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Office of the Comptroller of the Currency  
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Washington, D.C. 20219

**SUBMISSION TO THE OFFICE OF THE COMPTROLLER OF THE CURRENCY  
CONCERNING SIGNATURE BANK**

My name is Marc Cohodes. I am a former hedge fund manager, a long-time stock market analyst, and a short seller. I am currently a private investor. Over my 40-year career as an investor and fund manager, I have exposed many publicly traded companies and individuals who were engaged in fraud, illegal conduct, questionable accounting, and stock manipulation, including Lernout & Hauspie, Media Vision Technology, NovaStar Financial, AremiSoft, California Micro Devices, Network Associates, TakeTwo Interactive, Krispy Kreme Donuts, Boston Chicken, MiMedx Group Inc., and others. For more than 30 years, I have provided valuable and timely information to the Securities and Exchange Commission and the Department of Justice about companies engaged in fraudulent business practices. My investigations of fraud in the financial markets have been reported in The Wall Street Journal, The New York Times, Barron's, Bloomberg, Institutional Investor, CNN, award-winning books about financial fraud, and two Harvard business cases, among others.

Between 2003 and 2005, I disclosed the manipulations at aaiPharma Inc., which led to U.S. Securities and Exchange Commission and U.S. Department of Justice actions. The Harvard Business School published a case study in March 2013 about my successful efforts to expose the NovaStar fraud in “NovaStar Financial: A Short Seller’s Battle,” <http://bit.ly/3iFFSFR>. With that background in mind, I submit the following information for your consideration. I would be happy to meet with your staff and discuss the information set out below.

### **Introduction:**

The OCC—as Signature Bank’s federal regulator—should investigate SBNY’s current and past BSA/KYC/AML practices, as well as its crypto clients’ transactions on its SigNET blockchain-based platform. And SigNET should be shut down. The citations below and referenced exhibits (instructions how to download as a single PDF given at the end of this letter) contradict Signature Bank’s (“SBNY”) claims about the robustness of its BSA/KYC/AML procedures generally and, in particular, for its “walled garden” for crypto clients.<sup>1</sup> It is highly unlikely that SBNY has performed the diligence and “thorough vetting” processes that it has reported.<sup>2</sup> And it is doubtful that SBNY will do an adequate job in the future as regards its

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1 Youtube.com, *Signature Bank’s Shay: “Bitcoin has proven itself a store of value,”* at 30:00, 43:00, ff., available at <https://youtu.be/WTMZw3R9X8A>, (June 2, 2021).

2 *See, e.g.*, Signature Bank account application filled out on behalf of Ifinex/Digfinex/Tether Holdings, Ltd. (Bitfinex) by executive Philip G. Potter, available at <https://tinyurl.com/2s9ju2v8>, Ex. 1a. Compare to D’Amico’s and Philip G. Potter’s account opening documents from a few months prior, when D’Amico was at Metropolitan Commercial Bank, <https://tinyurl.com/bdfap64m>.

Bitfinex was subsequently banned from doing business in the state of New York in February, 2021. *See*, “Attorney General James Ends Virtual Currency Trading Platform Bitfinex’s Illegal Activities in New York,” <https://tinyurl.com/5y7s4c36>, (Feb. 2021); *see also* “CFTC Orders Tether and Bitfinex to Pay Fines Totaling \$42.5 Million,” <https://tinyurl.com/4hfs6zmu>, (Oct. 2021); also, Ft.com, “*We all become MF Global eventually, Tether edition,*” (noting common shareholders, executives, and control between Digfinex, Ifinex, Bitfinex, and Tether) (Apr. 2019).

crypto clients<sup>3</sup>, and its private blockchain-based network, SigNET, which permits the transfer of “tokenized” dollars.

Simply put, there are intractable problems with banking offshore-based, crypto exchanges and stable coins, which either provide intermediate payment rails for criminal enterprises, or are criminal enterprises, in a responsible BSA/KYC/AML manner.

- Offshore crypto exchanges wash trade to inflate reported trading volumes, commingle user funds with exchange wallets, manipulate crypto currency prices, and lie about the adequacy of their “reserves.” Each of these points is well documented.
- Virtually no convertible virtual currency exchanges are audited, in the sense that that word is normally used and understood. Customers have no assurance that their funds on deposit will not be stolen or commingled with the exchanges’ funds, *ala* FTX/Alameda;<sup>4</sup>
- Offshore crypto exchanges are notorious for weak KYC/AML enforcement, including “straw man” accounts which are opened for, or which are sold to, criminals and sanctioned actors;<sup>5</sup> and
- Offshore crypto exchanges are known to direct clients to make USD deposits to subsidiary shell companies – with bland or misleading names – as the beneficiary account in order to disguise money flows and evade BSA/KYC/AML oversight in the U.S.<sup>6</sup>
- “Stable coin” issuers have no way of adequately vetting all end users.<sup>7</sup> This runs counter to the spirit of OCC Interpretive Letters 1174 & 1179.

Basic online searches of SBNY’s clients should have revealed obvious problems, past enforcement actions, fake or fraudulent business activity, fake business addresses, money

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<sup>3</sup> Vida Research, “*The Signature Bank SigNET Client list Exposed, Part 1,*” <https://tinyurl.com/35a2uz4n>, (Jan. 25, 2023).

<sup>4</sup> See e.g., Forbes, *Crypto Exchanges’ A La Carte Approach to Audits a Recipe for Disaster*, <http://bit.ly/3GKc2U2>, (Dec. 2, 2022).

<sup>5</sup> See, *United States v. Anatoly Legkodymov*, No. 1:23-M-17 <https://tinyurl.com/3z95eyty>, (E.D.N.Y. Jan. 14, 2023).

<sup>6</sup> This tactic, creating shell companies to disguise illegal money flows, has been used by other criminal actors. See, e.g., Courthouse News Service, *Banker Gets Prison for Processing Poker Money*, <https://tinyurl.com/2p8djnzz>, (June 28, 2012).

<sup>7</sup> See e.g., *Stablecoin Shadow Banks*, <https://tinyurl.com/yp54ndba>, (Feb. 14, 2023).

laundering allegations, and significant risks associated with processing billions of dollars of transactions for its crypto clients. Although Signature Bank has announced a general withdrawal from crypto, the OCC should partner with a blockchain analytics company, such as Chainalysis, to map the flow of money on Signature Bank's SigNET service over the past few years. The OCC also should undertake an investigation into the adequacy of Signature Bank's KYC/AML/BSA practices and procedures for the reasons set out below. I can provide the contact information for a number of former Signature Bank compliance personnel, if requested. Their information is interesting.

Consider one example: the inter-related Ifinex, Digfinex, Tether Holdings Ltd., (and the related Bitfinex crypto currency exchange) banking accounts opened by vice president David D'Amico, first at Metropolitan Commercial Bank, and then at SBNY. These "finex" entities share common ownership and control, which has been extensively documented in the New York Attorney General's filings.<sup>8</sup> When Metropolitan Bank, and then SBNY opened these accounts for Ifinex, Digfinex, and Tether Holdings, Ltd., welcome letters were sent to the common address for all of these entities: Tortola, in the British Virgin Islands. Tether, a supposed 1:1 backed USD "stable coin," has been referred to as "the internal accounting system for the largest fraud since Madoff."<sup>9</sup> Philip G. Potter, officer, signer, and beneficial owner, attested in the SBNY account opening forms that the Digfinex and Ifinex entities did *not* conduct business in any foreign country ("N/A"). Given that Bitfinex operates a crypto currency exchange, and given the common ownership and control over these Hong Kong-based and BVI entities, that

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<sup>8</sup> The docket for the N.Y., Attorney General matter may be found here: <https://tinyurl.com/bdfap64m>.

<sup>9</sup> Kalzumeus.com, *Tether: The Story so Far*, <https://tinyurl.com/mr24tjxs>, (Oct. 28, 2019).

would appear to be a false statement. In April 2017, *prior to* opening either of these U.S. banking relationships, the same Philip G. Potter described how the “finex” entities bank:

“We’ve had banking hiccups in the past, we’ve just, uhm, we’ve always been able to route around it or deal with it. Uh, open up new accounts, or what have you, shift to a different corporate entity. There have been lots of sort, ‘cat and mouse’ tricks that everybody in Bitcoin industry has to avail themselves of.”<sup>10</sup>

When Phil Potter opened up accounts with SBNY, Bitfinex had been hacked and was technically insolvent and there were articles about all of this on the Internet. Allegedly, before opening these accounts, SBNY performed Google searches on each entity. The Wikipedia entry for Bitfinex, available at <https://tinyurl.com/2p9cz74m>, cites to many other troubling articles about these entities that would have been available to SBNY, via a simple search, prior to onboarding this client. Although these accounts were reportedly shut down within a few months, an adequate KYC/AML compliance team would have never have allowed the accounts to have been opened.

Based on my and others’ review of several crypto clients of Signature Bank (discussed below), SBNY has played a central role as a facilitator, even if unwitting, for countless illegal crypto transactions.

**Background:**

SBNY opened in 2001 and decided to “move to crypto” in early 2018.<sup>11</sup> SBNY hired away a team of individuals who worked for Metropolitan Commercial Bank. This team had previously onboarded crypto clients such as Tether Holdings, Ltd., Ifinex, Inc., and Digfinex,

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<sup>10</sup> Recording of Philip G. Potter, available at <https://tinyurl.com/2yt68znx>.

<sup>11</sup> CoinDesk, “*Signature Bank Gave Dozens More PPP Loans to Crypto Firms than Previously Reported*,” <https://tinyurl.com/4ck3ynnu>, (Aug. 31, 2020).

Inc.<sup>12</sup> SBNY's revenues and assets climbed quickly, far surpassing the revenue growth of major, first-tier, traditional banks.<sup>13</sup> The stunning deposit growth between 2019-2022 appears to have been fueled by SBNY's new, blockchain-based, digital payments platform SigNET and the billions in dollar deposits backing "stable coins." SigNET allowed SBNY's crypto clients (crypto exchanges, crypto miners, crypto hedge funds, and crypto "whales") to transfer money (tokenized dollar deposits, or "signets") instantaneously to and from other SBNY commercial clients, 24/7.<sup>14</sup> This was likely a mechanism by which many SBNY SigNET clients purchased and redeemed stable coins, such as Tethers. SBNY investor relations quoted Sam Bankman-Fried:

"Partnering with Signature Bank, an established financial institution and fintech pioneer, will allow us to continue to grow our business by leveraging all the advantages and key aspects of Signet. The implementation of an API-enabled, blockchain-based digital payments platform to initiate blockchain transactions and Fedwire transactions via Signet is just the latest move toward revolutionizing the payments industry through the power of blockchain technology."<sup>15</sup>

Deposits related to SigNET at one point amounted to 36.4% of SBNY's total deposits. As of Q3/2022, \$37.4 billion of SBNY's deposits were directly relatable to crypto activities on SigNET. SBNY's loan portfolio grew from \$700 million at the end of 2018 to \$28.8 billion by Q3/2022. SBNY disbursed SBA PPP loans to crypto firms like Alameda Research.<sup>16</sup> This

<sup>12</sup> Metropolitan Commercial Bank account opening documentation.

<sup>13</sup> Vidar Research Substack, *SBNY's Questionable Loan Portfolio*, <https://tinyurl.com/3ekktav2>, (Jan. 10, 2023).

<sup>14</sup> Signature Bank Investor Relations, *Signature Bank and Prime Trust to Align Their Respective Technologies to Better Serve the Institutional Blockchain Industry*, <https://tinyurl.com/yc6yh8fz>, (Jan. 6, 2020).

<sup>15</sup> Signature Investor Relations, *Signature Bank Adds Fedwire Feature to its Signet Digital Payments Platform, Allowing Instant Transfers Through its Application Programming Interface*, <https://tinyurl.com/8ybdwzdf>, (Apr. 12, 2022).

<sup>16</sup> FederalPay.org, PPP Loan data, Loan #3971737204, <https://tinyurl.com/3w4y2xez>.

concentration of deposits from crypto clients, and potentially loans to the same, presented obvious and completely foreseeable risks. As crypto clients began to blow up in the second quarter of last year, SBNY's crypto deposits declined in Q4/2022 to a reported \$6.1 Billion.<sup>17</sup> SBNY had to borrow over \$11 billion from the Federal Housing Finance Agency in 2022 to be in a position to meet potential crypto withdrawals.<sup>18</sup>

### **SBNY Offers Banking Services to Suspect Offshore Entities**

The FDIC has previously warned that “[c]rypto-related activities may pose significant safety and soundness risks, as well as financial stability . . . concerns,” and that “insured depository institutions face risks in effectively managing the application of consumer protection requirements, including laws related to . . . new and changing crypto-related activities.”<sup>19</sup> The Federal Reserve has similarly warned about crypto transaction safety and soundness risks in guidance to banks including that, “*crypto-assets can be used to facilitate money laundering and illicit financing.*” (emphasis added).<sup>20</sup> SBNY's clients include offshore and U.S. crypto exchanges, money remittance services, and unregulated offshore crypto hedge funds who are high-volume money transmitters.<sup>21</sup>

### **SBNY has Failed to Comply with its BSA/KYC/AML Duties**

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17 MarketScreener Transcript: *Signature Bank presents at Goldman Sachs 2022 US Financial Services Conference*, <https://tinyurl.com/zc48mzws>, (Dec. 6, 2022).

18 American Banker, *Bailout or Business as Usual? Home Loan bank-crypto ties raise red flags*, <https://tinyurl.com/3y56kcas>, (Jan. 19, 2023).

19 FDIC Letter No. FIL-16-2022 (Apr. 7, 2022), <http://bit.ly/3IMLs3H>.

20 Federal Reserve Supervision and Regulation Letter, No. SR 22-6 / CA 22-6 (Aug. 16, 2022), <http://bit.ly/3W6j3c8>.

21 See, Dirty Bubble Media, *A Walled Garden Full of Snakes: The SigNET Client List Revealed*, <https://tinyurl.com/4scha79v>, (Jan. 18, 2023).

Based on publicly available evidence, SBNY failed to comply with its statutorily mandated BSA/KYC/AML duties with regard to the entities it allowed into SigNET. SBNY has a duty to monitor and assess the risks posed by its customers. As a “financial institution” under the Bank Secrecy Act, 31 C.F.R. § 1010.100(t), SBNY is required to comply with FinCEN’s Customer Due Diligence (“CDD”) rule and it must maintain a Customer Identification Program (“CIP”). The CDD rule *requires* that covered financial institutions:

- (1) identify and verify the identity of customers;
- (2) identify and verify the identity of the “beneficial owners” of companies opening accounts (defined as any individual who owns 25% or more of a legal entity and individuals who controls the entity);
- (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and
- (4) conduct *ongoing* monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. 31 C.F.R. §§ 1010–24; § 1026. *See* <http://bit.ly/3khEObO>.

The CIP rule requires that banks maintain a written CIP as part of its BSA/AML compliance program. 31 C.F.R. § 1020.220. The CIP must include risk-based verification procedures that enable the bank to form a reasonable belief that it knows the true identity of its customers. 31 C.F.R. § 1020.220(a)(2). These procedures must specify the identifying information that a bank will obtain from each customer *prior to opening an account*, which at a minimum must include the customer’s name, date of birth (for an individual), address, and identification number. *Id.*

**SBNY’s Customers are Known to be Involved in Money Laundering and Other Criminal Activities**

SBNY’s SigNET clients included Binance, Houbi, Genesis Global Capital, Bitso, Nexo Services OU, DCG/Genesis Trading, OKCoin, IFinex/DigFinex/Tether, Truecoin LLC, and the failed FTX/Alameda/West Realm Shires Services, Inc., entities. These clients exhibit a pattern



of criminal activity, fraud, Ponzi schemes, evaded sanctions, and money laundering amounting to *billions* of dollars. Offshore crypto exchanges, foreign criminals, sanctioned actors, and fraudsters may have used SBNY to launder money and orchestrate scams. And it is likely that these organizations collude with one another.<sup>22</sup>

These crypto customers are domiciled in exotic jurisdictions including the Seychelles, Gibraltar, Hong Kong, Belize, Taiwan, British Virgin Islands, Mexico City, and Kenya. This casts doubt on whether SBNY sent representatives to perform “site visits” when onboarding these clients. The massive FTX/Alameda fraud, by itself, demonstrates that SBNY failed to properly monitor financial transactions to detect fraud among its clients. SBNY banked Alameda Research, the entity into which FTX user funds were diverted, as well as FTX, FTX.US, and West Realm Shires Services, Inc.

**FTX:**

FTX, FTX.US, and, Alameda Research, and other affiliates of Sam Bankman-Fried (collectively, the “SBF enterprise”) were, until FTX’s November 2022 bankruptcy, large and important customers of SBNY.

The SBF enterprise has since collapsed, and Bankman-Fried has been indicted by the S.D.N.Y. for wire and securities fraud, as well as conspiracies to violate those statutes and the federal money laundering statutes.<sup>23</sup> Two of his senior former FTX and Alameda officers (Gary Wang and Caroline Ellison) are cooperating against Bankman-Fried and have pleaded guilty.

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<sup>22</sup> See, e.g., N.Y. Times, “*Inside the Frantic Texts Exchanged by Crypto Executives as FTX Collapsed*,” available at <https://tinyurl.com/4fj5pdcv>, (Dec. 9, 2022).

<sup>23</sup> *United States v. Samuel Bankman-Fried*, No. 1:22-cr-673 (S.D.N.Y. Dec. 13, 2022), <https://bit.ly/3GGFVcf>.

Prior to FTX’s collapse, in August 2022, the FDIC sent FTX a cease-and-desist letter for making false claims about the bank’s deposit insurance.<sup>24</sup>

The SEC has filed a detailed complaint (“SEC complaint”) against Ellison and Wang that recited how customer money was stolen from unsuspecting FTX customers who deposited approximately \$8 billion into Alameda-controlled bank accounts at Silvergate Bank.<sup>25</sup>

The SEC complaint also alleges that billions of dollars were sent from customers of Silvergate to a bank account at Silvergate held in the name “North Dimension, Inc.” (a subsidiary of Alameda), “in an effort to hide the fact that the funds were being sent to an account controlled by Alameda.” *SEC Complaint* ¶ 39. There are archived screenshots from FTX’s website showing that Silvergate was the receiving bank for North Dimension.<sup>26</sup>

This FTX-Alameda-North Dimension banking relationship strongly suggests that billions of dollars in wire transfers meant to fund users’ trading accounts on FTX were instead deposited for the benefit of North Dimension, an Alameda subsidiary. This money was subsequently transferred to an array of other Silvergate and non-Silvergate accounts controlled by Sam Bankman-Fried as part of his alleged fraud. SigNET transfers involving Alameda and FTX should be investigated.

FTX’s international crypto customers also presented heightened AML risks with, for example, public reports that the SBF enterprise was receiving “bags of cash” from individuals in

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24 FDIC Ltr. to Brett Harrison, President of FTX US, and Dan Friedberg, Chief Reg. Off. of FTX US, <https://bit.ly/3IRdCuI>, (Aug. 18, 2022).

25 *SEC v. Ellison*, No. 1:22-cv-10794 (S.D.N.Y. Dec. 21, 2022), <https://bit.ly/3CLw041>.

26 *How to Deposit USD using SGD on FTX*, <http://bit.ly/3XpWfFa>, (Mar. 21, 2022).

Asia that were subsequently being funneled through “networks of bank accounts.”<sup>27</sup> FTX also reportedly processed billions of dollars in transactions in Africa before its collapse.<sup>28</sup>

### **Binance:**

Until very recently, SBNY listed Binance, a large cryptocurrency exchange that has repeatedly declined to reveal where its headquarters are located,<sup>29</sup> as a current client. Binance is reportedly being investigated by the Justice Department for money laundering and helping various actors evade international sanctions. Silvergate Bank dropped Binance as a client in June 2021. Binance has had difficulties obtaining banking relationships because it is alleged to have enabled money laundering by a variety of criminals, including through dark web marketplaces. But Binance is or was a Signature Bank client.

- Reuters, *How Binance Became a Hub for Hackers, Fraudsters, and Drug Traffickers*, <http://bit.ly/3H0nzEy>, (June 6, 2022).
- Reuters, *Crypto Exchange Binance Helped Iranian Firms Trade \$8 Billion Despite Sanctions*, <http://bit.ly/3H2vJw6>, (Nov. 7, 2022).
- Investopedia, *Binance CEO Facing Possible Money Laundering Charges*, <http://bit.ly/3X7ARol>, (Dec. 12, 2022).
- Wall St. J., *SEC Probes Trading Affiliates of Crypto Giant Binance’s U.S. Arm*, <http://bit.ly/3QKC42D>, (Feb. 15, 2022).
- FinCEN, *Imposition of Special Measure Prohibiting the Transmittal of Funds Involving Bitzlato*, (stating that Binance was the top receiving counterparty for Bitzlato).<sup>30</sup>

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27 Financial Times, *How FTX used Hong Kong Cash-for-crypto Shop to Turbocharge Growth*, <http://bit.ly/3Zy7Yn3>, (Dec. 5, 2022).

28 TechCrunch, *FTX Processed Billions Monthly in Africa Before Going Bust*, <http://bit.ly/3X7tL3b>, (Nov. 21, 2022).

29 Wall St. J., *Crypto Giant Binance Offers Little Transparency After FTX Collapse* <https://t.co/oXVev9FnA6>, (Dec. 21, 2022) Ex 23; also, Reuters, *Binance’s Books are a Black Box Filings Show, as it Tries to Rally Confidence*, <https://t.co/xWkewZiHvX>, (Dec. 19, 2022).

30 FinCen, RIN 1506-AB42, “Imposition of Special Measure Prohibiting the Transmittal of Funds Involving Bitzlato,” at p.11, available at <https://tinyurl.com/5da2x7df>, (Jan. 18, 2023).

As of January 2023, Binance was *still* directing its international customers to deposit USD funds into an SBNY bank account held in the name of shell co. subsidiary named “Key Vision Development Limited.”<sup>31</sup> Almost two years ago, this Binance shell company was struck off Seychelles’ International Business Companies’ register (September 7, 2021).<sup>32</sup> In October 2022, a “Key Vision Development Limited LLC,” was registered in Wyoming.<sup>33</sup> Binance has a large list of registered companies around the globe, some of which are apparently used to obfuscate money flows.<sup>34</sup> A CNBC analysis also showed Binance as a major destination for Bitzlato cryptocurrency transfers.<sup>35</sup>

An October 2020 Forbes article outlined Binance’s plans for a U.S. entity whose aim, in part, was “the need to undermine the ability of ‘anti-money laundering and U.S. sanctions enforcement’ to detect illicit activity.” The article went on to explain how Binance formed a “detailed strategy” for distracting FinCen, OFAC, the SEC, the CFTC, and the New York Department of Financial Services.<sup>36</sup> More recently, Reuters and the Wall Street Journal have reported that Binance.US is *not* independent but instead there is ample evidence to conclude that it is controlled from abroad by Binance International.<sup>37</sup> Reuters stated, “Almost half the U.S.

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31 See, <https://tinyurl.com/3huscwv7>.

32 Official Gazette, Republic of Seychelles, Vol. XLVI, No. 68, p.608, <https://t.co/3RSLU1IhRH>, (Sept. 13, 2021).

33 Wyoming Secretary of State website, Filing ID 2022-001168707, initial filing 10/06/2022, <https://bit.ly/3GlyzVR>.

34 See, e.g., Binance Structure: Legal Entities Associated with Binance, <https://tinyurl.com/3765jaa8>, (last accessed Jan. 2022).

35 CNBC, *Binance was final Destination for Millions in funds from Bitzlato, Exchange shut down for Alleged Money Laundering*, <https://cnb.cx/3QOXyeV>, (Jan. 19, 2023).

36 Forbes, *Leaked ‘Tai-Chi’ Document Reveals Binance’s Elaborate Scheme to Evade Bitcoin Regulators*, <https://archive.ph/I6AAq>, (Oct. 29, 2020).

37 Reuters, *How Binance CEO and Aides Plotted to Dodge Regulators in U.S. and UK*, <http://bit.ly/3GYVA7h>, (Oct. 17, 2022).

compliance team quit by mid-2022 after a new U.S. boss was appointed by [Changpeng] Zhao, according to four people who worked at Binance.US. The staff left, these people said, because *the new chief pushed them to register users so swiftly that they couldn't conduct proper money laundering checks.*" (emphasis added). *Id.* A crypto investigator has also raised questions about whether Binance.US is essentially a "fake" exchange that exists to route money to and from the Binance parent company.<sup>38</sup> Why is Binance potentially still a client of Signature Bank? Its very public risk profile would suggest that it should not be.

### **Bitso:**

Bitso, a Mexican and Colombian crypto exchange, is another SBNY banking customer. Barry Silbert's Digital Currencies Group lists Bitso as a Portfolio company on its website.<sup>39</sup> Bitso's slogan is "Send money as easy as ordering a pizza." It is a large money remittance service, reportedly sending \$1 billion between Mexico and the US during the first half of 2022.<sup>40</sup>

A Reuters article describing how drug cartels launder money through crypto specifically identified a notorious sex trafficker who was caught laundering money through Bitso.<sup>41</sup> News reports also describe how cartels use a money laundering technique called "smurfing," which involves splitting funds into small (under \$10,000) deposits or transfers (presumably to avoid SARs, CTRs). A Brazilian gang, using Bitso, was caught using this method to launder a kidnapping ransom.<sup>42</sup>

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38 Dirty Bubble Media, *Is Binance.US a Fake Exchange?* <http://bit.ly/3CMrJxq>, (Dec. 18, 2022).

39 Digital Currency Group, *Portfolio*, <https://bit.ly/3IJ13S3>.

40 CoinDesk, *Bitso Processed \$1B in Crypto Remittances Between Mexico and the US So Far in 2022* <http://bit.ly/3iC4iQt>, (June 16, 2022).

41 Reuters, *INSIGHT-Latin American Crime Cartels Turn to Crypto to Clean Up Their Cash*, <http://bit.ly/3iz94OP>, (Dec. 8, 2020).

42 Criptofacil, *Criminals Who Kidnapped and Extorted Bitcoin from Investor are Identified Thanks to Blockchain* (English translation) (June 27, 2022).

## **Genesis Block OTC:**

Genesis Block OTC was an over-the-counter cryptocurrency exchange based in Hong Kong. It was closely affiliated with Sam Bankman-Fried's Alameda Research entity and ceased trading activities just days after the collapse of FTX. Notably, according to a recent report by the Financial Times, Genesis Block OTC's business model was based around exchanging cryptocurrency for cash. Per a source cited in the FT: "People were literally lining up around the corner with bags of cash at Genesis Block," a former employee said. "Sometimes they shut the door saying they were out of bitcoin." Genesis Block's leadership admitted to having a "network" of 50-100 banks to do business: "According to Yang, Genesis Block had a "network" of 50 to 100 linked bank accounts.... '[We] have a whole network of what we call satellite bank accounts in our control . . . It's a very grey area, I'm not going to lie. It could sound shady to some people,' Yang said on the podcast."<sup>43</sup>

Genesis Block even shared office space with Alameda Research. Key individuals simultaneously worked for both Genesis Block *and* Alameda Research. According to a crypto researcher with a track record for identifying fraud, it appears that cryptocurrencies transferred to "Genesis Block OTC" in actuality went directly to Ethereum addresses controlled by Alameda Research.<sup>44</sup>

In total, the public information about Genesis Block OTC demonstrates it is a highly questionable entity with questionable KYC/AML. Yet, SBNY provided Genesis Block OTC access to both banking services and to their SigNET tokenized dollar transfer service. It is possible, given both Genesis Block and Alameda used SigNET, that a significant fraction of the

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<sup>43</sup> Financial Times, *How FTX used Hong Kong cash-for-crypto shop to turbocharge growth*, <https://tinyurl.com/yfw5khk3>, (Dec. 5, 2022).

<sup>44</sup> Dirty Bubble Media, *Blockchain Evidence Suggests Genesis Block was a front for Alameda Research*, <https://tinyurl.com/29svy8f6>, (Dec. 9, 2022).

dollar transactions between these two entities occurred through SBNY's SigNET. SBNY's blockchain should be reviewed by the FDIC.

### **Genesis Trading:**

Genesis Trading and its parent company, Barry Silbert's Digital Currency Group, have been in the news recently because of financial problems. Genesis Trading is another client of SBNY. Of note, there are online allegations that Genesis Trading colluded with FTX/Alameda to manipulate the prices of certain cryptocurrencies. Genesis also loaned bankrupt "Three Arrows Capital," large sums to deposit into the Grayscale Bitcoin Trust.<sup>45</sup>

### **Houbi/Tron/Justin Sun:**

SBNY banks Huobi, a Chinese crypto exchange which is apparently registered in Gibraltar. Instances of criminal activity and problems at this exchange include:

- A 2020 report by Blockchain analytics company Chainalysis stated that Huobi and Binance were used for billions of dollars of transfers by criminal elements.<sup>46</sup>
- A Reuters article in June 2022 found that North Korea's Lazarus hacking group, which aims to fund North Korea's nuclear weapons program, used Binance and Huobi to launder money.<sup>47</sup>
- Crypto investigators found a high volume of direct interactions between Huobi and Binance with the now-seized Hydra darknet market, in an article that specifically cited KYC laxity at these exchanges.<sup>48</sup>

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45 DataFinnovation, *3AC, DCG & Amazing Coincidences*, <https://tinyurl.com/yums8asp>, (July 23, 2022).

46 Cryptoslate, *Chainalysis Says Binance and Huobi Allegedly Used for Billions of Dollars in Criminal Bitcoin Activity*, <http://bit.ly/3H2DORs>, (Jan. 17, 2020).

47 Reuters, *How Crypto Giant Binance Became a Hub for Hackers, Fraudsters and Drug Sellers*, <http://bit.ly/3H0nzEy>, (June 6, 2022).

48 U.S. Dep't of Just., Off. of Pub. Affs., Press Release, *Justice Department Investigation Leads to Shutdown of Largest Online Darknet Marketplace* (Apr. 5, 2022), <http://bit.ly/3CLv12M>; *Verdict, Dirty Bitcoin: Exchanges' KYC Laxity Eases Money Laundering – Report*, <http://bit.ly/3Wbk96r>, (Oct. 27, 2021).

BNC: You used fake Borat and Taylor Swift identities to successfully pass the first tier of KYC on KuCoin and Huobi. For the exchanges to approve these identities, what do you think was happening on their end?



- Indeed, the KYC at Huobi is apparently so lax that a crypto investigation firm, CipherBlade, was able to open accounts at Huobi using fake IDs posing as a bearded Taylor Swift and as the comedian Borat.<sup>49</sup>
- Even the Chinese government has cracked down on a large money laundering gang using Houbi, Binance, and OKEX (an exchange mentioned later in this memo).<sup>50</sup>
- Thailand revoked Houbi’s license in 2022, citing compliance deficiencies.<sup>51</sup>
- Fraudsters perpetrating scams allegedly run rampant on Huobi, yet lawyers for victims are left with only a Seychelles mailing address, where Huobi *has no physical presence*, allowing criminals to “escape with their loot.”<sup>52</sup>

Justin Sun reportedly acquired Huobi in 2022 after the exchange was purchased by an ‘unknown’ party. Sun has been called “the Theranos of China,” and an outright fraud.<sup>53</sup> Sun is reportedly under FBI investigation for fraud and money laundering.<sup>54</sup> According to the same

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49 Brave New Coin, *Security Expert Says KuCoin and Huobi Epicly Fail Softball KYC Test*, <http://bit.ly/3QzYGCZ>, (Dec. 14, 2020).

50 CoinCu, *Crypto Criminals Have Lent the Hands of Major Exchanges to Launder Money*, <http://bit.ly/3w3c09i>, (Oct. 13, 2021).

51 TechCrunch, *Crypto Exchange Huobi Thailand Closing Down in July After License Revoked*, <http://bit.ly/3XvLO2Q>, (June 16, 2022).

52 Global Anti-Scam Org, *How Huobi and Other Exchanges Work for Scammers*, <https://bit.ly/3GHZHUK>, (July 3, 2022).

53 Observer, *Warren Buffet’s 28-Year-Old Power Lunch Guest is a Fraud, Say Those Close to Him* (July 24, 2019), <http://bit.ly/3QH0Dxl>, Ex. 48; Crypto.News, *Tron Founder Justin Sun Takes over Huobi Global*, <http://bit.ly/3GHL6Zy>, (Nov. 16, 2022).

54 The Verge, *The Many Escapes of Justin Sun*, <http://bit.ly/3w23TKk>, (Mar. 9, 2022).



article, Sun would scream “**fake the KYC! . . . Fake it!**” to employees of a different exchange he ran, Poloniex. *Id.* The article also states that Sun is described as a “connoisseur of bank accounts” because “banks froze his money so frequently he needed to spread his fortune across numerous accounts.” *Id.* In a 2019 interview in which he praised Silvergate, Sun said crypto bankers would “get arrested or even charged for money laundering” before Silvergate emerged.<sup>55</sup>

In an online video posted on Twitter, Sun stated that he “collaborated with both Signature Bank and Silvergate Bank” for a coin issued by his company, Tron. Tron had earlier forged a relationship with Alameda Research as a “whitelisted institution.”<sup>56</sup>

There are numerous publicly available articles documenting the alleged serial frauds carried out by Justin Sun, his company Tron, and the Huobi crypto exchange. Why did SBNY’s KYC/AML compliance team overlook all of these reports?

#### **Celsius Network:**

Bankruptcy documents associated with this collapsed crypto lender that I reviewed show that it had SBNY bank accounts.<sup>57</sup> The New York Attorney General recently filed a civil lawsuit alleging the founder of Celsius defrauded investors out of billions of dollars.<sup>58</sup> I have reviewed Celsius’ instructions on how to close outstanding loans, and wire payments were to be sent to Beneficiary account: 1504376687 at Signature Bank. Signature Bank, whether knowingly or not, helped enable the Celsius Ponzi crypto loan scheme.

#### **Okcoin:**

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55 Abra, *Money 3.0: Justin Sun from TRON*, <http://bit.ly/3GGK00k>, (Dec. 3, 2019).

56 Tweet by @trondao, 12:03 AM, <https://bit.ly/3kb0PsC>, (June 22, 2022).

57 *In re: Celsius Network LLC, et al.*, No. 22-bk-10966 (S.D.N.Y Oct. 5, 2022), <https://bit.ly/3CLjr99>, at p.29 of 321.

58 Wall St. J., *Celsius Co-founder Sued by New York Attorney General*, <http://bit.ly/3H3AcPh>, (Jan. 5, 2023) Ex. 55; see also CoinDesk, *Celsius Resembled Ponzi Scheme at Times, Vermont Regulator Says*, <http://bit.ly/3CHP435>, (Sept. 7, 2022).

Another SBNY customer is Okcoin USA, the US crypto exchange of the OK Group, which also operates an international exchange named OKX (aka OKEEx).<sup>59</sup> OK Coin’s website states that it uses SBNY’s SigNET Network and solicits users to deposit funds via Signet.<sup>60</sup> OK’s Chinese founder, Mingxing “Star” Xu, has reportedly been arrested twice by the Chinese government.<sup>61</sup> A 2018 report issued by an experienced crypto trader concluded that “approximately 93% of OKEEx’s volume was fabricated.”<sup>62</sup> In March, 2022 OKX reportedly rejected calls to ban Russian crypto transactions.<sup>63</sup> Hackers who drained FTX of over \$450 million in assets after it filed for bankruptcy reportedly used OKX to launder the money.<sup>64</sup>

#### **Voyager:**

Bankruptcy documents I reviewed for Voyager state that it also had two SBNY accounts.<sup>65</sup> A civil lawsuit against Voyager, filed after its collapse, has accused Voyager of operating a “massive” Ponzi scheme.<sup>66</sup> The FDIC previously issued a Cease and Desist letter to Voyager for falsely claiming it was FDIC insured.<sup>67</sup>

#### **Nexo Services OU:**

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59 The Ascent, *OKX Review: Robust Trading Suite for Cryptos, Derivatives, Staking, and Lending*, <http://bit.ly/3vZMx0q>, (May 16, 2022).

60 Okcoin.com, *Okcoin Fee Rates*, <https://bit.ly/3X82gXf>, (last accessed Jan. 23, 2023).

61 Forbes, *Chinese Founder Of OKEEx Crypto Exchange ‘Arrested’ Again; Whales Bail*, <http://bit.ly/3H2H5jX>, (Oct. 16, 2020).

62 Investopedia, *Are Crypto’s High Trading Volumes a Scam?*, <http://bit.ly/3GBIFJj>, (Sept. 1, 2021); see also National Bureau of Economic Research, “*Crypto Wash Trading*,” (Dec. 2022).

63 PYMNTS.com, *Binance, OKX Reject Calls to Ban Russian Crypto Transactions* (Mar. 2, 2022), <http://bit.ly/3XrXeod>.

64 Cointelegraph, *FTX Hacker Reportedly Transfers a Portion of Stolen Funds to OKX After Using Bitcoin Mixer* (Nov. 29, 2022), <http://bit.ly/3iCCawK>.

65 Decl. of Stephen Erlich, *In re: Voyager Digital Holdings, Inc., et al.*, No. 22-bk-10943 (S.D.N.Y. July 6, 2022) at p.38 of 141, <https://bit.ly/3W7qgsd>.

66 Class Action Complaint, *Robertson v. Cuban*, 1:22-cv-22538 (S.D. Fla. Aug. 10, 2022) <https://bit.ly/3WdX8zA>; see also <http://bit.ly/3X61x94>.

Nexo Services OU is listed as a SBNY SigNET client.<sup>68</sup> Nexo is another crypto lending outfit that recently left the U.S. Reuters reported that Bulgarian authorities raided its offices and that Nexo is being investigated for setting up an organized crime group, tax crimes, money laundering, computer fraud, and banking activity without a license.<sup>69</sup> Notably, Nexo Services OU also holds a minority ownership interest in an OCC-regulated U.S. Bank based in Wyoming called Summit National Bank.<sup>70</sup> A former co-founder alleged that Nexo has been involved in fraudulent activities for years.<sup>71</sup> The SEC recently fined Nexo \$45 million for offering an unregistered “crypto asset lending product.”<sup>72</sup>

If, as Chairman Shay has claimed in interviews, SBNY has robust KYC/AML procedures, how has SBNY missed all of these enormous red flags?

The exhibits referenced in this letter may be downloaded as a single (large) PDF file from this DropBox link: <https://www.dropbox.com/s/2o3lyjlg40g6trb/FDIC%20submission%20exhibits.zip?dl=0>. A DropBox account is not needed, simply use the “Download” button in the upper left of the screen.

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67 FDIC, Joint Letter Regarding Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act, to Stephen Erlich, CEO, Voyager, (July 28, 2022), <https://bit.ly/3QKGVRY>; see also Voyager Tweet claiming \$250,000 in FDIC Insurance for USD accounts.

68 Twitter screen grab @AureliusValue, <https://bit.ly/3kepkoO>, (Jan. 12, 2023).

69 Reuters, *Bulgaria Launces Probe of Crypto Lender Nexo, Raids Sites*, <http://bit.ly/3CKyZdd>, (Jan. 12, 2023).

70 Coindesk, *Crypto-Lender Acquires Minority Stake in OCC-regulated Summit National Bank*, <https://tinyurl.com/47p58d9x>, (Sept. 27, 2022).

71 BestBrokers.com, *Leaked email by Nexo co-founder Reveals Fraudulent Malpractices by Crypto firm*, <https://tinyurl.com/2s49c5ey>, (Jan. 19, 2023).

72 Sec.gov, “Nexo Agrees to pay \$45 Million in Penalties and Cease Unregistered Offering of Crypto Asset Lending Product,” <https://tinyurl.com/y5bxj9xn>, (Jan. 19, 2023).

I am available to meet you and to discuss the documentary records and additional knowledge I have pertaining to Signature Bank, if you feel that would be useful.

Thank you.