

[Securities Regulation Daily Wrap Up, ENFORCEMENT—E.D.N.Y.: Diamonds are forever? SEC alleges fraud in diamond-backed cryptocurrency offerings, \(Oct. 3, 2017\)](#)

Securities Regulation Daily Wrap Up

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By [Rodney F. Tonkovic, J.D.](#)

The SEC has charged a business man and his two companies with fraud in initial coin offerings. According to the Commission, the offerings were for digital "tokens" or "coins" that did not really exist. And, investors in the two companies were told that the coins were backed by purchases of real estate and diamonds, no such investments were ever made. The Commission seeks permanent injunctions and disgorgement plus interest and penalties ([SEC v. REcoin Group Foundation, LLC](#), September 29, 2017, Dearie, R.).

ICO scam. According to the complaint, Maksim Zaslavskiy and his companies, REcoin Group Foundation and DRC World, engaged in illegal unregistered securities offerings and ongoing designed to deceive investors in connection with the sale of securities in so-called "Initial Coin Offerings" (ICOs). In return for investing in the ICOs, investors would receive "tokens" backed by investments in real estate (REcoin) or diamonds (DRC World). Returns would be generated by the investments' appreciation in value and the increase in the value of the tokens as the companies' businesses grew and as the demand for the tokens increased.

The investors, however, were never assigned any tokens, because they never existed. Further, the ICOs did not raise anywhere near the millions claimed, and neither company acted to facilitate their investments. Ultimately, the defendants could not pay any returns because neither of the companies made any real estate or diamond purchases and never had any real business operations. The defendants nevertheless continued to solicit investors and raise funds.

Assets on ice. The Commission has obtained an emergency court order to freeze Zaslavskiy's assets and those of his companies. The defendants are charged with violations of the antifraud and registration provisions of the securities laws, and the complaint seeks permanent injunctions, disgorgement, and civil penalties. The complaint also requests that Zaslavskiy be barred from serving as an officer or director and from participating in any offering of digital securities.

Be wary of ICO scams. Andrew M. Calamari, Director of the SEC's New York Regional Office, [said](#) that "Zaslavskiy lured investors with false promises of sizeable returns from novel technology." He also noted that "Investors should be wary of companies touting ICOs as a way to generate outsized returns." In August 2017, the Commission's Office of Investor Education and Advocacy issued an [Investor Alert](#) warning about potential scams related to the stock of companies claiming to be involved with ICOs. The alert warned that fraudulent actors often use the lure of new and emerging technologies to convince potential victims to invest in scams.

The case is [No. 1:17-cv-05725](#).

Companies: DRC World; REcoin Group Foundation

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