

**STATE OF NORTH CAROLINA  
DEPARTMENT OF THE SECRETARY OF STATE  
SECURITIES DIVISION**

IN THE MATTER OF:	)	
	)	
<b>BITCONNECT, BITCONNECT LTD,</b>	)	<b>TEMPORARY CEASE AND DESIST</b>
<b>BITCONNECT INTERNATIONAL PLC,</b>	)	<b>ORDER</b>
<b>and BITCONNECT TRADING LTD</b>	)	
	)	
Respondents.	)	File No.: 17 SEC 091

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The Secretary of State of the State of North Carolina (the “Administrator”), pursuant to her authority and responsibility to administer and enforce the North Carolina Securities Act, (N.C. Gen. Stat. Chapter 78A, the “Securities Act”) has considered the evidence, finds that the public interest will be irreparably harmed by delay, and therefore, enters this order to require BitConnect, BitConnect LTD, BitConnect International PLC, and BitConnect Trading LTD to cease and desist offering unregistered securities to the residents of North Carolina.

The Staff of the Securities Division of the North Carolina Secretary of State’s office has presented evidence sufficient for the Administrator to make the following findings and conclusions.

**I. FINDINGS OF FACT**

1. BitConnect, BitConnect LTD, BitConnect International PLC and BitConnect Trading LTD (collectively “BitConnect”) are all parts of the same foreign technology organization that conducts its business on the internet, principally by means of a website accessible at [www.bitconnect.co](http://www.bitconnect.co).

2. BitConnect LTD is organized in England and Wales and is incorporated under the Companies Act 2006 as a private company limited by shares. BitConnect LTD maintains a registered address at The Panorama, Park Street, Ashford, United Kingdom TN24 8EZ.

3. BitConnect International PLC is organized in England and Wales and is incorporated under the Companies Act 2006 as a public limited company. BitConnect International PLC maintains a registered address at Grant Thornton House, 22 Melton Street, Kings Cross, London, United Kingdom NW1 2EP.

4. BitConnect Trading LTD is organized in England and Wales and is incorporated under the Companies Act 2006 as a private company limited by shares. BitConnect Trading LTD maintains a registered office address at 23 St. Elizabeth Avenue, Bootle, United Kingdom, L20 6FA.

5. None of the BitConnect entities is or has ever been registered to sell securities in the State of North Carolina.

6. BitConnect describes itself as “an open source all in one bitcoin and crypto community platform designed to provide multiple investment opportunities with cryptocurrency education where it is entirely possible to find the independence we all desire, in a community of like-minded, freedom loving individuals who, like you, are seeking the possibility of income stability in a very unstable world.”

7. When BitConnect refers to “an all in one bitcoin and crypto community platform” it is referring to the ability to trade and profit from cryptocurrencies<sup>1</sup>, including Bitcoin, and to gain access to initial coin offerings (“ICOs”).<sup>2</sup>

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<sup>1</sup> Cryptocurrencies are digital assets created by companies or individuals that take the form of a virtual coin or token. Bitcoin is an example of one such cryptocurrency, and there are more than one thousand other virtual coins or tokens currently in existence. Companies and individuals create cryptocurrencies and sell them to the public through initial coin offerings (ICOs). Virtual coins and tokens are primarily issued and distributed on a “blockchain” or a cryptographically-secured ledger which exists on the internet. Virtual coins and tokens are traded on online platforms, typically called cryptocurrency exchanges, and they can be traded for other digital assets or fiat currencies, such as the U.S. Dollar or Euro.

<sup>2</sup> An ICO is an offering to the public by a company or individual of its newly created digital asset, virtual coin or token. The company or individual conducting the ICO sells the cryptocurrency to investors using the internet in exchange for something of value, which can be other digital assets or fiat currencies, such as the U.S. Dollar or Euro. Companies and individuals use ICOs to raise capital to fund technology projects without the challenges posed by traditional fundraising restrictions.

8. BitConnect created its own digital token called BitConnect Coin.
9. BitConnect describes BitConnect Coin as an open source, peer-to-peer, community-driven decentralized cryptocurrency that allows owners to store and invest their wealth.
10. BitConnect represents, on its website accessible at [www.bitconnect.co](http://www.bitconnect.co), that as of 3:45 pm EST on January 6, 2018, more than 9.4 million out of a maximum of 28 million BitConnect Coins have been introduced into the market. It also represents, as of the same time and date, the current price of BitConnect Coin is approximately \$440 per token, and the market capitalization of all BitConnect Coins is currently valued at more than \$4.1 billion.
11. BitConnect claims investors can “begin staking or holding BitConnect Coin and watch [their] interest grow,” and that “the more [investors] hold, the more [they] earn.”
12. BitConnect represents that:
  - 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.”
13. BitConnect purports to offer investment opportunities that allow individuals to profit from 1) BitConnect’s trading of digital tokens through a proprietary, secret automated trading system it calls its “volatility software,” 2) its digital token, called BitConnect Coin, and 3) its referral program.

**a. BitConnect Investments**

14. BitConnect offers investments (the “BitConnect investments”) to the general public, including the residents of the North Carolina.

15. The BitConnect investments, as described below, are the BitConnect Lending Program and the BitConnect Staking Program.

**i. BitConnect Lending Program**

16. BitConnect offers and sells an investment it calls the “BitConnect Lending Program.”

17. BitConnect represents that investors in this program will earn up to 40% interest per month over a specified term and an additional rate of interest calculated on a daily basis.

18. BitConnect indicates the interest is earned through the profits generated by its proprietary, secret trading system that it calls its “volatility software.”

19. BitConnect publishes statements on its website that suggest that investors are guaranteed the return of their principal investment in as soon as 120 days.

20. In the BitConnect Lending Program, investors must first purchase Bitcoin with their fiat currency, such as the U.S. Dollar or Euro. BitConnect then directs investors to deposit their Bitcoin into the BitConnect BCC Exchange platform. Once deposited, BitConnect instructs investors to sell their Bitcoin to BitConnect in exchange for its own digital token called BitConnect Coin. Investors then “lend” their BitConnect Coin tokens back to BitConnect, and BitConnect claims to use the BitConnect Coin that it borrows from investors to fund the trading activities of the proprietary, secret trading system that it calls its “volatility software.”

21. BitConnect publishes the following graphic to demonstrate how the BitConnect Lending Program operates:



22. BitConnect touts this investment as a “safe way to earn a high rate of return on . . . investment[s] without having to undergo a significant amount of risk.”

23. BitConnect provides a chart to confer the impression that the returns from the BitConnect Lending Program are guaranteed, and that the investor will receive the principal capital invested within a set period of time:

**BitConnect Coin Lending Profits Interest**

Lending Amount	Interest (Accrued Daily)	Capital Back
\$100 - \$1000	Volatility Software Interest (up to 40 % Per Month)	After 299 Days
\$1010 - \$5000	Volatility Software Interest + <b>0.10% Daily</b> (up to 40 % Per Month)	After 239 Days
\$5010 - \$10000	Volatility Software Interest + <b>0.20% Daily</b> (up to 40 % Per Month)	After 179 Days
\$10010 - \$100000	Volatility Software Interest + <b>0.25% Daily</b> (up to 40 % Per Month)	After 120 Days

**ii. BitConnect Staking Program**

24. BitConnect offers and sells an investment it calls the “BitConnect Staking Program.”

25. BitConnect represents that investors in this program will earn interest of up to 10% per month over a specified term.

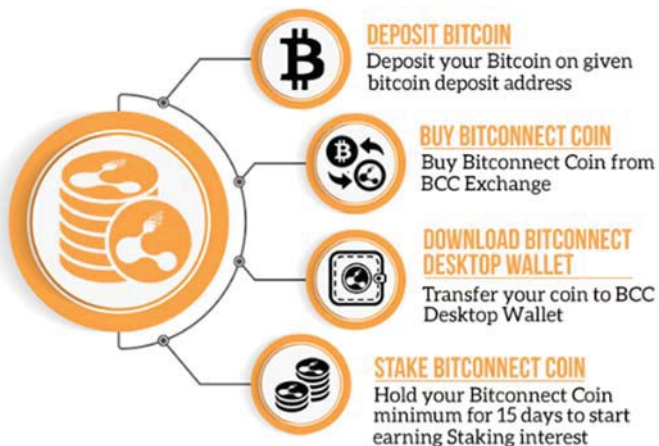
26. BitConnect indicates the interest is earned through “Proof of Stake Minting.”

27. BitConnect suggests that “Proof of Stake Minting” is a process in which rewards are distributed to those “helping maintain the security of the network via proof of holding.”

28. In the BitConnect Staking Program, investors must first purchase Bitcoin with their fiat currency, such as the U.S. Dollar or Euro. BitConnect then directs investors to deposit their Bitcoin into the BitConnect BCC Exchange platform. Once deposited, BitConnect instructs investors to sell their Bitcoin to BitConnect in exchange for its own digital token called BitConnect Coin. Investors must then download and install the BitConnect-QT wallet software onto their computer and hold the BitConnect Coin tokens in the BitConnect-QT wallet for more than fifteen days. The interest that BitConnect pays to investors is based on the number of BitConnect Coin tokens, or “stake,” investors hold in the BitConnect-QT wallets which is installed on the investors’ computers.

29. BitConnect publishes the following graphic to demonstrate how the BitConnect Staking Program operates:

#### Investing in BitConnect Coin and Staking



30. The amount of interest paid to investors is contingent upon the dates of the investors' investment.

31. BitConnect provides a chart to demonstrate the purported guaranteed rate of return from the BitConnect Staking Program:

Duration	Interest
1st 6 months Jan 2017 to June 2017	60% (10%per month)
2nd 6 months July 2017 to Dec 2017	50% (8%per month)
3rd 6 months Jan 2018 to June 2018	40% (7%per month)
4th 6 months July 2018 to Dec 2018	30% (5%per month)
5th 6 months Jan 2019 to June 2019	20% (3%per month)
6th 6 months July 2019 to Dec 2019	10% (1.4%per month)

32. BitConnect has not registered any offerings of securities, or filed either claims for exemption from securities registration or notice filings with respect to securities covered under federal law as may be required by the provisions of the North Carolina Securities Act.

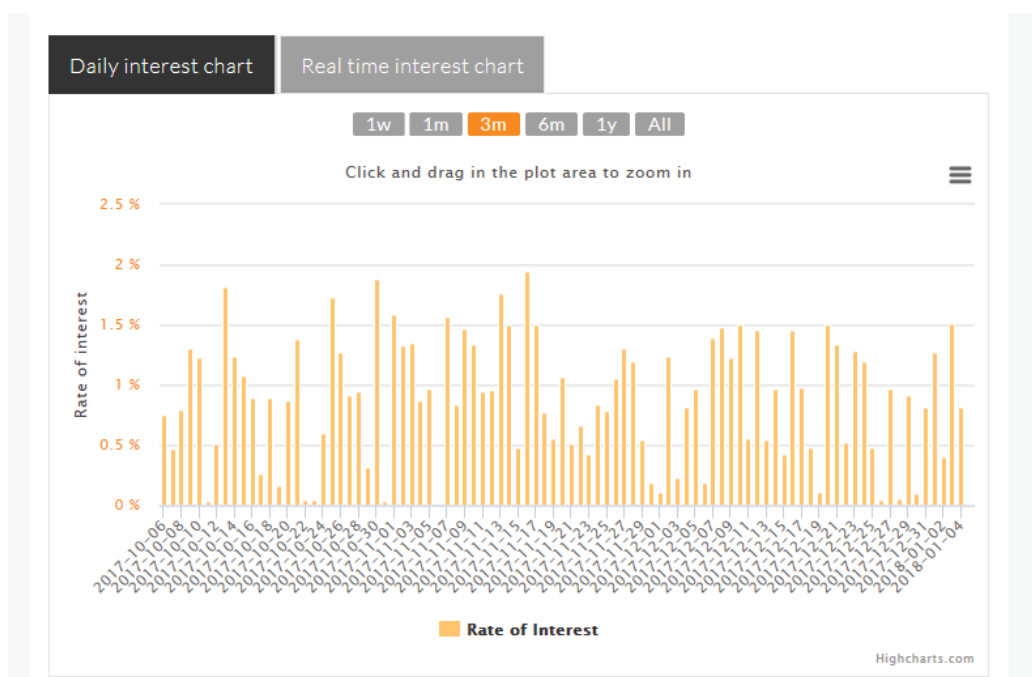
**b. The Investors Have An Expectation of Profit.**

33. Investors would have viewed the BitConnect investments as opportunities for profit.

34. In addition to the representations described above, BitConnect made the following statements on its website:

- a. "You can invest BitConnect coin in BitConnect lending platform exclusively from the BitConnect Dashboard. This investment option involves profiting from BitConnect trading bot and volatility software. You will receive daily profit based on your investment option;"
- b. "Upon investment term completion, you will receive your CAPITAL BACK to take out from the BitConnect lending platform or optionally reinvest back in lending platform to continue receiving daily profit;" and

- c. “It takes 15 days to mature your coin from last received interest block. Once you received interest block in your staking wallet, you are required to wait for another 15 days to find next interest block.”
35. BitConnect provides a Daily Interest Chart on its website that shows the daily interest that is purports to have paid to investors in the three months to January 5th 2018.
36. This chart shows no days of negative returns.
37. This chart appears to show an average daily interest rate of around 1%.



38. An average daily interest rate of around 1% compounds to an annual return of over 3,000%.
39. Annual compounded investment returns of over 3,000% are extremely unusual in financial markets.
40. Guaranteed annual compounded investment returns of over 3,000% are a known “red-flag” for fraud, specifically for the risk that the investment may be a “Ponzi scheme.”



**c. The Investors Have An Expectation That They Would Profit From BitConnect's Efforts.**

41. Investors would have expected to profit from the efforts of BitConnect and its agents.

42. Investors would have believed, based on BitConnect's statements in its promotional materials, that investors could profit by merely holding and staking BitConnect Coin tokens, or enjoying the guaranteed returns provided by BitConnect's proprietary, secret trading system that it calls its "volatility software." Further, investors would have expected that BitConnect and its agents would expend significant efforts to continue to develop the proprietary, secret trading system that it calls its "volatility software," and that such development would increase the value of their BitConnect Coin tokens.

43. BitConnect states that "Investing on BitConnect platform...is a safe way to earn a high rate of return on your investment without having to undergo a significant amount of risk."

44. BitConnect also claims to investors that "The interest rate that we can guarantee on your investment while using our investment platform is calculated by our BitConnect Price Volatility Software and accrued daily."

45. Based on the statements listed above, investors would have expected that they would profit solely from the essential managerial efforts of BitConnect.

**d. BitConnect Offers Investments To The General Public.**

46. BitConnect offers these investments to the general public, including residents of North Carolina, through its websites and its sales people, which it calls "affiliates." BitConnect's conduct related to the offers and sales of the investments to the general conduct is willful.

**i. The BitConnect Websites**

47. BitConnect maintains a website accessible at <http://bitconnect.co> and a website accessible at <http://bitconnectcoin.co> (the “BitConnect Websites”). The BitConnect Websites are accessible worldwide to the general public, including to residents of North Carolina.

48. The BitConnect investments are available for purchase by individuals in the United States and worldwide through the BitConnect Websites and affiliated websites rendered in foreign languages. The investments are promoted on social media pages including, but not limited to, Facebook, YouTube, Reddit, Instagram and Craigslist.

49. BitConnect promotes its investments on the BitConnect Websites by making the following representations:

- a. “There are multiple ways to invest in the BitConnect platform with different level of earning opportunity associated;”
- b. “You can invest BitConnect Coin in BitConnect lending platform exclusively from the BitConnect Dashboard. This investment option involves profiting from BitConnect trading bot and volatility software. You will receive daily profit based on your investment option. Upon investment term completion, you will receive your capital back to take out from the BitConnect lending platform or optionally reinvest back in lending platform to continue receiving daily profit;” and
- c. “Invest your wealth in community driven decentralized cryptocurrency. Using BitConnect public exchange, you can buy, sell and trade BitConnect Coin (BCC) directly to and from each other with no central organization involved.”

**ii. The BitConnect Affiliates**

50. BitConnect uses sales agents, which it refers to as “affiliates,” to direct North Carolina residents to the BitConnect Websites for the purpose of purchasing BitConnect investments. There are affiliates residing in North Carolina.

51. BitConnect encourages affiliates to promote BitConnect investments through social media, blogs, videos, websites and newsletters by means of a referral, or commission program.

52. BitConnect creates marketing material which is used by affiliates, including music videos, cartoons and online presentations that describe BitConnect Coin tokens, the BitConnect Lending Program and the BitConnect Staking Program.

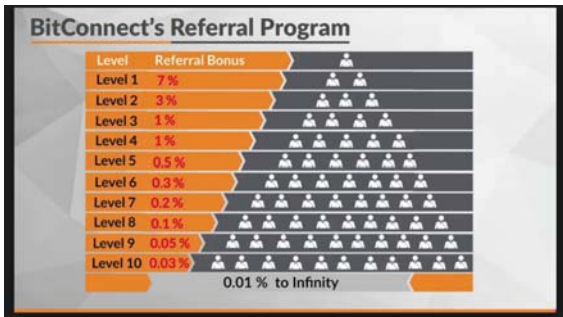
53. BitConnect also provides affiliates with online advertisements, often referred to as “banners,” that can be incorporated into websites and used to solicit investments in the BitConnect Staking Program and the BitConnect Lending Program.

54. Affiliates also use unique hyperlinks referred to as “referral links” to offer the BitConnect investments on their personal social media pages.

55. Investors use the referral link to access the BitConnect Websites and purchase BitConnect investments. The referral link ensures the affiliate is credited with the appropriate commission according to the BitConnect Referral Program.

56. In the BitConnect Referral Program, BitConnect pays commissions to affiliates who use referral links to offer and sell BitConnect investments. The value of the commissions is based on the affiliate's placement in a multi-level matrix of other affiliates and it can range from two percent to five percent of the amount invested. These commissions are paid to affiliates in Bitcoin. The commission matrix was changed by BitConnect in November 2017.

57. BitConnect provides charts to demonstrate the commissions paid to affiliates in the BitConnect Referral Program. The commission matrices used by BitConnect prior to and after November 2017 are show below:



#### AFFILIATE BONUS



58. Affiliates are using online solicitations containing referral links to offer BitConnect investments to North Carolina residents.

59. BitConnect promotes its referral program by representing that:

- a. “BitConnect offering [sic] a lucrative bonus program which enables you to earn affiliate commission if your referral invest in BitConnect lending;”
- b. “At the same time, generate a serious income for yourself through our bitcoin affiliate program. You can start earning your free bitcoins today for every person you refer and who starts lending on BitConnect platform;”
- c. “As a means to spread the word, help grow our community, and offer you a great way to earn free Bitcoins, we are now offering a lucrative bonus program which enables you to earn bitcoin for every new user who signs up and lends BitConnect Coin (BCC) to our lending platform using your affiliate link;”
- d. “BitConnect’s referral program is designed to provide 3 Levels of earning potential to you based on the number of lenders. You will earn a commission every time your referral lends BitConnect Coin(BCC) on our platform. Invite your friends and family to join BitConnect via your unique referral link to start earning a serious income from our bitcoin affiliate program;” and
- e. “Spread the word on social media and other online platforms to help making [sic] BitConnect platform a success for the entire community of lenders.”

#### e. BitConnect Omits Material Facts In The Course of Making Its Offering

60. BitConnect willfully fails to disclose material facts when offering the BitConnect investments, including, but not limited to, the following:

- a. The identity of the principals of BitConnect and the true location of BitConnect’s operations and management;

- b. Information about the assets and liabilities of BitConnect and any other information that indicates the means by which BitConnect will provide investors with a guaranteed daily return, regardless of the value of Bitcoin;
- c. Information about the proprietary, secret trading system that it calls its “volatility software,” details of its trading records and historical performance, proof of its existence, and the risk factors associated with its use;
- d. That the BitConnect investments are securities and are not registered with the Administrator or any other governing regulator;
- e. That only registered dealers or agents can be paid commissions for referrals or sales of securities; and
- f. That affiliates who receive such commissions for their sale of BitConnect investments without being properly registered are in violation of the Securities Act.

**f. Protection of the Public**

61. BitConnect has the present ability to engage and/or attempt to engage in the offer and sale of unregistered securities as unregistered dealers and salesmen in violation of N.C. Gen. Stat. §§ 78A-24 and 78A-36.

62. The solicitation of the investing public poses an immediate and significant danger to the public welfare because:

- a. the securities (the BitConnect investments) offered have not been registered with the Division. Proper registration of securities is an essential safeguard serving to require companies to provide accurate and material information to enable persons to make reasoned investment decisions and to protect the public from fraud;
- b. BitConnect has not registered as dealer in, or salesman of, securities. The registration of dealers and salesmen, as required by the Securities Act, ensures that persons transacting business as securities dealers and salesmen in North Carolina are competent, honest, properly regulated and authorized to do so;
- c. the current speculative activity associated with cryptocurrencies makes investors particularly susceptible to investing without performing their normal due diligence. Further, most cryptocurrency exchanges are unregulated markets and therefore vulnerable for manipulative trading, fraud and deception;
- d. BitConnect has omitted material facts in its offerings and has made misrepresentations which make the BitConnect investments particularly dangerous

for the investing public. Further, BitConnect is encouraging members of the investing public to become its affiliates and therefore to act as unregistered dealers and/salesmen in violation of the Securities Act; and

- e. BitConnect's marketing materials are disproportionately targeted towards children, young adults, persons of limited financial means, and unsophisticated investors who may not be able to sustain a complete loss of their investment without enduring significant financial hardship.
- f. BitConnect states that it is about to solicit investment in a newly created token, known as BitConnectx, in an ICO. BitConnect indicates the BitConnectx ICO will begin on or around January 10, 2018.

63. It is in the interest of the public of North Carolina and for the protection of the investing public, and consistent with the purposes fairly intended by the policy and provisions of the Securities Act, that BitConnect, any person acting on behalf of BitConnect, or any entity, officer, director, employee or agent of BitConnect, be prohibited from violating the Securities Act in connection with selling or offering to sell securities, buying or soliciting offers to buy securities, or transacting business as a dealer in, or salesman of, securities, including, but not limited to, being prohibited from offering to sell or selling the unregistered BitConnect investments, and being prohibited from acting as unregistered securities dealers or salesmen.

64. An immediate Temporary Order to Cease and Desist is necessary and appropriate to address the violations of the Securities Act. Delay in issuing an order under N.C. Gen. Stat. § 47(b)(1) will result in irreparable harm to the public interest by allowing persons to continue to transact business in North Carolina in violation of its laws, and will result in irreparable harm to North Carolina citizens in the form of economic loss resulting from investment in securities sold in violation of its laws.

## **II. CONCLUSIONS OF LAW**

1. The Administrator has jurisdiction over BitConnect and the subject matter of this Order.

2. The BitConnect investments are “securities” as that term is defined by N.C. Gen. Stat. § 78A-2(11).

3. BitConnect is violating N.C. Gen. Stat. § 78A-24 by offering securities for sale in North Carolina that are not registered with the Administrator, not exempted from registration, and not notice filed as would be the case with securities covered under federal law.

4. BitConnect is violating N.C. Gen. Stat. § 78A-36 by offering securities while it, BitConnect, is not registered with the Administrator.

5. BitConnect is violating N.C. Gen. Stat. § 78A-8 by making material misstatements of fact, or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading in connection with its offer and sale of securities in North Carolina.

6. BitConnect’s violations of the Securities Act is willful, subjecting it to the sanctions and penalties described in N.C. Gen. Stat. § 78A-47(c)(1) and (2).

7. BitConnect’s conduct, acts, and practices threaten immediate and irreparable public harm.

8. It is necessary and appropriate for the protection and preservation of the public interest and for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Securities Act, that BitConnect be temporarily and summarily ordered to cease and desist from making offers and sales of securities in violation of the Securities Act, and to cease and desist from continuing to act as unregistered dealers and/or salesmen of securities.

9. The foregoing violations constitute bases for the issuance of a Temporary Cease and Desist Order pursuant to N.C. Gen. Stat. § 78A-47(b)(2).

### **III. ORDER**

It is therefore ORDERED that BitConnect and any person, employee, officer, director, entity, or independent contractor under BitConnect's direction or control immediately CEASE AND DESIST from:

1. offering for sale any security in North Carolina until the security is registered with the Administrator or is offered for sale pursuant to an exemption from registration under the North Carolina Securities Act;
2. acting as securities dealers or agents in North Carolina until each is registered with the Administrator or are acting pursuant to an exemption from registration under the North Carolina Securities Act;
3. making material misstatements of fact, or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading in connection with its offer and/or sale of securities in North Carolina; and
4. violating any other provisions of the North Carolina Securities Act and any administrative rules promulgated thereunder.

### **IV. NOTICE**

Each Respondent may request a hearing upon this matter by transmitting such request, in writing, to Kevin Harrington, Deputy Securities Administrator, Securities Division, Department of the Secretary of State, Post Office Box 29622, Raleigh, North Carolina 27626-0622. If such a request is made, this matter shall be scheduled for hearing in accordance with Chapter 150B of the North Carolina General Statutes within twenty (20) days after receipt by the Deputy Securities Administrator of the written request. If no request for hearing, other responsive pleading or submission is received by the Deputy Securities Administrator within thirty (30) business days of



the receipt of service, this Temporary Cease and Desist Order shall become final and remain in effect as to each Respondent that fails to request a hearing unless it is modified or vacated by the Secretary of State in her capacity as Securities Administrator of the Securities Act.

**WITNESS MY HAND AND THE OFFICIAL SEAL** of the North Carolina

Department of the Secretary of State, this the 9<sup>th</sup> day of JANUARY 2018.

Time of entry: 7:46 P.M.



ELAINE F. MARSHALL  
SECRETARY OF STATE OF NORTH CAROLINA, and  
SECURITIES ADMINISTRATOR



KEVIN M. HARRINGTON  
Deputy Securities Administrator