



# ENFORCEMENT REPORT

2024 EDITION

## INTRODUCTION: PROTECTING INVESTORS IN A DIGITAL AGE

The North American Securities Administrators Association (NASAA) is an international association of state, provincial, and territorial securities regulators in the United States, Canada, and Mexico. These regulators continue to serve as the first, and often the last, line of defense against white-collar crime and financial misconduct targeting the investing public. As we noted in the 2023 Enforcement Report, the pandemic era provided new context for familiar schemes, as bad actors increasingly turned to the internet and social media to market their investments, and securities offerings involving digital assets continued to become more common. These trends continued over the course of 2023.

This year's report reflects the responses of securities regulators in 49 U.S. states and territories covering the 2023 fiscal and calendar years, as well as summary data from securities regulators in the Canadian provinces. In 2023, they investigated 8,768 cases and initiated 1,186 enforcement actions, including 121 criminal actions, 102 civil actions, and 909 administrative actions. Members also secured \$208 million in restitution and more than \$124 million in fines, as well as approximately 5,531 months in prison sentences and 2,723 months of probation and deferred adjudication. Cumulatively, this data highlights the continued vigilance of NASAA's members as the local "cops on the beat." As we emphasized in the 2023 report, the types of activities for which NASAA members took action demonstrate that in a post-pandemic world, the principles underlying state securities laws remain relevant. Although frauds and other illegal offerings may be presented in new wrappers, existing regulatory tools and concepts continue to be effective in protecting investors and maintaining the integrity of our capital markets. In particular, the principles that the United States Supreme Court enunciated in *SEC v. W.J. Howey Co.* have withstood the test of time. *Howey* continues to provide a framework that is adaptable to the ever-evolving investment landscape and allows for oversight of the financial pursuits that form the basis of prosperity within our jurisdictions.

In addition to providing enforcement statistics, we will highlight several of the investment schemes common throughout NASAA membership, as well as key enforcement cases from the 2023 fiscal and calendar years. NASAA members pursued many investigations and enforcement actions involving digital assets, staking, and internet and social media fraud, while traditional equities, Ponzi and pyramid schemes, and promissory notes remained among the most commonly cited products and schemes. The data also show that state securities regulators remain proactive in investigating and filing enforcement actions to prevent or stop senior financial exploitation and punish those responsible.

On behalf of the Enforcement Section, thank you for taking an interest in this report. NASAA members are in a unique, and often unfortunate, position to witness conduct in our own "backyards," often impacting our friends, families, and neighbors. The challenges facing investors are many and evolving, and NASAA and its members will continue working to ensure that all investors are treated fairly.

Sincerely,

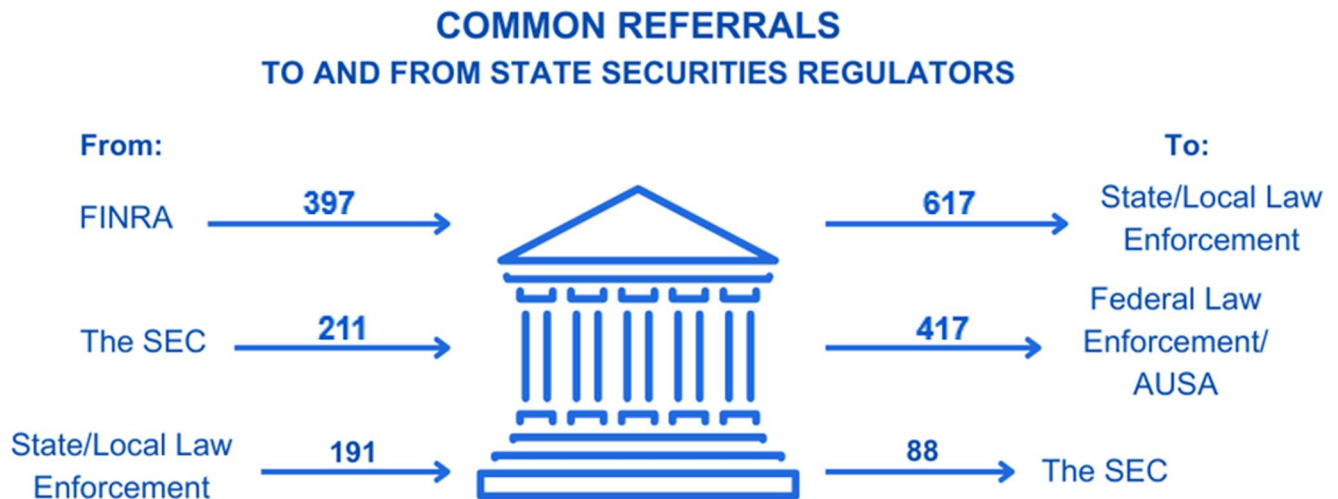
Amanda Senn  
Section Co-Chair  
Director,  
Alabama Securities Commission

Andrew Hartnett  
Section Co-Chair  
Deputy Commissioner,  
Iowa Insurance Division

Joe Rotunda  
Section Vice Chair  
Enforcement Director,  
Texas State Securities Board

## KEY DATA – INTAKE AND INVESTIGATIONS

State and provincial securities regulators aim to protect the investing public from financial harm. The majority of their work originates from complaints submitted by the public or from referrals made by other agencies. In 2023, state securities regulators reported receiving 7,914 tips and complaints, a significant increase from the numbers reported in 2022 and 2021. They also received 1,467 referrals from other agencies and institutions. The largest source of these referrals (608) came from the SEC or FINRA, an increase of more than 40% from last year. In addition, state and local law enforcement agencies made 191 referrals to state securities regulators.



In 2023, state securities regulators reported opening 5,155 new investigations of suspected securities law violations. Many cases, particularly those that are complex, are not concluded in the same year they are opened. In 2023, agencies continued to investigate an additional 3,613 ongoing cases they had opened in previous years. Accordingly, states reported an aggregate caseload of 8,768 active investigations in 2023.

## KEY DATA – ENFORCEMENT ACTIONS

Securities regulators routinely initiate enforcement actions to protect investors in their jurisdictions from all types of financial fraud and misconduct. They use their authority to pursue everything from the sale of unregistered securities and the provision of unlicensed investment advice to the sale of unsuitable products and flat-out fraud. Such fraud has become increasingly complex and often involves cryptocurrency, social media, and international bad actors. State securities regulators are on the front lines working to stop these unlawful schemes, to seek relief for investors, to impose monetary fines, and to obtain justice for victims.

State securities regulators reported initiating 1,186 enforcement actions against 2,660 parties, including 909 administrative actions against 2,322 respondents, 102 civil actions against 131 defendants, and 121 criminal cases against 145 defendants. The top three violations charged were the offer or sale of securities/investment advice by unlicensed parties (394 actions), the offer or sale of unregistered securities (386 actions), and securities fraud (374 actions).

## ENFORCEMENT ACTIONS

Administrative Cases

909



Respondents

2,322

Civil Cases

102



Civil Defendants

131

Criminal Cases

121



Criminal Defendants

145

## KEY DATA – PRODUCTS AND SCHEMES

State securities administrators do the important work of policing the markets to protect the investing public. The data collected in the enforcement surveys provides crucial information concerning threats to retail investors. This year, the information provided by the state securities administrators shows that investigations and enforcement actions are heavily focused on technology and digital assets. But schemes involving traditional products are not going away.

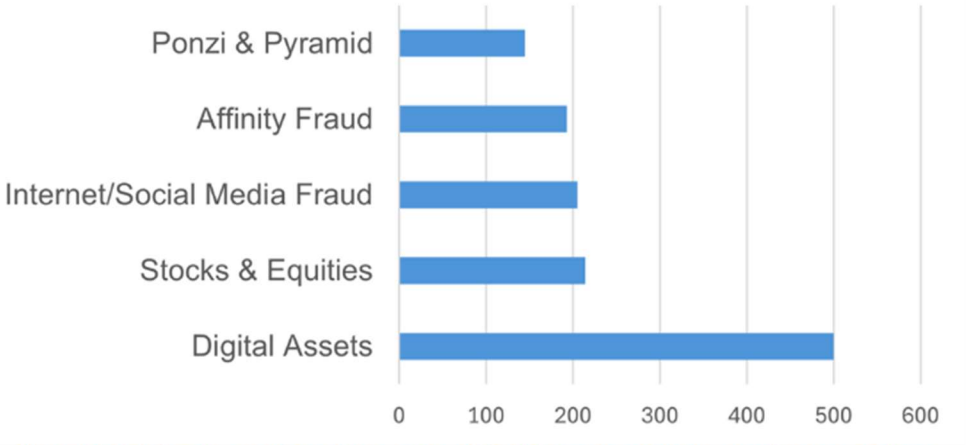
Of the reported new investigations opened in 2023, 343 cases involved digital assets other than staking and non-fungible tokens (“NFTs”), 144 involved staking, and 205<sup>1</sup> cases involved social media fraud. The number of reported investigations involving these products increased significantly from the numbers reported in 2022. As bad actors are increasing their use of social media, and digital assets are moving into the mainstream, states securities administrators are increasing their efforts to warn the public about these scams and are encouraging victims to report them.

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<sup>1</sup> This number is controlled for outliers.



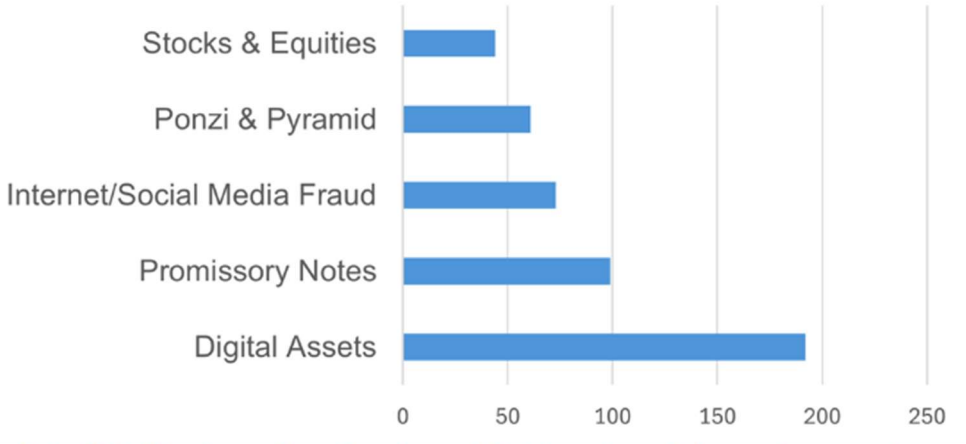
### Most Frequently Cited Products & Schemes - Investigations



Note: Digital Assets combines three types of digital assets products or schemes, and one investigation could involve more than one type. The total does not reflect the number of investigations that involve digital assets, but the number of times digital assets were cited as being involved in investigations.

State regulators also conducted many investigations into traditional securities products. State regulators reported 214 cases involving stocks and equities and 145 cases involving Ponzi and pyramid schemes during 2023. Affinity fraud remains common as regulators reported 193 investigations.

### Most Frequently Cited Products & Schemes - Enforcement Actions



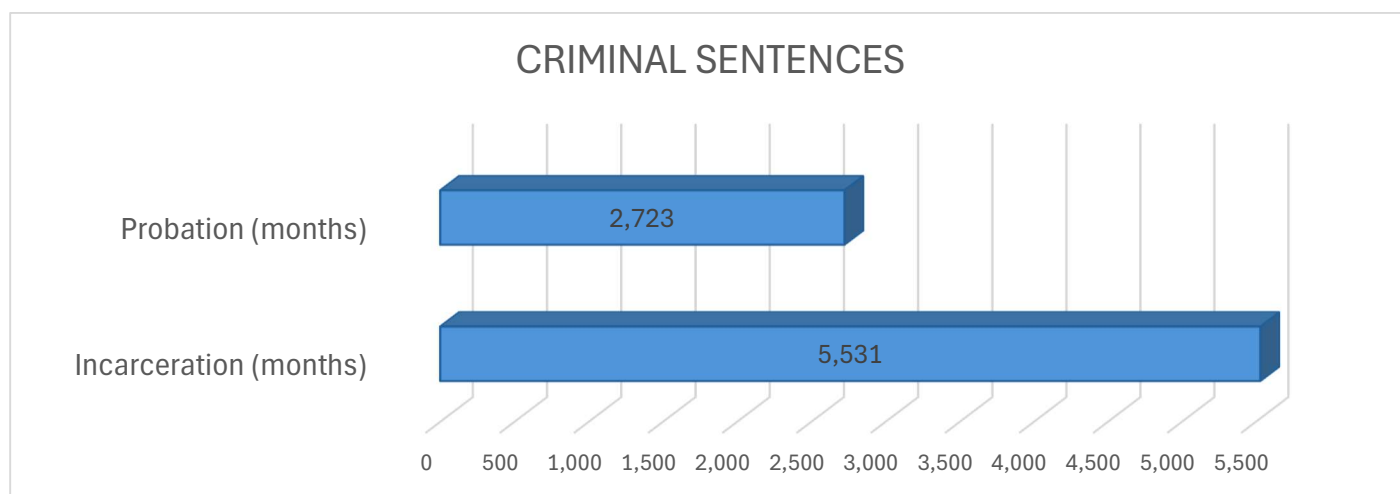
Note: Digital Assets combines three types of digital assets products or schemes, and one enforcement action could involve more than one type. The total does not reflect the number of enforcement actions that involve digital assets, but the number of times digital assets were cited as being involved in enforcement actions.

State enforcement actions were also heavily focused upon technology. In 2023, state regulators reported 37 enforcement actions involving digital asset staking and 155 enforcement actions involving other digital assets, both representing increases from 2022. Enforcement actions involving internet and social media fraud also increased to 73 actions from 65 in 2022. The increase in actions involving non-staking digital assets and internet and social media fraud appears to correlate with the reported increase of referrals, complaints, reports, and enforcement matters involving pig butchering and other similar scams. State regulators continued their work protecting retail investors in traditional products by bringing 99 cases involving promissory notes and 44 cases related to stocks and similar equities.

## KEY DATA – CRIMINAL PROSECUTIONS

In addition to administrative and civil investigations and actions, state securities regulators often prosecute securities law violations, either through inherent prosecutorial authority or appointments from district attorneys or attorneys general. They also work in parallel with local, state, and federal law enforcement agencies to investigate complex schemes, refer cases for criminal prosecution, and testify in criminal proceedings as fact and expert witnesses.

State securities regulators play a crucial role in the successful prosecution of securities offenses. Based on the reported data, in 2023, securities regulators helped convict white-collar criminals collectively sentenced or ordered to serve 5,531 months (approximately 461 years) in prison and 2,723 months (approximately 227 years) of probation and deferred adjudication. These actions show that securities regulators are committed to the pursuit of justice for victims of financial fraud.



As the case below highlights, criminal prosecutions involve a broad array of products and schemes and often target older investors and affinity groups.

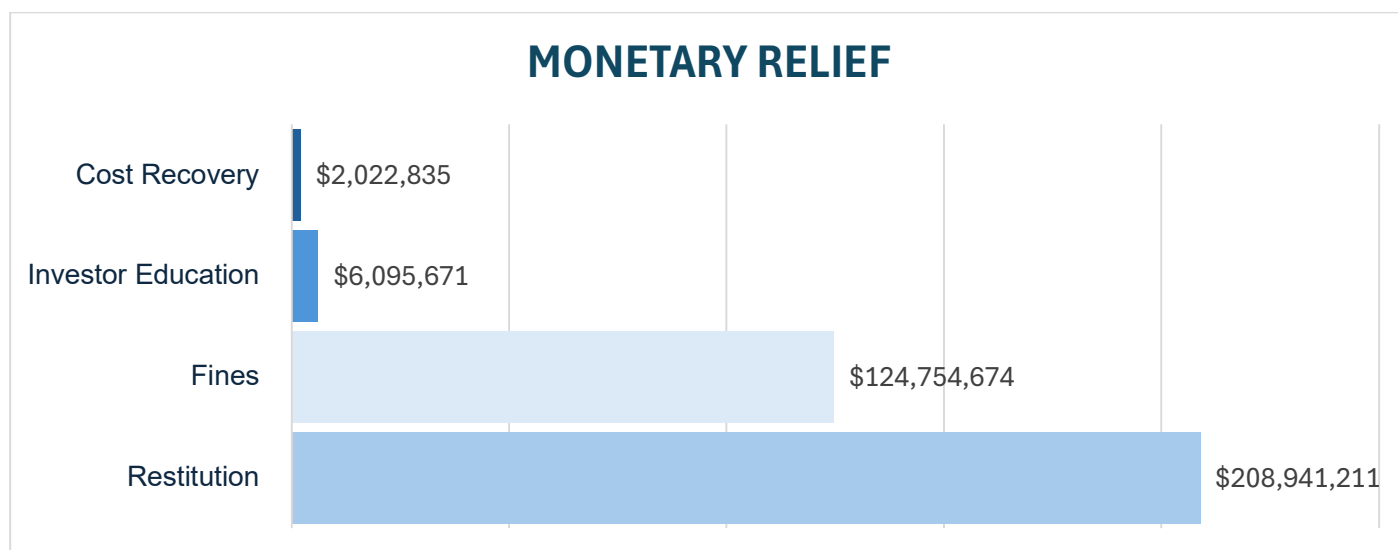
### FROM THE FILES: AFFINITY FRAUD

*An investigation conducted by the Indiana Secretary of State, Securities Division found that Earl Miller became the sole owner of “5 Star”, a real estate investment firm operating from Indiana, in July of 2014. Through 5 Star and its numerous related entities, Miller obtained funds from multiple investors by fraudulently telling them he would invest their funds in certain real estate investments. Instead, Miller used investor funds in other ways, such as paying interest to other*

investors, investing in non-disclosed entities, and paying for a spiritual advisor and a pontoon boat. From July of 2014 to January of 2016, Miller made over \$4.5 million worth of payments from 5 Star accounts to entities not disclosed or approved by investors. Approximately 80% of investors in 5 Star were Amish or Mennonite. Miller then filed bankruptcy petitions on behalf of his business entities to discharge his liability to investors and frustrate any recovery. He then failed to pay back investors as agreed in his bankruptcy plan. Miller went to trial and was convicted of 5 counts of wire fraud and 1 count of securities fraud. Miller was sentenced on November 11, 2023, to 97 months in prison, 1 year of supervised release, and was ordered to pay \$2,313,873.28 in restitution.

## KEY DATA – MONETARY RELIEF

Many victims of securities fraud have invested substantial financial sums in their perpetrators. State securities agencies often seek rescission and restitution on behalf of victims of misconduct in an attempt to restore the status quo. They also levy monetary penalties against bad actors to serve as a deterrent both to the bad actors involved in the case and others who may consider engaging in fraudulent conduct. In 2023, state actions led to significant monetary relief. U.S. NASAA members reported over \$333 million in monetary fines and restitution combined. They also reported approximately \$2 million in financial penalties to reimburse investigative costs and approximately \$6 million in payments to investor education programs.



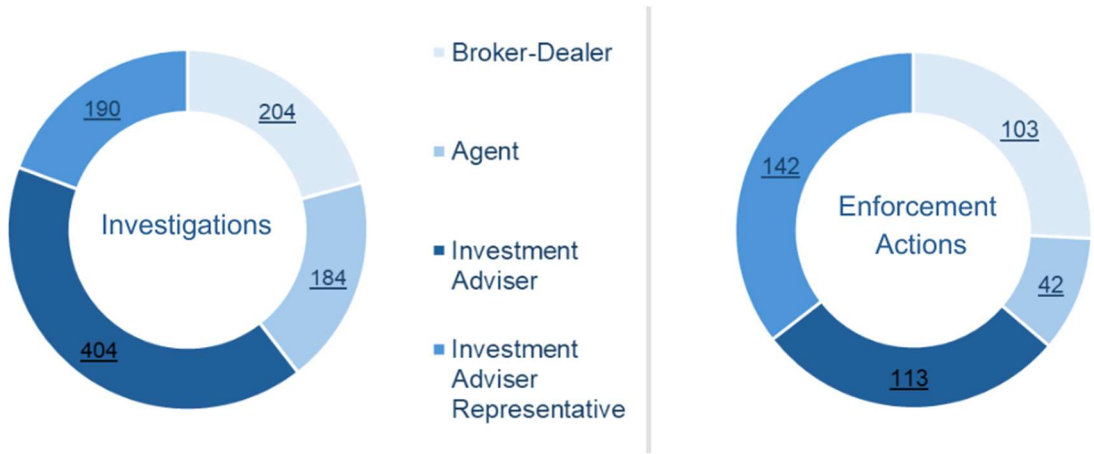
## LICENSING DATA

State securities regulators play an important role in protecting investors by safeguarding their investments from bad actors. The regulators assess the qualifications and experience of candidates for licensure, inspect the books and records of broker-dealers and state-registered investment advisers, and litigate cases to suspend or revoke the registrations of bad actors.

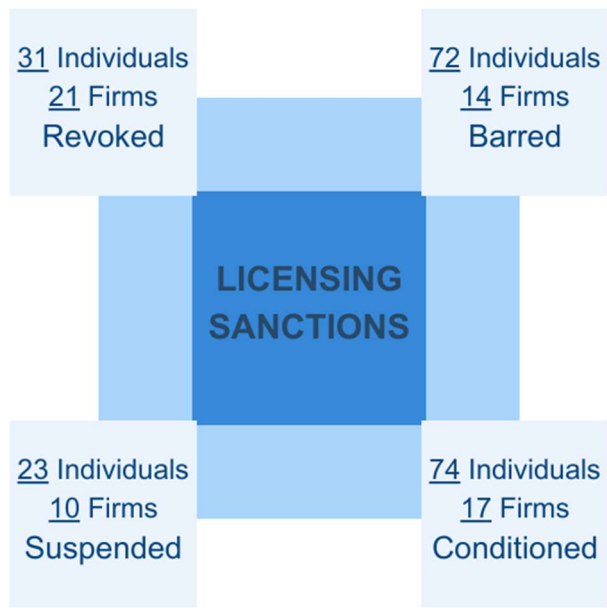
In 2023, state regulators conducted hundreds of investigations of registered parties, including 204 investigations of broker-dealers, 184 of agents, 404 of investment advisers, and 190 of investment adviser representatives. Additionally, regulators investigated 355 unregistered firms and 611 unregistered individuals. State regulators' investigations resulted in 103 enforcement actions

involving broker-dealers, 42 involving agents, 113 involving investment advisers, and 142 involving investment adviser representatives.

### LICENSING ACTIVITY



Furthermore, state securities regulators continued working toward preventing unqualified and dishonest parties from working in the securities industry. Collectively, the states revoked 31 individuals' licenses and 21 firms' licenses and barred 72 individuals and 14 firms from the industry. State regulators also suspended the licenses of 23 individual registrants and 10 firms and conditioned the license of 74 individuals and 17 firms. Notably, state securities regulators protected investors by denying over 400 license applications.



Moreover, state securities regulators' efforts can be demonstrated by the licensure applications that were withdrawn in 2023. Over 5,000 applications for licensure were withdrawn before state agencies determined whether denial, suspension, or revocation of licenses were warranted. The tireless



efforts of state regulators prevented those individuals and firms from operating in the industry, thereby protecting investors from potential financial harm.

## PROTECTING OLDER INVESTORS

Older investors are a popular target for financial scammers and other bad actors. Many older investors possess wealth accumulated over their lifetimes but may lack the technological savvy needed to detect and avoid scams perpetrated by vigilant fraudsters. State securities regulators remain proactive in investigating and filing enforcement actions to prevent or stop senior financial exploitation and punish those responsible. They also refer reports to other agencies, where appropriate, and coordinate their work with non-investigative services to ensure victims receive appropriate guidance and services to meet their needs.

Responses to the enforcement survey show that financial scammers continue to target older investors at a high rate. In 2023, state securities regulators received 3,481 complaints of alleged misconduct against older investors. From these complaints, they opened 1,305 investigations and filed 131 enforcement actions involving 2,869 senior victims.

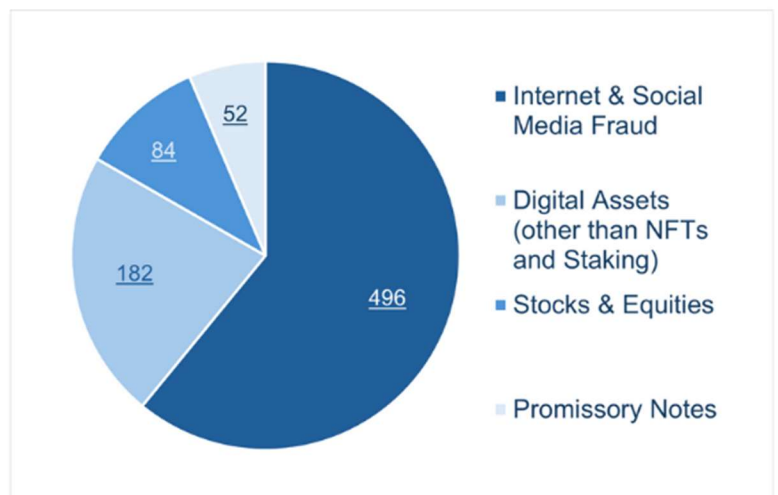
### BY THE NUMBERS

Investigations, Complaints, and Actions  
Involving Older Investors



### TOP THREATS TO OLDER INVESTORS

Investigations of Misconduct Targeting Older Investors



The trends in data indicate a shift away from frauds involving traditional investments with a move toward those involving internet or social media fraud and digital assets. Consistent with the previous year, state securities regulators once again cited internet and social media scams (496) and digital assets other than staking and NFTs (182) as the top two issues in investigations involving older investors during 2023.

In 2016, NASAA members approved the NASAA Model Act to Protect Vulnerable Adults from Financial Exploitation. The model law generally requires certain financial services professionals to notify state securities regulators and adult protective services agencies whenever they form a

reasonable belief of the attempted or actual exploitation of an elderly or vulnerable client. To date, 43 U.S. states and territories have adopted a version of the model law.

The adopted versions of the model law continue to be a critical tool in the senior protection efforts of state securities regulators. In 2017 – the first year the enforcement survey addressed the model law – states reported receiving around 500 reports of the suspected financial exploitation of vulnerable investors. The volume of reporting has significantly grown over time. In 2023, states fielded 4,291 reports of the suspected exploitation of vulnerable adults and opened nearly 1,100 investigations of conduct described within those reports. The increase in reporting highlights that seniors continue to be a major target of scams. State securities regulators remain committed to investigating and addressing all threats to senior investors.

## PRECIOUS METALS

Investors may seek to purchase alternative assets including gold and silver coins, bars, and bullion. These commodities are at times recommended for diversification and hedging purposes. Some investors request that the precious metals be delivered to their home, while others prefer to purchase gold and silver using retirement funds through a self-directed individual retirement account held by a custodian. In recent years, there has been an increasing trend towards bad actors targeting older investors and preying on recent concerns about inflation and other economic issues to perpetrate fraudulent schemes tied to commodities.

In most states, sales of gold and silver coins, bars, and bullion, without more, are not regulated as securities transactions. However, these transactions may be regulated as securities transactions in some states that include “commodity” within the definition of a security. In addition, depending upon the facts of each case, these bad actors may be acting as unlicensed investment advisers subject to state regulation. Investigations show that bad actors leveraging concerns about the performance of the stock market and touting the safety and security of the precious metals market have been advising clients to protect themselves by selling individual holdings of specific stocks, providing asset allocation advice, or comparing investments in the stock market to investments in precious metals.

Further, at least 21 states have enacted state commodities laws, which authorize securities administrators to take action for fraud in connection with the sale or purchase of commodities, commodity contracts and/or commodity options. Some state statutes are based on the NASAA Model Commodity Code. As recent enforcement actions have shown, the federal law governing the purchase and sale of commodities, the Commodity Exchange Act (“CEA”), also enables state securities regulators to bring a suit for violations of the CEA occurring in their state.

### FROM THE FILES: PRECIOUS METALS IRAs

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*In May of 2023, the State of Hawaii, Department of Commerce and Consumer Affairs, Securities Enforcement Branch; the California Department of Financial Protection & Innovation; and the Commodity Futures Trading Commission filed a lawsuit in federal court in Los Angeles against a Southern California precious metals dealer, Red Rock Secured LLC, its owner Sean Kelly, and its top grossing sales agent, Anthony Spencer. The agencies alleged that Defendants unlawfully convinced at least 950 investors nationwide to pay over \$69 million for silver and gold coins that were only worth \$30 million. Many investors lost a substantial amount of their retirement*

proceeds in the scheme. In April of 2024, a federal court enjoined Defendants from violating the law and ordered more than \$56 million in restitution, disgorgement, and penalties.

The responses to the enforcement survey reflect that precious metals scams continue to be on securities administrators' radar and are within the top 10 threats reported. As the price of gold continues to climb, bad actors are preying on the fears of investors amidst volatility in the markets. Older investors are particularly targeted due to their retirement holdings, and they are often encouraged to rollover funds into unregulated self-directed IRAs to purchase the precious metals. In 2023, state securities regulators reported a 100% year-over-year increase in the number of enforcement actions filed involving precious metals commodities.

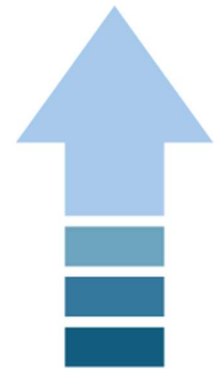
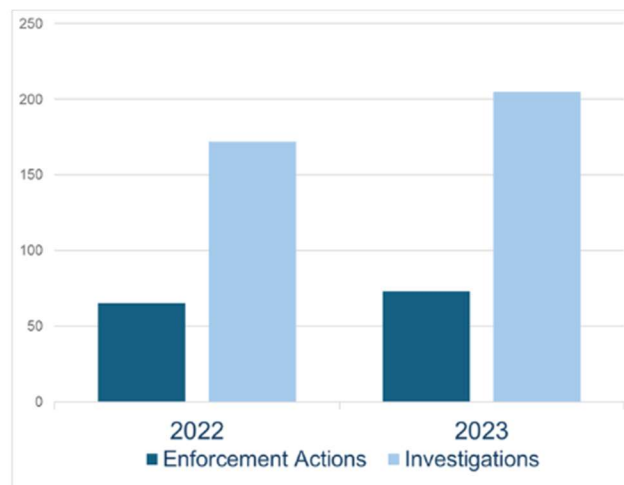
## SOCIAL MEDIA

Issuers continue to use social media and the internet to raise capital and seek new investments. Although legitimate financial services firms are using these platforms to advertise new products and engage with clientele, bad actors are also using social media to more effectively recruit victims and defraud the public.

The survey responses show how pervasive the use of social media and the internet are in soliciting investments from the public. In 2023, state securities regulators worked on approximately 205 investigations that involved the use of social media and the internet, a 19% increase from the 172 investigations reported the previous year. State securities regulators also reported 73 enforcement actions involving social media and the internet, a 12% increase from the 65 actions reported in 2022.

### SOCIAL MEDIA AND INTERNET SOLICITATIONS

Enforcement Actions and Investigations



## DIGITAL ASSETS

Over the past few years, as retail consumers have increasingly sought to invest in digital assets, the number of scams involving cryptocurrencies has skyrocketed. State securities regulators have been at the forefront in investigating and taking action against companies and individuals who have used digital assets to perpetrate scams against consumers. For example, in 2018, the NASAA Enforcement Section initiated *Operation CryptoSweep*, a coordinated task force of more than 40 U.S. and Canadian agencies that resulted in the filing of more than 85 enforcement actions.

The complex world of digital assets has evolved significantly since 2018. State securities regulators have kept pace with the industry by investigating and issuing actions against new and emerging offerings involving digital asset interest bearing accounts and earn products, staking, high yield investment programs, and digital asset offerings purportedly powered by artificial intelligence.

### FROM THE FILES: CRYPTO EARN PRODUCTS

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*On October 19, 2023, the New York Attorney General filed a lawsuit against Gemini Trust Company (Gemini), Genesis Global Capital, LLC, and its affiliates (Genesis), and Digital Currency Group, Inc. (DCG) for defrauding more than 230,000 investors, including at least 29,000 New Yorkers, of more than \$1 billion by repeatedly assuring investors that investing with Genesis through their Gemini Earn program was a low-risk investment. In reality, the company's financials were risky, its loans were under secured and at one point, unknown to its investors, highly concentrated with one entity, Sam Bankman-Fried's Alameda Research. The lawsuit also charges Genesis, its former CEO Soichiro Moro, its parent company, DCG, and DCG's CEO Barry Silbert with defrauding investors and the public by trying to conceal more than \$1.1 billion in losses, which were borne by investors. As a result of these misleading claims and deceptions, thousands of investors lost millions of dollars. In some instances, investors lost their lifesavings. The lawsuit sought a ban for Gemini, Genesis, and DCG from the financial investment industry in New York, and sought restitution for investors and disgorgement of ill-gotten gains.*

In recent years, securities regulators have seen more instances of retail investors using platforms that offer staking as a service. Staking digital assets involves “locking up” digital assets on a validator node so they can be used to validate transactions and add new blocks to the blockchain. In return for the service, validators receive rewards from the protocol. In staking as a service, platforms solicit retail investors to pool their assets with other investors to stake, and in return the investors are paid a fraction of the reward. Many states have issued actions alleging that providing staking as a service is an unregistered securities offering.

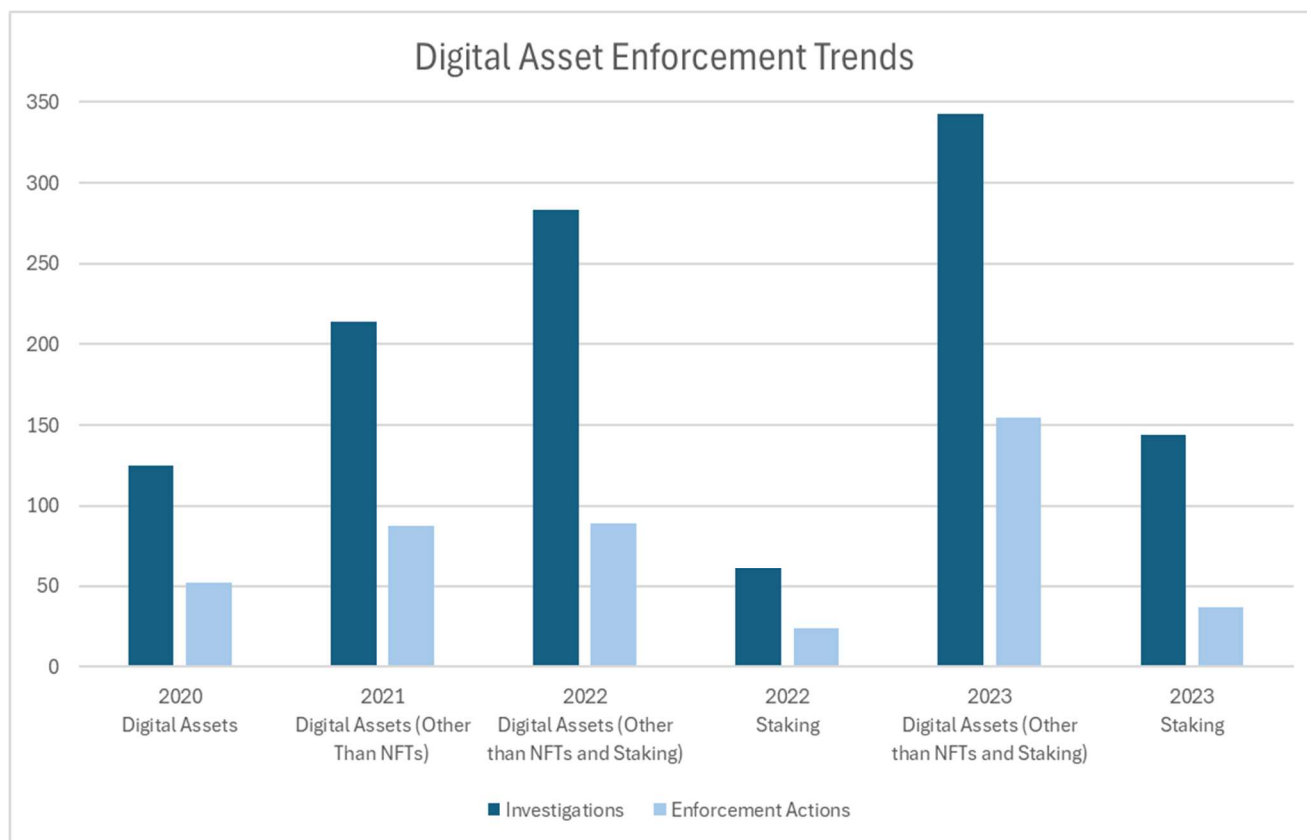
### FROM THE FILES: STAKING

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*In June 2023, several state securities regulators filed actions against Coinbase Global, Inc. and Coinbase, Inc. for violations of securities laws in connection with Coinbase's staking rewards program. Since 2019, Coinbase has offered a staking rewards program through which customers can deposit digital assets with Coinbase, which then facilitates the staking of these assets on the blockchain. Coinbase pools investors' digital assets and employs a team of engineers to operate staking validators nodes to generate staking rewards. Coinbase charges a commission on those rewards before sharing them with investors. State securities regulators accused Coinbase of violating securities laws by offering and selling its staking rewards program without proper registration. As of March 2023, approximately 3.5 million U.S. residents had invested over \$4.8 billion in Coinbase's staking rewards program. These investments were not insured against loss. The SEC is also litigating a case against Coinbase in which it alleges that Coinbase's staking rewards program is an unregistered security.*

Since 2020, digital asset investigations have increased significantly. In 2023, NASAA members initiated hundreds of investigations and filed numerous new enforcement actions involving digital assets. Of these, 144 investigations and 37 enforcement actions involved crypto staking products,

and 343 investigations and 155 enforcement actions involved digital assets other than staking and NFTs. These numbers reflect a marked increase from 2022 and follow a broader trend of year-over-year increases since 2020.



The number of fraudulent offerings tied to and purportedly powered by artificial intelligence rose in 2023. Promoters of these schemes entice investors by offering investments in novel technological advances that they promise will see exponential growth. Some frauds impersonate public figures and use their likeness to gain interest and credibility. As discussed in the Canadian Enforcement section below, impersonation schemes run cross-border and are a concerning emerging trend.

### FROM THE FILES: ARTIFICIAL INTELLIGENCE

*In May 2023, securities regulators in Alabama, Kentucky, Montana, New Jersey, and Texas filed enforcement actions against Horatiu Charlie Caragaceanu and his organizations, the Shark of Wall Street and Hedge4.ai, to stop an investment scheme purportedly powered by artificial intelligence and endorsed by Elon Musk. Caragaceanu allegedly described the Shark of Wall Street and Hedge4.ai as “artificial intelligence labs” that act through “machine learning programmers and ethical hackers.” Respondents promoted TruthGPT Coin, a digital asset that purportedly uses an artificial intelligence model called Elon Musk AI and analyzes various cryptocurrencies to predict future digital asset prices and differentiate profitable investments from scams. Respondents claimed that TruthGPT Coin would increase in value by as much as 10,000 times. According to the filings, investors were told that Elon Musk endorsed TruthGPT Coin and animated avatars and images of Musk were used to demonstrate his endorsement. The filings alleged that Respondents had previously engaged in a series of initial coin offerings*



*in which they touted the profitability of tokens that ultimately never significantly increased in value, and which never secured listings on any major centralized cryptocurrency exchanges. The TruthGPT Coin and other investments named in the filings were never registered for sale as securities in any of the filing states.*

Other states, including California, have implemented AI sweeps by issuing desist and refrain orders against entities to stop fraudulent investment schemes tied to artificial intelligence from unregistered offerings and making material misrepresentations and omissions to investors. These states have found that scammers are taking advantage of the recent buzz around artificial intelligence to entice investors into bogus schemes. The entities solicited funds from investors by claiming to offer high yield investment programs (HYIP) that generate incredible returns by using AI to trade crypto assets. Some offerings used multi-level marketing schemes that reward investors for recruiting new investors.

In 2023, securities regulators continued their efforts to curtail unregistered offerings and fraud in connection with interest bearing accounts. These efforts began in 2020 when U.S. and Canadian securities regulators coordinated numerous investigations of large, highly complex cryptocurrency businesses that offered interest-bearing accounts to the public. The issuers of these interest-bearing accounts marketed their products as the equivalent of savings accounts traditionally provided by regulated banks or credit unions, but with much higher interest rates. Customers typically invested in these accounts by transferring digital assets to the issuers through a website or smartphone application. The issuers then used the customers' digital assets to effectuate loans to third parties and shared a portion of the revenue with customers as so-called "interest" payments on their accounts.

In 2021, state securities regulators filed coordinated actions against a family of companies known as BlockFi, accusing BlockFi of selling interest-bearing accounts without complying with laws requiring the registration of securities. In 2022, BlockFi settled the cases by agreeing to comply with securities laws and to pay a fine of \$50 million to NASAA members and \$50 million to the SEC.

Regulators subsequently filed similar enforcement actions against several additional companies, including Celsius, Voyager, and Abra. The filings in these actions highlighted the significant undisclosed risks associated with these interest-bearing accounts, including issuers' failure to disclose to consumers material information related to the capitalization of their firms and the creditworthiness of borrowers.

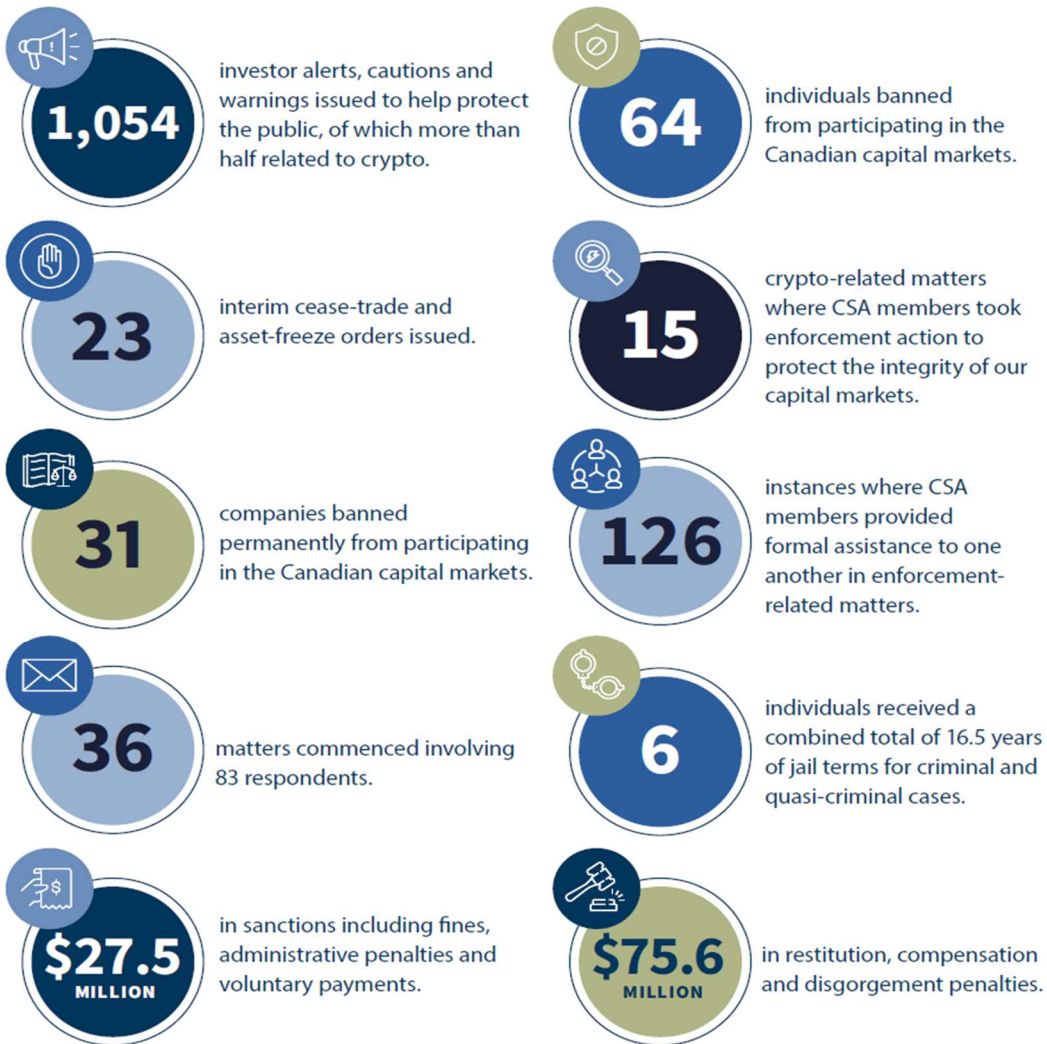
At various points throughout 2022, Celsius, Voyager, and BlockFi froze investor accounts and filed for bankruptcy. In 2023, state securities regulators continued to advocate for investors throughout these insolvency proceedings, particularly around ensuring maximum return of investment for injured investors. They also objected to the proposed acquisition of Voyager accounts by both FTX and Binance.

In January 2023, state securities regulators and the SEC entered into a settlement agreement with Nexo Capital, Inc., over Nexo's unregistered offering and sale of its Earned Interest Program ("EIP"). Customers invested in the EIP by lending digital assets to Nexo, which Nexo then used to generate revenue to earn returns for investors. Nexo agreed to pay a total of \$22.5 million in fines to state regulators and \$22.5 million in fines to the SEC. Nexo also agreed to cease and desist offering or selling EIPs until such activities were compliant with all applicable state and federal securities laws.

## CANADIAN ENFORCEMENT

The Canadian Securities Administrators (the CSA) highlighted the work of provincial and federal regulators in its Year in Review report. CSA Enforcement highlights are summarized below.

### CANADIAN SECURITIES ADMINISTRATORS ENFORCEMENT HIGHLIGHTS - APRIL 1, 2023, TO MARCH 31, 2024



**CSA / ACVM**

Canadian Securities Administrators  
Autorités canadiennes en valeurs mobilières

## FROM THE FILES: DISRUPTION

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*Cooperation was at the heart of an effort by Canadian NASAA members to disrupt a sophisticated online investment scheme in 2023. After investigators identified a fraudulent investment platform posing as a legitimate venture linked to Elon Musk, Canadian regulators quickly mobilized to protect investors. The coordinated response was crucial to preventing further victimization. Members divided up a list of 1,300 Canadians and attempted to contact each victim. More than \$3 million had already been lost to the fraud, but the prompt collaboration and direct outreach to victims prevented many of them from sending additional money to the fraudulent platform. This cooperation between securities regulators allowed Canadian NASAA members to add 92 fraudulent investment platforms to our warning lists, collect intelligence on offshore entities suspected of being involved in online investment scams and close a channel that scammers used to transfer victim funds out of Canada. The swift, unified response not only mitigated losses but also reinforced the importance of working together to protect investors across the country.*

## ONGOING THREATS AND EVOLVING TRENDS

For a second year in a row, digital assets, promissory notes, pyramid/Ponzi schemes, and scams involving the internet and social media were listed as the top threats to the investing public. This year, securities regulators also listed affinity frauds as an increasingly alarming threat. Regrettably, all these threats may be present in the same fraudulent securities offering.

## FROM THE FILES: MULTI-LEVEL MARKETING

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*Multiple U.S. and Canadian Securities regulators coordinated investor outreach and enforcement action against GSB Gold Standard Bank Ltd., Swiss Valorem Bank Ltd., and GSB Gold Standard Corporation AG (collectively, “GSPartners”). GSPartners is an alleged multi-level marketing platform that paid lavish commissions to investors to recruit new investors. According to state and provincial regulators, GSPartners and its recruiters leveraged the use of social media to solicit investors worldwide to purchase securities that it called “MetaCertificates” tied to digital assets, investments in a staking pool in a proprietary metaverse, and a token that can purportedly be staked for rewards that can be converted to physical gold. GSPartners allegedly represented that it would use investor funds to invest in real-world industry sectors and to trade in the forex market, which would sustainably generate lucrative returns for investors. GSPartners claimed that its MetaCertificates paid investors fixed weekly returns ranging from 2.5% to 5%, in addition to monthly returns of 1.5%. GSPartners and its representatives allegedly made false and misleading statements to investors in connection with the offering. In May of 2023, securities regulators issued investor alerts warning the public about GSPartners. On October 2, 2023, GSPartners announced that it had lost significant amounts of investor funds and limited withdrawals from the platform. The MetaCertificates were not registered as securities in any state or province, and the individuals selling the securities were not registered as broker-dealers or agents. In November of 2023, regulators ordered GSPartners and its principals to cease offering the MetaCertificates and further prohibited the individuals and entities from engaging in securities fraud.*

Securities regulators have been combatting these frauds by investigating and taking enforcement action against the bad actors perpetuating them. This year, the survey results showed more investigations and actions tied to digital assets than any other product or scheme. For example, in 2023, securities regulators worked on 343 investigations involving digital assets other than staking and NFTs, resulting in 155 enforcement actions. These numbers represent more than 6% of the total number of investigations opened and 13% of the total number of enforcement actions reported, as well as a significant year-over-year increase from 2022. Investigators reviewed these offerings for both fraud and unregistered offerings. In 2023, 144 of the digital assets investigations involved staking (i.e. when digital assets are locked up for a set period to support operations on the blockchain and participants can earn rewards), a more than 130% increase from 61 investigations reported in 2022. Based on these investigations, securities administrators filed 37 enforcement actions involving digital asset staking in 2023, up 54% from 2022.

The threats even extended to older investors – a demographic often considered least likely to adopt new technologies – with more investigations involving digital assets and the internet/social media than any other product or practice. Moreover, state efforts to address alleged misconduct by issuers of digital asset products demonstrate the gravity of the threat, as these cases show these offerings can now effectively recruit a considerable number of clients and attract significant capital over a very short period of time.

Many contemporary frauds are simply new iterations of old schemes in new packaging. As this year's enforcement actions have shown, the *Howey* framework continues to be effective to protect against new and emerging securities frauds. In fact, state securities regulators have already relied on the *Howey* test to establish the jurisdiction necessary to stop multi-level marketing frauds targeting retail investors worldwide.

On the horizon, securities regulators expect to see more impersonation, pyramid, and romance scams involving digital assets and cryptocurrency, and the increased use of crypto ATMs to perpetuate these frauds. Regulators also expect many of these frauds to be led by and involve foreign actors.