UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CHASE WILLIAMS and WILLIAM ZHANG, individually and on behalf of all others similarly situated, Plaintiffs, v. HDR GLOBAL TRADING LIMITED, ABS GLOBAL TRADING LIMITED, ARTHUR HAYES, BEN DELO, and SAMUEL REED, Defendants.	No. _______________ **JURY DEMANDED**

CLASS ACTION COMPLAINT

Individually and on behalf of all others similarly situated, Plaintiffs Chase Williams and William Zhang bring this action against Defendants HDR Global Trading Limited, ABS Global Trading Limited (together with HDR Global Trading Limited, "BitMEX"), Arthur Hayes, Ben Delo, and Samuel Reed. Plaintiffs' allegations are based upon personal knowledge as to themselves and their own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Plaintiffs' attorneys, which included, among other things, a review of press releases, media reports, whitepapers of the digital tokens addressed herein, and other publicly disclosed reports and information about Defendants. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein, after a reasonable opportunity for discovery. Plaintiffs hereby allege as follows:

I. INTRODUCTION

1. On behalf of (a) a class of investors who purchased securities and commodities futures that BitMEX sold through its exchange since July 1, 2017 (the "Class"), and (b) a subclass of investors who purchased digital-tokens futures that, without registering under applicable federal and state securities laws as an exchange or broker-dealer and without a registration statement in effect, BitMEX sold through its exchange since July 1, 2017 (the "Subclass"), Plaintiffs and members of the Class and Subclass seek to recover the damages suffered from Defendants' unlawful actions, the consideration paid for the products, and the fees they paid to BitMEX in connection with their purchases.

2. BitMEX is one of the largest cryptocurrency exchanges in the world, with a daily trading volume that regularly surpassed $3 billion in January 2020. BitMEX exclusively trades derivative products based on cryptocurrencies, in particular bitcoin and ether. In doing so,

however, BitMEX acts like a casino with loaded dice, manipulating both its systems and the market its customers use for its own substantial financial gain.

A. Market Manipulation

3. At its inception, as Defendant Arthur Hayes described it, BitMEX was to serve Wall Street institutional investors "who were going to want the same type of products" they were used to trading at sophisticated multinational banks. Yet for the first six months after BitMEX went live in late 2014, "no one came" to the trading platform. And Wall Street never came to BitMEX. So, in the words of its co-founder and CEO, BitMEX changed its business model to "focus[] on degenerate gamblers; [also known as] retail investors" and by offering "100X leverage" trades.

4. In allowing customers to leverage at the extraordinary ratio of 100:1—about twenty times higher than the common ratio in trading—BitMEX positioned itself to benefit consistently, significantly, and predictably from the combination of attracting overly hopeful investors and small price fluctuations on other exchanges. This structure creates substantial incentives for BitMEX to surreptitiously cause such fluctuations.

5. Implementing its business approach, BitMEX deliberately based the price of its futures on spot-market exchanges that have limited liquidity and are thus relatively easy to manipulate. BitMEX would then engage in manipulative trading on those exchanges to change the price of bitcoin or ether. Even if only temporary, these price changes would then affect the prices of the futures offered on BitMEX in a way that benefitted BitMEX by allowing it to make margin calls and liquidate its highly leveraged traders.

6. Automatically liquidating contracts that were out of the money, BitMEX would cover the investor's losses but would also take all of the investor's collateral. By setting the

liquidation point higher than necessary to protect against the risk of a loss greater than the investor's collateral, BitMEX generally profited from these liquidations. BitMEX would place these profits in its "Insurance Fund," marketed as a way to ensure that BitMEX has cash on hand for the rare occasions where the losses exceeded the collateral. Despite its name, the Insurance Fund is almost never drawn upon and instead has grown consistently such that it now contains assets worth hundreds of millions of dollars.

7. BitMEX also acted on similar financial incentives by trading against its customers, a secret BitMEX kept as long as it could. BitMEX employed an undisclosed trading desk with special privileges and insights that allowed BitMEX to take favorable positions opposite its own customers. BitMEX only revealed the existence of the desk in 2018, under pressure from an independent analyst armed with trade data reflecting its existence. As a desk with access to otherwise-hidden information, it was in a perfect position to enhance BitMEX's manipulation.

8. BitMEX has compounded the effect of these manipulative schemes by routinely freezing its servers—which BitMEX blames on technical glitches and limitations—to profit during moments of high volatility. During these freezes, customers are unable to change their positions, but the market continues to operate and BitMEX trades. BitMEX would thus prevent its customers from escaping positions until they fell to a level at which BitMEX could liquidate those positions at a profit to itself.

9. BitMEX's operations on March 12, 2020, are a recent and good example. During a period in the day with high market volatility and crashing bitcoin prices (from nearly $8,000 to $4,000 per bitcoin), resulting in a substantial sell-off, BitMEX's trading platform went offline for twenty-five minutes. As a result of the outage, BitMEX did not dip into its Insurance Fund, but rather liquated $800 million of its customers' highly leveraged positions for its own profit. This

server outage, in short, effectively protected BitMEX and the Insurance Fund from the cascading effects of sell-offs of BitMEX's highly leveraged and volatile products.

10. BitMEX and its founders have thus manipulated the price of bitcoin and ether, harming Plaintiffs and the Class who had their positions liquidated, in violation of the Commodity Exchanges Act, 7 U.S.C. §§ 9, 25.

B. Securities Violations

11. In addition to offering derivative products on commodities such as bitcoin and ether, BitMEX also operates as an unregistered securities exchange that offers security futures products on certain digital tokens, including derivative products that reference the tokens EOS and SNT (together, the "Tokens").

12. A digital token is a type of digital asset that exists on a "blockchain," which is essentially a decentralized digital ledger that records transactions. Various digital assets can reside on blockchains, including cryptocurrencies as well as so-called "smart contracts" that operate under a set of predetermined conditions agreed on by users. When those conditions are met, the terms of the contract are automatically carried out by the software underlying the digital tokens (which, as relevant here, are referred to as "ERC-20 tokens" and exist on the Ethereum blockchain).

13. Certain of these digital tokens are sometimes classified as "utility tokens." Their primary purpose is to allow the holder to use or access a particular project. For example, one private-jet company issues utility tokens to participants in its membership program, who can then use them to charter flights on the company's planes. A utility token presumes a functional network on which the token can be used.

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