## STATE OF CALIFORNIA BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

TO: Coinbot 315 Madison Avenue New York, New York 10017 www.coinbot.cx

## DESIST AND REFRAIN ORDER (For violations of sections 25110 and 25401 of the Corporations Code)

The Commissioner of Financial Protection and Innovation (Commissioner) finds that:

- 1. The Department of Financial Protection and Innovation (Department) regulates the offer and sale of securities in California under the Corporate Securities Law of 1968 (Cal. Corp. Code §§ 25000-25707) (CSL).
- 2. At all relevant times, Coinbot is and was a business entity of unknown type with a purported principal place of business at 315 Madison Avenue, New York, New York 10017. Coinbot operated the website www.coinbot.cx.
- 3. Beginning at least as early as 2023, Coinbot offered and sold securities in the form of investment contracts in California through general solicitations on its website. Coinbot referred to these investment contracts as "Investment Plans."
- 4. Coinbot held itself out as a cryptocurrency trading platform. The purported purpose of the securities offerings was for Coinbot to use investor funds to engage in cryptocurrency trading, which in turn would generate returns for investors who purchased Investment Plans. Coinbot claimed that the cryptocurrency trading would be conducted by artificial intelligence (AI) software.
- 5. Coinbot touted the benefits of its purported AI software and suggested that investors could expect high returns and stable passive income due to this technological advantage.
- 6. Coinbot represented that its Investment Plans produced daily profits of 1.5% 6%. Coinbot required investors to "lock" their funds into the Investment Plans for terms ranging between one and 180 days. The Investment Plans were publicly available to investors in California via Coinbot's website: www.coinbot.cx.

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- 7. Coinbot held itself out as an "industry leader" and a "professional and reliable company." Coinbot explicitly advertised several guarantees to investors, including the "fastest and most exciting returns on your investments" and "security of your investment."
- 8. After investors created their accounts on the Coinbot website, investors could log into their account using their username and password to monitor their purported balance and returns, deposit funds, and request withdrawals.
- 9. Coinbot facilitated deposits and withdrawals using crypto assets, including Tether (USDT).
- 10. As part of its solicitation efforts, Coinbot used a multi-level marketing scheme that would reward investors for inducing others to send money to Coinbot. According to this program, investors would be paid a referral bonus based on the amount of funds deposited by the investors that they recruited. Investors would also be paid additional referral bonuses when the investors that they recruited, in turn, recruited new investors.
- 11. Investors seeking to take advantage of Coinbot's referral program created and posted videos to YouTube and posted content on other social media websites to recruit others to invest in Coinbot.
- 12. In fact, Coinbot was luring investors into what is known as a High-Yield Investment Program (HYIP). HYIPs are unregistered investments typically run by unlicensed individuals – and are often frauds. The hallmark of an HYIP scam is the promise of high returns on an annual (or even monthly, weekly, or daily) basis at little or no risk to the investor. Another key element of most HYIPs is a referral program, in which the HYIP offers referral commissions or bonuses to investors to recruit new investors. This usually leads to investors sharing information about the HYIP with their friends and family and promoting HYIPs on social media. HYIPs rarely disclose the true identities of the individuals operating the HYIP.
- The Investment Plans offered by Coinbot were securities that were neither qualified 13. nor exempt from the qualification requirement under the CSL. The Department has not issued a permit or other form of qualification authorizing Coinbot to sell these securities in California.

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- 14. In connection with the offer or sale of these securities, Coinbot made, or caused to be made, untrue statements of material fact and material omissions to investors and potential investors, including but not limited to the following:
  - a. falsely representing that Coinbot was a "legal company authorized to conduct activities in the investment field";
  - b. failing to disclose that the offer or sale of Coinbot's securities was not qualified in California;
  - c. failing to provide any qualifications to substantiate Coinbot's claims that it had a team of traders with "seven years" "knowledge and experience" in cryptocurrency trading;
  - d. falsely representing Coinbot's Investment Plans as "reliable income" for investors;
  - e. misrepresenting the expected profits and risk of loss; and
  - failing to disclose that it used investor funds to pay purported profits to other investors, in the manner of a Ponzi scheme.

Based on the foregoing findings, the Commissioner is of the opinion that the securities offered or sold by Coinbot were subject to qualification under the CSL and have been or are being offered or sold without first being qualified in violation of Corporations Code section 25110.

Pursuant to Corporations Code section 25532, Coinbot is hereby ordered to desist and refrain from the further offer or sale of securities in California, including but not limited to investment contracts known as Investment Plans, unless and until the qualification requirements of the CSL have been met.

In addition, the Commissioner is of the opinion that Coinbot offered or sold securities in California by means of oral or written communications which included untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, in violation of Corporations Code section 25401.

Pursuant to Corporations Code section 25532, Coinbot is hereby ordered to desist and refrain from offering or selling or buying or offering to buy any security in California, including but not limited to investment contracts known as Investment Plans, by means of any written or oral

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communication which includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

Pursuant to Corporations Code section 25403, any person who controls or induces another person to violate a provision of the Corporate Securities Law of 1968, or any person who provides substantial assistance to another person in violation of the Corporate Securities Law of 1968, shall be liable for the violations.

This Order is necessary, in the public interest, for the protection of investors, and is consistent with the purposes, policies, and provisions of the Corporate Securities Law of 1968.

Dated: April 19, 2023 San Diego, California CLOTHILDE V. HEWLETT Commissioner of Financial Protection and Innovation



By MARY ANN SMITH **Deputy Commissioner Enforcement Division**