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Binance to Acquire Rival FTX: Here's Why and What Happened

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Binance, the world's largest crypto exchange, said that it had entered an agreement to acquire FTX, amid fears the industry could enter another meltdown because of the FTT liquidity.

Crypto World Is Rocked as Crypto Giant Binance Enters a Deal to Acquire FTX

The crypto world was rocked on Tuesday as one of the largest exchanges for digital currencies, seemingly on the verge of collapse, was bailed out by a major rival in a deal that underlined the perils of the industry's volatility.

"This afternoon, FTX asked for our help." Changpeng Zhao, founder and chief executive of Binance said on Twitter.

Binance, the world's largest crypto exchange, said it had reached an agreement to buy its competitor FTX, which struggled to meet a surge of withdrawals in recent days as the crypto market teetered on the edge of another meltdown. The size of the acquisition couldn't immediately be determined, but the privately held FTX was once valued at \$32 billion.

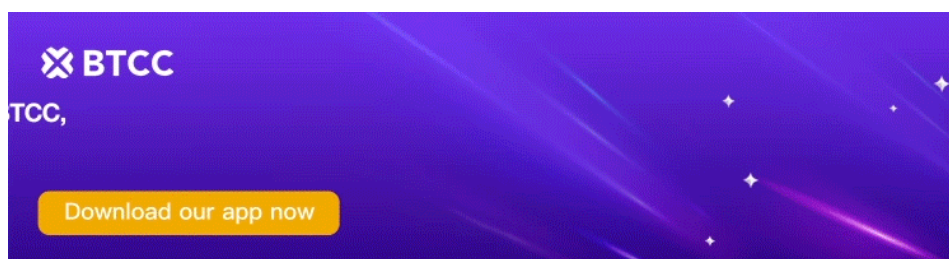
The emergency deal-making highlighted the persistent instability of the crypto industry, which was buffeted this spring by a \$2 trillion crash that drained the savings of many amateur investors. That downturn destabilized some of crypto's biggest firms, though FTX is by far the largest casualty. It was widely regarded as among the most nimble and best-run crypto companies, until its finances started unraveling virtually overnight.

The sudden cataclysm prompted comparisons to the collapse of Lehman Brothers, the investment bank whose implosion helped set off the 2008 financial crisis.

Many of the major crypto companies “are inherently fragile, susceptible to a Lehman-like collapse at any time,” said Cory Klippsten, a Bitcoin entrepreneur who is critical of the rest of the crypto industry. “The only hope once under pressure is that another player will bail them out.”

If the deal goes through, it will unite two of the largest crypto companies and cement the status of Binance’s founder, Changpeng Zhao, as one of the most powerful figures shaping the future of the loosely regulated crypto industry.

The deal was announced as crypto markets, which have seen devastating losses this year, were on the brink of more panic. Reports had been circulating that FTX rested on shaky financial foundations. Many of its customers, who use FTX to buy and store their digital currencies, rushed to take their money out. On Monday night, the crypto research firm Nansen reported that more than half a billion dollars had flowed off the platform over the previous 24 hours.



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What happened between Binance and FTX?

At one point on Tuesday, FTX stopped processing withdrawals altogether, according to the Block, a crypto research firm. The exchange appeared to have entered a “liquidity crunch,” meaning it lacked the funds to fulfill demand for withdrawals.

“This afternoon, FTX asked for our help,” Mr. Zhao said on Twitter on Tuesday, describing how Binance had struck the deal to buy FTX. He said Binance was planning to “fully acquire FTX.com” to help relieve the pressure on the exchange, but added that the agreement was “nonbinding.”

In an internal note to FTX employees, Sam Bankman-Fried, the exchange's chief executive, apologized for not being communicative recently and said the company had experienced roughly \$6 billion of net withdrawals over the previous 72 hours, compared with tens of millions of dollars in inflows and outflows on a typical day.

In the note, which was obtained by The New York Times, Mr. Bankman-Fried added that he had made mistakes. "I'm sorry," he wrote, noting that most of the details of the transaction with Binance "still aren't hashed out."

On Twitter, Mr. Bankman-Fried said he was grateful to Mr. Zhao for making a deal, which he said would allow FTX to "clear out liquidity crunches." FTX is based in the Bahamas, where it offers trading services that aren't authorized in the United States. The company also has a smaller, U.S.-based operation; in his tweets, Mr. Bankman-Fried said FTX.US was meeting withdrawals and wouldn't be part of the deal with Binance.

An FTX spokesman said the company had no comment beyond the Twitter posts. A Binance spokeswoman did not respond to a request for comment.

The deal was a humbling reversal for Mr. Bankman-Fried, 30, who had emerged over the last two years as one of the crypto industry's most powerful figures. He started a lobbying push to shape crypto regulation in Washington and bought the naming rights to the Miami Heat's arena as part of an aggressive marketing campaign. He has also been a major political donor, contributing \$5.6 million to support Joseph R. Biden's 2020 election effort.

Why Binance Is Selling out All of Its FTT Tokens

When the crypto market crashed in May, Mr. Bankman-Fried engineered deals to backstop struggling companies. He launched a bid to [acquire Voyager Digital](#), a publicly traded crypto lender that filed for bankruptcy in July.

But cracks started emerging last week when the crypto publication CoinDesk reported on a leaked balance sheet that appeared to show that FTX's sister company, Alameda Research, was on shaky foundations. Alameda is a hedge fund that Mr. Bankman-Fried founded before starting FTX. The two companies have close financial ties.

The report showed that a large portion of Alameda's assets were a cryptocurrency called FTT, which FTX invented for traders to use on its platform. The disclosure stoked fears that a sudden drop in the price of FTT could cause a crisis for Alameda and FTX.

Mr. Zhao was an early investor in FTX, which gave him a stake in the company. Mr. Bankman-Fried later bought that stake back, paying for it partly in FTT. Over the weekend, Mr. Zhao announced that Binance would sell its FTT holdings, citing “recent revelations.”

The announcement set off a public spat between Mr. Zhao and Mr. Bankman-Fried. “A competitor is going after us with false rumors,” Mr. Bankman-Fried said on Twitter on Monday. “FTX is fine. Assets are fine.”

But Binance’s moves also sent the price of FTT plummeting. By Tuesday, it had dropped about 63 percent over 24 hours. The rest of the crypto market took a hit, with the prices of Bitcoin and Ether also falling.

Traders rushed to move their cryptocurrencies off FTX’s platform, as fears grew that the company could be the next in a series of high-profile crypto firms to collapse. More than \$1.2 billion was withdrawn from FTX on Monday, Nansen reported that night.

“There’s a confidence crisis here,” said Ed Moya, a crypto analyst at OANDA, a trading firm. “Whenever you have the instability of a key token or coin that is tied to one of the key crypto figures, there’s always concern that you could see contagion, and a much more significant moment of crisis.”

[Related: Investors Withdraw Millions From FTX as Binance Liquidates FTT](#)

[Binance Announced to Sell All FTX \(FTT\) Tokens. Here’s the Reason](#)

Apart from Mr. Zhao, FTX was backed by a raft of other major investors, including Sequoia Capital, Lightspeed Venture Partners and SoftBank. FTX had raised nearly \$2 billion in funding, according to PitchBook, which tracks private capital. Three investors in FTX described being shellshocked by the Binance takeover and what it portended for cryptocurrency start-ups.

Mr. Bankman-Fried emailed investors at 11 a.m. Pacific time to share news of the deal, according to a copy of the letter obtained by The Times. In it, he wrote that FTX’s shareholders were the company’s “second priority” and that he was more focused on the first priority of protecting customers and “the industry.”

“I’m sorry I didn’t do better,” he concluded. The letter was reported earlier by the newsletter Newcomer.

The deal strengthens the hand of Binance, which operates largely outside the United States but without a central headquarters. Binance built its business by offering a wide array of cryptocurrencies on its platform, as well as risky trading options that aren't legal in the United States. Mr. Zhao has long been ranked as the world's richest crypto billionaire, with a net worth of \$17.4 billion, according to Forbes.

But Binance, which also runs a smaller U.S. operation, has faced regulatory scrutiny from the Securities and Exchange Commission, and many details of its business are cloaked in secrecy. While its exact valuation is not precisely known, Binance processes as much as \$76 billion a day in crypto trades, according to CoinMarketCap, the industry data tracker.

A few days ago, Mr. Bankman-Fried posted a since-deleted tweet joking that Mr. Zhao might not be allowed to visit Washington, in an apparent allusion to regulatory scrutiny. Now Mr. Zhao is poised to take over his company.

In a note to FTX employees on Tuesday, Mr. Bankman-Fried promised to provide more information about the deal soon. "Let's live to fight another day," he said.

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