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## Release Number 8680-23

### CFTC Charges Binance and Its Founder, Changpeng Zhao, with Willful Evasion of Federal Law and Operating an Illegal Digital Asset Derivatives Exchange

March 27, 2023

**Washington, D.C.** — The Commodity Futures Trading Commission today announced it has filed a civil enforcement action in the U.S. District Court for the Northern District of Illinois charging **Changpeng Zhao** and three entities that operate the Binance platform with numerous violations of the Commodity Exchange Act (CEA) and CFTC regulations. The complaint also charges **Samuel Lim**, Binance's former chief compliance officer, with aiding and abetting Binance's violations.

The complaint charges that **Binance Holdings Limited**, **Binance Holdings (IE) Limited**, and **Binance (Services) Holdings Limited** (together, Binance) operate the Binance centralized digital asset trading platform along with numerous other corporate vehicles through an intentionally opaque common enterprise, with Zhao at the helm as Binance's owner and chief executive officer. The defendants allegedly chose to knowingly disregard applicable provisions of the CEA while engaging in a calculated strategy of regulatory arbitrage to their commercial benefit.

In its continuing litigation against the defendants, the agency seeks disgorgement, civil monetary penalties, permanent trading and registration bans, and a permanent injunction against further violations of the CEA and CFTC regulations, as charged.

"Today's enforcement action demonstrates that there is no location, or claimed lack of location, that will prevent the CFTC from protecting American investors. I have been clear that the CFTC will continue to use all of its authority to find and stop misconduct in the volatile and risky digital asset market," said CFTC Chairman Rostin Behnam. "For years, Binance knew they were violating CFTC rules, working actively to both keep the money flowing and avoid compliance. This should be a warning to anyone in the digital asset world that the CFTC will not tolerate willful avoidance of U.S. law. I applaud the diligent and dedicated work of the CFTC's Enforcement team in bringing this action, and for their hard work in addressing illegal operations in the digital asset space."

"Defendants' alleged willful evasion of U.S. law is at the core of the Commission's complaint against Binance. The defendants' own emails and chats reflect that Binance's compliance efforts have been a sham and Binance deliberately chose – over and over – to place profits over following the law," said Gretchen Lowe, CFTC's Enforcement Division Principal Deputy Director and Chief Counsel. "Today's enforcement action reflects that the CFTC and its Enforcement Division will pursue those digital asset platforms and individuals who flout and actively attempt to circumvent CFTC regulatory requirements. I thank the Enforcement team for their dedication and hard work in bringing this action."

#### Case Background

According to the complaint, Binance has offered and executed commodity derivatives transactions to and for U.S. persons from July 2019 through the present. As alleged, Binance's compliance program has been ineffective and, at Zhao's direction, Binance has instructed its employees and customers to circumvent compliance controls in order to maximize corporate profits.

The complaint charges that for much of the relevant period, Binance did not require its customers to provide any identity-verifying information before trading on the platform, despite the legal duty that entities like Binance functioning as futures commission merchants (FCMs) collect such information, and failed to implement basic compliance procedures designed to prevent and detect terrorist financing and money laundering.

The complaint further alleges that even after Binance purported to restrict U.S. customers from trading on its platform, Binance instructed its customers – in particular its commercially valuable U.S.-based VIP customers – on the best methods for evading Binance's compliance controls. In addition, the complaint charges Binance with acting as a designated contract market or swap execution facility based on its role in facilitating derivatives transactions without registering with the CFTC, as required.

The complaint also charges the entity defendants with failing to diligently supervise Binance's activities as an FCM. Among the numerous supervisory failures detailed in the complaint is Binance's instruction to employees to communicate with U.S.-based customers concerning control evasion through a messaging application that was set to automatically delete written communications. According to the complaint, the reason Binance used that communication method was to avoid leaving any evidence of their efforts to retain U.S.-based customers.

The complaint further charges the Binance, Zhao and Lim with willful evasion of the requirements of the CEA. As alleged, the defendants conducted certain activities outside the U.S. designed to avoid CFTC regulation, such as intentionally structuring their entities and transactions to avoid registration requirements and instructing U.S. customers as well as other customers as to how to evade Binance's compliance controls.

As alleged, Zhao is liable for Binance's violations based on his control over Binance and his long-running failure to act in good faith concerning Binance's misconduct. According to the complaint, Zhao owned and controlled dozens of entities that operate the Binance platform as a common enterprise. Zhao is alleged to have been responsible for all major strategic decisions at Binance, including

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devising the secret plot to instruct U.S.-based VIP customers to evade Binance's compliance controls and instructing Binance employees to ensure all communications about their control subversion took place over applications that facilitated the automatic destruction of evidence.

Lim, Binance's CCO from 2018 through 2022, is charged with willfully aiding and abetting Binance's violations through intentional conduct that undermined Binance's compliance program. Lim is also charged with conducting activities to willfully evade or attempt to evade applicable provisions of the CEA, including promoting the use of "creative means" to assist customers in circumventing Binance's compliance controls and implementing a corporate policy that instructed Binance's U.S. customers to access the trading facility through a virtual private network to avoid Binance's IP address-based controls or create "new" accounts through off-shore shell companies to evade Binance's KYC-based controls.

The CFTC appreciates the assistance of the British Virgin Islands Financial Services Commission, Cayman Islands Monetary Authority, Monetary Authority of Singapore, and the United Kingdom Financial Conduct Authority.

The Division of Enforcement staff responsible for this matter are Candy Haan, Joseph Platt, Joseph Patrick, Matthew Edelstein, Ray Lavko, Elizabeth N. Pendleton, Scott R. Williamson, and Robert T. Howell.

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