

Fugitive CEO at the center of 2022 crypto crash found liable for fraud

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A jury in Manhattan found a Singapore-based former crypto CEO liable on civil fraud charges on Friday, agreeing with the US Securities and Exchange Commission that both he and his firm misled investors before the 2022 collapse of the company's namesake cryptocurrency wrecked cryptocurrency markets. The jury delivered the verdict in federal court after a two-week trial after hearing closing arguments earlier in the day. The Terraform Labs founder Do Kwon did not attend the trial, as he has been detained in Montenegro since March 2023. He was intercepted while on his way to Dubai on the lam from authorities in multiple countries, traveling using forged Costa Rican travel documents. The SEC accused both Terraform and Kwon of duping investors in 2021 about the stability of TerraUSD, a stable coin designed to maintain a value of \$1. The regulator also alleged both had falsely claimed Terraform's blockchain was used in a popular Korean mobile payment app. The regulator is seeking civil financial penalties and orders barring Kwon and Terraform from the securities industry. Laura Meehan, the SEC attorney, said during closing arguments that the platform's success story was "built on lies". "If you swing big and you miss, and you don't tell people that you came up short. That is fraud," Meehan said. Louis Pellegrino, an attorney for Terraform, told the jury on Friday the SEC's case relied on statements taken out of context and that Terraform and Kwon had been truthful about their products and how they worked, even when they failed. The company issued a statement after the verdict: "We are very disappointed with the verdict, which we do not believe is supported by the evidence. We continue to maintain that the SEC does not have the legal authority to bring this case at all, and we are carefully weighing our options and next steps." Kwon, who was arrested in Montenegro in March 2023, did not attend the trial, which began 25 March. Both the US and South Korea, where Kwon is a citizen, have sought his extradition on criminal charges. Montenegro's top court is evaluating the competing calls for his extradition. Kwon's attorneys have advocated for extradition to South Korea in hopes of a lighter sentence. However, Montenegro's government plans to approve extradition to the US, Bloomberg reported. Kwon designed the cryptocurrencies TerraUSD and Luna, a more traditional token that fluctuated in value but was closely linked to TerraUSD. The SEC estimates investors lost more than \$40bn on the two tokens combined when the TerraUSD peg to the dollar could not be maintained in May 2022. Their collapse also dragged down the value of other cryptocurrencies, including bitcoin, and caused wider havoc in the crypto market, leading several companies to file for bankruptcy in 2022. Terraform itself filed for bankruptcy protection in January. The SEC has said Kwon and Terraform secretly arranged to have a third party purchase large amounts of TerraUSD to prop up the price when the stable coin slipped from its peg a year earlier, in May 2021. Kwon falsely attributed the recovery to the reliability of TerraUSD's algorithms, according to the regulator. Terraform's attorney said on Friday that Terraform had disclosed TerraUSD's

peg needed to be defended in May 2021. He said the Korean payments app had used the company's blockchain, but the technical details of how it did so were not important to investors. US financial regulators have been keen to crack down on shady crypto moguls in recent months. The ex-FTX CEO Sam Bankman-Fried was sentenced to 25 years in federal prison for wire fraud and conspiracy to launder money late last week. His company is still in the thick of contentious bankruptcy proceedings. Gurbir Grewal, director of the SEC's division of enforcement, said in a statement on Friday: "The defendants caused devastating losses for investors and wiped out tens of billions of market value nearly overnight. For all of crypto's promises, the lack of registration and compliance have very real consequences for real people. As the hard work of our team shows, we will continue to use the tools at our disposal to protect the investing public, but it is high time for the crypto markets to come into compliance."