

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/SB10001424052702304732804579420791991665968>

MARKETS

Recording Shows Mizuho Pushed to End Dealings With Mt. Gox

Bank Wanted the Bitcoin Exchange to Close Its Account

By **TAKASHI MOCHIZUKI** and **ATSUKO FUKASE** in Tokyo and **KATHY CHU** in Hong Kong

Updated March 5, 2014 9:50 p.m. ET

In the months before Mt. Gox's collapse, the bitcoin exchange was coming under increasing pressure from one of its banks, which complained about an unmanageable volume of money transfers and repeatedly asked the exchange to close its account with the bank, people familiar with the situation say.

Mizuho Bank, which handled international wire transfers and other Mt. Gox business at a branch in Tokyo's Shibuya district, had become worried about Mt. Gox as early as mid-2013, following reports that the U.S. Department of Homeland Security had seized money from a Mt. Gox account at a U.S. bank, these people say.

The worries show the uneasy relationship between the traditional banking sector and bitcoin-related companies at a time when investigators were poring over virtual-currency transactions for potential evidence of money laundering or purchases of illicit goods or services.



Bitcoin is a virtual currency that is created and traded electronically and is accepted as payment by thousands of legal and illegal merchants around the world. Transactions are generally anonymous, presenting opportunities for criminals to move money discreetly.

Many U.S. banks have steered clear of bitcoin companies, preferring not to invite more regulatory scrutiny than they already were getting in the wake of the Dodd-Frank financial overhaul and other rules stemming from the financial crisis.

RELATED VIDEO

READ MORE

- Mizuho to Karpeles: 'Close Your Account'
- A 'Very Messy' Bankruptcy
- What Next, a Bit Buck?
- Japan Might Tax Some Bitcoin Transactions
- U.K. Nears Rules on Taxing Bitcoin
- Almost Half a Billion Worth of Bitcoins Vanish 2/28/14

Mizuho handled transactions in cash between Mt. Gox and customers who were buying bitcoins from the exchange or selling bitcoins to it for cash. The vast majority were outside Japan, requiring numerous international wire transfers.

Mizuho started having concerns about Mt. Gox's large volumes of money transfers after learning U.S. authorities were investigating whether business dealings involving bitcoin could be linked to money laundering, said one person close to the situation.

That person also confirmed the authenticity of a recording, circulating widely on the Internet through social media, of a conversation in Japanese between an official from Mizuho Bank and Mt. Gox's head, Mark Karpelès, in late January. The tape indicated that Mizuho was stepping up a push to disassociate itself from Mt. Gox.

In the conversation, the bank official repeated a request that Mt. Gox close its account with Mizuho and warned that it might take steps to close it if Mt. Gox refused. Mr. Karpelès said on the tape he wanted to keep the account.

BITS AND PIECES

View a rough timeline of the Bitcoin evolution.



On the tape, the Mizuho official can be heard saying, "As we've been saying many times, we want to close your account."

Mr. Karpelès responds: "I discussed with my lawyers and they said we don't need to close it, so we'd like to keep it."

The bank official then says that while it would like Mt. Gox to close its account voluntarily, "the chance isn't zero that we will leave you no

choice."

In mid-2013, after the Department of Homeland Security action, Mt. Gox halted dollar withdrawals temporarily. A person close to Mt. Gox said that move came after Mizuho declined to process withdrawals in dollars.

The snowballing popularity of bitcoin and the resulting growth in Mt. Gox's customer base appear to have raised the volume of money transfers for the bank.



Kolin Burges, right, a bitcoin trader, holds a placard to protest against Mt. Gox, outside the company's Tokyo office last month. *REUTERS*

Japanese banks can close accounts only under certain conditions. In the taped conversation, the Mizuho official didn't indicate any specific concern about Mt. Gox's compliance with bank rules. When Mr. Karpelès asked why the bank wanted to close the account, the Mizuho official cited "a collection of various issues."

Asked to comment on the audio file, Mr. Karpelès responded in an email, "This recording was not published by us."

A lawyer in charge of Mt. Gox's filing for bankruptcy protection said on Tuesday, "Our priority right now is to fully cooperate with requests from Japanese and other authorities. Therefore we can't make comments to the media at this moment." He declined to elaborate on which authorities have made requests.



WSJD is the Journal's home for tech news, analysis and product reviews.

- Under Pressure Facebook Restricts Gun Promotion on Social Network
- Why This Computer Mouse Rules
- Messaging Apps to Make You Forget Plain, Old Texting
- To Connect the World, It's Drones vs. Balloons

In
August
2013,
Mt.
Gox
applied
for a
license
to
operate a

money-services business in Hong Kong, hoping to move a majority of its banking to the city, the person close to Mt. Gox said. Documents filed with the Hong Kong Customs and Excise Department show that Mt. Gox obtained a license in October in Hong Kong to operate such a business. Mt. Gox lists an address in the city belonging to an office-services provider.

Mr. Karpelès already had a business connection to Hong Kong. In 2011, he registered Tibanne Ltd. in the city, listing the company as having 10,000 Hong Kong dollars (US\$1,288) in capital, according to documents filed with the Hong Kong government. It didn't list its intended business activity.

On Feb. 7, Mt. Gox halted bitcoin withdrawal requests, blaming a bug in the bitcoin software that it said could make fraudulent withdrawals possible. Even before that, investors were complaining about long delays in getting money transfers processed.

Several people close to Mt. Gox have said a big pile of withdrawal requests grew further as Japanese banks took a weeklong New Year holiday. Mt. Gox investors in Tokyo started noticing delays in dollar withdrawals in December, while yen-withdrawal delays didn't begin until January.



Mt. Gox CEO Mark Karpeles *EUROPEAN PRESSPHOTO AGENCY*

Tang Shunning, a Mt. Gox investor living in Japan, said his requests to withdraw yen from his Mt. Gox bitcoin account took only two days to complete in December, while in early January, two transactions of about ¥100,000 (around US\$1,000) each took about a week to clear.

Mr. Tang said he withdrew around ¥6 million in late January, three weeks after he made the request.

According to what he said was a screenshot of his bank transactions, his last withdrawal from Mt. Gox was on Feb. 12, after Mt. Gox had halted bitcoin withdrawals but was still working through its pile of cash-withdrawal requests. Four weeks after he made the withdrawal request, Mr. Tang was able to withdraw ¥8.8 million.

On Feb. 25, a few days before it filed for bankruptcy protection, Mt. Gox halted

all transactions.

Separately, Japan's government was preparing to clarify its view on bitcoin, officials said, though they appeared no closer to declaring a specific agency in charge of overseeing the virtual currency. People familiar with a draft being prepared for a cabinet meeting scheduled for Friday say the government will reaffirm Japan doesn't consider bitcoin a currency, which has been the basis for the argument by the

11/9/2016

Recording Shows Mizuho Pushed to End Dealings With Mt. Gox - WSJ

Financial Services Agency, Japan's banking watchdog, that bitcoin shouldn't be subject to its oversight.

Write to Takashi Mochizuki at takashi.mochizuki@wsj.com, Atsuko Fukase at atsuko.fukase@wsj.com and Kathy Chu at kathy.chu@wsj.com

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.