

C A M P A I G N F O R

ACCOUNTABILITY

December 14, 2023

VIA EMAIL

The Honorable Sherrod Brown
The Honorable Elizabeth Warren
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Brown and Senator Warren:

Campaign for Accountability (“CfA”) has learned that Dante Disparte, chief strategy officer and head of global policy for Circle, recently sent you a letter in response to our letter of November 9, which raised concerns about Circle’s relationship with Justin Sun. Because Mr. Disparte’s letter is incomplete and misleading, we are compelled to provide clarification.

Rather than addressing the matters CfA raised, Mr. Disparte sidestepped the primary allegations and instead denied claims CfA did not make. Our concerns are twofold: first, as we explained on November 9, Circle may be directly or indirectly compromised by its integration with an Asia-based network of trading platforms and cryptocurrencies that has been named in multiple law enforcement actions involving billions of dollars in transactions by alleged organized crime groups and sanctioned entities; and second, Circle’s recent employment of its “Cross-Chain Transfer Protocol”¹ may be used to facilitate what appears to be the fastest growing vehicle for illicit finance in the digital asset space.

Rather than addressing the specifics of its relationship with Mr. Sun, Mr. Disparte wrote merely that Circle no longer “banks” Justin Sun. In fact, Mr. Disparte’s letter discloses – for the first time – that until seven months ago Mr. Sun and/or his companies *did* ‘bank’ with Circle. It is unclear what this means given that Circle doesn’t have a banking license – precisely CfA’s concern. But in any event, Mr. Disparte’s disclosure indicates Circle maintained a direct customer relationship with Mr. Sun, something we were not previously aware of and, therefore, did not allege.

Notably, Mr. Disparte did not address the concern CfA did raise: Circle continues to offer its USDC stablecoins on Tron and over a dozen other offshore blockchains, none of which it sought or received regulatory approval for, or prudential oversight of, and several of which continue to pose risks of being employed in illicit activities. Further, Mr. Disparte failed to address the hundreds of millions of USDC stablecoins that remain currently circulating natively in Sun’s notorious TRON ecosystem, which authorities have linked to extensive illicit activity.

¹ Circle Website, [Cross-Chain Transfer Protocol: United the Ecosystem](https://www.circle.com/en/cross-chain-transfer-protocol), available at <https://www.circle.com/en/cross-chain-transfer-protocol> (last visited December 13, 2023).

Disingenuously, Mr. Disparte accuses CfA of “asserting that Circle had financed major flows of funds to Hamas or Hezbollah.” In fact, CfA made no such claim. Rather, CfA accurately described Circle’s extensive involvement with Sun’s TRON ecosystem and explained that Israeli authorities identified 26 TRON wallets consisting of over \$93 million in three cryptocurrencies, including Circle’s USDC. Mr. Disparte did not explain Circle’s involvement with TRON and minimized the \$93 million in TRON wallets as insignificant. Yet, by attempting to dismiss CfA’s allegations by claiming the value was low, Mr. Disparte confirmed that the current arrangement does, in fact, allow for such activity.

Notably, since our letter last month, media accounts have reaffirmed the connections between Hamas, Hezbollah and TRON. For example, on November 27 *Reuters* reported:

“A new front has emerged in Israel's fight against the funding of Iran-backed militant groups from Hamas to Hezbollah: A fast-growing crypto network called Tron.

“Quicker and cheaper than its larger rival Bitcoin, Tron has overtaken its rival as a platform for crypto transfers associated with groups designated as terror organizations by Israel, the United States and other countries, according to interviews with seven financial crime experts and blockchain investigations specialists.”²

There is ample additional evidence for our concern that Circle may be willing to overlook illicit activity by Mr. Sun and his companies. The Office of Foreign Assets Control (“OFAC”) has a long-running inquiry into Circle’s former subsidiary Poloniex, a notorious crypto exchange Circle sold to one of Mr. Sun’s companies in 2019 in the midst of an OFAC sanctions investigation and a parallel Securities and Exchange Commission (“SEC”) investigation³.

Even before Circle acquired Poloniex in February 2018⁴, the cryptocurrency was already known for its lax know-your-customer policies. In September 2017, *Reuters* reported the firm allowed customers to withdraw up to \$2,000 a day in crypto without providing identification and served customers in New York state without a license.⁵ In April 2018, OFAC advised Circle that it was investigating Poloniex customer accounts suspected to belong to individuals based in Iran, Syria, Cuba, North Korea, Crimea, and Sudan, all

² Tom Wilson and Elizabeth Howcroft, [Focus: New Crypto Front Emerges in Israel’s Militant Financing Fight](https://www.reuters.com/world/middle-east/new-crypto-front-emerges-israels-militant-financing-fight-2023-11-27/), *Reuters*, November 30, 2023, available at <https://www.reuters.com/world/middle-east/new-crypto-front-emerges-israels-militant-financing-fight-2023-11-27/>.

³ Securities and Exchange Commission, [Press Release: SEC Charges Poloniex for Operating Unregistered Digital Asset Exchange](https://www.sec.gov/news/press-release/2021-147), August 9, 2021, available at <https://www.sec.gov/news/press-release/2021-147>

⁴ <https://techcrunch.com/2018/02/26/circle-acquires-cryptocurrency-exchange-poloniex/>

⁵ Steve Stecklow, Alexandria Harney, Anna Irrera and Jemima Kelly, [Chaos and Hackers Stalk Investors on Cryptocurrency Exchanges](https://www.reuters.com/investigates/special-report/bitcoin-exchanges-risks/), *Reuters*, September 29, 2017, available at <https://www.reuters.com/investigates/special-report/bitcoin-exchanges-risks/>; Poloniex was also a key exchange for Monero, which in 2017 was labeled by *Wired* as “the Drug Dealer’s Cryptocurrency of Choice.” Andy Greenberg, [Monero, the Drug Dealer’s Cryptocurrency of Choice, Is on Fire](https://www.wired.com/2017/01/monero-drug-dealers-cryptocurrency-choice-fire/), *Wired*, January 25, 2017, available at <https://www.wired.com/2017/01/monero-drug-dealers-cryptocurrency-choice-fire/>. Circle’s purchase of Poloniex was completed in February of 2018.

countries subject to sanctions.⁶ On May 1, 2023, OFAC entered a settlement with Poloniex for \$7,591,630 for the sanctions violations.⁷

Circle announced it divested Poloniex to Mr. Sun's Polo Digital Assets Ltd. in 2019.⁸ But records indicate that until at least December 2022, the Poloniex cryptocurrency exchange continued to operate through a shell company from within Circle's Boston offices. In September 2019, just ahead of Circle's announcement that it was spinning off Poloniex, Circle's chief information security officer Scott Matsumoto and its vice president of customer support Thomas Corwin formed Augustech LLC, using Circle's address of 99 High Street.⁹ According to news reports and a civil action filed by Augustech's former controller,¹⁰ after the September 2019 sale, Justin Sun controlled both Poloniex and Augustech, which even managed to obtain a \$2.4 million federal government Paycheck Protection Program loan using the address of Circle's headquarters.¹¹

The ties between Circle and Sun are not surprising given that IDG Capital, a Chinese VC fund, is a financial backer of both Tron and Circle and funded Circle's Poloniex acquisition in 2017.¹² Circle and Tron have also co-invested in Asian crypto startups XY Finance¹³ and Multichain,¹⁴

⁶ Securities and Exchange Commission, Circle Internet Finance Public Limited Company Amendment to Form S-4, p. 221, November 14, 2022, available at https://www.sec.gov/Archives/edgar/data/1876042/000110465922118597/tm2124445-21_s4a.htm.

⁷ Department of Treasury Press Release, Settlement Agreement Between the U.S. Department of the Treasury's Office of Foreign Assets Control and Poloniex, LLC, May 1, 2023, available at https://ofac.treasury.gov/recent-actions/20230501_33.

⁸ Nikhikesh De, Circle to Spin Out Poloniex Less Than 2 Years After \$400 Million Takeover, *CoinDesk*, October 18, 2019, available at <https://www.coindesk.com/markets/2019/10/18/circle-to-spin-out-poloniex-less-than-2-years-after-400-million-takeover/>.

⁹ Secretary of State of Delaware: Division of Corporations, Augustech, LLC Registration, September 25, 2019, available at <https://icis.corp.delaware.gov/Ecorp/EntitySearch/NameSearch.aspx>; *see also* https://opencorporates.com/companies/us_de/7621845; Secretary of the Commonwealth of Massachusetts, Corporate Division, Business Entity Summary, ID No. 001439930, available at <https://corp.sec.state.ma.us/CorpWeb/CorpSearch/CorpSummary.aspx?sysvalue=LAowRLqRkRUwXgZMxmPx70HhHV2vEnqxCGTGNdbjZgo> ("MA Business Entity Summary") *see also* https://opencorporates.com/companies/us_ma/001439930;

¹⁰ Christopher Harland-Dunaway, The Many Escapes of Justin Sun, *The Verge*, March 9, 2022, available at <https://www.theverge.com/c/22947663/justin-sun-tron-cryptocurrency-poloniex>; *Heinrich v. Rainberry Inc., CA. No. CGC-22-599114 (Cal. Super. Ct., filed Apr. 11, 2022)*

¹¹ PPP Loan Data for Augustech LLC, available at <https://www.federalpay.org/paycheck-protection-program/augustech-llc-boston-ma>. According to the Massachusetts Secretary of State, however, Augustech was not registered in Massachusetts until May 28, 2020, more than a month after it received the \$2.4 million. *See MA Business Entity Summary*.

¹² IDG Capital Tweet, February 27, 2018, available at <https://twitter.com/IDGCapital/status/968487210398945280> ("Congrats to @circlepay! 'We'd love to back an experienced and visionary serial entrepreneur like @jerallaire,' said Hugo Shong, IDG Capital Global Chairman, 'which was why we helped facilitate this acquisition after having led Circle's Series C&D.'").

¹³ XY Finance Press Release, XY Finance Raises \$12M Funding Round from Investors Including Circle, December 2, 2021, available at <https://www.prnewswire.com/news-releases/xy-finance-raises-12m-funding-round-from-investors-including-circle-301436568.html>

¹⁴ Multichain Press Release, Multichain (Previously Anyswap) Raises a \$60M Financing Round Led by Binance Labs, December 21, 2021, available at <https://www.prnewswire.com/news-releases/multichain-previously-anyswap-raises-a-60m-financing-round-led-by-binance-labs-301448810.html>.

both of which are providers of cross-chain transaction services, which frequently are used by money launderers engaging in “chain hopping.” Multichain recently ceased operations after its CEO was arrested in a massive money laundering prosecution in China.¹⁵ Circle is demonstrably tied to Multichain, having frozen \$65 million worth of USDC on the Multichain blockchain after Multichain was hacked in July.¹⁶

Mr. Disparte’s letter also failed to address CfA’s long-stated concern that Circle has repeatedly vowed to obtain a banking license or otherwise submit itself to a primary prudential regulator but has failed to follow through. As chronicled in painstaking detail in CfA’s May 11, 2022 letter to the SEC, Circle CEO Jeremy Allaire has been promising to seek a license for years, claiming in public SEC filings in 2022 that it was in the midst of “ongoing regulatory engagement to become a U.S. federally chartered commercial bank.”¹⁷ Nevertheless, Circle has never announced a filing, approval, or denial.

As CfA noted in 2022, Circle’s SEC filings were also deficient in neglecting to mention Circle leadership’s past history of allegedly making misleading or outright false forward-looking statements to investors.¹⁸ In 2003, a previous company co-founded by Jeremy Allaire, Allaire Corp., paid a \$12 million settlement to resolve class action litigation that accused Mr. Allaire, his brother, and other Allaire officers of intentionally making misleading statements in order to keep the price of Allaire Corp. stock high while insiders offloaded shares in the company.¹⁹ As CfA noted, the judge overseeing the matter stated that it appeared the company’s executives “elected to dupe the investors, lying about its progress and misleading the public.”²⁰

Finally, Mr. Disparte’s letter fails to address CfA’s concerns that: 1) Circle has large sums of unregulated money on TRON; 2) Circle has had and continues to maintain a relationship with Justin Sun companies, which have been the subject of multiple law enforcement investigations; 3) Circle facilitates chainhopping, which is used in money laundering; and 3) due to the lack of regulation reputable banking institutions may find they unwittingly have participated in facilitating criminal organizations such as Hamas.

¹⁵ Sidhartha Shukla, Crypto Project Multichain Shuts Down, Says CEO Arrested in China, *Bloomberg*, July 13, 2023, available at <https://www.bloomberg.com/news/articles/2023-07-14/crypto-bridge-multichain-shuts-down-says-chinese-police-arrested-ceo>; Tom Blackstone, Multichain Victims Search for Answers in \$1.5B Exploit as New Evidence Emerges, *Cointelegraph*, August 23, 2023, available at <https://cointelegraph.com/news/multichain-victims-search-for-answers-in-billion-dollar-exploit-as-new-evidence-emerges>.

¹⁶ Monika Ghosh Circle, Tether Freeze Over Half of the \$126M Assets Stolen from Multichain Breach, *Cryptoslate*, July 8, 2023, available at <https://cryptoslate.com/circle-tether-freeze-over-half-of-the-126m-assets-stolen-from-multichain-breach/>.

¹⁷ Letter from Campaign for Accountability to SEC Chair Gary Gensler, May 11, 2022, available at <https://campaignforaccountability.org/watchdog-requests-sec-investigate-circle-spac-merger-for-misleading-and-deficient-filings/>

¹⁸ *Id.*

¹⁹ Stipulation and Agreement of Compromise and Settlement, *In re Allaire Corp. Securities Litigation*, Case. No. 00-CV-11972, (D. Mass. Dec. 1, 2023), available at https://securities.stanford.edu/filings-documents/1015/ALLR00/20030731_r01s_0011972.pdf.

²⁰ See *In re Allaire Corp. Securities Litigation*, 224 F. Supp. 2d 319, 342 (D. Mass. 2002), available at <https://law.justia.com/cases/federal/district-courts/FSupp2/224/319/2490026/>.

Honorable Sherrod Brown
Honorable Elizabeth Warren
December 14, 2023
Page 5 of 5

The issues CfA raised in its earlier letters and Circle's response demonstrate the pressing need for congressional review and oversight of this significant issue. How and to what extent cryptocurrencies may be financing terrorist organizations and America's enemies is not only an important banking issue, but also a critical national security matter.

Thank you for your attention.

Sincerely,

A handwritten signature in black ink that reads "Michelle Koppersmith". The signature is written in a cursive style and is contained within a light gray rectangular border.

Michelle Koppersmith
Executive Director