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## Texas State Securities Board

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IN THE MATTER OF  
BITCONNECT

§  
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Order No. ENF-18-CDO-1754

TO: BitConnect

The Panorama Park Street, Ashford, England TN24 8EZ, and  
c/o Companies Made Simple LTD, 20-22 Wenlock Road, London, England N17GU

### EMERGENCY CEASE AND DESIST ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("Securities Commissioner") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, TEX. REV. CIV. STAT. ANN. arts. 581-1 to 581-45 (West 2010 & Supp. 2017) (the "Texas Securities Act").

The Staff of the Enforcement Division of the Texas State Securities Board has presented evidence sufficient for the Securities Commissioner to find that:

#### FINDINGS OF FACT

1. BitConnect (hereinafter referred to as "Respondent BitConnect") maintains a last known address at The Panorama Park Street, Ashford, England TN24 8EZ. It may also be served through Companies Made Simple LTD at 20-22 Wenlock Road, London, England N17GU.
2. Respondent BitConnect maintains a website accessible at <http://bitconnect.co> (hereinafter referred to as the "BC Website") and a website accessible at <http://bitconnectcoin.co> (hereinafter referred to as the "BCC Website"). The BC Website and the BCC Website (hereinafter collectively referred to as the "BitConnect Websites") are accessible to the general public, including residents of Texas.
3. The BC Website describes BitConnect as an open source, all-in-one Bitcoin and crypto-community platform designed to provide multiple investment opportunities.
4. The BC Website describes BitConnect Coins as an open source, peer-to-peer, community-driven decentralized cryptocurrency that reportedly allows owners to store and invest their wealth.

5. The BitConnect Websites represent, as of 11:15 am on January 3, 2018, more than 9.4 million out of a maximum of 28 million BitConnect Coins have been introduced into the market. They also represent, as of the same time and date, the current price of a BitConnect Coin is approximately \$436 per token, and the market capitalization of all BitConnect Coins is currently valued at more than \$4.1 billion.

#### THE BITCONNECT LENDING PROGRAM

6. Respondent BitConnect is using sales agents, referred to as affiliates, to direct Texas residents to the BC Website for the purpose of investing in the BitConnect Lending Program.
7. The BC Website offers potential investors the opportunity to earn lucrative profits by investing in the BitConnect Lending Program. It represents investors may earn up to 40% interest per month over a specified term and an additional rate of interest calculated on a daily basis.
8. Respondent BitConnect is touting the security of the BitConnect Lending Program. It describes the BitConnect Lending Program as a "safe way to earn a high rate of return on... investment[s] without having to undergo a significant amount of risk."

#### PURCHASING INVESTMENTS IN THE BITCONNECT LENDING PROGRAM

9. Potential investors access and use the BC Website to purchase an investment in the BitConnect Lending Program.
10. Potential investors must first use Bitcoin to purchase BitConnect Coins. They may use Bitcoin to purchase BitConnect Coins from other owners through an exchange integrated in the BC Website referred to as the BCC Exchange.
11. After purchasing BitConnect Coins, potential investors access a dashboard integrated in the BC Website. Potential investors use this integrated dashboard to "lend" their BitConnect Coins.
12. The BC Website represents investors' "funds" are thereafter provided to a BitConnect Trading Bot. The BitConnect Trading Bot uses these "funds" to generate a profit.

#### THE RATE OF RETURN ON INVESTMENTS IN THE BITCONNECT LENDING PROGRAM

13. Respondent BitConnect is promising the payment of interest on investments in the BitConnect Lending Program. The interest rate is purportedly calculated by BitConnect's proprietary "volatility software" and is accrued on a daily basis.

14. The BC Website represents investors are entitled to the following interest rates:
  - a. Investors lending an amount priced at between \$100 and \$1,000 receive interest accrued daily valued at "volatility software interest," which may be as much as 40% per month, payable after 299 days,
  - b. Investors lending an amount priced at between \$1,010 and \$5,000 receive interest accrued daily valued at "volatility software interest," which may be as much as 40% per month, plus 0.10% daily interest, payable after 239 days,
  - c. Investors lending an amount priced at between \$5,010 and \$10,000 receive interest accrued daily valued at "volatility software interest," which may be as much as 40% per month, plus 0.20% daily interest, payable after 179 days, and
  - d. Investors lending an amount priced at between \$10,010 and \$100,000 receive interest accrued daily valued at "volatility software interest," which may be as much as 40% per month, plus 0.25% daily interest, payable after 120 days.
15. At the conclusion of the term, investors access the BC Website to receive returns from the BitConnect Lending Program or reinvest the profits in the BitConnect Lending Program.

**THE USE OF SALES AGENTS  
TO OFFER INVESTMENTS IN THE BITCONNECT LENDING PROGRAM**

16. Respondent BitConnect is recruiting investors to offer investments in the BitConnect Lending Program. It refers to these sales agents as affiliates.
17. Respondent BitConnect is encouraging affiliates to promote Respondent BitConnect through social media, blogs, websites and newsletters.
18. Respondent BitConnect is providing affiliates with marketing material, including online presentations that describe BitConnect Coins and the BitConnect Lending Program. Respondent BitConnect is also providing affiliates with online advertisements, often referred to as "banners," that can be incorporated into webpages and used to solicit investments in the BitConnect Staking Program and the BitConnect Lending Program.
19. Affiliates also use unique hyperlinks referred to as "referral links" to offer investments in the BitConnect Lending Program.
20. Potential investors use the referral link to access the BC Website and purchase an investment in the BitConnect Lending Program. The referral link ensures the affiliate is automatically credited with the sale.

21. Respondent BitConnect is paying commissions to affiliates who use referral links to offer and sell investments in the BitConnect Lending Program. The value of the commission is based on the affiliate's placement in a multi-level matrix of other affiliates, can range from two percent to five percent, and is paid in Bitcoin.
22. Affiliates are using online solicitations containing referral links to offer investments in the BitConnect Lending Program to Texas residents.

#### THE BITCONNECT STAKING PROGRAM

23. The BitConnect Websites also offer potential investors in Texas the opportunity to safely earn interest of up to 120% by investing in the BitConnect Staking Program.
24. The BCC Website represents as follows:
  - a. BitConnect Coin is "the investment tool [investors] need to jump start [their] financial security,"
  - b. Investors can "[s]ecure [their] future by gaining quick profit growth for tomorrow that is practical and attainable,"
  - c. The investment ensures "financial freedom is available and [investors] can start today. Store and invest... wealth and earn substantial interest and investment," and
  - d. Investors who purchase BitConnect Coin are purchasing "an interest-bearing asset with 120% return per year. It is that simple."
25. The BC Website also touts profitability. It claims investors can "begin staking or holding BitConnect Coin and watch [their] interest grow," and "the more [investors] hold, the more [they] earn."
26. The BC Website indicates the amount of interest paid to investors is contingent upon the dates of their investment. It represents as follows:
  - a. Interest is paid at a rate of 60% for the period of January 2017, through June 2017, which is equivalent to 10% interest per month,
  - b. Interest is paid at a rate of 50% for the period of July 2017, through December 2017, which is equivalent to 8% interest per month,
  - c. Interest is paid at a rate of 40% for the period of January 2018, through June 2018, which is equivalent to 7% interest per month,
  - d. Interest is paid at a rate of 30% for the period of July 2018, through December 2018, which is equivalent to 5% interest per month,
  - e. Interest is paid at a rate of 20% for the period of January 2019, through June 2019, which is equivalent to 3% interest per month, and

- f. Interest is paid at a rate of 10% for the period of July 2019, through December 2019, which is equivalent to 1.4% interest per month.
27. The BC Website indicates the interest is earned through Proof of Stake minting. The BC Website explains that Proof of Stake minting is the process in which rewards are distributed to those helping maintain the security of the network via proof of holding.

#### PURCHASING INVESTMENTS IN THE BITCONNECT STAKING PROGRAM

28. Potential investors access the BCC Website to purchase an investment in the BitConnect Staking Program.
29. Potential investors must first use Bitcoin to purchase BitConnect Coins. They may purchase BitConnect Coins from other owners through the BCC Exchange.
30. Potential investors must also download the BitConnect-QT wallet. The BCC Website contains a link investors can use to download the file.
31. Potential investors then transfer their BitConnect Coins to the BitConnect-QT wallet and hold the BitConnect Coins in the BitConnect-QT wallet for more than fifteen days. Their earnings are based on the number of coins, or "stake," they hold in the wallet.
32. Investors may terminate their investment at any time and receive a return of their BitConnect Coins. They will also receive the interest they earned through staking.

#### THE INITIAL COIN OFFERING OF BITCONNECTX

33. Respondent BitConnect is about to offer the opportunity to purchase tokens, known as bitconnectx, in an initial coin offering, often referred to as an ICO.
34. Respondent BitConnect maintains a webpage dedicated to the initial coin offering of bitconnectx. The webpage is accessible at <http://bitconnectx.co>.
35. The webpage indicates the initial coin offering will begin on or around January 10, 2018.

#### REGISTRATION VIOLATIONS

36. Investments in the BitConnect Lending Program and Staking Program have not been registered by qualification, notification or coordination, and no permit has been granted for their sale in Texas.
37. Respondent BitConnect has not been registered with the Securities Commissioner as a dealer or agent at any time material hereto.

38. Respondent BitConnect is recruiting affiliates to offer investments in the BitConnect Lending Program in Texas who are not registered with the Securities Commissioner as dealers or agents.

**FRAUD IN CONNECTION WITH THE OFFER OF  
INVESTMENTS IN THE BITCONNECT STAKING AND LENDING PROGRAMS**

39. In connection with the offer of investments in the BitConnect Staking Program and the BitConnect Lending Program, Respondent BitConnect is intentionally failing to disclose the following material facts:
- a. The identity of its principals,
  - b. Its physical address and its principal place of business,
  - c. Its assets and liabilities, or financial information about the business, and,
  - d. The persons or entities that developed BitConnect Coins, including the number of BitConnect Coins owned by these persons or entities, and the number of BitConnect Coins owned by the principals of Respondent BitConnect.

**FRAUD IN CONNECTION WITH THE OFFER OF  
INVESTMENTS IN THE BITCONNECT LENDING PROGRAM**

40. In connection with the offer of investments in the BitConnect Lending Program, Respondent BitConnect is intentionally failing to disclose the identity and qualifications of the persons that developed and control the BitConnect Trading Bot, and volatility software and the intentional failure to disclose this information constitutes the intentional failure to disclose material facts.
41. Respondent BitConnect is representing the BitConnect Lending Program is "a safe way to earn a high rate of return on your investment without having to undergo a significant amount of risk," which is a misrepresentation of a relevant fact because Respondent BitConnect acknowledges significant risks associated with virtual currencies, as well as the BitConnect Lending Program, including but not limited to the following:
- a. "Legislative and regulatory changes or actions at the state, federal, or international level may adversely affect the use, transfer, exchange and value of Bitcoin,"
  - b. "Transactions in virtual currency such as Bitcoin are irreversible, and accidental transactions may not be recoverable,"
  - c. "The volatility and unpredictability of the price of virtual currency relative to the fiat currency may result in significant loss over a short periods [sic] of time,"

- d. "Any technological difficulties experienced by the BitConnect system may prevent the access or use of members virtual currency temporarily or permanently, depending on the severity of damage,"
- e. "There are risks associated with trading and investing. If there should be a system failure, hacking incident or technical failure these terms apply to the members,"
- f. "Members should note that there is no guarantee of daily profit for lending,"
- g. "BitConnect reserves the right to institute and implement new rules of paying interest and capital should BitConnect lending fail in any way,"
- h. "BitConnect reserves the right to change the lending algorithm, the interest payment and capital back system," and
- i. "There is no guarantee of investor's capital if the lending system fails due to any of the reasons mentioned above."

**FRAUD IN CONNECTION WITH THE OFFER OF INVESTMENTS IN THE BITCONNECT STAKING PROGRAM**

42. In connection with the offer of investments in the BitConnect Staking Program, Respondent BitConnect is intentionally failing to disclose financial information about the obligation to pay investors who stake BitConnect Coins in the BitConnect-QT wallet, including, but not limited to, the source of funds that will be used to pay investors interest at a rate of up to 120% per year. The intentional failure to disclose this information constitutes the intentional failure to disclose material facts.

**MATERIALLY MISLEADING AND DECEPTIVE STATEMENTS**

43. Respondent BitConnect is representing the BitConnect Staking Program and the BitConnect Lending Program are safe and lucrative investments, which is materially misleading or otherwise likely to deceive the public because Respondent BitConnect is not disclosing risks associated with investors purchasing and owning BitConnect Coins, and these risks include but are not limited to the following:
- a. BitConnect Coins are in competition with other virtual currencies and this competition may negatively impact the price of BitConnect Coins, and
  - b. Merchants, vendors and other parties may decline to accept virtual currencies such as BitConnect Coins, thereby negatively impacting the price of BitConnect Coins.
44. Respondent BitConnect is representing that investors may earn lucrative returns by using bitcoins to purchase BitConnect Coins and using the BitConnect Coins to invest in the BitConnect Staking Program and the BitConnect Lending Program,

and these representations are materially misleading or otherwise likely to deceive the public because BitConnect is not disclosing any information about the payment of taxes on any gains or losses resulting from their investments or on the sale of BitConnect Coins.

45. Respondent BitConnect is representing that "materials appearing on the [BC Website] may sometimes include technical, typographical, or photographic errors" and that "[t]he system does not warrant any of the materials on its website as accurate, complete or current," which is materially misleading or otherwise likely to deceive the public because investors are relying on the BC Website being accurate, complete and current as the BC Website relates to the offer for sale of investments in the BitConnect Staking Program and the BitConnect Lending Program.
46. Respondent BitConnect is representing that the BC Website does not constitute an offer to buy or sell securities, which is materially misleading or otherwise likely to deceive the public because BitConnect, through the BC Website is offering investments in the BitConnect Staking Program and the BitConnect Lending Program, and investments in the BitConnect Staking Program and the BitConnect Lending Program constitute securities.
47. Respondent BitConnect is representing that existing investors will be paid commissions for referring new investors, which is materially misleading or otherwise likely to deceive the public because persons who offer and sell securities in Texas, including investments in the BitConnect Lending Program, must be registered with the State Securities Board or otherwise exempt from registration.

#### CONCLUSIONS OF LAW

1. Investments in the BitConnect Staking Program and the BitConnect Lending Program are "securities" as that term is defined by Section 4.A of the Texas Securities Act.
2. Respondent BitConnect is violating Section 7 of the Texas Securities Act by offering securities for sale in Texas at a time when the securities are not registered with the Securities Commissioner.
3. Respondent BitConnect is violating Section 12 of the Texas Securities Act by offering securities for sale in Texas without being registered pursuant to the provisions of Section 12 of the Texas Securities Act.
4. Respondent BitConnect is engaging in fraud in connection with the offer for sale of securities.
5. Respondent BitConnect is making offers containing statements that are materially misleading or otherwise likely to deceive the public.



6. Respondent BitConnect's conduct, acts, and practices threaten immediate and irreparable public harm.
7. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Texas Securities Act.

### ORDER

1. It is therefore ORDERED that Respondent BitConnect immediately CEASE AND DESIST from offering for sale any security in Texas until the security is registered with the Securities Commissioner or is offered for sale pursuant to an exemption from registration under the Texas Securities Act.
2. It is further ORDERED that Respondent BitConnect immediately CEASE AND DESIST from acting as a securities dealer in Texas until Respondent BitConnect is registered with the Securities Commissioner or are acting pursuant to an exemption from registration under the Texas Securities Act.
3. It is further ORDERED that Respondent BitConnect immediately CEASE AND DESIST from engaging in any fraud in connection with the offer for sale of any security in Texas.
4. It is further ORDERED that Respondent BitConnect immediately CEASE AND DESIST from offering securities in Texas through an offer containing a statement that is materially misleading or otherwise likely to deceive the public.

### NOTICE

Pursuant to Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, and state the grounds for the request to set aside or modify the Order. Failure to request a hearing will result in the Order becoming final and non-appealable.

You are advised under Section 29.D of the Texas Securities Act that any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Texas Securities Act is a criminal offense punishable by a fine of not more than \$5,000, or imprisonment in the penitentiary for not more than two years, or by both such fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 4<sup>th</sup> day of January, 2018.



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TRAVIS J. ILES  
Securities Commissioner