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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

**SECURITIES AND EXCHANGE
COMMISSION,**

Plaintiff,

-against-

SHENG-WEN CHENG,

Defendant.

COMPLAINT

21 Civ. 3456 ()

JURY TRIAL DEMANDED

Plaintiff Securities and Exchange Commission (“Commission”), for its Complaint against Defendant Sheng-Wen Cheng (“Cheng” or “Defendant”), alleges as follows:

SUMMARY

1. This action involves the Defendant’s misappropriation of investor funds and material misrepresentations in connection with the offering of equity and digital asset securities to investors in Alchemy Finance, Inc. (“Alchemy Finance”), Alchemy Company, Ltd. (“Alchemy Company”), and Alchemy Coin, Ltd. (“Alchemy Coin,” and collectively with Alchemy Finance and Alchemy Company, “Alchemy”).

2. From approximately August 2017 through June 2018 (the “Relevant Period”), Cheng raised approximately \$404,000 from at least 5 investors, four of which were in the United States, who purchased shares of Alchemy’s stock or Alchemy’s digital assets (the “Alchemy tokens”) with the expectation of profit from the revenues generated by Cheng’s efforts in the development of a blockchain-based Peer-to-Peer (P2P) lending marketplace (the “P2P Platform”).

3. Cheng made material misrepresentations to prospective investors in Alchemy. For example, he falsely stated to at least two investors that he received a \$30 million investment from a single investor and he had previously created a startup company that he sold for a substantial sum of money to a family office. Additionally, he falsely guaranteed short-term profits to at least one investor. These misrepresentations were material to the investors’ decisions to invest because they evidenced the financial stability of Alchemy and the success of its management. In reality, Alchemy never raised \$30 million, Cheng had not created and sold a start-up company to a family office, and Alchemy had no operations or revenues.

4. After obtaining investments in Alchemy, Cheng misappropriated approximately \$300,000 of the \$404,000 in Alchemy investors’ funds for his personal use.

VIOLATIONS

5. By virtue of the foregoing conduct and as alleged further herein, Cheng violated Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

6. Unless Cheng is restrained and enjoined, he will engage in the acts, practices, transactions, and courses of business set forth in this Complaint or in acts, practices, transactions,

and courses of business of similar type and object.

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

7. The Commission brings this action pursuant to the authority conferred upon it by Securities Act Sections 20(b) and 20(d) [15 U.S.C. §§ 77t(b) and 77t(d)] and Exchange Act Section 21(d) [15 U.S.C. § 78u(d)].

8. The Commission seeks a final judgment: (a) permanently enjoining Cheng from violating the federal securities laws and rules this Complaint alleges he has violated; (b) ordering Cheng to disgorge all ill-gotten gains he received as a result of the violations alleged here and to pay prejudgment interest thereon; (c) ordering Cheng to pay civil money penalties pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)] and Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)]; (d) permanently prohibiting Cheng from participating, directly or indirectly, in any offering of a digital asset security pursuant to Securities Act Section 20(g) [15 U.S.C. § 77t(g)] and Exchange Act Section 21(d)(6) [15 U.S.C. § 78u(d)(6)]; and (e) ordering any other and further relief the Court may deem just and proper.

JURISDICTION AND VENUE

9. This Court has jurisdiction over this action pursuant to Securities Act Section 22(a) [15 U.S.C. § 77v(a)] and Exchange Act Section 27 [15 U.S.C. § 78aa].

10. Defendant, directly and indirectly, has made use of the means or instrumentalities of interstate commerce or of the mails in connection with the transactions, acts, practices, and courses of business alleged herein.

11. Venue lies in this District under Securities Act Section 22(a) [15 U.S.C. § 77v(a)] and Exchange Act Section 27 [15 U.S.C. § 78aa]. Cheng resides in the Southern District of New York and Alchemy's principal place of business is in this District. In addition, from his

residence and Alchemy's office in this District, Cheng offered and processed investments in Alchemy.

DEFENDANT

12. **Cheng**, age 26, is a resident of New York, New York. Cheng is the founder and Chief Executive Officer of Alchemy Company, Alchemy Finance, and Alchemy Coin. During the Relevant Period, Cheng told investors that Alchemy was creating a P2P lending platform that uses blockchain technology for transparency.

OTHER RELEVANT ENTITIES

13. **Alchemy Finance** (d/b/a Alchemy Lending and Alchemy Marketplace) is a Delaware corporation with its principal place of business in New York, New York.

14. **Alchemy Company** is a Hong Kong company with its principal place of business in New York, New York.

15. **Alchemy Coin** is a Hong Kong company with its principal place of business in New York, New York.

FACTS

I. BACKGROUND

A. Alchemy's Offering

16. In a business plan provided to prospective investors throughout 2017, Cheng claimed that Alchemy was creating an online P2P lending marketplace where individuals could obtain student loans outside of the typical banking framework. Similarly, a white paper (the "White Paper"), describing the marketplace and terms of the digital asset offering, Cheng provided to potential investors in the token offering, referred to the planned Alchemy platform as a blockchain-based lending marketplace for international borrowers and lenders. Cheng claimed

in the White Paper that this platform would be a blockchain-based lending company that would use a sophisticated algorithm to bundle various types of debts into collateral debt obligations (“CDOs”), which could then be purchased by investors using Alchemy tokens. According to its offering materials, Alchemy would profit by charging fees to borrowers. Alchemy never created a functioning platform, nor did it ever generate any revenues or have any operations.

17. Through approximately December 2017, Cheng sought investments in exchange for equity in Alchemy, executing share purchase agreements with investors and providing them with stock certificates. In 2018, he began to solicit investments through a “token purchase agreement” whereby Alchemy promised to deliver a token to reflect their investment in the company. Cheng obtained approximately \$404,000 in total--\$129,000 via the stock offering and \$275,000 via the security token offering--from 5 investors, at least four of which were located in the United States, for investment in Alchemy.

B. The Alchemy Token Was Offered and Sold as a Security

18. Based on Cheng’s representations and the White Paper provided to prospective token investors, Alchemy investors who purchased the token expected to profit from the revenues generated by the Alchemy platform that they expected Cheng to create and operate. Specifically, the White Paper promised investors that greater investment in the lending platform would lead to a more valuable token, and that investors in the token would receive periodic dividends from the profits of the platform.

19. The White Paper further cemented this expectation by specifically “classifying our token sale as a security ... operating compliantly and inline [sic] with SEC and securities regulation.” Notably, the White Paper described Alchemy’s token as a security in order to distinguish its investment opportunity from other digital asset offerings stating that:

A recent surge in litigations to blockchain related startups has sprung out of a general lack of credence, due diligence, and necessary investment into abiding by modern, healthy, and necessary securities law. Regularly, ICOs are cutting corners, attempting to represent the functional utility of their token and in most cases using this as a means to evade regulations... effectively, conducting unlicensed security offerings instead. We believe in the disruptive, beneficial, and long term viability of both our technology and token economy. As such, Alchemy is seeking to be a leader in operating compliantly and inline [sic] with SEC and securities regulation.

20. A one-page summary (the “One-Page Summary”) that Cheng provided to prospective token investors stated that “the more valuable the lending system (i.e., total debts under management), the more valuable the token.” Consistent with this statement, the White Paper stated that investors in tokens could “also participate in the company’s profit making by holding the token in a classic security-like fashion.” In fact, the White Paper stated that token investors would receive periodic dividends based on the fees generated from the Alchemy platform’s lending business.

21. Finally, the White Paper highlighted Cheng’s abilities and management skills, and the specific steps Cheng and the company would take to develop the lending platform from hiring engineers to managing the platform’s bundling of loans into CDOs.

II. MISREPRESENTATIONS AND OMISSIONS TO INVESTORS IN ALCHEMY STOCK AND TOKENS

22. While soliciting prospective investors, to invest either in Alchemy stock or the Alchemy token, Cheng made material misstatements to them about guaranteed returns, the use of investor proceeds, and the amount of money raised. These misrepresentations were material to the investors’ decision to invest. For example:

- a. In November 2017, Cheng guaranteed a retail investor (“Investor A”) that he would make a short-term profit of 20% on his investment in Alchemy from the fees generated by the Alchemy platform, even though it was not

generating any revenue and had no operations. In fact, Investor A did not receive any profits or other return from his investment in Alchemy, and Cheng refused to return his investment in the company despite Investor A's repeated requests for his money back. Based on Cheng's representations, Investor A invested \$4,000 in Alchemy in return for shares of Alchemy stock.

- b. In early March 2018, Cheng provided another retail investor ("Investor B") with the White Paper and a One-Page Summary stating that Alchemy secured a commitment of \$30 million from a single investor and that Cheng had successfully created a start-up company that he sold to a family office for over a million dollars. Cheng further assured Investor B that Alchemy had already received the \$30 million investment and provided him with a doctored wire transfer as evidence of it. In fact, Alchemy never obtained an investment for \$30 million and Cheng never created or sold a start-up company to a family office, let alone for a substantial sum of money. Investor B executed a token purchase agreement and invested \$250,000 in Alchemy tokens, but never received any tokens.
- c. In May 2018, Cheng provided a third retail investor ("Investor C") with the White Paper and the One-Page Summary containing the same misrepresentations discussed above. As with Investor B, Cheng assured Investor C that Alchemy had already received a \$30 million investment and provided him with a doctored wire transfer as evidence of the investment. Based on Cheng's representations, Investor C executed the Alchemy token purchase agreement and invested \$25,000 worth of digital assets in Alchemy

tokens, but never received any tokens.

III. MISAPPROPRIATION OF INVESTOR FUNDS

23. During the Relevant Period, Alchemy received approximately \$404,000 in investments from at least 5 investors, four of whom were in the United States. Cheng transferred the majority of these proceeds from Alchemy's bank account into his personal bank account shortly after receiving them. Cheng misappropriated at least \$300,000 in investor proceeds for his personal use, including for the payment of personal expenses.

FIRST CLAIM FOR RELIEF Violations of Securities Act Section 17(a)

24. The Commission re-alleges and incorporates by reference here the allegations in paragraphs 1 through 23.

25. Cheng, directly or indirectly, singly or in concert, in the offer or sale of securities and by the use of the means or instruments of transportation or communication in interstate commerce or the mails, (1) knowingly or recklessly employed one or more devices, schemes or artifices to defraud, (2) knowingly, recklessly, or negligently obtained money or property by means of one or more untrue statements of a material fact or omissions of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and/or (3) knowingly, recklessly, or negligently engaged in one or more transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

26. Cheng violated Section 17(a) of the Securities Act by, among other things, knowingly, recklessly or negligently making material misrepresentations to Alchemy's investors about the amount of money Alchemy raised and his prior investment experience and misappropriating their investments.

27. By reason of the foregoing, Cheng, directly or indirectly, singly or in concert, has violated and, unless enjoined, will again violate Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

SECOND CLAIM FOR RELIEF
Violations of Exchange Act Section 10(b) and Rule 10b-5 Thereunder

28. The Commission re-alleges and incorporates by reference here the allegations in paragraphs 1 through 23.

29. Cheng, directly or indirectly, singly or in concert, in connection with the purchase or sale of securities and by the use of means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange, knowingly or recklessly (i) employed one or more devices, schemes, or artifices to defraud, (ii) made one or more untrue statements of a material fact or omitted to state one or more material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and/or (iii) engaged in one or more acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

30. Cheng violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by, among other things, knowingly, recklessly or negligently making material misrepresentations to Holdings' investors about the amount of money Alchemy raised and his prior investment experience and misappropriating their investments.

31. By reason of the foregoing, Cheng, directly or indirectly, singly or in concert, has violated and, unless enjoined, will again violate Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court enter a Final Judgment:

I.

Permanently enjoining Cheng from violating, directly or indirectly, Securities Act Sections 17(a) [15 U.S.C. § 77q(a)] and Exchange Act Sections 10(b) [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5].

II.

Ordering Cheng to disgorge all ill-gotten gains he received directly or indirectly, with prejudgment interest thereon pursuant to 15 U.S.C. § 78u(d)(5) and Sections 6501(a)(1) and (a)(3) of the National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, to be codified at 15 U.S.C. §§ 78u(d)(3) and 78u(d)(7);

III.

Ordering Cheng to pay civil monetary penalties under to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

IV.

Permanently prohibiting Cheng from participating in any offering of a digital asset security, directly or indirectly, including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any digital asset security, under Exchange Act Section 21(d)(6) [15 U.S.C. § 78u(d)(6)].

V.

Granting any other and further relief this Court may deem just and proper.

Dated: New York, New York
April 20, 2021

Richard R. Best

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