

Binance bails out on FTX rescue deal, sending shockwaves through crypto sector

Article

The news: The world's largest cryptocurrency exchange **Binance** will walk away from its nonbinding rescue deal to buy competitor **FTX** after a surge in withdrawals led the latter to a

liquidity crisis.

Timeline of FTX on the ropes:

- On Sunday, Binance CEO **Changpeng Zhao** [tweeted](#) that Binance would sell its FTX digital tokens, known as FTT, blaming “recent revelations.”
- This triggered concerns over FTX’s financial health and caused FTT prices to nosedive amid a surge in withdrawals.
- On Monday, FTX CEO **Sam Bankman-Fried** attempted to calm the situation, saying “FTX is fine. Assets are fine.” The tweet has since been deleted.
- But on Tuesday he was forced to backtrack, saying [FTX had agreed to a proposed bailout deal](#) for an unspecified amount, with Binance to buy its non-US business.
- Zhao confirmed that FTX sought a deal to cover its “significant liquidity crunch.”
- Late Wednesday, the Wall Street Journal reported that [Binance decided not to proceed with the deal](#) after reviewing FTX’s finances and structure, with Binance saying FTX's "issues are beyond our control or ability to help.”
- The **Securities and Exchange Commission** and **Commodity Futures Trading Commission** have reportedly been [investigating FTX](#) for months over its handling of customer funds, according to Bloomberg.

Crypto industry in crisis: The near-collapse and will-they-or-won't-they possible bailout of one of the biggest names in crypto has rocked the industry: Prices have fallen abruptly with Bitcoin down by more than 10% to its lowest level since November 2020.

The rescinding of the deal will do little to thaw the crypto winter and adds to fears of price volatility and the need for future bailouts.

UK/US Cryptocurrency Owners'* Beliefs in the Future of Digital Currencies, Jan 2022

% of respondents

	Agree	Disagree
Most people still don't trust cryptocurrencies	66%	11%
Withdrawing funds need to become easier before crypto adoption is more widespread	65%	11%
You will be able to use cryptocurrencies to make digital purchases with many more ecommerce vendors this time next year	60%	14%
The lack of real-world applications (e.g., digital payments is preventing cryptocurrencies reaching their full potential)	59%	14%
Cryptocurrency is the future of finance and will take over as the dominant form of international currency	54%	19%
Everyone will own cryptocurrencies within five years	49%	22%
Accepting cryptocurrencies in physical stores will become commonplace within the next 12 months	47%	23%
Cryptocurrencies will be less popular in 12 months' time than they are today	39%	34%

*Note: n=2,015 with at least 1,000 each from the US and UK; *includes current and former cryptocurrency owners*

Source: Paysafe, "Inside the crypto community: Plotting the journey to mass adoption" conducted by Sapio Research, Jan 11, 2022

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What it means for crypto:

- The fact that a single tweet can trigger the near-collapse of a major crypto exchange shows how strongly market panic can influence the industry. And it highlights how far crypto has to go to overcome underlying flaws and be considered a safe haven for storing assets.

- FTX's problems also illustrate that no crypto firm is too big to fail. The crypto exchange was widely viewed as one of the more stable and better-run digital asset firms. Its collapse highlights the inherent risk in trading crypto.
- The failed bailout is also a major blow for Bankman-Fried. Less than two months ago, he was being hailed as the savior of the crypto industry after winning a bid to [buy the assets of bankrupt crypto broker Voyager Digital](#). But his reputation and personal wealth have taken a battering from FTX's problems.

The bottom line: Just 16% of adults have some [level of trust in crypto](#). And Binance's dismissal of FTX will do little to improve consumer confidence. To strengthen faith in the crypto industry, clear regulation is needed across countries and markets. But that could still be some way off.

Level of Trust in Select Financial Services According to Adults Worldwide, Dec 2021

% of respondents

Traditional banks



Digital wallets



Digital-only banks



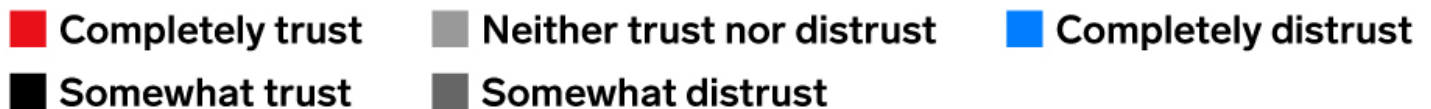
Buy now, pay later companies installments over time



Sustainable investments



Cryptocurrencies



Note: numbers may not add up to 100% due to rounding

Source: YouGov, "The Future of Financial Services: A Global Exploration of Evolving Trends in the Financial Services Industry," March 30, 2022

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