

The Switch

State regulators unveil nationwide crackdown on suspicious cryptocurrency investment schemes

by [Brian Fung](#) May 21 [✉Email the author](#)

Securities regulators across the United States and Canada announced dozens of investigations Monday into potentially deceitful cryptocurrency investment products, the largest coordinated crackdown to date by state and provincial officials on bitcoin scams.

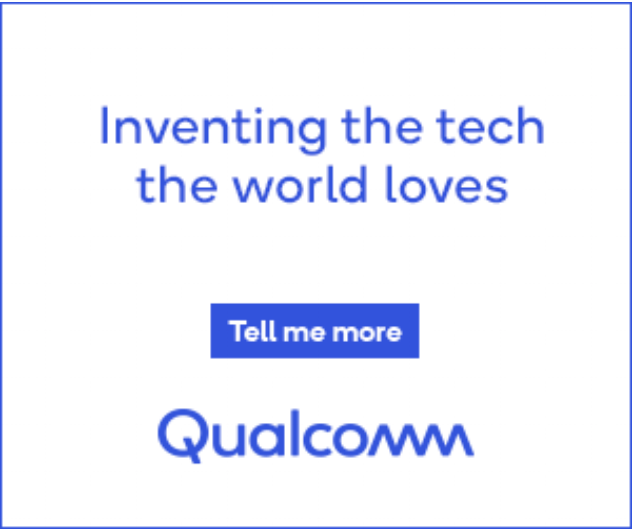
As many as 70 investigations have been opened in the sweep, with more expected in the coming weeks, said the North American Securities Administrators Association, which helped coordinate the probes. As many as 35 cases are pending or already completed, with some resulting in cease-and-desist letters warning the alleged schemes that their unregistered activity violates state securities law.

The enforcement actions, which have not been previously reported, take aim at efforts by groups in more than 40 jurisdictions to attract money from unsuspecting investors. They target unregistered securities offerings that promise lucrative returns without adequately informing investors of the risks, according to state regulators. The state agencies are also pursuing suspicious cases of initial coin offerings, or ICOs, a fundraising technique used by both legitimate and illegitimate cryptocurrency projects in ways that resemble initial public offerings of stock.

Market Watch

Dow	Today
24,694.23	0.56%
S&P	Today
2,714.72	0.36%
NASDAQ	Today
7,368.5	0.13%

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"We're putting ourselves in the shoes of investors. We're seeing what's being promoted to investors. And then we're taking the next step and then we're finding out whether they're complying with securities laws," said Joseph Borg, president

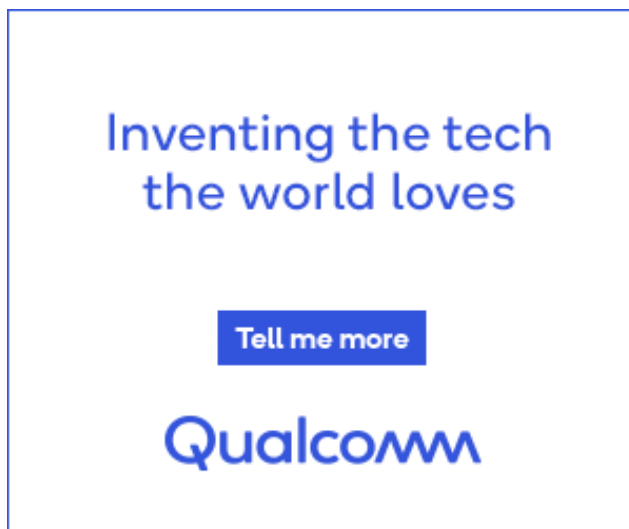
of NASAA and the director of the Alabama Securities Commission.

Not every ICO or cryptocurrency investment product is fraudulent, Borg added.

But consumers face higher risks of being misled at a time when the intense demand for bitcoin has prompted many retail investors to take extreme steps to gain exposure to the currency, such as taking out [a bigger mortgage](#).

Posing as members of the public, investigators discovered roughly 30,000 cryptocurrency-related domain names in recent weeks, most of which were registered in the past year as the price of bitcoin soared past \$19,000. Many of the alleged scams use fake addresses, slick marketing materials and promises of over 4 percent daily interest, regulators said. A few have even used unauthorized photos of high-profile individuals, such as Supreme Court Justice Ruth Bader Ginsburg, to portray themselves as aboveboard.

Other sites have used images of Prince Charles and actor Jennifer Aniston, but identified them under different names, to provide testimonials, the regulators said.

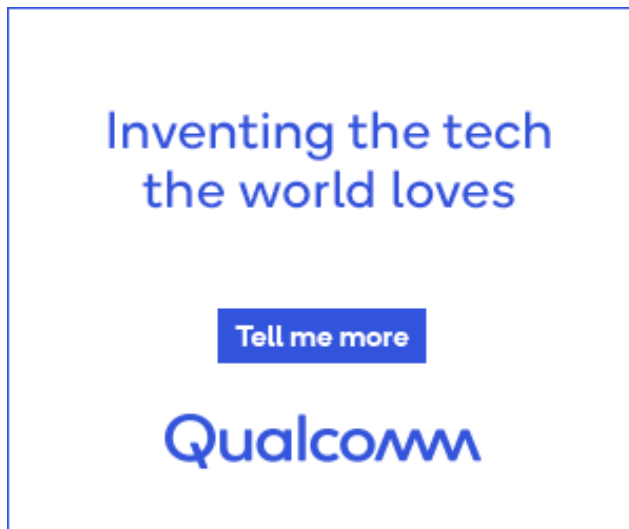


"It's royal wedding fever that's a part of this operation," said Joseph Rotunda, director of enforcement at the Texas State Securities Board.

After receiving the cease-and-desist letters warning of illegal activity, the targets of the investigations typically have up to a month to file a response, depending on the jurisdiction, Borg said. Some states allow for a hearing before the state securities commission, and an appeal to a court or administrative law judge. Regulators could also take the schemes to court. But regulators expect many sites to shut down voluntarily or amend their practices to comply with securities laws.

In one recent case, regulators sent a warning letter this month to a U.K.-based cryptocurrency scheme known as BTCrush alleging that it was [violating state laws](#) by selling securities to Texas residents without registration and by using misleading marketing. BTCrush claimed to run three bitcoin mining farms — one hidden away in a World War II-era bunker — and served up videos on its site to

support the claim. But regulators found that the shots of the mining farms turned out to be publicly available stock footage.



BTCrush was also allegedly recruiting Texas investors as sales agents, promising them even more money if they promoted the company. As a result, Rotunda said, any Texas resident who agreed to participate was at risk of violating state securities laws themselves.

Confronted with the allegations of deception and illegal activity, BTCrush quickly responded, claiming they had no knowledge of its site being used by U.S.-based investors. BTCrush, in a statement Sunday, said it "has complied and will continue to comply" with its cease-and-desist.

"We sincerely regret that such precedents could have taken place. And we would like to inform you that if such precedents could have taken place, then we were not aware of such facts until today," the operators of BTCrush wrote in a letter to authorities.

Borg said he expects many more consumers to come forward to report suspicious bitcoin schemes as a result of the sweep, which will allow regulators to begin to identify real-world cases of harm to consumers and, in some instances, to demand refunds for investors.

"A lot of times you don't know who the victims are unless they call you up," Borg said.

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Brian Fung covers business and technology for The Washington Post. Before joining The Post, he was the technology correspondent for National Journal and an associate editor at the Atlantic. [Follow @b_fung](#)

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