

[Securities Regulation Daily Wrap Up, ENFORCEMENT—CFTC pursues its first action against alleged Bitcoin Ponzi operator, \(Sept. 21, 2017\)](#)

Securities Regulation Daily Wrap Up

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By [Brad Rosen, J.D.](#)

The CFTC has filed a civil enforcement action in the U.S. District Court in the Southern District of New York against defendants Nicholas Gelfman of Brooklyn, New York, and his company, Gelfman Blueprint, Inc. (GBI), a New York corporation. The complaint charges them with fraud, misappropriation, and issuing false account statements in connection with soliciting investments in the cryptocurrency Bitcoin ([CFTC v. Gelfman](#), September 21, 2017).

The [CFTC alleges](#) that from approximately January 2014 through approximately January 2016, Gelfman and GBI, a company where Gelfman served as chief executive officer and head trader, operated a Bitcoin Ponzi scheme in which they fraudulently solicited more than \$600,000 from approximately 80 persons. Virtually all of the fraudulently solicited funds were misappropriated by the defendants.

The commission claims that the defendants induced customers to invest in a pooled commodity fund that purported to employ a high-frequency, algorithmic trading strategy, executed by a computer trading program called "Jigsaw." The CFTC charges, in reality, the strategy was fake, the purported performance reports provided to investors were false, and, as is the case in all Ponzi schemes, payouts of supposed profits to GBI customers in actuality consisted of other customers' misappropriated funds.

Misrepresentations. The CFTC's complaint specifically alleges that the defendants made the following misrepresentations in their solicitation materials, asset and performance reports, and other collateral:

1. (1) that GBI Customers averaged a 7-9% *monthly* increase in their Bitcoin balances net of all fees through Defendants' risk-protected strategy, when in fact they did not;
2. (2) provided individualized performance and balance reports showing that GBI Customers owned specific amounts of Bitcoin, when in fact those customers did not; and
3. (3) that GBI's assets and performance were audited by a certified public accountant ("CPA"), when in fact they were not.

The CFTC also asserts that Gelfman staged a fake computer "hack" designed to further conceal trading losses and misappropriation.

Director's comments. The CFTC's Director of Enforcement, James McDonald, commented, "[a]s alleged, the Defendants here preyed on customers interested in virtual currency, promising them the opportunity to invest in Bitcoin when in reality they only bought into the Defendants' Ponzi scheme. We will continue to work hard to identify and remove bad actors from these markets." He also noted, "the CFTC has demonstrated its continued commitment to facilitating market-enhancing FinTech innovation. Part of that commitment includes acting aggressively and assertively to root out fraud and bad actors in these areas."

Relief sought. In its continuing litigation, the CFTC seeks, among other relief, restitution to defrauded pool participants, disgorgement of benefits from violations of the Commodity Exchange Act and CFTC Regulations, civil monetary penalties, trading bans, and a permanent injunction against future violations of federal commodities laws, as charged. While separate criminal charges have not been instituted against the defendants, in its release the CFTC expressed its appreciation for the cooperation and assistance it received from the New York County District Attorney's Office in this matter.

The case is [No. 17-7181](#).

LitigationEnforcement: CFTCNews Enforcement FraudManipulation NewYorkNews