

[Securities Regulation Daily Wrap Up, TOP STORY—Texas halts British cryptocurrency offering; state regulators urge caution, \(Jan. 5, 2018\)](#)

Securities Regulation Daily Wrap Up

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The Texas Securities Commissioner has ordered an English company to cease marketing a purported \$4 billion cryptocurrency program to Texas residents. Commissioner Travis J. Iles issued an emergency cease-and-desist order against BitConnect, [alleging](#) that the London-based entity was fraudulently offering unregistered securities in violation of the Texas Securities Act. The order was issued on the same day that NASAA again warned investors that the unproven track record and price volatility of cryptocurrencies makes them high-risk investment products that are susceptible to fraud ([In the Matter of BitConnect](#), January 4, 2018).

[BitConnect's website](#) describes the firm as an "open source all in one bitcoin and crypto community platform designed to provide multiple investment opportunities." The company claims that it has introduced 9.4 million "BitConnect Coins" into the marketplace, with a total market capitalization of \$4.1 billion. One of BitConnect's investment opportunities, the "BitConnect Lending Program," allegedly represents that investors may earn returns of up to 40 percent interest per month. Under the program, investors purchase BitConnect coins using Bitcoin, a more established cryptocurrency, and then "lend" their funds out for investment by a "BitConnect Trading Bot."

The Commissioner alleges that BitConnect has touted its unregistered investment programs as a "safe way to earn a high rate of return," despite offering no offering information concerning the algorithms used by the Trading Bot or how the programs will generate returns for investors. The order also alleges that BitConnect has intentionally failed to disclose the identity of its principals, the physical address of its place of business, or its financial condition. BitConnect has 31 days from the issuance of the order to contest the charges.

NASAA warning. Separately, NASAA cautioned investors who may be tempted by the recent wild price fluctuations and speculation in Bitcoin and other cryptocurrency-related investments. "Investors should go beyond the headlines and hype to understand the risks associated with investments in cryptocurrencies, as well as cryptocurrency futures contracts and other financial products where these virtual currencies are linked in some way to the underlying investment," said NASAA President Joe Borg in a [news release](#). NASAA had previously issued an [investor advisory](#) about the risks involving virtual currencies in April 2014.

SEC Chairman Jay Clayton and Commissioners Kara M. Stein and Michael S. Piwowar commended NASAA for its release, noting that many promoters of initial coin offerings (ICOs) and other cryptocurrency-related investments are not following federal or state securities laws. "The SEC and state securities regulators are pursuing violations, but we again caution you that, if you lose money, there is a substantial risk that our efforts will not result in a recovery of your investment," advised the commissioners in a [statement](#) published on the SEC's website.

Massachusetts Secretary of the Commonwealth William F. Galvin had gone even further in mid-December, claiming that "Bitcoin is just the latest in a history of speculative bubbles that most often burst, leaving the average investors with a worthless product." Galvin, who oversees the Massachusetts Securities Division, issued his [warning about "Bitcoin Mania"](#) just three days after the Chicago Board Options Exchange (CBOE) began trading Bitcoin futures on December 10, 2017. "Going back to the 1600s with tulip mania to the present Bitcoin craze, chasing the next best thing will, more often than not, end in disaster for the average investor," Galvin said.

The order is [No. ENF-18-CDO-1754](#).

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