



Founders and Executives of Digital-Asset Company Charged in Multi-Million Dollar International Fraud Scheme

Defendants Allegedly Misappropriated Millions of Dollars of Investors' Funds for Their Own Use, Including the Purchase of Luxury Vehicles, Real Estate, and Personal Investments

November 1, 2023

NEW YORK – The Joint Chiefs of Global Tax Enforcement (J5) welcomed today the indictments of Braden John Karony, Kyle Nagy and Thomas Smith for their roles in defrauding investors in a decentralized finance digital asset called “SafeMoon” (SFM) that was issued by their company SafeMoon LLC.

The three were charged with conspiracy to commit securities fraud, conspiracy to commit wire fraud and money laundering conspiracy in an indictment that was unsealed today in federal court in Brooklyn.

The defendants are alleged to have lied to SFM investors concerning whether SFM’s use of ‘locked’ liquidity was inaccessible to the defendants, as well as their personal holding and trading of SFM. As SFM’s market capitalization grew to more than \$8 billion, the defendants fraudulently diverted and misappropriated millions of dollars’ worth of purportedly “locked” SFM liquidity for their personal benefit. Earlier today, Karony was arrested in Provo, Utah, and Smith was arrested in Bethlehem, New Hampshire. Nagy remains at large.

“As alleged, the defendants deliberately misled investors and diverted millions of dollars to fuel their greedy scheme and enrich themselves by purchasing a custom Porsche sports car, other luxury vehicles and real estate,” said Breon Peace, United States Attorney for the Eastern District of New York. “As fraudsters increasingly use digital assets to mislead investors and misappropriate funds, our Office will be at the forefront of pursuing them and their ill-gotten gains. We will continue our focus in the digital asset space and bring those who defraud investors in this area to justice.”

“Although this fraud scheme may be complex, the end result is simple—theft,” said Tom Fattorusso, Special Agent in Charge, IRS Criminal Investigation. “Investors were assured their money would be safe while the defendants allegedly misled investors and diverted millions of dollars to line their pockets and their driveways. Through cryptocurrency tracing and good old-fashioned police work, IRS-CI New York’s Cyber and J5 groups worked with our investigative partners to track the millions in diverted funds and arrest the perpetrators of this con.”

As alleged, SFM tokens were digital assets first issued in March 2021 by SafeMoon LLC on a public blockchain. Through the operation of SFM’s smart contracts, every transaction in SFM was automatically subject to a 10% tax, meaning, for example, that if a holder of SFM transferred 10 SFM to another user, 1 SFM would automatically be retained from the transfer as a tax, and the

remaining 9 SFM would be received by the other party. As marketed to SFM investors, the proceeds of SFM's 10% tax were split into two 5% tranches, the proceeds of which were supposed to benefit holders of SFM in specific ways. The first 5% tranche of the tax proceeds would be "reflected" back to, and distributed among, all SFM holders, in proportion to their current SFM holdings and thereby increase the total quantity of SFM held by every SFM investor automatically. The remaining 5% tranche of SFM tax proceeds would be deposited into designated SFM liquidity pools. The larger the SFM liquidity pool, the greater the liquidity in the market for SFM. In the months after its launch in March 2021, SFM grew to have more than one million holders and a market capitalization of more than \$8 billion.

The defendants are alleged to have misrepresented to investors various material aspects of the SFM offering, including that SFM relied on "locked" liquidity pools that would automatically increase in size due to a 10% tax imposed on every SFM transaction; that the "locked" SFM liquidity pool prevented the defendants and other insiders at SafeMoon from being able to "rug pull"—a type of crypto fraud—SFM investors by removing liquidity from the SFM liquidity pool; that tokens in the liquidity pool would not be used to enrich the SafeMoon developers, including the defendants; that the defendants would manually add token pairs to the SFM liquidity pool when transactions of SFM occurred on specific centralized exchanges; and that the developers were not holding and trading SFM for their benefit.

In reality, the defendants allegedly retained access to the SFM liquidity pools and they used that access to intentionally divert and misappropriate millions of dollars' worth of tokens from the SFM liquidity pools for their personal benefit. In addition, although they publicly denied that they personally held or traded SFM, the defendants repeatedly bought and sold SFM for their personal benefit, including at the height of SFM's market price, which generated millions of dollars in profits. The defendants masked their movement of the fraudulent proceeds via numerous private un-hosted crypto wallet addresses, complex transaction routing, and pseudonymous centralized exchange accounts. The defendants used some of these proceeds to purchase luxury vehicles and real estate in New Hampshire, Utah, and Florida. Smith, for example, using cryptocurrency addresses he controlled, sent 2,900 Binance Coin (BNB) worth more than approximately \$860,000 and traceable to the SFM liquidity pool to a third party's cryptocurrency address in order to purchase a custom Porsche 911 sports car and non-fungible token.

The J5 works together to gather information, share intelligence and conduct coordinated operations against transnational financial crimes. The J5 includes the Australian Taxation Office, the Canada Revenue Agency, the Dutch Fiscal Information and Investigation Service, His Majesty's Revenue and Customs from the U.K. and IRS-CI from the U.S.

For more information about the J5, please visit www.irs.gov/j5.

