



## **PRESS RELEASE**

**10.06.2021**

### **Enforcement Directorate issues Show Cause Notice to WazirX Crypto-currency Exchange for contravention of FEMA 1999.**

Directorate of Enforcement (ED) has issued a Show Cause Notice (SCN) to Crypto-Currency Exchange WazirX operated and owned by M/s Zanmai Labs Private Limited, for alleged contravention of Sec 3(a) of Foreign Exchange Management Act, 1999, (FEMA) for transactions involving crypto-currencies worth an amount of **INR 2790,74,17,699.**

ED had initiated investigation into the affairs of WazirX exchange, when its role was seen during the Money laundering investigation being conducted into Chinese owned illegal Online Betting APPs. During the course of the investigation, it was seen that the accused Chinese nationals had laundered proceeds of crime worth around Rs 57 Crore by converting the INR deposits into Crypto-currency USDT and then transferring the same to Binance (exchange registered in Cayman Islands) Wallets based on instructions received from abroad. Hence, a FEMA investigation was initiated and summons were issued under FEMA 1999 to WazirX Directors and the top traders on this platform. Statement of the CEO of M/s WazirX Mr Nischal Shetty was recorded.

During the FEMA investigation it is observed that there are glaring problems in the way the Crypto-currency exchange is working, its book keeping, its due diligence norms and manner of recording its transactions on the Blockchain(s). WazirX has around 900000 clients, including foreign clients and deals in more than 70 types of crypto-currencies. As part of the onboarding process, they merely collect only a 'selfie photo', PAN and Aadhar scan image. No physical verification & proper due-diligence of the clients is done. WazirX allows wide range of transactions with Crypto-currencies(CCs) including exchange of CCs with INR and vice-versa; exchange of CCs; P2P transactions; and even transfer/receipt of Crypto-currency held in its pool accounts to wallets of other exchanges which could be held by

foreigners in foreign locations. At the time of such a transaction, WazirX does not document these transactions properly from AML/CFT purposes. WazirX does not collect any form (like A1/A2 forms in Banking system), nor the KYC of the non-WazirX wallet, its address, the purpose of the transaction, IP Address of the other wallet user etc. This leaves WazirX in clear violation of the basic mandatory AML/CFT precaution norms and FEMA guidelines which are also applicable to Virtual Currency exchanges. Crypto-currencies have tangible value and are being used as an instrument of 'payment' and are, thus, akin to money for the purpose of FEMA. Further, WazirX has become a subsidiary of the Cayman Island registered M/s Binance. It has a preferential agreement with Binance and all transactions between the clients of the 2 exchanges are not being recorded on the Blockchain. In the period under investigation, users of WazirX via its pool account, have received incoming Crypto-Currency worth INR 880 Crore from Binance accounts and transferred out Crypto-Currency worth INR 1400 Crore to Binance accounts. None of these transactions are available on the blockchain for any audit/investigation. In the absence of any supporting data, it is not clear how many of these transactions were cross-border trades. Further, even in the case of other exchange transactions, only the general pool wallet ID of WazirX is reflected and the individual wallets of the clients are not mentioned on the Blockchain. Thus, the argument of WazirX that blockchain records are completely transparent is completely negated by improper recording of the transactions on the blockchain. Thus, it was found that the WazirX Clients could transfer 'valuable' crypto-currencies to any person irrespective of its location and nationality without any proper documentation whatsoever, making it a safe haven for users looking for money laundering/ other illegitimate activities.

During further investigation into the activities of M/s Zanmai Labs Pvt Ltd, ED has found that the company has violated the provisions of Foreign Exchange Management Act, 1999, by facilitating its users to transfer/exchange crypto-currencies worth **INR 2790 Crore** to unknown wallets between the time period of March, 2020 to November, 2020. Exact quantification of the actual amount of Crypto-currency that has travelled off-shore is not possible because of the complete anonymous way of record keeping of trades being done by M/s WazirX.

Based on the investigation conducted by the ED Hyderabad Zone, on 10.06.2021, the competent authority i.e. the Special Director of Enforcement, South Regional Office, Chennai, has issued a Show Cause Notice u/s 16(3) of FEMA 1999 to M/s Zanmai Labs Pvt Ltd (WazirX), and its Directors Mr Nischal Shetty and Mr Sameer Hanuman Mhatre to conduct adjudication proceedings.

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