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DOJ Charges Six Individuals with NFT Fraud

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On June 30, the DOJ charged six individuals in four separate cases for a fraudulent NFT trading scheme.

The first case alleged that an individual committed wire fraud and engaged in a conspiracy to commit international money laundering in connection with a high-profile NFT. The individual charged allegedly engaged in a "rug pull," by ending the NFT project, deleting its website, and retaining all of the investors' money. The DOJ also alleges that the individual laundered investors' funds through "chain-hopping," a form of money laundering in which one type of coin is converted to another type, and funds are moved across multiple blockchains and crypto mixers totaling $2.6 million from investors.

The second case charged three individuals with conspiracy to commit wire fraud and conspiracy to commit securities fraud in connection with a global cryptocurrency-based Ponzi scheme that generated approximately $100 million from investors. Two of the individuals were also charged with conspiracy to commit international money laundering. The DOJ alleges the individuals engaged in an unregistered securities offering, by making numerous misrepresentations regarding a purported proprietary trading bot and fraudulently guaranteeing returns to investors and prospective investors. The DOJ alleges that the individuals laundered investors' funds through a foreign-based cryptocurrency exchange and operated a Ponzi scheme by paying earlier investors with money obtained from later investors.

The third case involved the CEO of a cryptocurrency investment platform, who was charged with one count of securities fraud for his role in a cryptocurrency fraud scheme involving an initial coin offering, which raised approximately $21 million from investors in the U.S. and overseas. The CEO allegedly falsified the coin's whitepaper, planted fake testimonials on the website, and fabricated purported business relationships with the Federal Reserve Board and dozens of prominent companies.

The fourth case involved the owner of a cryptocurrency investment platform, who allegedly solicited investors to participate in an unregistered commodity pool, which is a fund that combines investors' contributions to trade on the futures and commodity markets. The owner allegedly represented to investors that he traded investors' funds to earn profits using a trading bot that could execute over 17,000 transactions per hour on various cryptocurrency exchanges and that his trading bot would generate between 500% to 600% returns on the amount invested. The DOJ alleges the owner fraudulently raised approximately $12 million from investors.

Putting It Into Practice: It is likely that crypto and NFT-related enforcement matters will continue to increase at a faster pace. It remains crucial for market participants to ensure they have the proper state and federal licenses and registrations required to offer their products. These enforcement actions should be viewed in light of the recent federal push to regulate blockchain and related technologies (we have discussed this push in previous blog posts here).

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