it agreed to acquire it, but the write-off amounts to well over half of the purchase price based on investor disclosures.

Tax-loss benefits blunted the write-down a bit, bringing it on a net basis to \$344 million.

Still, the rationale for the decision was sobering and underscores the recent changes in the crypto market, which include the [crash of cryptocurrency Terra Luna and bankruptcy in July of crypto hedge fund Three Arrows](#).

"Negative events and trends in the broader digital asset environment emerged, such as deleveraging and bankruptcies, and certain negative trends in the broader digital asset environment which emerged in late 2021 intensified, such as the decline in digital asset prices, overall market activity, and market capitalization," Cboe's filing stated. "Additionally, following the acquisition of Cboe Digital (formerly ErisX), the efforts to syndicate minority ownership interests in Cboe Digital to potential investors during the quarter ended June 30, 2022, became more challenging, and the outlook for the digital segment's future market growth was negatively impacted."

Late last year, Cboe was forecasting to investors that the digital unit would generate compound annual growth of 25% over the next three to five years. In August, Cboe did attract a group of minority investors in its digital unit, despite its struggles earlier in the summer. That coincided with a few months' period of calm for crypto values after the chaos of the spring.

Cboe says it remains bullish on the long-term future of its digital unit. "Now, more than ever, market participants need a trusted, transparent and regulated marketplace, underpinned by responsible innovation and the value that intermediaries (including future commission merchants) provide, which are tenets upon which we've built Cboe Digital," a spokeswoman said in an email. "As testament to the utility of our platform, Cboe Digital set a new single-day volume record of \$228.1 million in notional value traded (on Nov. 10). We look forward to continuing working with our planned equity partners to accelerate the growth of our platform and launching our new margin futures product in the coming months, pending (regulatory) approval."

At CME, more than 207,000 crypto-related contracts, including bitcoin and ether, traded Tuesday, a spokeswoman said. That's still a drop in the bucket compared with overall trading volume at CME. Average daily volume in October was 22.7 million contracts. Over the longer haul, though, CME may see lower trading volumes on crypto derivatives if the sector shrinks overall, just as Cboe apparently has recognized.

"Our goal is always to provide the tools that can help investors manage risk in all environments," spokeswoman Laurie Bischel said in an email.

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