

Quantum Update 66

Global Crypto Regulatory Update

A comprehensive review of the latest enforcement actions, regulatory developments, and senior appointments shaping the global cryptocurrency and derivatives landscape — covering the US CFTC, DOJ, and SEC through early 2026.

**CHARLTONS
QUANTUM**

CFTC Enforcement Division Issues Prediction Markets Advisory

FEBRUARY 25, 2026

The US CFTC's Division of Enforcement issued an **Advisory on Enforcement Authority over Event Contracts** following the public release of two enforcement cases involving misuse of non-public information and fraud on KalshiEX, a designated contract market.

KalshiEX Self-Regulation

KalshiEX identified and penalised a political candidate trading on their own candidacy, and a YouTube editor trading on advance content knowledge. Both incidents were reported to the CFTC.

Prohibited Acts

Pre-arranged non-competitive trading, wash sales, and misappropriation of confidential information violate Section 6(c)(1) of the **Commodity and Exchange Act** and **Regulation 180.1**.

Enforcement Baseline

The advisory reaffirms designated contract markets as self-regulatory organisations required to independently maintain audit trails, conduct surveillance, and enforce internal rules.

Federal Prosecution

The US CFTC retains absolute authority to directly investigate and prosecute violations where federal action is warranted, establishing a clear enforcement hierarchy.

CFTC Reaffirms Exclusive Jurisdiction Over Prediction Markets

FEBRUARY 17, 2026

The Amicus Brief

The CFTC filed an [amicus curiae brief](#) in the U.S. Court of Appeals for the Ninth Circuit in *North American Derivatives Exchange, Inc. v. State of Nevada*, confirming exclusive federal jurisdiction over event contract markets.

The CFTC has filed only **eight amicus briefs since 2000** — underscoring the significance of this intervention.

Three Legal Arguments Advanced

1 Event Contracts as Swaps


Event contracts constitute swaps under Section 1a(47) of the CEA Act, placing them squarely within CFTC jurisdiction.

2 Field Preemption

The CEA Act field-preempts state gambling laws regarding designated contract market listings.

3 Conflict Preemption

State gambling laws face independent conflict preemption, further insulating federal authority.

 The Third, Fourth, and Ninth Circuits are expected to issue rulings in the coming months, establishing a definitive federal posture defending exclusive jurisdiction over prediction markets. Chairman Michael S. Selig affirmed event contracts enable risk hedging and portfolio management.

DOJ Sentences Paxful Holdings to USD 4 Million Criminal Penalty

FEBRUARY 11, 2026

Paxful Holdings Inc., an online peer-to-peer virtual currency trading platform, was **sentenced to pay a criminal penalty of USD 4 million** following a guilty plea to conspiracies to promote illegal activities, violate the **Bank Secrecy Act**, and knowingly transmit funds derived from criminal offences.

\$4M

Criminal Penalty

Actual sentence paid, reduced from USD 112.5M due to inability to pay

26.7M

Trades Facilitated

Executed without KYC requirements between 2015 and 2019

\$3B

Trade Value

Total value of trades processed during the non-compliant operational period

\$17M

Bitcoin Routed

Transferred to sites for illicit activities including Backpage, earning USD 2.7M in fees

Paxful: Compliance Failures & Enforcement Implications

Operational Violations (2015–2019)

- Operated without KYC requirements and presented **fabricated AML policies** to third parties
- Failed to file suspicious activity reports until **November 2019**
- Knowingly transferred virtual currency for illicit advertising networks including **Backpage**
- Founders internally termed illicit revenue the "**Backpage Effect**"

Key Enforcement Outcomes

Co-Founder Liability

Artur Schaback pleaded guilty in July 2024 to failing to maintain an effective AML programme. FinCEN assessed a USD 3.5 million civil money penalty.

Regulatory Precedent

Marketing non-compliance as a platform feature constitutes grounds for criminal conviction. Direct liability attaches for profits from third-party illicit transactions.

VASP Obligations

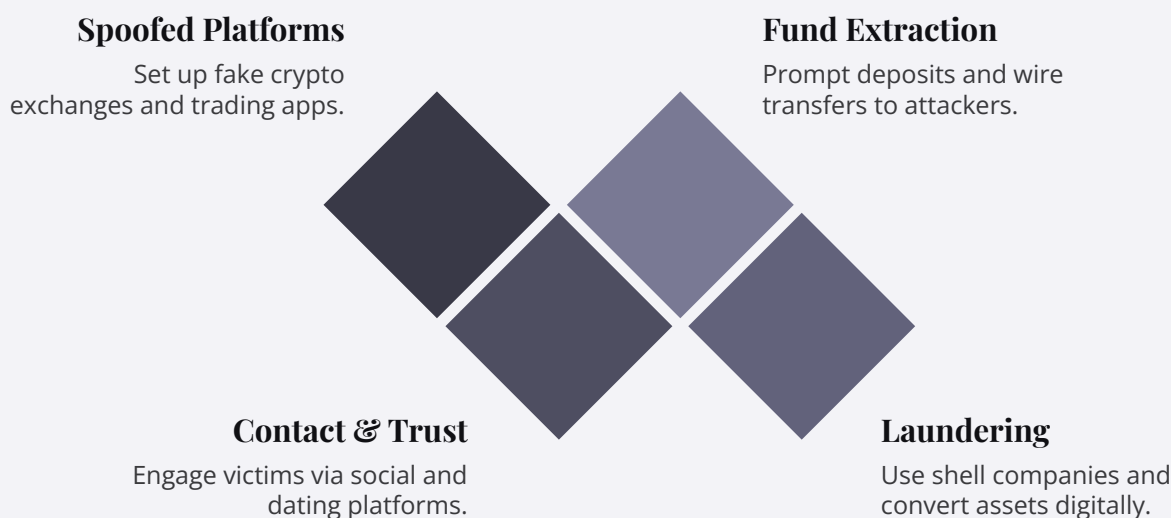
Virtual asset service providers must maintain BSA compliance, FinCEN registration, and robust transaction monitoring protocols.

DOJ Sentences Daren Li to 20 Years for USD 73 Million Crypto Investment Fraud

FEBRUARY 9, 2026

The US DOJ Criminal Division **announced the sentencing** of Daren Li, aged 42, to 20 years in federal prison plus three years of supervised release. Li pleaded guilty on 12 November 2024 in the Central District of California to conspiring to launder funds obtained through cryptocurrency scams.

Pig Butchering: How the Scheme Operated



Li's operation exemplifies the sophisticated social engineering at the core of pig butchering schemes — combining fabricated relationships, spoofed digital infrastructure, and layered laundering through shell entities to obscure the trail of USD 73.6 million in victim funds.

Scam Origin

Operations originated from scam centres in **Cambodia**. Co-conspirators contacted targets via social media and dating platforms, building trust through fabricated relationships.

Spoofed Exchanges

Victims deposited funds into **spoofed cryptocurrency trading exchanges**. Technical support scams induced wire and cryptocurrency transfers to resolve fabricated computer issues.

Fund Flows

Li controlled accounts receiving **USD 73.6 million** in victim funds. USD 59.8 million was routed through US shell companies and converted into virtual assets.

Investigation

The **United States Secret Service** led the investigation alongside multiple international agencies. Eight co-conspirators have pleaded guilty to date.

SEC Division of Investment Management: AI and the Future of Investment Management

FEBRUARY 3, 2026

Brian Daly, Director of the Division of Investment Management, addressed a speech titled **Artificial Intelligence and the Future of Investment Management** at the Investment Company Institute Winter Board Meeting, acknowledging uneven AI adoption and inviting direct industry engagement.



Liability as Primary Impediment

The SEC acknowledged uneven AI adoption across advisers and funds. Liability exposure was identified as the primary concern impeding broader integration of AI systems.



Regulatory Dialogue Over Rulemaking

The SEC indicated reluctance to initiate prescriptive AI rulemaking, instead encouraging industry dialogue, pilot programmes, and no-action engagement to navigate pre-digital rules.



AI-Powered Disclosures

The Division is evaluating whether large language models can replace static PDF prospectuses, while questioning whether AI disclosure tools constitute marketing or require investment adviser registration.

SEC AI Guidance: Fiduciary Duties & Compliance Obligations

Key Regulatory Positions

Fiduciary Duties Unchanged

AI integration does not dilute fiduciary duties under the United States Investment Advisers Act. Firms remain fully accountable for AI-driven decisions.

Historical Parallel

The Division compared current AI challenges to historical regulatory shifts involving algorithmic trading and electronic delivery — suggesting evolution over revolution.

Direct Engagement Invited

The regulator invited direct engagement from market participants deploying AI systems, signalling openness to collaborative regulatory development.

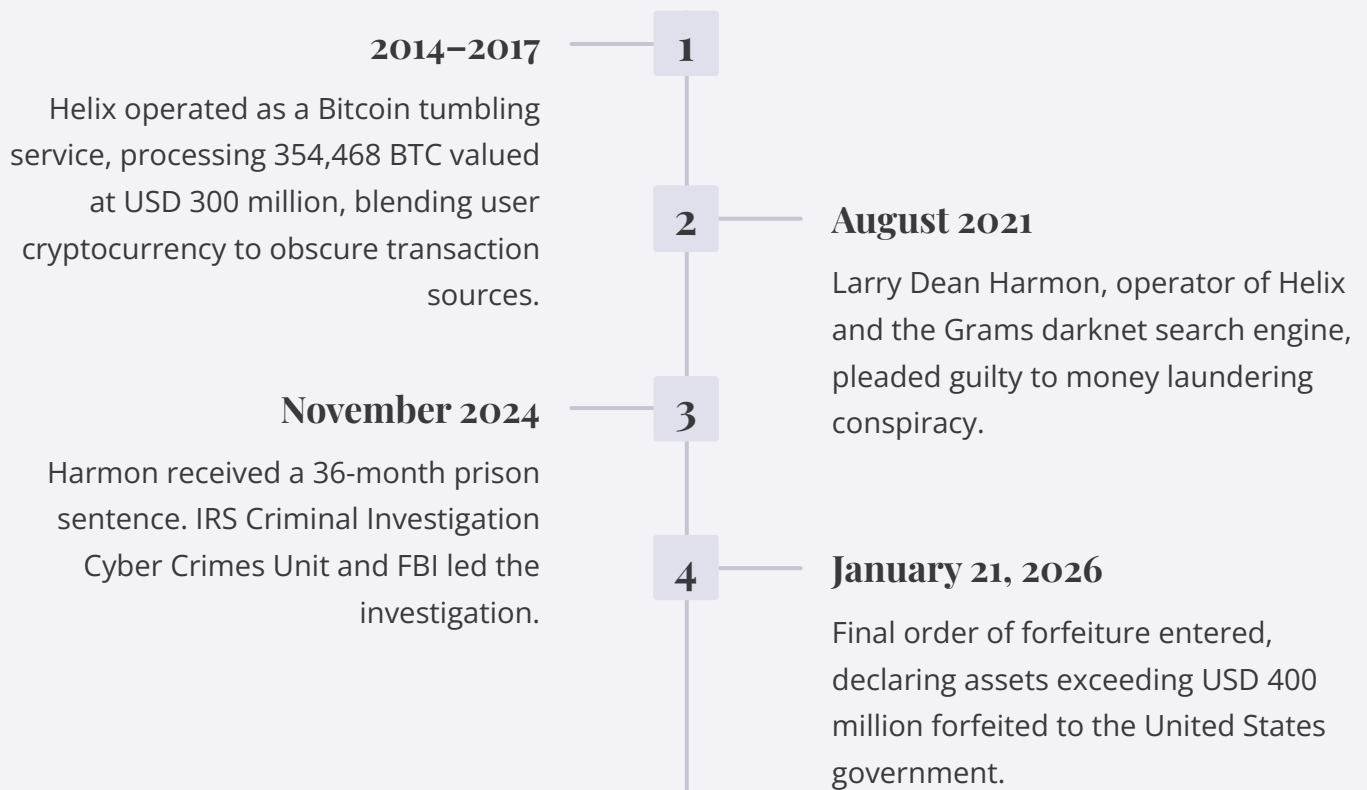
Firm Compliance Considerations

- Maintain strict supervisory controls over AI systems
- Establish comprehensive audit trails for AI-driven decisions
- Implement robust model governance frameworks
- Ensure compliance with the Books and Records Rule
- Evaluate whether AI tools trigger adviser registration requirements

DOJ Completes USD 400 Million Forfeiture Tied to Helix Darknet Bitcoin Mixer

JANUARY 29, 2026

The US DOJ announced the completion of a **forfeiture exceeding USD 400 million** in seized cryptocurrencies, real estate, and monetary assets tied to the operation of Helix, a darknet cryptocurrency mixing service. Judge Beryl A. Howell entered the final order of forfeiture on 21 January 2026.



- ❑ This action constitutes one of the largest global asset recoveries connected to a cryptocurrency mixer, establishing that blockchain forensics can trace and recover crypto assets years after underlying offences. Platforms obscuring transaction trails face criminal liability irrespective of operational timeline.

DOJ Sentences Jingliang Su to 46 Months for USD 36.9 Million Digital Asset Laundering

JANUARY 27, 2026

Case Overview

The US DOJ **announced the sentencing** of Chinese national Jingliang Su, aged 45, to 46 months in federal prison. Judge R. Gary Klausner of the Central District of California also ordered Su to pay **USD 26,867,242.44 in restitution**.

Su pleaded guilty in June 2025 to one count of conspiracy to operate an illegal money transmitting business. He was part of an international criminal network targeting **174 American victims** through a digital asset investment conspiracy operated from scam centres in Cambodia.

Co-Conspirator Sentences

Defendant	Sentence
Jingliang Su	46 months
ShengSheng He	51 months
Jose Somarriba	36 months

Laundering Methodology

01

Victim Contact

Overseas co-conspirators contacted victims via unsolicited communications and online dating services.

02

Spoofed Platforms

Targets were directed to spoofed cryptocurrency trading platforms designed to appear legitimate.

03

Shell Company Routing

Victim funds were laundered through US shell companies and digital asset wallets.

04

Stablecoin Conversion

Su joined Axis Digital to execute crypto conversions and fund transfers, obscuring the money trail.

Digital Asset Fraud: Scale & Compliance Implications

174

American Victims

Targeted by Su's international criminal network through digital asset investment fraud

\$51B

Illicit On-Chain Activity

FATF 2025 report links this amount of 2024 illicit on-chain activity to fraud schemes

8

Co-Conspirators

Have pleaded guilty across the Su and Li cases, with USSS Global Investigative Operations Center leading



Strict KYC for Corporate Accounts

Cryptocurrency exchanges must enforce rigorous know your customer protocols specifically for corporate and institutional accounts.



Enhanced Due Diligence

Institutions should mandate EDD for opaque beneficial ownership structures, particularly shell entities with complex layering.



Stablecoin Conversion Monitoring

This case establishes stablecoin conversion and shell entities as primary laundering conduits requiring heightened surveillance.

CFTC Chairman Selig Announces Senior Staff Appointments

JANUARY 20 – MARCH 2, 2026

Between 20 January and 2 March 2026, the US CFTC appointed a series of senior staff members across key divisions, signalling a significant leadership build-out under Chairman Selig.

January 20, 2026

Michael Passalacqua joins as Senior Advisor to Chairman Selig, bringing expertise in financial regulatory matters involving crypto assets and blockchain from Simpson Thacher & Bartlett LLP.

February 23, 2026

Four additional appointments: **Brooke Nethercott** (Director, Office of Public Affairs), **Emma Johnston** (Senior Agriculture Advisor), **Meghan Tente** (Senior Advisor), and **Elizabeth Mastrogiacomo** (Senior Advisor).

January 26, 2026

Alex Titus named Chief Advisor to the Chairman, joining from the White House Council of Economic Advisers where he served as Chief of Staff under Chairman Stephen Miran.

March 2, 2026

Three further appointments: **David I. Miller** (Director of Enforcement), **Mel Gunewardena** (Director, Office of International Affairs & Senior Markets Advisor), and **Alan Brubaker** (Director, Office of Legislative and Intergovernmental Affairs).

CFTC Leadership: New Senior Team at a Glance

Michael Passalacqua

Senior Advisor to Chairman Selig

Former attorney at Simpson Thacher & Bartlett LLP, specialising in crypto assets and blockchain regulatory matters.

Alex Titus

Chief Advisor to the Chairman

Former Chief of Staff, White House Council of Economic Advisers under Chairman Stephen Miran.

David I. Miller

Director of Enforcement

Appointed March 2, 2026, to lead the CFTC's enforcement division at a pivotal moment for crypto market oversight.

Mel Gunewardena

Director, Office of International Affairs & Senior Markets Advisor

Appointed March 2, 2026, to oversee international regulatory coordination.

Alan Brubaker

Director, Office of Legislative and Intergovernmental Affairs

Appointed March 2, 2026, to manage legislative relationships and intergovernmental coordination.

Brooke Nethercott

Director, Office of Public Affairs

Appointed February 23, 2026, alongside Emma Johnston, Meghan Tente, and Elizabeth Mastrogiacomo as Senior Advisors.

Key Regulatory Takeaways: Quantum Update 66

This edition of the Quantum Update highlights a period of intensified enforcement and institutional consolidation across US crypto and derivatives regulation. The following themes emerge as critical compliance considerations.

Prediction Market Integrity

The CFTC has established a clear enforcement baseline for event contract markets. Designated contract markets must operate robust self-regulatory frameworks or face direct federal prosecution.

P2P Platform Liability

The Paxful sentencing confirms that marketing non-compliance as a feature and profiting from third-party illicit transactions creates direct criminal liability for platform operators.

Pig Butchering Deterrence

The 20-year sentence for Daren Li signals maximum deterrence against social engineering fraud. VASPs must flag high-volume shell entity deposits and enforce strict transaction monitoring.

AI Governance for Advisers