

**UNITED STATES OF AMERICA**  
**Before the**  
**COMMODITY FUTURES TRADING COMMISSION**

**RECEIVED CFTC**



Office of Proceedings  
Proceedings Clerk

**5:15 pm, Sep 07, 2023**

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In the Matter of: )

Deridex, Inc. )

Respondent. )

CFTC Docket No. 23-42

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO  
SECTION 6(c) AND (d) OF THE COMMODITY EXCHANGE ACT, MAKING  
FINDINGS, AND IMPOSING REMEDIAL SANCTIONS**

**I. INTRODUCTION**

The Commodity Futures Trading Commission (“Commission”) has reason to believe that, from at least approximately January 1, 2023 to approximately March 2023 (the “Relevant Period”), Deridex, Inc. (“Deridex” or “Respondent”) violated Sections 4(a), 4d(a)(1), and 5h(a)(1) of the Commodity Exchange Act (“Act”), 7 U.S.C. §§ 6(a), 6d(a)(1), 7b-3(a)(1), and Commission Regulations (“Regulations”) 37.3(a)(1) and 42.2, 17 C.F.R. §§ 37.3(a)(1), 42.2 (2022). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.<sup>1</sup>

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<sup>1</sup> Respondent consents to the use of the findings of fact and conclusions of law in this Order in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party or claimant, and agrees that they shall be taken as true and correct and be given preclusive effect therein, without further proof. Respondent does not consent, however, to the use of this Order, or the findings or conclusions herein, as the sole basis for any other proceeding brought by the Commission or to which the Commission is a party or claimant, other than: a proceeding in bankruptcy or receivership; or a proceeding to enforce the terms of this Order. Respondent does not

## II. FINDINGS

The Commission finds the following:

### A. SUMMARY

Deridex developed, deployed and maintained a blockchain-based digital asset trading platform (the “Deridex Protocol”), which it marketed as a “decentralized on-chain derivatives platform.” During the Relevant Period, Respondent offered leveraged trading of digital asset derivatives to retail and institutional users in the United States and abroad. By accessing the Deridex Protocol directly or through Respondent’s website, users could contribute margin (collateral), and establish and liquidate positions in “perpetual contracts,” a leveraged derivative product whose value was based on the relative price difference between two digital assets.

In doing so, Respondent – who has never registered with the Commission – unlawfully engaged in activities that could only lawfully be performed by Commission registrants and registered entities. Respondent violated Section 5h(a)(1) of the Act, 7 U.S.C. § 7b-3(a)(1), and Regulation 37.3(a)(1), 17 C.F.R. § 37.3(a)(1) (2022), by operating a facility for the trading or processing of swaps without being registered as a swap execution facility or as a designated contract market. Respondent violated Section 4(a) of the Act, 7 U.S.C. § 6(a), by offering to enter into, entering into, executing, and/or confirming the execution of leveraged or margined retail commodity transactions with U.S. customers who were not eligible contract participants or eligible commercial entities<sup>2</sup> (collectively, “ECPs”). Respondent also operated as an unregistered futures commission merchant (“FCM”) in violation of Section 4d(a)(1) of the Act, 7 U.S.C. § 6d(a)(1), by soliciting and accepting orders for swaps and leveraged or margined retail commodity transactions and accepting money or property to margin those transactions. In addition, Respondent violated Regulation 42.2, 17 C.F.R. § 42.2 (2022), by failing to conduct know-your-customer (“KYC”) diligence on its customers as part of a customer identification program (“CIP”), as required of FCMs.

In accepting the Offer, the Commission recognizes Respondent’s substantial cooperation with the Commission’s Division of Enforcement. The Commission also acknowledges Respondent’s representations concerning its remediation in connection with this matter. The Commission’s recognition of Respondent’s substantial cooperation and appropriate remediation is reflected in the form of a reduced civil monetary penalty.

### B. RESPONDENT

**Deridex, Inc.** is a Delaware corporation, with its principal place of business in North Carolina. Deridex has never been registered with the Commission in any capacity.

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consent to the use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

<sup>2</sup> Eligible commercial entities and eligible contract participants and are defined in Sections 1a(17) and (18) of the Act, 7 U.S.C. §§ 1a(17), (18), respectively.

## C. FACTS

During the Relevant Period, the Deridex Protocol was a collection of smart contracts on the Algorand blockchain that functioned as a blockchain-based digital asset trading platform.<sup>3</sup> Respondent developed, deployed and maintained the Deridex Protocol. Respondent began developing the Deridex Protocol in mid-2022 and launched it on the Algorand blockchain on January 1, 2023. Respondent also operated a website, <https://app.deridex.org/>, to solicit orders for, and facilitate access to the Deridex Protocol.

By accessing the Deridex Protocol, any person with a digital asset wallet could contribute margin (collateral) and open leveraged derivative positions that Respondent referred to as “perpetual contracts,” which provided for the exchange of one or more payments based on the relative value of STABL2 and another virtual currency. Users could establish perpetual contract positions on a leveraged or margined basis, up to a maximum leverage ratio of 15x, meaning that the user’s collateral was required to be worth at least 1/15<sup>th</sup> (6.6%) of the value of a newly established position.<sup>4</sup> To finance the remainder of a leveraged position, the Deridex Protocol enabled users to borrow additional digital assets from a liquidity pool, whose assets were supplied by other users of the Deridex Protocol (“liquidity providers”) at a fluctuating interest rate that was algorithmically determined by the Deridex Protocol’s smart contracts. Respondent retained a small portion of the interest paid by users on such leveraged positions, with the balance distributed pro rata to liquidity providers.

The Deridex Protocol was accessible to retail and institutional users in the United States and abroad through Respondent’s website, and through direct interaction with the smart contracts that constituted the Deridex Protocol. Respondent did not take any steps to exclude U.S. persons or non-ECPs. Respondent also did not maintain a CIP, and did not require that any user of the Deridex Protocol provide any identifying information as would have been a necessary precondition for Respondent to implement KYC and anti-money laundering procedures.

Deridex, through the Deridex Protocol, held custody of users’ assets through the smart contracts that it developed, deployed, and maintained. In addition, Deridex retained substantial

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<sup>3</sup> A blockchain is a distributed, shared, immutable ledger that facilitates the process of recording transactions and tracking digital assets in a consensus-based network. A smart contract is a piece of computer code that is deployed on a blockchain to automatically execute pre-programmed actions when predetermined conditions are met, and is often intended to contain all terms of a contract—meaning the software can execute the agreement contained in the contract without additional input from the parties. A digital asset is anything that can be stored and transmitted electronically and has associated ownership or use rights. Digital assets include virtual currencies, which are digital representations of value that function as mediums of exchange, units of account, and/or stores of value. A stablecoin is a type of digital asset that is designed to maintain a stable value relative to a national currency or other specified reference asset or assets. In addition, the Algorand Standard Asset (“ASA”) technical standard allows any individual to develop new digital asset tokens that can be traded on the Algorand blockchain. For example, STABL2 is an ASA token, and is a stablecoin that is intended to maintain a stable value relative to the U.S. dollar.

<sup>4</sup> Although the maximum leverage ratio was 15x when establishing a position, Respondent designed the Deridex Protocol to allow positions to fluctuate up to a maximum leverage ratio of 30x. If the value of a user’s collateral fell below 1/30th of a user’s open positions, the Deridex Protocol was designed to facilitate the rapid liquidation of the position by allowing any user of the platform to seize and liquidate the borrower’s collateral, repay the sums borrowed from liquidity providers, and retain a share of the residual proceeds.

control over the Deridex Protocol. For example, Respondent retained the ability to update relevant smart contract code to adjust how the smart contracts operated in order to, among other things, suspend trading or prevent users from depositing collateral.

During the Relevant Period, a notional value of approximately \$1.65 million in perpetual contracts were traded on the Deridex Protocol. Respondent collected less than \$100 in fees on those trades.

After the Division began an inquiry into Deridex's unregistered activity, Deridex promptly took remedial action and provided substantial cooperation with the Division of Enforcement's investigation, which materially assisted the investigation. In particular, Deridex took immediate steps to set the Deridex Protocol into a wind-down mode so that no new deposits or positions could be made or created, and voluntarily provided relevant information to Division staff.

### III. LEGAL DISCUSSION

#### A. Deridex Engaged in Unlawful, Off-Exchange Leveraged or Margined Retail Commodity Transactions in Violation of Section 4(a) of the Act

Certain digital assets, including STABL2, are "commodities" under the Act. *See, e.g., United States v. Reed*, No. 20-cr-500 (JGK), 2022 WL 597180, at \*3-5 (S.D.N.Y. Feb. 28, 2022); *CFTC v. McDonnell*, 287 F. Supp. 3d 213, 228-29 (E.D.N.Y. 2018); *In re Coinflip, Inc.*, CFTC No. 15-29, 2015 WL 5535736, at \*2 (Sept. 17, 2015); *In re Tether Holdings Limited*, 2021 WL 8322874, CFTC No. 22-04 (Oct. 15, 2021); *see also* Retail Commodity Transactions Involving Certain Digital Assets, 85 Fed. Reg. 37734-01, at 37741 (June 24, 2020) ("As a commodity, virtual currency is subject to applicable provisions of the CEA and Commission regulations, including CEA section 2(c)(2)(D).").

Pursuant to Section 2(c)(2)(D)(iii) of the Act, 7 U.S.C. § 2(c)(2)(D)(iii), any agreement, contract, or transaction in any commodity that is entered into with or offered to (even if not entered into with) non-ECPs on a leveraged or margined basis or financed by the offeror, counterparty, or a person acting in concert with the offeror or counterparty is, with certain exceptions, subject to Section 4(a) of the Act, 7 U.S.C. § 6(a), "as if the agreement, contract, or transaction was a contract of sale of a commodity for future delivery."<sup>5</sup>

Section 4(a) of the Act makes it unlawful for any person to offer to enter into, enter into, execute, confirm the execution of, or conduct an office or business in the United States for the purpose of soliciting, or accepting any order for, or otherwise dealing in any transaction in, or in connection with, a commodity futures contract, unless such transaction is made on or subject to

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<sup>5</sup> Section 2(c)(2)(D)(ii)(III)(aa) of the Act, 7 U.S.C. § 2(c)(2)(D)(ii)(III)(aa), provides an exception for contracts of sale that result in actual delivery within 28 days. That exception is inapplicable to perpetual contract transactions on the Deridex Protocol, because (i) the transactions were not physically settled contracts of sale of the underlying commodities, but rather involved leveraged financially-settled positions whose value was determined by the price difference between two digital assets; (ii) the positions did not require delivery within 28 days, but rather the positions could exist perpetually; and (iii) the positions were subject to forced liquidation. *See* Retail Commodity Transactions Involving Certain Digital Assets, 85 Fed. Reg. 37,734-01 at 37,743-37,744 (June 24, 2020).

the rules of a board of trade that has been designated or registered by the CFTC as a contract market for the specific commodity.

During the Relevant Period, utilizing the Deridex Protocol and Deridex’s website, Respondent offered to enter into, entered into, executed, and/or confirmed the execution of leveraged or margined retail commodity transactions with non-ECP persons, in the form of perpetual contracts based on the relative prices of two virtual currencies, which did not result in actual delivery within 28 days. Deridex conducted an office or business in the United States for the purpose of soliciting, accepting, or otherwise dealing in such transactions. These leveraged or margined retail commodity transactions were not conducted on or subject to the rules of a board of trade that has been designated or registered by the CFTC as a contract market, and therefore Deridex violated Section 4(a) of the Act.

**B. Deridex Operated as an Unregistered Swap Execution Facility in Violation of Section 5h(a)(1) of the Act and Regulation 37.3**

The SEF registration requirement applies to “multiple-to-multiple” platforms. Section 1a(50) of the Act, 7 U.S.C. § 1a(50), defines a SEF as “a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce, including any trading facility, that: (A) facilitates the execution of swaps between persons; and (B) is not a designated contract market.”

Section 5h(a)(1) of the Act establishes the SEF registration requirement. The Act prohibits any person from operating a “facility for the trading or processing of swaps unless the facility is registered as a swap execution facility or as a designated contract market [“DCM”] . . . .” 7 U.S.C. § 7b-3(a)(1). Regulation 37.3(a)(1) similarly requires any “person operating a facility that offers a trading system or platform in which more than one market participant has the ability to execute or trade swaps with more than one other market participant on the system or platform” to register as a SEF or DCM. 17 C.F.R. § 37.3(a)(1) (2022).

During the Relevant Period, utilizing the Deridex Protocol and Deridex’s website, Respondent operated a multiple-to-multiple trading platform designed to facilitate the trading of perpetual contracts, which are “swaps” under the Section 1a(47) of the Act. *See CFTC v. HDR Global Trading Ltd.*, No. 1:20-cv-08132, 2021 WL 3722183, at ¶¶ 29, 37 (S.D.N.Y. Aug. 10, 2021) (consent order). However, Deridex did not register the platform as a SEF or DCM. Accordingly, Deridex violated Section 5h(a)(1) of the Act and Regulation 37.3(a)(1).

**C. Deridex Unlawfully Engaged in Activities That Could Only Lawfully Be Performed by Registered FCMs in Violation of Section 4d(a)(1) of the Act.**

Section 1a(28) of the Act, 7 U.S.C. § 1a(28), in relevant part, defines an FCM as any individual, association, partnership, corporation or trust that engages in soliciting or in accepting orders for or acting as a counterparty in “a swap . . . [or] any agreement, contract, or transaction described in . . . section (2)(c)(2)(D)(i)” and, in connection therewith, “accepts any money . . . or

property (or extends credit in lieu thereof) to margin . . . trades or contracts that result or may result therefrom.” Section 4d(a)(1) of the Act, 7 U.S.C. § 6d(a)(1), in pertinent part, makes it unlawful for any person to act as an FCM unless registered with the Commission as an FCM.

As described above, Deridex, while not registered as an FCM, acted during the Relevant Period as an FCM as defined in Section 1a(28) of the Act by soliciting and accepting orders for swaps and leveraged or margined retail commodity transactions via the Deridex Protocol. By creating and deploying smart contracts that were designed and intended to allow users of the Deridex Protocol to contribute collateral and establish leveraged perpetual contract positions, Deridex accepted property to margin these transactions. Therefore, Respondent violated Section 4d(a)(1) of the Act.

#### **D. Deridex Failed to Adopt a CIP in Violation of Regulation 42.2**

Regulation 42.2, 17 C.F.R. § 42.2 (2022), provides that every FCM shall comply with the Bank Secrecy Act and related regulations, which require the FCM to adopt a CIP to facilitate KYC diligence on the FCM’s customers. Regulation 42.2 applies to individuals and entities acting as unregistered FCMs. *See, e.g., HDR Global Trading*, 2021 WL 3722183 at ¶ 39 (finding defendant who acted as an unregistered FCM liable for failing to adopt a CIP as required by Regulation 42.2); *In re bZeroX, LLC*, CFTC No. 22-31, 2022 WL 4597664 (Sept. 22, 2022) (same).

During the Relevant Period, by acting as an unregistered FCM, Deridex was required to adopt a CIP but failed to do so. In so doing, Respondent violated Regulation 42.2.

### **IV. FINDINGS OF VIOLATIONS**

Based on the foregoing, the Commission finds that, during the Relevant Period, Respondent violated Sections 4(a), 4d(a)(1), and 5h(a)(1) of the Act, 7 U.S.C. §§ 6(a), 6d(a)(1), 7b-3(a)(1), and Regulations 37.3(a)(1) and 42.2, 17 C.F.R. §§ 37.3(a)(1), 42.2 (2022).

### **V. OFFER OF SETTLEMENT**

Respondent has submitted the Offer in which it, without admitting or denying the findings and conclusions herein:

- A. Acknowledges service of this Order;
- B. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- C. Waives:
  - 1. The filing and service of a complaint and notice of hearing;
  - 2. A hearing;

3. All post-hearing procedures;
  4. Judicial review by any court;
  5. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
  6. Any and all claims that it may possess under the Equal Access to Justice Act, 5 U.S.C. § 504, and 28 U.S.C. § 2412, and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2021), relating to, or arising from, this proceeding;
  7. Any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, tit. II, §§ 201–253, 110 Stat. 847, 857–74 (codified as amended at 28 U.S.C. § 2412 and in scattered sections of 5 U.S.C. and 15 U.S.C.), relating to, or arising from, this proceeding; and
  8. Any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief, including this Order;
- D. Acknowledges that the Commission is the prevailing party in this action for purposes of the waiver of any and all rights under the Equal Access to Justice Act and the Small Business Regulatory Enforcement Fairness Act of 1996, specified in subparts 6 and 7 of Paragraph C of this Section.
- E. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer; and
- F. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
1. Makes findings by the Commission that Respondent violated Sections 4(a), 4d(a)(1), and 5h(a)(1) of the Act, 7 U.S.C. §§ 6(a), 6d(a)(1), 7b-3(a)(1), and Regulations 37.3(a)(1) and 42.2, 17 C.F.R. §§ 37.3(a)(1), 42.2 (2022);
  2. Orders Respondent to cease and desist from violating Sections 4(a), 4d(a)(1), and 5h(a)(1) of the Act, and Regulations 37.3(a)(1) and 42.2;
  3. Orders Respondent to pay a civil monetary penalty in the amount of one hundred thousand US dollars (\$100,000), plus post-judgment interest in the event such civil monetary penalty is not paid within ten days of the date of entry of this Order;
  4. Orders Respondent and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order.

Upon consideration, the Commission has determined to accept the Offer.

## VI. ORDER

### Accordingly, IT IS HEREBY ORDERED THAT:

- A. Deridex, Inc., and its successors and assigns shall cease and desist from violating Sections 4(a), 4d(a)(1), and 5h(a)(1) of the Act, 7 U.S.C. §§ 6(a), 6d(a)(1), 7b-3(a)(1), and Regulations 37.3(a)(1) and 42.2, 17 C.F.R. §§ 37.3(a)(1), 42.2 (2022).
- B. Respondent shall pay a civil monetary penalty in the amount of one hundred thousand US dollars (\$100,000) (“CMP Obligation”), within ten days of the date of the entry of this Order. If the CMP Obligation is not paid in full within ten days of the date of entry of this Order, then post-judgment interest shall accrue on the unpaid portion of the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961.

Respondent shall pay the CMP Obligation and any post-judgment interest by electronic funds transfer, U.S. postal money order, certified check, bank cashier’s check, or bank money order. If payment is to be made other than by electronic funds transfer, then the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

MMAC/ESC/AMK326  
Commodity Futures Trading Commission  
Division of Enforcement  
6500 S. MacArthur Blvd.  
HQ Room 266  
Oklahoma City, OK 73169  
9-AMC-AR-CFTC@faa.gov

If payment is to be made by electronic funds transfer, Respondent shall contact Tonia King or her successor at the above email address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. The paying Respondent shall simultaneously transmit copies of the cover letter and the form of payment to the Chief Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581;

- C. Respondent and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:
1. Public Statements: Respondent agrees that neither it nor any of Deridex, Inc.’s successors and assigns, agents or employees under their authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision



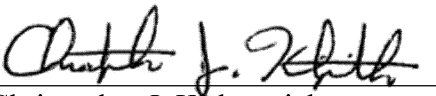
shall affect Respondent's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondent and any of its successors and assigns shall comply with this agreement and shall undertake all steps necessary to ensure that all of their agents and/or employees under their authority or control understand and comply with this agreement.

2. Partial Satisfaction: Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
3. Change of Address/Phone: Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Order, Respondent shall provide written notice to the Commission by certified mail of any change to its telephone numbers and mailing addresses within ten calendar days of the change.
4. Until such time as Respondent satisfies in full its CMP Obligation, upon the commencement by or against Respondent of insolvency, receivership or bankruptcy proceedings, or any other proceedings for the settlement of Respondent's debts, all notices to creditors required to be furnished to the Commission under Title 11 of the United States Code or other applicable law with respect to such insolvency, receivership, bankruptcy, or other proceedings, shall be sent to the address below:

Secretary of the Commission  
Office of the General Counsel  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, D.C. 20581

**The provisions of this Order shall be effective as of this date.**

By the Commission.



Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission

Dated: September 7, 2023