

Responses to the Chair of the Treasury Select Committee on questions to Binance at the cryptoasset industry hearing on 14 November 2022

1. Whether Binance's actions contributed to the collapse of FTX?

The Committee asked about whether Binance's actions contributed to the collapse of FTX. As is clear from the timeline below, the causes of the collapse of FTX were the financial irregularities and possible fraud initially reported in a CoinDesk article on 2 November, which was subsequently syndicated on Yahoo Finance later the same day and reported in The Information and Politico the following day, as well as in numerous crypto trade publications in many languages around the world.

Binance's understanding of the timeline of events in the days leading up to FTX filing for insolvency is set out below.

Timeline of events

- **2 November:**

- 15:44 GMT: [CoinDesk](#) breaks the news of reported financial interdependencies between FTX and Alameda Research, advancing allegations purportedly based on a private financial document reviewed by CoinDesk that the asset side of Alameda's balance sheet is significantly comprised of FTT, the native token of the FTX exchange, and illiquid altcoins.
- Unspecified time: The CoinDesk article is syndicated by [Yahoo Finance](#).

- **3 November:**

- 12:35 GMT: The CoinDesk article is picked up by [The Information](#), which highlights in its global crypto news roundup that Alameda's single largest category of assets is FTT.
- 16:00 GMT: In its Morning Money newsletter, [Politico](#) shares the findings from the CoinDesk article.

- **5 November:**

- 15:09 GMT: 22,999,999 FTT (valued at approximately US\$588m at the time of transfer) is transferred to a Binance.com wallet. The FTT transferred belonged to Binance and was part of the consideration for a US\$2.1bn equity exit from FTX in 2021.
- 15:09 GMT: [Whale Alert](#), a crypto observer on Twitter, and other crypto industry activity observers note the transfer and online discussions begin about its purpose.

- **6 November:**

- 15:47 GMT: Binance's CEO, Changpeng Zhao (CZ), in order to provide transparency to the market, makes a clarificatory public [announcement](#), via Twitter, of Binance's

decision to liquidate the remaining FTT on its books as a result of the allegations made by CoinDesk and other media of FTX's alleged mishandling of its finances.

- **7 November:**

- 06:37 GMT: FTX's CEO, Sam Bankman-Fried, contacts CZ by phone to ask whether Binance would consider acquiring FTX.

- **8 November:**

- 14:57 GMT: A non-binding letter of intent (LOI) is signed by Binance and FTX in respect of a potential acquisition by Binance of FTX, subject to the completion of full due diligence.
- 16:03 GMT: Sam Bankman-Fried [announces](#), via Twitter, Binance's tentative non-binding agreement to acquire FTX.
- 16:09 GMT: CZ [announces](#), via Twitter, the signing of the LOI to acquire FTX, subject to the completion of full due diligence.
- Immediately after CZ's announcement above: Legal, finance and tax due diligence commences.

- **9 November:**

- 15:32 GMT: [CoinDesk](#) reports that Binance is considering pulling out of its non-binding agreement with respect to a potential acquisition of FTX.
- 16:11 GMT: [Bloomberg](#) reports that FTX is facing probes into misuse of client funds by the SEC and CFTC.
- 17:13 GMT: [TechCrunch](#) reports that FTX is being investigated by US regulators over misuse of customer funds.
- 21:00 GMT: Binance [announces](#) its decision not to pursue an acquisition of FTX, citing issues identified in due diligence, news reports of mishandled customer funds and alleged US agency investigations as reported by media prior to the announcement.
- 21:24 GMT: Rumors begin circulating [on Twitter](#) that FTX has filed for bankruptcy.
- 21:57 GMT: [Bloomberg reports](#) that Sam Bankman-Fried has warned investors that FTX faces bankruptcy without a cash injection.

- **10 November**

- 00:28 GMT: [Wall Street Journal](#) reports that the SEC and DOJ are investigating FTX. The article alleges that the probe focuses on potential securities law violations by FTX's US affiliate.
- 01:25 GMT: [Reuters](#) reports that US regulators are probing FTX over its handling of client funds and crypto-lending activities.

- **11 November**

- 14:14 GMT: FTX announces that it has filed for insolvency in the United States under Chapter 11 of the US Bankruptcy Code.
- 14:21 GMT: [CNBC](#) reports that Sam Bankman-Fried has stepped down as CEO of FTX as FTX files for bankruptcy.
- Unspecified time: [New York Times](#) reports that FTX files for bankruptcy.
- Unspecified time: [Associated Press](#) reports that funds vanished at bankrupt crypto exchange FTX and that probes are underway.

- **12 November**

- 01:51 GMT: [Reuters](#) reports that the Miami Heat arena will no longer be named after FTX after the crypto exchange filed for bankruptcy.
- 18:38 GMT: [CNBC](#) reports that FTX users appear to be cashing out of FTX through a Bahamas loophole.

- **13 November**

- 23:29 GMT: [Bloomberg](#) reports on FTX's freefall into bankruptcy. The article notes that *"more than 130 related companies sought court protection at the end of last week without filing any of the usual court motions or explanatory documents seen in a big US insolvency case"*.
- Unspecified time: [Financial Times](#) reports that FTX held less than US\$1 billion in liquid assets against US\$9 billion in liabilities.

Conclusions

As is clear from the sequence of events described above:

- The concerns around FTX's financial condition, sparking concerns amongst FTX investors and holders of FTT about FTX's financial viability and the value of FTT, were initially reported by CoinDesk on 2 November.
- Amongst the concerned holders of FTT was Binance, whose CEO (CZ) took the decision a few days after the publication of the CoinDesk article to liquidate the remaining FTT on its books and accordingly transferred the assets to a Binance.com wallet in order to facilitate an orderly sale of the assets over the coming months.
- The on-chain transfer of FTT referred to above was picked up by crypto industry activity observers the same day, leading to speculation as to its purpose.
- In order to provide clarity in relation to the above speculation and in the interests of being fully transparent with the community, Binance's CEO publicly announced (via Twitter) the following day Binance's decision to liquidate the remaining FTT on its books. The announcement referred to the fact that Binance would endeavour to liquidate its position in a way that minimised market impact, and that due to market conditions and limited liquidity, Binance expected this to take a few months to

complete.

- FTX's CEO, Sam Bankman-Fried, subsequently reached out to CZ to ask if Binance would consider acquiring FTX. In the hope of protecting FTX's users, which include Binance users, Binance agreed to the entry into a non-binding letter of intent in respect of an acquisition, subject to the completion of full due diligence on FTX.
- As a result of that initial financial due diligence and media reports of US regulatory investigations into FTX for misuse of customer funds, Binance took the decision to withdraw from the sale and publicly announced that decision.

It is clear from the above that the causes of the collapse of FTX were the financial irregularities and possible fraud initially reported in the CoinDesk article on 2 November, which presumably long predated that article. It was this which prompted Binance, as a holder of FTT, to take the decision to liquidate its remaining holding of FTT in order to reduce its financial exposure to a discredited asset.

Whilst Binance subsequently entered into a non-binding letter of intent in respect of a potential acquisition of FTX in the hope of protecting FTX's users and the broader industry when contacted by FTX's CEO, Binance's financial due diligence on FTX and media reports of US regulatory investigations into the company for misuse of customer funds subsequently revealed insurmountable obstacles to proceeding with an acquisition.

2. Whether Binance's relationship with Paysafe is a way of circumventing the issues highlighted in the FCA consumer warning last year and Binance's lack of regulatory authorisation in the UK?

The Committee asked about Binance's partnership with Paysafe and whether this is an attempt by Binance to circumvent regulations in the UK. The facts are clarified below.

In December 2021, Binance notified the FCA that it had signed an agreement with:

1. Paysafe Payment Solutions Limited ("**PPSL**"), an Irish company authorised by the Central Bank of Ireland under the European Communities (Electronic Money) Regulations 2011 (as amended) for the issuing of electronic money and payment instruments and the provision of payment services; and
2. Skrill Limited ("**Skrill**"), an English company authorised by the FCA under the Electronic Money Regulations 2011 (as amended) for the issuing of electronic money and payment instruments and the provision of payment services,

pursuant to which PPSL would provide card payment processing services and Skrill would provide fiat wallet services to Binance in respect of its UK users (such services together, the "**Fiat Payment/Wallet Services**").

The notification explained that Binance was proud to be partnering with the Paysafe group - and in particular PPSL and Skrill - to ensure that the Fiat Payment/Wallet Services, which are integral to its services for UK users, adhere to the highest regulatory standards in the EEA and the UK.

To be clear, the regulatory authorisations held by PPSL and Skrill are Electronic Money Institution (EMI) licences to provide Fiat Payment/Wallet Services, not registrations with the FCA to provide cryptoasset exchange and custody services ("**Cryptoasset Services**") under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended, the "**MLRs**").

Any UK firm holding a registration with the FCA under the MLRs to provide Cryptoasset Services in the UK would need to partner with a third party EMI licence holder to enable the provision of Fiat Payment/Wallet Services to UK users, unless they also held an EMI licence themselves, which most do not.

Therefore, Binance's partnership with Paysafe is by no means an attempt to circumvent UK regulation. On the contrary, as explained above, Binance is proud to partner with Paysafe to ensure that the Fiat Payment/Wallet Services, which are integral to its services for UK users, adhere to the highest regulatory standards in the EEA and the UK.

As mentioned during the Committee hearing, Binance also remains fully committed to obtaining a registration with the FCA under the MLRs to provide Cryptoasset Services in the UK and has been engaging in dialogue to this end with the FCA for more than a year.

Binance is also fully supportive of the development of a comprehensive legal framework for cryptoassets in the UK, above and beyond the existing AML-focused registration regime under the MLRs.