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# Manhattan U.S. Attorney Announces Charges Against Bitcoin Exchangers, Including Ceo Of Bitcoin Exchange Company, For Scheme To Sell And Launder Over \$1 Million In Bitcoins Related To Silk Road Drug Trafficking

**FOR IMMEDIATE RELEASE**

Monday, January 27, 2014

### *Defendants Sold Bitcoins to be Used to Buy and Sell Illegal Drugs Anonymously on the Silk Road Drug Trafficking Website*

Preet Bharara, the United States Attorney for the Southern District of New York, James J. Hunt, the Acting Special-Agent-in-Charge of the New York Field Division of the Drug Enforcement Administration ("DEA"), and Toni Weirauch, the Special Agent-in-Charge of the New York Field Office of the Internal Revenue Service, Criminal Investigation ("IRS-CI"), announced the unsealing of criminal charges in Manhattan federal court against ROBERT M. FAIELLA, a/k/a "BTCKing," an underground Bitcoin exchanger, and CHARLIE SHREM, the Chief Executive Officer and Compliance Officer of a Bitcoin exchange company, for engaging in a scheme to sell over \$1 million in Bitcoins to users of "Silk Road," the underground website that enabled its users to buy and sell illegal drugs anonymously and beyond the reach of law enforcement. Each defendant is charged with conspiring to commit money laundering, and operating an unlicensed money transmitting business. SHREM is also charged with willfully failing to file any suspicious activity report regarding FAIELLA's illegal transactions through the Company, in violation of the Bank Secrecy Act. SHREM was arrested yesterday at John F. Kennedy International Airport in New York, and is expected to be presented in Manhattan federal court later today before U.S. Magistrate Judge Henry Pitman. FAIELLA was arrested today at his residence in Cape Coral, Florida, and is expected to be presented in federal court in the Middle District of Florida.

Manhattan U.S. Attorney Preet Bharara said: "As alleged, Robert Faiella and Charlie Shrem schemed to sell over \$1 million in Bitcoins to criminals bent on trafficking narcotics on the dark web drug site, Silk Road. Truly innovative business models don't need to resort to old-fashioned law-breaking, and when Bitcoins, like any traditional currency, are laundered and used to fuel criminal activity, law enforcement has no choice but to act. We will aggressively pursue those who would coopt new forms of currency for illicit purposes."

DEA Acting Special-Agent-in-Charge James J. Hunt said: "The charges announced today depict law enforcement's commitment to identifying those who promote the sale of illegal drugs throughout the world. Hiding behind their computers, both defendants are charged with knowingly contributing to and facilitating anonymous drug sales, earning substantial profits along the way. Drug law enforcement's job is to investigate and identify those who abet the illicit drug trade at all levels of production and distribution including those lining their own pockets by feigning ignorance of any wrong doing and turning a blind eye."

IRS Special-Agent-in-Charge Toni Weirauch said: "The government has been successful in

swiftly identifying those responsible for the design and operation of the 'Silk Road' website, as well as those who helped 'Silk Road' customers conduct their illegal transactions by facilitating the conversion of their dollars into Bitcoins. This is yet another example of the New York Organized Crime Drug Enforcement Strike Force's proficiency in applying financial investigative resources to the fight against illegal drugs."

According to the allegations contained in the Criminal Complaint unsealed today in Manhattan federal court:

From about December 2011 to October 2013, FAIELLA ran an underground Bitcoin exchange on the Silk Road website, a website that served as a sprawling and anonymous black market bazaar where illegal drugs of virtually every variety were bought and sold regularly by the site's users. Operating under the username "BTCKing," FAIELLA sold Bitcoins – the only form of payment accepted on Silk Road – to users seeking to buy illegal drugs on the site. Upon receiving orders for Bitcoins from Silk Road users, he filled the orders through a company based in New York, New York (the "Company"). The Company was designed to enable customers to exchange cash for Bitcoins anonymously, that is, without providing any personal identifying information, and it charged a fee for its service. FAIELLA obtained Bitcoins with the Company's assistance, and then sold the Bitcoins to Silk Road users at a markup.

SHREM is the Chief Executive Officer of the Company, and from about August 2011 until about July 2013, when the Company ceased operating, he was also its Compliance Officer, in charge of ensuring the Company's compliance with federal and other anti-money laundering ("AML") laws. SHREM is also the Vice Chairman of a foundation dedicated to promoting the Bitcoin virtual currency system.

SHREM, who personally bought drugs on Silk Road, was fully aware that Silk Road was a drug-trafficking website, and through his communications with FAIELLA, SHREM also knew that FAIELLA was operating a Bitcoin exchange service for Silk Road users. Nevertheless, SHREM knowingly facilitated FAIELLA's business with the Company in order to maintain FAIELLA's business as a lucrative source of Company revenue. SHREM knowingly allowed FAIELLA to use the Company's services to buy Bitcoins for his Silk Road customers; personally processed FAIELLA's orders; gave FAIELLA discounts on his high-volume transactions; failed to file a single suspicious activity report with the United States Treasury Department about FAIELLA's illicit activity, as he was otherwise required to do in his role as the Company's Compliance Officer; and deliberately helped FAIELLA circumvent the Company's AML restrictions, even though it was SHREM's job to enforce them and even though the Company had registered with the Treasury Department as a money services business.

Working together, SHREM and FAIELLA exchanged over \$1 million in cash for Bitcoins for the benefit of Silk Road users, so that the users could, in turn, make illegal purchases on Silk Road.

In late 2012, when the Company stopped accepting cash payments, FAIELLA ceased doing business with the Company and temporarily shut down his illegal Bitcoin exchange service on Silk Road. FAIELLA resumed operating on Silk Road in April 2013 without the Company's assistance, and continued to exchange tens of thousands of dollars a week in Bitcoins until the Silk Road website was shut down by law enforcement in October 2013.

\* \* \*

FAIELLA, 52, of Cape Coral, Florida, and SHREM, 24, of New York, New York, are each charged with one count of conspiracy to commit money laundering, which carries a maximum sentence of 20 years in prison, and one count of operating an unlicensed money transmitting business, which carries a maximum sentence of five years in prison. SHREM is also charged with one count of willful failure to file a suspicious activity report, which carries a maximum sentence of five years in prison.

Mr. Bharara praised the outstanding investigative work of the DEA's New York Organized Crime Drug Enforcement Strike Force, which is comprised of agents and officers of the U. S. Drug Enforcement Administration, the New York City Police Department, Immigration and Customs Enforcement - Homeland Security Investigations, the New York State Police, the U. S. Internal Revenue Service Criminal Investigation Division, the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco, Firearms and Explosives, U.S. Secret Service, the U.S. Marshal Service, New York National Guard, Office of Foreign Assets Control and the New York Department of Taxation and Finance. Mr. Bharara also thanked the FBI's New York Field Office.

Mr. Bharara also noted that the investigation remains ongoing.

The prosecution of this case is being handled by the Office's Complex Frauds Unit. Assistant United States Attorney Serrin Turner is in charge of the prosecution, and Assistant United States Attorney Andrew Adams of the Asset Forfeiture Unit is in charge of the forfeiture aspects of the case.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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