

Texas cracks down on cryptocurrency fraud: 2020 developments

By Brooke Goodlett

Texas continues to be a leader in the United States when it comes to cracking down on fraudulent cryptocurrency offerings, and the novel COVID-19 virus has not curtailed these efforts. In 2017, the Texas State Securities Board (the TSSB) became the [first state securities regulator to issue a cease-and-desist order against a promoter of a cryptocurrency investment scheme](#). The TSSB has since issued 26 administrative orders involving 79 individuals and entities for illegally, fraudulently or deceptively offering cryptocurrency investments to Texas investors. The circumstances underlying these enforcement actions have numerous commonalities – promises of high returns, irreplaceable losses, commissions for recruiting new investors and the omission of pertinent information.

The TSSB has not slowed down as scammers capitalize on COVID-19 fears. The TSSB's April 8, 2020 enforcement action against Ultra BITC Mining LLC demonstrates one way in which COVID-19 concerns have been exploited to lure investors into a cryptocurrency investment scam. Here, the [TSSB joined forces with the Alabama Securities Commission against Ultra](#), a company claiming to be a cryptocurrency cloud mining provider that raised \$18 million from Texas residents.

According to the cease-and-desist order, Ultra was offering investments in hash power while guaranteeing profitability and operating affiliate and partner programs responsible for recruiting new investors. Ultra was promising that investors could make nearly \$10,500 per year for a \$10,000 investment, \$21,000 per year for a \$20,000 investment and \$52,000 per year for a \$50,000 investment. As a part of its sales pitch, Ultra marketed its efforts to “fight COVID-19,” its \$100,000 donation to UNICEF and its commitment to continue to make donations for COVID-19 relief. However, Ultra refused to provide evidence verifying historical donations or its financial ability to donate. Registration violations, fraud, failure to disclose information relating to its operations, and misleading and deceptive statements were bases for the issuance of the order.

The TSSB has also continued to crack down on more traditional cryptocurrency scams. On June 5, the [TSSB entered an enforcement action against Coinvaultpro](#), accusing it of disguising a fraudulent offering as a legitimate investment. Later that summer, the [TSSB issued two emergency cease-and-desist orders against LoudMines, Swiftminex and individuals associated with these two firms](#), who operated out of the same Houston, Texas address. The firms claimed to offer profitable investment opportunities with “no risk of losing money” that trade bitcoin on international cryptocurrency trading platforms and advertised daily potential profits ranging from 35 percent to over 600 percent. The TSSB claimed that, in addition to making false statements about their business and offering securities without registering under Section 12 of the Texas State Securities Act, the firms made materially misleading or otherwise potentially deceptive statements by failing to disclose risks related to cryptocurrency investments.

In another enforcement action, the TSSB issued an emergency cease-and-desist order against Devon Tyler Shigaki, a Washington resident with a criminal history going back over a decade, and his company, TradeMining, Inc., [alleging they offered unregistered securities](#) and made false or misleading statements in connection with a cryptocurrency trading platform that allegedly generated daily gains of up to 3,700 percent.

As the world slowly adjusts to a new normal, the threat of fraudulent cryptocurrency investment schemes will not dissipate. While early reports showed that from January 2020 through March 2020 cryptocurrency scammers were taking in less



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money, the number of transfers to cryptocurrency scams remained consistent and, [according to Chainalysis Insights](#), “the loss of value [was] caused almost entirely by cryptocurrency price drops.” Further, as handling physical forms of money is seen as a risk in the new normal, traditional investment scammers may have more of an incentive to turn to cryptocurrency.

While we cannot know what the details of the next fraudulent cryptocurrency offering will look like or how scam promoters might use COVID-19 to their benefit, Texas investors can rely on the TSSB to continue leading the effort against these schemes, working hand in hand with [the newly created COVID-19 Enforcement Task Force](#) led by the North American Securities Administrators Association.

If you have any questions regarding these developments, please contact the authors or your DLA Piper relationship attorney.

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