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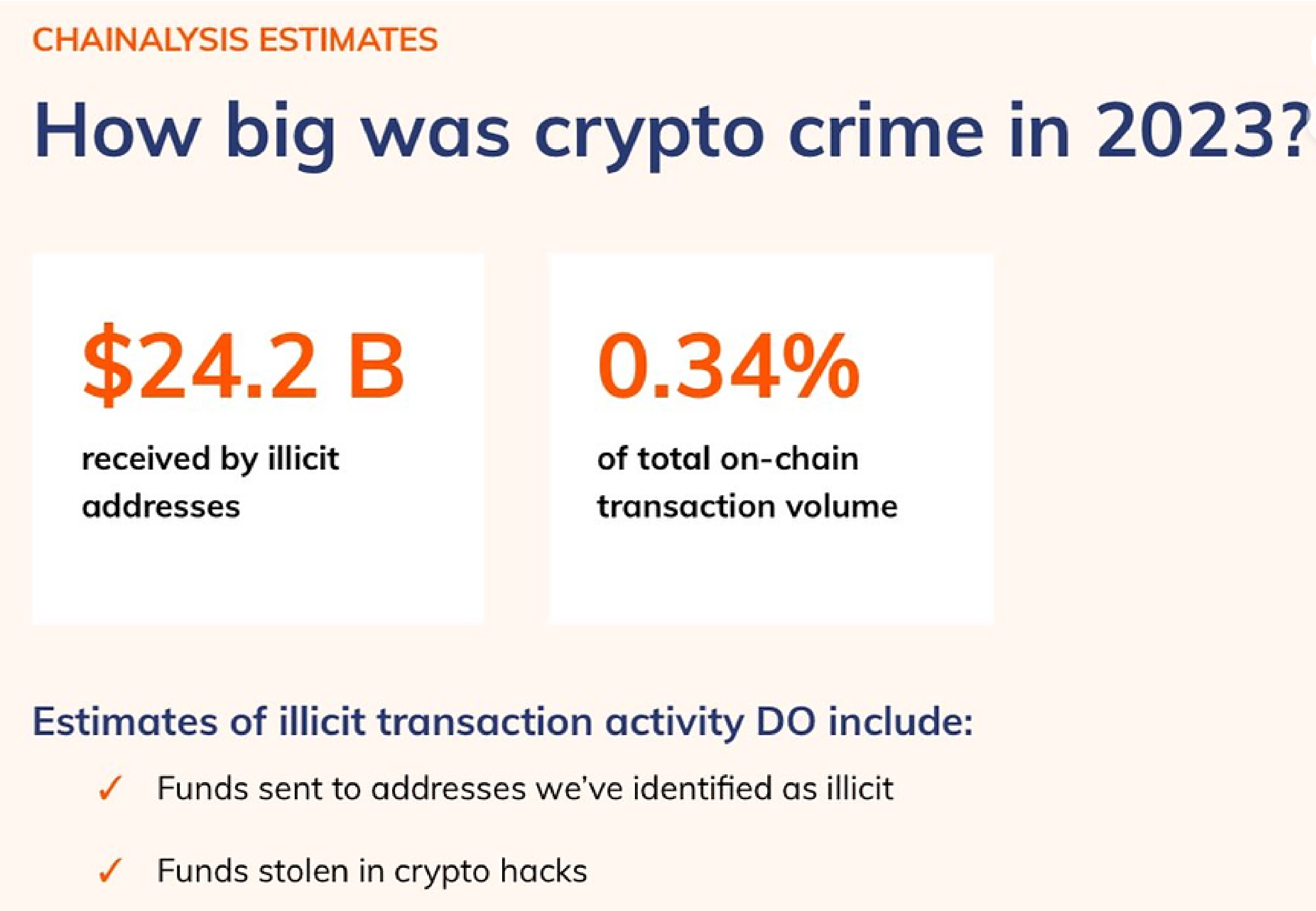
Blockchain Bites: Chainalysis finds plunge in illicit flows in annual crypto crime report, US Judge signs off Binance plea deal, FTX settles dispute and sells European arm for $33M, Court examines the Satoshi emails as COPA seek to prove Wright wrong, Earn-out: Gemini to repay customers settling Earn claims

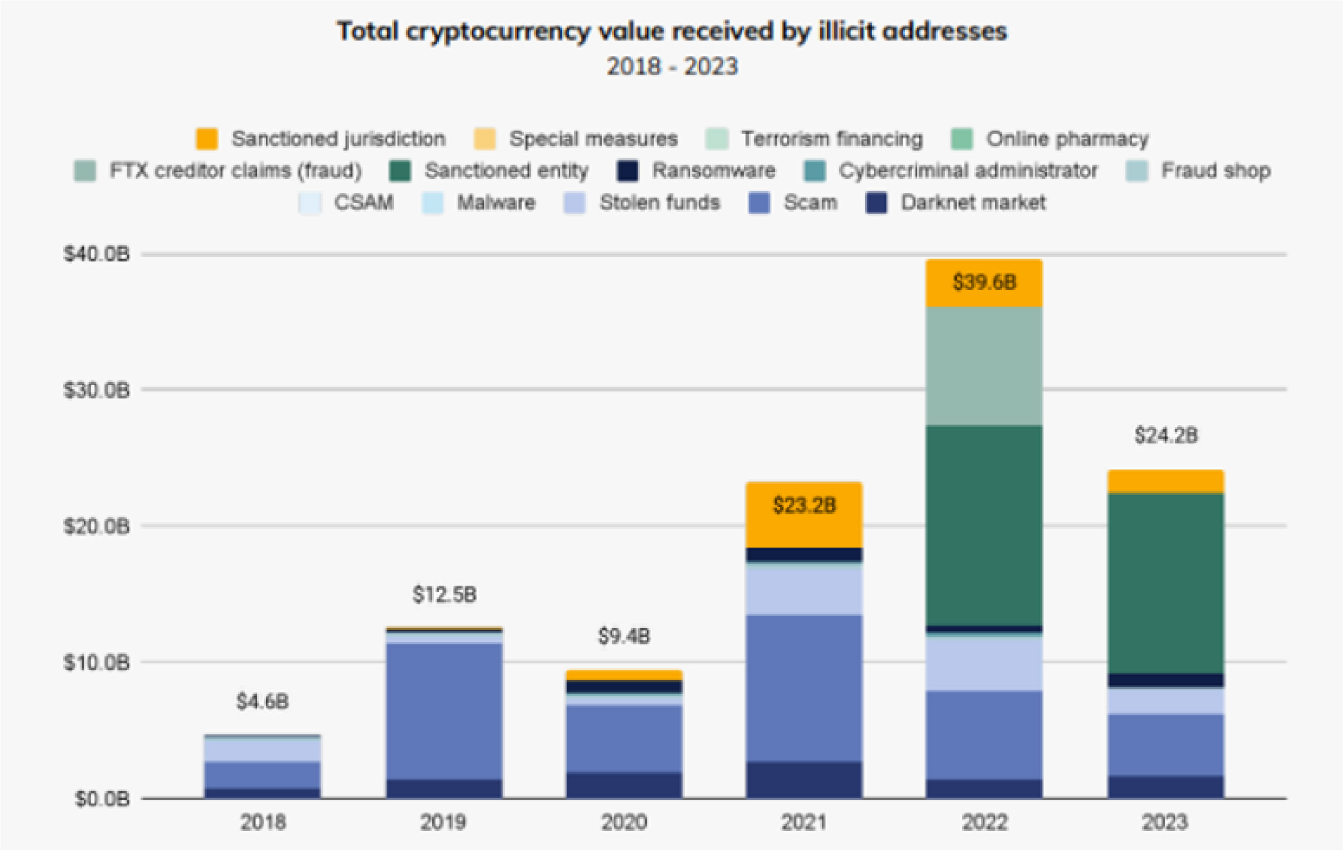
Michael Bacina, Steven Pettigrove, Tim Masters, Jake Huang, Luke Higgins, Luke Misthos & Kelly Kim of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

Chainalysis finds plunge in illicit flows in annual crypto crime report

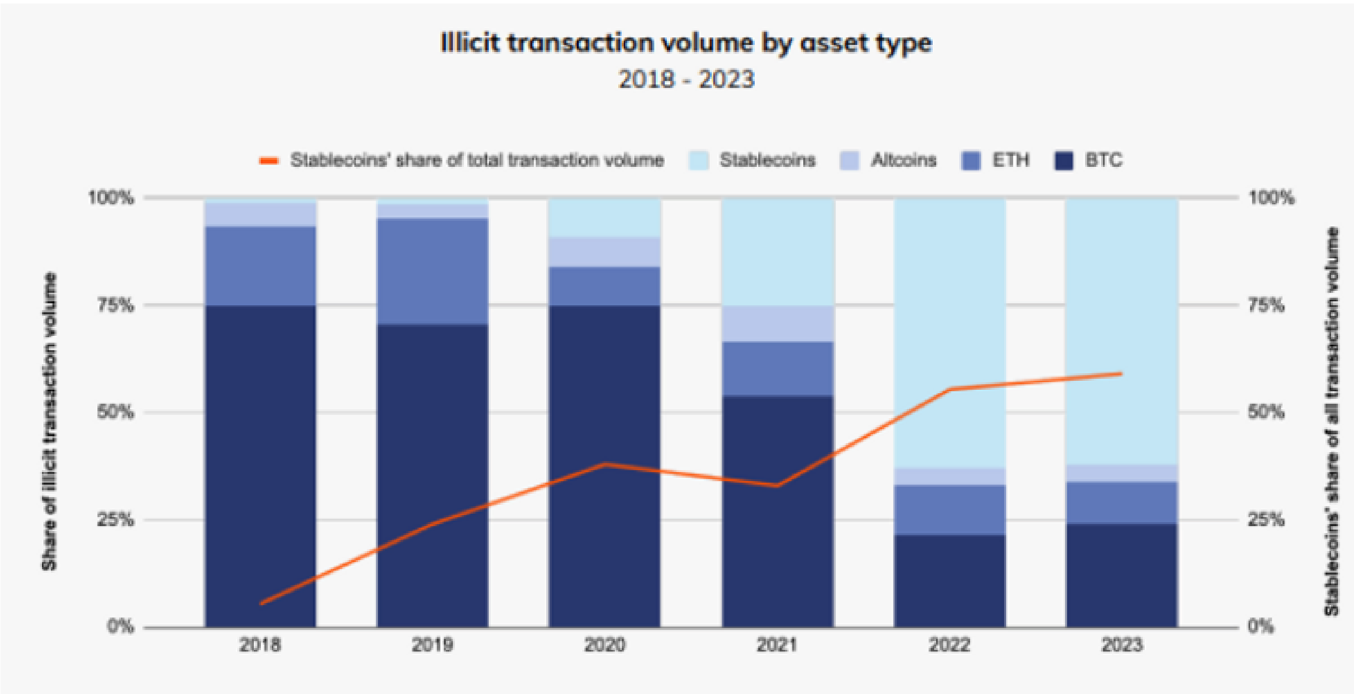
Global blockchain analytics firm, Chainalysis, has just released the 2024 Crypto Crime Report.



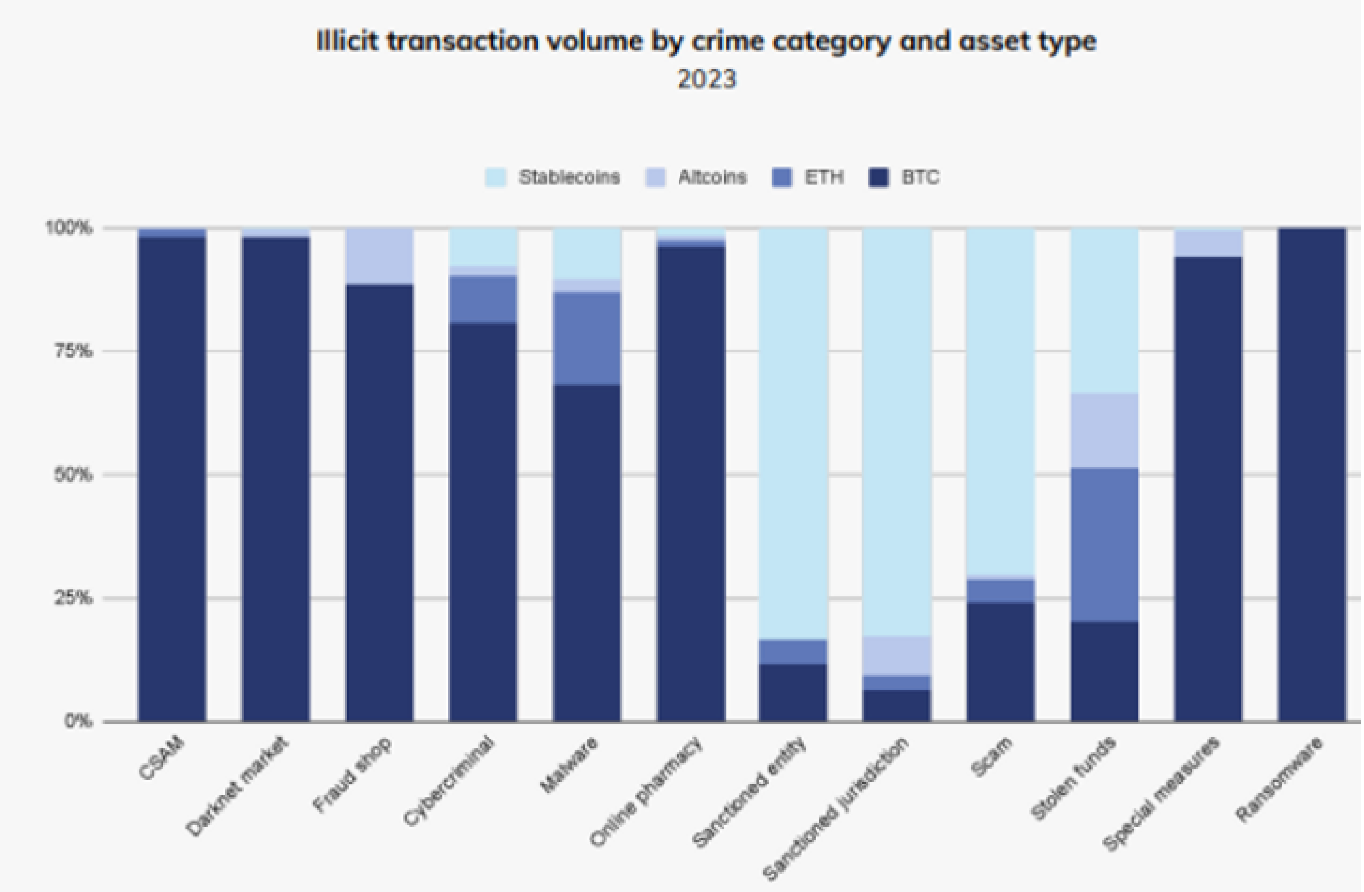
The report found a significant reduction in crypto-related crime in 2023 when compared to 2022. USD $24.2 billion worth of crypto-assets were received by identified illicit addresses in 2023, which accounted for 0.34% of total on-chain transaction volume (this is also a proportional decrease from last year where illicit activity accounted for approximately 0.42% of on-chain transaction volume).



The report also details the interesting shift away from bitcoin (BTC) as the primary asset used in cryptocurrency-related crime.



The shift towards stablecoins reflects the global growth in use and availability of stablecoins, however the report notes that certain types of crypto-related crime still take place predominantly in BTC (in particular, ransomware and darknet market sales).



Chainalysis' report highlights three key trends in 2023 and noted that these will be important trends to watch moving forward:

1. Scamming and stolen funds down significantly
    29. Illicit revenue from crypto scamming and hacking dropped significantly in 2023, with total illicit revenue from each down 29.2% and 54.3% respectively.
    30. Scammers have adopted new tactics, such as "romance scamming", whereby hackers build relationships and pitch fake investments to individuals. The report notes that these scammers do best when markets are up. Noting the strong performance of crypto-assets as at the date of publishing, individuals should exercise caution as fear of missing out (FOMO) often leads individuals to make riskier decisions than usual.
    31. The decrease in crypto hacking revenue may be due to positive trends in DeFi protocol security.
2. Ransomware and darknet market activity increasing
    1. Both ransomware and darknet market activity increased in 2023 in contrast with the overall decreasing trend.
    2. Despite decreasing substantially in the previous year, the increase in ransomware revenue suggests that ransomware attackers have adjusted to organisations' cybersecurity improvements.
    3. Darknet market activity also has increased following a decrease in the previous year.
3. Transactions with sanctioned entities form vast majority of illicit activity
    14. Sanctioned entities and jurisdictions accounted for a combined USD $14.9 billion worth of transaction volume in 2023, which represents 61.5% of all illicit transaction volume in 2023.
    15. The majority of this is driven by cryptocurrency services sanctioned by the US Department of the Treasury's Office for Foreign Assets Control (OFAC).
    16. It is incorrect to assume that all of the USD $14.9 billion was used for nefarious purposes, as the figure includes transaction volume from average crypto users who happen to reside in those jurisdictions (some of which include Russia, Iran, regions of Ukraine, and North Korea).

While Chainalysis' 2024 Crypto Crime report features some bright spots, it is also a reminder of the need to remain generally vigilant and proactive in the face of scams, ransomware activity and fraud. The road to a safer and more inclusive financial system is paved with challenges, but as Chainalysis' report reveals blockchain's very transparency offers new ways to quantify and tackle challenges which have plagued both traditional and innovative payment systems. Here's hoping that Chainalysis' 2025 Crypto Crime Report continues to reveal positive trends in combating illicit finance.

By Luke Higgins and Steven Pettigrove

#blessed: US Judge signs off Binance plea deal

Following a plea deal struck last November, a US federal court judge has signed off on Binance's USD$4.3 billion settlement with the US Department of Justice, the Department of Treasury and the Commodity Futures Trading Commission.

Binance, the world's largest cryptocurrency exchange, has agreed to one of the largest corporate penalties in US history to settle allegations of money laundering, conspiracy to conduct an unlicensed money transmitting business, and sanctions violations.

Binance's founder and chief executive officer Changpeng Zhao (commonly known as "CZ") plead guilty to failing to maintain an effective anti-money laundering program. Late last year, he also resigned as CEO of Binance and is currently awaiting sentencing.

The Court approval resolves a number of aspects of a long running investigation into Binance's operations by US authorities, although claims brought by the SEC over alleged securities law violations continue to be litigated.

The plea deal followed a coordinated investigation by the Department of the Treasury's Financial Crimes Enforcement Network (**FinCEN**) and Office of Foreign Assets Control (**OFAC**), as well as the US Commodity Futures Trading Commission (**CFTC**). The funds will be distributed amongst these agencies, with a significant portion allocated to the Treasury for sanctions violations.

Attorney General Garland emphasised the significance of the deal, drawing reference to the recent criminal conviction of Sam Bankman-Fried, ex-CEO and founder of FTX:

> Binance became the world's largest cryptocurrency exchange in part because of the crimes it committed – now it is paying one of the largest corporate penalties in U.S. history. In just the past month, the Justice Department has successfully prosecuted the CEOs of two of the world's largest cryptocurrency exchanges in two separate criminal cases.

As part of the plea deal, Binance has agreed to accept an independent monitorship, which has not yet been signed off by the judge. Sullivan & Cromwell, the law firm which acted for FTX debtors in their Chapter 11 insolvency proceeding, is reportedly poised for this role.

The US action against Binance is perhaps of the most significant salvos in the US authorities' enforcement drive against the crypto industry. This settlement also underlines the United States very broad approach to its jurisdiction, particularly in the area of anti-money laundering and financial sanctions. In this regard, Binance joins a long list of institutions which have felt the brunt of US enforcement action over AML/CTF and sanctions violations.

By Jake Huang and Steven Pettigrove

FTX settles dispute, sells European arm for $33M

FTX Trading has sold the European arm of its operations, FTX Europe, to its original founders as part of ongoing bankruptcy proceedings as the defunct crypto exchange continues to recover assets ahead of a planned vote on a reorganisation plan expected in second quarter of this year.

Digital Assets AG was initially a small Swiss startup specialising in accounting and billing software for crypto companies, before branching into the derivatives trade, when Sam Bankman-Fried paid $323 million for it in 2021.

The relatively unknown startup became the focal point for FTX operations in Europe before the well documented FTX collapse. Following the collapse, FTX attempted to recover funds from the founders of Digital Assets AG citing the USD$323 million price tag as a "gross overpayment".

The founders, Messrs Patrick Gruhn and Robin Matzke, denied the allegations and counter-claimed for USD$256.6 million from FTX. The dispute was resolved on the grounds that the original founders will buy back Digital Assets AG for USD$32.7 million, around one tenth of the price initially paid by FTX.

The bitter sweet sale sees an additional $32.7 million recovered for customers who lost money with FTX.

Creditors of FTX may be in higher spirits, however, considering the FTX creditor distributions look more and more likely to close in on 100c in the dollar, and following the arrest of the suspected culprits in a sim-swapping attack that siphoned USD$400 million from FTX during the collapse.

As a part of its strategy to recover assets for its creditors, the company was also granted approval on February 22 to sell off over $1 billion in shares of the artificial intelligence firm Anthropic.

With crypto prices and asset recoveries continuing to rise, and despite widespread misappropriation of customer assets prior to the collapse, it looks increasingly like FTX creditors will not end up losing their shirts after all.

By Michael Bacina, Steven Pettigrove and Luke Misthos

Court examines the Satoshi emails, as COPA seek to prove Wright wrong

The trial investigating whether Craig Wright is truly Satoshi Nakamoto, the creator of Bitcoin, has continued into its third week with a series of surprising revelations.

Wright faces a claim by the Crypto Open Patent Alliance (**COPA**), an association of leading crypto firms and developers, that is asking a UK court for a declaration that Wright is *not* the pseudonymous creator of Bitcoin, Satoshi Nakamoto.

In a session last week, Wright admitted that a version of the Bitcoin whitepaper discovered by Wright alongside 160,000+ other documents, had in fact been recently edited in advance of trial. Alexander Gunning, representing COPA, pointed out Wright's edits, which were found in his "LaTeX files." Gunning asked Wright "If you were forging the whitepaper, that is how you would do it, isn't it?", to which Wright replied "Yes.". Some believe that the modifications are consistent with forging or backdating the document.

Crypto Twitter was quick to post a time-lapse of the edits:


BitMEX Research
@BitMEXResearch · Follow

In Novemeber 2023, Craig Wright tried to make a version of the Bitcoin whitepaper in Latex. The below animation shows Craig graudually editing the file, to try to make the formatting match that of the real Bitcoin whitepaper, which was made with Open Office

Watch on X

1:40 AM · Feb 24, 2024

602 Reply Share

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Gunning's probing questions revealed that Wright's alterations were aimed at mirroring the Bitcoin whitepaper's layout. This revelation, along with the fact that the file was recently uploaded in November 2023, raises new doubts about Wright's claims to be Satoshi Nakamoto.

The tension peaked during Wright's testimony when Gunning asked him directly if his claim to be Satoshi Nakamoto was fraudulent, which Wright vehemently denied.

The trial has featured a who's who of early cryptography pioneers. Zooko Wilcox-O'Hearn, the founder of Zcash, discussed his interactions with Nakamoto, emphasising their mysterious nature. Adam Back, CEO of Blockstream, discovered a series of 2008 and 2009 emails from Satoshi Nakamoto's email address which quickly went viral:

Rizzo
@pete_rizzo_ · Follow

NEW: Adam Back's complete email history with Satoshi Nakamato was entered in the court records today

Email #1: Adam and Satoshi discuss #Bitcoin 4 months before its official launch

From: "satoshi@anonymousspeech.com" <satoshi@anonymousspeech.com>
Sent: Wed 8/20/2008 6:30:39 PM (UTC+01:00)
To: adam@cypherspace.org
Subject: Citation of your Hashcash paper

I'm getting ready to release a paper that references your Hashcash paper and I wanted to make sure I have the citation right. Here's what I have:

[5] A. Back, "Hashcash - a denial of service counter-measure," http://www.hashcash.org/papers/hashcash.pdf, 2002.

I think you would find it interesting, since it finds a new use for hash-based proof-of-work as a way to make e-cash work. You can download a pre-release draft at http://www.upload.ae/file/6157/ecash-pdf.html Feel free to forward it to anyone else you think would be interested. I'm also nearly finished with a C++ implementation to release as open source.

Title: Electronic Cash Without a Trusted Third PartyAbstract: A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without the burdens of going through a financial institution. Digital signatures offer part of the solution, but the main benefits are lost if a trusted party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as honest nodes control the most CPU power on the network, they can generate the longest chain and outpace any attackers. The network itself requires minimal structure. Messages are broadcasted on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

satoshi@anonymousspeech.com

4:30 AM · Feb 23, 2024

9.8K Reply Share

Read 405 replies

The email exchanges suggest that Back is himself *not* Satoshi Nakamoto, which was a long-running theory of many crypto conspiracy theorists (which Back has long denied).

In an interesting twist, Nakomoto's emails foreshadowed the possibility of problems arising from Bitcoin's energy consumption. Nakamoto advocated for Proof of Work (**PoW**) as crucial for network coordination, sparking debates about Bitcoin's environmental impact.

Emails from Nakamoto also hinted at the potential regulatory concerns over cryptocurrency, anticipating the long running regulatory battle over whether cryptocurrencies are securities:

> There are a lot of things you can say on the sourceforge site that I can't say on my own site

> …I'm uncomfortable with explicitly saying, 'consider it an investment'…That's a dangerous thing to say…
>
> It's OK if [people who deal with bitcoin] come to that conclusion on their own, but we can't pitch it as that.

Wright is expected to take the stand again later this week to defend allegations that emails between him and his former legal representatives, Ontier, were allegedly "not genuine". Wright had referenced these emails in his evidence last week which compelled his now current lawyers to submit them into evidence. With Ontier alleging that those emails were doctored, COPA will likely put new allegations of forgery (in addition to the allegations relating to the bitcoin whitepaper) to Wright on the stand.

The current trial is relevant to a number of ongoing UK actions over claims relating to copyright in the Bitcoin whitepaper and code base. While the trial may finally prove Wright wrong in his claim to be Satoshi Nakamoto, it appears the real identity of Bitcoin's pseudonymous creator will remain a mystery for some time to come.

By Luke Higgins and Steven Pettigrove

Earn-out: Gemini to repay customers settling Earn claims

The New York Department of Financial Services (**DFS**) confirmed on Wednesday that the American cryptocurrency exchange Gemini committed to:

> Return at least $1.1 billion to Gemini Earn Program customers;
>
> Contribute $40 million to the Genesis Global Capital (**GGC**) bankruptcy for the benefit of Earn customers; And
>
> Pay a $37 million fine to the DFS.

The 'Earn Program' in question was launched in early 2021, offering retail investors up to 8% interest yield by lending their crypto assets to Gemini, which on-lent the assets to GGC, a subsidiary of Digital Currency Group (**DCG**), once a leader industry player before the failure of GGC, Genesis, and the sale of Coindesk.

In November 2022, GGC paused withdrawals and defaulted on nearly $1B worth of customer assets, after confirming that it had $175M in exposure to the FTX collapse. The Earn program was terminated in January 2023, with GGC filing for bankruptcy around the same time. This impacted 340,000 Earn customers, sparking litigation between GGC, DCG and Gemini.

Separately, GGC has settled allegations by the US Securities and Exchange Commission (SEC) over its involvement in the program, and has proposed a liquidation plan under which they will repay customers either in cash or cryptocurrency.

Superintendent Harris commented on the Gemini settlement:

> Gemini failed to conduct due diligence on an unregulated third party, later accused of massive fraud, harming Earn customers who were suddenly unable to access their assets after Genesis Global Capital experienced a financial meltdown.

Gemini announced the recent developments on X, promising to keep users 'informed along the way':

Gemini customers are now one step closer to recovering their funds from the failed Earn product. The settlement follows a recent string of positive news for creditors of bankrupt crypto titans, including Celsius and FTX, which raised an additional $32.7M this week through its sale of FTX Europe to the firm's original founders.

By Kelly Kim and Steven Pettigrove