TechScape: Why billions in sanctions can’t bring down Binance

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Binance is guilty. The world’s largest crypto exchange admitted to a range of violations in a massive US court action, including unlicensed money transmitting, sanctions violations and anti-money laundering (AML) violations. Its founder, Changpeng Zhao, near-universally known as CZ, personally pled guilty to his failure to maintain money-laundering controls. The failures “allowed money to flow to terrorists, cybercriminals, and child abusers through its platform”, the US secretary of the treasury, Janet Yellen, said. From our story: As part of a guilty plea, Zhao agreed to pay a $50m fine and would be barred from any involvement in the business. Binance too agreed to plead guilty, accept the appointment of a monitor and pay a criminal fine of nearly $1.81bn as well as a $2.51bn order of forfeiture to settle three criminal charges. Zhao wrote in a tweet: “Today, I stepped down as CEO of Binance. … I made mistakes, and I must take responsibility. This is best for our community, for Binance, and for myself … I can’t see myself being a CEO driving a startup again.” Big numbers regularly fly around the tech sector, particularly in crypto, so it’s worth saying the obvious: $4bn is a truly massive penalty. The criminal fine alone – $1.81bn – outweighs all the profit that the US government estimates Binance collected from Americans, ever. It dwarfs the €1.2bn charged to Meta over its breach of GDPR in May. It’s the third-largest fine handed to a tech company, anywhere, ever, just behind Google’s €5bn antitrust loss in the EU and Apple’s €13bn tax settlement in Ireland (the latter was overturned but is still in dispute). Which is why it is, at first glance, surprising to find crypto supporters celebrating the fine. But the question underpinning the settlement is whether it’s a full stop at the end of Binance’s spicy genesis, or simply the capital letter beginning the tale of its downfall. The cause for celebration in some quarters is simple enough: CZ pleaded guilty to a series of failings that, the US charges said, allowed Hamas to raise money, resulted in almost $1bn being transferred by people in Iran, Cuba and Syria, sent money to known darknet markets and ransomware wallets, and allowed more than a thousand transactions to known child abuse imagery marketplaces, and is not currently in jail. Binance still exists, and the fine was nowhere near enough to bankrupt the company. As part of the guilt plea, CZ’s personal fine was a mere $50m, leaving him a billionaire under any plausible assessment of his personal finances. If the enforcement action ends here, it is hard to conclude anything for the crypto industry other than: “Binance fought the law, and made generational wealth doing so.” But will the enforcement end there? The US government “is not seeking detention”, it said in a court filing, although it would rather CZ does not leave the country until his February sentencing anyway, due to his home being the UAE, which doesn’t have an extradition treaty with America. There is no legal requirement for the judge to follow the sentencing sought by the US government in its plea deal, and aspects of the deal explicitly allow for custodial time: some parts are only void if CZ gets more than 18 months in jail. The deal also carves out the option for the Securities and Exchange Commission

(SEC) to take its own action. The regulator declined to participate in the joint enforcement, which was a triple-header between the US agencies FinCEN, OFAC and CFTC, instead launching its own challenge in June. The SEC can't send people to jail, but it can make life very difficult – and expensive – for anyone covered by its remit. And then there are the monitors. Binance will keep an "independent compliance monitor" for three years, it agreed with the government: an employee, paid by Binance but working for the US government, who is empowered to dig through anything and everything in the company looking for compliance breaches. An optimist might say the monitor will keep Binance on the straight and narrow as it regroups following the case. A pessimist might not. Trade secrets, oops edition How common is theft of trade secrets? It's a tricky question to answer, because – for obvious reasons – it's rarely done in the open, and when it is discovered, all parties usually have an incentive to keep things between themselves. Sometimes that fails because the sums of money involved are so astronomical that you can't help but get the courts involved, and you get a big explosive trial like the one between Google's Waymo and Uber last decade. Other times, that fails for somewhat dumber reasons, such as in the case of a former Valeo employee named Mohammad Moniruzzaman: On March 8, 2022, one of these video-conference meetings was scheduled. Mr Moniruzzaman, now employed by Nvidia, attended the video-conference call… and shared his computer screen during the call. When he minimized the PowerPoint presentation he had been sharing, however, he revealed one of Valeo's verbatim source code files open on his computer. So brazen was Mr Moniruzzaman's theft, the file path on his screen still read "ValeoDocs." Valeo participants on the video-conference call immediately recognized the source code and took a screenshot before Mr Moniruzzaman was alerted of his error. By then it was too late to cover his tracks. The accidental revelation was sufficient to prompt German police to raid the self-driving car engineer's home, where they "discovered Valeo documentation and hardware pinned on the walls of Mr Moniruzzaman's home office", per the lawsuit, reported by the Verge. I'm not sure whether or not to write it off as a coincidence that both Waymo v Uber and Valeo v Nvidia involve self-driving car companies. Is it an industry that is more heavily reliant on trade secrets than most? Or is it just one where people are discovered more often? The coup that keeps on giving I'm wary of even mentioning Sam Altman in this newsletter. He was fired in a boardroom coup, hired by Microsoft, triggered a near unanimous resignation threat amongst his former staff, and hired back in the space between last week's newsletter and the one before. Even writing his name seems to guarantee I'll be sending edits to this one right up until we send it out on Tuesday, at which point it will promptly be rendered out of date before you even read it. And so, quickly: Dan Milmo's rundown of what exactly happened last week is worth a read if events sped past you too fast to be perceived. What conclusions should we draw? I think the most important one is that we already have an inhuman system that is more powerful than any individual human and fundamentally incapable of being prevented from carrying out its own goals, and it's called capitalism. OpenAI tried to build an organisation that could be restrained from chasing pure profit. It didn't work. If you want to read the complete version of the newsletter please subscribe to receive TechScape in your inbox every Tuesday.