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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA**

IN RE SILVERGATE CAPITAL
CORPORATION SECURITIES
LITIGATION

Case No. 3:22-cv-01936-JES-MSB

CLASS ACTION

**AMENDED CONSOLIDATED
CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

**[Public Version of ECF No. 43 --
Redacted Pursuant to ECF No. 58]**

DEMAND FOR JURY TRIAL

Hon. James E. Simmons, Jr.

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1 Lead Plaintiffs Indiana Public Retirement System; Boston Retirement
2 System; Public School Teachers' Pension & Retirement Fund of Chicago;
3 International Union of Operating Engineers, Local No. 793, Members Pension
4 Benefit Trust of Ontario; and UMC Benefit Board, Inc. and Wespath Institutional
5 Investments LLC, both as administrative trustees of the Wespath Funds Trust; and
6 additional Plaintiff Bucks County Employees Retirement Fund (collectively
7 "Plaintiffs") by and through their counsel, bring two sets of claims in this action.

8 First, as set forth in **Part I** of the Complaint, Plaintiffs assert claims under the
9 Securities Exchange Act of 1934 (the "Exchange Act") individually and on behalf
10 of all persons and entities who purchased or otherwise acquired the publicly traded
11 stock of Silvergate Capital Corporation ("Silvergate," the "Bank," or the
12 "Company") between November 7, 2019 through March 21, 2023, inclusive (the
13 "Class Period"), and were damaged thereby. As to these Exchange Act claims,
14 Plaintiffs allege that throughout the Class Period, Defendant Silvergate and its Chief
15 Executive Officer, Alan Lane ("Lane"), made a series of statements that they knew
16 or, at minimum, were severely recklessly in not knowing were materially false or
17 misleading.

18 Second, as set forth separately in **Part II** of the Complaint, Plaintiffs assert
19 claims under the Securities Act of 1933 (the "Securities Act") individually and on
20 behalf of all persons and entities who purchased Silvergate securities in or traceable
21 to Silvergate's series of securities offerings completed during 2021 (the "2021
22 Offerings"). As to these Securities Act claims, Plaintiffs allege that the Securities
23 Act Defendants are strictly liable for the materially false and misleading statements
24 in the 2021 Offering Documents. These Securities Act claims are based solely on
25 strict liability and negligence and, as to these Securities Act claims, Plaintiffs
26 disclaim any allegations of fraud.

27 The allegations in this Complaint are based upon Plaintiffs' personal
28 knowledge as to themselves and their own acts and upon information and belief as

1 to all other matters. Plaintiffs’ information and belief are also based on the
 2 independent investigation of its counsel. This investigation included, among other
 3 things, a review and analysis of: (i) Silvergate’s public filings with the Securities
 4 and Exchange Commission (“SEC”); (ii) research reports prepared by securities and
 5 financial analysts; (iii) transcripts of Silvergate investor conference calls;
 6 (iv) Silvergate investor presentations; (v) press releases and media reports;
 7 (vi) securities pricing data; (vii) interviews of former Silvergate employees, some of
 8 whom were afraid to provide Lead Counsel with information for fear of retaliation
 9 by Silvergate; (viii) consultations with experts; and (ix) other material and data
 10 identified herein. Lead Counsel’s investigation into the factual allegations is
 11 continuing, and many of the relevant facts are known only by Defendants or are
 12 exclusively within their custody or control.

13 **PART ONE: CLAIMS UNDER THE** 14 **SECURITIES EXCHANGE ACT OF 1934**

15 **I. INTRODUCTION**

16 1. In just a few years, Silvergate went from a local community lending
 17 bank to the go-to bank of the world’s \$600 billion cryptocurrency industry.
 18 Silvergate’s deposits ballooned 10-fold; its stock price skyrocketed almost 20-fold;
 19 and its top executives profited handsomely. But Silvergate achieved these results
 20 through deception, giving the Silvergate “seal of approval” to and bringing aboard
 21 as “Silvergate-approved” customers some of the biggest sham entities in American
 22 history. All the while, Silvergate and its CEO, Alan Lane, time-and-again assured
 23 the public that the Bank conducted extensive vetting, due diligence, and monitoring
 24 of customers—which supposedly was Silvergate’s “secret sauce” that provided it a
 25 “distinct competitive advantage.” Customers and investors alike trusted these
 26 representations, pouring in their deposits and sending the stock price soaring.

27 2. When the public eventually learned the truth—*i.e.*, that Silvergate did
 28 not vet, perform due diligence on, or monitor its customers—Silvergate’s customers

1 fled and its stock price tumbled almost 100%. The Bank was forced into liquidation;
2 its employees were nearly all fired; the DOJ is conducting an investigation;
3 Silvergate failed to file its annual report with the SEC; and a bipartisan group of U.S.
4 senators lambasted Lane and Silvergate for their “severe due diligence failures” and
5 “egregious failure” to “monitor for and report suspicious financial activity carried
6 out by its clients.”

7 3. The Class Period begins on November 7, 2019. On that date, Silvergate
8 and Lane completed their IPO and listed Silvergate’s shares on the New York Stock
9 Exchange. To boost the Company’s stock price, Lane and Silvergate stressed to
10 investors from the outset that the Bank had a “robust risk management and regulatory
11 compliance framework” and a “deep-rooted commitment and proprietary approach
12 to regulatory compliance.” They emphasized that Silvergate “comprehensively
13 investigates prospective customers” and that its “due diligence and onboarding
14 processes include, at a minimum, detailed reviews of each customer’s ownership,
15 management team, business activities and the geographies in which they operate.”
16 They added that, once onboarded, Silvergate-approved customers were subject to
17 non-stop monitoring, which included “ongoing monitoring of customer activities
18 and evaluating a market participant’s ability to actively monitor the flow of funds of
19 their own customers.”

20 4. Lane and Silvergate repeated and amplified these representations over
21 the next months and years during the Class Period. They repeatedly highlighted the
22 Bank’s extensive “vetting” and “initial due diligence” of customers, which included
23 a thorough review of customers’ “culture of compliance,” “anti-money laundering
24 programs,” and “site visits” by the Bank’s personnel. Lane and Silvergate also
25 impressed upon investors that their “ongoing monitoring” consisted of “daily
26 transaction monitoring.” Lane trumpeted that, through this vetting and monitoring,
27 they achieved “a deep knowledge of [their] clients”—with Lane telling investors
28 that, at Silvergate, “we only bank institutions that are serious about regulation,” and

1 that, if they could not “get comfortable with a company’s regulatory stature,” then
2 they do “not bank them.”

3 5. These representations were critical to attract cryptocurrency customers
4 to the Bank—and to drive deposits. Participants in the cryptocurrency industry
5 believed, based on Lane and his colleagues’ repeated assurances, that Silvergate’s
6 customers had, indeed, been vetted and were being closely monitored. This was an
7 important benefit to prospective Silvergate customers—and a key reason why
8 cryptocurrency exchanges wanted to bank at Silvergate. Per Lane’s representations,
9 the Bank’s cryptocurrency exchange customers could point to Silvergate’s “seal of
10 approval” to gain customer confidence and generate more business. Lane
11 specifically highlighted this “seal of approval” when speaking to customers,
12 stressing that Silvergate eliminated “counterparty risk” for the entities that dealt with
13 Silvergate’s “vetted” customers.

14 6. Lane’s assurances were also important to investors deciding whether to
15 buy the Company’s stock. Investors and securities analysts at major Wall Street
16 firms—including Wells Fargo, J.P. Morgan, and Bank of America—highlighted
17 Lane’s representations about the Bank’s “vetting” and “monitoring” of its
18 customers. They identified the Bank’s “vetting” and “monitoring” as a “distinct
19 competitive advantage” when recommending that investors “BUY” Silvergate stock.
20 On the back of Lane’s representations, Silvergate’s stock price soared during the
21 Class Period, increasing by 1400%—over \$200 per share.

22 7. Unknown to investors at the time, Silvergate did not vet, perform due
23 diligence of, or monitor its clients. Rather, to drive deposits, Silvergate
24 indiscriminately banked cryptocurrency entities—many of which were outright
25 shams that fleeced innocent customers of billions of dollars. Multiple former
26 Silvergate employees have explained that the Bank did not prioritize compliance,
27 did not vet its customers, did not perform site visits, did not know its customers’
28 businesses, did not review its customers’ compliance programs, did not review its

1 customers' culture of compliance, did not have compliance policies to address the
2 cryptocurrency industry, did not provide compliance training to employees specific
3 to the cryptocurrency industry, did not perform daily or periodic reviews, did not
4 perform customer risk scoring, and did not monitor its clients' transaction activity.
5 Instead, wire limits of hundreds-of-millions of dollars were blindly authorized, anti-
6 money laundering software was never implemented, suspicious and anomalous
7 activity was ignored, subpoenas from the U.S. government concerning customers'
8 wire activity piled up, any monitoring was simply a "check the box" activity, and,
9 when employees pushed back, they were told "nobody cared" and reprimanded by
10 the Bank's management. [REDACTED]

11 [REDACTED]
12 [REDACTED]
13 [REDACTED]

14 8. The Bank's major "approved" customers included FTX, a
15 cryptocurrency exchange that single-handedly constituted over 17% of the Bank's
16 overall deposits and that was singled out on Silvergate's website, featuring a
17 "testimonial" from FTX's then-CEO, Sam Bankman-Fried. Silvergate and Lane
18 specifically and repeatedly assured investors that the Bank "conducted significant
19 due diligence on FTX and its related entities including Alameda Research" when, in
20 truth, they did not. Had Silvergate actually conducted due diligence on FTX or its
21 related entities (Alameda and North Dimension), it would have readily discovered
22 that these entities were shams. For example, consumers seeking to purchase FTX
23 cryptocurrency were told to send their money to North Dimension. But North
24 Dimension was nothing more than a fake website posing as an online electronics
25 retailer, which listed the same address as FTX, had no staff or operations, and was
26 replete with misspellings and absurd product offerings and prices. FTX's then-CEO,
27 Sam Bankman-Fried, used North Dimension and Alameda (which was an equally
28

1 blatant fraud) to siphon billions of dollars that Bankman-Fried and his cronies used
2 as their own.

3 9. Silvergate’s other approved customers included Binance.US, Huobi
4 Global, Nexo Capital, and Bittrex, among others. Each of these entities was an
5 egregious fraud—as investigative journalists and regulators would readily show
6 later. For example, had Silvergate actually vetted, conducted due diligence on, and
7 monitored its customers, it would have learned that Binance.US was controlled by
8 Binance, “a hotbed of illegal financial activity that has facilitated over \$10 billion in
9 payments to criminals and sanctions evaders.” As a group of U.S. senators later
10 explained in their bipartisan report, Binance.US was a “blatant attempt to dodge the
11 world’s financial regulators, serve ‘users without licenses,’ and violate anti-money
12 laundering laws.”

13 10. Investors eventually learned the truth about Silvergate’s failure to vet,
14 conduct due diligence on, or monitor its “Silvergate-approved” customers.
15 Beginning in November 2022, reports emerged that FTX—Silvergate’s most
16 important customer—was a clear fraud that stole billions of dollars from consumers.
17 Over the following weeks and months, investigative journalists uncovered facts
18 demonstrating Silvergate’s failure to vet, perform due diligence on, and monitor
19 FTX, as well as Binance.US and many of the Bank’s other customers. Soon
20 thereafter, a bipartisan group of U.S. senators wrote to Lane chastising Silvergate
21 and Lane for what “appears to be an egregious failure of your bank’s responsibility
22 to monitor for and report suspicious financial activity carried out by its clients.”

23 11. As customers learned the truth about Silvergate’s “vetting”—and that
24 the Bank’s “seal of approval” was worthless—they pulled their deposits and left the
25 Bank. Silvergate’s deposits shrank by 60% within weeks. News then broke that the
26 DOJ had opened an investigation into Silvergate’s misconduct. Following this
27 revelation, Silvergate’s remaining customers also withdrew their deposits and
28 announced they would bank elsewhere. Shortly thereafter, Silvergate discontinued

1 its SEN Network, ceased operations, and fired its remaining employees. The
 2 Company weeks later announced its intention to wind down and liquidate Silvergate
 3 Bank altogether.

4 12. Investors have suffered immensely as a result of Defendants'
 5 misrepresentations. Silvergate's stock, which exceeded \$225 per share during the
 6 Class Period, now trades at barely above \$1.

7 **II. JURISDICTION AND VENUE**

8 13. The claims asserted herein arise under and pursuant to Sections 10(b)
 9 and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5
 10 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

11 14. This Court has jurisdiction over the subject matter of this action
 12 pursuant to 28 U.S.C. §§ 1331 and 1337 and Section 27 of the Exchange Act, 15
 13 U.S.C. § 78aa.

14 15. Venue is proper in this District under Section 27 of the Exchange Act,
 15 15 U.S.C. § 78aa, and 28 U.S.C. § 1391(b). The acts and conduct complained of
 16 herein occurred in substantial part in this District.

17 16. In connection with the acts and conduct alleged in this Complaint, the
 18 Defendants, directly or indirectly, used the means and instrumentalities of interstate
 19 commerce, including the mails and telephonic communications and the facilities of
 20 the national securities market.

21 **III. THE EXCHANGE ACT PARTIES**

22 **A. The Plaintiffs**

23 17. Lead Plaintiff Indiana Public Retirement System ("Indiana") is a
 24 pension fund operated for the benefit of over 517,000 active and retired members,
 25 representing more than 1,300 employers, including public universities, schools,
 26 municipalities and state agencies. As of June 30, 2022, Indiana managed more than
 27 \$42.4 billion in assets. Indiana purchased shares of Silvergate common stock during
 28

1 the Class Period and suffered damages as a result of the violations of the federal
2 securities laws alleged in this Complaint. *See* Exhibit A, attached hereto.

3 18. Lead Plaintiff Boston Retirement System (“Boston”) is a governmental
4 defined benefit plan that provides retirement benefits for employees, and their
5 beneficiaries, of the City of Boston, Boston Planning & Development Agency,
6 Boston Housing Authority, Boston Public Health Commission, and Boston Water &
7 Sewer Commission. As of September 30, 2022, Boston managed approximately
8 \$5.7 billion in net assets on behalf of more than 34,000 members and their
9 beneficiaries. Boston purchased shares of Silvergate common stock during the Class
10 Period and suffered damages as a result of the violations of the federal securities
11 laws alleged in this Complaint. *See* ECF No. 16-3.

12 19. Lead Plaintiff Public School Teachers’ Pension & Retirement Fund of
13 Chicago (“Chicago Teachers”) is a public pension fund that provides for the
14 financial security of a group of dedicated individuals who serve, or have served, the
15 Chicago Public Schools/Charter Schools through a career in public service. As of
16 June 30, 2022, Chicago Teachers managed over \$12.1 billion in assets for the benefit
17 of its approximately 92,390 active and retired members. Chicago Teachers
18 purchased shares of Silvergate common stock during the Class Period and suffered
19 damages as a result of the violations of the federal securities laws alleged in this
20 Complaint. *See* ECF No. 16-3.

21 20. Lead Plaintiff International Union of Operating Engineers, Local No.
22 793, Members Pension Benefit Trust of Ontario (“Local 793”) is a Canadian
23 Registered Pension Plan that provides retirement benefits to crane and heavy
24 equipment operators, other skilled workers, and their families. Local 793 manages
25 over \$2.5 billion (\$3.5 billion CAN) in assets for the benefit of more than 18,000
26 active and retired members. Local 793 purchased shares of Silvergate common
27 stock during the Class Period and suffered damages as a result of the violations of
28 the federal securities laws alleged in this Complaint. *See* ECF No. 16-3.

21. Lead Plaintiff UMC Benefit Board, Inc. and Wespath Institutional Investments LLC, both as administrative trustees of the Wespath Funds Trust (“Wespath”), supervises and administers retirement plans, investment funds, and health and welfare benefit plans for active and retired clergy and lay employees of the United Methodist Church. Wespath manages over \$29.8 billion in assets for the benefit of more than 100,000 participants. Wespath purchased shares of Silvergate common stock during the Class Period and suffered damages as a result of the violations of the federal securities laws alleged in this Complaint. *See* Exhibit A, attached hereto.

22. Additional Plaintiff Bucks County Employees Retirement Fund (“Bucks County”) provides pension benefits to more than 1,700 retired employees of Bucks County, Pennsylvania. As of January 2023, Bucks County managed more than \$913 million in assets. Bucks County purchased shares of Silvergate common stock during the Class Period and suffered damages as a result of the violations of the federal securities laws alleged in this Complaint. *See* Exhibit A, attached hereto.

B. The Exchange Act Defendants

23. Defendant Silvergate Capital Corporation was incorporated in Maryland and, along with its wholly owned subsidiary Silvergate Bank, operated and maintained its corporate headquarters at 4250 Executive Square, Suite 300, La Jolla, California. Silvergate’s common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “SI.”

24. Defendant Alan J. Lane (“Lane”) served as Silvergate’s CEO and a member of its Board of Directors at all relevant times. Lane changed Silvergate Bank from a local community lending bank into the go-to bank for cryptocurrency exchanges and participants in the crypto industry. Lane was Silvergate’s chief spokesperson with investors and securities analysts, regularly touting and detailing Silvergate’s “robust compliance framework” and professing to know what he was

1 talking about. As the Bank’s deposits ballooned and Silvergate’s stock price
 2 skyrocketed, Defendant Lane unloaded \$21.2 million of his personal Silvergate
 3 stock during the Class Period at tremendous profits.

4 25. Defendants Silvergate and Lane are collectively referred to as the
 5 “Exchange Act Defendants.”

6 **IV. FACTUAL BACKGROUND**

7 **A. Silvergate Targets the Cryptocurrency Industry To Drive** 8 **Deposits.**

9 26. For most of its 35-year history, Silvergate was a local community
 10 lending bank focused on financing small real-estate deals. Silvergate had only a
 11 handful of branches, 40 employees, and a few hundred million dollars in deposits.
 12 Over time, it became increasingly challenging for Silvergate to attract deposits—
 13 which were its primary source of income. Scarred by the financial crisis and its
 14 aftermath, consumers were wary of local banks, and turned instead to larger, more
 15 established banking institutions to deposit their funds. This created an existential
 16 threat for Silvergate. Lane put it bluntly: the Bank “needed deposits.”¹

17 27. To jumpstart its deposits, Lane and Silvergate directed their attention
 18 to the red-hot cryptocurrency industry. In 2017, the crypto industry saw record-
 19 breaking growth rates. Consumers and investors were eager to convert their fiat
 20 currency (*i.e.*, national currencies, such as U.S. Dollars or Euros) into
 21 cryptocurrency (*i.e.*, digital currencies, such as Bitcoin, Ethereum, COIN, and FTT).
 22 Market demand pushed the market cap for the cryptocurrency industry over \$600
 23 billion, and the price of cryptocurrencies skyrocketed as a result.²

24 28. By 2018, there were dozens of different cryptocurrencies sold and
 25 exchanged on “cryptocurrency exchanges.” These cryptocurrency exchanges

26 ¹ *Financial Times*, “Silvergate: from tiny local lender to bank behind the crypto
 27 boom” (Dec. 9, 2022).

28 ² *InvestNet*, “Cryptocurrency Growth Trends & Industry Performance” (May 26,
 2018).

1 created and sold their own, branded cryptocurrency. For example, the
2 cryptocurrency exchange Coinbase created and sold the cryptocurrency “COIN,”
3 and the cryptocurrency exchange FTX created and sold the cryptocurrency “FTT.”
4 Investors purchased billions of dollars of these and other cryptocurrencies from these
5 exchanges, with the exchanges acting like brokers—*i.e.*, storing the cryptocurrency
6 and allowing investors to buy and sell from the exchange and with others.

7 29. Over time, the owners of these cryptocurrency exchanges increasingly
8 needed a bank willing to house the U.S. dollars and other fiat currency that
9 consumers paid them in exchange for their cryptocurrency, as well as to conduct
10 wire transfers among the consumers buying and selling cryptocurrency on their
11 exchanges. But the cryptocurrency exchanges faced a problem: traditional, larger
12 banks were reticent to accept them as clients. Traditional, larger banks were
13 concerned that cryptocurrency exchanges might be scams—*i.e.*, their owners might
14 be using the cryptocurrency exchanges to steal customer funds, commit fraud, or
15 facilitate money laundering. As the *Financial Times* explained in their article
16 “Silvergate: from tiny local lender to bank behind the crypto boom,” cryptocurrency
17 “had been linked to money laundering and illegal drugs,” and “major financial
18 institutions refused to bank crypto exchanges and started blocking transfers by
19 customers to buy cryptocurrencies.”³ Defendant Lane was aware of all of this,
20 publicly admitting that the creators of these cryptocurrency exchanges “were being
21 shunned by the broader banking ecosystem.”⁴

22 30. Silvergate and Defendant Lane were, nevertheless, willing—and, in
23 fact, eager—to open their doors to cryptocurrency exchanges and their
24 creators. Silvergate’s former President recounted, “We needed deposits and Alan
25 [Lane] started seeing that companies like Coinbase were getting kicked out of

26 ³ *Financial Times*, “Silvergate: from tiny local lender to bank behind the crypto
27 boom” (Dec. 9, 2022).

28 ⁴ *Fintech Nexus USA 2022*, “Why Every Bank Needs a Crypto Strategy, with Alan
Lane, CEO, Silvergate Bank (Full Session)” (June 8, 2022).

1 banks.”⁵ To entice these “kicked out” cryptocurrency exchanges and their customers
 2 to bank at Silvergate, Lane and Silvergate created and actively promoted the
 3 Silvergate Exchange Network (the “SEN Network”). The SEN Network provided a
 4 24-hour, 7-days-a-week platform for Silvergate-approved cryptocurrency exchanges
 5 and Silvergate’s other approved customers to instantaneously transact among
 6 themselves.

7 31. Defendants Lane and Silvergate told prospective customers that, by
 8 banking with Silvergate and joining the SEN Network, they would receive a
 9 meaningful benefit—namely, Silvergate’s “good housekeeping seal of approval.”⁶
 10 This “seal of approval” was important to cryptocurrency exchanges and the Bank’s
 11 other cryptocurrency customers. As advertised, it meant that Silvergate, after
 12 carefully “vetting” the prospective customer and “monitoring” its activity,
 13 determined that the cryptocurrency exchange was a legitimate entity with sound
 14 controls and in compliance with state and federal laws and regulations. This “seal
 15 of approval,” Lane publicly represented, “eliminated counterparty risk” for those
 16 entities and individuals who transacted with the Silvergate-approved cryptocurrency
 17 exchanges and customers, as these counterparties could rest assured that Silvergate
 18 conducted thorough due diligence and monitored the activity of the Silvergate-
 19 approved entities.⁷

20 32. Defendant Lane’s efforts to promote Silvergate and the SEN Network
 21 worked. Within just a few years, the SEN Network became, by Lane’s own account,
 22 Silvergate’s “flagship product” and “what [Silvergate was] known for in this
 23
 24

25 ⁵ *Financial Times*, “Silvergate: from tiny local lender to bank behind the crypto
 26 boom” (Dec. 9, 2022).

27 ⁶ See, e.g., “Silvergate Capital Corp. at Barclays Financial Services Conference”
 (Sept. 14, 2021).

28 ⁷ See, e.g., *Real Vision Finance*, “Silvergate: The Banking Solution of the Future”
 (Feb. 1, 2021).

ecosystem.”⁸ It was “the driver of [Silvergate’s] strategy,” with the Bank “all in” on cryptocurrency, according to Lane and his colleagues.⁹ Silvergate’s customers increasingly included cryptocurrency exchanges—with 35 cryptocurrency exchange customers by September 2018; and 94 by December 2021.

33. As consumers poured their money into Silvergate’s “vetted” and “monitored” cryptocurrency exchange customers, the Bank’s deposits ballooned. Silvergate went from a small, local bank—with just \$1.4 billion in deposits by the end of 2018—to the heavyweight in the cryptocurrency sector—with over \$14 billion in deposits by 2021. “All of that growth,” Lane acknowledged, “ha[d] really been on the back of SEN.”¹⁰

B. Silvergate Assures Investors That It Vets, Conducts Due Diligence on and Monitors All of Its Customers.

34. Investors deciding whether to buy Silvergate’s stock were laser-focused—and for good reason—on the “vetting,” “due diligence,” and “monitoring” that Silvergate purportedly performed on its cryptocurrency customers, including the Silvergate-approved cryptocurrency exchanges. If participants in the cryptocurrency industry lost faith in the quality of Silvergate’s “vetting,” “due diligence,” or “monitoring,” they would invariably lose faith in the SEN Network and Silvergate’s cryptocurrency exchange customers themselves. If that were to occur, there was a real risk that the Bank’s customers would pull their deposits from the Bank or even leave the Bank and cease using the SEN Network altogether. Such

⁸ See, e.g., “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021); *Banking the Corporate Unbanked with Alan Lane*, What Bitcoin Did (July 30, 2019).

⁹ See, e.g., “Silvergate Capital Corp. at Oppenheimer Blockchain Digital Assets Summit - The Evolution of Digital Assets” (Nov. 18, 2021); *Roundtable: Banking in the Digital Age with Alan Lane*, Market Rebellion (Nov. 8, 2021).

¹⁰ “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021).

1 a result would be catastrophic to Silvergate because, as Lane acknowledged, by
2 2021, “98% or 99%” of the Bank’s deposits “related to crypto.”¹¹

3 35. Silvergate also could face devastating fines and crippling regulatory
4 action for violating “know-your-customer” (“KYC”) and “anti-money laundering”
5 (“AML”) banking rules if it did not carefully vet and monitor its customers. Lane
6 understood all of this too. As he publicly acknowledged at the time, the KYC and
7 AML requirements “mak[e] sure that you know who your customers are and mak[e]
8 sure that you’re not in any way providing funding, financing etc. for illicit activity....
9 The penalties are fines and they can be really severe. You can essentially put the
10 entire bank at jeopardy.”¹²

11 36. With investors focused on the subject, Lane and Silvergate repeatedly
12 singled out the Bank’s “deep-rooted commitment and proprietary approach to
13 regulatory compliance” as a chief reason to purchase Silvergate’s stock.¹³ In
14 presentations to investors, Lane identified the Bank’s “robust compliance
15 framework” as an “Investment Highlight,” with the Bank’s careful “vetting” and
16 “monitoring” of the Silvergate-approved customers providing “a distinct
17 competitive advantage for us, and provid[ing] a meaningful barrier to entry against
18 our potential competitors.”¹⁴ Silvergate’s “compliance process,” Lane and
19 Silvergate added, gave the Bank a “first-mover advantage within the digital currency
20 industry” and was the “cornerstone of our leadership position today.”¹⁵ They further
21 told investors that “our compliance and due diligence is our secret sauce that has
22 gotten us to where we are today.”¹⁶

23
24 ¹¹ *Roundtable: Banking in the Digital Age with Alan Lane*, Market Rebellion (Nov.
25 8, 2021).

26 ¹² *Banking the Corporate Unbanked with Alan Lane*, What Bitcoin Did (July 30,
2019).

27 ¹³ *See, e.g.*, Silvergate, Annual Report (Mar. 10, 2020).

28 ¹⁴ *See, e.g.*, Silvergate, Registration Statement (Nov. 16, 2018).

¹⁵ *See, e.g.*, Silvergate, Annual Report (Mar. 8, 2021).

¹⁶ Interview, “Crypto + Banks: The Frontier of Money Movement” (June 13, 2022).

37. To inspire further investor confidence, Lane and Silvergate detailed to investors the precise ways that the Bank purportedly “vetted” and conducted “due diligence” on prospective customers before approving them. They also detailed the “ongoing monitoring” supposedly done on the Bank’s customers, as well as, “in the case of digital currency exchanges, their customers.”¹⁷ Defendants Lane and Silvergate made these representations repeatedly—in SEC filings, media interviews, and during conference calls with investors and analysts, as further detailed below.

38. ***Vetting and Diligence:*** Over and over, Lane and Silvergate told investors that the Bank adhered to a strict “vetting” and “diligence” process before deciding whether to permit customers to bank at Silvergate and participate on the SEN Network. During a July 30, 2019 interview, for example, Defendant Lane stated that, “if you get an account at Silvergate, then we’ve gone through the process of vetting you.”¹⁸ Defendant Lane reiterated during investor calls and interviews throughout 2021 that the “members of SEN . . . have been vetted by Silvergate” and that “folks that are transferring to each other [on the SEN Network] have all been vetted by Silvergate.”¹⁹ Silvergate and Lane emphasized this message through the remainder of the Class Period, telling investors that “we were vetting all of our customers” and that all of the participants “on SEN have gone through a similar due diligence process.”²⁰

39. Silvergate and Lane stressed the supposed robustness of these “vetting” and “due diligence” processes. Time and again, they told investors that the Bank “comprehensively investigate[d] prospective customers,” conducted “thorough

¹⁷ See, e.g., Silvergate, Annual Report (Mar. 8, 2021).

¹⁸ *Banking the Corporate Unbanked with Alan Lane*, What Bitcoin Did (July 30, 2019).

¹⁹ *Real Vision Finance*, “Silvergate: The Banking Solution of the Future” (Feb. 1, 2021); *The Blockchain Interview series hosted by Dan Weiskopf featuring Alan Lane of Silvergate*, ETF Think Tank (Sept. 24, 2021).

²⁰ See, e.g., “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021); Interview, “Crypto + Banks: The Frontier of Money Movement” (June 13, 2022).

1 reviews . . . as part of our due diligence process . . . to detect any such illicit activities
 2 conducted by our potential or existing customers (or, in the case of digital currency
 3 exchanges, their customers)” and, as a result, developed “a deep knowledge of our
 4 clients.”²¹

5 40. Silvergate and Lane also made detailed representations to investors
 6 about what the Bank’s “vetting” and “due diligence” supposedly included. “First
 7 and foremost,” according to Silvergate and Lane, they would develop an
 8 “understand[ing] [of the] customer’s business” and an “understanding [of] what [the]
 9 customers are doing.”²² This would “include, at a minimum, detailed reviews of
 10 each customer’s ownership, management team, business activities and the
 11 geographies in which they operate.”²³ “For each and every account,” Silvergate
 12 would also “determine the beneficial owner, the source of funds, and the purpose
 13 and expected use of funds.”²⁴

14 41. ***Compliance Reviews:*** Silvergate and Lane further represented to
 15 investors that the Bank conducted “compliance reviews” for prospective customers
 16 and, as a result of those reviews, had an “understanding of their compliance
 17 programs.”²⁵ According to Lane, these compliance reviews “verify” that the Bank’s
 18 customers’ “compliance programs are sound.”²⁶ Silvergate also represented to
 19 investors that it looked “to understand that the pillars of [the customer’s] AML

20 ²¹ See, e.g., Silvergate, Prospectus Supplement (Nov. 8, 2019); Silvergate, Annual
 21 Report (Mar. 10, 2020); Silvergate, Registration Statement (Nov. 16, 2018);
 22 “Silvergate Capital Corp. at Canaccord Genuity Growth Conference” (Aug. 12,
 2020).

23 ²² See, e.g., Silvergate, Regulation FD Disclosure Financial (Form 8-K) (Oct. 29,
 2020); “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept.
 24 14, 2021); Interview, “Crypto + Banks: The Frontier of Money Movement” (June
 13, 2022).

25 ²³ See, e.g., Silvergate, Registration Statement (Nov. 16, 2018).

26 ²⁴ Silvergate, Form 8-K (Dec. 5, 2022).

27 ²⁵ See, e.g., Silvergate, Investor Presentation (Jan. 28, 2021); “Q3 FY 2020
 Silvergate Capital Corp. Earnings Conference Call” (Oct. 26, 2020).

28 ²⁶ *Silvergate CEO Alan Lane on the Business of Stablecoin*, Bloomberg Podcasts
 (June 2, 2022).

1 compliance are well designed and functioning.”²⁷ This supposedly would include
 2 “evaluating [the prospective customer’s] ability to actively monitor the flow of funds
 3 of their own customers.”²⁸ It would also include, according to Lane, a “review of
 4 [the] organization’s culture of compliance” and, importantly, a “Site Visit.”²⁹
 5 Additionally, the Bank’s reviews of its cryptocurrency exchange customers
 6 supposedly included an examination of their “policies and procedures regarding the
 7 BSA [Bank Secrecy Act], consumer compliance, information security, Dodd-Frank
 8 Act prohibitions against unfair, deceptive or abusive acts or practices, as well as
 9 [their] transaction monitoring systems and audit results.”³⁰

10 42. **Monitoring of Activity:** Lane and Silvergate further assured investors
 11 that Silvergate kept a close watch on their Silvergate-approved customers’ activity
 12 through the Bank’s “ongoing monitoring” and “transaction monitoring.”³¹ Lane told
 13 investors that, “[a]fter accounts are open, we continue to monitor account activity as
 14 part of our enhanced due diligence process on each of these accounts and to take
 15 action when there are red flags.”³² He emphasized that Silvergate “monitors
 16 transaction activity for every account and identifies activity outside of the expected
 17 usage.”³³

18 43. Lane and Silvergate made further representations to investors about the
 19 specifics of the Bank’s “ongoing monitoring” program. In quarterly PowerPoint
 20 presentations to investors (*see, e.g.*, Figure 1, *infra*), Lane represented that the
 21 Bank’s “ongoing monitoring” included daily “anti-money-laundering alerts,”
 22 “enhanced due diligence,” “customer counterparty reviews,” “periodic reviews” of
 23

24 ²⁷ *See, e.g.*, Interview, “Crypto + Banks: The Frontier of Money Movement” (June
 13, 2022).

25 ²⁸ *See, e.g.*, Silvergate, Registration Statement (Nov. 16, 2018).

26 ²⁹ *See, e.g.*, Silvergate, Investor Presentation (Jan. 28, 2021).

27 ³⁰ *See, e.g.*, Silvergate, Registration Statement (Nov. 16, 2018).

28 ³¹ *See, e.g.*, Silvergate, Investor Presentation (Jan. 28, 2021).

³² *See, e.g.*, Silvergate, Form 8-K (Dec. 5, 2022).

³³ *See, e.g., id.*

the customers, “quarterly account activity reviews” and “annual reviews” of the customers. Silvergate’s “ongoing monitoring” also supposedly included the Bank’s use of “a system of ‘red flags’ specific to various customer types and activities.”³⁴

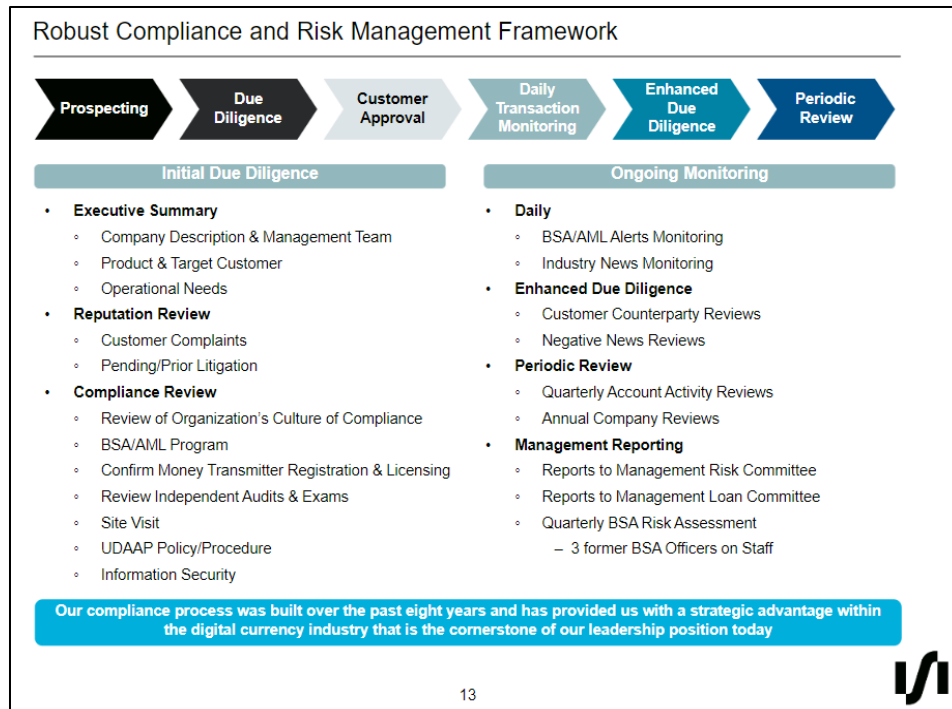


Figure 1. Quarterly Silvergate PowerPoint presentation to investors.

44. ***Strict Customer Standards:*** Defendants Lane and Silvergate bolstered these representations with additional assurances that, if Silvergate discovered adverse facts about prospective customers during the due diligence and vetting processes, they refused to bank them. Lane and Silvergate told investors that the Bank was “highly selective in our customer onboarding process to ensure the integrity of the platform.”³⁵ Lane added that “we require [customers] to comply [with federal and state regulations]” and “we only bank institutions who are also serious about regulation.”³⁶ He explained that, “if we can’t get comfortable with a company’s regulatory stature, then we don’t bank them. And that’s really well-

³⁴ See, e.g., Silvergate, Prospectus (Nov. 6, 2019).

³⁵ See, e.g., Silvergate, Registration Statement (Nov. 16, 2018).

³⁶ See, e.g., *CNBC Television*, “We actually welcome increased crypto scrutiny: Silvergate Bank CEO” (June 28, 2022).

known.”³⁷ Silvergate further told investors that “we serve only customers that represent the best business opportunity for Silvergate to operate safely, soundly, and compliantly.”³⁸ Lane reiterated that “they have to satisfy not only their own legal and regulatory requirements, but then we have to verify that their compliance programs are sound.”³⁹

45. Likewise, Defendants Lane and Silvergate assured investors that the Bank would take swift and severe action if Silvergate’s “ongoing monitoring” indicated any improper activity. In a November 21, 2022 letter to investors, for example, Lane represented that, “if the activity in their account does not match the activity that we expect based on our initial approval, we take immediate action up to and including terminating that relationship. No exceptions.”⁴⁰

C. Investors Trusted the Exchange Act Defendants’ Representations, and Silvergate’s Stock Price Soared.

46. The market trusted Lane’s and Silvergate’s repeated representations and highlighted Silvergate’s “robust compliance framework” as a reason to buy the Bank’s stock. For example, when Compass Point initiated coverage on Silvergate’s stock and told investors to “BUY” in a November 18, 2019 analyst report, its analysts echoed Defendants’ representations about Silvergate’s “compliance capabilities,” repeating Lane’s statements to investors that Silvergate conducted “ongoing monitoring of customer activities and evaluat[ed] a market participant’s ability to actively monitor the flow of funds of their own customers.” The Compass Point analysts similarly adopted and repeated Lane’s representations about Silvergate’s “due diligence” and “onboarding process” for its customers.

³⁷ See, e.g., “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021).

³⁸ “Silvergate Capital Corp. at Canaccord Genuity Growth Conference” (Aug. 12, 2020).

³⁹ *Silvergate CEO Alan Lane on the Business of Stablecoin*, Bloomberg Podcasts (June 2, 2022).

⁴⁰ “A letter to our customers” (Nov. 21, 2022).

47. Investors continued to rely on Lane and Silvergate’s representations during the Class Period. In their October 26, 2020 analyst report, Canaccord Genuity’s analysts also told investors to “BUY” Silvergate’s stock and increased their per-share price target from \$19 to \$26, lauding Silvergate as “firing on all cylinders” as a result of its “vetting and onboarding processes.” In their June 14, 2021 report, Goldman Sachs’s analysts upped their price target for Silvergate’s stock even further to \$120 per share and highlighted the supposed robustness of Silvergate’s “KYC/AML controls.”⁴¹ J.P. Morgan’s analysts repeated Lane’s pitch to investors: “With Silvergate completing due diligence related to KYC and AML (when it onboards new clients to the SEN platform), the company effectively reduces counterparty risks for its clients.”⁴² Wells Fargo’s analysts likewise recommended that investors “BUY” Silvergate’s stock in their June 13, 2022 analyst report, also repeating Lane’s representations that Silvergate “provides the vetting platform that essentially eliminates counterparty risk, as both sides of any transaction that takes place on the SEN need to be [Silvergate] clients.”⁴³

48. On the back of Defendant Lane’s and Silvergate’s repeated representations, Silvergate’s stock price soared. The Bank’s stock jumped nearly 1300% in just over a year from the start of the Class Period. It then continued its sharp rise, climbing as high as \$227 per share during the Class Period—a nearly 1900% increase in just two years.

49. But as analysts and investors would ultimately learn, Lane’s and Silvergate’s assurances that the Bank performed “vetting,” “due diligence,” and “ongoing monitoring” of its Silvergate-approved customers were false, misleading,

⁴¹ Goldman Sachs, “Differentiated high growth bank with leverage to crypto but valuation keeps us on sidelines: Initiate at Neutral with a \$120 price target” (June 14, 2021).

⁴² J.P. Morgan, “JPM’s 2021 Crypto Economy Forum: Silvergate an Indispensable Banking Partner in Crypto Ecosystem” (Dec. 1, 2021).

⁴³ Wells Fargo Securities, LLC, “SI: Carving Out Niche Role as Banker to Crypto Ecosystem; Initiate at Overweight” (June 13, 2022).

1 and omitted material facts. Silvergate did not conduct vetting, due diligence, or
 2 monitoring, and its approved customers included “fraudsters” and “sketchy
 3 companies and individuals who used Silvergate to move a trillion dollars into—and
 4 out of—crypto markets all over the world.”⁴⁴ As these facts became known, the DOJ
 5 commenced an investigation (which remains ongoing), the Company was ultimately
 6 forced to cease the Bank’s operations and liquidate, Silvergate’s stock price crashed,
 7 and Silvergate’s investors lost billions.

8 **D. In Truth, Silvergate Did Not Vet, Perform Due Diligence on, or**
 9 **Monitor Its Customers.**

10 50. Contrary to Silvergate’s and Lane’s repeated representations during the
 11 Class Period, the Bank did not perform “vetting,” “due diligence,” or “monitoring”
 12 on Silvergate’s approved customers. Instead, the Bank indiscriminately approved
 13 cryptocurrency exchanges to bank at Silvergate and to transact on the SEN Network,
 14 enabling these entities to use Silvergate’s “seal of approval” to bilk customers and
 15 investors out of billions of dollars. These facts have been confirmed by, among other
 16 things, Silvergate’s former employees.

17 51. Former Employee (“FE”) 1 was a Senior Vice President, Finance
 18 Manager at the Bank. She worked and interacted directly with Defendant Lane.⁴⁵
 19 FE 1 explained that Silvergate did not vet existing customers before adding them to
 20 the SEN Network. FE 1 did not see any efforts by Silvergate to get to know their
 21 customers or to make sure they were complying with the law. FE 1 explained that
 22 Silvergate’s focus was all about sales and getting clients, not compliance. FE 1 said

23 ⁴⁴ *New York Magazine*, “The Crypto Industry’s Favorite Bank Is in Deep Trouble”
 24 (Jan. 24, 2023).

25 ⁴⁵ FE 1 joined Silvergate in March 2019 and stopped working at the Bank the week
 26 before Christmas in December 2019. She originally reported to Regan Lauer, who
 27 hired her, then briefly to Kellie VavRosky, then to Alan Lane, and then to Antonio
 28 Martino. She worked directly with Alan Lane from September to November 2019.
 Her responsibilities included overseeing Treasury and financial planning and
 analysis (“FP&A”). She worked closely with the Controller, and she worked on
 Silvergate’s initial public offering.

1 if these were subjects of discussion, someone at her level—a senior vice president
2 of the organization—would have known about it.

3 52. When asked whether she had seen “extensive regulatory compliance
4 diligence” performed by Silvergate during her time at the Bank, FE 1 replied, “I did
5 not.” When asked whether she had seen Silvergate perform any type of “enhanced
6 procedures to screen and monitor [crypto customers]” during her time at Silvergate,
7 she replied, “I did not.” When asked whether Silvergate “comprehensively
8 investigated prospective customers” or conducted “customer risk scoring with risk
9 factors specific to the digital-currency industry,” FE 1 stated that she was not aware
10 of any of that occurring at Silvergate.

11 53. FE 1 also never heard of Silvergate conducting any of the specific
12 onboarding measures that Lane and Silvergate had claimed repeatedly to customers
13 and investors that they performed, including: “a review of the organization’s culture
14 of compliance, a review of its BSA/AML program, confirming its money transmitter
15 registration and licensing, reviewing its independent audits and exams, performing
16 site visits, and reviewing the prospective customer’s information security.” FE 1
17 likewise never saw “detailed reviews of each customer’s ownership, management
18 team, business activities and the geographies in which they operate.” Furthermore,
19 she did not hear of the Bank performing “reputation reviews of prospective
20 customers” or “compliance reviews for prospective customers.” FE 1 again said
21 that, if these were subjects of discussion, someone at her level—a senior vice
22 president—would have known about it.

23 54. FE 1 was aware that Silvergate conducted no customer vetting of
24 participants on the SEN Network based on meetings she attended with other senior
25 executives and her 30 years of banking experience. FE 1 has worked at multiple
26 banks over her 30 years of banking experience, including Wells Fargo for 19 years
27 in various roles, where she was very aware of the existence of their compliance
28

1 practices, including AML and KYC programs. Other banks have established
2 practices and policies in place, FE 1 explained.

3 55. FE 1 also did not see Silvergate monitoring its clients on the SEN
4 Network. FE 1 reported that Silvergate did not perform daily BSA/AML alerts
5 monitoring of its customers, daily news monitoring on its customers, customer
6 counterparty reviews, negative news reviews on its customers, or quarterly account
7 activity reviews of its customers. When asked whether FE 1 had seen Silvergate
8 conduct “thorough reviews . . . as part of our due diligence process . . . designed to
9 detect any such illicit activities conducted by our potential or existing customers
10 [and] in the case of digital currency exchanges, their customers” during her time at
11 Silvergate, FE 1 replied, “I did not.” Likewise, when asked whether she had seen
12 Silvergate engage in “ongoing monitoring of customer activities and evaluating a
13 market participant’s ability to actively monitor the flow of funds of their own
14 customers” or “system monitoring rules tailored to digital currency activities,” FE 1
15 replied, “I did not.” Finally, when asked whether she had seen “a system of ‘red
16 flags’ specific to various customer types and activities,” FE 1 replied, “I did not.”

17 56. Silvergate did not prioritize compliance, notwithstanding its
18 representations to investors about its robust practices in this area or the critical nature
19 of compliance in banking, particularly when dealing with cryptocurrency
20 transactions and KYC/AML requirements. FE 1 said that ever since Silvergate
21 turned towards crypto, there was no focus on anything like KYC. FE 1 worked
22 closely with Megan Collins, Silvergate’s Controller from late 2016 to January 2020,
23 and attended senior meetings led by Kathleen Fraher, Silvergate’s then-Vice
24 President, “Compliance and BSA Officer.” FE 1 estimated that these meetings
25 happened monthly, and Lane attended about 75% of them. During these meetings,
26 they discussed everything of importance to the Bank—which did not include
27 compliance. FE 1 did not recall any discussion of prioritizing compliance. She said,
28 “It was not a focus in the least. It was all, ‘Rah rah, we got these new crypto

1 customers.” FE 1 explained that in connection with her work (in particular given
2 the fact that she attended senior level meetings), if or to the extent the Company truly
3 prioritized KYC principles, she would have known about it.

4 57. FE 1 also knew Silvergate had no ongoing monitoring because
5 employees never received the training to do it. FE 1 does not recall Silvergate having
6 the employees take tests on KYC or anything else compliance-related. Nor does
7 FE 1 recall any training regarding KYC or specific crypto-related compliance issues.

8 58. FE 1’s account is further corroborated by the accounts provided by
9 FE 2, who worked as a “BSA analyst” at Silvergate from October 2017 to June 2019;
10 FE 3, who served as a digital banking manager at Silvergate in 2022; FE 4, who was
11 a VP of Deposit Operations from 2011 to July 2021; and FE 5, who was a “FRCM
12 Initial Due Diligence Manager” from May 2022 to May 2023.

13 59. FE 2 explained that about half of Silvergate’s customers were not even
14 known by the Bank.⁴⁶ He would ask people at Silvergate what a business did, who
15 the owners were, and what the management structure was, and Silvergate did not
16 have that information. Based on his experience and understanding, Silvergate
17 banked everyone who wanted to be a customer and seemed to bank everyone
18 regardless of what their compliance programs were like. FE 2 confirmed that any
19 diligence was a “check the box” activity. FE 2 reported that he and his fellow
20 analysts felt like they were checking boxes for the sake of it without the Bank
21 actually being mindful of the risk they were absorbing.

22 60. FE 2 stated that, in his experience, Silvergate did not have a deep-rooted
23 commitment to compliance and said that he does not believe a lot of action was taken
24 regarding suspicious activity. FE 2 explained that everyone in his department,
25 including FE 2, mentioned concerns with respect to compliance to Jennifer
26 Steinbock, the Silvergate “BSA/Compliance Manager.” FE 2 recalled that he and

27
28 ⁴⁶ FE 2 worked at Silvergate from October 2017 to June 2019 as a “BSA Analyst,”
reporting to Jennifer Steinbock.

1 his colleagues knew that there was frustration on the part of Steinbock regarding
2 customers they believed should be exited but would not be by order of Silvergate's
3 Chief Operating Officer.

4 61. FE 2 remembers asking his Silvergate colleagues so many times, how
5 many of these suspicious reports are we going to absorb, and he was told they would
6 just keep re-reviewing them forever. FE 2 agreed that any determinations that the
7 identified suspicious activity was "normal" were not justified and just an effort by
8 Silvergate to keep the business. FE 2 explained that no Silvergate customer accounts
9 were ever closed.

10 62. FE 2 explained that he left Silvergate because he did not feel they had
11 a culture of compliance.

12 63. As for FE 3, when asked if Silvergate had a deep-rooted commitment
13 to regulatory compliance, FE 3 also said, "Not at all."⁴⁷

14 64. FE 3 explained that, when customers wanted to join the SEN Network,
15 "the gates were open." If customers wanted to join the SEN Network, FE 3's group
16 was given a list of accounts and names to authorize. There was no compliance or
17 research done on a customer at the time it wanted to join the SEN Network; nobody
18 in management reviewed or approved those requests.

19 65. FE 3 explained that Silvergate did not perform due diligence on the
20 identity of the customers that were allowed to join SEN. In fact, instead of asking
21 the customers to fill out their own beneficial ownership paperwork, Silvergate
22 employees (and not the customers) filled out the paperwork. FE 3 explained that
23
24

25 ⁴⁷ FE 3 was a digital banking manager at Silvergate from the beginning of March
26 2022 until the end of November 2022 and reported to Dina Matias, Silvergate's
27 Senior Vice President, Operations Administrator. FE 3 was responsible for the SEN
28 Network, including onboarding customers to the SEN Network, handling account
maintenance, account changes, monthly account fee analysis, limit changes, and
adding and moving accounts.

1 FE 6, Silvergate's Private Client Manager II, told FE 3 that relationship managers
2 were told to fill out the beneficial ownership forms for the customers.

3 66. FE 6 confirmed that he and other Silvergate employees filled out
4 beneficial ownership forms (*i.e.*, not the customers), and they were told to do so by
5 Silvergate management.⁴⁸ FE 6 explained that at Silvergate, whether the form was
6 new or needed to be recertified, it fell to the private client managers to fill out the
7 form, instead of the customer itself. This was the policy across the board at
8 Silvergate, and it existed throughout FE 6's entire time at Silvergate. He explained
9 that bank employees should not have been filling out the beneficial ownership forms.

10 67. Multiple former Silvergate employees said that Silvergate did not
11 perform "site visits" of the Bank's customers and SEN Network participants. FE 2
12 said that Silvergate did not conduct site visits and added that site visits are important
13 because you need to understand that a customer is an actual business and that you
14 are not just banking a shell company. Likewise, FE 6 confirmed that he did not
15 know of any actual site visits taking place by Silvergate. FE 3 explained that, when
16 she joined Silvergate, she asked about "site visits" because she was concerned about
17 working for a crypto bank; she spoke to Silvergate's Relationship Managers with
18 whom she worked, and they told FE 3 that Silvergate "never, ever did a site visit."
19 FE 5 confirmed that Silvergate did not conduct site visits, and there was nothing
20 written in procedure for site visits anywhere, before August 15, 2022.

21 68. FE 3 explained that Silvergate also did not ask for supporting
22 documentation for customers' wire limits. FE 3 explained that new clients could
23 dictate to Silvergate whatever wire limits they wanted, and Silvergate gave it to them
24 and never checked if the customer could cover it. FE 3 described how she reached
25 out to Silvergate's front office, and was told—including by Christie Hicks,

26 ⁴⁸ FE 6 was a private client manager at Silvergate from November 2020 until January
27 2023. In that role, he was the liaison for larger clients and managed day-to-day
28 account maintenance activities such as transfers, inquiries, and adding and removing
signers.

1 Silvergate’s Client Support Manager—that Silvergate just asks customers what they
2 want for a wire limit and gives it to them. In fact, FE 3 recounted how she had a
3 phone conversation with Dina Matias concerning a \$250 million wire limit for a
4 customer that only had \$70,000 in their account. FE 3 explained that she questioned
5 why Silvergate would give a \$250 million wire limit to someone with \$70,000 in
6 their account, but was screamed at by Ms. Matias when she asked.

7 69. FE 3 was told by several of her colleagues—including Christie Hicks,
8 Silvergate’s Client Support Manager—that Silvergate did not get the proper
9 documentation to validate wire limits. “We just give them whatever they want,”
10 they told FE 3.

11 70. FE 3’s account further corroborates that Silvergate did not conduct the
12 represented “enhanced ongoing monitoring” or “enhanced due diligence” of its
13 cryptocurrency exchange customers. When asked whether Silvergate conducted
14 enhanced ongoing monitoring, FE 3 replied, “Absolutely not.” Likewise, when
15 asked whether Silvergate conducted enhanced due diligence, FE 3 replied,
16 “Absolutely not.” And as far as FE 3 was aware, “customer risk scoring, with risk
17 factors specific to the digital-currency industry” did not exist at Silvergate; and she
18 explained that in her position at the Bank, she would expect to be aware of such a
19 process, if it existed.

20 71. FE 3 was also in meetings with Lane and his direct reports. The
21 meetings happened about once a month and covered issues concerning revenue, how
22 well the Bank was doing, and new hires. Notwithstanding Lane’s public statements
23 to investors that “compliance is at the forefront of everything we do,”⁴⁹ there was
24 never anything stated about compliance during these regular internal meetings with
25 Lane’s direct reports.

26
27
28 ⁴⁹ *Bitcoin for Corporations Strategic Vendor: Silvergate, MicroStrategy* (Feb. 8, 2022).

1 72. FE 3 further confirmed that Silvergate did not perform the specific
2 types of “ongoing monitoring” that Silvergate and Lane represented to investors
3 during the Class Period. When asked whether Silvergate conducted customer
4 counterparty reviews, FE 3 replied, “Absolutely not.” When asked whether
5 Silvergate conducted annual company reviews, FE 3 replied, “Absolutely not.”
6 When asked if Silvergate did not perform daily BSA or AML monitoring, FE 3
7 replied, “That is consistent with my understanding.” When asked if Silvergate did
8 not perform daily news monitoring, FE 3 also replied, “That is consistent with my
9 understanding.” When asked if Silvergate conducted negative news reviews, FE 3
10 replied, “Not at all.” When asked whether Silvergate conducted quarterly account
11 activity reviews, FE 3 replied, “Absolutely not.” In addition to her own experience,
12 FE 3 knew because she spoke with managers who would be responsible for that if it
13 occurred, including Ellen Hansen, Mitchel Sanderson, and Kacy Pendergrass.

14 73. FE 3 explained that she did not see anything at Silvergate like
15 compliance policies or controls designed to address the digital currency industry.
16 She added that she never saw Silvergate implement policies and procedures to
17 comply with AML and KYC requirements. In fact, during 2022, FE 3 tried to find
18 policies concerning KYC on Silvergate’s intranet, and she could find no procedures
19 regarding beneficial ownership or KYC. FE 3 confirmed that all policies concerning
20 bank processes were on Silvergate’s intranet, but she could never find policies
21 concerning compliance processes.

22 74. When asked about Silvergate’s public statements that it had a “system
23 of red flags specific to various customer types and activities,” FE 3 explained that
24 Silvergate had purchased an AML software to do this, but it was never implemented.
25 FE 3 explained that the AML software was supposed to flag customer activity with
26 sanctioned countries, excessive cash transactions, and other kinds of alerts; and the
27 Company would be able to set the parameters on what the software should flag.
28 None of that was being done at Silvergate, explained FE 3. FE 3 added that, during

1 meetings, she heard it noted that the implementation of the AML software would be
2 a project at some point, but it was never put on the active project list.

3 75. FE 3 asked her colleagues in 2022 whether Silvergate was doing
4 anomaly detection—*i.e.*, looking for suspicious activity. She was told that they were
5 not. FE 3 then tried to create a report, based on a manual review, that would detect
6 anomalous activity. FE 3 recounted, however, there was no one to tell even if her
7 team found suspicious activity, because, “Nobody cared.” FE 3 confirmed that—
8 outside of her failed manual attempt—Silvergate did not perform any anomaly
9 detection.

10 76. FE 3 had direct knowledge about Silvergate’s failure to monitor FTX
11 and its related entities. FE 3 handled wire limit changes for FTX, Alameda, and
12 North Dimension. FE 3 saw no ongoing monitoring of FTX, Alameda, or North
13 Dimension. In her role, she would at least be aware of such monitoring if it existed,
14 explained FE 3. FE 3 added that this monitoring should have included currency
15 transaction reports, wire volumes, wire destinations, ACH exceeding limits, invalid
16 or unauthorized return rates, and activity between accounts.

17 77. Additionally, FE 4 described how, when Silvergate received reports
18 from customers and other banks of unauthorized transactions, Silvergate would not
19 investigate.⁵⁰ FE 4 explained that even when the originating bank would tell
20 Silvergate that the client had said a transaction was unauthorized, Silvergate did not
21 investigate. FE 4 said receiving these unauthorized transaction requests was a red
22 flag, but there was never any investigation by Silvergate to determine what happened
23 with unauthorized transactions.

24 78. [REDACTED]
25 [REDACTED]

26 ⁵⁰ FE 4 worked at Silvergate from February 2011 to July 2021 as “VP of Deposit
27 Operations.” She reported to Dina Matias, Silvergate’s “Senior Vice President,
28 Operations Administrator,” who reported to Elaine Hetrick, Silvergate’s Chief
Administrative Officer.

1 [REDACTED]
 2 [REDACTED]
 3 [REDACTED]
 4 [REDACTED]

5 79. [REDACTED]
 6 [REDACTED]
 7 [REDACTED]
 8 [REDACTED]
 9 [REDACTED]
 10 [REDACTED]
 11 [REDACTED]
 12 [REDACTED]
 13 [REDACTED]
 14 [REDACTED]
 15 [REDACTED]
 16 [REDACTED]
 17 [REDACTED]

18 80. [REDACTED]
 19 [REDACTED]
 20 [REDACTED]
 21 [REDACTED]

22
 23 ⁵¹ FE 5 worked at Silvergate from May 2022 until May 2023 as a “FRCM Initial Due
 24 Diligence Manager.” During his over decade-long banking career, he has held roles
 25 as an enhanced due diligence manager, ongoing due diligence manager, and AML
 risk compliance officer at four other major banks. [REDACTED]

26 [REDACTED] While employed at Silvergate, FE 5 had access to Silvergate’s records from
 before his employment.

27 ⁵² Supervisory Considerations for the Communication of Supervisory Findings,
<https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf>.

28 ⁵³ *Id.*

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]

6 81. [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]

11 82. [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18 83. FE 5 agreed that, prior to August 15, 2022, Silvergate did not know its
19 customers. FE 5 also agreed that, prior to August 15, 2022, Silvergate did not review
20 potential customers at the onboarding stage to determine whether they had an
21 appropriate culture of compliance. He knows this because, in his role at the
22 Company, he read narratives and cases and was finding “all the garbage that was
23 slopped through.” When he looked at Silvergate’s paperwork from before August
24 2022, FE 5 could not tell who the customer was, what they did, what the sources of
25 wealth were, or where the jurisdictions were, and the flow of funds did not make
26 sense. FE 5 added that, before May 2022, the Bank never said “no” to a client, which
27 he knows from his looking at the Company’s records. FE 5 further explained that
28 there was no record of any prospective client ever not being approved by Silvergate.

1 84. FE 5 also agreed that, prior to August 15, 2022, when employees raised
2 concerns about or identified suspicious or anomalous activity, Silvergate did not do
3 anything about it. FE 5 further agreed that, before August 15, 2022, Silvergate
4 lacked a focus on compliance.

5 85. FE 5 explained that, specifically with regard to Binance, there were a
6 lot of red flags. Among them, Binance had a big issue with the “wire rule.” The
7 “wire rule” provides that you are supposed to include certain information in a wire
8 when you complete it, including the originator and where the funds are going. FE 5
9 explained that there were a lot of wires with Binance and Silvergate’s other crypto-
10 exchange customers where the information was just blank. According to FE 5,
11 Silvergate was supposed to reject those or strongly discipline customers, including
12 suspending their accounts, and insist customers include the information. But, FE 5
13 explained, nobody at Silvergate took a hard enough line with customers to say
14 Silvergate was going to suspend accounts unless customers included all the
15 information on the wires. FE 5 noted that this continued to be a problem even after
16 August 15, 2022.

17 86. FE 5 agreed that, prior to August 15, 2022, Silvergate did not do site
18 visits. FE 5 noted that there was also nothing written in Silvergate’s procedure for
19 site visits anywhere. FE 5 said site visits are important to make sure a company is
20 real and not a shell company or a front. FE 5 elaborated with an example: if a
21 company says it is a gas station, you need to make sure it is actually a gas station,
22 that there are things on the shelves and people work there. You need to make sure
23 it is not just a dusty shop where nothing has been moved that is a front for drug
24 money. FE 5 agreed that it was shocking that Silvergate did not conduct site visits,
25 adding that if you would not travel to where the prospective customer is located,
26 then you should not do business with a customer located there.

27 87. [REDACTED]
28 [REDACTED]

1 [REDACTED] Following the implementation of Silvergate’s new procedures on
 2 August 15, 2022, FE 5’s team wanted to go through any customers that had not gone
 3 through Silvergate’s new onboarding process when those customers were previously
 4 onboarded and have an automatic look back to apply the new procedures for those
 5 customers as if those customers were being onboarded anew. FE 5 explained that
 6 Silvergate did not do that, even though FE 5’s boss agreed with the recommendation
 7 that Silvergate should. FE 5 explained it would be industry standard for Silvergate
 8 to look back and apply the new procedures as if they were new customers; yet,
 9 Silvergate did not do this. [REDACTED]

10 [REDACTED]
 11 **E. Silvergate Failed To Vet, Conduct Due Diligence on, or Monitor**
 12 **FTX and Its Related Entities.**

13 88. Additional facts corroborate the accounts provided by Silvergate’s
 14 former employees. These facts show—among other things—that Silvergate failed
 15 to vet, conduct due diligence on, and monitor its most critical customer—the crypto-
 16 exchange FTX, which was an outright sham that Silvergate and its “seal of approval”
 17 enabled to defraud customers of billions of dollars.

18 89. FTX and its related entities alone comprised approximately \$2.1 billion
 19 in deposits—*i.e.*, over 17% of Silvergate’s overall, Bank-wide deposits.⁵⁴
 20 Recognizing FTX’s significance to the Bank and its bottom line, Defendants Lane
 21 and Silvergate prominently highlighted Silvergate’s relationship with FTX. On its
 22 website, Silvergate displayed FTX’s logo and included the below “testimonial” from

23
 24 ⁵⁴ On November 16, 2022, Silvergate issued a press release disclosing that as of
 25 November 15, 2022, its “[a]verage quarter-to-date digital asset customer deposits”
 26 were “approximately \$9.8 billion, excluding all deposits from FTX and its related
 27 entities.” This was a \$2.1 billion reduction from the \$11.9 billion that the Company
 28 had reported five days earlier for “deposits from all digital assets customers,” which
 included FTX deposits. *Compare* Press Release, “Silvergate Provides Statements
 on FTX Exposure (Nov. 11, 2022) *with*, Press Release, “Silvergate Provides Mid-
 Quarter Update and Announces Participation in Oppenheimer’s 5th Blockchain &
 Digital Assets Summit” (Nov. 16, 2022).

FTX’s Founder and CEO, Sam Bankman-Fried about how “hard” it was “to overstate” Silvergate’s importance to FTX:



Figure 2. Screenshot of Silvergate’s website.⁵⁵

90. As the industry publication *CoinGeek* rightly observed, FTX’s and Silvergate’s “cozy relationship . . . boosted Silvergate’s status and share price.”⁵⁶

91. Silvergate repeatedly assured investors that it had performed its “secret sauce” vetting and due diligence on FTX and its related entities, as well as its other cryptocurrency exchange customers, prior to allowing them to bank at Silvergate and participate on the SEN Network. For example, Defendant Lane publicly singled out FTX, by name, in a June 2022 public interview as one of Silvergate’s four “major” cryptocurrency exchange customers—all of whom, Lane represented, were “serious about regulation.”⁵⁷ During that same interview, Lane further assured investors “that’s an important distinction because [the Silvergate-approved exchanges] have to satisfy not only their own legal and regulatory requirements but then we have to verify that their compliance programs are sound.”⁵⁸

⁵⁵<https://web.archive.org/web/20220511235432/https://www.silvergate.com/solutions/digital-currency/sen>;

<https://web.archive.org/web/20221022144431/https://www.silvergate.com/>.

⁵⁶ *CoinGeek*, “Feds probe Silvergate bank’s ties to FTX, SBF vs. CZ cage-match documentary” (Feb. 6, 2023).

⁵⁷ *Silvergate CEO Alan Lane on the Business of Stablecoin*, Bloomberg Podcasts (June 2, 2022).

⁵⁸ *Id.*

1 92. In reality, Silvergate did not conduct diligence on FTX or its related
 2 entities and did not “verify that their compliance programs are sound.” Instead,
 3 Silvergate allowed and enabled Sam Bankman-Fried to use FTX and his other
 4 entities to dupe innocent customers out of billions of dollars.

5 93. Sam Bankman-Fried’s and FTX’s fraud of their customers was simple.
 6 When customers sought to purchase cryptocurrency from FTX’s account, they were
 7 directed to wire their U.S. dollars or other fiat currency into the Silvergate-approved
 8 accounts of two entities that were not FTX—specifically, they were directed to wire
 9 their funds to “North Dimension” and “Alameda.” None the wiser, innocent FTX
 10 customers wired more than \$8 billion to the Silvergate-approved accounts of North
 11 Dimension and Alameda.⁵⁹ FTX’s CEO, Sam Bankman-Fried, then absconded with
 12 those dollars from Silvergate, without crediting the customers’ cryptocurrency
 13 accounts at FTX. Once FTX collapsed, FTX customers were left empty-handed and
 14 unable to find or free their money.

15 94. All three entities—North Dimension, Alameda, and FTX—were
 16 shams, which would have been obvious to Silvergate had it actually conducted
 17 “vetting,” “due diligence,” or “ongoing monitoring” of its approved customers.

18 95. ***North Dimension*** was a fake online electronics retailer. On its website,
 19 North Dimension claimed to sell mobile phones, laptops, watches and other personal
 20 electronics. But there was no actual way to purchase anything from North
 21 Dimension. Clicking the links on its website to buy products “sold” at North
 22 Dimension generated a typo-filled, incoherent pop-up response to “Get A Quote,”
 23 which stated: “Fee [*sic*] free to send a message. We collaborate with ambitious
 24 brands and people; we’d love to build something great together.”⁶⁰

25
 26
 27 ⁵⁹ *Vox*, “Sam Bankman-Fried tries to explain himself” (Nov. 16, 2022); *Financial Times*, “FTX balance sheet, revealed” (Nov. 12, 2022).

28 ⁶⁰ *NBC News*, “This little-known firm with a weird website was central to the misappropriation of FTX customers’ money, regulators say” (Dec. 27, 2022).

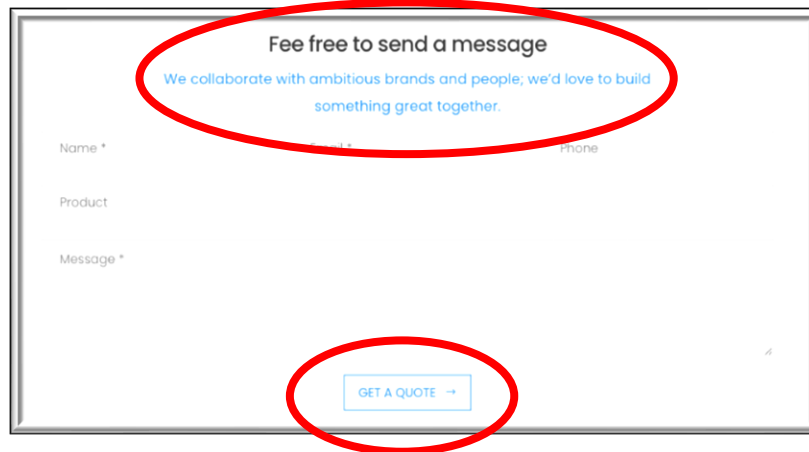


Figure 3. Screenshot of North Dimension’s website.⁶¹

96. If that were not enough of a “red flag” for Silvergate, North Dimension’s address, which was listed in plain sight on its website, was the same address as FTX’s address: 2000 Center St., Suite 400, Berkeley, California. *See* Figure 4, *infra*. Worse yet, as *NBC* would later note following its investigation, North Dimension’s website was “rife with misspellings and bizarre product prices; for example, item listings sometimes showed ‘sale’ prices that were hundreds of dollars above a regular price.”⁶² The “About Us” section of North Dimension’s website displayed text that “may have been written by a not-too-smart artificial intelligence,” with North Dimension describing itself as a “World top E-commerce site for consumer electronics in order to provide the lowest costs for authentic items from the world’s most reputable brands.”⁶³

⁶¹ Web archive of North Dimension’s website (as of Nov. 11, 2022).

⁶² *NBC News*, “This little-known firm with a weird website was central to the misappropriation of FTX customers’ money, regulators say” (Dec. 27, 2022).

⁶³ *Cointelegraph*, “Here’s what SBF’s fake electronics outlet ‘North Dimension’ looks like” (Dec. 30, 2022).

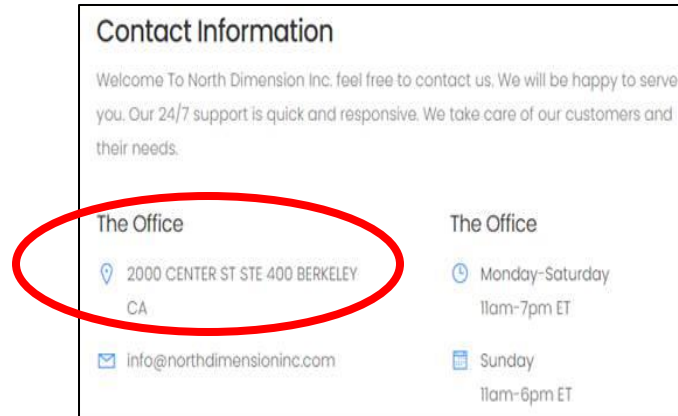


Figure 4. Screenshots of North Dimension’s website.⁶⁴

97. In addition to not actually selling electronics products and being rife with misspellings, North Dimension’s website included “sale” prices on item listings that were hundreds of dollars above the “regular” prices. For example, an 11-inch iPad—listed as a “Cell Phone”—inexplicably displayed a “sale” price of \$899 and an “original” price of \$410.

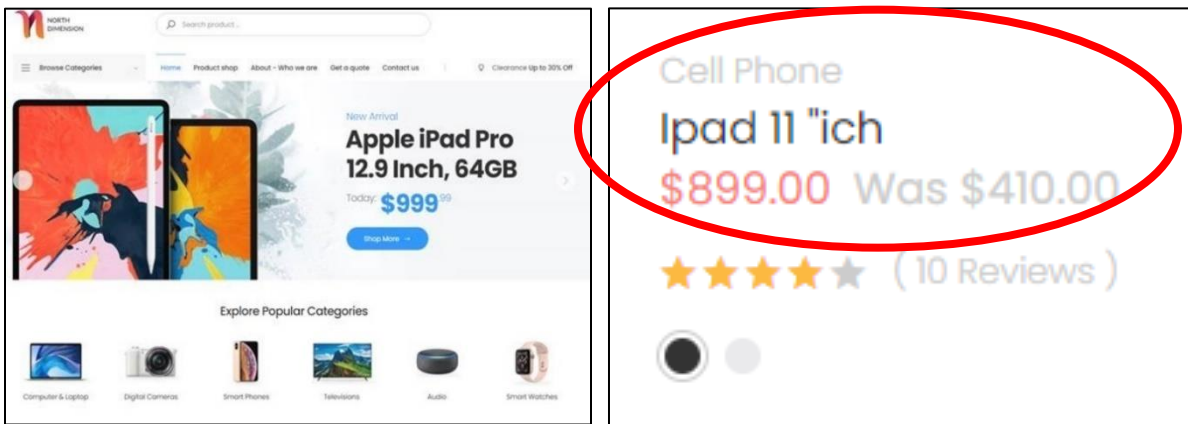


Figure 5. Screenshot of North Dimension’s website.⁶⁵

98. Far from an “online electronics retailer,” North Dimension was an utter sham created and controlled by FTX’s CEO, Sam Bankman-Fried, to fraudulently divert billions of dollars of customer funds intended for FTX. North Dimension had no employees, other than Bankman-Fried, and no physical location. It had no actual

⁶⁴ Web archive of North Dimension’s website (Nov. 11, 2022).

⁶⁵ *Id.*

1 business operations and was nothing more than a Silvergate-approved sham allowed
2 to fleece innocent customers out of billions of their hard-earned dollars.

3 99. *Alameda Research* was North Dimension’s parent company, and also
4 a Silvergate-approved customer. Silvergate approved Alameda to open a Silvergate
5 account in 2018, when FE 2 and FE 4 were at the Bank. FTX and Alameda are
6 separate legal entities and, accordingly, supposed to—and legally required by law
7 to—operate independently. Nevertheless, FTX and Alameda were operated as if
8 they were one and the same. Bankman-Fried controlled both entities and, as with
9 North Dimension, FTX and Alameda shared the same address—2000 Center Street,
10 Suite 400, Berkeley, California. Also, as with North Dimension, FTX’s
11 unsuspecting customers were directed to wire (and did wire) billions of dollars of
12 funds to Alameda’s Silvergate-approved accounts when, in reality, they wanted to
13 send their money to FTX.

14 100. Sam Bankman-Fried has now been criminally indicted, three of his
15 associates have pled guilty, and FTX has gone bankrupt. The fact that FTX was a
16 complete ruse would have been obvious to Silvergate, had it actually conducted the
17 represented diligence. Bankman-Fried ran the multibillion-dollar cryptocurrency
18 exchange as a “personal fiefdom.”⁶⁶ FTX had no CFO, a wildly inexperienced C-
19 suite of Bankman-Fried’s cronies, and a “Chief Regulatory Officer” who had been
20 caught on tape aiding and abetting fraud in his previous position as General Counsel
21 of Ultimate Bet, an online gambling site.⁶⁷

22 101. As FTX’s new CEO, John Ray, has admitted in his remarks to
23 Congress: at FTX, there was an “absolute concentration of control in the hands of a
24

25 ⁶⁶ *Law360*, “FTX Pledges Better Books, Celsius Faulted for Asset Mingling” (Nov.
26 23, 2022).

27 ⁶⁷ *Fiducient Advisors*, “FTX – Lessons Learned from a Lack of Due Diligence” (Dec.
28 19, 2022); *Business Insider*, “Chamath Palihapitiya said Sam Bankman-Fried once
pitched him, but after the investor suggested changes like forming a board, FTX told
him to get lost” (Nov. 15, 2022).

1 very small group of grossly inexperienced and unsophisticated individuals who
 2 failed to implement virtually any of the systems or controls that are necessary for a
 3 company that is entrusted with other people's money or assets."⁶⁸ FTX's new CEO
 4 has further admitted that FTX "did not keep appropriate books and records, or
 5 security controls, with respect to its digital assets."⁶⁹ FTX's new CEO also added,
 6 "Never in my career have I seen such a complete failure of corporate controls and
 7 such a complete absence of trustworthy financial information as occurred here."⁷⁰
 8 These are strong admissions coming from Mr. Ray, who has "over 40 years of legal
 9 and restructuring experience" and has overseen the clean-up of "several of the largest
 10 corporate failures in history," including Enron.⁷¹

11 102. FTX's new CEO, Mr. Ray, also admitted in his testimony to Congress
 12 that, at FTX, "there was an absence of any management," adding, "You need
 13 records, you need controls, and you need to segregate people's money. It's simple."
 14 When asked if FTX had significant risk management systems, Ray responded that
 15 "there were virtually no internal controls and no separateness whatsoever" between
 16 FTX and Alameda, the parent company of North Dimension. Ray further testified
 17 that Bankman-Fried owned 90% of Alameda, and there was "no distinction
 18 whatsoever" in governance between FTX and Alameda.⁷²

19 103. As Mr. Ray summarized, FTX's fraud "[was]n't sophisticated
 20 whatsoever. This is just plain old embezzlement. . . . This is just taking money from
 21 customers and using it for your own purpose."⁷³ Rather than being safely kept at

22 ⁶⁸ Written Testimony of Mr. John J. Ray III, CEO, FTX Debtors, House Financial
 23 Services Committee (Dec. 13, 2022).

24 ⁶⁹ Declaration of John R. Ray III in Support of Chapter 11 Petitions and First Day
 25 Pleadings, *In re FTX Trading Ltd.*, No. 22-11068-JTD (Bankr. D. Del. Nov. 17,
 26 2022), ECF No. 24.

27 ⁷⁰ *Id.*

28 ⁷¹ *Id.*

⁷² Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
 Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
 FTX).

⁷³ *Id.*

1 Silvergate, FTX customer funds were diverted to two other Silvergate-approved
 2 entities (North Dimension and Alameda), and then “used to purchase homes and
 3 other personal items for [Silvergate] employees and advisors” in the Bahamas.
 4 When FTX employees wanted to make such purchases, they needed only to
 5 “submit[] payment requests through an on-line ‘chat’ platform where a disparate
 6 group of supervisors approved disbursements by responding with personalized
 7 emojis.”⁷⁴ As observed by Federico Lascano of Fiducient Advisors, the lack of “cash
 8 controls” at FTX “enabled customer funds to be freely transferred to Alameda,” and
 9 “would have been an enormous red flag during the operational due diligence
 10 process.”⁷⁵

11 104. Had Silvergate monitored FTX, Alameda, or North Dimension, it
 12 would have seen the \$8 billion from FTX customers (intended to be deposited into
 13 FTX accounts to be traded on the FTX Exchange) transferred, instead, into North
 14 Dimension’s account. As the industry press later recounted, “Silvergate’s
 15 lackadaisical approach to oversight of who/what was transacting on the 24/7 SEN
 16 platform was on full display in its approval of North Dimension—a fake electronics
 17 retailer set up by FTX to facilitate payments to/from its U.S. customers—based
 18 solely on assurances of propriety from [Sam Bankman-Fried].”⁷⁶

74 Declaration of John R. Ray III in Support of Chapter 11 Petitions and First Day Pleadings, *In re FTX Trading Ltd.*, No. 22-11068-JTD (Bankr. D. Del. Nov. 17, 2022), ECF No. 24.

75 *Fiducient Advisors*, “FTX – Lessons Learned from a Lack of Due Diligence” (Dec. 19, 2022). Mr. Lascano researches and performs operational due diligence on alternative investment managers. Prior to joining Fudicent Advisors in 2022, Mr. Lascano worked in regulatory finance at NatWest Markets, the investment banking arm of NatWest Group based in the United Kingdom.

76 *CoinGeek*, “‘Crypto’ firms unbank themselves from struggling Silvergate” (Mar. 3, 2023).

1 105. FTX’s new CEO further explained that, at FTX, “literally there’s no
 2 record-keeping whatsoever.”⁷⁷ Mr. Ray added, in amazement: “They use[d]
 3 Quickbooks. A multibillion-dollar company using Quickbooks.” He elaborated that
 4 FTX “used QuickBooks as their accounting system and relied on a hodgepodge of
 5 Google documents, Slack communications, shared drives, and Excel spreadsheets
 6 and other non-enterprise solutions to manage their assets and liabilities.”⁷⁸ Ray
 7 further noted that, at FTX, “[a]pproximately 80,000 transactions were simply left as
 8 unprocessed accounting entries in catch-all QuickBooks accounts titled ‘Ask My
 9 Accountant.’”⁷⁹ Mr. Ray concluded that FTX is “one of the worst [entities] from a
 10 documentation standpoint” and “it’s really unprecedented in terms of the lack of
 11 documentation.”⁸⁰

12 106. Bankman-Fried has himself now publicly admitted that he made zero
 13 effort to manage risk at FTX: “I wasn’t even trying, like, I wasn’t spending any time
 14 or effort trying to manage risk on FTX.”⁸¹ He added, “If I had been spending an
 15 hour a day thinking about risk management on FTX, I don’t think [the collapse of
 16 FTX] would have happened.”⁸² Bankman-Fried has also admitted that there was a
 17 “massive failure of oversight of risk management” at FTX.⁸³ And FTX’s new CEO,
 18

19 ⁷⁷ Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
 20 Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
 21 FTX).

22 ⁷⁸ Ray explained “QuickBooks was not designed to address the needs of a large and
 23 complex business like that of the FTX Group, which handled billions of dollars of
 24 securities, fiat currency, and cryptocurrency transactions across multiple continents
 25 and platforms,” First Interim Report of John J. Ray III to the Independent Directors
 26 on Control Failures at the FTX Exchanges, *In re FTX Trading Ltd.*, No. 22-11068-
 27 JTD (Bankr. D. Del. Nov 11, 2022), ECF No. 1241-1 at 13.

28 ⁷⁹ *Id.*

⁸⁰ Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
 Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
 FTX).

⁸¹ *Wall Street Journal*, “Sam Bankman-Fried ‘Wasn’t Even Trying’ to Manage Risk
 at FTX, He Says” (Dec. 1, 2022).

⁸² *Id.*

⁸³ *Id.*

1 Mr. Ray, has confirmed these admissions, testifying that FTX’s systems for
 2 accounting, audit, cash management, cybersecurity, risk management, and data
 3 protection “did not exist to an appropriate degree” or “did not exist” at all.⁸⁴

4 107. These stark admissions from FTX’s most senior insiders about FTX’s
 5 complete absence of any internal compliance programs are directly contrary to
 6 Silvergate’s and Defendant Lane’s public assurances that “Silvergate conducted
 7 significant due diligence on FTX and its related entities including Alameda
 8 Research, both during the onboarding process and through ongoing monitoring” and
 9 that Silvergate “verif[ied]” that FTX’s “compliance programs are sound.”

10 108. Silvergate’s “vetting,” “due diligence,” and “ongoing monitoring” was
 11 supposed to protect against this very type of misconduct. Unfortunately for
 12 investors, Defendants Lane and Silvergate utterly failed to perform any of them. If
 13 they had, Silvergate would have—as it repeatedly reassured investors in such
 14 circumstances—“refused to bank” FTX and its related entities. As a bipartisan
 15 group of senators of the U.S. Senate Banking Committee later explained in a
 16 December 5, 2022 letter to Defendant Lane: “Your bank’s involvement in the
 17 transfer of FTX customer funds to Alameda Research reveals what appears to be an
 18 egregious failure of your bank’s responsibility to monitor for and report suspicious
 19 financial activity carried out by its clients.”⁸⁵

20 **F. Silvergate Failed To Vet, Conduct Due Diligence on, and Monitor**
 21 **Its Other Major Exchange Customers.**

22 109. Additional facts corroborate that, contrary to their statements to
 23 investors, Defendants Silvergate and Lane failed to conduct “regulatory compliance
 24 diligence” on prospective customers and failed to “vet[] all of [the Bank’s]
 25 customers from KYC, anti-money laundering, Bank Secrecy Act.” As *New York*

26 ⁸⁴ Declaration of John R. Ray III in Support of Chapter 11 Petitions and First Day
 27 Pleadings, *In re FTX Trading Ltd.*, No. 22-11068-JTD (Bankr. D. Del. Nov. 17,
 28 2022), ECF No. 24.

⁸⁵ Letter from Warren, Kennedy, and Marshall to Lane (Dec. 5, 2022).

1 *Magazine* would later note, “Silvergate has been the go-to bank for more than a
 2 dozen crypto companies that ended up under investigation, shut down, fined, or in
 3 bankruptcy.” Marc Cohodes, a famed corporate watchdog and market participant
 4 rightfully added, Silvergate was not a banking platform; it was “a publicly traded
 5 crime scene.”

6 110. ***Binance*** is a cryptocurrency exchange, with approximately one-third
 7 of its users based in the United States. Notwithstanding its substantial U.S. customer
 8 base, Binance did not register with the U.S. Department of the Treasury (“Treasury
 9 Department”), as is required by the Bank Secrecy Act for “financial companies with
 10 ‘substantial’ business in the United States.”⁸⁶ Instead, Binance and its owner,
 11 Changpeng Zhaou, created Binance.US—a U.S.-based exchange—and registered it
 12 with the Treasury Department as “fully independent” from Binance.

13 111. Silvergate approved Binance.US to bank at Silvergate and join its SEN
 14 Network in November 2020.⁸⁷ Silvergate did not perform due diligence on
 15 Binance.US. Those who have conducted due diligence on Binance.US have readily
 16 uncovered facts demonstrating that it is not “fully independent” from Binance; in
 17 fact, they are one and the same. As U.S. senators clearly explained in a bipartisan
 18 letter, “While Mr. Zhao has claimed that Binance.US, is a ‘fully independent entity,’
 19 in reality, he controls the company as a ‘*de facto* subsidiary’ of Binance,” with
 20 “Binance’s Cayman Islands holding company ke[eping] custody of Binance.US
 21 customers’ digital wallets.”⁸⁸ The *Wall Street Journal* likewise found that “Binance
 22 and Binance.US have been much more intertwined than the companies have
 23 disclosed, mixing staff and finances and sharing an affiliated entity that bought and
 24

25 ⁸⁶ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 26 (Mar. 1, 2023).

27 ⁸⁷ *Reuters*, “Exclusive: Crypto giant Binance moved \$400 million from U.S. partner
 28 to firm managed by CEO Zhao” (Feb. 16, 2023).

⁸⁸ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 (Mar. 1, 2023).

1 sold cryptocurrencies.”⁸⁹ *Reuters* also concluded that “Binance created Binance.US
2 as a *de facto* subsidiary in 2019 in order to draw the scrutiny of U.S. regulators away
3 from the global exchange.”

4 112. If it had actually conducted due diligence, Silvergate would also have
5 learned that Binance and its executives controlled Binance.US’s finances at
6 Silvergate. When it conducted its review, *Reuters* readily found that Binance’s
7 executives, including its finance executive Susan Li, had key access to Binance.US’s
8 Silvergate account. The bipartisan group of U.S. senators similarly concluded that,
9 “in truth, ‘the global Binance exchange, which is not licensed to operate in the
10 United States, controlled the finances of Binance.US, despite maintaining that the
11 American entity is entirely independent and operates as its ‘US Partner.’”⁹⁰

12 113. Silvergate additionally failed to monitor Binance.US’s activity,
13 allowing transfers of hundreds of millions of dollars to Zhao’s other entities without
14 the permission—or even the knowledge—of Binance.US’s employees. As *Reuters*
15 revealed, beginning in late 2020, \$400 million of funds at Silvergate were transferred
16 from Binance.US to a separate account controlled by Zhao “without [Binance.US’s]
17 knowledge.”⁹¹ Funds were moved from Binance.US’s account at Silvergate to
18 “Merit Peak,” another shell entity owned by Zhao and approved by Silvergate as a
19 customer. Merit Peak then transferred funds to “Key Vision Development Limited,”
20 yet another sham entity that “held an account at Silvergate at the time” and that also
21 “identified CEO Zhao as a director.”⁹²

22 114. Had Silvergate actually performed the represented due diligence on
23 these entities (as it told investors it had) or monitored their activity on its platform

24 ⁸⁹ *Wall Street Journal*, “Texts From Crypto Giant Binance Reveal Plan to Elude U.S.
25 Authorities” (Mar. 5, 2023).

26 ⁹⁰ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
(Mar. 1, 2023).

27 ⁹¹ *Reuters*, “Exclusive: Crypto giant Binance moved \$400 million from U.S. partner
28 to firm managed by CEO Zhao” (Feb. 16, 2023).

⁹² *Id.*

(as it told investors it did), it would have realized that they were nothing more than sham entities created to evade U.S. laws and funnel funds from Binance.US to Binance and Zhao. Indeed, “Mr. Zhao ‘decline[d] to disclose the location or entity behind his own exchange [at Binance]’ in what many regard as a blatant attempt to dodge the world’s financial regulators, serve ‘users without licenses,’ and violate anti-money laundering laws.”⁹³

115. Additionally, a simple “site visit” to the address provided for Key Vision Development Limited (Office 22 Alpha Centre, Providence, Mahe, Seychelles), or even a search using “Google Earth” for the address, would have made plain that it was the address for a massive warehouse—not the business office of an entity transacting in hundreds of millions of dollars in cryptocurrency.⁹⁴

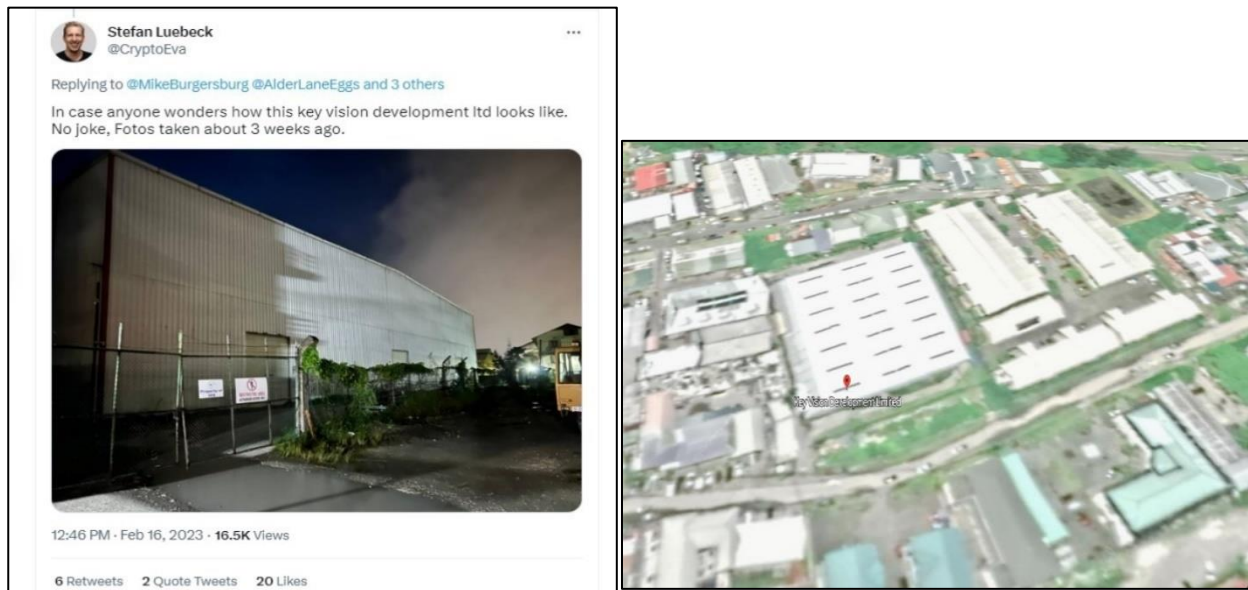


Figure 6. Images of Key Vision Limited Development’s purported address.⁹⁵

⁹³ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder (Mar. 1, 2023).

⁹⁴ Post by Stefan Luebeck, a cryptocurrency market expert, dated Feb. 16, 2023; Google Earth Image Search.

⁹⁵ Post by Stefan Luebeck, a cryptocurrency market analyst at BTC-ECHO, dated Feb. 16, 2023; Google Earth Image Search.

1 116. If Silvergate had actually performed the due diligence it represented to
 2 investors, it would also have discovered that these Binance entities lacked any
 3 compliance program. Binance is, as the U.S. senators explained in their March 2023
 4 bipartisan letter, “a hotbed of illegal financial activity that has facilitated over \$10
 5 billion in payments to criminals and sanctions evaders.” This conclusion is well-
 6 founded: “crypto researcher Chainalysis, hired by U.S. government agencies to track
 7 illegal flows, concluded in a 2020 report that Binance received criminal funds
 8 totaling \$770 million in 2019 alone, more than any other crypto exchange.”⁹⁶ And
 9 Binance’s own Chief Compliance Officer admitted that its KYC checks were
 10 “weak,” with Binance’s CEO (Mr. Zhao) wanting “no kyc.”⁹⁷

11 117. Actual vetting and monitoring by Silvergate would have further shown
 12 that “Binance.US was also in on the scheme: ‘Almost half the U.S. compliance team
 13 quit by mid-2022 after a new U.S. boss was appointed by Zhao, . . . because the new
 14 chief pushed them to register users so swiftly that they couldn’t conduct proper
 15 money laundering checks.’”⁹⁸ Binance.US executives directed compliance
 16 personnel to “apply more lenient checks” to “VIP customers” who had been referred
 17 to the platform to increase its liquidity.⁹⁹ The bipartisan group of U.S. senators
 18 rightfully concluded that Binance maintained a “laughably weak anti-money
 19 laundering compliance program,” with *Reuters* similarly finding that, “the main
 20 Binance exchange let users open accounts and trade crypto anonymously by merely
 21 providing an email address.”¹⁰⁰

24 ⁹⁶ *Reuters*, “How crypto giant Binance became a hub for hackers, fraudsters and drug
 25 traffickers” (June 6, 2022).

26 ⁹⁷ *Reuters*, “SPECIAL REPORT-Crypto giant Binance kept weak money-laundering
 checks even as it promised tougher compliance, documents show” (Jan. 21, 2022).

27 ⁹⁸ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 (Mar. 1, 2023).

28 ⁹⁹ *Id.*

¹⁰⁰ *Id.*

1 118. In sum, if Silvergate had conducted the “extensive regulatory
2 compliance diligence” and “vetting” that it told investors it had (but which it had
3 not), Silvergate would have found—as investigators and U.S. senators uniformly
4 have—that “Binance and its related entities have purposefully evaded regulators,
5 moved assets to criminals and sanctions evaders, and hidden basic financial
6 information from its customers and the public.”¹⁰¹

7 119. *Huobi Global* was a Seychelles-based cryptocurrency exchange,
8 founded in China. Silvergate approved Huobi to bank at Silvergate and participate
9 on its SEN Network, assuring investors it had conducted “enhanced due diligence”
10 on it. In reality, Silvergate had not. Had Silvergate conducted the represented
11 diligence, it would have discovered a slew of troubling facts, including that Huobi
12 lacked compliance controls. For example, in December 2020, investigators at the
13 forensics company CipherBlade conducted a review of Huobi’s controls. Their
14 review “demonstrated how simple it was to create false accounts” at Huobi and
15 transact on the exchange, which created conditions ripe for money laundering and
16 other illegal transfers.¹⁰² Customers transacting on the Huobi exchange could wire
17 funds using phony information, including obviously false names and photographs of
18 themselves, such as “Taylor Swift” and “Borat.” Other investigators similarly
19 concluded that Huobi “fail[ed] to perform stringent backgrounds checks” and
20 “know-your-customer (KYC) processes” on customers, making it a “gateway for
21 money laundering and other gray activities.”¹⁰³ Public company investigator
22 Aurelius Capital Value summed it up correctly when it questioned Silvergate
23
24
25

26 ¹⁰¹ *Id.*

27 ¹⁰² *Coin Edition*, “Investigator Questions Huobi Global’s Defective KYC Policies”
(Dec. 30, 2022).

28 ¹⁰³ *Verdict*, “Dirty bitcoin: Exchanges’ KYC laxity eases money laundering – report”
(Oct. 27, 2021).

1 associating with Huobi: it is impossible “to find a way to harmonize the formal due
2 diligence procedure that Silvergate uses with Huobi’s onboarding process.”¹⁰⁴

3 120. If Silvergate had actually conducted due diligence, it also would have
4 found that “Huobi Global had not taken any action against the links that were made
5 between Huobi and the darknet marketplace Hydra.”¹⁰⁵ In October 2021,
6 investigators of the National Bureau of Economic Research in Cambridge,
7 Massachusetts issued a report “show[ing] that the highest volume entities interacting
8 directly with Hydra Market users are non-KYC exchanges, including . . . Huobi.”¹⁰⁶
9 The U.S. Justice Department has described Hydra as “the world’s largest and
10 longest-running darknet market,” with Hydra having received in total around \$5.2
11 billion in cryptocurrency.¹⁰⁷

12 121. *Nexo Capital Inc.* was a cryptocurrency lending firm that Silvergate
13 also approved to bank and operate on its SEN Network. Silvergate did not perform
14 the represented due diligence on Nexo. If Silvergate had performed due diligence
15 on Nexo, it would have learned that Nexo failed to register with the SEC, as required
16 by law. Following its review of Nexo, the SEC “charged Nexo with failing to
17 register its retail crypto lending product before offering it to the public, bypassing
18 essential disclosure requirements designed to protect investors.”¹⁰⁸ Prosecutors that
19 have conducted due diligence on Nexo have also learned, as reported by *Reuters*,
20 that “Nexo has been operating through many companies, many of which were just
21
22

23 ¹⁰⁴ *Coin Edition*, “Investigator Questions Huobi Global’s Defective KYC Policies”
24 (Dec. 30, 2022).

25 ¹⁰⁵ *Id.*

26 ¹⁰⁶ National Bureau of Economic Research, *Blockchain Analysis of the Bitcoin Market* (October 2021).

27 ¹⁰⁷ Press Release, DOJ, “Justice Department Investigation Leads to Shutdown of Largest Online Darknet Marketplace” (Apr. 5, 2022).

28 ¹⁰⁸ Press Release, SEC, “Nexo Agrees to Pay \$45 Million in Penalties and Cease Unregistered Offering of Crypto Asset Lending Product” (Jan. 19, 2023).

‘post boxes.’”¹⁰⁹ Indeed, the SEC has forced Nexo to cease and desist and required it to pay \$45 million in fines to the SEC and state regulators.¹¹⁰

122. **Miles Guo** (a/k/a Ho Wan Kwok) owned two entities approved by Silvergate: Hamilton Opportunity Fund SPC (Silvergate Account Numbers: 5090037713, 5090037705, 5090037754, 5090042770, 5090042762, 5090042853, 5090037739, 5090042853) and Hamilton Investment Management Ltd (Silvergate Account Number: 5090030288). Silvergate did not perform the represented due diligence on Guo or his entities. Had Silvergate performed the represented due diligence on Guo or his entities, it would have found what the SEC and others readily discovered: “Guo was a serial fraudster” who “took advantage of the hype and allure surrounding crypto and other investments to victimize thousands and fund his and his family’s lavish lifestyle.”¹¹¹ Guo—who is currently under arrest in the United States—operated through “fraudulent and fictitious businesses” that “connected dozens of interrelated entities,” allowing Guo “to solicit, launder, and misappropriate victim funds.”¹¹² On September 18, 2022, the DOJ seized over \$389 million from Guo’s accounts at Silvergate, including Hamilton Opportunity Fund SPC and Hamilton Investment Management Ltd.¹¹³

123. **Virgil Sigma Fund LP and VQR Multistrategy Fund LP** were two cryptocurrency hedge funds run by convicted felon Stefan Qin. Both entities were also approved by Silvergate to participate on the SEN Network and authorized to set

¹⁰⁹ *Reuters*, “Bulgaria launches probe of crypto lender Nexo, raids sites” (Jan. 12, 2023).

¹¹⁰ Press Release, SEC, “Nexo Agrees to Pay \$45 Million in Penalties and Cease Unregistered Offering of Crypto Asset Lending Product” (Jan. 19, 2023).

¹¹¹ Press Release, SEC, “SEC Charges Exiled Chinese Businessman Miles Guo and His Financial Advisor William Je in \$850 Million Fraud Scheme” (Mar. 15, 2023).

¹¹² Sealed Indictment, *United States v. Ho Wan Kwok*, No. 23-cr-118 (S.D.N.Y. Mar. 6, 2023).

¹¹³ Press Release, SEC, “SEC Charges Exiled Chinese Businessman Miles Guo and His Financial Advisor William Je in \$850 Million Fraud Scheme” (Mar. 15, 2023); Press Release, USAO SDNY, “Ho Wan Kwok, A/K/A “Miles Guo,” Arrested For Orchestrating Over \$1 Billion Dollar Fraud Conspiracy” (Mar. 15, 2023).

up twelve accounts at Silvergate.¹¹⁴ Silvergate did not perform the represented due diligence on these Silvergate-approved entities. If Silvergate had conducted the due diligence and the monitoring it represented, it would have discovered that these entities operated a Ponzi scheme. When the New York Field Office of Homeland Security Investigations Unit reviewed these entities, they readily found that “Virgil Sigma and VQR, two multimillion-dollar cryptocurrency investment funds, were . . . slush funds for Qin to live his extravagant lifestyle. Qin orchestrated this reprehensible criminal scheme for many years, making misrepresentations and false promises that coaxed investors into pouring millions of dollars into fraudulent cryptocurrency firms, all the while stealing the hard-earned money of his investors.”¹¹⁵

124. **Bittrex, Inc.** was a cryptocurrency exchange that Silvergate approved for its SEN Network and specifically highlighted, by name, on the Bank’s website as one of its major customers. Silvergate did not conduct the due diligence on Bittrex that it represented to investors. Had Silvergate actually conducted due diligence on Bittrex, it would have discovered, as the Treasury Department has found, that Bittrex “violated multiple sanctions programs and failed to adequately guard against money laundering.”¹¹⁶ Among other things, Bittrex “failed to have a proper anti-money laundering program” and “unnecessarily exposed the U.S. financial system to threat actors.”¹¹⁷ Bittrex has now been required to pay \$53 million for violating multiple

¹¹⁴ *Business Insider*, “Silvergate had close ties to Sam Bankman-Fried’s FTX and Alameda. The crypto bank was also reportedly a favorite of other troubled clients including an Australian Ponzi criminal” (Jan. 24, 2023).

¹¹⁵ Press Release, USAO SDNY, “Founder Of \$90 Million Cryptocurrency Hedge Fund Charged With Securities Fraud And Pleads Guilty In Federal Court” (Feb. 4, 2021).

¹¹⁶ *Decrypt*, “Treasury Fines Crypto Exchange Bittrex \$53 Million for Sanctions Violations” (Oct. 11, 2022).

¹¹⁷ *Id.*

1 U.S. sanctions programs, which was “the biggest fine on a crypto business by the
2 Treasury Department.”¹¹⁸

3 125. *Paxos and OSL Digital* were cryptocurrency exchanges approved by
4 Silvergate. The Bank did not conduct the represented due diligence on either of
5 these cryptocurrency exchanges or monitor their activity. As a result, these
6 exchanges were able to launder \$425 million between September 2021 and June
7 2022 from four, Silvergate-approved accounts: Paxos Global PTE LTD.; Paxos
8 Trust Company LLC; OSL Digital LTD; and OSL SG PTE LTD.¹¹⁹ If Silvergate
9 had conducted the represented “ongoing monitoring” of the activity on its SEN
10 Network, it would have detected the money laundering and not approved the
11 cryptocurrency exchanges that facilitated such illegal activity.

12 126. Florida’s Money Laundering Task Force (“MLTF”) conducted a review
13 of “the records produced by Silvergate Bank” for these cryptocurrency exchanges.¹²⁰
14 MLTF readily found that these exchanges facilitated “the laundering of illicit funds.”
15 The Deputy Sherriff of Broward County, assigned to the MLTF, submitted an
16 affidavit on August 23, 2022, following his review of the “the records produced by
17 Silvergate Bank” and concluded that:

18 “During the period of September 2021 to June 2022 ten companies had
19 transferred a total of over \$425 million dollars off these cryptocurrency
20 trading platforms [at Silvergate] into accounts held at different US
banks.”

21 “The accounts of these ten companies were receiving funds in the same
22 pattern as those previously identified and seized . . . by the [Broward
23 County Sheriff’s Office Strategic Investigations Division, Money

24 ¹¹⁸ *Id.*

25 ¹¹⁹ *CryptoSlate*, “Silvergate records reveal \$425M in transfers to South American
26 money launderers” (Nov. 16, 2022).

27 ¹²⁰ “Affidavit in Support of Probable Cause for Forfeiture,” *In re: Seizure of Two*
28 *Million Forty-Eight Thousand Two Hundred Twenty-Nine Dollars and 48/100*
(\$2,048,229.48) *in United States Currency*, No. CACE-22-012446 (Cir. Ct., 17th
Jud. Cir., Broward Cnty., Fla.).

1 Laundering Task Force] for being used to facilitate the laundering of
2 illicit funds.”

3 “In addition to the transaction pattern of these ten companies being
4 consistent with those previously identified as being used to facilitate
5 money laundering, your Affiant noted that the transaction patterns of
6 these ten companies were not consistent with the transaction patterns of
7 thousands of other persons and businesses using the same digital
8 cryptocurrency trading platforms contained in the same [Silvergate]
9 records.”

10 “In general, these companies all appeared to be shell companies,
11 recently formed, with multiple things in common such as address,
12 corporate officers, and other details”¹²¹

13 127. Had Silvergate actually monitored the activity of its customers and on
14 its SEN Network (as it represented it had), it also would have identified that these
15 entities’ transactions “were not consistent with the transaction patterns of thousands
16 of other persons and businesses” and recognized that hundreds of millions of dollars
17 were being wired from the Silvergate-approved exchanges to “shell companies,
18 recently formed, with multiple things in common such as address, corporate officers,
19 and other details.”¹²²

20 **G. Customers and Investors Learn That Silvergate Did Not Vet,
21 Perform Due Diligence On, or Monitor Its SEN Network
22 Participants.**

23 128. The world gradually learned the true facts about Silvergate’s failure to
24 vet, perform due diligence on, and monitor its customers—including FTX. On
25 November 2, 2022, the publication *CoinDesk* released an investigative report that
26 described the “unusually close” ties between two of Silvergate’s customers, FTX
27 and Alameda, as reflected in a leaked internal Alameda financial document.
28 *CoinDesk* noted that “even though [FTX and Alameda] are two separate businesses,”
Alameda’s balance sheet included billions of dollars of FTT—*i.e.*, the

¹²¹ *Id.*

¹²² *Id.*

1 cryptocurrency token issued and owned by FTX.¹²³ This revelation sparked the
2 ultimate collapse of FTX and Alameda as complete frauds.

3 129. Just five days later, on November 7, 2022, Silvergate announced the
4 sudden replacement of Tyler Pearson, the Bank's Chief Risk Officer. In addition to
5 being Silvergate's "Chief Risk Officer," Pearson was also Defendant Lane's son-in-
6 law. Commentators erupted following the news of Pearson's replacement,
7 connecting it to Silvergate's failure to conduct diligence on FTX and related entities.
8 Marc Cohodes, a popular market commentator and corporate watchdog, explained
9 in a November 8, 2022 post commenting on this news, "When FTX is your largest
10 customer this is a Major problem."¹²⁴ Marcus Aurelius Research echoed this, asking
11 rhetorically, "How long until the new [Silvergate] 'Risk Officer' takes [Sam
12 Bankman-Fried's testimonial] down" from the Bank's website.¹²⁵

13 130. Over the subsequent days and weeks, further reports emerged
14 connecting FTX's misconduct to Silvergate, and exposing Silvergate's lack of
15 customer diligence and monitoring. For example, on November 15, 2022, it was
16 revealed that Silvergate was implicated in a \$425 million money laundering
17 operation by a South American cryptocurrency crime ring linked to smugglers and
18 drug traffickers. Marcus Aurelius Research explained that "[r]ecently subpoenaed
19 Silvergate bank records reveal \$425 million in transfers from \$SI crypto bank
20 accounts to South American money launderers. Affidavit from investigation into
21 crypto crime ring linked to smugglers/drug traffickers."¹²⁶

22 131. Two days later, EventLongShort, another popular analyst and corporate
23 watchdog, issued a series of postings detailing "why Silvergate \$SI may be in a
24

25
26 ¹²³ *CoinDesk*, "Divisions in Sam Bankman-Fried's Crypto Empire Blur on His
Trading Titan Alameda's Balance Sheet" (Nov. 2, 2022).

27 ¹²⁴ Post by Marc Cohodes (Nov. 8, 2022).

28 ¹²⁵ Post by Marcus Aurelius Research (Nov. 8, 2022).

¹²⁶ Post by Marcus Aurelius Research (Nov. 15, 2022).

whole heap of KYC/AML trouble with the FTX collapse.”¹²⁷ See Figure 7, *infra*. EventLongShort explained that, when FTX’s customers wanted to transfer funds, they were directed “to send the funds to their bank [at] Silvergate” and that, even though “one should expect the beneficiary account” to be FTX, instead “the beneficiary account on the Silvergate/FTX wire instructions appear[ed] to be Alameda accounts.” EventLongShort added that “the accounts FTX customers were told to wire funds to appear to be the Silvergate bank accounts of Alameda Research Ltd and North Dimensions Inc, a subsidiary of Alameda.” A host of market participants flooded Twitter and other social media platforms with examples reflecting these exact wire instructions. EventLongShort went on to explain why these “huge red flags” pointed to failures at Silvergate:



¹²⁷ Post by EventLongShort (Nov. 17, 2022).



Figure 7. Postings by corporate watchdog, EventLongShort.

132. Additional reports from other investigative journalists followed. *Bloomberg News*’s Crypto Market Structure Reporter (Yuqi Yang) and *Bloomberg*’s Finance Reporter (Max Reyes) published an article days later detailing how Silvergate utterly failed to vet, perform due diligence on, or monitor FTX, implicating Silvergate as a key facilitator of the fraud at FTX. On November 28, 2022, *Bloomberg* published a report based on the accounts of people familiar with FTX, which described how Silvergate solved FTX’s inability to get access to traditional banking sources by allowing Alameda to become a Silvergate customer and then allowing FTX customers to wire funds to Alameda.¹²⁸ The article explained how FTX customers “wired \$8 billion to Alameda” using Silvergate-approved accounts and quoted Alma Angotti (a former enforcer with the SEC and Treasury Department), who explained that “[i]t’s very bad practice and risk management in any book to mingle your customer funds with counterparty funds and other funds.”

133. Silvergate’s failure to vet, conduct due diligence on, and monitor its Silvergate-approved customers also drew the ire of the U.S. government. On the morning of December 6, 2022, U.S. senators issued a bipartisan letter to Lane and Silvergate that questioned the Bank’s relationship to Sam Bankman-Fried’s entities, and specifically FTX and Alameda. The bipartisan letter expressed concerns “about the bank’s role in facilitating the improper transfer of FTX customer funds to Alameda.”¹²⁹ The senators scolded Silvergate for having “failed to apply” its

¹²⁸ *Bloomberg*, “FTX Received Some Customer Deposits Via Bank Accounts Held by Alameda” (Nov. 28, 2022).

¹²⁹ Letter from Warren, Kennedy, and Marshall to Lane (Dec. 5, 2022).

1 purported diligence processes to Alameda and FTX and having done “nothing to halt
 2 these activities.” The senators concluded: “Your bank’s involvement in the transfer
 3 of FTX customer funds to Alameda reveals what appears to be an egregious failure
 4 of your bank’s responsibility to monitor for and report suspicious financial activity
 5 carried out by its client.” The U.S. senators further stated that “Silvergate’s failure
 6 to take adequate notice of [the FTX] scheme suggests that it may have failed to
 7 implement or maintain an effective anti-money laundering program.”

8 134. The same morning, Senior Financial Reporter for *NBC News*
 9 *Investigations*, Gretchen Morgenson, reported that Silvergate was FTX’s primary
 10 banking partner. Morgenson’s sources included a recorded conversation between an
 11 investment manager and a former top FTX employee with direct knowledge of the
 12 transactions. On the recording, which was shared with *NBC News* and brought to
 13 the attention of the U.S. Senate Banking Committee, the FTX insider “described
 14 transfers of funds between FTX’s Silvergate account, which included FTX
 15 customers’ money, and accounts belonging to other entities believed to be controlled
 16 by Bankman-Fried, including Alameda Research, the supposedly separate crypto
 17 trading operation.”¹³⁰

18 135. Even as the truth about FTX and Silvergate’s lack of customer diligence
 19 started to come out, Silvergate and Lane tried to quiet investor and customer
 20 concerns. On December 5, 2022, Defendant Lane issued a public letter “to set the
 21 record straight about Silvergate’s role in the digital asset ecosystem” and to blame
 22 recent reports on “speculation” and “misinformation.”¹³¹ In his public letter,
 23 Defendant Lane again represented (falsely) that “Silvergate conducted significant
 24 due diligence on FTX and its related entities including Alameda Research, both
 25 during the onboarding process and through ongoing monitoring, in accordance with
 26

27 ¹³⁰ *NBC News*, “Sen. Warren demands answers from Silvergate Bank about its
 28 business dealings with FTX” (Dec. 6, 2022).

¹³¹ Silvergate, Form 8-K (Dec. 5, 2022).

1 our risk management policies and procedures and the requirements.” Defendant
2 Lane also insisted (falsely) that the Bank “monitors transaction activity for every
3 account and identifies activity outside of the expected usage.”

4 136. Defendant Lane also denied the U.S. senators’ findings, stating (falsely)
5 that “Silvergate has instituted, and consistently updates and improves, a robust
6 compliance and risk management program that spans the life cycle of each client.”¹³²
7 Lane likewise doubled down, stating (falsely) in that same letter to the U.S. senators
8 that, “[i]n accordance with our risk management policies and procedures, Silvergate
9 conducted significant due diligence on FTX and its related entities, including
10 Alameda Research, both during the onboarding process and through ongoing
11 monitoring.”

12 137. Investors and financial analysts credited Lane’s and Silvergate’s
13 denials—at least initially. For example, securities analysts at the investment firm
14 J.P. Morgan accepted Lane’s denials, repeating in their analyst reports Lane’s
15 statements that “all participants in the SEN are vetted by Silvergate” and “need[] to
16 pass compliance checks.”¹³³

17 138. Notwithstanding Lane’s denials, the truth continued to emerge. On
18 December 13, 2022, FTX’s new CEO, John Ray, testified before the U.S. House
19 Financial Services Committee. During his testimony, he explained that the
20 Silvergate-approved FTX lacked “virtually any of the systems or controls that are
21 necessary for a company entrusted with other people’s money or assets,” each of
22 which Silvergate’s purported KYC diligence would have caught had any such
23 diligence occurred. Mr. Ray further explained that FTX had “near-zero in terms of
24 the corporate infrastructure and record-keeping that one would expect to find in a
25
26

27 ¹³² Letter from Lane to Warren, Kennedy, and Marshall (Dec. 19, 2022).

28 ¹³³ J.P. Morgan, “Addressing Key Concerns and Separating Fact from Fiction; Downside Scenario and Buyback Analysis” (Nov. 21, 2022).

1 multi-billion dollar international business.”¹³⁴ Silvergate failed to identify this
 2 “near-zero” infrastructure because it never bothered to vet, diligence or monitor
 3 FTX, Alameda, or North Dimension.

4 139. As a result of the world gradually learning the true facts about
 5 Silvergate, participants on the SEN Network pulled their deposits and left the Bank.
 6 By January 6, 2023, customers had withdrawn 60% of the Bank’s total deposits (over
 7 \$8.1 billion), with Silvergate laying off 40% of its workforce.¹³⁵

8 140. Over the following days and months, investors continued to learn the
 9 true facts about Silvergate’s lack of diligence and the sham entities that it approved
 10 on the SEN Network. On January 24, 2023, *New York Magazine*’s *Intelligencer*
 11 published an article, titled “The Crypto Industry’s Favorite Bank Is In Deep
 12 Trouble,” which explained that Silvergate’s SEN Network “includes alleged
 13 fraudsters like Bankman-Fried along with a slew of other sketchy companies and
 14 individuals who used Silvergate to move a trillion dollars into—and out of—crypto
 15 markets all over the world.”¹³⁶ *New York Magazine* described documents it obtained
 16 that showed that Silvergate was the “go-to bank for more than a dozen crypto
 17 companies that ended up under investigation, shut down, fined, or in bankruptcy,”
 18 including FTX, Alameda, Binance, Huobi, Nexo, and Bittrex.

19 141. Next, on February 2, 2023, news broke that the DOJ’s Fraud Section
 20 was examining Silvergate’s hosting of accounts connected to FTX and its CEO Sam
 21 Bankman-Fried. *Bloomberg* told its readers that the DOJ investigation “adds to
 22 mounting scrutiny” of Silvergate, and *Reuters* noted that “[s]crutiny of Silvergate
 23

24
 25 ¹³⁴ Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
 26 Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
 27 FTX).

28 ¹³⁵ Silvergate, Costs Associated with Exit or Disposal Activities (Form 8-K) (Jan. 5,
 2023).

¹³⁶ *New York Magazine*, “The Crypto Industry’s Favorite Bank Is in Deep Trouble”
 (Jan. 24, 2023).

has been mounting in the wake of FTX’s collapse.”¹³⁷ *Business Insider* added that the DOJ “wants to know just how deep [Silvergate’s] ties with FTX ran,” and further observed that “Silvergate has worked with more than a dozen crypto firms that have gone bankrupt, faced scrutiny or been under investigation, including FTX and Alameda.”¹³⁸

142. Then, on February 16, 2023, *Reuters* published an investigative report based on bank records obtained from Binance.US, the cryptocurrency exchange approved by Silvergate to bank and participate on the SEN Network. The records showed that Binance.US transferred \$400 million, beginning in 2020 and throughout the first three months of 2021, from its Silvergate accounts to a trading firm called Merit Peak, which was controlled by Binance’s global exchange founder, CEO Zhao.¹³⁹ These \$400 million transfers were not approved or authorized by Binance.US, and a portion of the funds were transferred to Key Vision Development Limited, another Silvergate-approved account in which CEO Zhao was a director. These transfers further demonstrated how Silvergate’s failure to monitor allowed Binance’s CEO—much like FTX’s CEO—to use Silvergate-approved entities to fleece customers and siphon funds from the cryptocurrency exchanges to the executive’s personal account.

143. On March 1, 2023, Silvergate announced that it needed to make the “risk-based decision” to discontinue the SEN Network altogether. That same day, Silvergate filed a Form 12b-25 with the SEC, in which the Company stated that it was “unable to file with the [SEC] its Annual Report on Form 10-K for the fiscal

¹³⁷ *Bloomberg*, “Silvergate Faces US Fraud Probe Over FTX and Alameda Dealings” (Feb. 2, 2023); *Reuters*, “U.S. prosecutors probe Silvergate’s dealings with FTX. Alameda -source” (Feb. 2, 2023).

¹³⁸ *Business Insider*, “Silvergate had close ties to Sam Bankman-Fried’s FTX and Alameda. The crypto bank was also reportedly a favorite of other troubled clients including an Australian Ponzi criminal” (Jan. 24, 2023).

¹³⁹ *Reuters*, “Exclusive: Crypto giant Binance moved \$400 million from U.S. partner to firm managed by CEO Zhao” (Feb. 16, 2023).

1 year ended December 31, 2022, within the prescribed time period.”¹⁴⁰ Silvergate
 2 added that it could not meet the SEC’s deadline because the Bank was “currently
 3 analyzing certain regulatory and other inquiries and investigations that are pending
 4 with respect to the Company” and that it was forced to conduct an “evaluation of the
 5 effectiveness of the Company’s internal control over financial reporting.”¹⁴¹

6 144. This news further stunned investors. As analysts at *Wall Street on*
 7 *Parade* observed, the Bank’s latest revelation “stands in rather stark contrast to
 8 Silvergate’s website lauding how the company is . . . ‘built on our deep-rooted
 9 commitment and proprietary approach to regulatory compliance.’”¹⁴²

10 145. The situation became even more dire for Silvergate’s investors. The
 11 Bank’s few remaining crypto-exchange customers (and their customers) were no
 12 longer able to trust Silvergate’s vetting, diligence, or monitoring. Silvergate’s “seal
 13 of approval” was no longer of any value. Accordingly, Silvergate’s remaining
 14 customers—including Coinbase, Galaxy Digital, Paxos, Circle Internet Financial,
 15 Gemini—announced one-by-one that they had stopped accepting or initiating
 16 payments through Silvergate. As *CoinGeek* described it, “countless crypto firms are
 17 doing their damndest to avoid being sucked into Silvergate’s death spiral.”¹⁴³

18 146. A week later, on March 8, 2023, Silvergate announced “its intent to
 19 wind down operations and voluntarily liquidate the Bank.”¹⁴⁴ Shortly thereafter,
 20 U.S. Senator Elizabeth Warren issued a statement rightfully criticizing Silvergate for
 21 its “severe due diligence failures” and its “risky, if not illegal activity.” *CoinGeek*
 22
 23

24 ¹⁴⁰ Silvergate, Notice of Late Filing of Form 10-K (Mar. 1, 2023).

25 ¹⁴¹ *Id.*

26 ¹⁴² *Wall Street on Parade*, “Weird Things Are Happening at Silvergate Bank and
 27 First Republic Bank” (Mar. 29, 2023).

28 ¹⁴³ *CoinGeek*, “‘Crypto’ firms unbank themselves from struggling Silvergate” (Mar.
 3, 2023).

¹⁴⁴ Press Release, Silvergate, “Silvergate Capital Corporation Announces Intent to
 Wind Down Operations and Voluntarily Liquidate Silvergate Bank” (Mar. 8, 2023).

1 added that “[s]peculation is mounting over how long it will be before Silvergate
2 CEO Alan Lane is perp-walked out of his offices by federal law enforcement.”¹⁴⁵

3 147. Just weeks later, on March 20, 2023, Silvergate announced that—in
4 light of its inability to timely file its Annual Report owing to its business and
5 regulatory challenges in the face of customers pulling their deposits from the Bank
6 and investigations by its regulators, Congress, and the DOJ—the NYSE had sent a
7 non-compliance notice to the Company days earlier. In the notice, the NYSE
8 informed Silvergate that, “as the Company had not timely filed its Annual Report on
9 Form 10-K for the fiscal year ended December 31, 2022 (the ‘10-K’), the NYSE will
10 closely monitor the status of the Company’s late filing and related public disclosures
11 for up to a six-month period from its due date.”¹⁴⁶ The Company further disclosed
12 that the NYSE warned that future delayed filings could lead to “suspension and
13 delisting procedures.”

14 148. Investors suffered immensely as a result of Lane’s and Silvergate’s
15 misrepresentations and misconduct. All told, Silvergate’s empty declarations about
16 its “customer diligence,” “vetting,” and “ongoing monitoring” caused investors to
17 suffer billions of dollars of losses. Market commentators correctly recounted: “The
18 collapse of Silvergate Capital has been spectacular” and “even daredevils should
19 avoid Silvergate Capital stock.”¹⁴⁷ Indeed, the Bank’s stock price—which soared
20 above \$225 per share—plummeted to \$1.47 a share by the end of the Class Period,
21 wiping out over \$2 billion in shareholder value.

22 149. Silvergate’s investors continue to suffer to this day. On May 11, 2023,
23 the date of this filing, Lane and Silvergate halted trading in the Bank’s stock and
24 announced that—notwithstanding Silvergate’s prior assurances—“it continues to be

25
26 ¹⁴⁵ *CoinGeek*, “‘Crypto’ firms unbank themselves from struggling Silvergate” (Mar.
3, 2023).

27 ¹⁴⁶ Silvergate, Form 8-K (Mar. 20, 2023).

28 ¹⁴⁷ *InvestorPlace*, “Even Daredevils Should Avoid Silvergate Capital (SI) Stock”
(Apr. 11, 2023).

1 unable to file with the SEC the 2022 Form 10-K and is unable to file its Quarterly
 2 Report on Form 10-Q for the quarter ended March 31, 2023.” Worse yet, the Bank
 3 declared that it would never file with the SEC a 2022 Form 10-K (i.e., an annual
 4 report for 2022) or a 2023 Form 10-Q (i.e., a quarterly report). As for its stated
 5 justification for this remarkable declaration, Lane and Silvergate cited “continuous
 6 developments relating to the regulatory matters and other inquiries and
 7 investigations that are pending with respect to the Company and the Bank.” While
 8 Lane and Silvergate did not say as much, the true reason they do not want to issue
 9 any more reports with the SEC is plain: they do not want to be forced to restate their
 10 prior SEC filings, admit facts that demonstrate that their prior statements to investors
 11 were false, and make any statement that subjects themselves to additional civil and
 12 criminal liability in connection with the ongoing regulatory investigations.

13 **V. THE EXCHANGE ACT DEFENDANTS’ FALSE AND**
 14 **MISLEADING STATEMENTS AND OMISSIONS**

15 150. The Exchange Act Defendants made numerous materially false and
 16 misleading statements during the Class Period in violation of Sections 10(b) and
 17 20(a) Exchange Act and Rule 10b-5 promulgated thereunder. Among other things:

- 18 (a) Defendants Lane and Silvergate told investors that they performed
 19 extensive “vetting” of the Silvergate-approved customers, including
 20 “initial due diligence” to satisfy the Company’s AML/KYC
 21 requirements such as “site visits” and reviewing the customers’
 22 “BSA/AML program.” In reality, the Company conducted no actual
 23 vetting or diligence, had no policies or procedures for onboarding
 24 participants to the SEN Network, conducted no site visits, and did not
 25 ensure that its customers had a proper BSA/AML program.
- 26 (b) Defendants Lane and Silvergate told investors that they performed
 27 extensive “ongoing monitoring” of the Silvergate-approved
 28 customers, including monitoring “transaction activity,” performing
 “enhanced due diligence,” and daily, quarterly, and annual “reviews.”
 In truth, the Company performed no ongoing transaction monitoring,

1 no enhanced due diligence procedures, and had no system to perform
 2 daily, periodic, or annual reviews.

3 (c) Defendants Lane and Silvergate told investors that “we don’t bank”
 4 institutions that are not “serious about regulation” with “sound”
 5 compliance programs. In reality, the Bank permitted entities to bank
 6 at Silvergate and participate on the SEN Network regardless of
 7 whether they had compliance programs—including FTX, Alameda,
 8 North Dimension, Binance, Huobi, Nexo, Bittrex, Paxos, and the many
 9 other Silvergate-approved cryptocurrency exchanges and customers
 10 that have been punished and charged by the DOJ and SEC.

11 (d) Defendants Lane and Silvergate told investors that they performed
 12 “extensive due diligence” both during the “onboarding process” and
 13 “ongoing monitoring” of FTX and its related entities. In reality, they
 14 did not. Had Silvergate performed this diligence and monitoring, they
 15 would not have allowed these entities to bank at Silvergate or
 16 participate on the SEN Network.

17 151. The Exchange Act Defendants also omitted material facts when
 18 speaking to investors during the Class Period in violation of Sections 10(b) of the
 19 Exchange Act and Rule 10b-5 promulgated thereunder. Once Defendants decided
 20 to tout the Company’s purported vetting procedures, due diligence, ongoing
 21 monitoring, and strict customer standards, they were required to do so in a manner
 22 that did not mislead investors. Among other things, Defendants misled investors by
 23 omitting that Silvergate: (i) performed no vetting or due diligence before allowing
 24 customers to open accounts at Silvergate; (ii) performed no ongoing monitoring of
 25 customers using the SEN Network; (iii) did not hold its SEN Network participants
 26 to strict customer standards; and, as a result (iv) permitted numerous sham
 27 businesses to bank at Silvergate and engage in fraudulent activity on the SEN
 28 Network. *See* Section IV.D-F, *supra*.

1 **A. False Statements in 2019**

2 **1. July 2019 Interview of Defendant Lane**

3 152. On July 30, 2019, Defendant Lane appeared on the industry podcast,
4 *What Bitcoin Did Podcast*. During the interview, Lane emphasized Silvergate's
5 purported due diligence on the cryptocurrency companies that banked at Silvergate
6 and participated on its SEN Network. Specifically, he stated:

7 [I]f you get an account at Silvergate, then we've gone through the
8 process of vetting you. We joke that we're kind of like the good
9 housekeeping seal of approval. If you've gone through the rigor of
10 satisfying our KYC, our diligence process, we're intentional about it
and you can have confidence that you have an account at Silvergate.

11 153. The statements identified in paragraph 152 were false, misleading, and
12 omitted material facts. Contrary to his statements, (i) Silvergate did not "go[]
13 through the process of vetting" the customers who obtained "an account at
14 Silvergate"; (ii) there was no "rigor of satisfying [its] KYC, [or its] diligence
15 process"; and, as a result, (iii) Silvergate was not "like the good housekeeping seal
16 of approval." *See* Section IV.D-F, *supra*.

17 154. The statements identified in paragraph 152 also omitted material facts
18 when made, including that Silvergate failed to perform vetting of its prospective
19 customers, and that: (a) Silvergate performed no site visits; (b) Silvergate allowed
20 clients to dictate wire limits without supporting documentation; (c) Silvergate did
21 not have compliance policies to address the digital currency industry; (d) Silvergate
22 provided no training to employees on KYC or compliance specific to the
23 cryptocurrency industry; (e) Silvergate did not review customers' culture of
24 compliance; (f) Silvergate did not review customers' BSA/AML Programs to ensure
25 they were sound; (g) Silvergate did not verify customer ownership; and (h) because
26 Silvergate did not perform these vetting procedures, it approved sham entities to
27 open accounts and commit fraud through their Silvergate accounts and the SEN
28

1 Network, despite the fact that these entities had no internal controls and no
2 compliance programs. *See* Section IV.D-F, *supra*.

3 **2. Initial Registration Statement**

4 155. On November 6, 2019, Silvergate issued its Prospectus ahead of its
5 November 7, 2019 initial public offering. In the Prospectus, Defendants Lane and
6 Silvergate represented that the Bank “comprehensively investigates prospective
7 customers.” Defendants Lane and Silvergate further represented that the Company’s
8 “due diligence and onboarding processes include, at a minimum, detailed reviews of
9 each customer’s ownership, management team, business activities and the
10 geographies in which they operate.” Additionally, Defendants Lane and Silvergate
11 represented that “all our digital currency customers must submit to initial and
12 continued due diligence by us.” Defendants Lane and Silvergate also specifically
13 represented that Silvergate’s extensive due diligence on prospective cryptocurrency
14 exchange clients included “reputational reviews, reviews of applicable licensing
15 requirements, plans, and status, and reviews of customer policies and procedures
16 regarding the BSA, consumer compliance, information security, Dodd-Frank Act
17 prohibitions against unfair, deceptive or abusive acts or practices, as well as reviews
18 of transaction monitoring systems and audit results.”

19 156. Defendants Lane and Silvergate’s statements identified in paragraph
20 155 were false, misleading, and omitted material facts. Contrary to these statements,
21 (i) Defendants did not “comprehensively investigate[] prospective customers”;
22 (ii) they did not perform “due diligence and onboarding processes [that] include, at
23 a minimum, detailed reviews of each customer’s ownership, management team,
24 business activities and the geographies in which they operate”; (iii) “all [of
25 Silvergate’s] digital currency customers” were not required to “submit to initial and
26 continued due diligence by us”; and (iv) they did not perform “reputational reviews,”
27 “reviews of customer policies and procedures regarding the BSA” or “reviews of
28 transaction monitoring systems and audit results.” *See* Section IV.D-F, *supra*.

1 157. The statements identified in paragraph 155 also omitted material facts
2 when made, including that Silvergate failed to perform vetting of its prospective
3 customers, and that: (a) Silvergate performed no site visits; (b) Silvergate allowed
4 clients to dictate wire limits without supporting documentation; (c) Silvergate did
5 not perform reputational reviews; (d) Silvergate did not review customers' culture
6 of compliance; (e) Silvergate did not review customers' BSA/AML Programs or
7 transaction monitoring to ensure they existed and were sound; (f) Silvergate did not
8 verify customer ownership; (g) Silvergate did not have compliance policies to
9 address the digital currency industry; (h) Silvergate provided no training to
10 employees on KYC or compliance specific to the cryptocurrency industry; and
11 (i) because Silvergate did not perform these vetting procedures, it approved sham
12 entities to open accounts and commit fraud, embezzlement, and money-laundering
13 through their Silvergate accounts and the SEN Network, despite the fact that these
14 entities had no internal controls, no compliance programs, and avoided U.S.
15 registration requirements. *See* Section IV.D-F, *supra*.

16 158. Additionally, Defendants Lane and Silvergate further represented to
17 investors in the Prospectus that Silvergate's compliance efforts "include ongoing
18 monitoring of customer activities and evaluating a market participant's ability to
19 actively monitor the flow of funds of their own customers."

20 159. Defendant Lane and Silvergate's statement identified in paragraph 158
21 was false, misleading, and omitted material facts. Contrary to the statement,
22 Silvergate did not conduct "ongoing monitoring of customer activities and
23 evaluating a market participant's ability to actively monitor the flow of funds of their
24 own customers." *See* Section IV.D-F, *supra*.

25 160. The statement identified in paragraph 158 also omitted additional
26 material facts when made, including that Silvergate did not perform ongoing
27 monitoring of its customers, and that: (a) Silvergate did not perform daily BSA/AML
28 alerts monitoring; (b) Silvergate did not perform daily news monitoring;

(c) Silvergate did not perform customer counterparty reviews; (d) Silvergate did not perform negative news reviews; (e) Silvergate did not perform quarterly account activity reviews; (f) Silvergate did not perform customer risk scoring; (g) Silvergate did not perform annual company reviews; (h) Silvergate did not perform anomaly testing and detection; (i) Silvergate did not evaluate customers' ability to actively monitor the flow of funds of their own customers; (j) Silvergate did not implement AML software designed to detect red flags specific to various customer types and activities; (k) when individual employees would raise concerns about suspicious or anomalous activity, Silvergate management would not close accounts; (l) Silvergate did not investigate reports from customers and other banks about unauthorized transaction requests; and (m) because Silvergate did not perform this monitoring, it allowed entities to continue to commit fraud, embezzlement, and money-laundering through their Silvergate accounts despite significant red flags. *See* Section IV.D-F, *supra*.

B. False Statements in 2020

1. August 2020 Investor Presentation

161. On August 10, 2020, Defendants Lane and Silvergate published a presentation for investors, which was also filed with the SEC on a Form 8-K signed by Defendant Lane. The investor presentation contained the below slide, which was contained in nearly every Silvergate quarterly investor presentation thereafter. The slide touted Silvergate's "compliance process" as "the cornerstone of our leadership today" and made a series of specific representations about the Bank's purported vetting, diligence and monitoring. Specifically, Defendants Lane and Silvergate represented that the Company had a "Robust Compliance and Risk Management Framework" with specific procedures, including "initial due diligence" with "reputation reviews"; "compliance reviews" of customers' "culture of compliance," "BSA/AML Program," "Independent Audits & Exams," and a "site visit"; "ongoing monitoring" that included "Daily Transaction Monitoring" and "Daily" "BSA/AML

Alerts Monitoring”; “enhanced due diligence” with “Customer Counterparty Reviews” and “Negative News Reviews”; and “Periodic Reviews” with “Quarterly Account Activity Reviews” and “Annual Company Reviews.”



162. Lane and Silvergate included this same slide in Silvergate’s investor presentations during nearly every subsequent financial quarter, including on November 20, 2020, January 28, 2021, May 5, 2021, August 3, 2021, November 8, 2021, February 14, 2022, May 10, 2022, and August 8, 2022. Each of these slides was included in the investor presentations submitted on those dates to the SEC on Form 8-K, which were signed by Defendant Lane.

163. The representations contained in Lane’s quarterly investor PowerPoint slides, identified in paragraph 161, were false, misleading, and omitted material facts. Contrary to Lane and Silvergate’s representations, (i) Silvergate did not conduct the “initial due diligence” that it purported to conduct, including a “Compliance Review,” “Review of Organization’s Culture of Compliance,” “BSA/AML Program,” “Review Independent Audits & Exams,” and “Site Visit”; (ii) Silvergate did not conduct “Ongoing Monitoring” of its customers, including the

1 “Daily” monitoring it described, “Enhanced Due Diligence,” and “Periodic
2 Review”; and (iii) Silvergate did not conduct “Daily Transaction Monitoring.” *See*
3 Section IV.D-F, *supra*.

4 164. The representations contained in Lane’s quarterly investor PowerPoint
5 slides, identified in paragraph 161, also omitted material facts when made, including
6 that Silvergate failed to perform vetting of its prospective customers, and that:
7 (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire
8 limits without supporting documentation; (c) Silvergate did not perform reputational
9 reviews; (d) Silvergate did not review customers’ culture of compliance;
10 (e) Silvergate did not review customers’ BSA/AML Programs or transaction
11 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
12 customer ownership; (g) Silvergate did not have compliance policies to address the
13 digital currency industry; (h) Silvergate provided no training to employees on KYC
14 or compliance specific to the cryptocurrency industry; and (i) because Silvergate did
15 not perform these vetting procedures, it approved sham entities to open accounts and
16 commit fraud, embezzlement, and money-laundering through their Silvergate
17 accounts and the SEN Network, despite the fact that these entities had no internal
18 controls, no compliance programs, and avoided U.S. registration requirements. *See*
19 Section IV.D-F, *supra*.

20 165. The representations contained in Lane’s quarterly investor PowerPoint
21 slides, identified in paragraph 161, omitted additional material facts when made,
22 including that Silvergate did not perform ongoing monitoring of its customers, and
23 that: (a) Silvergate did not perform daily BSA/AML alerts monitoring; (b) Silvergate
24 did not perform daily news monitoring; (c) Silvergate did not perform customer
25 counterparty reviews; (d) Silvergate did not perform negative news reviews;
26 (e) Silvergate did not perform quarterly account activity reviews; (f) Silvergate did
27 not perform customer risk scoring; (g) Silvergate did not perform annual company
28 reviews; (h) Silvergate did not perform anomaly testing and detection; (i) Silvergate

1 did not evaluate customers' ability to actively monitor the flow of funds of their own
 2 customers; (j) Silvergate did not implement AML software designed to detect red
 3 flags specific to various customer types and activities; (k) when individual
 4 employees would raise concerns about suspicious or anomalous activity, Silvergate
 5 management would not close accounts; (l) Silvergate did not investigate reports
 6 from customers and other banks about unauthorized transaction requests; and
 7 (m) because Silvergate did not perform this monitoring, it allowed entities to
 8 continue to commit fraud, embezzlement, and money-laundering through their
 9 Silvergate accounts despite significant red flags. *See* Section IV.D-F, *supra*.

10 **2. August 2020 Canaccord Investor Conference**

11 166. On August 12, 2020, Silvergate and Defendant Lane participated in the
 12 Canaccord Genuity Growth Conference for investor and securities analysts. During
 13 Silvergate's prepared remarks, Silvergate's President stated the following on behalf
 14 of Silvergate:

15 Our program includes, know your customer, enhanced due diligence
 16 and transaction monitoring processes, designed to illustrate a deep
 17 knowledge of our clients whether it be an exchange, an investor or
 18 software developer. Both our initial due diligence process and our
 19 ongoing monitoring processes are designed to ensure we serve only
 20 customers . . . to operate safely, soundly, and compliantly.¹⁴⁸

21
 22 ¹⁴⁸ Ben Reynolds was Silvergate's President during the Class Period. From January
 23 2019 to October 2022, he was Silvergate's Chief Strategy Officer. He oversaw a
 24 team that was responsible for "investor relations," among other things, and Reynolds
 25 also regularly communicated with Silvergate's regulators, including the Federal
 26 Reserve [REDACTED] Before
 27 this role, he was the SVP of Business Development, credited with having invented
 28 and developed the SEN Network and the first dedicated employee serving digital
 asset clients. From November 2022 until March 2023, Reynolds was Silvergate's
 President. In his roles as Chief Strategy Officer and President, Reynolds spoke on
 behalf of Silvergate to investors and analysts numerous times, holding himself out
 as someone with intimate knowledge about the Company's business practices.
 Reynolds was laid off at the end of the Class Period.

1 167. The statements identified in paragraph 166 were false, misleading, and
 2 omitted material facts. Contrary to Silvergate’s statements: (i) its program did not
 3 “include[], know your customer, enhanced due diligence and transaction monitoring
 4 processes, designed to illustrate a deep knowledge of our clients”; and
 5 (ii) Silvergate’s “initial due diligence process and [its] ongoing monitoring
 6 processes” were not “designed to ensure [it] serve[d] only customers that represent
 7 the best business opportunity for Silvergate and to operate safely, soundly, and
 8 compliantly.” *See* Section IV.D-F, *supra*.

9 168. The statements identified in paragraph 166 also omitted material facts
 10 when made, including that Silvergate failed to know its prospective customers or
 11 perform diligence, and that: (a) Silvergate performed no site visits; (b) Silvergate
 12 allowed clients to dictate wire limits without supporting documentation;
 13 (c) Silvergate did not perform reputational reviews; (d) Silvergate did not review
 14 customers’ culture of compliance; (e) Silvergate did not review customers’
 15 BSA/AML Programs or transaction monitoring to ensure they existed and were
 16 sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did not have
 17 compliance policies to address the digital currency industry; (h) Silvergate provided
 18 no training to employees on KYC or compliance specific to the cryptocurrency
 19 industry; and (i) because Silvergate did not perform these vetting procedures, it
 20 approved sham entities to open accounts and commit fraud, embezzlement, and
 21 money-laundering through their Silvergate accounts and the SEN Network, despite
 22 the fact that these entities had no internal controls, no compliance programs, and
 23 avoided U.S. registration requirements. *See* Section IV.D-F, *supra*.

24 169. The statements identified in paragraph 166 omitted additional material
 25 facts when made, including that Silvergate did not perform ongoing monitoring of
 26 its customers, and that: (a) Silvergate did not perform daily BSA/AML alerts
 27 monitoring; (b) Silvergate did not perform daily news monitoring; (c) Silvergate did
 28 not perform customer counterparty reviews; (d) Silvergate did not perform negative

news reviews; (e) Silvergate did not perform quarterly account activity reviews; (f) Silvergate did not perform customer risk scoring; (g) Silvergate did not perform annual company reviews; (h) Silvergate did not perform anomaly testing and detection; (i) Silvergate did not evaluate customers' ability to actively monitor the flow of funds of their own customers; (j) Silvergate did not implement AML software designed to detect red flags specific to various customer types and activities; (k) when individual employees would raise concerns about suspicious or anomalous activity, Silvergate management would not close accounts; (l) Silvergate did not investigate reports from customers and other banks about unauthorized transaction requests; and (m) because Silvergate did not perform this monitoring, it allowed entities to continue to commit fraud, embezzlement, and money-laundering through their Silvergate accounts despite significant red flags. *See* Section IV.D-F, *supra*.

C. False Statements in 2021

1. February 2021 Interview of Defendant Lane

170. On February 1, 2021, Defendant Lane appeared in a video presentation for investors published by *Real Vision Finance*, titled "Silvergate: The Banking Solution of the Future." During the interview, in discussing the purported benefits of the SEN Network, Lane stated:

[I]f you are a member of the SEN, you have an account with Silvergate and you're a participant in the SEN then you can transact with everybody else on the Silvergate exchange network . . . as you are doing that we are eliminating the banking friction I talked about earlier. **We are also eliminating counterparty risk because you know that you are dealing with counterparties that are also members of SEN that have been vetted by Silvergate.** So putting that together we've completely eliminated the friction, and **we've eliminated the counterparty risk**, we've brought the legacy 40-hour banking system into the 24/7, 365 cryptocurrency markets that never sleep.

171. The statements highlighted in paragraph 170 were false, misleading, and omitted material facts. Contrary to Lane’s statements, Silvergate did not “eliminat[e] counterparty risk” through its “vetting.” *See* Section IV.D-F, *supra*.

172. The statements highlighted in paragraph 170 also omitted material facts when made, including that Silvergate failed to vet prospective customers, and that: (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire limits without supporting documentation; (c) Silvergate did not perform reputational reviews; (d) Silvergate did not review customers’ culture of compliance; (e) Silvergate did not review customers’ BSA/AML Programs or transaction monitoring to ensure they existed and were sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did not have compliance policies to address the digital currency industry; (h) Silvergate provided no training to employees on KYC or compliance specific to the cryptocurrency industry; (i) because Silvergate did not perform these vetting procedures, it approved sham entities to open accounts and commit fraud, embezzlement, and money-laundering through their Silvergate accounts and the SEN Network, despite the fact that these entities had no internal controls, no compliance programs, and avoided U.S. registration requirements; and

[REDACTED]

[REDACTED]

[REDACTED]

2. September 2021 Barclays Investor Conference

173. On September 14, 2021, Defendant Lane spoke at the Barclays Financial Services Conference for investors and securities analysts. During the conference, Defendant Lane touted the Company’s “vetting” of customers, stating that:

And by the way, if we can’t get comfortable with a company’s regulatory stature, then we don’t bank them. And that’s really well-known. And so for a period of time, Silvergate was and it might still be true to this day, but we jokingly said that Silvergate was kind of the

1 good housekeeping seal of approval for the industry because **you will**
 2 **significantly reduce your counterparty risk if you were dealing**
 3 **with someone that also had an account with Silvergate**, because the
 4 market understood that **we were vetting all of our customers from**
 5 **KYC, anti-money laundering, Bank Secrecy Act, *et cetera*.**

6 174. The statements highlighted in paragraph 173 were false, misleading,
 7 and omitted material facts. Contrary to Lane's statements, (i) Silvergate would bank
 8 customers without doing the due diligence necessary to be "comfortable with a
 9 company's regulatory stature"; (ii) Silvergate's "vetting" did not "significantly
 10 reduce [an entity's] counterparty risk if [they] were dealing with someone that also
 11 had an account with Silvergate"; and (iii) Silvergate was not "vetting all of our
 12 customers from KYC, anti-money laundering, Bank Secrecy Act, *et cetera*." See
 13 Section IV.D-F, *supra*.

14 175. The statements highlighted in paragraph 173 also omitted material facts
 15 when made, including that Silvergate failed to vet its prospective customers and that:
 16 (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire
 17 limits without supporting documentation; (c) Silvergate did not perform reputational
 18 reviews; (d) Silvergate did not review customers' culture of compliance;
 19 (e) Silvergate did not review customers' BSA/AML Programs or transaction
 20 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
 21 customer ownership; (g) Silvergate did not have compliance policies to address the
 22 digital currency industry; (h) Silvergate provided no training to employees on KYC
 23 or compliance specific to the cryptocurrency industry; (i) because Silvergate did not
 24 perform these vetting procedures, it approved sham entities to open accounts and
 25 commit fraud, embezzlement, and money-laundering through their Silvergate
 26 accounts and the SEN Network, despite the fact that these entities had no internal
 27 controls, no compliance programs, and avoided U.S. registration requirements; and
 28 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 **3. September 2021 Interview of Defendant Lane**

4 176. On September 24, 2021, Defendant Lane appeared on an episode of The
5 Blockchain Interviews for investors. During the interview, Lane stated that:

6 We not only reduced the banking friction, we improved liquidity and
7 **we reduced counterparty risk, right. Because folks that are**
8 **transferring to each other have all been vetted by Silvergate,** by the
9 regulatory compliance framework that I talked about a few minutes ago
10 with BSA, AML, KYC. So it really became a game changer for the
11 industry.

12 177. The statements highlighted in paragraph 176 were false, misleading,
13 and omitted material facts. Contrary to Lane's statements, the Silvergate customers
14 "transferring [funds] to each other" had not "been vetted by Silvergate, by the
15 regulatory compliance framework . . . with BSA, AML, KYC." *See* Section IV.D-
16 F, *supra*.

17 178. The statements highlighted in paragraph 176 also omitted material facts
18 when made, including that Silvergate failed to vet its prospective customers and that:
19 (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire
20 limits without supporting documentation; (c) Silvergate did not perform reputational
21 reviews; (d) Silvergate did not review customers' culture of compliance;
22 (e) Silvergate did not review customers' BSA/AML Programs or transaction
23 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
24 customer ownership; (g) Silvergate did not have compliance policies to address the
25 digital currency industry; (h) Silvergate provided no training to employees on KYC
26 or compliance specific to the cryptocurrency industry; (i) because Silvergate did not
27 perform these vetting procedures, it approved sham entities to open accounts and
28 commit fraud, embezzlement, and money-laundering through their Silvergate
accounts and the SEN Network, despite the fact that these entities had no internal

1 controls, no compliance programs, and avoided U.S. registration requirements; and

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 4. November 2021 Interview of Defendant Lane

6 179. On November 8, 2021, Lane appeared on “Roundtable: Banking in the
7 Digital Age with Alan Lane,” produced by Market Rebellion for investors. During
8 the interview, Lane stated that the SEN Network “reduced counterparty risk because
9 all of the customers who participate on the SEN, they’ve all been run through our
10 regulatory compliance framework.”

11 180. Lane’s statement identified in paragraph 179 was false, misleading, and
12 omitted material facts. Contrary to Lane’s statement, “all of the customers who
13 participate on the SEN” had not “been run through [Silvergate’s] regulatory
14 compliance framework.” *See* Section IV.D-F, *supra*.

15 181. The statement identified in paragraph 179 also omitted material facts
16 when made, including that Silvergate failed to vet its prospective customers and that:
17 (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire
18 limits without supporting documentation; (c) Silvergate did not perform reputational
19 reviews; (d) Silvergate did not review customers’ culture of compliance;
20 (e) Silvergate did not review customers’ BSA/AML Programs or transaction
21 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
22 customer ownership; (g) Silvergate did not have compliance policies to address the
23 digital currency industry; (h) Silvergate provided no training to employees on KYC
24 or compliance specific to the cryptocurrency industry; (i) because Silvergate did not
25 perform these vetting procedures, it approved sham entities to open accounts and
26 commit fraud, embezzlement, and money-laundering through their Silvergate
27 accounts and the SEN Network, despite the fact that these entities had no internal
28 controls, no compliance programs, and avoided U.S. registration requirements; and

D. False Statements in 2022

1. June 2022 Interview of Defendant Lane

182. On June 2, 2022, Lane appeared on a podcast for investors produced by *Bloomberg* Podcasts. On the Podcast, Lane stated the following:

What is Silvergate known for today? And that is a platform it's a global payments platform that is referred to as the SEN, which is an acronym. SEN stands for the Silvergate Exchange Network and what that is it is a two-sided network where we connect digital asset exchange platforms such as Coinbase and Gemini and Kraken and **FTX We've got all of them all of the major ones, anybody that is serious about regulation. And that's an important distinction because they have to satisfy not only their own legal and regulatory requirements but then we have to verify that that that their compliance programs are sound. . . .**

183. The statements highlighted in paragraph 182 were false, misleading, and omitted material facts. Contrary to Lane's statements, (i) FTX was not "serious about regulation"; and (ii) Silvergate did not "verify" that "FTX" and its other digital asset exchange platforms' "compliance programs are sound." *See* Section IV.D-F, *supra*.

184. The statements highlighted in paragraph 182 also omitted material facts when made, including that Silvergate failed to ensure prospective customers were serious about regulation and that: (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire limits without supporting documentation; (c) Silvergate did not perform reputational reviews; (d) Silvergate did not review customers' culture of compliance; (e) Silvergate did not review customers' BSA/AML Programs or transaction monitoring to ensure they existed and were sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did

1 not have compliance policies to address the digital currency industry; (h) Silvergate
2 provided no training to employees on KYC or compliance specific to the
3 cryptocurrency industry; (i) because Silvergate failed to perform these procedures,
4 it approved clearly fraudulent customers to use the SEN Network that were anything
5 but serious about regulation, including entities like FTX, Alameda, and North
6 Dimension; and [REDACTED]

7 [REDACTED]
8 [REDACTED]
9 185. The statements highlighted in paragraph 182 omitted additional
10 material facts when made, including that Silvergate did not perform ongoing
11 monitoring of its customers to ensure their compliance programs operated soundly,
12 and that: (a) Silvergate did not perform daily BSA/AML alerts monitoring; (b)
13 Silvergate did not perform daily news monitoring; (c) Silvergate did not perform
14 customer counterparty reviews; (d) Silvergate did not perform negative news
15 reviews; (e) Silvergate did not perform quarterly account activity reviews; (f)
16 Silvergate did not perform customer risk scoring; (g) Silvergate did not perform
17 annual company reviews; (h) Silvergate did not perform anomaly testing and
18 detection; (i) Silvergate did not evaluate customers' ability to actively monitor the
19 flow of funds of their own customers; (j) Silvergate did not implement AML
20 software designed to detect red flags specific to various customer types and
21 activities; (k) when individual employees would raise concerns about suspicious or
22 anomalous activity, Silvergate management would not close accounts; (l) Silvergate
23 did not investigate reports from customers and other banks about unauthorized
24 transaction requests; (m) because Silvergate did not perform this monitoring, it
25 allowed FTX to continue to embezzle money through the SEN Network when its
26 customers diverted funds into the Silvergate accounts of Alameda and North
27 Dimension that FTX employees then used to purchase homes and personal items in
28 the Bahamas; (n) because Silvergate did not perform this monitoring, it allowed

1 entities to continue to commit fraud, embezzlement, and money-laundering through
 2 their Silvergate accounts despite significant red flags; and [REDACTED]

3 [REDACTED]
 4 [REDACTED]
 5 **2. June 2022 Crypto + Banks: The Frontier of Money**
 6 **Movement Interview**

7 186. On June 13, 2022, Silvergate’s Managing Director of Digital Currency
 8 appeared on behalf of Silvergate on the program titled “Crypto + Banks: The
 9 Frontier of Money Movement.” During the program, Silvergate stated that, when
 10 onboarding a customer, Silvergate is “really looking to understand that the
 11 [customer’s] pillars of AML compliance are well-designed and functioning”;
 12 “evaluate[s] the source of wealth, the source of funds”; and “understand[s] the
 13 reasonableness of the trading patterns or the churn through [the customers’] fiat
 14 accounts.”¹⁴⁹

15 187. The statements identified in paragraph 186 were false, misleading, and
 16 omitted material facts. Contrary to these statements, (i) Silvergate did not
 17 “understand that the [customer’s] pillars of AML compliance are well-designed and
 18 functioning”; (ii) did not “evaluate the source of [its customers’] wealth, the source
 19 of funds”; and (iii) did not “understand[] the reasonableness of the trading patterns
 20 or the churn through [the customers’] fiat accounts.” *See* Section IV.D-F, *supra*.

21 ¹⁴⁹ Benjamin Richman was Silvergate’s Managing Director of Digital Currency from
 22 January 2020 through the end of the Class Period, and was specifically hired to
 23 oversee crypto customer growth for Silvergate and key client relationships, taking
 24 over the role from Reynolds. Defendant Lane told *CoinDesk* that Richman was the
 25 Bank’s first hire in the “pure crypto space.” Lane also told *CoinDesk* that hiring
 26 Richman purportedly showed Silvergate’s commitment to serving a niche where
 27 most banks fear to tread, owing in part to the high costs of anti-money-laundering,
 28 know-your-customer and Bank Secrecy Act compliance. Throughout the Class
 Period, Richman publicly spoke on behalf of Silvergate numerous times, holding
 himself out as someone with intimate knowledge about the Company’s business
 practices.

1 188. The statements identified in paragraph 186 also omitted material facts
2 when made, including that Silvergate failed to perform due diligence of its
3 prospective customers, and that: (a) Silvergate performed no site visits;
4 (b) Silvergate allowed clients to dictate wire limits without supporting
5 documentation; (c) Silvergate did not perform reputational reviews; (d) Silvergate
6 did not review customers' culture of compliance; (e) Silvergate did not review
7 customers' BSA/AML Programs or transaction monitoring to ensure they existed
8 and were sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did
9 not have compliance policies to address the digital currency industry; (h) Silvergate
10 provided no training to employees on KYC or compliance specific to the
11 cryptocurrency industry; (i) because Silvergate did not perform these vetting
12 procedures, it approved sham entities to open accounts and commit fraud,
13 embezzlement, and money-laundering through their Silvergate accounts and the
14 SEN Network, despite the fact that these entities had no internal controls, no
15 compliance programs, and avoided U.S. registration requirements; and [REDACTED]

16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 189. The statements identified in paragraph 186 omitted additional material
20 facts when made, including that Silvergate did not monitor its customers to evaluate
21 transaction activity or assess AML compliance, and that: (a) Silvergate did not
22 perform daily BSA/AML alerts monitoring; (b) Silvergate did not perform daily
23 news monitoring; (c) Silvergate did not perform customer counterparty reviews;
24 (d) Silvergate did not perform negative news reviews; (e) Silvergate did not perform
25 quarterly account activity reviews; (f) Silvergate did not perform customer risk
26 scoring; (g) Silvergate did not perform annual company reviews; (h) Silvergate did
27 not perform anomaly testing and detection; (i) Silvergate did not evaluate customers'
28 ability to actively monitor the flow of funds of their own customers; (j) Silvergate

1 did not implement AML software designed to detect red flags specific to various
 2 customer types and activities; (k) when individual employees would raise concerns
 3 about suspicious or anomalous activity, Silvergate management would not close
 4 accounts; (l) Silvergate did not investigate reports from customers and other banks
 5 about unauthorized transaction requests; (m) because Silvergate did not perform this
 6 monitoring, it allowed entities to continue to commit fraud, embezzlement, and
 7 money-laundering through their Silvergate accounts despite significant red flags;
 8 and [REDACTED]

11 3. June 2022 *CNBC* Interview of Defendant Lane

12 190. On June 28, 2022, Defendant Lane participated on *CNBC* to discuss
 13 Silvergate's stock. During the interview, Defendant Lane stated the following:

14 Silvergate complies obviously with federal and state regulations. And
 15 we essentially, we need our customers – **we require them to comply**
 16 **as well. So, we only bank institutions that are serious about**
regulation.

17 191. Defendant Lane's statements highlighted in paragraph 190 were false,
 18 misleading, and omitted material facts. Contrary to Defendant Lane's statements,
 19 (i) Silvergate did not "require [its customers] to comply" with "federal and state
 20 regulations"; and (ii) Silvergate did not "only bank institutions that are serious about
 21 regulation." *See* Section IV.D-F, *supra*.

22 192. The statements highlighted in paragraph 190 also omitted material facts
 23 when made, including that Silvergate failed to perform due diligence of its
 24 prospective customers, and that: (a) Silvergate performed no site visits;
 25 (b) Silvergate allowed clients to dictate wire limits without supporting
 26 documentation; (c) Silvergate did not perform reputational reviews; (d) Silvergate
 27 did not review customers' culture of compliance; (e) Silvergate did not review
 28

1 customers' BSA/AML Programs or transaction monitoring to ensure they existed
2 and were sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did
3 not have compliance policies to address the digital currency industry; (h) Silvergate
4 provided no training to employees on KYC or compliance specific to the
5 cryptocurrency industry; (i) because Silvergate did not perform these vetting
6 procedures, it approved sham entities to open accounts and commit fraud,
7 embezzlement, and money-laundering through their Silvergate accounts and the
8 SEN Network, despite the fact that these entities had no internal controls, no
9 compliance programs, and avoided U.S. registration requirements and [REDACTED]

10 [REDACTED]
11 [REDACTED]
12 193. The statements highlighted in paragraph 190 omitted additional
13 material facts when made, including that Silvergate did not monitor its customers to
14 assess customers' AML compliance, and that: (a) Silvergate did not perform daily
15 BSA/AML alerts monitoring; (b) Silvergate did not perform daily news monitoring;
16 (c) Silvergate did not perform customer counterparty reviews; (d) Silvergate did not
17 perform negative news reviews; (e) Silvergate did not perform quarterly account
18 activity reviews; (f) Silvergate did not perform customer risk scoring; (g) Silvergate
19 did not perform annual company reviews; (h) Silvergate did not perform anomaly
20 testing and detection; (i) Silvergate did not evaluate customers' ability to actively
21 monitor the flow of funds of their own customers; (j) Silvergate did not implement
22 AML software designed to detect red flags specific to various customer types and
23 activities; (k) when individual employees would raise concerns about suspicious or
24 anomalous activity, Silvergate management would not close accounts; (l) Silvergate
25 did not investigate reports from customers and other banks about unauthorized
26 transaction requests; (m) because Silvergate did not perform this monitoring, it
27 allowed entities to continue to commit fraud, embezzlement, and money-laundering
28 through their Silvergate accounts despite significant red flags; and (n) because

1 [REDACTED]
 2 [REDACTED]
 3 **4. November 2022 Public Letter from Defendant Lane**

4 194. On November 21, 2022, Defendant Lane published a signed public
 5 letter posted on Silvergate's website. In the letter, Defendant Lane stated the
 6 following:

7 **Compliance. Our business starts by knowing our customers, their**
 8 **business and the activity they plan to conduct at our institution.**
 9 **Once we approve a new customer, if the activity in their account**
 10 **does not match the activity that we expect based on our initial**
 11 **approval, we take immediate action up to and including**
 12 **terminating that relationship. No exceptions.**

13 195. Defendant Lane's statements highlighted in paragraph 194 were false,
 14 misleading, and omitted material facts. Contrary to Defendant Lane's statements,
 15 (i) Silvergate did not conduct the necessary vetting to "know[] our customers, their
 16 business and the activity they plan to conduct at our institution"; and (ii) Silvergate
 17 did not "take immediate action up to and including terminating that relationship,"
 18 with "No exceptions," if the "activity in their [customers'] account does not match
 19 the activity that [it] expect[ed] based on [Silvergate's] initial approval." *See* Section
 20 IV.D-F, *supra*.

21 196. The statements highlighted in paragraph 194 also omitted material facts
 22 when made, including that Silvergate failed to perform vetting to know its
 23 customers, and that: (a) Silvergate performed no site visits; (b) Silvergate allowed
 24 clients to dictate wire limits without supporting documentation; (c) Silvergate did
 25 not perform reputational reviews; (d) Silvergate did not review customers' culture
 26 of compliance; (e) Silvergate did not review customers' BSA/AML Programs or
 27 transaction monitoring to ensure they existed and were sound; (f) Silvergate did not
 28 verify customer ownership; (g) Silvergate did not have compliance policies to
 address the digital currency industry; (h) Silvergate provided no training to

1 employees on KYC or compliance specific to the cryptocurrency industry;
2 (i) because Silvergate did not perform these vetting procedures, it approved sham
3 entities to open accounts and commit fraud, embezzlement, and money-laundering
4 through their Silvergate accounts and the SEN Network, despite the fact that these
5 entities had no internal controls, no compliance programs, and avoided U.S.
6 registration requirements; and [REDACTED]

7 [REDACTED]
8 [REDACTED]
9 197. The statements highlighted in paragraph 194 omitted additional
10 material facts when made, including that Silvergate did not monitor its customers to
11 assess customers' activity, and that: (a) Silvergate did not perform daily BSA/AML
12 alerts monitoring; (b) Silvergate did not perform daily news monitoring; (c)
13 Silvergate did not perform customer counterparty reviews; (d) Silvergate did not
14 perform negative news reviews; (e) Silvergate did not perform quarterly account
15 activity reviews; (f) Silvergate did not perform customer risk scoring; (g) Silvergate
16 did not perform annual company reviews; (h) Silvergate did not perform anomaly
17 testing and detection; (i) Silvergate did not evaluate customers' ability to actively
18 monitor the flow of funds of their own customers; (j) Silvergate did not implement
19 AML software designed to detect red flags specific to various customer types and
20 activities; (k) when individual employees would raise concerns about suspicious or
21 anomalous activity, Silvergate management would not close accounts; (l) Silvergate
22 did not investigate reports from customers and other banks about unauthorized
23 transaction requests; (m) because Silvergate did not perform this monitoring, it
24 allowed entities to continue to commit fraud, embezzlement, and money-laundering
25 through their Silvergate accounts despite significant red flags; and [REDACTED]

1 **5. December 2022 Public Letter from Defendant Lane**

2 198. On December 5, 2022, Defendant Lane published a signed public letter,
3 which was posted on Silvergate’s website and filed with the SEC on Form 8-K. In
4 the letter, Defendant Lane stated:

5 We take risk management and compliance extremely seriously.
6 Silvergate operates in accordance with the Bank Secrecy Act and the
7 USA PATRIOT Act. **For each and every account**, these laws require
8 us to **determine the beneficial owner, the source of funds, and the
purpose and expected use of funds.**

9 199. Defendant Lane’s statements highlighted in paragraph 198 were false,
10 misleading, and omitted material facts. Contrary to Defendant Lane’s statements,
11 Silvergate did not “determine the beneficial owner, the source of funds, and the
12 purpose and expected use of funds” for “each and every account.” *See* Section IV.D-
13 F, *supra*.

14 200. The statements highlighted in paragraph 198 also omitted material facts
15 when made, including that Silvergate did not vet its prospective customers, and that:
16 (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire
17 limits without supporting documentation; (c) Silvergate did not perform reputational
18 reviews; (d) Silvergate did not review customers’ culture of compliance;
19 (e) Silvergate did not review customers’ BSA/AML Programs or transaction
20 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
21 customer ownership; (g) Silvergate did not have compliance policies to address the
22 digital currency industry; (h) Silvergate provided no training to employees on KYC
23 or compliance specific to the cryptocurrency industry; (i) because Silvergate did not
24 perform these vetting procedures, it approved sham entities to open accounts and
25 commit fraud, embezzlement, and money-laundering through their Silvergate
26 accounts and the SEN Network, despite the fact that these entities had no internal
27 controls, no compliance programs, and avoided U.S. registration requirements; and
28

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 201. In the December 2022 Letter, Defendant Lane also touted Silvergate's
5 purported "monitoring" of its customers, stating:

6 Silvergate also monitors transaction activity for every account and
7 identifies activity outside of the expected usage.

8 **After accounts are open, we continue to monitor account activity** as
9 part of our enhanced due diligence process on each of these accounts
10 and to **take action when there are red flags**. By performing our risk
11 management procedures and fulfilling our regulatory obligations,
12 Silvergate plays a key role in helping law enforcement identify bad
13 actors. We take this responsibility seriously.

14 202. Defendant Lane's statements highlighted in paragraph 201 were false,
15 misleading, and omitted material facts. Contrary to Defendant Lane's statements,
16 (i) Silvergate did not "monitor[] transaction activity for every account and identif[y]
17 activity outside of the expected usage"; and (ii) Silvergate did not "take action when
18 there are red flags." *See* Section IV.D-F, *supra*.

19 203. The statements highlighted in paragraph 201 omitted additional
20 material facts when made, including that Silvergate did not monitor its customers,
21 and that: (a) Silvergate did not perform daily BSA/AML alerts monitoring; (b)
22 Silvergate did not perform daily news monitoring; (c) Silvergate did not perform
23 customer counterparty reviews; (d) Silvergate did not perform negative news
24 reviews; (e) Silvergate did not perform quarterly account activity reviews;
25 (f) Silvergate did not perform customer risk scoring; (g) Silvergate did not perform
26 annual company reviews; (h) Silvergate did not perform anomaly testing and
27 detection; (i) Silvergate did not evaluate customers' ability to actively monitor the
28 flow of funds of their own customers; (j) Silvergate did not implement AML
software designed to detect red flags specific to various customer types and

1 activities; (k) when individual employees would raise concerns about suspicious or
2 anomalous activity, Silvergate management would not close accounts; (l) Silvergate
3 did not investigate reports from customers and other banks about unauthorized
4 transaction requests; (m) because Silvergate did not perform this monitoring, it
5 allowed entities to continue to commit fraud, embezzlement, and money-laundering
6 through their Silvergate accounts despite significant red flags; and [REDACTED]

7 [REDACTED]
8 [REDACTED]
9 204. Finally, in the December 2022 Letter, Defendant Lane made specific
10 representations that Silvergate purportedly “conducted extensive due diligence on
11 FTX and Alameda Research,” assuring investors:

12 **Silvergate conducted significant due diligence on FTX and its**
13 **related entities including Alameda, both during the onboarding**
14 **process and through ongoing monitoring,** in accordance with our risk
15 management policies and procedures and the requirements outlined
above.

16 205. Defendant Lane’s statements highlighted in paragraph 204 were false,
17 misleading, and omitted material facts. Contrary to Defendant Lane’s statements,
18 Silvergate did not “conduct[] significant due diligence on FTX and its related entities
19 including Alameda Research, both during the onboarding process and through
20 ongoing monitoring.” *See* Section IV.D-F, *supra*.

21 206. The statements highlighted in paragraph 204 also omitted material facts
22 when made, including that Silvergate failed to vet FTX or its related entities, and
23 that: (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate
24 wire limits without supporting documentation; (c) Silvergate did not perform
25 reputational reviews; (d) Silvergate did not review customers’ culture of compliance;
26 (e) Silvergate did not review customers’ BSA/AML Programs or transaction
27 monitoring to ensure they existed and were sound; (f) Silvergate did not verify
28

1 customer ownership; (g) Silvergate did not have compliance policies to address the
2 digital currency industry; (h) Silvergate provided no training to employees on KYC
3 or compliance specific to the cryptocurrency industry; (i) because Silvergate failed
4 to perform these procedures, it approved FTX, Alameda, and North Dimension
5 despite the fact that (1) Sam Bankman-Fried owned and controlled all three and ran
6 his entities like a personal fiefdom, spending no time or effort to manage risk;
7 (2) North Dimension was a fake electronics website created at Bankman-Fried's
8 direction that did not even purport to be in the cryptocurrency industry, was full of
9 typos, did not actually sell products, and had no employees or physical location;
10 (3) the entities had a complete absence of internal controls or compliance programs;
11 and (4) the entities had no accounting department or systems or controls to monitor
12 money or assets, and instead used QuickBooks and a hodgepodge of other non-
13 enterprise solutions as their internal accounting system; (j) because Silvergate did
14 not perform these vetting procedures, it approved additional sham entities to open
15 accounts and commit fraud, embezzlement, and money-laundering through their
16 Silvergate accounts and the SEN Network, despite the fact that these entities had no
17 internal controls, no compliance programs, and avoided U.S. registration
18 requirements; and [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 207. The statements highlighted in paragraph 204 omitted additional
22 material facts when made, including that Silvergate did not perform ongoing
23 monitoring of its customers to ensure their compliance programs operated soundly,
24 and that: (a) Silvergate did not perform daily BSA/AML alerts monitoring; (b)
25 Silvergate did not perform daily news monitoring; (c) Silvergate did not perform
26 customer counterparty reviews; (d) Silvergate did not perform negative news
27 reviews; (e) Silvergate did not perform quarterly account activity reviews; (f)
28 Silvergate did not perform customer risk scoring; (g) Silvergate did not perform

1 annual company reviews; (h) Silvergate did not perform anomaly testing and
 2 detection; (i) Silvergate did not evaluate customers' ability to actively monitor the
 3 flow of funds of their own customers; (j) Silvergate did not implement AML
 4 software designed to detect red flags specific to various customer types and
 5 activities; (k) when individual employees would raise concerns about suspicious or
 6 anomalous activity, Silvergate management would not close accounts; (l) Silvergate
 7 did not investigate reports from customers and other banks about unauthorized
 8 transaction requests; (m) because Silvergate did not perform this monitoring, it
 9 allowed FTX to continue to embezzle money through the SEN Network when its
 10 customers diverted funds into the Silvergate accounts of Alameda and North
 11 Dimension that FTX employees then used to purchase homes and personal items in
 12 the Bahamas; (n) because Silvergate did not perform this monitoring, it allowed
 13 entities to continue to commit fraud, embezzlement, and money-laundering through
 14 their Silvergate accounts despite significant red flags; and [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 **E. False Statements in 2023**

18 **1. January 2023 "Business Update" Call**

19 208. On January 5, 2023, Defendant Lane spoke to investors and securities
 20 analysts during a "Business Update Call." During the investor call, an analyst from
 21 Morgan Stanley stated to Defendant Lane: "I was hoping you can provide a general
 22 overview on the steps you take on the AML, KYC side before you onboard a
 23 customer." In response, Defendant Lane stated:

24 This question has been really well covered in the past. We obviously
 25 take our – what am I trying to say here? Sorry, I got distracted. **We**
 26 **have KYC requirements, which includes the initial onboarding. It**
 27 **then also includes monitoring transactions on an ongoing basis.**
 28 **And so a lot of – as you said, the misinformation out there is,**
candidly, very frustrating. We follow the Bank Secrecy Act, the

USA PATRIOT Act for every account that we open. And we conduct ongoing monitoring.

209. Defendant Lane's statements highlighted in paragraph 208 were false, misleading, and omitted material facts. Contrary to Defendant Lane's statements, (i) Silvergate did not adhere to "KYC requirements," including during "initial onboarding"; and (ii) Silvergate did not "monitor[] transactions on an ongoing basis" or "conduct ongoing monitoring." *See* Section IV.D-F, *supra*.

210. The statements highlighted in paragraph 208 also omitted material facts when made, including that Silvergate did not get to know its prospective customers, and that: (a) Silvergate performed no site visits; (b) Silvergate allowed clients to dictate wire limits without supporting documentation; (c) Silvergate did not perform reputational reviews; (d) Silvergate did not review customers' culture of compliance; (e) Silvergate did not review customers' BSA/AML Programs or transaction monitoring to ensure they existed and were sound; (f) Silvergate did not verify customer ownership; (g) Silvergate did not have compliance policies to address the digital currency industry; (h) Silvergate provided no training to employees on KYC or compliance specific to the cryptocurrency industry; (i) because Silvergate did not perform these vetting procedures, it approved sham entities to open accounts and commit fraud, embezzlement, and money-laundering through their Silvergate accounts and the SEN Network, despite the fact that these entities had no internal controls, no compliance programs, and avoided U.S. registration requirements; and

[REDACTED]

[REDACTED]

[REDACTED]

211. The statements highlighted in paragraph 208 omitted additional material facts when made, including that Silvergate did not monitor its customers, and that: (a) Silvergate did not perform daily BSA/AML alerts monitoring; (b) Silvergate did not perform daily news monitoring; (c) Silvergate did not perform

customer counterparty reviews; (d) Silvergate did not perform negative news reviews; (e) Silvergate did not perform quarterly account activity reviews; (f) Silvergate did not perform customer risk scoring; (g) Silvergate did not perform annual company reviews; (h) Silvergate did not perform anomaly testing and detection; (i) Silvergate did not evaluate customers' ability to actively monitor the flow of funds of their own customers; (j) Silvergate did not implement AML software designed to detect red flags specific to various customer types and activities; (k) when individual employees would raise concerns about suspicious or anomalous activity, Silvergate management would not close accounts; (l) Silvergate did not investigate reports from customers and other banks about unauthorized transaction requests; (m) because Silvergate did not perform this monitoring, it allowed entities to continue to commit fraud, embezzlement, and money-laundering through their Silvergate accounts despite significant red flags; and [REDACTED]

VI. ADDITIONAL ALLEGATIONS OF SCIENTER

212. A host of facts, in addition to those discussed above, support a strong inference that Defendants Lane and Silvergate knew or, at minimum, were severely reckless in not knowing the truth about Silvergate's "vetting," "due diligence," and "ongoing monitoring."

213. *Defendant Lane repeatedly singled out the Bank's purported due diligence as a top reason to buy its stock.* Professing to know what he was talking about, Defendant Lane stressed to investors over and over—on at least a dozen separate instances during the Class Period—the strength and importance of the Bank's purported due diligence and monitoring of its customers. In at least ten filings submitted to the SEC during the Class Period, Defendant Lane represented that the Bank maintained a "deep rooted commitment and proprietary approach to regulatory compliance." Silvergate's filings with the SEC further identified the

1 Bank's supposed "ongoing monitoring of customer activities and evaluating a
2 market participant's ability to actively monitor the flow of funds of their own
3 customers" as "a distinct competitive advantage for us" and a "meaningful barrier to
4 entry against our potential competitors."¹⁵⁰

5 214. Additionally, in their public presentations, Defendants Lane and
6 Silvergate identified the Bank's "Leading Compliance Framework" to investors as
7 one of the three, basic components of Silvergate's "Model." *See* Figure 8, *infra*.
8 Lane similarly identified the Bank's "Robust Compliance Framework" as one of the
9 main "Investment Highlights" for shareholders. *See* Figure 9, *infra*. Lane impressed
10 upon investors during his quarterly financial presentations that "our compliance
11 process . . . is the cornerstone of our leading position today."¹⁵¹



21 **Figure 8.** Slide from Silvergate, Registration Statement (Nov. 16, 2018).

27 ¹⁵⁰ *See, e.g.*, Silvergate, Registration Statement (Nov. 16, 2018).

28 ¹⁵¹ Silvergate, Investor Presentation (Jan. 28, 2021).



Figure 9. Slide from Lane’s quarterly investor PowerPoint Presentations.

215. What’s more, Defendant Lane falsely described—in detail—the specific due diligence practices that the Bank supposedly performed as a reason to buy the Bank’s stock. Each quarter, in investor presentations, Lane identified as an “Investment Highlight” the Bank’s “Robust Compliance Framework,” and Lane falsely detailed to investors what the Bank’s compliance process supposedly consisted of—including a “review of [the] organization’s culture of compliance,” a “site visit,” a review of the organization’s “BSA/AML Program,” “Enhanced Due Diligence,” and “Counterparty Review[s].”¹⁵²

216. That Defendant Lane, the Company’s chief spokesperson on the topic, repeatedly—and falsely—represented to investors the details and importance of the Bank’s due diligence for years strengthens the scienter inference. Either Lane knew his statements were false or, at minimum, was severely reckless in not finding out the truth before repeatedly speaking to investors on the subject.

¹⁵² *Id.*

217. *Defendants Lane and Silvergate flouted the Bank's stated commitments to diligence processes and procedures.* Despite repeatedly assuring investors that customer diligence was its top priority and a primary reason to buy the Bank's stock, Lane and Silvergate disregarded these processes and procedures for years and in every meaningful respect. Silvergate's former employees have reported that the Bank performed no onboarding diligence, including no site visits, no confirmation of requested wire limits, and no review of customers' compliance programs or culture; performed no monitoring, including no transaction monitoring; performed no quarterly or annual reviews; had no policies and procedures in place to address the cryptocurrency industry; had no training in place for Silvergate employees on KYC or compliance specific to the cryptocurrency industry; and never performed customer diligence on major cryptocurrency exchange customers, including FTX. *See* Section IV.D, *supra*. These former employee accounts are corroborated and further demonstrated by the fact that Silvergate permitted onto the SEN Network fraudulent and sham entities, entities that lacked compliance controls, unlicensed entities, and entities that engaged in widespread money laundering and other illegal activities, including FTX and its related entities, Binance, Huobi, Nexo, Hamilton Opportunity Fund SPC and Hamilton Investment Management Ltd., Virgil Sigma Fund and VQR, Bittrex, Paxos and OSL Digital, and many others. *See, e.g.,* Section IV.E-F, *supra*. [REDACTED]

[REDACTED] And, when it first learned the truth, the DOJ initiated an ongoing investigation, and a bipartisan group of senators sent letters to Lane and Silvergate lambasting them for their basic failures. *See* ¶¶133, 141.

218. That Defendants Lane and Silvergate so extremely failed to conduct these customer diligence procedures, while repeatedly and publicly emphasizing the importance of each of them, strengthens the inference of scienter.

1 219. *Silvergate received regular subpoenas from the U.S. Attorney's Office*
 2 *concerning the activity of its cryptocurrency customers, including Alameda.* FE
 3 4, Silvergate's VP of Deposit Operations, explained how, beginning in 2018,
 4 Silvergate received 10 to 20 subpoenas per month from the U.S. Attorney's office.
 5 The subpoenas related to customers' wires that came into Silvergate, including for
 6 Alameda. FE 4 contrasted her experience at Silvergate with another bank she used
 7 to work for, which would, instead, receive one or two subpoenas a month—and
 8 usually just spouses serving subpoenas against each other. FE 4 noted that, when
 9 she later saw the news reports about Alameda, FE 4 thought, "Oh my God, I
 10 remember them, we got subpoenas on them."

11 220. FE 4 knew about these subpoenas because, in her role as Silvergate's
 12 VP of Deposit Operations, she received them and dealt with many special agents.
 13 Each month, FE 4 informed the Bank's most senior management of the subpoenas,
 14 including Dina Matias, Silvergate's Senior Vice President, Operations
 15 Administrator, who reported to Elaine Hetrick, Silvergate's Chief Administrative
 16 Officer. As FE 4 explained, these subpoenas should have raised red flags to
 17 Silvergate and its management.

18 221. [REDACTED]
 19 [REDACTED]
 20 [REDACTED]
 21 [REDACTED]
 22 [REDACTED]
 23 [REDACTED]
 24 [REDACTED]
 25 [REDACTED]
 26 [REDACTED]
 27 [REDACTED]
 28 [REDACTED]

1 222. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 223. [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 224. *Defendants Silvergate and Lane knew the devastating potential*
23 *consequences of a failure to conduct the represented diligence on its customers.*
24 Defendant Lane knew what both KYC and AML diligence required, stating that they
25 are “ways of kind of saying the same thing, which is making sure that you know who
26 your customers are and making sure that you’re not in any way providing funding,
27
28

1 financing etc. for illicit activity.”¹⁵³ Lane further knew—and recognized publicly—
 2 that Silvergate would suffer “really severe” fines if it failed to conduct the
 3 represented due diligence, stating that “[y]ou can essentially put the entire bank at
 4 jeopardy.”¹⁵⁴

5 225. Given the importance of KYC and AML, it is impossible to believe that
 6 Lane did not know that the Bank—contrary to his statements to investors—did not
 7 actually vet, conduct due diligence on, or monitor its cryptocurrency exchange
 8 customers. To the extent that Lane did not look to find out whether it did so, he was,
 9 at minimum, severely reckless for his failure to obtain such information, particularly
 10 before speaking to investors on this critical subject.

11 226. *Defendant Lane emphasized his purported personal involvement in*
 12 *the Bank’s monitoring and due diligence.* Defendant Lane represented to investors
 13 that he was a hands-on executive, personally involved in monitoring the activity at
 14 the Bank and on the SEN Network. For example, in a September 24, 2021 interview
 15 on *The Blockchain Interview Series*, he emphasized: “*I* watch the number of
 16 transactions [on the SEN Network], *I* watch the dollar value of transactions, *I* watch
 17 our deposit levels, *I* watch FX transactions, *I* watch SEN leverage.”¹⁵⁵

18 227. Defendant Lane further told investors that he—along with his
 19 Silvergate colleagues—was personally involved in vetting the customers on the SEN
 20 Network. During a September 14, 2021 Barclays Financial Services Conference,
 21 for example, Lane stated that “if *we* can’t get comfortable with a company’s
 22 regulatory stature, then *we* don’t bank them” and “that *we* were vetting all of our
 23 customers from KYC, anti-money laundering, Bank Secrecy Act, *et cetera*.”¹⁵⁶

24 _____
 25 ¹⁵³ *What Bitcoin Did: Banking the Corporate Unbanked with Alan Lane* (July 30,
 2019).

26 ¹⁵⁴ *Id.*

27 ¹⁵⁵ *The Blockchain Interview series hosted by Dan Weiskopf featuring Alan Lane of*
Silvergate, ETF Think Tank (Sept. 24, 2021).

28 ¹⁵⁶ “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14,
 2021).

1 During a *CNBC* interview, he again emphasized that “*we* only bank institutions that
 2 are serious about regulation.”¹⁵⁷ And, again, in a December 5, 2022 public letter,
 3 Lane represented that “*we* conducted extensive due diligence on FTX and Alameda
 4 Research” and “*we* continue to monitor account activity as part of our enhanced due
 5 diligence process on each of these accounts and to take action when there are red
 6 flags.”¹⁵⁸

7 228. Having identified himself as intimately involved in the SEN Network
 8 and the Bank’s due diligence, Defendant Lane knew or, at minimum, was severely
 9 reckless in not knowing, of the Bank’s failure to vet, conduct due diligence on, and
 10 monitor its customers and their activity.

11 229. *Many of Defendants’ misrepresentations were made in direct*
 12 *response to questions by financial analysts, who were intently focused on*
 13 *Silvergate’s purported due diligence.* Defendants’ misstatements to investors
 14 concerning Silvergate’s due diligence were trusted and repeated—often verbatim—
 15 in publicly-available research reports published by prominent financial analysts
 16 deciding whether to recommend Silvergate’s stock. Among others, J.P. Morgan,
 17 Compass Point Research & Trading, and Craig-Hallum Capital Group highlighted
 18 in their analyst reports Silvergate’s “due diligence” in advising that investors “BUY”
 19 the Bank’s stock. For example, in its analyst reports, Compass Point included a
 20 three-page description of Silvergate’s purported “regulatory compliance,” “due
 21 diligence and onboarding processes,” and “selective[ness] in the customer
 22 onboarding process”—concluding that Silvergate’s “compliance capabilities” are “a
 23 distinct competitive advantage and . . . a meaningful barrier to entry.”

24 230. Additionally, many of Defendants’ misrepresentations at issue in this
 25 case were made in response to analyst inquiries. For example, on September 14,

27 ¹⁵⁷ *CNBC* Interview by Squawk on the Street with Alan Lane, CEP, Silvergate (June
 28 28, 2022).

¹⁵⁸ Silvergate, Form 8-K (Dec. 5, 2022).

2021, in response to questioning from a Barclays analyst, Lane falsely responded, “if we can’t get comfortable with a company’s regulatory stature, then we don’t bank them” and “we were vetting all of our customers from KYC, anti-money laundering, Bank Secrecy Act, *et cetera*.”¹⁵⁹ Again, on January 5, 2023, in response to questioning from a Morgan Stanley analyst about “the steps you take on the AML/KYC side before you onboard a customer,” Lane falsely represented that “for every account that we open . . . we conduct ongoing monitoring.”¹⁶⁰ As another example, on July 30, 2019, in response to questioning during the podcast *What Bitcoin Did Podcast*, Lane stated that “if you get an account at Silvergate, then we’ve gone through the process of vetting you” and “we’re kind of like the good housekeeping seal of approval.”¹⁶¹

231. That Defendant Lane made many of the false and misleading representations at issue in this case in direct response to questions from concerned analysts and market participants further strengthens the scienter inference.

232. ***Defendants’ misrepresentations concerned its core businesses.*** The SEN Network, by Lane’s own account, was Silvergate’s “flagship product” and “what [Silvergate was] known for in this ecosystem.”¹⁶² By indiscriminately allowing entities onto its SEN Network without conducting the represented due diligence, Lane transformed Silvergate from a small, local bank into a behemoth in the banking sector, with over \$14 billion in deposits by 2021. As Lane admitted during a Barclays Financial Services Conference, “all of that growth has really been on the back of SEN.” Lane later added that the SEN Network has been “the driver

¹⁵⁹ “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021).

¹⁶⁰ “Silvergate Capital Corp. at Business Update Call” (Jan. 5, 2023).

¹⁶¹ *Banking the Corporate Unbanked with Alan Lane*, What Bitcoin Did (July 30, 2019).

¹⁶² “Silvergate Capital Corp. at Barclays Financial Services Conference” (Sept. 14, 2021); *Banking the Corporate Unbanked with Alan Lane*, What Bitcoin Did (July 30, 2019).

1 of our strategy over the last several years” and that “98% or 99%” of Silvergate’s
2 deposits were crypto-related.¹⁶³

3 233. That Defendants’ false and misleading statements concerned the
4 centerpiece of its business—and the source of nearly all of its \$14 billion in
5 deposits—further strengthens the scienter inference.

6 234. ***FTX was one of Silvergate’s most important customers.*** Silvergate
7 benefitted significantly by not conducting diligence on FTX and, instead, approving
8 its participation on the SEN Network. FTX was a major source of the Bank’s
9 deposits—with approximately 17% of the Bank’s overall deposits—about \$2.11
10 billion—coming alone from FTX and its related entities. Silvergate recognized
11 FTX’s import to the Bank during media interviews, with Lane singling out “FTX”
12 as one of the three “major” exchanges approved to use the SEN Network and
13 praising it for being “serious about regulation.”¹⁶⁴ Silvergate also identified FTX,
14 by name, on its website as one of its most important customers (*see* Figure 2, *supra*)
15 and even featured a quote from FTX’s now-infamous CEO, Bankman-Fried,
16 promoting FTX and Silvergate (*see id.*, *supra*). As the financial press noted, “this
17 cozy relationship” between FTX and Silvergate “boosted Silvergate’s status and
18 share price.”¹⁶⁵

19 235. Silvergate’s utter failure to vet, conduct due diligence on, and monitor
20 its most important customer—which was singlehandedly responsible for over 17%
21 of its deposits—would hardly go unnoticed by Silvergate’s executives, including
22 Defendant Lane.

23
24
25 ¹⁶³ Oppenheimer Blockchain Digital Assets Summit - The Evolution of Digital
26 Assets (Nov. 18, 2021); Market Rebellion, *Roundtable: Banking in the Digital Age*
27 *with Alan Lane* (Nov. 8, 2021).

28 ¹⁶⁴ *Silvergate CEO Alan Lane On the Business of Stablecoin*, Bloomberg Podcasts
(June 2, 2022).

¹⁶⁵ *CoinGeek*, “Feds probe Silvergate bank’s ties to FTX, SBF vs. CZ cage-match
documentary” (Feb. 6, 2023).

236. *Defendants Lane and Silvergate issued specific denials about Silvergate’s failure to conduct due diligence on FTX.* Beginning in November 2022, investors and analysts began questioning whether—in light of developing news reports—Silvergate actually performed due diligence on FTX and Alameda. In response to these inquiries, Defendants Lane and Silvergate doubled down. They made specific and unequivocal representations that “Silvergate conducted significant due diligence on FTX and its related entities including Alameda Research, both during the onboarding process and through ongoing monitoring, in accordance with our risk management policies and procedures.”¹⁶⁶ In response to specific concerns from securities analysts about the Bank’s due diligence on FTX and related entities, Lane assured investors: “We have KYC requirements, which includes the initial onboarding. It then also includes monitoring transactions on an ongoing basis. And so a lot of – as you said, the misinformation out there is, candidly, very frustrating. . . . [W]e conduct ongoing monitoring.”¹⁶⁷

237. That Defendant Lane continued to make specific misrepresentations and conceal the truth—even after the revelations emerged about FTX—yet further strengthens the scienter inference in this case.

238. *Defendant Lane netted many millions of dollars as a result of his misrepresentations.* As discussed above (*see* Section IV.A, *supra*), Silvergate began banking cryptocurrency exchanges to increase its deposits. Without increased deposits, the Bank would have remained a small, community bank. Silvergate and Lane were able to generate increased deposits by onboarding sham entities without vetting, conducting due diligence, or monitoring—including FTX, North Dimension, Alameda, Binance.US, Huobi, Nexo, Hamilton Opportunity Fund SPC and Hamilton Investment Management Ltd., Virgil Sigma Fund and VQR, Bittrex, Paxos and OSL Digital, and many others. Their plan worked: by the end of

¹⁶⁶ Silvergate, Form 8-K (Dec. 5, 2022).

¹⁶⁷ “Silvergate Capital Corp. Business Update Call” (Jan. 5, 2023).

1 September 2022, deposits from crypto customers ballooned to \$11.9 billion,
2 constituting over 90% of the Bank’s overall deposit base.

3 239. When Silvergate’s deposits skyrocketed, so too did its stock price.
4 Between the end of 2019 and November 2021, Silvergate’s stock price increased
5 more than twenty-fold. As the *Financial Times* observed in a December 2022 report,
6 “Barely 10 months after listing on the New York Stock Exchange at the end of 2019,
7 at \$12 a share, Silvergate’s share price had climbed to more than \$200.”¹⁶⁸

8 240. Defendant Lane capitalized on the Company’s misrepresentations, and
9 the resultant soaring stock price. At the same time that he was making glowing
10 representations about the Bank’s due diligence and monitoring, he was selling his
11 own shares. Indeed, Lane sold 249,560 of his personal Silvergate shares during the
12 Class Period—a whopping 76.96% of the total number of shares of Silvergate stock
13 that he owned and could sell during the entire Class Period. None of these sales
14 were made pursuant to a Rule 10b5-1 trading plan, and Lane never once purchased
15 any shares in the open market during the Class Period. Lane’s insider sales included,
16 among others, a sale of 75,000 shares at over \$100 per share on June 8, 2021 for
17 \$7.9 million; a sale of 75,000 shares at over \$100 per share on June 9, 2021 for \$8
18 million; a sale of 11,250 shares at over \$100 per share on June 10, 2021 for \$1.13
19 million; a sale of 1,375 shares at over \$215 per share on November 19, 2021 for over
20 \$300,000; and sales of 16,314 shares on July 21, 2022 at over \$90 per share for
21 another \$1.5 million. In total, through his Class Period insider sales, Lane netted for
22 himself a remarkable \$21.2 million.

23 241. Lane’s well-timed, insider sales have irked investors—and justifiably
24 so. On February 3, 2023, Zacks Investment Research issued a report, titled *A Stock*
25 *with Troubling Insider Selling Trends*, blasting Lane for his sales. As the analyst
26 explained, “Alan Lane, President and CEO of Silvergate, sold all his shares . . . in

27
28 ¹⁶⁸ *Financial Times*, “Silvergate: from tiny local lender to bank behind the crypto boom” (Dec. 9, 2022).

1 July and has yet to purchase any back”; meanwhile, “the company has experienced
 2 more than \$8 billion in client withdrawals after revelations came to light that
 3 Silvergate was involved in business dealings with the now defunct crypto exchange
 4 FTX and its sister company Alameda Research and is now facing a DOJ fraud
 5 investigation.”¹⁶⁹

6 242. In addition to his well-timed insider sales, Defendant Lane’s salary
 7 nearly tripled during the Class Period as a result of his misrepresentations and the
 8 resulting increase in Silvergate’s deposits and stock price. Between 2019 and 2022,
 9 Lane’s salary jumped from \$700,000 to \$1.9 million.

10 243. That Lane made over \$21 million in insider stock sales and \$1.2 million
 11 extra pay as a result of his misrepresentations further supports the scienter inference.

12 244. The foregoing facts particularly when considered collectively (as they
 13 must be) support a strong inference of Silvergate’s and Lane’s scienter.

14 **VII. ADDITIONAL LOSS CAUSATION ALLEGATIONS**

15 245. The fraud alleged herein was the proximate cause of the economic loss
 16 suffered by Plaintiffs and the Class. There was a causal connection between the
 17 alleged fraud and the loss (*i.e.*, stock price declines) described herein.

18 246. During the Class Period, Plaintiffs and the Class members purchased or
 19 otherwise acquired Silvergate common stock at artificially inflated prices, and were
 20 damaged thereby when the price of Silvergate common stock declined as the truth
 21 leaked out and in response to the partial disclosures. Throughout the Class Period,
 22 the price of Silvergate common stock was artificially inflated and/or maintained as
 23 a result of Defendants’ materially false and misleading statements and omissions.
 24 The price of Silvergate common stock significantly declined, causing investors to
 25 suffer losses, in response to a series of partial disclosures concerning or connected
 26 to the facts misrepresented or concealed by Defendants. Throughout the disclosure
 27

28 ¹⁶⁹ Zacks, “A Stock with Troubling Insider Selling Trends” (Feb. 3, 2023).

1 period, Defendants mitigated Silvergate’s stock price declines by making additional
2 false assurances concerning the alleged fraud, as described herein.

3 247. On November 2, 2022, the publication *CoinDesk* released an
4 investigative report that described the “unusually close” ties between two of
5 Silvergate’s customers, FTX and Alameda, as reflected in a leaked internal Alameda
6 financial document. *CoinDesk* noted that “even though [FTX and Alameda] are two
7 separate businesses,” Alameda’s balance sheet included billions of dollars of FTT—
8 *i.e.*, the cryptocurrency token issued and owned by FTX.¹⁷⁰

9 248. Just five days later, after the market closed on November 7, 2022,
10 Silvergate announced the sudden and unexplained replacement of its “Chief Risk
11 Officer,” Tyler Pearson. FTX also announced during trading hours the next day that
12 it had agreed to sell itself to Binance because of FTX’s liquidity crisis in the wake
13 of the news of its connection to Alameda.

14 249. Social media erupted, immediately connecting Pearson’s replacement
15 to FTX and questioning Silvergate’s failure to conduct due diligence on and monitor
16 FTX. Marcus Aurelius Research posted a snapshot of Silvergate’s website with a
17 quote from Sam Bankman-Fried that read, “Life as a crypto firm can be divided up
18 into before Silvergate and after Silvergate—it’s hard to overstate how much it
19 revolutionized banking for blockchain companies.” Marcus Aurelius Research
20 captioned the post, “How long until the new \$SI ‘Risk officer’ takes this down?”
21 Likewise, Marc Cohodes, a popular market commentator and corporate watchdog,
22 explained in a November 8, 2022 post commenting on this news, “When FTX is
23 your largest customer this is a Major problem.”¹⁷¹

24 250. Other market commentators were also concerned, with S&P Global
25 publishing an article that “[s]hares of Silvergate Capital Corp. . . . continued to
26

27 ¹⁷⁰ *CoinDesk*, “Divisions in Sam Bankman-Fried’s Crypto Empire Blur on His
Trading Titan Alameda’s Balance Sheet” (Nov. 2, 2022).

28 ¹⁷¹ Post by Marc Cohodes (Nov. 8, 2022).

1 plunge Nov. 9 as their customer, cryptocurrency exchange FTX Trading Ltd., is
2 allegedly facing a liquidity crunch” and warned of Silvergate’s exposure to FTX.

3 251. In response to this news, the price of Silvergate’s stock fell over a three-
4 day period. On November 8, 2022, the price fell by \$11.54 per share, or 22.65%, to
5 close at \$39.42 on November 8, 2022, erasing more than \$365 million in market
6 capitalization, on trading volume of 8 million shares, more than 10-times the number
7 of shares traded the previous day. As investors continued to digest the news, the
8 price of Silvergate’s stock continued to plummet, dropping by \$4.73 per share, or
9 12.00%, to close at \$34.69, representing another \$149.8 million decline in market
10 capitalization on November 9, 2022, on continued abnormally high trading volume
11 of 7.7 million shares, and by an additional \$2.01 per share, or 5.79%, comprising an
12 additional \$63.6 million decline in market capitalization on November 10, 2022, on
13 continued high trading volume of 7.2 million shares.

14 252. As part of their continuing misrepresentations and attempts to reassure
15 the market, Silvergate and Defendant Lane attempted to isolate FTX as a single
16 customer among its many SEN Network participants, issuing a statement assuring
17 the market that “FTX represented less than 10%” of Silvergate’s total deposits from
18 “all digital asset customers.” The Company also stated that the SEN Network was
19 “fully operational and continues to function as designed,” adding that “[w]e are a
20 key infrastructure provider with an established track record, which gives our
21 customers the confidence they need during times like these.”

22 253. Analysts continued to credit the Company’s statements that it
23 performed vetting, due diligence, and monitoring on its SEN Network customers and
24 that the FTX fraud was an isolated event among its customers. For example, J.P.
25 Morgan analysts accepted Silvergate’s denials, repeating in their analyst reports
26 Lane’s statements that “all participants in the SEN are vetted by Silvergate” and
27 “need[] to pass compliance checks.”
28

1 254. Additional analysts credited Silvergate’s assurances. For example,
2 Canaccord Genuity analysts stated in an analyst report that Silvergate was “relatively
3 immune from FTX fallout” and also pointed out that Silvergate “has over 100 other
4 crypto exchanges as customers” that rely on the SEN Network. Canaccord also
5 reiterated its “BUY” rating for Silvergate and a \$150 price target. Bank of America,
6 although it downgraded its rating of Silvergate’s stock because the FTX/Alameda
7 situation was a “black eye on the broader crypto market.” The analysts also reported,
8 “SI has a comprehensive risk mgmt. framework in place.” Further, citing the
9 Company’s false assurances, J.P. Morgan analysts emphasized that while they knew
10 “FTX is a customer of Silvergate,” Silvergate had issued “no disclosure that
11 Alameda Research is a client of Silvergate.”

12 255. Then, on November 15, 2022, Marcus Aurelius Research revealed
13 additional facts raising concerns about Silvergate’s vetting, diligence, and
14 monitoring of its customers. Specifically, Marcus Aurelius Research revealed that
15 Silvergate had been implicated in a \$425 million money laundering operation by a
16 South American cryptocurrency crime ring linked to smugglers and drug traffickers.
17 Marcus Aurelius Research posted, “Recently subpoenaed Silvergate bank records
18 reveal \$425 million in transfers from \$SI crypto bank accounts to South American
19 money launderers. Affidavit from investigation into crypto crime ring linked to
20 smugglers/drug traffickers.” That same day, Marc Cohodes publicly compared
21 Silvergate’s KYC and AML compliance to that of the banks who did “business with
22 Madoff.”

23 256. On this news, the price of Silvergate’s stock fell by an additional \$6.13
24 per share, or 17.27%, to close at \$29.36 on November 15, 2022, resulting in a loss
25 of \$194.1 million in market capitalization, with trading volume rising to 8.5 million
26 shares, more than four times the daily average for the previous 30 days.

27 257. The next day, on November 16, 2022, *Vox* issued a report showing a
28 recent message exchange with FTX’s former CEO, Bankman-Fried, acknowledging

1 that people could wire money to Alameda's bank account to get money to FTX, and
2 that "people wired \$8 billion to Alameda." That same day, after markets closed,
3 Silvergate disclosed a \$2.1 billion reduction in deposits, after "excluding all deposits
4 from FTX and its related entities."

5 258. On November 17, 2022, EventLongShort, another popular analyst and
6 corporate watchdog, issued a series of postings detailing that, when FTX's
7 customers wanted to transfer funds, they were directed "to send the funds to their
8 bank [at] Silvergate" and that, even though "one should expect the beneficiary
9 account" to be FTX, instead "the beneficiary account on the Silvergate/FTX wire
10 instructions appear[ed] to be Alameda accounts."¹⁷² EventLongShort added that
11 "the accounts FTX customers were told to wire funds to appear to be the Silvergate
12 bank accounts of Alameda Research Ltd and North Dimension Inc, a subsidiary of
13 Alameda."

14 259. In addition, on November 17, 2022, analysts at The Bear Cave
15 published a newsletter casting further doubt on Silvergate's representations. In
16 particular, The Bear Cave elaborated on Silvergate's connection to the South
17 American money-laundering operation, reporting that hundreds of millions of
18 dollars were laundered through Silvergate's SEN Network, emphasizing
19 Silvergate's lack of customer monitoring given "[t]he accounts were receiving funds
20 in the same pattern as those . . . used to facilitate the laundering of illicit funds."
21 This operation began in September 2021 and ended in June 2022. Silvergate did not
22 report suspicious activity on these accounts until federal investigators requested
23 documents.

24 260. On this news, the price of Silvergate's common stock fell by \$3.44 per
25 share, or 10.98%, to close at \$27.90 on November 17, 2022, representing a \$108.9
26
27

28 ¹⁷² Post by EventLongShort (Nov. 17, 2022).

1 million drop in market capitalization, on continued high trading volume of 7.8
2 million shares.

3 261. Then after hours on Thursday, November 17, 2022, FalconX, a
4 cryptocurrency exchange platform focused on risk management for institutional
5 clients, revealed that it would no longer engage with Silvergate due to the elevated
6 risk associated with the SEN Network, stating that its decision was “consistent with
7 other market players.”

8 262. On this news, the price of Silvergate’s common stock fell by \$3.00, or
9 10.75%, to close at \$24.90, representing a \$95 million drop in market capitalization
10 on November 18, 2022, with trading volume rising to 10.5 million shares.

11 263. Based on Lane and Silvergate’s repeated assurances, however, analysts
12 and investors continued to credit Defendants’ false assurances that it performed
13 vetting, due diligence, and monitoring on SEN Network participants. For example,
14 on November 21, 2022, J.P. Morgan analysts dismissed concerns about Silvergate’s
15 “risks from an anti-money laundering (AML) perspective in facilitating over \$1
16 trillion in payments” on the SEN Network, citing Silvergate’s purported compliance,
17 vetting, and onboarding efforts. The analysts emphasized that, to participate in the
18 SEN Network, “a participant needs to be an institution such as a cryptocurrency
19 exchange or institutional investor participating in the digital asset ecosystem” and
20 “needs to pass compliance checks before onboarding as a Silvergate client to access
21 real-time payments capabilities on the SEN.” “In other words,” the analysts
22 concluded, “all participants in the SEN are vetted by Silvergate and, with Silvergate
23 being a highly regulated bank, this provides regulator access to address any concerns
24 over AML.”

25 264. After trading closed on November 28, 2022, *Bloomberg News*’s Crypto
26 Market Structure Reporter (Yuqi Yang) and *Bloomberg*’s Finance Reporter (Max
27 Reyes) published an article based on the accounts of people familiar with FTX,
28 describing how Silvergate solved FTX’s inability to get access to traditional banking

1 sources by allowing Alameda Research to become a Silvergate customer and then
 2 allowing FTX customers to wire funds to Alameda.¹⁷³ *Bloomberg News* further
 3 reported that “FTX customers were instructed to send wire transfers via Alameda,
 4 which was allowed to have accounts at Silvergate” and that some “FTX customers
 5 continued to send wire transfers as recently as this year.”

6 265. Silvergate and Defendant Lane immediately responded with efforts to
 7 quell investors’ concerns. Among other things, they issued a statement on the
 8 evening of November 28, 2022 stating, “Recently, Silvergate has been the subject of
 9 false and misleading statements.”

10 266. On December 1, 2022, The Bear Cave published another report,
 11 providing additional evidence of Silvergate’s failure to vet its customers.
 12 Specifically, The Bear Cave’s report described Silvergate’s involvement in a money
 13 laundering operation in December 2018. The Bear Cave cited a July 2021 plea
 14 agreement between DOJ and Joel Greenberg, who has since been convicted of
 15 embezzlement, that describes how Greenberg used Silvergate’s SEN Network to
 16 launder \$200,000. The report highlighted Silvergate’s failure to identify and report
 17 40 suspicious transactions that occurred over a four-day period.

18 267. On this news, the price of Silvergate’s common stock fell by \$2.21 per
 19 share, or 8.06%, to close at \$25.22 with a drop in market capitalization of \$70 million
 20 on December 1, 2022, on trading volume of 5.6 million shares.

21 268. On December 5, 2022, before the markets opened, Morgan Stanley
 22 issued an analyst report revealing facts concerning Silvergate’s “massive financial
 23 pressure in the aftermath of the FTX exchange’s collapse,” and lowering its rating
 24 for the Bank to “Underweight.”

25 269. On this news, the price of Silvergate’s common stock fell by \$2.25, or
 26 8.49%, to close at \$24.24, representing a \$71.2 million drop in market capitalization

27
 28 ¹⁷³ *Bloomberg*, “FTX Received Some Customer Deposits Via Bank Accounts Held
 by Alameda” (Nov. 28, 2022).

1 on December 5, 2022, on trading volume of 3.5 million shares. As *CNBC* reported,
2 “Shares dipped 3% after Morgan Stanley downgraded Silvergate Capital to
3 underweight from equal weight, saying a ‘high level of uncertainty’ remains around
4 the stock following the FTX collapse.”

5 270. The next day, before the market opened on December 6, 2022, it was
6 revealed that late the night before, Senators Elizabeth Warren, John Kennedy, and
7 Roger Marshall sent Defendant Lane a request for information about Silvergate’s
8 relationship with FTX and Alameda, casting further doubt on the Company’s
9 vetting, due diligence, and monitoring of its customers. The letter stated that
10 “Silvergate’s failure to take adequate notice of [the FTX] scheme suggests that it
11 may have failed to implement or maintain an effective anti-money laundering
12 program,” adding that Silvergate’s facilitation of FTX’s transfer of customer funds
13 to Alameda “reveals what appears to be an egregious failure of your bank’s
14 responsibility to monitor for and report suspicious financial activity carried out by
15 its clients.” The same morning, *NBC News* reported that an investment manager
16 provided testimony to the Senate Banking Committee about statements made to him
17 by a former FTX employee confirming that as FTX’s primary banking partner,
18 Silvergate was implicated in the transfers of FTX customer funds between other
19 Bankman-Fried controlled entities, including Alameda.

20 271. On this news, the price of Silvergate’s common stock fell by \$1.14, or
21 4.70%, to close at \$23.10, representing an additional \$36.1 million drop in market
22 capitalization on December 6, 2022, with trading volume rising to 10 million shares,
23 nearly three-times the number of shares traded the previous day. *CoinDesk* reported
24 that “Crypto Bank Silvergate Slides Further After Letter from Sen. Warren.”

25 272. Defendant Lane, nevertheless, again attempted to quiet investors’
26 concerns, issuing a “public letter” “to set the record straight about Silvergate’s role
27 in the digital asset ecosystem” and to blame recent reports on “speculation” and
28

1 “misinformation.”¹⁷⁴ In his public letter, Defendant Lane again represented (falsely)
 2 that “Silvergate conducted significant due diligence on FTX and its related entities
 3 including Alameda Research, both during the onboarding process and through
 4 ongoing monitoring, in accordance with our risk management policies and
 5 procedures and the requirements.” Defendant Lane also insisted that the Bank
 6 “monitors transaction activity for every account and identifies activity outside of the
 7 expected usage.” He further emphasized that the Company continues “to monitor
 8 account activity as part of our enhanced due diligence process on each of these
 9 accounts and to take action when there are red flags.”

10 273. On December 13, 2022, the SEC and Commodity Futures Trading
 11 Commission (“CFTC”) both filed civil actions against Bankman-Fried. The
 12 complaints stated that FTX directed customers to deposit fiat currency into U.S. bank
 13 accounts controlled by Alameda. The complaints revealed that “some or all of those
 14 bank accounts were opened in the name of an entity called North Dimension, a
 15 Delaware-registered wholly-owned subsidiary of Alameda,” and the shell company
 16 used by FTX and Alameda to misappropriate customer funds using Silvergate’s SEN
 17 Network.

18 274. On this news, the price of Silvergate’s common stock fell by \$2.53, or
 19 11.90%, to close at \$18.73 on December 13, 2022, with market capitalization
 20 plummeting an additional \$80.1 million with trading volume rising to 11.9 million
 21 shares, more than double the number of shares traded the previous day.

22 275. Silvergate and Defendant Lane continued to issue false public denials
 23 to stop the price of Silvergate’s stock from falling further. For example, in response
 24 to the U.S. senators’ findings, Lane wrote, “In accordance with our risk management
 25 policies and procedures, Silvergate conducted significant due diligence on FTX and
 26
 27

28 ¹⁷⁴ Silvergate, Form 8-K (Dec. 5, 2022).

1 its related entities, including Alameda Research, both during the onboarding process
2 and through ongoing monitoring.”¹⁷⁵

3 276. On January 5, 2023, a day after a federal judge ordered the seizure of
4 about \$93 million of FTX funds held at Silvergate, Silvergate released select
5 preliminary fourth quarter financial metrics in an intra-quarter update. In the release,
6 Silvergate disclosed that the collapse of FTX had led other customers to withdraw
7 their deposits from the Bank, causing its deposits to decrease by more than 60% or
8 \$8.1 billion in the fourth quarter—a bank run that *The Wall Street Journal* dubbed
9 “worse than Great Depression-era runs.” The same day, Silvergate held a conference
10 call with analysts and investors to discuss the intra-quarter update. On that call,
11 Defendant Lane acknowledged that there was a “crisis of confidence” impacting
12 Silvergate, with customers withdrawing 60% of the Bank’s total deposits (over \$8.1
13 billion), and that it was forced to lay off 40% of its employees.¹⁷⁶

14 277. On this news, the price of Silvergate’s common stock fell by \$9.38, or
15 42.73%, to close at \$12.57 on January 5, 2023, erasing \$297 million in market
16 capitalization, on record high trading volume of 30.3 million shares, more than five-
17 times the average daily volume for the previous 30 trading days. *CNBC* reported
18 that “Silvergate Capital tanks more than 40% after crypto bank discloses massive
19 fourth-quarter withdrawals.”

20 278. Next, on February 2, 2023, *Bloomberg* broke the news after the market
21 had closed that the DOJ’s Fraud Section was examining Silvergate’s hosting of
22 accounts connected to FTX and its CEO Sam Bankman-Fried.¹⁷⁷ Investors were
23 again shocked, with *Cryptonews* reporting that following the news of the DOJ’s
24

25
26 ¹⁷⁵ Letter from Lane to Warren, Kennedy, and Marshall (Dec. 19, 2022).

27 ¹⁷⁶ Silvergate, Costs Associated with Exit or Disposal Activities (Form 8-K) (Jan. 5,
2023).

28 ¹⁷⁷ *Bloomberg*, “Silvergate Faces US Fraud Probe Over FTX and Alameda Dealings”
(Feb. 2, 2023).

1 investigation, ‘Silvergate shares took a nosedive.’¹⁷⁸ *CoinDesk* likewise reported
 2 that Silvergate shares “fell sharply after the market close” following “the publication
 3 of a Bloomberg article reporting the U.S. Department of Justice’s fraud unit was
 4 looking into the crypto bank’s dealings with the now-bankrupt FTX and Alameda
 5 Research.”¹⁷⁹ *CoinDesk* further noted that “Silvergate shares were down 28% in
 6 after-hours trading to \$15.06, wiping out almost all of its 29% rally during the day’s
 7 session following a Federal Reserve-related rally in cryptocurrencies and crypto
 8 stocks.”

9 279. On this news, the price of Silvergate’s common stock fell by 28%, as
 10 noted by *CoinDesk*, on record high trading volume of 41.24 million shares.

11 280. On February 16, 2023, *Reuters* published an investigative report based
 12 on bank records obtained from Binance, showing that Binance transferred \$400
 13 million in 2020 and 2021 from its Silvergate accounts to a trading firm called Merit
 14 Peak, which was controlled by Binance’s founder and CEO Zhao. These transfers
 15 also showed that Silvergate’s failure to monitor permitted clients like Binance’s and
 16 FTX’s CEO to use Silvergate-approved entities to funnel funds from their customers
 17 deposits on the cryptocurrency exchanges to their personal accounts. *TheStreet* tied
 18 *Reuters*’s report on Binance’s access to Silvergate accounts to Silvergate’s “Due
 19 Diligence Failures,” and reported, “The information from *Reuters* immediately
 20 prompted many experts to say that this episode is reminiscent of FTX and Alameda
 21 Research.”¹⁸⁰

22 281. On this news, the price of Silvergate’s common stock fell by \$4.97, or
 23 22.27%, to close at \$17.35 on February 16, 2023, erasing an additional \$157.3
 24 million in market capitalization on trading volume of 29.4 million shares.

25
 26 ¹⁷⁸ *Cryptonews*, “Silvergate Bank Stock Plunges After Report of DOJ Investigation
 into Ties with FTX and Alameda” (Feb. 3, 2023).

27 ¹⁷⁹ *CoinDesk*, “Silvergate Stock Tanks on Report of DOJ Probe Tied to FTX,
 Alameda Dealings” (Feb. 2, 2023).

28 ¹⁸⁰ *TheStreet*, “Crypto Bank Silvergate Goes Out of Business” (Mar. 9, 2023).

1 282. On March 1, 2023, after the markets closed, Silvergate announced that
2 it needed to make the “risk-based decision” to discontinue the SEN Network
3 altogether. Silvergate also announced that it was delaying its filing of its annual
4 financial report on Form 10-K, stating that recent events left it at risk of being “less
5 than well-capitalized” and that it was evaluating its ability to operate as a “going
6 concern.” In its filing, Silvergate stated that “[s]ubsequent to December 31, 2022, a
7 number of circumstances have occurred which will negatively impact the timing and
8 the unaudited results previously reported in the Earnings Release.” The Company
9 also disclosed that it was “currently in the process of reevaluating its businesses and
10 strategies in light of the business and regulatory challenges it currently faces.”
11 Silvergate also warned about its “ability to retain digital asset customers” including
12 resulting from “regulatory and other inquiries and investigations against or with
13 respect to the Company, investigations from our banking regulators, congressional
14 inquiries and investigations from the U.S. Department of Justice.”

15 283. These revelations further stunned investors. As analysts at *Wall Street*
16 *on Parade* observed, the Bank’s disclosure “stands in rather stark contrast to
17 Silvergate’s website lauding how the company is . . . ‘built on our deep-rooted
18 commitment and proprietary approach to regulatory compliance.’”

19 284. On this news, the price of Silvergate’s common stock fell by \$7.81, or
20 57.72%, to close at \$5.72 on March 2, 2023, resulting in a loss of \$247.2 million in
21 market capitalization, on record high trading volume of 57.8 million shares, nearly
22 double the total number of shares outstanding. *CNBC* reported that “Shares in
23 Silvergate Capital plunge in pre-market trading after delaying its annual report.” J.P.
24 Morgan downgraded its rating on Silvergate’s stock to “underweight” and withdrew
25 its price target.

26 285. Unable to trust the Bank’s “seal of approval” any longer, the Bank’s
27 remaining customers continued to flee and pull their deposits from Silvergate.
28 *Reuters* reported that “[a] slew of cryptocurrency heavyweights,” including

1 Coinbase and Galaxy Digital, had “ditched” Silvergate as their banking partner after
2 Silvergate’s latest filing “raised questions about its ability to stay in business.”

3 286. Two days later, on March 8, 2023, after the markets had closed,
4 Silvergate announced that it needed to wind down operations and voluntarily
5 liquidate Silvergate Bank.¹⁸¹

6 287. On this news, the value of Silvergate’s common stock fell by \$2.07, or
7 42.16%, to close at \$2.84, erasing an additional \$65.5 million in market
8 capitalization on March 9, 2023, on soaring trading volume of 71.3 million shares.
9 By that date, Silvergate’s market capitalization stood at a mere \$89.9 million,
10 representing a loss of 94.4% of the market value of Silvergate’s common stock in
11 only four months. *TheStreet* that “[t]he California bank’s stock fell nearly 44% on
12 Wall Street after it announced it was going out of business.”¹⁸²

13 288. Just weeks later, on March 20, 2023, Silvergate announced that it had
14 received a non-compliance notice days earlier from the NYSE, informing the
15 Company that, “as the Company had not timely filed its Annual Report on Form 10-
16 K for the fiscal year ended December 31, 2022 (the ‘10-K’), the NYSE will closely
17 monitor the status of the Company’s late filing and related public disclosures for up
18 to a six-month period from its due date.” The Company further disclosed that the
19 NYSE warned that future delayed filings could lead to “suspension and delisting
20 procedures.”

21 289. On this news, the value of Silvergate’s common stock fell by another
22 12.5%, to close at \$1.47 on March 21, 2023, erasing an additional \$6.7 million in
23 market capitalization on trading volume of over 12.8 million shares.

27 ¹⁸¹ Press Release, Silvergate, “Silvergate Capital Corporation Announces Intent to
28 Wind Down Operations and Voluntarily Liquidate Silvergate Bank” (Mar. 8, 2023).
¹⁸² *TheStreet*, “Silvergate Bank Collapses” (Mar. 9, 2023).

290. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of Silvergate's common stock, Plaintiffs and other Class members have suffered significant losses and damages.

291. The stock price declines described above were directly and proximately caused by Defendants' materially false and misleading statements and omissions. It was entirely foreseeable that Defendants' materially false and misleading statements and omissions discussed herein would artificially inflate or maintain the existing artificial inflation of the price of Silvergate common stock. It was also foreseeable to Defendants that the disclosures described above would cause the price of Company stock to fall as the artificial inflation caused or maintained by Defendants' misstatements and omissions was removed.

292. The timing and magnitude of the price declines in Silvergate securities, Defendants' post-Class Period revelations, and analyst reactions to the news, individually and collectively, negate any inference that the loss suffered by Plaintiffs and other Class members were caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to Defendants' fraudulent conduct.

VIII. PRESUMPTION OF RELIANCE

293. Plaintiffs are entitled to a presumption of reliance on the Exchange Act Defendants' material misrepresentations and omissions pursuant to the fraud-on-the-market doctrine because, during the Class Period:

- (a) Silvergate's stock was actively traded in an efficient market on the NYSE;
- (b) Silvergate's stock traded at high weekly volumes;
- (c) as a regulated issuer, Silvergate filed periodic public reports with the SEC;
- (d) Silvergate regularly communicated with public investors by means of established market communication mechanisms,

including through regular dissemination of press releases and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services;

(e) the market reacted promptly to public information disseminated by Silvergate;

(f) Silvergate securities were covered by numerous securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective firms. Each of these reports was publicly available and entered the public marketplace;

(g) the material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Silvergate's securities; and

(h) without knowledge of the misrepresented or omitted material facts alleged herein, Plaintiffs and other members of the Class purchased or acquired Silvergate common stock between the time the Exchange Act Defendants misrepresented or omitted material facts and the time the true facts were disclosed.

294. Accordingly, Plaintiffs and other members of the Class relied, and are entitled to have relied, upon the integrity of the market prices for Silvergate's stock, and are entitled to a presumption of reliance on the Exchange Act Defendants' materially false and misleading statements and omissions during the Class Period.

295. A class-wide presumption of reliance is also appropriate in this action under *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against Defendants are predicated upon omissions of material fact for which there is a duty to disclose.

IX. THE INAPPLICABILITY OF THE STATUTORY SAFE HARBOR AND BESPEAKS CAUTION DOCTRINE

296. The statutory safe harbor applicable to forward-looking statements under certain circumstances does not apply to any of the false or misleading

1 statements pleaded in this Complaint. The statements complained of herein were
 2 historical statements or statements of current facts and conditions at the time the
 3 statements were made. Further, to the extent that any of the false or misleading
 4 statements alleged herein could be construed as forward-looking, the statements
 5 were not accompanied by any meaningful cautionary language identifying important
 6 facts that could cause actual results to differ materially from those in the statements.

7 297. Alternatively, to the extent the statutory safe harbor otherwise would
 8 apply to any forward-looking statements pleaded herein, the Exchange Act
 9 Defendants are liable for those false and misleading forward-looking statements
 10 because at the time each of those statements was made, the speakers knew the
 11 statement was false or misleading, or the statement was authorized or approved by
 12 an executive officer of Silvergate who knew that the statement was materially false
 13 or misleading when made.

14 **X. CAUSES OF ACTION UNDER THE EXCHANGE ACT**
 15 **COUNT I – Violation of § 10(b) of the Exchange Act**
 16 **(Against Silvergate and Defendant Lane)**

17 298. Plaintiffs repeat, incorporate, and reallege each and every allegation set
 18 forth above as if fully set forth herein.

19 299. This count is asserted on behalf of all members of the Class against
 20 Defendant Silvergate and Defendant Lane for violations of Section 10(b) of the
 21 Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder, 17 C.F.R.
 22 § 240.10b-5.

23 300. During the Class Period, the Exchange Act Defendants disseminated,
 24 furnished information for inclusion in, or approved the false statements specified
 25 above, which they knew or, at minimum, were severely reckless in not knowing were
 26 misleading in that they contained misrepresentations and omitted material facts
 27 necessary in order to make the statements made, in light of the circumstances under
 28 which they were made, not misleading.

1 301. The Exchange Act Defendants violated Section 10(b) of the Exchange
 2 Act and Rule 10b-5 in that they: (a) employed devices, schemes, and artifices to
 3 defraud; (b) made untrue statements of material facts or omitted to state material
 4 facts necessary in order to make the statements made, in light of the circumstances
 5 under which they were made, not misleading; and/or (c) engaged in acts, practices,
 6 and a course of business that operated as a fraud or deceit upon Plaintiffs and others
 7 similarly situated in connection with their purchases of Silvergate common stock
 8 during the Class Period.

9 302. The Exchange Act Defendants, individually and in concert, directly and
 10 indirectly, used the means or instrumentalities of interstate commerce and/or of the
 11 mails, engaged and participated in a continuous course of conduct that operated as a
 12 fraud and deceit upon Plaintiffs and the Class; made various untrue and/or
 13 misleading statements of material facts and omitted to state material facts necessary
 14 in order to make the statements made, in light of the circumstances under which they
 15 were made, not misleading; made the above statements intentionally or with severe
 16 recklessness; and employed devices and artifices to defraud in connection with the
 17 purchase and sale of Silvergate common stock, which were intended to, and did:

- 18 (a) deceive the investing public, including Plaintiffs and the Class,
 19 regarding, among other things, Silvergate's customer onboarding and
 20 monitoring due diligence and regulatory compliance framework;
- 21 (b) artificially inflate and maintain the market price of Silvergate common
 22 stock; and
- 23 (c) cause Plaintiffs and other members of the Class to purchase Silvergate
 24 common stock at artificially inflated prices and suffer losses when the
 25 true facts became known and/or the risks materialized.

26 303. The Exchange Act Defendants are liable for all materially false or
 27 misleading statements made during the Class Period, as alleged above.

28 304. As described above, the Exchange Act Defendants acted with scienter
 throughout the Class Period, in that they acted either with intent to deceive,

1 manipulate, or defraud, or with severe recklessness. The misrepresentations and
2 omissions of material facts set forth herein, which presented a danger of misleading
3 buyers or sellers of Silvergate stock, were either known to the Exchange Act
4 Defendants or were so obvious that the Exchange Act Defendants should have been
5 aware of them.

6 305. Plaintiffs and the Class have suffered damages in that, in direct reliance
7 on the integrity of the market, they paid artificially inflated prices for Silvergate
8 common stock, which inflation was removed from its price when the true facts
9 became known.

10 306. The Exchange Act Defendants' wrongful conduct, as alleged above,
11 directly and proximately caused the damages suffered by Plaintiffs and other Class
12 members. Had the Exchange Act Defendants disclosed complete, accurate, and
13 truthful information concerning these matters during the Class Period, Plaintiffs and
14 other Class members would not have purchased or otherwise acquired Silvergate
15 securities or would not have purchased or otherwise acquired these securities at the
16 artificially inflated prices that they paid. It was also foreseeable to the Exchange Act
17 Defendants that misrepresenting and concealing these material facts from the public
18 would artificially inflate the price of Silvergate's securities and that the ultimate
19 disclosure of this information, or the materialization of the risks concealed by the
20 Exchange Act Defendants' material misstatements and omissions, would cause the
21 price of Silvergate securities to decline.

22 307. Accordingly, as a result of their purchases of Silvergate common stock
23 during the Class Period, Plaintiffs and the Class suffered economic loss and damages
24 under the federal securities laws.

25 308. By virtue of the foregoing, the Exchange Act Defendants violated
26 Section 10(b) of the Exchange Act and Rule 10b-5, promulgated thereunder.

27 309. This claim is brought within the applicable statute of limitations
28

**COUNT II – Violation of § 20(a) of the Exchange Act
(Against Defendant Lane)**

310. Plaintiffs repeat, incorporate, and reallege each and every allegation set forth above as if fully set forth herein.

311. As alleged above, Defendant Silvergate and Defendant Lane each violated Section 10(b) and Rule 10b-5 thereunder by their acts and omissions as alleged in this Complaint.

312. This count is asserted on behalf of all members of the Class against Defendant Lane for violations of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a).

313. At all relevant times, Defendant Lane acted as a controlling person of Silvergate within the meaning of Section 20(a) of the Exchange Act, as alleged herein.

314. By virtue of Defendant Lane's control and authority as the Company's most senior officer, participation in and/or awareness of the Company's operations, direct involvement in the day-to-day operations of the Company, and/or intimate knowledge of the Company's actual due diligence, and his power to control the materially false and misleading public statements about the Company during the Class Period, Defendant Lane had the authority to influence and control, and did influence and control, directly and indirectly, the decision-making and the activities of the Company and its employees, thereby causing the dissemination of the materially false or misleading statements and omissions of material facts as alleged herein. Defendant Lane was provided with, or had unlimited access to, copies of the Company's press releases, public filings, and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or to cause the statements to be corrected.

1 315. In addition, Defendant Lane spoke to investors on behalf of the
 2 Company during the Class Period. Therefore, he was able to influence and control,
 3 and did influence and control, directly and indirectly, the content and dissemination
 4 of the public statements made by Silvergate during the Class Period, thereby causing
 5 the dissemination of the materially false or misleading statements and omissions of
 6 material facts as alleged herein.

7 316. By reason of the aforementioned conduct, Defendant Lane is liable
 8 pursuant to Section 20(a) of the Exchange Act, jointly and severally with, and to the
 9 same extent as, Defendant Silvergate is liable under Section 10(b) of the Exchange
 10 Act and Rule 10b-5 promulgated thereunder, to Plaintiffs and the other members of
 11 the Class.

12 **PART TWO - CLAIMS UNDER THE SECURITIES ACT OF 1933**

13 317. In this Part of the Complaint, Plaintiffs assert a series of strict liability
 14 and negligence claims based on violations of the Securities Act of 1933 (the
 15 “Securities Act”) on behalf of all persons or entities who purchased Silvergate stock
 16 in or traceable to Silvergate’s securities offerings conducted on or about January 20,
 17 2021, March 18, 2021, July 28, 2021, and December 6, 2021 (collectively, the “2021
 18 Offerings”), and were damaged thereby.

19 318. In this Part of the Complaint, Plaintiffs expressly disclaim any
 20 allegations of fraud or intentional misconduct in connection with these non-fraud
 21 claims, which are pleaded separately in this Complaint from Plaintiffs’ Exchange
 22 Act claims. For the avoidance of doubt, Plaintiffs disclaim all allegations of fraud
 23 or intentional misconduct included in Part One of this Complaint, and no portion of
 24 the Exchange Act allegations (¶¶1-316) are realleged or incorporated herein.

25 **XI. JURISDICTION AND VENUE**

26 319. The claims asserted herein arise under Sections 11, 12(a)(2), and 15 of
 27 the Securities Act, 15 U.S.C. §§ 77k, 77l, and 77o.
 28

320. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337 and Section 22 of the Securities Act, 15 U.S.C. § 77v.

321. Venue is proper in this District under Section 22 of the Securities Act, 15 U.S.C. § 77v, and 28 U.S.C. § 1391(b). The acts and conduct complained of herein occurred in substantial part in this District.

322. In connection with the acts and conduct alleged in this Complaint, the Securities Act Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the mails and telephonic communications and the facilities of the national securities market.

XII. THE SECURITIES ACT DEFENDANTS

323. In addition to Defendants Silvergate and Lane, each of the following Defendants is statutorily liable under the Securities Act for the materially untrue statements or omissions contained in and incorporated in the 2021 Offering Documents.

324. **Underwriter Defendants.** The following investment banks were underwriters of the offerings of Silvergate securities issued by way of the registration statements that contained the materially untrue and misleading statements and omitted material facts: the Underwriter Defendants Canaccord Genuity LLC (“Canaccord”); Citigroup Global Markets Inc (“Citigroup”); Compass Point Research & Trading, LLC (“Compass”); Craig-Hallum Capital Group LLC (“Craig-Hallum”); Goldman Sachs & Co. LLC (“Goldman”); J.P. Morgan Securities LLC (“J.P. Morgan”); Keefe, Bruyette & Woods, Inc. (“Keefe”); UBS Securities LLC (“UBS”); and Wedbush Securities Inc. (“Wedbush”).

325. Underwriter Defendants Canaccord, Compass, Craig-Hallum, Goldman, and Keefe were the underwriters of the January 2021 Offering.

326. Underwriter Defendants Canaccord, Compass, Craig-Hallum, Goldman, Keefe, and Wedbush were the underwriters of the March 2021 Offering.

1 327. Underwriter Defendants Citigroup, Goldman, J.P. Morgan, Keefe, and
2 UBS were the underwriters of the July 2021 Offering.

3 328. Underwriter Defendants Compass, Craig-Hallum, Goldman, J.P.
4 Morgan, Keefe, and Wedbush were the underwriters of the December 2021 Offering.

5 329. **The Securities Act Executive and Director Defendants.** The
6 following Defendants were signatories of the registration statements that contained
7 materially untrue and misleading statements and omitted material facts: Defendants
8 Alan J. Lane (CEO and Director); Antonio Martino (CFO); Karen F. Brassfield
9 (Director); Robert C. Campbell (Director); Paul D. Colucci (Director); Thomas C.
10 Dircks (Director); Dennis S. Frank (Director); Aanchal Gupta (Director); Michael
11 Lempres (Director); Scott A. Reed (Director); and Colleen Sullivan (Director).

12 330. Each of the Securities Act Executive and Director Defendants signed
13 the registration statements for each of the January 2021 Offering, March 2021
14 Offering, July 2021 Offering, and December 2021 Offering, with the exception of
15 Aanchal Gupta, who was a signatory to the registration statement for the July 2021
16 and December 2021 Offerings.

17 **XIII. THE OFFERING DOCUMENTS CONTAINED FALSE OR**
18 **MISLEADING STATEMENTS AND OMISSIONS**

19 331. During 2021, the Securities Act Defendants offered and sold shares of
20 Silvergate stock to investors through a series of securities offerings (the “2021
21 Offerings”). In exchange for the shares sold through the 2021 Offerings, Silvergate
22 received \$1.339 billion.

23 332. On January 20, 2021, Silvergate issued a Registration Statement (the
24 “January 2021 Registration Statement”) and a Preliminary Prospectus Supplement,
25 which was supplemented on January 25, 2021 (the “January 2021 Prospectus”).
26 Each filing incorporated by reference Silvergate’s 2019 Annual Report on Form 10-
27 K and Silvergate’s 2020 Quarterly Reports on Form 10-Q (collectively, the “January
28 2021 Offering Documents” for the “January 2021 Offering”). Silvergate completed

1 the January 2021 Offering on January 26, 2021, selling 4,563,493 shares of common
2 stock with gross proceeds of \$287.50 million.

3 333. On March 9, 2021, Silvergate filed a Prospectus Supplement to conduct
4 an “at the market” offering pursuant to the January 2021 Registration Statement that
5 incorporated by reference Silvergate’s 2020 Annual Report on Form 10-K (the
6 “March 2021 Offering Documents” for the “March 2021 Offering”). Silvergate
7 completed the March 2021 Offering by May 18, 2021, selling 2,793,826 shares of
8 common stock with gross proceeds of \$300 million.

9 334. On July 28, 2021, Silvergate filed with the SEC an amendment to the
10 January 2021 Registration Statement and Prospectus (the “July 2021 Registration
11 Statement”) and a Preliminary Prospectus Supplement, which was further
12 supplemented on July 30, 2021 (the “July 2021 Prospectus”). Each filing
13 incorporated by reference Silvergate’s 2020 Annual Report on Form 10-K and
14 Silvergate’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021
15 (collectively, the “July 2021 Offering Documents” for the “July 2021 Offering”).
16 Silvergate completed the July 2021 Offering on August 4, 2021, issuing 8,000,000
17 depositary shares each representing a 1/40th interest in a share of 5.375% Fixed Rate
18 Non-Cumulative Perpetual Preferred Stock, Series A, with gross proceeds of \$200
19 million.

20 335. On December 6, 2021, Silvergate issued a press release announcing that
21 it would conduct another offering pursuant to the July 2021 Registration Statement
22 and filed a Preliminary Prospectus Supplement to the July 2021 Prospectus, which
23 was further supplemented on December 8, 2021 (the “December 2021 Prospectus”)
24 that incorporated by reference Silvergate’s 2020 Annual Report on Form 10-K and
25 Silvergate’s 2021 Quarterly Reports on Form 10-Q (collectively, the “December
26 2021 Offering Documents” for the “December 2021 Offering”). Silvergate
27 completed the December 2021 Offering on December 9, 2021, issuing 3,806,895
28

1 shares of common stock with gross proceeds of \$552 million in the December 2021
2 Offering.

3 336. The materials presented to investors in connection with the Offerings
4 (the “2021 Offering Documents”) contained “untrue statement[s] of a material fact
5 or omitted to state a material fact required to be stated therein or necessary to make
6 the statements therein not misleading.” Specifically, Silvergate falsely and
7 misleadingly represented, while omitting material facts, the following in the 2021
8 Offering Documents:

- 9 (a) Silvergate conducts “extensive regulatory compliance
10 diligence”;¹⁸³
- 11 (b) Silvergate has a “deep-rooted commitment and proprietary
12 approach to regulatory compliance”;¹⁸⁴
- 13 (c) Silvergate performs “thorough reviews . . . as part of [its] due
14 diligence process” in connection with its “onboarding new
15 customers or monitoring existing customers”;¹⁸⁵
- 16 (d) Silvergate performs “ongoing monitoring of customer
17 activities”;¹⁸⁶ and
- 18 (e) Silvergate conducts, for cryptocurrency exchanges, “enhanced
19 procedures to screen and monitor these customers, which
20 include, but are not limited to, system monitoring rules tailored
21 to digital currency activities, a system of ‘red flags’ specific to
22 various customer types and activities, the development of and
investment in proprietary technology tools to supplement our

23 ¹⁸³ January 2021 Prospectus; March 2021 Prospectus; July 2021 Prospectus;
24 December 2021 Prospectus; Silvergate, Quarterly Reports (May 12, 2020, Aug. 11,
25 2020, Nov. 10, 2020, May 11, 2021, Aug. 10, 2021, Nov. 9, 2021); Silvergate,
Annual Report (Mar. 8, 2021).

26 ¹⁸⁴ January 2021 Registration Statement; July 2021 Registration Statement; January
27 2021 Prospectus; March 2021 Prospectus; July 2021 Prospectus; December 2021
Prospectus; Silvergate, Annual Reports (Mar. 10, 2020, Mar. 8, 2021).

28 ¹⁸⁵ Silvergate, Annual Reports (Mar. 10, 2020, Mar. 8, 2021).

¹⁸⁶ *Id.*

1 third-party transaction monitoring system, customer risk scoring
2 with risk factors specific to the digital-currency industry.”¹⁸⁷

3 337. These statements were false and misleading, and omitted material facts,
4 for a number of reasons. In truth, the Company had anything but a “deep-rooted
5 commitment” to regulatory compliance. Indeed, far from “thorough reviews” or
6 “enhanced procedures” for screening and monitoring cryptocurrency exchange
7 customers, Silvergate performed no due diligence before onboarding customers to
8 the SEN Network and no ongoing monitoring of customer activities on the SEN
9 Network. These facts are corroborated by the accounts of Silvergate’s former
10 employees, the fraudulent activities that cryptocurrency exchange customers
11 performed on the SEN Network, [REDACTED], U.S.
12 senators, and investigative journalists.

13 338. Silvergate did not conduct the represented due diligence on its
14 customers. Instead, when customers wanted to join the SEN Network, “the gates
15 were open,” explained FE 3.¹⁸⁸ If customers wanted to join the SEN Network, FE
16 3’s group was given a list of accounts and names to authorize. There was no
17 compliance or research done on a customer at the time it wanted to join the SEN
18 Network; nobody in management reviewed or approved those requests.

19 339. FE 3 explained that Silvergate did not perform due diligence on the
20 identity of the customers that were allowed to join SEN. In fact, instead of asking
21 the customers to fill out their own beneficial ownership paperwork, Silvergate
22 employees (and not the customers) filled out the paperwork. FE 3 explained that FE
23

24
25 ¹⁸⁷ *Id.*

26 ¹⁸⁸ FE 3 was a digital banking manager at Silvergate from the beginning of March
27 2022 until the end of November 2022 and reported to Dina Matias, Silvergate’s
28 Senior Vice President, Operations Administrator. FE 3 was responsible for the SEN
Network, including onboarding customers to the SEN Network, handling account
maintenance, account changes, monthly account fee analysis, limit changes, and
adding and moving accounts.

1 6, Silvergate's Private Client Manager II, told FE 3 that relationship managers were
2 told to fill out the beneficial ownership forms for the customers.

3 340. FE 6, Silvergate's Private Client Manager II, also confirmed that he and
4 other Silvergate employees filled out beneficial ownership forms for the customers
5 (*i.e.*, not the customers), and they were told to do so by Silvergate management.¹⁸⁹
6 FE 6 explained that at Silvergate, whether the form was new or needed to be
7 recertified, it fell to the private client managers to fill out the form, instead of the
8 customer itself. This was the policy across the board at Silvergate, and it existed
9 throughout FE 6's entire time at Silvergate. He explained that bank employees
10 should not have been filling out the beneficial ownership forms.

11 341. Silvergate also failed to perform site visits before onboarding
12 customers to the SEN Network. FE 3 stated that Silvergate did not perform site
13 visits of SEN Network participants. FE 3 explained that, when she joined Silvergate,
14 she asked about "site visits" because she was concerned about working for a crypto
15 bank; she spoke to Silvergate's Relationship Managers with whom she worked, and
16 they told FE 3 that Silvergate "never, ever did a site visit."

17 342. Also consistent with FE 3's account, multiple other former Silvergate
18 employees said that Silvergate did not perform "site visits" of the Bank's customers
19 and SEN Network participants.

20 343. FE 2 said that Silvergate did not conduct site visits and added that site
21 visits are important because you need to understand that a customer is an actual
22 business and that you are not just banking a shell company. Likewise, FE 6
23 confirmed that he did not know of any actual site visits taking place by Silvergate.

24 344. FE 3 explained that Silvergate also did not ask for supporting
25 documentation for customers' wire limits. FE 3 explained that new clients could

26 ¹⁸⁹ FE 6 was a private client manager at Silvergate from November 2020 until
27 January 2023. In that role, he was the liaison for larger clients and managed day-to-
28 day account maintenance activities such as transfers, inquiries, and adding and
removing signers.

1 dictate to Silvergate whatever wire limits they wanted, and Silvergate gave it to them
2 and never checked if the customer could cover it. FE 3 described how she reached
3 out to Silvergate's front office, and was told—including by Christie Hicks,
4 Silvergate's Client Support Manager—that Silvergate just asks customers what they
5 want for a wire limit and gives it to them. FE 3 recounted how she had a phone
6 conversation with Dina Matias concerning a \$250 million wire limit for a customer
7 that only had \$70,000 in their account. FE 3 explained that she questioned why
8 Silvergate would give a \$250 million wire limit to someone with \$70,000 in their
9 account but was screamed by Ms. Matias at when she asked.

10 345. FE 3 was told by several of her colleagues—including Christie Hicks,
11 Silvergate's Client Support Manager—that Silvergate did not get the proper
12 documentation to validate wire limits. "We just give them whatever they want,"
13 they told FE 3.

14 346. Also like FE 3, FE 1, a Senior Vice President, Finance Manager at
15 Silvergate, explained that Silvergate did not vet existing customers before adding
16 them to the SEN Network.¹⁹⁰ FE 1 did not see any efforts by Silvergate to get to
17 know their customers or to make sure they were complying with the law.

18 347. FE 1 was aware that Silvergate conducted no customer vetting of
19 participants on the SEN Network based on meetings she attended with other senior
20 executives and her 30 years of banking experience. FE 1 has worked at multiple
21 banks over her 30 years of banking experience, including Wells Fargo for 19 years
22 in various roles, where she was very aware of the existence of their compliance
23

24
25 ¹⁹⁰ FE 1 joined Silvergate in March 2019 and stopped working at the Bank the week
26 before Christmas in December 2019. She originally reported to Regan Lauer, who
27 hired her, then briefly to Kellie VavRosky, then to Alan Lane, and then to Antonio
28 Martino. She worked directly with Alan Lane from September to November 2019.
Her responsibilities included overseeing Treasury and financial planning and
analysis ("FP&A"). She worked closely with the Controller, and she worked on
Silvergate's initial public offering.

1 practices, including AML and KYC programs. Other banks have established
2 practices and policies in place, FE 1 explained.

3 348. Silvergate lacked any commitment to regulatory compliance. When
4 asked if Silvergate had a deep-rooted commitment to regulatory compliance, FE 3
5 also said, “Not at all.” Likewise, FE 1 explained that Silvergate’s focus was all about
6 sales and getting clients, not compliance. FE 1 said if these were subjects of
7 discussion, someone at her level—a senior vice president of the organization—
8 would have known about it. FE 1 said that ever since Silvergate turned towards
9 crypto, there was no focus on anything like KYC. FE 1 worked closely with Megan
10 Collins, Silvergate’s Controller from late 2016 to January 2020, and attended senior
11 meetings led by Kathleen Fraher, Silvergate’s then-Vice President, “Compliance and
12 BSA Officer.” During these meetings, they discussed everything of importance to
13 the Bank—which did not include compliance. FE 1 did not recall any discussion of
14 prioritizing compliance. She said, “It was not a focus in the least. It was all, ‘Rah
15 rah, we got these new crypto customers.’”

16 349. Further, FE 3 explained that she did not see anything at Silvergate like
17 compliance policies or controls designed to address the digital currency industry.
18 She added that she never saw Silvergate implement policies and procedures to
19 comply with AML and KYC requirements. In fact, during 2022, FE 3 tried to find
20 policies concerning KYC on Silvergate’s “intranet,” and she could find no
21 procedures regarding beneficial ownership or KYC. FE 3 confirmed that all policies
22 concerning bank processes were on Silvergate’s intranet, but she could never find
23 policies concerning compliance processes.

24 350. [REDACTED]
25 [REDACTED]
26 [REDACTED]
27
28

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 351. [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 352. [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22
23
24 ¹⁹¹ FE 5 worked at Silvergate from May 2022 until May 2023 as a “FRCM Initial
25 Due Diligence Manager.” During his over decade-long banking career, he has held
26 roles as an enhanced due diligence manager, ongoing due diligence manager, and
27 AML risk compliance officer at four other major banks. [REDACTED]

28 [REDACTED] While employed at Silvergate, FE 5 had access to Silvergate’s records from
before his employment.

¹⁹² Supervisory Considerations for the Communication of Supervisory Findings,
<https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf>.

1 353. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 354. [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 355. FE 5 agreed that, prior to August 15, 2022, Silvergate did not know its
14 customers. FE 5 also agreed that, prior to August 15, 2022, Silvergate did not review
15 potential customers at the onboarding stage to determine whether they had an
16 appropriate culture of compliance. He knows this because, in his role at the
17 Company, he read narratives and cases and was finding “all the garbage that was
18 slopped through.” When he looked at Silvergate’s paperwork from before August
19 2022, FE 5 could not tell who the customer was, what they did, what the sources of
20 wealth were, or where the jurisdictions were, and the flow of funds did not make
21 sense. FE 5 added that, before May 2022, the Bank never said “no” to a client, which
22 he knows from his looking at the Company’s records. FE 5 further explained that
23 there was no record of any prospective client ever not being approved by Silvergate.

24 356. FE 5 also agreed that, prior to August 15, 2022, when employees raised
25 concerns about or identified suspicious or anomalous activity, Silvergate did not do
26 anything about it. FE 5 further agreed that, before August 15, 2022, Silvergate
27 lacked a focus on compliance.

28

1 357. FE 5 explained that, specifically with regard to Binance, there were a
2 lot of red flags. Among them, Binance had a big issue with the “wire rule.” The
3 “wire rule” provides that you are supposed to include certain information in a wire
4 when you complete it, including the originator and where the funds are going. FE 5
5 explained that there were a lot of wires with Binance and Silvergate’s other crypto-
6 exchange customers where the information was just blank. FE 5 explained that
7 Silvergate was supposed to reject those or strongly discipline customers, including
8 suspending their accounts, and insist customers include the information. But, FE 5
9 explained, nobody at Silvergate took a hard enough line with customers to say
10 Silvergate was going to suspend accounts unless customers included all the
11 information on the wires. FE 5 noted that this continued to be a problem even after
12 August 15, 2022.

13 358. FE 5 agreed that, prior to August 15, 2022, Silvergate did not do site
14 visits. FE 5 noted that there was also nothing written in Silvergate’s procedure for
15 site visits anywhere. FE 5 said site visits are important to make sure a company is
16 real and not a shell company or a front. FE 5 elaborated with an example: if a
17 company says it is a gas station, you need to make sure it is actually a gas station,
18 that there are things on the shelves and people work there. You need to make sure
19 it is not just a dusty shop where nothing has been moved that is a front for drug
20 money. FE 5 agreed that it was shocking that Silvergate did not conduct site visits,
21 adding that if you would not travel to where the prospective customer is located,
22 then you should not do business with a customer located there.

23 359. [REDACTED]
24 [REDACTED]

25 [REDACTED] Following the implementation of Silvergate’s new procedures on
26 August 15, 2022, FE 5’s team wanted to go through any customers that had not gone
27 through Silvergate’s new onboarding process when those customers were previously
28 onboarded and have an automatic look back apply the new procedures for those

1 customers as if those customers were being onboarded anew. FE 5 explained that
 2 Silvergate did not do that, even though FE 5's boss agreed with the recommendation
 3 that Silvergate should. FE 5 explained it would be industry standard for Silvergate
 4 to look back and apply the new procedures as if they were new customers; yet,
 5 Silvergate did not do this.

6 360. In addition to these former employee accounts, the fact that Silvergate
 7 failed to perform onboarding due diligence is corroborated by the various sham
 8 entities that the Company onboarded. If Silvergate had conducted the diligence
 9 represented in the 2021 Offering Documents, these entities never would have been
 10 allowed to bank at Silvergate and participate on the SEN Network.

11 361. *FTX* was a cryptocurrency exchange founded by the now-infamous
 12 fraudster, Sam Bankman-Fried. Silvergate approved FTX to participate on its SEN
 13 Network. FTX and its related entities (North Dimension and Alameda) comprised
 14 approximately \$2.1 billion in deposits—*i.e.*, over 17% of Silvergate's overall, Bank-
 15 wide deposits.¹⁹³ Had Silvergate conducted the represented diligence, it would have
 16 discovered that FTX and its entities were frauds with no compliance or internal
 17 controls. Silvergate would also have learned the truth about Alameda. FTX and
 18 Alameda are separate legal entities and, accordingly, supposed to—and legally
 19 required by law to—operate independently; however, in reality, FTX and Alameda
 20 were operated as if they were one and the same. Bankman-Fried controlled both
 21 entities, and both entities shared the same address—2000 Center Street, Suite 400,
 22 Berkeley, California.

23
 24 ¹⁹³ On November 16, 2022, Silvergate issued a press release disclosing that as of
 25 November 15, 2022, its “[a]verage quarter-to-date digital asset customer deposits”
 26 were “approximately \$9.8 billion, excluding all deposits from FTX and its related
 27 entities.” This was a \$2.1 billion reduction from the \$11.9 billion that the Company
 28 had reported five days earlier for “deposits from all digital assets customers,” which
 included FTX deposits. *Compare* Press Release, “Silvergate Provides Statements
 on FTX Exposure (Nov. 11, 2022) *with*, Press Release, “Silvergate Provides Mid-
 Quarter Update and Announces Participation in Oppenheimer’s 5th Blockchain &
 Digital Assets Summit” (Nov. 16, 2022).

362. The fact that FTX was a complete ruse would have been obvious to Silvergate, had it actually conducted the represented diligence. FTX had no CFO, a wildly inexperienced C-suite of Bankman-Fried’s cronies, and a Chief Regulatory Officer who had been caught on tape aiding and abetting fraud in his previous position as General Counsel of Ultimate Bet, an online gambling site.¹⁹⁴ Bankman-Fried ran the multibillion-dollar cryptocurrency exchange as a “personal fiefdom.”¹⁹⁵

363. As FTX’s new CEO, John Ray, has detailed in his testimony to Congress: at FTX, there was an “absolute concentration of control in the hands of a very small group of grossly inexperienced and unsophisticated individuals who failed to implement virtually any of the systems or controls that are necessary for a company that is entrusted with other people’s money or assets.”¹⁹⁶ Additionally, FTX “did not keep appropriate books and records, or security controls, with respect to its digital assets.” Mr. Ray added, “Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here.” This is a strong statement coming from Ray, who has “over 40 years of legal and restructuring experience” and has overseen the clean-up of “several of the largest corporate failures in history,” including being hired to guide Enron through its bankruptcy proceedings 20 years ago.

364. Mr. Ray admitted in his testimony to Congress that, at FTX, “there was an absence of any management. You need records, you need controls, and you need to separate people’s money. It’s simple.” When asked if FTX had significant risk

¹⁹⁴ *Fiducient Advisors*, “FTX – Lessons Learned from a Lack of Due Diligence” (Dec. 19, 2022); *Business Insider*, “Chamath Palihapitiya said Sam Bankman-Fried once pitched him, but after the investor suggested changes like forming a board, FTX told him to get lost” (Nov. 15, 2022).

¹⁹⁵ Law360, “FTX Pledges Better Books, Celsius Faulted for Asset Mingling” (Nov. 23, 2022).

¹⁹⁶ Written Testimony of Mr. John J. Ray III, CEO, FTX Debtors, House Financial Services Committee (Dec. 13, 2022).

1 management systems, Ray responded that “there were virtually no internal controls
2 and no separateness whatsoever” between FTX and another, Bankman-Fried owned
3 Company and Silvergate client, Alameda, the parent company of North Dimension.
4 He further testified that Bankman-Fried owned 90% of Alameda and there was “no
5 distinction whatsoever” in governance between FTX and Alameda.¹⁹⁷

6 365. Asked to compare the FTX fraud to prior corporate disasters he has
7 cleaned up, Mr. Ray said that FTX’s collapse “is unusual in the sense that literally
8 there’s no record-keeping whatsoever [at FTX]. Mr. Ray added, in amazement:
9 “They use[d] Quickbooks. A multibillion-dollar company using Quickbooks.” He
10 elaborated that FTX “used QuickBooks as their accounting system and relied on a
11 hodgepodge of Google documents, Slack communications, shared drives, and Excel
12 spreadsheets and other non-enterprise solutions to manage their assets and
13 liabilities.”¹⁹⁸ Worse yet, Ray has now documented that “[a]pproximately 80,000
14 transactions were simply left as unprocessed accounting entries in catch-all
15 QuickBooks accounts titled ‘Ask My Accountant.’” Mr. Ray concluded that FTX
16 is “one of the worst [entities] from a documentation standpoint” and “[i]t’s really
17 unprecedented in terms of the lack of documentation.”¹⁹⁹

18 366. Bankman-Fried has himself now publicly admitted that he made zero
19 effort to manage risk at FTX: “I wasn’t even trying, like, I wasn’t spending any time
20

21
22 ¹⁹⁷ Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
23 Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
24 FTX).

25 ¹⁹⁸ Ray explained “QuickBooks was not designed to address the needs of a large and
26 complex business like that of the FTX Group, which handled billions of dollars of
27 securities, fiat currency, and cryptocurrency transactions across multiple continents
28 and platforms,” First Interim Report of John J. Ray III to the Independent Directors
on Control Failures at the FTX Exchanges, *In re FTX Trading Ltd.*, No. 22-11068-
JTD (Bankr. D. Del. Nov 11, 2022), ECF No. 1241-1 at 13.

¹⁹⁹ Investigating the Collapse of FTX, Part I: Hearing Before the House Financial
Services Committee, 117th Cong. (2022) (Testimony of Mr. John J. Ray III CEO,
FTX).

1 or effort trying to manage risk on FTX.”²⁰⁰ He added, “If I had been spending an
 2 hour a day thinking about risk management on FTX, I don’t think [the collapse of
 3 FTX] would have happened.”²⁰¹ Bankman-Fried has also admitted that there was a
 4 “massive failure of oversight of risk management” at FTX.²⁰² And FTX’s new CEO,
 5 Mr. Ray, has confirmed these admissions, testifying that FTX’s systems for
 6 accounting, audit, cash management, cybersecurity, risk management, and data
 7 protection “did not exist to an appropriate degree” or “did not exist” at all.²⁰³

8 367. These stark admissions from FTX’s most senior insiders about FTX’s
 9 complete absence of any internal compliance programs are directly contrary to
 10 Silvergate’s statements in the 2021 Offering Documents that Silvergate performed
 11 onboarding due diligence on its customers.

12 368. **North Dimension** was a fake online electronics retailer, that Bankman-
 13 Fried founded in August 2020 to receive customer funds for FTX at Silvergate.
 14 Silvergate approved North Dimension to participate on its SEN Network. Had
 15 Silvergate conducted the represented diligence described in the 2021 Offering
 16 Documents, it also would have discovered that North Dimension was a sham. On
 17 its website, North Dimension claimed to sell mobile phones, laptops, watches and
 18 other personal electronics; yet, in reality, there was no actual way to purchase
 19 anything from North Dimension. Clicking the links on its website to buy products
 20 “sold” at North Dimension generated a typo-filled, incoherent pop-up response to
 21 “Get A Quote,” which stated: “Fee [sic] free to send a message. We collaborate with
 22 ambitious brands and people; we’d love to build something great together.”²⁰⁴

23 ²⁰⁰ *Wall Street Journal*, “Sam Bankman-Fried ‘Wasn’t Even Trying’ to Manage Risk
 24 at FTX, He Says” (Dec. 1, 2022).

25 ²⁰¹ *Id.*

26 ²⁰² *Id.*

27 ²⁰³ Declaration of John R. Ray III in Support of Chapter 11 Petitions and First Day
 Pleadings, *In re FTX Trading Ltd.*, No. 22-11068-JTD (Bankr. D. Del. Nov. 17,
 2022), ECF No. 24.

28 ²⁰⁴ *NBC News*, “This little-known firm with a weird website was central to the
 misappropriation of FTX customers’ money, regulators say” (Dec. 27, 2022).

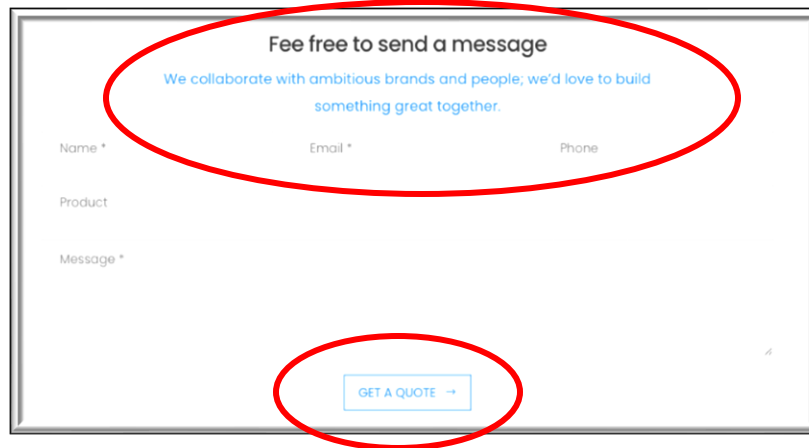


Figure 10. Screenshot of North Dimension’s website.²⁰⁵

369. If that was not enough, North Dimension’s address, which was listed in plain sight on its website, was the same address as FTX’s address: 2000 Center St., Suite 400 Berkeley California. Worse yet, as *NBC* would later note following its investigation, North Dimension’s website was “rife with misspellings and bizarre product prices; for example, item listings sometimes showed ‘sale’ prices that were hundreds of dollars above a regular price.”²⁰⁶ The “About Us” section of North Dimension’s website displayed text that “may have been written by a not-too-smart artificial intelligence,” with North Dimension describing itself as a “World top E-commerce site for consumer electronics in order to provide the lowest costs for authentic items from the world’s most reputable brands.”²⁰⁷

²⁰⁵ Web archive of North Dimension’s website (as of Nov. 11, 2022).

²⁰⁶ *NBC News*, “This little-known firm with a weird website was central to the misappropriation of FTX customers’ money, regulators say” (Dec. 27, 2022).

²⁰⁷ *Cointelegraph*, “Here’s what SBF’s fake electronics outlet ‘North Dimension’ looks like” (Dec. 30, 2022).

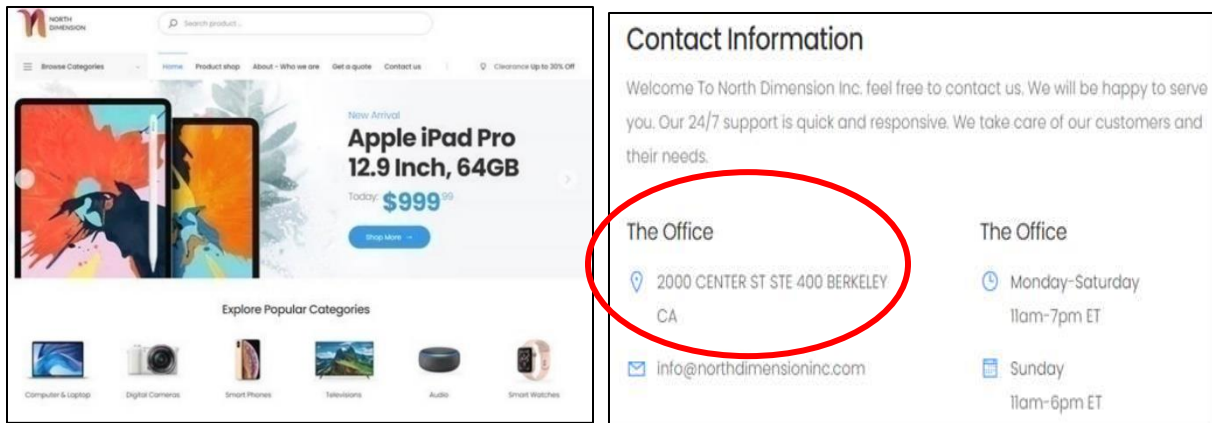


Figure 11. Screenshots of North Dimension’s website.²⁰⁸

370. In addition to not actually selling electronics products and being rife with misspellings, North Dimension’s item listings for known products showed “sale” prices that were often hundreds of dollars above the “regular” price. For example, an 11-inch iPad (again misspelled)—listed as a “Cell Phone”—inexplicably displayed a “sale” price of \$899 and an “original” price of \$410.

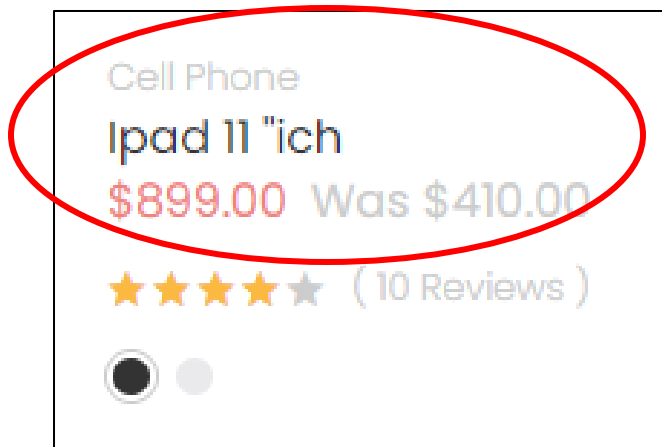


Figure 12. Screenshot of North Dimension’s website.²⁰⁹

371. Far from an “online electronics retailer,” North Dimension was an utter sham created and controlled by FTX’s CEO, Sam Bankman-Fried, to fraudulently

²⁰⁸ Web archive of North Dimension’s website (Nov. 11, 2022).

²⁰⁹ *Id.*

1 divert billions of dollars of customer funds intended for FTX. North Dimension had
 2 no employees, other than Bankman-Fried, and no physical location. It had no actual
 3 business operations outside of its bank account at Silvergate and was nothing more
 4 than a Silvergate-approved sham allowed to fleece innocent customers out of billions
 5 of their hard-earned dollars.

6 372. **Binance** was a cryptocurrency exchange, with approximately one-third
 7 of its users based in the United States. Notwithstanding its substantial U.S.-customer
 8 base, Binance did not register with the Treasury Department, as is required by the
 9 Bank Secrecy Act for “financial companies with ‘substantial’ business in the United
 10 States.”²¹⁰ Instead, Binance and its owner, Zhaou Changpeng, created
 11 Binance.US—a U.S.-based exchange. Binance.US then registered itself with the
 12 Treasury Department, representing that Binance.US was “fully independent” from
 13 Binance.

14 373. Silvergate approved Binance.US to join its SEN Network in November
 15 2020.²¹¹ Silvergate did not perform due diligence on Binance.US before it permitted
 16 it to join the SEN Network. Those who have conducted due diligence on
 17 Binance.US have readily uncovered facts demonstrating that it is not “fully
 18 independent” from Binance; in fact, they are one and the same. As U.S. senators
 19 explained in a bipartisan letter, “While Mr. Zhao has claimed that Binance.US is a
 20 ‘fully independent entity,’ in reality, he controls the company as a ‘*de facto*
 21 subsidiary’ of Binance,” with “Binance’s Cayman Islands holding company
 22 ke[eping] custody of Binance.US customers’ digital wallets.”²¹² The *Wall Street*
 23 *Journal* likewise found that “Binance and Binance.US have been much more
 24

25 ²¹⁰ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 26 (Mar. 1, 2023).

27 ²¹¹ *Reuters*, “Exclusive: Crypto giant Binance moved \$400 million from U.S. partner
 to firm managed by CEO Zhao” (Feb. 16, 2023).

28 ²¹² Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 (Mar. 1, 2023).

1 intertwined than the companies have disclosed, mixing staff and finances and sharing
 2 an affiliated entity that bought and sold cryptocurrencies.”²¹³ *Reuters* also concluded
 3 that “Binance created Binance.US as a *de facto* subsidiary in 2019 in order to draw
 4 the scrutiny of U.S. regulators away from the global exchange.”

5 374. If it had conducted the due diligence represented in the 2021 Offering
 6 Documents, Silvergate would also have learned that Binance and its executives
 7 controlled Binance.US’s finances at Silvergate. When it conducted its review,
 8 *Reuters* readily found evidence that Binance’s executives, including its finance
 9 executive Susan Li, had access to Binance.US’s Silvergate account. The bipartisan
 10 group of U.S. senators similarly concluded that, “in truth, ‘the global Binance
 11 exchange, which is not licensed to operate in the United States, controlled the
 12 finances of Binance.US, despite maintaining that the American entity is entirely
 13 independent and operates as its ‘US Partner.’”²¹⁴

14 375. Had Silvergate actually performed the represented due diligence on
 15 these entities (as it told investors it had), it would have realized that they were
 16 nothing more than sham entities created to evade U.S. laws and funnel funds from
 17 Binance.US to Binance and Zhao. Indeed, “Mr. Zhao ‘decline[d] to disclose the
 18 location or entity behind his own exchange [at Binance]’ in what many regard as a
 19 blatant attempt to dodge the world’s financial regulators, serve ‘users without
 20 licenses,’ and violate anti-money laundering laws.”²¹⁵

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 26 ²¹³ *Wall Street Journal*, “Texts From Crypto Giant Binance Reveal Plan to Elude
 U.S. Authorities” (Mar. 5, 2023).

27 ²¹⁴ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
 (Mar. 1, 2023).

28 ²¹⁵ *Id.*

376. Additionally, a simple “site visit” to the address provided for Key Vision Development Limited (Office 22 Alpha Centre, Providence, Mahe, Seychelles), or even a search using “Google Earth” for the address, would have made plain that it was the address for a massive warehouse—not the business office of an entity transacting in hundreds of millions of dollars in cryptocurrency:

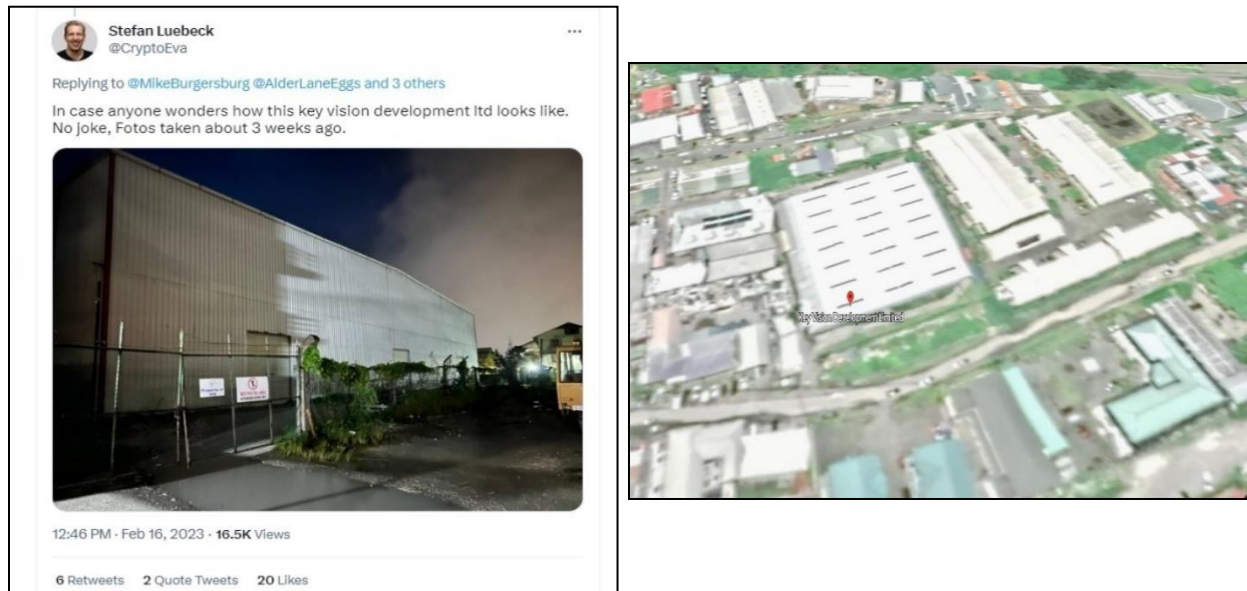


Figure 13. Images of Key Vision Limited Development’s purported address.²¹⁶

377. *Huobi Global* was a Seychelles-based cryptocurrency exchange, founded in China. Silvergate approved Huobi to participate on its SEN Network. Had Silvergate conducted the diligence represented in the 2021 Offering Documents, it would have discovered a slew of troubling facts, including that Huobi lacked compliance controls. For example, in December 2020, investigators at the forensics company CipherBlade conducted a review of Huobi’s controls. Their review “demonstrated how simple it was to create false accounts” at Huobi and transact on the exchange, which created conditions ripe for money laundering and other illegal transfers.²¹⁷ As CipherBlade found, exchange participants at Huobi

²¹⁶ Post by Stefan Luebeck, a cryptocurrency market analyst at BTC-ECHO, dated Feb. 16, 2023; Google Earth Image Search.

²¹⁷ *Coin Edition*, “Investigator Questions Huobi Global’s Defective KYC Policies” (Dec. 30, 2022).

1 could wire funds using phony information, including obviously false names and
 2 photographs of themselves, such as “Taylor Swift” and “Borat.” Other investigators
 3 similarly concluded that Huobi “fail[ed] to perform stringent background checks”
 4 and “know-your-customer (KYC) processes” on customers, making it a “gateway
 5 for money laundering and other gray activities.”²¹⁸

6 378. If Silvergate had actually conducted due diligence on Huobi, it also
 7 would have found that “Huobi Global had not taken any action against the links that
 8 were made between Huobi and the darknet marketplace Hydra.”²¹⁹ In October 2021,
 9 investigators of the National Bureau of Economic Research in Cambridge,
 10 Massachusetts issued a report “show[ing] that the highest volume entities interacting
 11 directly with Hydra Market users are non-KYC exchanges, including Binance and
 12 Huobi which are two of the largest exchanges worldwide.”²²⁰ The DOJ has
 13 described Hydra as “the world’s largest and longest-running darknet market,” with
 14 Hydra having received in total around \$5.2 billion in cryptocurrency.²²¹ Aurelius
 15 Capital Value rightfully summed it up correctly when it questioned Silvergate
 16 associating with Huobi: it is impossible “to find a way to harmonize the formal due
 17 diligence procedure that Silvergate uses with Huobi’s onboarding process.”²²²

18 379. *Nexo Capital Inc.* was a cryptocurrency lending firm that Silvergate
 19 also approved to bank and operate on its SEN Network. Silvergate did not perform
 20 the represented due diligence on Nexo. Had Silvergate performed the due diligence
 21 on Nexo represented in the 2021 Offering Documents, it would have learned that
 22

23 ²¹⁸ *Verdict*, “Dirty bitcoin: Exchanges’ KYC laxity eases money laundering – report”
 (Oct. 27, 2021).

24 ²¹⁹ *Coin Edition*, “Investigator Questions Huobi Global’s Defective KYC Policies”
 (Dec. 30, 2022).

25 ²²⁰ National Bureau of Economic Research, *Blockchain Analysis of the Bitcoin*
 26 *Market*, (October 2021).

27 ²²¹ Press Release, DOJ, “Justice Department Investigation Leads to Shutdown of
 Largest Online Darknet Marketplace” (Apr. 5, 2022).

28 ²²² *Coin Edition*, “Investigator Questions Huobi Global’s Defective KYC Policies”
 (Dec. 30, 2022).

Nexo failed to register with the SEC, as required by law. Following its review of Nexo, the SEC “charged Nexo with failing to register its retail crypto lending product before offering it to the public, bypassing essential disclosure requirements designed to protect investors.” Prosecutors that have conducted due diligence on Nexo have also learned, as reported by *Reuters*, that “Nexo has been operating through many companies, many of which were just ‘post boxes.’”²²³ The SEC has forced Nexo to cease and desist, with Nexo required to pay \$45 million in fines to the SEC and state regulators.²²⁴

380. **Miles Guo** (a/k/a Ho Wan Kwok) owned two entities approved by Silvergate: “Hamilton Opportunity Fund SPC” and “Hamilton Investment Management Ltd.” Silvergate did not perform the represented due diligence on Guo or his entities. Had Silvergate performed the represented due diligence on Guo or his entities, it would have found what the SEC and others readily discovered: “Guo was a serial fraudster” who “took advantage of the hype and allure surrounding crypto and other investments to victimize thousands and fund his and his family’s lavish lifestyle.”²²⁵ Guo—who is currently under arrest in the United States—operated through “fraudulent and fictitious businesses” that “connected dozens of interrelated entities,” allowing Guo “to solicit, launder, and misappropriate victim funds.”²²⁶ On September 18, 2022, the DOJ seized over \$389 million from Guo’s accounts at Silvergate, including Hamilton Opportunity Fund SPC (Silvergate Account Numbers: 5090037713, 5090037705, 5090037754, 5090042770,

²²³ *Reuters*, “Bulgaria launches probe of crypto lender Nexo, raids sites” (Jan. 12, 2023).

²²⁴ Press Release, SEC, “Nexo Agrees to Pay \$45 Million in Penalties and Cease Unregistered Offering of Crypto Asset Lending Product” (Jan. 19, 2023).

²²⁵ Press Release, SEC, “SEC Charges Exiled Chinese Businessman Miles Guo and His Financial Advisor William Je in \$850 Million Fraud Scheme” (Mar. 15, 2023).

²²⁶ Sealed Indictment, *United States v. Ho Wan Kwok*, No. 23-cr-118 (S.D.N.Y. Mar. 6, 2023).

5090042762, 5090042853, 5090037739, 5090042853) and Hamilton Investment Management Ltd. (Silvergate Account Number: 5090030288).²²⁷

381. *Virgil Sigma Fund LP and VQR Multistrategy Fund LP* were two cryptocurrency hedge funds run by convicted felon Stefan Qin. Both entities were also approved by Silvergate to participate on the SEN Network and authorized to set up twelve accounts at Silvergate.²²⁸ Silvergate did not perform the represented due diligence on these Silvergate-approved entities. Had Silvergate conducted the due diligence it represented, it would have discovered that these entities operated a Ponzi scheme. When the New York Field Office of Homeland Security Investigations Unit reviewed these entities, they readily found that “Virgil Sigma and VQR, two multimillion-dollar cryptocurrency investment funds, were . . . slush funds for Qin to live his extravagant lifestyle. Qin orchestrated this reprehensible criminal scheme for many years, making misrepresentations and false promises that coaxed investors into pouring millions of dollars into fraudulent cryptocurrency firms, all the while stealing the hard-earned money of his investors.”²²⁹

382. *Bittrex, Inc.* was a cryptocurrency exchange that Silvergate approved for its SEN Network and specifically highlighted, by name, on its website as one of its major customers. Silvergate did not conduct the due diligence on Bittrex that it represented to investors in the 2021 Offering Documents. Had Silvergate actually conducted due diligence of Bittrex, it would have discovered, as the Treasury Department has found, that Bittrex “violated multiple sanctions programs and failed

²²⁷ Press Release, SEC, “SEC Charges Exiled Chinese Businessman Miles Guo and His Financial Advisor William Je in \$850 Million Fraud Scheme” (Mar. 15, 2023); Press Release, USAO SDNY “Ho Wan Kwok, A/K/A “Miles Guo,” Arrested For Orchestrating Over \$1 Billion Dollar Fraud Conspiracy” (Mar. 15, 2023).

²²⁸ *Business Insider*, “Silvergate had close ties to Sam Bankman-Fried’s FTX and Alameda. The crypto bank was also reportedly a favorite of other troubled clients including an Australian Ponzi criminal” (Jan. 24, 2023).

²²⁹ Press Release, USAO SDNY, “Founder Of \$90 Million Cryptocurrency Hedge Fund Charged With Securities Fraud And Pleads Guilty In Federal Court” (Feb. 4, 2021).

1 to adequately guard against money laundering.” Among other things, Bittrex “failed
 2 to have a proper anti-money laundering program” and “unnecessarily exposed the
 3 U.S. financial system to threat actors.”²³⁰ Bittrex has now been required to pay \$53
 4 million for violating multiple U.S. sanctions programs, which was “the biggest fine
 5 on a crypto business by the Treasury Department.”

6 383. In sum, if Silvergate had conducted the “extensive regulatory
 7 compliance diligence” and “thorough reviews . . . as part of [its] due diligence
 8 process” in connection with its “onboarding new customers” that it told investors it
 9 had in the 2021 Offering Documents (but which it had not), Silvergate would have
 10 seen—as investigators and U.S. senators uniformly have—that these entities were
 11 shams and should never have been allowed to participate on the SEN Network.

12 384. **Second**, Silvergate did not perform ongoing transaction monitoring of
 13 its SEN Network participants or “enhanced due diligence” of its cryptocurrency-
 14 exchange customers. Indeed, when asked whether Silvergate conducted enhanced
 15 ongoing monitoring, FE 3 replied, “Absolutely not.” When asked whether
 16 Silvergate conducted enhanced due diligence, FE 3 replied, “Absolutely not.” And
 17 as far as FE 3 was aware, “customer risk scoring, with risk factors specific to the
 18 digital-currency industry” did not exist at Silvergate, and she explained that, in her
 19 position at the Bank, she would expect to be aware of such a process, if it existed.
 20 FE 3 was in meetings with Lane and his direct reports; there was never anything
 21 stated about compliance during these regular meetings.

22 385. Likewise, FE 1 also did not see Silvergate monitoring of clients on the
 23 SEN Network. When asked whether FE 1 had seen “extensive regulatory
 24 compliance diligence” performed by Silvergate during her time at the Bank, FE 1
 25 replied, “I did not.” When asked whether she had seen Silvergate perform any type
 26 of “enhanced procedures to screen and monitor [crypto customers]” during her time

27
 28 ²³⁰ *Decrypt*, “Treasury Fines Crypto Exchange Bittrex \$53 Million for Sanctions
 Violations” (Oct. 11, 2022).

1 at Silvergate, she replied, “I did not.” When asked whether Silvergate
2 “comprehensively investigat[ed] prospective customers” or conducted “customer
3 risk scoring with risk factors specific to the digital-currency industry,” FE 1 stated
4 that she was not aware of any of that occurring at Silvergate.

5 386. FE 1 also knew Silvergate had no ongoing monitoring because
6 employees never received the training to do it. FE 1 does not recall Silvergate having
7 the employees take tests on KYC or anything else compliance-related. Nor does FE
8 1 recall any training regarding KYC or specific crypto related compliance issues.

9 387. When asked whether FE 1 had seen Silvergate conduct “thorough
10 reviews we conduct as part of our due diligence process . . . designed to detect any
11 such illicit activities conducted by our potential or existing customers [and] in the
12 case of digital currency exchanges, their customers” during her time at Silvergate,
13 FE 1 replied, “I did not.” Likewise, when asked whether she had seen Silvergate
14 engage in “ongoing monitoring of customer activities and evaluating a market
15 participant’s ability to actively monitor the flow of funds of their own customers” or
16 “system monitoring rules tailored to digital currency activities,” FE 1 replied, “I did
17 not.”

18 388. Silvergate also had no system of red flags. When asked about
19 Silvergate’s public statements that it had a “system of red flags specific to various
20 customer types and activities,” FE 3 explained that Silvergate had purchased an
21 AML software to do this, but it was never implemented. FE 3 explained that the
22 AML software was supposed to flag customer activity with sanctioned countries,
23 excessive cash transactions, and other kinds of alerts; and the Company would be
24 able to set the parameters on what the software should flag. None of that was being
25 done at Silvergate, explained FE 3. FE 3 added that, during meetings, she heard it
26 noted that the implementation of the AML software would be a project at some point,
27 but it was never put on the active project list. Further corroborating FE 3’s account,
28

1 when asked whether she had seen “a system of ‘red flags’ specific to various
2 customer types and activities,” FE 1 replied, “I did not.”

3 389. FE 3 asked her colleagues in 2022 whether Silvergate was doing
4 anomaly detection—*i.e.*, looking for suspicious activity. She was told that they were
5 not. FE 3 then tried to create a report, based on a manual review, that would detect
6 anomalous activity. FE 3 recounted, however, there was no one to tell even if her
7 team found suspicious activity, because, “Nobody cared.” FE 3 confirmed that—
8 outside of her failed manual attempt—Silvergate did not perform any anomaly
9 detection.

10 390. FE 2 explained that about half of Silvergate’s customers were not even
11 known by the Bank.²³¹ He would ask people at Silvergate what a business did, who
12 the owners were, and what the management structure was, and Silvergate did not
13 have that information. Based on his experience and understanding, Silvergate
14 banked everyone who wanted to be a customer and it seemed to bank everyone
15 regardless of what their compliance programs were like. FE 2 confirmed that any
16 diligence was a “check the box” activity. FE 2 reported he and his fellow analysts
17 felt like they were checking boxes for the sake of it without the Bank actually being
18 mindful of the risk they were absorbing.

19 391. FE 2 stated that in his experience, Silvergate did not have a deep-rooted
20 commitment to compliance and said that he does not believe a lot of action was taken
21 regarding suspicious activity. FE 2 explained that everyone in his department,
22 including FE 2, mentioned concerns with respect to compliance to Jennifer
23 Steinbock, a “BSA/Compliance Manager.” FE 2 recalled that he and his colleagues
24 knew that there was frustration on the part of Steinbock regarding customers they
25 believed should be exited, but would not be by order of Silvergate’s Chief Operating
26

27
28 ²³¹ FE 2 worked at Silvergate from October 2017 to June 2019 as a “BSA Analyst,”
reporting to Jennifer Steinbock.

1 Officer. FE 2 agreed that determinations that the identified suspicious activity was
2 “normal” were not justified and just an effort by Silvergate to keep the business.

3 392. FE 2 remembers asking his Silvergate colleagues so many times, how
4 many of these suspicious reports are we going to absorb, and he was told they would
5 just keep re-reviewing them forever. FE 2 explained that no Silvergate customer
6 accounts were ever closed.

7 393. FE 2 explained that he left Silvergate because he did not feel they had
8 a culture of compliance.

9 394. FE 4’s account further corroborates Silvergate’s lack of any ongoing
10 monitoring of its customers. FE 4 reported that when Silvergate received reports
11 from customers and other banks of unauthorized transactions, the Bank would not
12 investigate.²³² FE 4 explained that even when the originating bank would tell
13 Silvergate that the client had said a transaction was unauthorized, Silvergate did not
14 investigate. FE 4 said receiving these unauthorized transaction requests were a red
15 flag but there was never any investigation by Silvergate to determine what happened
16 with unauthorized transactions.

17 395. In addition to these former employee accounts, the fact that Silvergate
18 failed to perform ongoing monitoring of its customer activity is further corroborated
19 by the fraudulent activities that cryptocurrency exchange customers performed on
20 the SEN Network, [REDACTED], U.S. senators, and
21 investigative journalists.

22 396. *FTX, Alameda, and North Dimension.* Silvergate did not conduct
23 ongoing monitoring of FTX or its related entities. Instead, Silvergate allowed Sam
24 Bankman-Fried to use FTX and his other entities to dupe innocent customers out of
25 billions of dollars. Sam Bankman-Fried’s and FTX’s fraud of their customers was

26 ²³² FE 4 worked at Silvergate from February 2011 to July 2021 as “VP of Deposit
27 Operations.” She reported to Dina Matias, Silvergate’s “Senior Vice President,
28 Operations Administrator,” who reported to Elaine Hetrick, Silvergate’s Chief
Administrative Officer.

1 simple. When customers wished to purchase cryptocurrency from FTX’s account,
 2 they were directed to wire their fiat currency into the Silvergate-approved accounts
 3 of two entities that were not FTX—specifically, they were directed to wire their
 4 funds to “North Dimension” and “Alameda.” None the wiser, innocent FTX
 5 customers wired more than \$8 billion to the Silvergate-approved accounts of North
 6 Dimension and Alameda.²³³ FTX’s CEO, Sam Bankman-Fried, then absconded with
 7 those dollars from Silvergate, without crediting the customers’ cryptocurrency
 8 accounts at FTX. Once FTX collapsed, FTX customers were left empty-handed and
 9 unable to free their money.

10 397. FTX and Alameda did not even have an accounting department.²³⁴
 11 Rather than being safely kept at Silvergate, FTX customer funds were diverted to
 12 Alameda and North Dimension, and then “used to purchase homes and other
 13 personal items for [Silvergate] employees and advisors” in the Bahamas. When FTX
 14 employees wanted to make such purchases, they needed only to “submit[] payment
 15 requests through an on-line ‘chat’ platform where a disparate group of supervisors
 16 approved disbursements by responding with personalized emojis.”²³⁵ “These
 17 informal, ephemeral messaging systems were used to procure approvals for transfers
 18 in the tens of millions of dollars, leaving only informal records of such transfers, or
 19 no records at all.” Alameda even “had difficulty understanding what its positions
 20 were, let alone hedging or accounting for them,” Ray has reported, including that “a
 21 June 2022 ‘Portfolio summary’ purporting to model cryptocurrency positions held
 22 by Alameda Research stated, with respect to valuation inputs for certain tokens, that
 23 Alameda personnel should ‘come up with some numbers? idk.’” As observed by
 24 Federico Lascano of Fiducient Advisors, the lack of “cash controls” at FTX “enabled
 25

26 ²³³ Vox, “Sam Bankman-Fried tries to explain himself” (Nov. 16, 2022).

27 ²³⁴ Declaration of John R. Ray III in Support of Chapter 11 Petitions and First Day
 Pleadings, *In re FTX Trading Ltd.*, No. 22-11068-JTD (Bankr. D. Del. Nov. 17,
 2022), ECF No. 24.

28 ²³⁵ *Id.*

1 customer funds to be freely transferred to Alameda,” and “would have been an
2 enormous red flag during the operational due diligence process.”²³⁶

3 398. FE 3 also handled wire limit changes for FTX, Alameda, and North
4 Dimension. FE 3 saw no ongoing monitoring of FTX, Alameda, or North
5 Dimension. In her role, she would at least be aware of such monitoring if it existed,
6 said FE 3. FE 3 explained that this monitoring should have included currency
7 transaction reports, wire volumes, wire destinations, ACH exceeding limits, invalid
8 or unauthorized return rates, and SEC codes, and activity between accounts.

9 399. A bipartisan group of senators on the U.S. Senate Banking Committee
10 later explained in a December 5, 2022 bipartisan letter to Defendant Lane: “Your
11 bank’s involvement in the transfer of FTX customer funds to Alameda reveals what
12 appears to be an egregious failure of your bank’s responsibility to monitor for and
13 report suspicious financial activity carried out by its clients.”²³⁷

14 400. **Binance**: Silvergate additionally failed to monitor Binance.US’s
15 activity, allowing transfers of hundreds of millions of dollars to the other entities of
16 Binance’s CEO, Zhao, without the permission—or even the knowledge—of
17 Binance.US’s employees. As *Reuters* revealed, beginning in late 2020, \$400 million
18 of funds at Silvergate were transferred from Binance.US to a separate account
19 controlled by Zhao “without [Binance.US’s] knowledge.”²³⁸ Funds were moved
20 from Binance.US’s account at Silvergate Bank to “Merit Peak,” another shell entity
21 owned approved by Silvergate. Merit Peak then transferred funds to “Key Vision
22
23

24 ²³⁶ *Fiducient Advisors*, “FTX – Lessons Learned from a Lack of Due Diligence”
25 (Dec. 19, 2022). Mr. Lascano researches and performs operational due diligence on
26 alternative investment managers. Prior to joining Fudicient Advisors in 2022, Mr.
27 Lascano worked in regulatory finance at NatWest Markets, the investment banking
28 arm of NatWest Group based in the United Kingdom.

²³⁷ Letter from Warren, Kennedy, and Marshall to Lane (Dec. 5, 2022).

²³⁸ *Reuters*, “Exclusive: Crypto giant Binance moved \$400 million from U.S. partner
to firm managed by CEO Zhao” (Feb. 16, 2023).

1 Development Limited,” yet another sham entity that “held an account at Silvergate
2 at the time” and that also “identified CEO Zhao as a director.”²³⁹

3 401. Had Silvergate actually performed the due diligence it represented to
4 investors, it would also have discovered that these entities lack a compliance
5 program. Binance is, as the U.S. senators explained in their March 2023 bipartisan
6 letter, “a hotbed of illegal financial activity that has facilitated over \$10 billion in
7 payments to criminals and sanctions evaders.” This conclusion is well-founded:
8 “crypto researcher Chainalysis, hired by U.S. government agencies to track illegal
9 flows, concluded in a 2020 report that Binance received criminal funds totaling \$770
10 million in 2019 alone, more than any other crypto exchange.”²⁴⁰ Even more,
11 Binance’s own Chief Compliance Officer admitted that its KYC checks were
12 “weak”, with Binance’s CEO (Mr. Zhao) wanting “no kyc.” “Binance.US was also
13 in on the scheme: ‘Almost half the U.S. compliance team quit by mid-2022 after a
14 new U.S. boss was appointed by Zhao, . . . because the new chief pushed them to
15 register users so swiftly that they couldn’t conduct proper money laundering
16 checks.’”²⁴¹ In fact, Binance.US executives directed compliance personnel to “apply
17 more lenient checks” to “VIP customers” who had been referred to the platform to
18 increase its liquidity. The U.S. senators further concluded that Binance maintained
19 a “laughably weak anti-money laundering compliance program,” with *Reuters*
20 similarly finding that “the main Binance exchange let users open accounts and trade
21 crypto anonymously by merely providing an email address.”

22 402. Silvergate would have found—as investigators and U.S. senators
23 uniformly have—that “Binance and its related entities have purposefully evaded
24

25
26 ²³⁹ *Id.*

27 ²⁴⁰ *Reuters*, “How crypto giant Binance became a hub for hackers, fraudsters and
28 drug traffickers” (June 6, 2022).

²⁴¹ Letter from Senators Warren, Van Hollen, and Marshall to Zhao and Shroder
(Mar. 1, 2023).

1 regulators, moved assets to criminals and sanctions evaders, and hidden basic
2 financial information from its customers and the public.”²⁴²

3 403. *Paxos and OSL Digital* are cryptocurrency exchanges approved by
4 Silvergate. The Bank did not conduct the represented due diligence on either of
5 these cryptocurrency exchanges or monitor their activity. As a result, these
6 exchanges were able to launder \$425 million between September 2021 and June
7 2022 from accounts held at Silvergate—namely, Paxos Global PTE LTD; Paxos
8 Trust Company LLC; OSL Digital LTD; and OSL SG PTE LTD.²⁴³ Had Silvergate
9 conducted the represented “ongoing monitoring” of the activity on its SEN Network,
10 it would have detected the money laundering and not approved the cryptocurrency
11 exchanges that facilitated such illegal activity.

12 404. Florida’s Money Laundering Task Force (“MLTF”) conducted a review
13 of “the records produced by Silvergate Bank” for these cryptocurrency exchanges.²⁴⁴
14 MLTF readily found that these exchanges facilitated “the laundering of illicit funds.”
15 The Deputy Sheriff of Broward County, assigned to the MLTF, submitted an
16 affidavit on August 23, 2022, following his review of the “the records produced by
17 Silvergate Bank” and concluded that:

18 “During the period of September 2021 to June 2022 ten companies had
19 transferred a total of over \$425 million dollars off these cryptocurrency
20 trading platforms [at Silvergate] into accounts held at different U.S.
banks.”

21 “The accounts of these ten companies were receiving funds in the same
22 pattern as those previously identified and seized . . . by the [Broward
23 County Sheriff’s Office Strategic Investigations Division, Money

24 ²⁴² *Id.*

25 ²⁴³ *CryptoSlate*, “Silvergate records reveal \$425M in transfers to South American
26 money launderers” (Nov. 16, 2022).

27 ²⁴⁴ “Affidavit in Support of Probable Cause for Forfeiture,” *In re: Seizure of Two*
28 *Million Forty-Eight Thousand Two Hundred Twenty-Nine Dollars and 48/100*
(\$2,048,229.48) *in United States Currency*, No. CACE-22-012446 (Cir. Ct., 17th
Jud. Cir., Broward Cnty., Fla.).

1 Laundering Task Force] for being used to facilitate the laundering of
2 illicit funds.”

3 “In addition to the transaction pattern of these ten companies being
4 consistent with those previously identified as being used to facilitate
5 money laundering, your Affiant noted that the transaction patterns of
6 these ten companies were not consistent with the transaction patterns of
7 thousands of other persons and businesses using the same digital
8 cryptocurrency trading platforms contained in the same [Silvergate]
9 records.”

10 “In general, these companies all appeared to be shell companies,
11 recently formed, with multiple things in common such as address,
12 corporate officers, and other details”²⁴⁵

13 405. Had Silvergate actually monitored the activity on its platform (as it
14 represented it had), it would have identified that these entities’ transactions “were
15 not consistent with the transaction patterns of thousands of other persons and
16 businesses” and recognized that hundreds of millions of dollars was being wired
17 from the Silvergate-approved exchanges to “shell companies, recently formed, with
18 multiple things in common such as address, corporate officers, and other details.”²⁴⁶

19 406. If Silvergate had conducted the “extensive regulatory compliance
20 diligence” and “ongoing monitoring of customer activities” that it told investors it
21 had in the 2021 Offering Documents (but which it had not), Silvergate would have
22 seen—as investigators and U.S. senators uniformly have—the myriad “red flags”
23 caused by these entities’ transaction activity on the SEN Network.

24 **XIV. THE MISSTATEMENTS AND OMISSIONS WERE** 25 **MATERIAL**

26 407. The challenged statements in the 2021 Offering Documents are
27 material. Facts demonstrating that the statements are material include:

28 ²⁴⁵ *Id.*

²⁴⁶ *Id.*

1 408. **First**, the Company, itself, has admitted the materiality of the
 2 misrepresented facts. In its Annual Report filed with the SEC on Form 10-K,
 3 Silvergate stated that its represented compliance procedures provided “a distinct
 4 competitive advantage for [the Bank], and provide a meaningful barrier to entry
 5 against [its] potential competitors.”²⁴⁷ Silvergate further stated that its SEN Network
 6 was “[i]nstrumental to [Silvergate’s] leadership position and growth strategy,” and
 7 the SEN Network “enabled [Silvergate] to focus on significantly growing [its]
 8 noninterest bearing deposit product for digital currency industry participants,” which
 9 provided Silvergate with “the majority of [its] funding over the last two years.”

10 409. **Second**, Silvergate’s representations about its vetting, diligence, and
 11 monitoring were important to analysts. For example, in an October 16, 2020 analyst
 12 report recommending that investors “BUY” Silvergate stock, Compass Point
 13 included a three-page detailed description of the Bank’s “regulatory compliance,”
 14 “due diligence and onboarding processes,” and “selective[ness] in the customer
 15 onboarding process,” identifying Silvergate’s “compliance capabilities” as “a
 16 distinct competitive advantage and . . . a meaningful barrier to entry.” The analyst
 17 report further highlighted the Company’s “proprietary compliance capabilities” for
 18 “ongoing monitoring of customer activities” and outlined the measures involved in
 19 the Company’s “due diligence and onboarding processes”—such as “detailed
 20 reviews of each customer’s ownership, management team, business activities and
 21 the geographies in which they operate”—as well as the “more extensive processes”
 22 in place for cryptocurrency exchanges, including “reputational reviews, reviews of
 23 applicable licensing requirements, plans, and status, and reviews of customer
 24 policies and procedures regarding the Bank Secrecy Act (BSA), consumer
 25 compliance, information security, Dodd-Frank Wall Street Reform and Consumer
 26
 27

28 ²⁴⁷ Silvergate, Annual Report (Mar. 10, 2020).

1 Protection Act, prohibitions against unfair, deceptive or abusive acts or practices, as
 2 well as reviews of transaction monitoring systems and audit results.”

3 410. Additionally, a December 2, 2020 Craig-Hallum analyst report advising
 4 investors to “BUY” Silvergate stock stated that Silvergate’s SEN Network was the
 5 “centerpiece” of the Bank and, as it grew, “it became a de-facto due-diligence arm
 6 and quasi-gate keeper.” Similarly, in a December 2021 report, J.P. Morgan analysts
 7 noted that, “[w]ith Silvergate completing due diligence related to KYC and AML
 8 (when it onboards new clients to the SEN platform), the company effectively reduces
 9 counterparty risks for its clients.”

10 411. *Third*, Silvergate’s purported compliance procedures were critical to
 11 Silvergate’s ability to secure bank deposits. Silvergate’s stated adherence to strict
 12 standards attracted customers by supposedly reducing counterparty risk. As analysts
 13 at Wedbush observed, the SEN Network purported to solve “major issues that had
 14 existed in the digital currency market” by “reducing counterparty risk.” A report by
 15 analysts at Canaccord Genuity further emphasized, “the core SEN value proposition
 16 of removing counter-party risk has become table stakes in institutional crypto
 17 trading.”

18 412. [REDACTED]
 19 [REDACTED]
 20 [REDACTED]
 21 [REDACTED]
 22 [REDACTED]
 23 [REDACTED]

24 413. *Fifth*, the materiality of the misrepresented and omitted facts is further
 25 demonstrated by the fact that, after customers learned the truth about Silvergate’s
 26 failure to conduct the represented diligence and monitoring, its customers pulled
 27 their deposits and left the Bank. Cryptocurrency exchange customers such as
 28 Coinbase, Galaxy Digital, Paxos, Circle Internet Financial, and Gemini each

1 announced that they would immediately stop accepting or initiating payments
2 through Silvergate. As a result, on March 8, 2023, Silvergate announced “its intent
3 to wind down operations and voluntarily liquidate the Bank.”

4 414. **Finally**, the investor reaction to the revelation of the truth about
5 Silvergate’s “vetting,” “due diligence,” and “monitoring” demonstrates the
6 materiality of Defendants’ statements. The market was shocked when investors
7 learned that Silvergate failed to perform the compliance and due diligence
8 procedures that the Company had described. As analysts at *Wall Street on Parade*
9 observed, the Bank’s eventual admissions at the end of the Class Period “stand[] in
10 rather stark contrast” to Silvergate’s statements “lauding how the company is ‘built
11 on our deep-rooted commitment and proprietary approach to regulatory
12 compliance.’” Silvergate’s stock price has plummeted to approximately \$1 per share
13 today—well below the offering price for Silvergate stock.

14 **XV. CAUSES OF ACTION UNDER THE SECURITIES ACT**

15 **COUNT III - Violations of § 11 of the Securities Act** 16 **in Connection with the 2021 Offerings** 17 **(Against Silvergate, Executive and Director Defendants, and Underwriter** 18 **Defendants)**

19 415. Plaintiffs repeat and reallege the allegations above in paragraphs 317 to
20 414 relating only to the Securities Act claims as if fully set forth herein.

21 416. This claim is brought pursuant to Section 11 of the Securities Act, 15
22 U.S.C. § 77k, on behalf of Plaintiffs and members of the Class who purchased or
23 otherwise acquired the securities issued pursuant and/or traceable to the 2021
24 Offerings, and were damaged thereby. For purposes of this count, Plaintiffs
25 affirmatively state that they do not allege that Defendants committed intentional or
26 reckless misconduct or that Defendants acted with scienter or fraudulent intent. This
27 claim is based solely in strict liability and negligence.
28

1 417. Defendants' liability under this count is predicated on the participation
2 of each Defendant in conducting these Offerings based on the 2021 Offering
3 Documents, which contained untrue statements and omissions of material fact. This
4 count does not sound in fraud. Any allegations of fraud or fraudulent conduct and/or
5 motive are specifically excluded. For purposes of asserting this and their other
6 claims under the Securities Act, Plaintiffs do not allege that Defendants named in
7 this count acted with intentional, reckless, or otherwise fraudulent intent.

8 418. As set forth in its respective PSLRA certification (attached hereto),
9 Bucks County acquired common stock pursuant to the January 2021 Offering and
10 suffered damages as a result of the violations of the federal securities laws alleged
11 herein. Bucks County purchased 660 shares of Silvergate common stock on January
12 22, 2021 at the public offering price in the January 2021 Offering.

13 419. As set forth in their respective PSLRA certifications, Indiana (attached
14 hereto) and Local 793 (ECF No. 16-3) each acquired common stock pursuant to the
15 December 2021 Offering and suffered damages as a result of the violations of the
16 federal securities laws alleged herein. Indiana purchased 14,200 shares of common
17 stock on December 7, 2021 at the public offering price in the December 2021
18 Offering. Local 793 purchased 591 shares of common stock on December 7, 2021
19 at the public offering price in the December 2021 Offering.

20 420. The 2021 Offering Documents all contained the same untrue statements
21 of material fact and all omitted the same facts necessary to make the statements in
22 them not misleading. *See* ¶¶331-36. Each was false and misleading for the same
23 reasons. *See* ¶¶337-406.

24 421. Through their purchases of shares in the 2021 Offerings and pursuant
25 to the 2021 Offering Documents, which all contained the same misstatements and
26 omissions, Lead Plaintiffs Indiana and Local 793 and Plaintiff Bucks County have
27 standing to bring these claims on behalf of themselves and those persons who also
28 purchased shares in or traceable to the 2021 Offerings.

1 422. Defendant Silvergate was the issuer for the 2021 Offerings, within the
2 meaning of Section 11 of the Securities Act.

3 423. The Securities Act Executive and Director Defendants Brassfield,
4 Campbell, Colucci, Dircks, Frank, Lane, Lempres, Martino, Reed, and Sullivan each
5 signed the January 2021 Registration Statement—which formed the January 2021
6 and March 2021 Offering Documents—as a senior officer and/or director of
7 Silvergate within the meaning of Section 11 of the Securities Act. The Securities
8 Act Executive and Director Defendants Brassfield, Campbell, Colucci, Dircks,
9 Frank, Gupta Lane, Lempres, Martino, Reed, and Sullivan each signed the July 2021
10 Registration Statement—which formed the July 2021 and December 2021 Offering
11 Documents—as a senior officer and/or director of Silvergate within the meaning of
12 Section 11 of the Securities Act.

13 424. The Underwriter Defendants Canaccord, Compass, Craig-Hallum,
14 Goldman, and Keefe each were underwriters for the January 2021 Offering within
15 the meaning of Section 11 of the Securities Act.

16 425. The Underwriter Defendants Canaccord, Compass, Craig-Hallum,
17 Goldman, Keefe, and Wedbush each were underwriters for the March 2021 Offering
18 within the meaning of Section 11 of the Securities Act.

19 426. The Underwriter Defendants Citigroup, Goldman, J.P. Morgan, Keefe,
20 and UBS each were underwriters for the July 2021 Offering within the meaning of
21 Section 11 of the Securities Act.

22 427. The Underwriter Defendants Compass, Craig-Hallum, Goldman, J.P.
23 Morgan, Keefe, and Wedbush each were underwriters for the December 2021
24 Offering within the meaning of Section 11 of the Securities Act.

25 428. The Defendants named in this count issued and disseminated, caused to
26 be issued and disseminated, and participated in the issuance and dissemination of,
27 material misstatements and omissions to the investing public which were contained
28 in the 2021 Offering Documents, which misrepresented or failed to disclose the

1 material adverse facts alleged in connection with Plaintiffs' Securities Act claims,
2 as set forth above.

3 429. In connection with offering the registered securities to the public and
4 the sale of those securities, the Securities Act Defendants named in this count,
5 directly or indirectly, used the means and instrumentalities of interstate commerce,
6 the United States mails and a national securities exchange.

7 430. None of the Defendants named in this count made a reasonable
8 investigation or possessed reasonable grounds for the belief that the statements
9 contained in the 2021 Offering Documents were accurate and complete in all
10 material respects. Had they exercised reasonable care, they would have known of
11 the material misstatements and omissions alleged herein.

12 431. Class members did not know, nor in the exercise of reasonable
13 diligence could they have known, that the 2021 Offering Documents contained
14 untrue statements of material fact and omitted to state material facts required to be
15 stated or necessary to make the statements particularized above not misleading when
16 they purchased or acquired the registered securities.

17 432. As a direct and proximate result of the Securities Act Defendants' acts
18 and omissions in violation of the Securities Act, the Class suffered substantial
19 damage in connection with its purchase of the securities pursuant and/or traceable to
20 the 2021 Offering Documents.

21 433. By reason of the foregoing, the Defendants named in this Count are
22 liable to the members of the Class who acquired registered securities pursuant to or
23 traceable to the 2021 Offering Documents.

24 434. This claim was brought within one year after the discovery of the untrue
25 statements and omissions, and within three years after the issuance of the 2021
26 Offering Documents.

**COUNT IV - Violations of § 12(a)(2) of the Securities Act
in Connection with the 2021 Offerings
(Against Silvergate, Executive and Director Defendants, and Underwriter
Defendants)**

435. Plaintiffs repeat and reallege the allegations above in paragraphs 317 to 434 relating only to the Securities Act claims as if fully set forth herein.

436. This claim is brought pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. § 771(a)(2), on behalf of all members of the Class who purchased or otherwise acquired the securities issued pursuant and/or traceable to the 2021 Offerings, and were damaged thereby. For purposes of asserting this and their other claims under the Securities Act, Plaintiffs do not allege that Silvergate or the Underwriter Defendants acted with intentional, reckless, or otherwise fraudulent intent, which are not elements of a Section 12(a)(2) claim. This claim is based solely in strict liability and/or negligence.

437. Defendants' liability under this count is predicated on their statutory liability for making untrue and materially misleading statements or omissions in the 2021 Offerings Documents.

438. Plaintiffs bring this claim on behalf of members of the Class pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. § 771(a)(2), against Defendant Silvergate and the Underwriter Defendants.

439. The Securities Act Executive and Director Defendants Brassfield, Campbell, Colucci, Dircks, Frank, Lane, Lempres, Martino, Reed, and Sullivan each signed the January 2021 Registration Statement, which formed the January 2021 and March 2021 Offering Documents and contained the January 2021 Prospectus. The Securities Act Executive and Director Defendants Brassfield, Campbell, Colucci, Dircks, Frank, Gupta Lane, Lempres, Martino, Reed, and Sullivan each signed the July 2021 Registration Statement, which formed the July 2021 and December 2021 Offering Documents and contained the July 2021 Prospectus.

1 440. The Underwriter Defendants Canaccord, Compass, Craig-Hallum,
2 Goldman, and Keefe each were underwriters for the January 2021 Offering.

3 441. The Underwriter Defendants Canaccord, Compass, Craig-Hallum,
4 Goldman, Keefe, and Wedbush were the underwriters for the March 2021 Offering.

5 442. The Underwriter Defendants Citigroup, Goldman, J.P. Morgan, Keefe,
6 and UBS each were underwriters for the July 2021 Offering.

7 443. The Underwriter Defendants Compass, Craig-Hallum, Goldman, J.P.
8 Morgan, Keefe, and Wedbush each were underwriters for the December 2021
9 Offering.

10 444. The Defendants named in this count were statutory sellers and offerors
11 and/or solicitors of purchases of the Silvergate securities registered in the 2021
12 Offerings and sold by means of the prospectuses within the 2021 Offering
13 Documents. By means of the defective 2021 Offering Documents, each Defendant
14 named in this count promoted, solicited, and/or sold millions of Silvergate securities
15 to Plaintiffs and members of the Class. Silvergate and the Underwriter Defendants
16 were at all relevant times motivated by their own financial interests. In sum,
17 Silvergate and the Underwriter Defendants were sellers, offerors, and/or solicitors
18 of sales of the stock that was sold in the 2021 Offerings by means of the materially
19 false and misleading 2021 Offering Documents.

20 445. Silvergate and the Underwriter Defendants named in this count issued
21 and disseminated, caused to be issued and disseminated, and participated in the
22 issuance and dissemination of, material misstatements and omissions to the investing
23 public which were contained in the 2021 Offering Documents, which misrepresented
24 or failed to disclose the material adverse facts alleged in connection with Plaintiffs'
25 Securities Act claims, as set forth above.

26 446. As set forth in its respective PSLRA certification (attached hereto),
27 Bucks County acquired common stock pursuant to the January 2021 Offering and
28 suffered damages as a result of the violations of the federal securities laws alleged

1 herein. Bucks County purchased 660 shares of Silvergate common stock on January
2 22, 2021 at the public offering price in the January 2021 Offering. The
3 misstatements in the January 2021 Offering Documents were repeated in the March
4 2021, July 2021, and December 2021 Offering Documents.

5 447. As set forth in their respective PSLRA certifications, Indiana (attached
6 hereto) and Local 793 (ECF No. 16-3) each acquired common stock pursuant to the
7 December 2021 Offering and suffered damages as a result of the violations of the
8 federal securities laws alleged herein. Indiana purchased 14,200 shares of common
9 stock on December 7, 2021 at the public offering price in the December 2021
10 Offering. Local 793 purchased 591 shares of common stock on December 7, 2021
11 at the public offering price in the December 2021 Offering. The misstatements in
12 the December 2021 Offering Documents were repeated in the January 2021, March
13 2021 and July 2021 Offering Documents.

14 448. The 2021 Offering Documents all contained the same untrue statements
15 of material fact and all omitted the same facts necessary to make the statements in
16 them not misleading. *See* ¶¶331-36. Each was false and misleading for the same
17 reasons. *See* ¶¶337-406.

18 449. Through their purchases of shares in the 2021 Offerings, which all
19 contained the same misstatements and omissions, Lead Plaintiff Indiana and Local
20 793 and Plaintiff Bucks County have standing to bring these claims on behalf of
21 themselves and those persons who also purchased shares in the 2021 Offerings.

22 450. In connection with offering the registered securities to the public and
23 the sale of those securities, the Securities Act Defendants, directly or indirectly, used
24 the means and instrumentalities of interstate commerce, the United States mails and
25 a national securities exchange.

26 451. None of the Defendants named in this count made a reasonable
27 investigation or possessed reasonable grounds for the belief that the statements
28 contained in the 2021 Offering Documents were accurate and complete in all

1 material respects. Had they exercised reasonable care, they would have known of
2 the material misstatements and omissions alleged herein.

3 452. Class members did not know, nor in the exercise of reasonable
4 diligence could they have known, that the 2021 Offering Documents contained
5 untrue statements of material fact and omitted to state material facts required to be
6 stated or necessary to make the statements particularized above not misleading when
7 they purchased or acquired the registered securities.

8 453. As a direct and proximate result of the Defendants' acts and omissions
9 in violation of the Securities Act, the Class suffered substantial damage in
10 connection with its purchase of securities pursuant and/or traceable to the 2021
11 Offering Documents.

12 454. This claim was brought within one year after the untrue statements and
13 omissions were or could have been discovered, and within three years after the
14 issuance of the 2021 Offering Documents. By reason of the foregoing, the
15 Defendants named in this count have violated Section 12(a)(2) of the Securities Act.

16 455. By reason of the foregoing, the Defendants named in this count are
17 liable for violations of Section 12(a)(2) of the Securities Act to Plaintiffs and the
18 other members of the Class who purchased Silvergate securities pursuant and/or
19 traceable to the January 2021 Offering Documents, and who were damaged thereby.

20 **COUNT V - Violation of § 15 of the Securities Act**
21 **in Connection with the 2021 Offerings**
22 **(Against the Executive and Director Defendants)**

23 456. Plaintiffs repeat and reallege the allegations above in paragraphs 317 to
24 455 relating only to the Securities Act claims as if fully set forth herein.

25 457. This count is based on Defendants' statutory liability for untrue and
26 materially misleading statements or omissions in the 2021 Offering Documents.
27 This count does not sound in fraud, and any allegations of knowing or reckless
28 misrepresentations or omissions in the 2021 Offering Documents are excluded from

1 this count. For purposes of asserting this count, Plaintiffs do not allege that the
2 Securities Act Executive and Director Defendants acted with scienter or fraudulent
3 intent, which are not elements of a Section 15 claim.

4 458. This count is brought pursuant to Section 15 of the Securities Act, 15
5 U.S.C. § 77o, on behalf of all members of the Class who have asserted claims
6 pursuant to Sections 11 and 12(a), against the Securities Act Executive and Director
7 Defendants.

8 459. The Securities Act Executive and Director Defendants were at all
9 relevant times controlling persons of Silvergate within the meaning of Section 15 of
10 the Securities Act. Each of the Securities Act Executive and Director Defendants
11 served as the most senior executive officers and directors of Silvergate at the time
12 of the 2021 Offerings. The Securities Act Executive and Director Defendants
13 participated at all relevant times in the operation and management of Silvergate, and
14 conducted and participated, directly and indirectly, in the conduct of Silvergate's
15 business affairs. As directors and officers of a publicly owned company, the
16 Securities Act Executive and Director Defendants had a duty to disseminate accurate
17 and truthful information with respect to Silvergate. Because of their positions of
18 control and authority as directors and officers of Silvergate, the Securities Act
19 Executive and Director Defendants were able to, and did, control the contents of the
20 2021 Offering Documents, which contained materially untrue financial information
21 and omissions.

22 460. By reason of the foregoing, the Securities Act Executive and Director
23 Defendants are liable under Section 15 of the Securities Act, to the same extent that
24 the Securities Act Defendants are liable under Sections 11 and 12(a)(2) of the
25 Securities Act, to Plaintiffs and the other members of the Class.

26 **XVI. CLASS ACTION ALLEGATIONS**

27 461. Plaintiffs bring this action as a class action pursuant to Rules 23(a) and
28 23(b)(3) of the Federal Rules of Civil Procedure on behalf of (i) all persons or

1 entities that purchased or otherwise acquired shares of Silvergate Class A common
2 stock between November 7, 2019 through March 21, 2023, inclusive, and who were
3 damaged thereby (the “Class Period”); and (ii) all persons or entities who purchased
4 Silvergate stock in or traceable to Silvergate’s securities offerings conducted through
5 the 2021 Offerings, and were damaged thereby. Excluded from the Class are
6 Defendants, directors and officers of Silvergate, and their families and affiliates.

7 462. The members of the Class are so numerous that joinder of all members
8 is impracticable. The disposition of their claims in a class action will provide
9 substantial benefits to the class members. During the Class Period, Silvergate had
10 more than 39 million shares of stock outstanding, owned by many thousands of
11 investors.

12 463. There is a well-defined community of interest in the questions of law
13 and fact involved in this case. Questions of law and fact common to the members
14 of the Class which predominate over questions that may affect individual Class
15 members include: (a) whether Defendants violated the federal securities laws;
16 (b) whether Defendants omitted and misrepresented material facts; (c) whether
17 Defendants’ statements omitted material facts necessary in order to make the
18 statements made, in light of the circumstances under which they were made, not
19 misleading; (d) whether the price of Silvergate’s common stock was artificially
20 inflated; (e) whether Defendants’ conduct caused the members of the Class to sustain
21 damages; and (f) the extent of damages sustained by Class members and the
22 appropriate measure of damages.

23 464. Plaintiffs’ claims are typical of those of the Class because Plaintiffs and
24 the Class sustained damages from Defendants’ wrongful conduct.

25 465. Plaintiffs will adequately protect the interests of the Class and have
26 retained counsel experienced in class-action securities litigation. Plaintiffs have no
27 interests that conflict with those of the Class.
28

466. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

XVII. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment as follows:

- A. determining that this Action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- B. awarding compensatory or rescissory damages in favor of Plaintiffs and other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest;
- C. awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including attorneys' fees and expert fees; and
- D. awarding any equitable, injunctive, or other further relief that the Court may deem just and proper.

XVIII. JURY TRIAL DEMAND

Plaintiffs demand a trial by jury.

Dated: May 11, 2023

Respectfully submitted,

/s/ Carol V. Gilden

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