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BitConnect Promoters Targeted in Class Action Suits, Twice in One Week

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BitConnect International, PLC had a somewhat unique business model, even for an industry known for its unconventional nature. On its face, BitConnect functioned as an exchange. However, the real purpose of the platform, and what led to its ultimate downfall, was its lending program. BitConnect "borrowed" the crypto investments of its customers in exchange for an equal value of its own native coin, BitConnect Coin or BCC, along with promises of astronomical returns on those BCC holdings. These promises were often made by well-known social media personalities that received significant compensation. However, after BitConnect was hit with two cease-and-desist orders from the Texas and North Carolina state securities regulatory bodies in the lead-up to the launch of a new coin, dubbed BitConnectx, the company closed its exchange and the price of BCC dropped by over 90%. This drop caused investors to lose millions of dollars, as they had traded other cryptocurrency and fiat currency for BCC, which rapidly devalued and became largely functionless cryptocurrency.

This spurred two class action lawsuits. The first suit, filed in federal court in Florida, alleges that BitConnect operated like a Ponzi scheme, taking the investments of new investors to pay returns to earlier investors before it ultimately folded. The suit stands out as it names not only BitConnect's affiliated business entities and insiders, but also five individuals paid to promote the exchange through social media outlets, primarily YouTube and Facebook. The second suit filed in federal court in Kentucky, includes similar allegations but only names BitConnect, along with one promoter, Ryan Maasen, as defendants. These promoter-targeted suits may have been spurred by two statements released by the U.S. Securities and Exchange Commission in November and December of last year, which clarified the SEC's position that promoters of initial coin offerings and other cryptocurrencies which fall under the SEC's definition of a "security" must comply with federal securities laws. Both cases are still in the preliminary stages pending initial hearings.

These cases and the SEC’s statements send a warning to ICO runners and promoters: Federal regulators are paying close attention to the crypto space and are treating many actions no differently than if they happened in more traditional financial markets, and class action lawsuits may be waiting in the wings for those who push unlawful ICOs or fraudulent schemes. We will be continuing to follow and blog about notable developments in this area.

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