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Block's Dorsey, Others Face Derivative Suit Over AML Woes

By **Emilie Ruscoe**

Law360 (February 6, 2025, 11:47 PM EST) -- Officers and directors of Square and Cash App parent company Block Inc. face a shareholder derivative complaint over alleged anti-money laundering compliance failures weeks after the company reached an \$80 million settlement of related claims with state banking regulators.

In a complaint filed Wednesday in California federal court, Block investor Viraj Patel took aim at the company's brass, including Twitter co-founder Jack Dorsey, with claims they breached their fiduciary duties by concealing Block's allegedly lax customer due diligence practices, leaving the company vulnerable to regulatory scrutiny and litigation.

By failing to put adequate safeguards in place, Patel said, Block "allowed the company to become a haven for unlawful activities" such as money laundering, trafficking of people and drugs, and terrorism financing, among other things.

Patel pointed to a series declines in trading prices for Block shares allegedly precipitated by revelations about the company's anti-money laundering oversights, starting with the March 2023 release of a short seller's report citing anonymous former Block employees. Following the release of that report, the investor said, trading prices for Block shares fell 15%, from just nearly \$73 to under \$62, in a single day, the investor claimed.

The company's August 2023 disclosure of U.S. Securities and Exchange Commission and U.S. Department of Justice probes came right before the company saw trading prices fall 14%, from about \$74 to about \$64, the investor said.

News reports in February and May 2024 detailed federal investigations of certain anti-money laundering practices at Block, the investor said, and those reports respectively caused trading price drops of 5%, from over \$69 to under \$66, in February, and 8%, from \$73 to under \$67 in May, Patel claimed.

In January, the Conference of State Bank Supervisors **announced** the company's \$80 million settlement of claims the bank's anti-money laundering and Bank Secrecy Act compliance measures fell short, and the company was separately fined \$175 million by the Consumer Financial Protection Bureau, in part for allegedly **creating** "the conditions for fraud to proliferate on its popular payment platform." The company has neither admitted nor denied any wrongdoing.

Block was hit later in January with a proposed investor class action in California federal court **alleging** its lax protocols created a "haven for criminal and illicit activities," exposing the company to potential classwide liability, Patel said Wednesday.

Market records show that since Block's 2015 public market debuts, trading prices for its shares have gone as high as \$268 as the company experienced what Patel described in the suit as "explosive growth."

The company closed out Thursday trading at \$86.50, up significantly from the lows cited in Patel's suit.

Representatives for the parties didn't immediately respond to requests for comment Thursday.

Patel is represented by Jon A. Tostrud of the Tostrud Law Group PC, Timothy J. MacFall and Samir Aougab of Rigrudsky Law PA and Joshua H. Grabar of the Grabar Law Office.

Counsel information for the defendants wasn't immediately available Thursday.

The case is Patel v. Dorsey et al., case number 4:25-cv-01262, in the U.S. District Court for the Northern District of California.

--Additional reporting by Jon Hill, Lauren Berg and Rachel Scharf. Editing by Jay Jackson Jr.

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