

[Banking and Finance Law Daily Wrap Up, UNFAIR DECEPTIVE ABUSIVE ACTS OR PRACTICES—FTC pursues cryptocurrency ‘chain referral schemes,’ creates blockchain working group, \(Mar. 16, 2018\)](#)

Banking and Finance Law Daily Wrap Up

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By Jeffrey May, J.D.

The founder and associated promoters of alleged get-rich-quick schemes, known as "Bitcoin Funding Team" and "My7Network," are the targets of the FTC's first "chain referral scheme" case involving cryptocurrency, the agency [announced](#) today. The agency used the announcement of the enforcement action as an opportunity to make public details of the FTC's new internal blockchain working group, which will coordinate on future enforcement actions in this area (*FTC v. Dluca*, FTC File No. 172 3107).

Chain referral scheme. According to the FTC's [complaint](#), the defendants promoted their programs as a means for consumers to generate income and accumulate wealth by purchasing and donating bitcoin currency to earlier "upline" participants and by recruiting others to do the same. The defendants purportedly promised big rewards for a small payment of bitcoin or Litecoin. These allegations suggest that the programs essentially amounted to pyramid schemes. Bitcoin Funding Team and My7Network participants could only generate revenue by recruiting new participants and convincing them to also pay cryptocurrency, it was alleged.

One of the four defendants named in the complaint also was charged with promoting another deceptive cryptocurrency scheme, Jetcoin. Jetcoin allegedly promised investors a fixed rate of return on their initial bitcoin investments as a result of bitcoin trading. In a series of promotional calls, it was claimed that Jetcoin participants could double their investment in 50 days. Jetcoin ceased operation within two months of launching, according to the agency.

A federal district court in Miami [granted](#) a temporary restraining order. A magistrate judge had [determined](#) that the FTC showed a likelihood that it would ultimately succeed on the merits of its FTC Act claim. In granting the requested relief, the magistrate judge noted a sense of urgency in the case because of the heightened risk of asset dissipation due to the use of cryptocurrency in the programs promoted by the defendants.

Working group. In an agency [blog post](#), FTC Acting Chief Technologist Neil Chilson noted that cryptocurrencies, such as bitcoin, ether, and Litecoin, are a hot topic and that it is not a surprise that fraudsters use cryptocurrencies in their scams. He explained that cryptocurrencies enable one individual to electronically and verifiably transfer units of the cryptocurrency to another without requiring validation by a trusted third party such as a bank. They achieve their independence from third parties through sophisticated software techniques, such as encryption and blockchains.

Pointing to the benefits and challenges raised by cryptocurrencies, Chilson discussed the creation of an internal FTC Blockchain Working Group. The working group has three primary goals: (1) building on FTC staff expertise in cryptocurrency and blockchain technology through resource sharing and by hosting outside experts; (2) facilitating internal communication and external coordination on enforcement actions and other related projects; and (3) serving as an internal forum for brainstorming potential impacts on the FTC's dual missions and how to address those impacts.

"We believe this working group is an important step to ensure the FTC can continue its missions to protect consumers and promote competition in light of cryptocurrency and blockchain developments," Chilson concluded.

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