

# FTX DIGITAL MARKETS LTD. (IN OFFICIAL LIQUIDATION)

Election Process Overview

JULY 2024



## Basis of preparation & disclaimers

This document has been prepared by the Joint Official Liquidators (“JOLs”) of FTX Digital Markets Ltd. (In Official Liquidation) (the “Company”, “FTX Digital” or “FTX DM”) for the purpose of providing customers with information and instructions regarding the requirement for customers to elect whether they want to proceed with a claim in the liquidation of FTX Digital (the “Bahamas Process”) or in the alternative, to pursue a claim in the US Chapter 11 cases (the “US Process”).

Neither the JOLs, Lennox Paton (“LXP”), any member firm of PricewaterhouseCoopers International Limited (“PwC”) (each member firm of which is a separate legal entity), nor any of their employees, professional advisers or agents (“Professional Parties”) will be responsible for any loss, damage, liabilities or claims arising from the use and/or reliance on this document. None of the Professional Parties accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of this document. The JOLs are acting as agents of the Company, without personal liability. No representation of any kind (whether expressed or implied) is given by the JOLs as to the accuracy or completeness of the information. The JOLs reserve their right to amend or supplement this document in due course. In producing this document, the JOLs are not waiving any legal privilege whatsoever in relation to legal advice they have received.

---

# Contents

1. Background .....	1
1.1 Background of FTX Digital Markets Ltd.....	1
1.2 Events leading up to FTX Digital’s Official Liquidation .....	1
1.3 The Global Settlement Agreement.....	1
2. Claim and election process .....	2
2.1 Overview .....	2
2.2 The Bahamas Process and the US Process are aligned in key aspects .....	2
2.3 Implications of the election .....	3
2.4 How to participate in the Bahamas Process .....	3
2.5 How to participate in the US Process.....	3
2.6 Implications of making contradicting elections or no election .....	3
3. The Bahamas Process.....	5
3.1 Valuation of customer claims in the Bahamas Process .....	5
3.2 Adjudication of claims in the Bahamas Process .....	5
3.3 Know Your Customer requirements in the Bahamas Process.....	6
3.4 Tax requirements in the Bahamas Process.....	6
3.5 Distributions to customers in the Bahamas Process.....	7
Appendix I – Glossary.....	8

# 1. Background

## 1.1 Background of FTX Digital Markets Ltd.

FTX Digital Markets Ltd. (“FTX Digital” or “FTX DM”) was incorporated in the Bahamas as an International Business Company on 22 July 2021 and registered and licensed to conduct business as a Digital Asset Business pursuant to the Digital Assets and Registered Exchanges Act in September 2021.

In May 2022, the Terms of Service governing the relationship between the FTX.com platform (also known as the “International Platform”) and customers were updated to include FTX Digital as a provider of the majority of services available.

## 1.2 Events leading up to FTX Digital’s Official Liquidation

On 10 November 2022, the Securities Commission of The Bahamas (“SCB”) suspended FTX Digital’s license and presented a petition to the Supreme Court of the Bahamas (“the Bahamas Court”), and subsequently the Joint Provisional Liquidators (“JPLs”) were appointed on 10 November 2022 and 14 November 2022.

On 11 November 2022 and 14 November 2022, several other entities in the FTX Group, including FTX Trading Ltd., FTX US and Alameda entities, along with numerous other affiliated entities (together the “US Debtors”) filed for protection under Chapter 11 of the US Bankruptcy Code in the Delaware Bankruptcy Court. FTX Digital was not included in this filing by virtue of the existing Provisional Liquidation proceedings in the Bahamas.

The JPLs were then appointed as Joint Official Liquidators (“JOLs”) on 10 November 2023. An official liquidation occurs once it has been determined there is no prospect of restarting operations and rescuing the business.

## 1.3 The Global Settlement Agreement

Following extensive review of the available books and records of FTX Digital, the JOLs reached the conclusion that there was no realistic prospect of unravelling the affairs of FTX Digital from those of the US Debtor entities, and that attempting to do so would not benefit the creditors of FTX Digital (due to the cost and time involved). This was based on evidence that FTX Digital’s assets and affairs were so hopelessly commingled with those of the US Debtors that there was no means of determining the true counterparty for customers.

After extensive negotiations, the Global Settlement Agreement (“GSA”) was executed between FTX Digital and the US Debtors on 19 December 2023 and subsequently approved by both the Supreme Court of the Bahamas and the US Bankruptcy Court. As a result, FTX Digital is entitled to access the whole of the FTX Group estate for the benefit of its creditors, including all realisations and gains made by the US Debtors as both estates will pool recoveries to pay creditors of both estates on the same basis.

# 2. Claim and election process

## 2.1 Overview

The GSA allows FTX.com customers (“Dotcom Customers”) to choose whether they wish to participate in either the Official Liquidation proceeding of FTX Digital Markets Ltd. (the “Bahamas Process”) or alternatively the US Chapter 11 cases (the “US Process”), however they cannot participate in both. Some customers have submitted claims in both processes, resulting in duplicate claims that will need to be settled in one process or the other.

As such, from 10 July 2024 until the Election Deadline of 4:00PM Prevailing Eastern Time 16 August 2024, the Bahamas Process and the US Process will ask Dotcom Customers to elect which process they wish to participate in. Following the Election Deadline, each Dotcom Customer claim will be handled in either the US Process or the Bahamas Process (according to the election made by the customer). From the Election Deadline, claims confirmed as going forward in one process will be withdrawn from the other and it will no longer be possible to switch processes.

Non-customer creditors of FTX Digital only have a claim in the Bahamas Process and will therefore not be required to complete an election.

## 2.2 The Bahamas Process and the US Process are aligned in key aspects

Although there are some differences between the Bahamas Process and the US Process, it is the expectation of both the US Debtors and the JOLs that Dotcom Customers will receive the same value in distributions on or around the same dates, subject to the US Debtors Plan of Reorganisation becoming effective. Before distribution payments are made in respect of creditor claims it will be necessary for customers and creditors to satisfy Know Your Customer (“KYC”), Anti-money laundering (“AML”) and tax reporting requirements, irrespective of the process they elect to participate in. Key areas of alignment:

- The JOLs and the US Debtors are using the same base calculation and valuation methodologies at a common date when assessing the claim value of each FTX.com customer account;
- Customers will be subject to the same (or similar) KYC, AML and tax reporting requirements (including the requirement to complete and deliver IRS Forms W-9 or IRS Forms W-8, as applicable) irrespective of whether they elect to participate in the Bahamas Process or in the US Process; and
- The JOLs and the US Debtors plan to use the same or similar payment schedules and mechanisms to make distributions to customers.

The claims process in the Bahamas Process has been designed to enable customers to review balances and lodge Proof of Debt claim forms all in one place.

- In the Bahamas Process, any customer or non-customer creditor who wishes to file an electronic Proof of Debt **may still do so up to the proposed Bahamas bar date of 4:00PM Prevailing Eastern Time 16 August 2024** (“the Bahamas Bar Date”). The customer claim bar date for the US Process passed on 29 September 2023. As a result, customers who did not object to their scheduled claim amount in the US Process by that date may be barred from doing so.
- In the Bahamas Process, the claim adjudication process is still ongoing, and as such customer claims may be admitted at a higher or lower amount than the amount of their claim as submitted. However, for customers who have accepted the scheduled balance on the FTX Digital Claim Portal, the JOLs anticipate these claims will be valued at no less than these amounts.
- In the US Process, claims below US\$10 (“De Minimis Claims”) will not be paid. In the Bahamas Process, the law requires that all valid claims rank for distribution regardless of the size of the claim so claims less than US\$10 will be adjudicated and paid.
- Note, distributions in the Bahamas Process could be diluted if the JOLs accept incremental claims in excess of US\$75m of the scheduled balances. However, based on current information and claims to date, the JOLs do not anticipate that this will occur.

## 2.3 Implications of the election

By electing to participate in either the Bahamas Process or the US Process, a customer's Dotcom Claim will be released/removed from the other process that they do not participate in. Effectively this means that after the Election Deadline, the customer's claim will only be recognised in the process that the customer has elected to participate in and the claim will be treated as if it does not exist in the other process.

In addition, as part of the election process the customer will be required to relinquish any claim in the other process and agree to releases in respect of certain legal action and/or other obligations. Please refer to the specific release language on the Bahamas Process Election Form, or the US Ballot, for details of the release clauses.

## 2.4 How to participate in the Bahamas Process

To participate in the Bahamas Process, customers must have completed the following two steps prior to **4:00PM Prevailing Eastern Time 16 August 2024**:

- i. Submitted a Proof of Debt in the Bahamas Process, and
- ii. Elected to have their claim processed in the Bahamas.

To submit a Proof of Debt in the Bahamas Process, if they have not already done so customers should follow the instructions on the FTX Digital Claim Portal (<https://digitalmarketsclaim.pwc.com/>).

To confirm that they elect to have their claims processed in the Bahamas Process, customers should complete the Election Form on the FTX Digital Claim Portal (<https://digitalmarketsclaim.pwc.com/>) and select "**Option 1: Participate in the Bahamas Process**".

- Customers who submitted their Proof of Debt prior to 10 July 2024 will receive an email with instructions on how to access the form. The form can also be accessed directly via the FTX Digital Claim Portal (<https://digitalmarketsclaim.pwc.com/>).
- Customers who submit their Proof of Debt on or after 10 July 2024 will be directed to the form on the FTX Digital Claim Portal immediately following the submission of the Proof of Debt.

Customers who make an election to participate in the Bahamas Process using the above steps are not required to complete or submit any portion of any US Ballot which will be distributed after 10 July. However, customers may also elect to participate in the Bahamas Process via the US Ballot if they so choose. If so, customers must ensure that they follow the US Debtors' instructions on how to do so. **Note - customers who elect to participate in the Bahamas Process via the US Ballot still need to submit their Proof of Debt on the FTX Digital Claim Portal.**

## 2.5 How to participate in the US Process

Customers who wish to participate in the US Process should first confirm that their claim is scheduled in the US Process or was previously filed as a proof of claim in the US Process. If not, these customers may no longer be eligible to participate in the US Process as the bar date has passed. Customers who are scheduled or had filed an objection of claim in the US Process should receive a US Ballot from the US Debtors.

Customers intending to participate in the US process **should NOT** tick the box electing to participate in the Bahamas Process when completing the US Ballot.

Customers who have previously submitted a Proof of Debt in the Bahamas Process, and wish to participate in the US Process, must complete the Bahamas Process Election Form prior to 4:00PM Prevailing Eastern Time 16 August 2024 and select "**Option 2: Withdraw Bahamas Proof of Debt**".

Customers who have not previously submitted a Proof of Debt in the Bahamas Process **are not required** to complete the Bahamas Process Election Form and should simply follow the instructions provided by the US Debtors with respect to the US Ballot.

## 2.6 Implications of making contradicting elections or no election

Customer claims cannot be processed in both the Bahamas Process and the US Process. If, by the Election Deadline, customers have (i) submitted (and not withdrawn) a Proof of Debt in the Bahamas Process and elected

to have their claim processed in the Bahamas Process on the FTX Digital Claim Portal, but also (ii) submitted (and not withdrawn) a US Ballot where they failed to elect to have their claim processed in the Bahamas Process, then their election to participate in the Bahamas Process will prevail and they will be deemed to have elected to participate in the Bahamas Process and withdraw from the US Process.

Customers who have submitted or will submit a Proof of Debt in the Bahamas Process, but fail to make an election before the Election Deadline, will not have their claims reconciled, or adjudicated or paid in the Bahamas Process as their previously submitted Proof of Debt in the Bahamas Process will be deemed to be incomplete.

# 3. The Bahamas Process

## 3.1 Valuation of customer claims in the Bahamas Process

The value of scheduled claims is generally the same in both the Bahamas Process and the US Process. The claim values set out in the FTX Digital Claim Portal have been calculated in accordance with Court orders granted respectively in the Supreme Court of the Bahamas and the US Bankruptcy Court.

Claims were valued based on FTX.com platform records of the closing balances of fiat currency, any cryptocurrency tokens in the account and open derivative positions as at 11 November 2022 at 10:00am ET/3:00pm UTC. Where required, manual adjustments were made, based on available information, to the closing balance for any deposits or withdrawals where the platform records are known to not reflect actual deposits received or processed withdrawals.

Adjusted closing balances were used to convert each balance into a USD equivalent value using conversion rates based on the Digital Assets Conversion Table ("DACT") set out in the Estimation Order granted by the Supreme Court of the Bahamas on 11 June 2024. The DACT can be found at Exhibit 1 of the Bahamas Court Summons to Approve Estimation Methodology available at this link (<https://www.pwc.com/bs/en/services/business-restructuring-ftx-digital-markets/assets/summons-reapproval-of-estimation-methodology.pdf>). The USD equivalent value of each asset held on a customer's platform account (excluding NFTs) was aggregated to calculate the net account balance. Customers with zero or negative account balances are not entitled to a distribution.

To the extent that surplus proceeds are available to repay customer balances in full, customers are entitled to an ex gratia payment representing Post Petition Interest calculated at a rate of 9.0% p.a. of the outstanding balance accruing on a simple interest basis (i.e. non compounding) from 11 November 2022, until customer principal and interest balances are paid in full. In addition to Post Petition Interest, some customers will be entitled to a share of any proceeds from the Supplemental Remission Fund as defined in the Plan of Reorganisation.

Some customers may have had non-fungible tokens ("NFTs") stored in their FTX.com account, whereby custody of the underlying digital asset was controlled by the FTX.com platform. As part of the Bahamas Process, through the FTX Digital Claim Portal customers will be able to view the list of NFTs in their account and make a claim for these as part of the claims process.

It is anticipated that NFTs will be returned to customers in kind where the asset is in the control of FTX Digital or the US Debtors (i.e., the underlying NFT will be transferred to a wallet of the customer's choice). Where an NFT is not available to be returned to the customer, a provision will be made to distribute a US dollar equivalent amount of the value of the NFT.

## 3.2 Adjudication of claims in the Bahamas Process

The FTX Digital Claim Portal sets out for customers the balance of their accounts according to the books and records of FTX.com, subject to the adjustments and conversion rates set out above. Customers who submit a Proof of Debt form confirming their scheduled balance will be entitled to a distribution (subject to submitting a correctly completed Proof of Debt form and satisfying KYC, AML and tax requirements).

Claims submitted disputing a scheduled balance will be subject to a claim adjudication process, whereby the JOLs will assess claims submitted by customers that do not match the schedule of claims. As part of the claim adjudication process, the JOLs will undertake an investigation of the books and records of FTX.com alongside any supporting information submitted by the customer. Possible outcomes of adjudication are:

1. Claim admitted for dividend distribution in full (i.e., whole amount claimed by the creditor); or
2. Claim admitted for dividend distribution in part; or
3. Claim rejected in full.

Notices of admission or rejection of claims (as appropriate) will be issued via the FTX Digital Claim Portal. For claims that have been rejected, either in part or full, the creditor will have the ability to appeal the JOLs' decision to the Supreme Court of The Bahamas within 21 days of receipt of the notice of rejection. The adjudicated amount will form the basis of the claim against which distributions are calculated in the Bahamas Process.



### 3.3 Know Your Customer requirements in the Bahamas Process

Identity Verification processes are required to ensure that distributions are only made to a valid party. Valid parties are those whose identities match the intended recipients and where payments comply with relevant financial crime, regulatory and sanctions requirements.

Customers who choose to have their claims dealt with in the Bahamas Process will be required to comply with the Identity Verification requirements. The JOLs will conduct KYC and AML checks on all customers. The KYC standards applied by the JOLs in the Bahamas Process will be substantially the same as those applied in the US Process, although differences may arise in consideration of relevant regulatory standards in the Bahamas or elsewhere. Non-customer creditors will also be asked to verify their identities.

The Bahamas Process and US Process will mirror one another in relation to KYC requirements as follows:

- Customers and non-customer creditors are requested to satisfy KYC requests within 30 days from the date of the request
- Customers and non-customer creditors who do not satisfy KYC requests within 30 days will receive a second request
- Customers and non-customer creditors who do not satisfy the KYC request within 60 days of the second request (90 days from the first request) will be deemed to have forfeited their right to receive a distribution
- Such customers and non-customer creditors shall be forever barred and prevented from asserting any right to distributions in the Bahamas Process made prior to receipt by the JOLs of that customer or non-customer creditor's completed KYC documentation
- Customers and non-customer creditors who satisfy KYC informational requests but fail to pass the KYC procedures, will also be ineligible to receive distributions.

Customers will be notified when they can commence the Identity Verification stage via the FTX Digital Claim Portal. Retail customers will be asked to review and confirm any previously submitted identity information, provide incremental identity information and complete an online identity matching process. The automated identity matching process is performed using third-party technology and will involve capturing the individual's photo identification document (e.g., a passport), completing a liveness checking process, and capturing the individual's proof of address. Upon successful completion of the questionnaire and identity matching process, additional verification processes will be conducted.

A separate institutional customer verification process will apply to all customers other than natural persons. After it has been confirmed that an institutional customer has confirmed their choice to have their claims dealt with in the Bahamas Process, the representative of the institutional customer of FTX Digital will receive a message in the FTX Digital Claim Portal inviting them to commence KYC. Institutional customers will be asked to review and confirm any previously submitted identity information and submit incremental information relating to the structure, status, operations, ownership and control of the institution. Certain basic documents may be requested.

For both retail and institutional customers, the secure messaging function of the FTX Digital Claim Portal will be used for any follow-up queries, information or documentation requests, and to advise of any required actions. The status of the Identity Verification process will be displayed on the customer's FTX Digital Claim Portal dashboard.

For transferred, purchased or assigned claims held by parties other than the original customer, it will be necessary to perform KYC and AML procedures on the original holder of the account. The current account holder will undergo identity verification and sanction screening. These requirements will be consistent between both the Bahamas Process and the US Process.

Where customers have already provided KYC information in the US Process, to the extent possible and permitted by law, the JOLs will use this information to minimise the need for customers to repeat steps they may have already performed. By confirming their election to have their claims dealt with in the Bahamas Process, customers will be required to acknowledge and agree to make any KYC information they have submitted to the US Debtors accessible to FTX Digital, its agents and representatives including the JOLs, and to authorise the US Debtors to make such KYC information available to FTX Digital, its agents and representatives including the JOLs.

### 3.4 Tax requirements in the Bahamas Process

Customers who participate in the Bahamas process will be required to submit tax residency information to the JOLs prior to any distribution. Only customers who have submitted the necessary tax information will be eligible for a distribution.

### 3.5 Distributions to customers in the Bahamas Process

Claims from all customers and non-customer creditors will be adjudicated in the Bahamas Process equally and fairly pursuant to Bahamian Law. No claim will be prioritised over others in the same creditor class.

Customers with reconciled claim values of US\$50,000 or less will be classified as Convenience Class customers. These Customers will receive a one time, full and final distribution equivalent to:

- 1) 100% of their reconciled claim value based on the conversion rates as at 11 November 2022 approved by the Bahamas Court; and
- 2) An amount representing Post Petition Interest of 9.0% per annum on the reconciled claim value from the reference date of 11 November 2022 through the applicable distribution date.

The JOLs currently estimate that this will amount to a payment of approximately 119% of the reconciled claim value for Convenience Class customers.

Customers with reconciled claim values over US\$50,000 will have the option to opt into the Convenience Class. This will result in their reconciled claim value being capped at US\$50,000 (i.e. they will forgo any right to claim any balance above US\$50,000), but will entitle them to receive a distribution payment at the same date and on the same basis as other Convenience Class customers.

Customers who are not in the Convenience Class (i.e., customers with agreed claims greater than US\$50,000 who do not opt into the Convenience Class) are expected to receive distributions over a longer period (on a schedule to be determined), driven by the activities necessary to efficiently liquidate remaining assets and wind up the estates, equivalent to:

- 1) 100% of their reconciled claim value based on the conversion rate as at 11 November 2022 approved by the Bahamas Court;
- 2) An amount representing Post Petition Interest of 9.0% per annum on the reconciled claim value from the reference date of 11 November 2022 through the applicable distribution date; and
- 3) A share of any proceeds from the Supplemental Remission Fund as defined in the Plan of Reorganisation.

At present, the JOLs currently estimate that this will amount to a payment of approximately 129-143% of the reconciled claim value for non-Convenience Class customers of FTX.com.

Distributions will be made via selected payment processors or cryptocurrency exchanges and service providers. We expect to offer retail customers a choice between short listed distribution agents. NFTs will be returned to customers (where available) via a transfer to a selected wallet address.

# Appendix I – Glossary

Term/Abbreviation	Description
AML	Anti-money laundering
the Bahamas Court or the Supreme Court of The Bahamas	The Commercial Division of the Supreme Court of The Commonwealth of The Bahamas
the Bahamas Process	The official liquidation proceeding of FTX Digital Markets Ltd. in the Bahamas
the Bahamas Bar Date	The deadline to file a proof of debt in the Liquidation of FTX Digital Markets Ltd., set at 4:00PM Prevailing Eastern Time 16 August 2024.  Note - The Bahamas Bar Date is synchronised with the Election Deadline as customers are required to file both a proof of debt and make an affirmative election to proceed in the Bahamas Process
Convenience Class	A specific group of creditors created during the bankruptcy process to make the distribution process more efficient and expedite payments to those creditors. The creation of this class has been approved by the Court in the US Process and to maintain equivalence, has been recognised as a separate class of creditors in the liquidation of FTX Digital
DACT	Digital Asset Conversion Table, set out in the Estimation Order granted by the Supreme Court of the Bahamas by order on 11 June 2024.
De Minimis	A threshold below which certain laws or regulations do not apply or where legal violations are considered too minor to merit consideration or prosecution
Dotcom Claims	Claims from customers of FTX.com or “FTX International”
Dotcom Customers	Customers of FTX.com or the FTX International platform
Election Deadline	The deadline to complete the election, set at 4:00PM Prevailing Eastern Time 16 August 2024
ET	Eastern Time
FTX Digital (or “the Company”)	FTX Digital Markets Ltd. (In Official Liquidation)
FTX Digital Claim Portal	Portal used by customers and non-customer creditors to submit a claim in the Bahamas Process
FTX Group	FTX International group of companies, together with the FTX US group of companies.
FTX International	FTX Trading and its subsidiaries (especially including FTX Digital) that operate, maintain and administer the FTX International Platform.
FTX Trading	FTX Trading Limited, a company incorporated in Antigua and Barbuda and the immediate parent of FTX Digital
FTX US	West Realm Shires Inc. and its subsidiaries, that operate, maintain and administer the FTX.us platform
GSA	Global Settlement Agreement. An agreement between the US Debtors and the JOLs dated 6 January 2023, setting out the shared goal in maximising recoveries for customers and creditors of each estate, which includes maximising the recoverable assets at each estate, using the most effective legal mechanisms for recovery and returning value to the appropriate estate

JOLs	Joint Official Liquidators of FTX Digital, Mr Brian Simms, KC, of Lennox Paton, Mr Kevin Cambridge of PwC Bahamas, and Mr Peter Greaves of PwC Hong Kong.
JPLs	Joint Provisional Liquidators of FTX Digital, Mr Brian Simms, KC, of Lennox Paton, Mr Kevin Cambridge of PwC Bahamas, and Mr Peter Greaves of PwC Hong Kong (prior to their appointment as Joint Official Liquidators on 10 November 2023)
KYC	Know Your Customer
LXP	Lennox Paton (the JOLs' Bahamas legal counsel)
NFT	Non-Fungible Token
p.a.	per annum
Plan of Reorganisation	The Joint Chapter 11 Plan of Reorganisation of FTX Trading Ltd. and its Debtor Affiliates
Post Petition Interest	The interest that accrues on debts after the date of the insolvency until the date of payment
Proof of Debt	The electronic form submitted in the Bahamas Process by customers to substantiate their claims
PwC	PwC Bahamas, PwC Hong Kong, or a member firm of PricewaterhouseCoopers International Limited (each member firm of which is a separate legal entity)
PwC Bahamas	PricewaterhouseCoopers Advisory (The Bahamas) Limited
PwC Hong Kong	PricewaterhouseCoopers Limited, an entity incorporated in Hong Kong
SCB	Securities Commission of The Bahamas
the US Process	US Chapter 11 bankruptcy process, which is being run by FTX Trading Limited and its affiliated debtor entities
US	United States
US Ballot	The US Process ballot for customers to make their confirmation of election to participate in either the Bahamas Process or the US Process
US Debtors	Collective group of FTX affiliated entities filing for Chapter 11 relief under case number 22-11068
USD / \$	United States dollar currency
UTC	Universal Time Coordinated

# Thank you