Cryptocurrency and Investor Protections
DoD Financial Readiness Training Symposium
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M. Owen Donley III
Chief Counsel
Office of Investor Education and Advocacy
United States Securities and Exchange Commission

Meredith Scialabba
Customer Outreach Specialist
Office of External Affairs
United States Commodity Futures Trading Commission
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Contents

- Overview of the Securities and Exchange Commission and the U.S. Commodity Futures Trading Commission
- Who’s at risk for investment fraud
- Introduction to Bitcoin and virtual currency
- Virtual currency risks and red flags of fraud
- Initial Coin Offerings (ICO)s and Howie Coins
- SEC and CFTC educational resources
- Contact information
About the SEC


- Created to restore investor confidence in the capital markets following the crash of 1929 and the Great Depression
About the SEC

The main purposes of the Exchange Act, as well as the Securities Act of 1933 (“Securities Act”), can be reduced to two common-sense notions:

- Companies publicly offering securities for investment must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.

- People who sell and trade securities – brokers, dealers, and exchanges – must treat investors fairly and honestly.
About the SEC

The Mission of the SEC:

- Protect Investors
- Maintain Fair, Orderly, and Efficient Markets
- Facilitate Capital Formation
The CFTC was established in 1974 as an independent federal agency to regulate the commodity futures markets.

The underlying feature of these markets function for participants to navigate risk or assume risk.

Participants do this by entering into contracts to buy or sell an amount of something at a fixed price at a future date.

Learn more: www.cftc.gov

The CFTC’s roots go back to the 1860s when agricultural markets for wheat, corn and cotton were first established and farmers entered into contracts promising a particular yield of a crop by a set date at a set price.

This agreement helps a farmer plan for future risks to crops, such as floods or drought, and also helps the buyer to receive a crop at a price they want to pay on a particular date.

Learn more: www.cftc.gov

Buyers and sellers enter into standardized contracts through exchanges and these markets have grown to include energy and metal commodities, such as crude oil, heating oil, gasoline, copper, gold and silver.

Over time, contracts based on interest rates, stock indexes, foreign currency and other products have far exceeded agricultural contracts in trading volume.

Learn more: [www.cftc.gov](http://www.cftc.gov)

In the aftermath of the 2008 financial crisis, the CFTC’s mandate was expanded to oversee the more than $400 trillion swaps market, which is about 12 times the size of the futures market.

In 2015, the CFTC declared virtual currency a “commodity” subject to oversight under its authority under the Commodity Exchange Act.

Learn more: www.cftc.gov

CFTC Mission

• Foster open, transparent, competitive, and financially sound markets.
• Protect market users and their funds, consumers, and the public from fraud, manipulation, and abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act (CEA).

Read more about the CFTC’s responsibilities: [https://www.cftc.gov/About/MissionResponsibilities/index.htm](https://www.cftc.gov/About/MissionResponsibilities/index.htm)
Outreach

The Office of External Affairs (OEA)

- OEA engages in outreach and education to retail investors, traders, industry organizations, the agricultural community and frequently partners with federal and state regulators as well as consumer protection groups.
- OEA manages the RED (Registration Deficient) List, a database of foreign entities who appear to be soliciting U.S. customers but are not registered with the CFTC. The entities on the RED List are required to register with the CFTC.
- OEA maintains several resources pages on CFTC.gov that feature informational materials like brochures, reports and advisories including www.cftc.gov/bitcoin, the Commission’s dedicated webpage to virtual currency resources.
- Connect with us on Facebook (@CFTCgov) and Twitter (@CFTC)!
Who’s at risk? It might surprise you

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Virtual Currency explained

• Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value, but it does not have legal tender status in the United States.

• Virtual currencies are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not currently backed nor supported by any government or central bank.

• Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional fiat currencies.

Learn more at www.cftc.gov/bitcoin
• When you buy or sell virtual currencies with dollars for your personal wallet, you are buying on the cash or spot market.

• Virtual currencies can also be purchased through initial coin offerings or ICOs.

Learn more at [www.cftc.gov/bitcoin](http://www.cftc.gov/bitcoin)
What is Bitcoin?

• Bitcoin is a convertible virtual currency. It is one of many virtual currencies in the market but is currently the largest convertible virtual currency by market capitalization.

• Bitcoin was created in 2008 by a person or group that used the name “Satoshi Nakamoto,” with the belief that: “[w]hat is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party.”
What are Bitcoin characteristics?

• Is “pseudonymous” (or partially anonymous) in that an individual is identified by an alpha-numeric public key/address;

• Relies on cryptography (and unique digital signatures) for security based on public and private keys and complex mathematical algorithms;

• Runs on a decentralized peer-to-peer network of computers and “miners” that operate on open-source software and do “work” to validate and irrevocably log transactions on a permanent public distributed ledger visible to the entire network, also known as the “blockchain”;

What are Bitcoin characteristics?

• Solves the lack of trust between participants who may be strangers to each other on a public ledger through the transaction validation work noted in the sub-bullet above;

• Enables the transfer of ownership without the need for a trusted, central intermediary.
Virtual Currency Appeal

Unlike other investment frauds that target pre-retirees, retirees, or high-net worth individuals, virtual currency investments are very appealing to a younger demographic who are open to taking on risk.

- Anecdotally, we know that high school students and children as young as middle school are interested in virtual currencies!
- A survey of 1,000 college students with loan debt found that more than 20 percent of them use their financial aid money to invest in virtual currencies.

Sources:
CNNMoney, “Young people are drawn to cryptocurrency. But what about the risks?” May 14, 2018.
Despite the unpredictable nature of cryptocurrencies, many Millennials report they find investing in them less intimidating than putting money in the stock market or other traditional investments.

A survey conducted by NASAAA found that Millennials are most at risk for fraud as they are most likely to use fintech products (84 percent) and also most at-risk of fraud from fintech products (41 percent).

Sources:
MarketWatch, “Millennials are afraid stocks are too risky, so they’re investing in bitcoin,” February 12, 2018.
Virtual Currency Risks

Why is purchasing Bitcoin and other virtual currencies so risky?

• Purchasing virtual currencies on the cash market – spending dollars to purchase Bitcoin for your personal wallet, for example – comes with a number of risks, including:

  – Most cash markets are not regulated or supervised by a government agency;
  – Platforms in the cash market may lack critical system safeguards, including customer protections;
Virtual Currency Risks (cont.)

Why is purchasing Bitcoin and other virtual currencies so risky?

- Volatile cash market price swings or flash crashes;
- Cash market manipulation;
- Cyber risks, such as hacking customer wallets; and/or
- Platforms selling from their own accounts and putting customers at an unfair disadvantage.
Red Flags are still the same

Fraudsters are using the same tactics with virtual currency as they always have!

Here are some common red flags:

- Superficial Signs of Legitimacy Online and Offline
- Urgency
- Promising Huge Returns
- Offering a “Favor”
- Aggressive Sales Tactics
- Confusing Explanations
Cryptocurrencies and Digital Assets

- Some cryptocurrencies purport to be fiat currency replacements.
- Digital representation of value.
- Use Blockchain technology.
- To date, not approved for listing and trading any exchange-traded products (such as ETFs) holding cryptocurrencies.
Initial Coin Offerings

- Increased usage of ICOs to raise capital.
- Capital raised to be used to develop platform, software or other project.
- Offering of specific token/coin for the project—different than cryptocurrency.
- Virtual token/coin offers ”utility.”
ICO Hallmarks

- Professional-looking website.
- Team members listed with relevant credentials and experience.
- White paper detailing technical specifics.
PRE-ICO SALE IS LIVE

15% BONUS ENDS IN

14 : 22 : 26 : 14

Day(s) Hours(s) Minute(s) Second(s)

TOKEN SALE!

Learn More
DON'T MISS THIS EXCLUSIVE OPPORTUNITY TO PARTICIPATE IN HOWEYCOINS TRAVEL NETWORK NOW!

Combining the two most growth-oriented segments of the digital economy – blockchain technology and travel, HoweyCoin is the newest and only coin offering that captures the magic of coin trading profits AND the excitement and guaranteed returns of the travel industry. HoweyCoins will partner with all segments of the travel industry (air, hotel, car rental, and luxury segments), earning coins you can trade for profit instead of points. Massive potential upside benefits like:

- HoweyCoins are officially registered with the U.S. government;
- HoweyCoins will trade on an SEC-compliant exchange where you can buy and sell them for profit;
- HoweyCoins can be used with existing points programs;
- HoweyCoins can be exchanged for cryptocurrencies and cash;
- HoweyCoins can be spent at any participating airline or hotel;
- HoweyCoins can also be redeemed for merchandise.
INVESTMENT LADDER

Investors can purchase HoweyCoins with any major credit card, widely-circulated coin, or with TravExcoins, our exclusive e-commerce partner in the travel and luxury goods investment area. Investment Discounting Ladder:

HoweyCoins platform stands as one of the largest cryptocurrency platforms ever built. Recent market surveys expect the luxury travel industry to set a world-record high of over $1.5 trillion this year. The vast majority of these business and vacation transactions require processing, centralized currency and, most importantly, nickel and dime fees that add up to literally billions. HoweyCoins utilize the latest crypto-technology to allow travelers to purchase all segments without these limitations, allowing HoweyCoin users to buy, sell, and trade in a frictionless environment – where they use HoweyCoins to purchase travel OR as a government-backed, freely tradable investment – or both!
PLATINUM

Invest by June 1 to receive a **DOUBLE 25% discount**

[Buy Coins Now!](#)
SILVER

Invest by June 30 to receive a **DOUBLE 12.5% discount**

Buy Coins Now!
HoweyCoins.com

CHECK OUT THESE MESSAGES FROM OUR CELEBRITY PROMOTERS
@McWhortle

“Can’t wait to participate in the next new crypto explosion – HoweyCoins are going to change the travel landscape forever!”

@realdrummerstar

“HoweyCoins are ‘how-we’ invest. #nextbigthing”

@boxingchamp1934

“I’m all about HoweyCoins – this thing is going to pop at the top!”
HOWEYCOINS.COM

STAY TUNED

Once in, we will provide expert timing advice to make sure tier 1 and limited offer tier 2 participants maximize immediate gains with a pre-planned pump to occur shortly after the pre-ico phase ends. Our past two pumps have doubled value for the period immediately after the pump for returns of over 225%.

Send us a secured message on the social media application of your choice for more information.

Enter your email...Submit
HoweyCoins.com

MEET THE TEAM

Josh Hinze  
Co-founder and Head Architect

Ashley Turnbull  
Co-founder and Head Travel Strategist

Wayne Roswell  
Head of Legal

Sabrina Holmes  
Head of PR/Marketing

Aberto Silva  
Co-founder and Head Engineer

Emma Kim  
Head of Partner Development
ICO – HOWEYCOINS

If You Responded To An Investment Offer Like This, You Could Have Been Scammed – HoweyCoins Are Completely Fake!

Welcome to Investor.gov, the Securities and Exchange Commission's site designed for individual investors. We've recently seen fraudsters pretending to be involved in blockchain technology, initial coin offerings, and crypto-currencies – when really they are simply operating scams designed to take investors’ hard-earned money. We created the bogus HoweyCoins.com site as an educational tool to alert investors to possible fraud involving digital assets like crypto-currencies and coin offerings.

Fortunately, frauds like these often have a number of “red flags” that can help you tell if the so-called “investment opportunity” is really a scam. Our bogus site is a mash-up of a number of different things we’ve seen – any particular fraud may be harder to spot than the red flags here. Here are some of the signs of fraud that are on the HoweyCoins site – we hope reviewing these may help you recognize a real fraud in the future!
HoweyCoins.com

**RED FLAG: CLAIMS OF HIGH, GUARANTEED RETURNS**

- “HoweyCoins is the newest and only coin offering that captures the magic of coin trading profits AND the excitement and guaranteed returns.”
- We anticipate OVER 1% daily returns, with DOUBLE 2% returns on Tier 1 investors in pre-ICO stage retail purchases.
- We also forecast a minimum growth rate of between 7% to 13% annualized, making HoweyCoins attractive for long-term investment. In addition, HoweyCoins can serve as a GUARANTEED hedge against inflation and market loss.

**RED FLAG: CELEBRITY ENDORSEMENTS**

- CHECK OUT THESE MESSAGES FROM OUR CELEBRITY PROMOTERS.
- “I'm all about HoweyCoins – this thing is going to pop at the top!” @boxingchamp1924 (@champ Smith, boxer).
RED FLAG: CLAIMS OF “SEC-COMPLIANT”

- HoweyCoins will trade on an SEC-compliant exchange where you can buy and sell them for profit.

The SEC staff has concerns that many online trading platforms appear to investors as SEC-registered and regulated marketplaces when they are not. Many platforms refer to themselves as “exchanges,” which can give the misimpression to investors that they are regulated or meet the regulatory standards of a national securities exchange. Although some of these platforms claim to use strict standards to pick only high-quality digital assets to trade, the SEC does not review these standards or the digital assets that the platforms select.

RED FLAG: INVESTING WITH A CREDIT CARD

- Investors can purchase HoweyCoins with any major credit card.

Investors should understand that most licensed and registered investment firms do not allow their customers to use credit cards to buy investments or to fund an investment account. We urge investors to work only with a licensed or registered investment professional or firm and not attempt to use a credit card to fund investments.
HoweyCoins.com

**RED FLAG: INVESTING WITH A CREDIT CARD**

- Investors can purchase HoweyCoins with any major credit card.

**RED FLAG: PUMP AND DUMP SCAMS**

- Special pre-ICO pump specials: once in, we will provide expert timing advice to make sure Tier 1 and limited Tier 2 participants maximize immediate gains with a pre-planned pump to occur shortly after the pre-ICO phase ends. Our past two pumps have doubled value for the period immediately after the pump for returns of over 225%.

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In a pump and dump scheme, fraudsters typically spread false or misleading information to create a buying frenzy that will "pump" up the price of a stock and then "dump" shares of the stock by selling their own shares at the inflated price. Once the fraudsters dump their shares and stop hyping the stock, the stock price typically falls and investors lose money.
The Landscape

7X Return Guaranteed!

What if I told you I can guarantee you a 7X return on your investment, would you take it?

Donate money to the poor and needy and you will see your portfolio multiple to levels you never imagined.

$btc $eos $ven $ont $zil $ocn $cs
$wan $neo $trx

6/7/18, 3:33 AM

7 Retweets 102 Likes
The Landscape
The Landscape
The Landscape
This is NOT a joke. The only, 100% guaranteed, way to make life-changing profits every day, without fail. The software is like NOTHING you have ever come across.
The Landscape

Take a look at what some of these guys are earning. My betas are all making between $10,000 to $70,000 a day using the world's first ever instant-profit auto trading software.
The Landscape
The Landscape
The Landscape
ICO Fraud Recovery

- Law enforcement faces challenges investigating ICOs:
  - Tracing money.
  - International scope.
  - No central authority.
  - Freezing or securing assets.
Enforcement Actions

- Trading suspensions in 2017 – capitalizing on cryptocurrency interest
  - *REcoin and DRC World* (September 2017) – fraudulent ICO
  - *PlexCorps* (December 2017) – ICO scam
  - *Munchee* (December 2017) – unregistered offering
  - *Bitfunder* (February 2018) – unregistered exchange and fraud
Questions to Ask

- Where is my money going and what will it be used for? Is my money going to be used to “cash out” others?

- Who is issuing and sponsoring the product, what are their backgrounds?

- Do they have a clear written business plan that I understand?
Questions to Ask

- How, when, and at what cost can I sell my investment? For example, do I have a right to give the token or coin back to the company or to receive a refund?

- Has the offering been structured to comply with the securities laws?
Questions to Ask

- What legal protections may or may not be available in the event of fraud, a hack, malware, or a downturn in business prospects?

- Who will be responsible for refunding my investment if something goes wrong?
Educational Resources

- Investor.gov Spotlight

- Investor Alert: Ponzi Schemes Using Virtual Currencies (July 2013)

- Investor Bulletin: Bitcoin and Other Virtual Currency-related Investments (May 2014)


- Investor Alert: Celebrity Endorsements (November 2017)

- Director’s Take – Thinking About Buying the Latest New Cryptocurrency or Token? (February 2018)
Let’s Stay in Touch...

Office of Investor Education and Advocacy
U.S. Securities and Exchange Commission
100 F Street NE, Washington, DC 20549-0213

Investor Assistance: 800-732-0330 | help@sec.gov

Investor.gov

www.facebook.com/SECInvestorEducation

@SEC_Investor_Ed

Outreach@SEC.gov
Virtual Currency Tips to Share

- There may be no recourse if your virtual currency is stolen.
- Virtual currencies are commonly targeted by hackers and fraudsters.
- Do not invest in products you do not understand.
- There is no such thing as a guaranteed investment or trading strategy.
- Some ICOs can be used to improperly entice investors with promises of high returns.
- If someone says they are a broker or advisor, check their registration status.
Virtual Currency Resources

Visit CFTC.gov/Bitcoin to access:

- Customer Advisories alerting investors about:
  - Risks of virtual currency trading
  - “IRS-approved” virtual currency IRAs
  - Virtual currency pump-and-dump schemes
  - Buying digital coins or tokens

- CFTC Talks Podcasts on Virtual Currencies and more at CFTC.gov/Media/Podcasts

- Fact Sheet on the CFTC’s role in regulating virtual currencies
Visit [CFTC.gov/Bitcoin](https://CFTC.gov/Bitcoin) to access:

- Bitcoin and Virtual Currency brochures
- Order free copies at [https://orders.gpo.gov/cftcpubs.aspx](https://orders.gpo.gov/cftcpubs.aspx)
Contact Information

U.S. Commodity Futures Trading Commission

Online: CFTC.gov
Twitter: @CFTC
Facebook: @CFTCgov
Email: Consumers@cftc.gov
Submit a tip: (866) 366-2382
Whistleblower Office: Whistleblower.gov
Virtual Currency: www.CFTC.gov/Bitcoin

Meredith Regine Scialabba
mregine@cftc.gov | 202-418-5191