IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS

COMMODITY FUTURES TRADING COMMISSION, Plaintiff, v. JOHN DOE 1 aka MORGAN HUNT dba DIAMONDS TRADING INVESTMENT HOUSE, and JOHN DOE 2 aka KIM HECROFT dba FIRST OPTIONS TRADING, Defendants.	Case Number 18-cv-807 ECF Case **COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF AND FOR CIVIL MONETARY PENALTIES PURSUANT TO THE COMMODITY EXCHANGE ACT**

Plaintiff Commodity Futures Trading Commission ("CFTC" or "Commission"), by its attorneys, alleges as follows:

I.

SUMMARY

1. From at least January 2017 through the present (the "Relevant Period"), Defendants John Doe 1 aka Morgan Hunt dba Diamonds Trading Investment House ("Hunt") and John Doe 2 aka Kim Hecroft dba First Options Trading ("Hecroft") (collectively, "Defendants") have engaged in a fraudulent scheme to solicit funds, securities, or property ("funds") in the form of Bitcoins from members of the public, through false or misleading representations or omissions, to invest in trading products including leveraged or margined foreign currency contracts ("forex"), binary options, and diamonds. Rather than convert customer funds from Bitcoins to fiat currency to trade forex, binary options, or diamonds, as promised, Defendants misappropriated those funds (in the form of Bitcoins), forged account

statements, impersonated a Commission employee, and even forged Commission documents in order to conceal their misappropriation and further their fraudulent scheme.

2. Hunt and Hecroft—either working together, or as two aliases for the same person—used Facebook to solicit at least two customers, falsely representing that their funds would be used for trading for their benefit, either through a pooled investment vehicle or in a managed account in the customer's name.

3. Hunt falsely represented to a California resident ("L.M.") that his funds would be pooled with the investments of others and used by Hunt's purported Washington, D.C.-based investment business, "Diamonds Trading Investment House," for trading products including forex on a margined or leveraged basis. L.M. was not an eligible contract participant, as defined in Section 1a(18)(A)(xi) of the Commodity Exchange Act (the "Act" or "CEA"), 7 U.S.C. § 1a(18)(A)(xi) (2012).

4. Hecroft falsely represented to a resident of Australia ("D.P.") that her funds would be used by Hecroft's purported investment firm, "First Options Trading," ostensibly located at the same Washington, D.C., address as Hunt's purported business, for trading products including binary options and diamonds.

5. In furtherance of their fraudulent scheme, Defendants made material misstatements and omissions in solicitations to L.M. and D.P., including misrepresenting their experience and track record.

6. In reality, Defendants did not trade any of the funds contributed by their customers, and instead misappropriated those funds.

7. In order to perpetuate their fraud and conceal their misappropriation, Defendants provided their customers with fictitious account statements showing that they were achieving astronomical trading returns.

8. When L.M. and D.P. requested to withdraw funds from their accounts, Defendants sought either to dissuade them from doing so or to misappropriate even more of their funds by falsely representing to them that before withdrawing any funds they would be required to pay a tax to the Commission. Among other false statements concerning this purported tax, Defendants arranged for an agent to impersonate a fake Commission employee to attest to the validity of the tax, and sent L.M. and D.P. forged documents purportedly authored by the Commission's General Counsel and bearing the image of the Commission's official seal. Hecroft successfully employed such forgery of Commission documents to misappropriate thousands of additional dollars' worth of Bitcoins from D.P., who believed she was transferring Bitcoins to the Commission to pay a tax.

9. Other than a few small payments to D.P. (which Hecroft generally used to induce D.P. to transfer still greater amounts to himself), Defendants failed to return any of L.M. and D.P.'s funds, causing them to suffer total losses of at least $35,000.

10. By virtue of this conduct, and the conduct further described herein, Hunt has engaged, is engaging, and/or is about to engage in acts and practices in violation of Sections 4b(a)(2)(A)-(C), 4*o*(1), and 6(c)(1) of the Act, 7 U.S.C. §§ 6b(a)(2)(A)-(C), 6*o*(1), 9(1) (2012), and Commission Regulations ("Regulations") 5.2(b) and 180.1(a), 17 C.F.R. §§ 5.2(b), 180.1(a) (2018); and Hecroft has engaged, is engaging, and/or is about to engage in acts and practices in violation of Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) (2012), and Regulation 180.1(a), 17 C.F.R. § 180.1(a) (2018).

11. Pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1 (2012), the Commission brings this action to enjoin Defendants' unlawful acts and practices and to compel their compliance with the Act and Regulations, and to further enjoin Defendants from engaging in any commodity-related activity. In addition, the Commission seeks civil monetary penalties and remedial ancillary relief including, but not limited to, trading and registration bans, restitution, disgorgement, rescission, pre- and post-judgment interest, and such other and further relief as the Court may deem necessary and appropriate.

12. Unless restrained and enjoined by this Court, Defendants will likely continue to engage in acts and practices alleged in this Complaint and similar acts and practices, as described below.

II.

JURISDICTION AND VENUE

13. Section 6c(a) of the Act, 7 U.S.C. § 13a-1(a) (2012), authorizes the Commission to seek injunctive and other relief in United States district court against any person whenever it shall appear to the Commission that such person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of the Act or any rule, regulation, or order thereunder, and provides that district courts "shall have jurisdiction to entertain such actions." This Court also has jurisdiction pursuant to 28 U.S.C. § 1331 (2012) (Federal Question) and 28 U.S.C. § 1345 (2012) (United States as Plaintiff).

14. Venue properly lies with this Court pursuant to Section 6c(e) of the Act, 7 U.S.C. § 13a-1(e) (2012), because Hunt transacted business in this District, and certain transactions, acts, practices, and courses of business alleged in this Complaint occurred, are occurring, or are about to occur within this District.

III.

THE PARTIES

15. Plaintiff **Commodity Futures Trading Commission** ("Commission") is an independent federal regulatory agency charged by Congress with the administration and enforcement of the Act, 7 U.S.C. §§ 1-26 (2012), and the Regulations promulgated thereunder, 17 C.F.R. pts. 1-190 (2018).

16. Defendant **John Doe 1 aka Morgan Hunt dba Diamonds Trading Investment House** ("Hunt") is an individual whose last known residence, according to Hunt, is in Arlington, Texas, and whose email address is morganhunttrusts@gmail.com. (On or about April 11, 2018, Hunt provided L.M. with a residential address in Arlington, Texas so that L.M. could mail Hunt a gift—a personalized wooden pen L.M. had made for him—and Hunt later indicated to L.M. that he had received the gift in the mail.) Between approximately February 2018 and June 2018, Hunt provided L.M. with account statements purportedly from Diamonds Trading Investment House, with an address in Washington, D.C. Neither "Morgan Hunt" nor "Diamonds Trading Investment House" has ever been registered with the Commission in any capacity.

17. Defendant **John Doe 2 aka Kim Hecroft dba First Options Trading** ("Hecroft") is an individual whose last known residence, according to Hecroft, is in Baltimore, Maryland, and whose email address is kimhecroft@gmail.com. (After Hecroft emailed D.P. a document purporting to be a copy of his California driver's license on or about May 24, 2018, D.P. noted that Hecroft had told her he was from Baltimore; Hecroft clarified that he had merely been working in California in 2014 when the license was issued.) Between approximately May 2018 and August 2018, Hecroft held himself out as a representative of an investment management firm called First Options Trading, based in Washington, D.C., which, according to

the website Hecroft provided to D.P. (http://firstoptionstrading.com), was located at the same address shown on the account statements Hunt provided to L.M., and had the same "Liquidation Officer" named in Hunt's account statements. Though a Pennsylvania firm called "First Options Trading Group" was registered with the Commission in various capacities between 1995 and 2010, neither "Kim Hecroft" nor "First Options Trading" has ever been registered with the Commission in any capacity.

IV.

FACTS

A. Fraud by "Morgan Hunt"

1. Hunt's Use of Facebook To Solicit Customers

18. On or about February 16, 2017, Hunt set up a Google account for the email address morganhunttrusts@gmail.com. For a recovery email, Hunt provided Google with the address kimhecroft@gmail.com. This recovery email address was the same address that Hecroft set up on or about January 3, 2017, and was the same email address Hecroft used to perpetuate his fraud on D.P., as alleged in Section IV.B below.

19. On or about February 16, 2017, Hunt used the email address morganhunttrusts@gmail.com to create a Facebook profile under the name "Morgan Hunt" (https://www.facebook.com/morgan.hunt.1656), and subsequently used that profile to create a Facebook page entitled "Trading With Morgan Hunt" (https://www.facebook.com/tradingwithmorganhunt).

20. According to his Facebook profile, as of June 22, 2018, Hunt had studied "Investment Portfolio Management" at La Salle University, Class of 2006, receiving degrees including an MBA, and had worked either as an "Investment Fund Manager" or as a "Manager,

International Investment & Portfolio Management" at three U.S. investment firms between 2009 and the present.

21. Beginning in or around March 2017, Hunt made a series of Facebook posts containing images purporting to show forex trading activity in various currency pairs, with the words "EXPIRED POSITION DETAILS" at the top of each image. Hunt introduced these images with statements on his Facebook page such as "Trading Signals for the weekend," "Traded accounts for the week," and "Traded Accounts for last week."

22. Beginning in or around April 2017, Hunt began including references to diamonds in his posts about purported forex trading activity, such as: "Diamonds Investments Trust," "Diamonds Are Forever," "Diamonds Exchange Trading Rocks," "Latest Trend In Bitcoins Diamonds Trust," "Diamonds Traded On the Commodities Exchange!!!" and "Accolades to the diamonds exchange!!!"

23. On or about May 5, 2017, Hunt commented, in reference to one of his posts showing purported forex trading activity: "It's the bitcoins diamonds exchange. Awesome profits generated from it."

24. Between approximately March 2017 and January 2018, at least 11 Facebook users posted public comments in response to Hunt's Facebook posts, asking for information about Hunt's trading and how to participate in the investment opportunity Hunt was offering. In response to such comments, Hunt generally responded by indicating that he would communicate with the users by private message. For instance, on or about May 28, 2017, in response to Hunt posting images showing purported forex trading activity in three different currency pairs, a Facebook user commented, "how does the diamond exchange tradeing [sic] work," to which Hunt replied, "I will inbox you."

25. Upon information and belief, all of Hunt's representations about his trading activity and expertise that he publicly posted on his Facebook page were false.

26. Upon information and belief, Hunt had never been employed at the investment firms listed on his profile, was not engaged in any profitable forex trading activity during the Relevant Period, and was not involved in any legitimate business venture under any of the names (e.g., "Diamonds Investments Trust") mentioned in his Facebook posts.

2. Solicitation and Transfer of L.M.'s Bitcoins to Hunt

27. On or about October 19, 2017, Hunt began exchanging private Facebook messages (hereinafter "Facebook chat" messages) with L.M., a retired California resident.

28. On or about November 3, 2017, L.M. stated to Hunt that he was interested in forex trading and had previously traded forex for himself but "lose [sic] everything because I didn't really know what I was doing."

29. Hunt told L.M. that his investment product was called "the Bitcoins Diamonds Trust" and that it "guarantees a passive investment return of 40-60% after a 30 day trading cycle." Hunt sent L.M. a link to a 29-second Youtube video posted by "Diamond Invest Club," in which a man stated that "Diamond Invest" offered a forex investment product that could produce profits of 150 to 288 percent in 120 days.

30. L.M. told Hunt that he was on Social Security disability and needed "to get some of my monthly income working for me," and that he had "lost everything I've ever invested." L.M. asked Hunt whether he could invest $100 per month; Hunt responded that he had a "trading minimum" of $1,000, and assured L.M. that "you have nothing to loose [sic] in this."

31. Hunt represented that L.M. would be investing his funds in a pooled investment vehicle. On or about November 3, 2017, in response to L.M.'s inquiry whether Hunt had "pool

accounts that several people contribute to," Hunt stated, "Yes, that's also an outstanding platform to leverage on the Collective Investments Scheme." On February 2, 2018, Hunt told L.M., "I want us to set up a 100k portfolio with a pool investment scheme." On or about February 19, 2018, Hunt told L.M. that he would "immediately" start up a "pool scheme" when he got two more investors; and on or about February 20, 2018, Hunt reported to L.M. that "[a] lot of investors just keyed into the pool trading scheme." Hunt told L.M. that Hunt had "over 100 clients" and was "currently running a mutual fund for pool investors."

32. On January 22, 2018, L.M. proposed making an investment of $2,000, and Hunt stated that he would achieve trading returns of 30 to 60 percent each month on a $2,000 principal investment.

33. On January 22 and 23, 2018, Hunt provided L.M. with instructions to create a Bitcoin wallet, purchase Bitcoins using the cryptocurrency payment processor Coinmama, and transfer Bitcoins to Hunt's wallet at another cryptocurrency payment processor, Remitano. Over these two days, Hunt spent several hours communicating with L.M. by Facebook chat and videochat in order to facilitate L.M.'s transfer of funds.

34. On January 23, 2018, L.M. transferred approximately $2,000 worth of Bitcoins to Hunt.

35. On February 2, 2018, Hunt emailed to L.M. (using his email address morganhunttrusts@gmail.com, which was the address he always used when emailing L.M.) a document he claimed was "an update on the status of your portfolio," which purported to show significant trading profits, and Hunt suggested to L.M. that L.M. "double the initial investments sum."

36. Later on February 2, 2018, L.M. made a second transfer of Bitcoins to Hunt, worth approximately $2,000.

37. On February 15, 2018, L.M. made a third transfer of Bitcoins to Hunt, worth approximately $100.

38. Beginning on February 2, 2018, Hunt emailed L.M. account statements on an approximately weekly basis that purported to show that Hunt was achieving enormous trading profits for L.M.

39. The account statements were in the form of letters, either addressed to L.M. or to L.M.'s four children (after Hunt had purportedly permitted L.M. to divide his funds among accounts in the names of his children), and signed by a "Steven McGill," purportedly a "Liquidation Officer" for "Diamonds Trading Investment."

40. L.M. understood from Hunt's representations about his trading results, as well as from Hunt's representations, beginning on or about November 3, 2017, or earlier, about Hunt's use of "leverage" (e.g., paragraphs 3 and 31 above) that L.M.'s funds were being used by Hunt to trade forex on a margined or leveraged basis.

41. On June 28, 2018—approximately five months after L.M.'s initial investment—Hunt represented to L.M. that his principal investment of approximately $4,000 had "accumulated a profit" of over $200,000, which was a purported gain of more than 5,000 percent.

42. All of the account statements and updates that Hunt provided to L.M. were fraudulent and entirely fictitious.

43. Upon information and belief, Hunt never engaged in any profitable forex trading during the Relevant Period, and rather than using L.M.'s funds to trade forex, Hunt

misappropriated the funds.

3. Hunt's Solicitation of Additional Customers Referred by L.M.

44. Beginning on or about February 2, 2018, Hunt began suggesting to L.M. that he could earn referral commissions by soliciting others to invest their own funds with Hunt. On February 2, 2018, Hunt told L.M. that "[i]t would be nice if you bring your friends to on board, I'll open a Collective Investment Scheme and you'll be making great referral commissions aside your monthly earnings. . . . You'll be earning consistently as long as they keep coming in . . . . The payout commission is instant."

45. On or about February 5, 2018, Hunt emailed L.M. a document that Hunt said was "the commission contract I told you about[.] Where you receive 10% in commissions on any investor you refer[.] And it's instant payment."

46. On February 10, 2018, in response to L.M. mentioning that he had a friend who was concerned about Bitcoins, Hunt told L.M. that he should "convince her to invest," because "as you know there is a referral commission scheme on this program . . . 10% commission payable instantly on any investor you bring."

47. On February 13, 2018, Hunt again asked L.M. to solicit others: "I really want us to make this big. . . . Probably sign up one or two participants so that your earning scheme can improve by way of referral commissions." L.M. responded, "I understand this, but my friends are really hesitant and don't believe the returns. I keep sharing, but no takers yet."

48. On March 7, 2018, Hunt asked L.M. if he had any referrals; L.M. responded in the negative but that he was "working on them."

49. On April 4, 2018, Hunt reiterated to L.M.: "We need an expansion, keep telling your friends and family about this."

50. On or about April 29, 2018, L.M. solicited a friend ("W.") to invest with Hunt and directed him to Hunt's Facebook profile. On April 30, 2018, Hunt informed L.M. that W. had contacted Hunt and that L.M. would earn a referral commission from any investment W. made: "I also got a message from your friend [W.] and . . . I'll recommend you expand your earning scheme through his referral commission." Hunt stated: "[W.'s] Investments earns you a commission and a trading bonus of about $2000 which is payable instantly."

4. Hunt's Further Misrepresentations To Conceal His Fraud

51. In late April 2018, L.M. informed Hunt by email that he wished to withdraw approximately $7,000 from his account—which, by that time had, according to statements provided by Hunt, purportedly grown to tens of thousands of dollars.

52. In order to conceal his misappropriation and continue his fraud, Hunt sought to dissuade L.M. from withdrawing funds from his account by deceiving him about the tax implications of such a withdrawal.

53. On May 3, 2018, Hunt told L.M. that, because he invested through transfers of Bitcoins, if L.M. withdrew any of his funds he would have to pay "10% taxation on the whole portfolio." According to Hunt, although L.M.'s funds were being used to trade forex, L.M.'s "whole portfolio . . . is still taxable" because "the leverage instrument is Crypto."

54. Hunt then told L.M. that he would have "to comply with the tax prior to liquidation," i.e., he would have to pay the tax using new funds, not the funds that were supposedly in his investment account with Hunt.

55. As Hunt knew, L.M. had no such funds—outside of the amount that was invested in Hunt's pooled investment vehicle—with which he could purchase an amount of Bitcoin even approaching ten percent of his purported account balance with Hunt.

56. In response to L.M.'s questions, Hunt variously attributed the ten percent tax to a recent federal court ruling, to "new legislation in force," and to a "new regulation in place which overulled [sic] the previous system." Hunt told L.M. that the "tax is handled by the CFTC" and is "paid to a secure CFTC wallet."

57. All of Hunt's representations about the tax were knowingly false. There is no legislation, regulation, or court ruling that requires a tax of ten percent of an investor's portfolio to be paid to the CFTC prior to the withdrawal of funds.

58. When L.M. told Hunt, on May 4, 2018, that he was attempting to contact the CFTC to inquire about the tax, Hunt told L.M. that he would connect L.M. with "a friend who works with CFTC and he'll help you with that."

59. On May 7, 2018, Hunt identified the "friend" to L.M. as "Corey," a "Futures Trading Specialist/ Investigator with CFTC." On May 8, 2018, a person identifying himself as Corey and claiming to be a CFTC official called L.M. on the telephone. "Corey" supported Hunt's story about the liquidation tax and told L.M. that his office had the power to make L.M.'s "portfolio appear on the surface to be frozen while it is really still growing" so that L.M.'s tax obligation would be limited to ten percent of his account balance as of that moment.

60. "Corey" was an associate of Hunt who was assisting Hunt with his fraudulent scheme, and was not a person affiliated with the CFTC in any way.

61. Hunt subsequently attempted to dissuade L.M. from making further inquiries to the CFTC, advising him to "lay low" and warning him that "contacting CFTC personally will open a can of worms."

5. Hunt's Fraudulent Use of the CFTC Seal and Forged CFTC Memorandum

62. On May 9, 2018, L.M. asked Hunt for "links to CFTC tax regulations and requirements," explaining that he wished to learn about the tax for himself.

63. On May 10, 2018, Hunt emailed L.M. a PDF document, which Hunt stated was "the Liquidation Guideline concerning your Tax Obligation as prescribed by CFTC."

64. The PDF document, a copy of which is annexed as Exhibit 1 to this Complaint, consisted of a three-page memorandum (hereinafter "Exhibit 1") addressed to "INVESTMENT BROKERAGES/ TRADERS," purportedly from CFTC General Counsel Daniel J. Davis, dated March 10, 2018, with the subject "Guidance Regarding Ethics Law and Regulations Related to Tax Obligations/ Liquidation in Cryptocurrencies Portfolios."

65. Under the heading "Liquidation Guidelines and Tax Obligations Of The Investing Party," the final section of Exhibit 1 stated:

> A Portfolio with Crytpocurrencies [sic] with leverage outside the Jurisdiction of CFTC incures [sic] a tax obligation of 10% at Liquidation.
>
> Compliance with the aforementioned rule, shall be communincated [sic] to the Investment Brokerage/ Trader who shall in turn liquidate the portfolio after an authorization from the Tax Regulatory Unit.
>
> Tax evasion at Liquidation is treated as a felony and in the event of such, the penalties specified by the Commodities Exchange Act prevails [sic].
>
> Failure to liquidate by after [sic] the pre-requisites, stipulated above have been complied with by the Investing Party, is an [sic] shall be treated as a felony which in turn, has the implications as prescribed by the Commodities Exchange Act [sic] on the Investment Brokerage/ Trader[.]

66. The document was printed on CFTC letterhead, including the official CFTC seal.

67. As Hunt knew when he sent Exhibit 1 to L.M., the document was a forgery intended to deceive L.M. into believing that he would have to pay a tax to the CFTC before withdrawing his funds.

68. The portion of Exhibit 1 quoted in paragraph 65 above was not written by the CFTC's General Counsel or any other CFTC official, but instead was fabricated, upon information and belief, by Defendants or someone acting in concert with Defendants for the purpose of deceiving customers such as L.M.

69. The remainder of Exhibit 1 appeared to have been copied from a genuine memorandum from the CFTC's General Counsel to "ALL STAFF," dated February 5, 2018, entitled "Guidance Regarding Ethics Law and Regulations Related to Employee Holdings and Transactions in Cryptocurrencies," which was and is publicly available on the CFTC's website at https://www.cftc.gov/sites/default/files/idc/groups/public/%40newsroom/documents/file/bitcoin_grelrrehtc020418.pdf.

70. L.M. noted to Hunt that Exhibit 1 was unclear as to several details concerning the payment of the purported tax, and told Hunt that L.M. might contact the CFTC to seek authorization before taking any steps to pay the tax.

71. Hunt dissuaded L.M. from doing so, and within days began pressuring L.M. to come up with thousands of dollars to purchase Bitcoins and transfer them to a wallet address provided by Hunt to pay the purported tax. In order to induce L.M. to transfer the Bitcoins, Hunt even offered to contribute $3,000 of his own funds to help pay the tax if L.M. provided another $3,000. L.M. did not agree, because, as he told Hunt, even $1,000 "would clean me out except for my normal living expenses."

72. Hunt intended to induce L.M. to purchase Bitcoins and transfer them to an address that he told L.M. was for a "secure CFTC wallet" in order to pay the purported tax, but instead, upon information and belief, was the address of a wallet controlled by Hunt or a person acting in concert with Hunt, so that Hunt could misappropriate the funds.

73. L.M. subsequently contacted the CFTC General Counsel's office and was informed that Exhibit 1 was a forgery that had been partially copied from the publicly available February 5 memo.

74. When L.M. confronted Hunt with this information on June 15, 2018, Hunt denied having created Exhibit 1 and would not acknowledge that it was a forgery. Hunt continued to refer to the "liquidation tax" as if it were real, told L.M. that "[i]f you want to liquidate, then we have to come up with the 10%," offered to loan L.M. part of the money, and refused to answer L.M.'s repeated questions about the basis for the requirement to make such a payment upon liquidation.

75. L.M. then demanded to withdraw $20,000 worth of Bitcoins from his account. Hunt refused. To date, L.M. has not received any funds back from Hunt, and he has lost approximately $4,000 (i.e., his entire principal investment).

B. Fraud by "Kim Hecroft"

1. Solicitation and Transfer of D.P.'s Bitcoins to Hecroft

76. Hecroft set up an email address, kimhecroft@gmail.com, on or about January 3, 2017.

77. During the Relevant Period, Hecroft used some of the same IP addresses to log into his kimhecroft@gmail.com account that Hunt used when logging into his morganhunttrusts@gmail.com account and his "Morgan Hunt" Facebook page.

78. By no later than 2017, Hecroft had also created a Facebook profile under the name "Kim Hecroft."

79. In approximately 2017, Hecroft sent a Facebook friend request to D.P., with whom he shared several mutual Facebook friends, and D.P. and Hecroft began corresponding through Facebook chat.

80. Hecroft referred D.P. to the website of a purported investment firm by the name of First Options Trading ("First Options"), at http://firstoptionstrading.com, for which Hecroft claimed to be a trader.

81. The website stated that First Options was located in Washington, D.C., at the same street address as appeared on the phony "Diamonds Trading Investment House" account statements that Hunt sent to L.M.

82. Using Facebook chat, Hecroft solicited D.P. to open an account with First Options, offering one of the investment opportunities described on the First Options website. The offer was for D.P. to invest $1,000 worth of Bitcoin in a trading account that would pay $100 dividends to D.P. each week.

83. Hecroft told D.P. that this would be a segregated investment account in D.P.'s name, and that Hecroft would generate the promised returns by using the funds in the account to trade binary options for D.P.'s benefit.

84. A binary option is a type of options contract in which the payout depends entirely on the outcome of a yes/no proposition, typically relating to whether the price of a particular asset that underlies the binary option will rise above or fall below a specified amount. Unlike other types of options, a binary option does not give the holder the right to purchase or sell the underlying asset. When the binary option expires, the option holder will receive either a pre-determined amount of cash or nothing at all.

85. On or about May 9, 2018, D.P. registered as a customer on the First Options website, and on or about May 10, 2018, she used CoinSpot, an Australian cryptocurrency exchange, to transfer approximately $1,000 worth of Bitcoin from her own wallet to a wallet address provided by Hecroft.

86. Between approximately May 19, 2018 and July 7, 2018, D.P. received online account statements on the First Options website purportedly showing that Hecroft was profitably trading binary options with D.P.'s $1,000 investment, and D.P. received in her wallet eight transfers of Bitcoin worth approximately $100 each—the promised weekly dividend payments purportedly generated by Hecroft's profitable trading.

2. Hecroft's Misrepresentations and Forgeries To Further His Fraud

87. On or about May 22, 2018, Hecroft began communicating with D.P. exclusively though his kimhecroft@gmail.com email, claiming in an email to D.P. that Hecroft had to remove his Facebook account because of "an intrusion due to a suspected malware which infected my device."

88. On or about that date, Hecroft solicited D.P. to invest more of her money with him, through another investment opportunity described on the First Options website as the "Diamond Trading Programme (Limited Time Only)." The website stated, in part:

> We buy and sell diamonds on the international diamond exchange. Before the internet, diamond trading was not easy, but now with bitcoins, we can trade diamonds easily.
>
> With an investment of 2 bitcoins, you will earn 10 bitcoins after 14 days from diamond trading. 5 bitcoins will earn 25 bitcoins in the same period.
>
> The earning trend of diamonds is such that profits can be made quickly. Diamonds have an 85% of going up in price [sic] once purchased. Once they are purchased, they are kept under a hold-order until their value increases, then they are sold again and the funds are used to reinvest and resell. Because of the ease of business of bitcoin transactions and the facilitated trading channels, so many diamond trading transactions can be carried out on one trading account in a day.

> Once the investor invests, the trader finds good diamond trades to participate in and make profits for the client. In a few trades, huge profits are made.

89. Hecroft confirmed to D.P. the terms stated on the website, telling her that First Options achieved such massive returns by using the "best trading strategies," including "hedging, Value Averaging, Fibonacci," and told her that, two weeks after making a principal investment of two Bitcoins, she would have ten Bitcoins in her account, out of which she would have to pay a one Bitcoin fee—which would be a net 350 percent return on her investment in two weeks.

90. Hecroft referred D.P. to the Facebook profiles of three individuals he claimed were customers that could vouch for the investment opportunity. One of the supposed customers, who used a Facebook profile with the name "Evamarie Folley" (hereinafter "Folley"), had posted, and repeatedly "liked" Hunt's posts, on the "Morgan Hunt" Facebook profile page.

91. Folley contacted D.P. by Facebook chat, telling her: "Kim was my investment portfolio manager he's reliable and managed my Diamonds portfolio wherein in [sic] invested 2 BTC and got a return of 9 BTC as I had to pay a commission which was 1 BTC and was deducted from the profits. Withdrawal policy is easy as the funds are remitted directly to your bitcoins wallet on the completion of the 14 day trading cycle."

92. Upon information and belief, Folley is either an associate of or another alias for Hecroft, not a real customer.

93. Hecroft pressured D.P. to make her diamond trading investment quickly: "The Diamonds Investments Plan is an NFP Diamonds trading scheme which is best suited on Friday's, so this week's Friday is a perfect time for that [sic]. NFP's Diamonds are the most outstanding investments which guarantees high markets makeover [sic]."

94. On or about May 23, 2018, after D.P. reported back to Hecroft that the three customers he referred had all been helpful, Hecroft again pressured D.P. to make her two Bitcoin

investment before the "weekend deadline," and told her again the next day to transfer Bitcoins immediately "so that a slot will be reserved for you."

95. D.P. became nervous and asked Hecroft for proof of identification to verify his and First Options' legitimacy.

96. On or about May 24, 2018, Hecroft emailed D.P. two documents that he claimed were "the company trading license" and "my I.D card [sic]," and also provided what he said was his phone number.

97. One document Hecroft sent was a photograph apparently showing six copies of a purported California driver's license in the name of Kim Hecroft, showing his birth date as May 15, 1976. Upon information and belief, the document was fake and did not show a valid form of identification for Hecroft.

98. The other document was an image of a certificate, dated May 24, 2016, stating that "First Options Trading" had completed an "examination and training administered by Blockchain Council" to become a "Certified CryptoCurrency Expert." The certificate was purportedly signed by Toshendra Sharma, identified as Executive Director of Blockchain Council.

99. The Blockchain Council is, according to its website, "an authoritative group of experts and enthusiasts who are evangelizing the Blockchain Research, Development, Use Cases, Products and Knowledge for the better world [sic]," and has no role in licensing individuals or firms to trade any product. The purported certificate Hecroft sent D.P. was thus not a "trading license" for First Options and, upon information and belief, was fake and did not reflect anyone actually having completed an "examination and training administered by Blockchain Council" (an organization of which Toshendra Sharma has never served as "Executive Director").

100. D.P. used CoinSpot to transfer approximately two Bitcoins (worth approximately $15,000 at the time) to Hecroft to invest in the diamond trading investment offer.

101. On or about May 25, 2018, Hecroft confirmed to D.P. that he had received the funds, stating: "Your portfolio has been set up and trading will commence immediately, meantime you'll also be receiving payouts today on your former portfolio [sic]."

102. On or about May 26, 2018, in response to D.P. informing Hecroft that she had informed a friend about the binary options trading investment opportunity (in which D.P. had invested $1,000), Hecroft encouraged D.P. to recruit her friend to invest, stating that the friend's participation "would expand your earnings in referral commissions," and assuring D.P. that "FirstOptions is based and regulated in the Us [sic]," that binary options are "strictly regulated by various bodies like SEC, CFTC, [and] Blockchain Council," and that "FirstOptions is regulated by the aforementioned bodies including Blockchain Council." These statements were knowingly false because, among other things, as noted above, Blockchain Council is not a regulator of binary options or anything else.

103. On or about June 11, 2018, Hecroft represented to D.P. that her funds had been so profitably traded that she had approximately ten Bitcoins in her First Options account.

104. Upon information and belief, Hecroft was not engaged in any profitable binary options or diamond trading activity during the Relevant Period, and was not involved in any legitimate trading business under the name First Options or otherwise.

3. Hecroft's Fraudulent Use of the CFTC Seal and Forged CFTC Memoranda

105. On or about June 11, 2018, D.P. inquired with Hecroft about the procedure for withdrawing funds from her First Options account. In response, Hecroft sent D.P. an email and

PDF attachment—a copy of which is annexed as Exhibit 2 to this Complaint—purporting to require D.P. to transfer funds to the CFTC prior to liquidating her account.

106. Exhibit 2 consisted of a three-page memorandum substantially identical to the forged document that Hunt sent to L.M. (Exhibit 1)—and had the same document "Author" in the PDF metadata—except that the attachment Hecroft sent D.P. was dated June 6, 2018; purported to apply to portfolios "above 5BTC" only; and provided a specific "approved CFTC wallet" address to which investors were instructed to send their tax payment.

107. Just as Hunt did in his communications with L.M., Hecroft told D.P. that the CFTC tax had "to be paid separately by the investor prior to liquidation"—i.e., could not be paid out of D.P.'s First Options account balance.

108. Although Exhibit 2 referred to a "tax obligation" to the CFTC, Hecroft's email portrayed the payment to the CFTC as taking the place of the one Bitcoin fee that Hecroft had previously disclosed to D.P.: "Withdrawal is made within 24 hours after liquidation protocol is complied with, as recently, there was a shift in withdrawal policy whereby investors who operate portfolios above 5 BTC are to remit their commissions to a CFTC designated wallet, prior to liquidation, in this case which is 1 BTC. When this has been complied with, then CFTC notifies the Investment brokerage within 24 hours of such compliance, who in turn liquidates at the point of reception of that notice. Enclosed is the CFTC memo on the new policy and the compliance procedure."

109. Exhibit 2 was printed on CFTC letterhead, including the official CFTC seal.

110. As Hecroft knew when he sent Exhibit 2 to D.P., the document was a forgery intended to deceive D.P. into believing that she would have to pay a tax to the CFTC before withdrawing her funds.

111. The portion of Exhibit 2 concerning a tax payable to the CFTC was not written by the CFTC's General Counsel or any other CFTC official, but instead was fabricated, upon information and belief, by Defendants or someone acting in concert with Defendants for the purpose of deceiving customers such as D.P.

112. In reliance on Exhibit 2, on or about June 12, 2018, D.P. transferred approximately one Bitcoin (equivalent to approximately ten percent of her purported account balance in respect of her diamond trading investment) to the wallet address provided in Exhibit 2. That address was not for a wallet associated with the CFTC, but instead, upon information and belief, was for a wallet controlled by Hecroft or someone acting in concert with Hecroft.

113. Hecroft subsequently induced D.P. not to fully liquidate her account—which purportedly contained tens of thousands of dollars' worth of Bitcoins—by offering her the opportunity to invest another two Bitcoins in diamond trading, on the same terms as she had previously done, and telling her that favorable tax treatment would result if she withdrew only $3,000 worth of Bitcoins from her account.

114. On or about June 13, 2018, Hecroft, using the wallet address purportedly controlled by the CFTC, transferred approximately $3,000 worth of Bitcoins to D.P., and told D.P. that a second diamond trading portfolio was being set up for D.P., inducing D.P. to transfer another one Bitcoin to Hecroft—at that time worth approximately $6,500.

115. On or about June 28, 2018, when D.P. requested to withdraw funds from her First Options account in respect of her second diamond trading portfolio, Hecroft induced D.P. to make an additional one Bitcoin payment purportedly to the CFTC, by transferring approximately $2,500 worth of Bitcoin to D.P. as a personal loan from Hecroft.

116. On or about July 1, 2018, Hecroft informed D.P. that the CFTC had still not received D.P.'s June 28, 2018 payment of one Bitcoin.

117. Hecroft then sent D.P. fake correspondence between First Options and the CFTC purporting to document a supposed dispute over D.P.'s attempts to pay the CFTC tax.

118. Hecroft sent D.P. a PDF document containing a letter dated July 3, 2018, addressed to the CFTC General Counsel's office, on the letterhead of "First Options Bitcoin Investment Management," signed by Hecroft as "Investment Portfolio Manager/Fund Manager," asking the CFTC to "confirm reception [sic]" of D.P.'s June 29 payment to the CFTC's wallet address. No such letter was actually sent by Hecroft to the CFTC.

119. Hecroft then sent D.P. another PDF document, a copy of which is annexed as Exhibit 3 to this Complaint, containing a memorandum from the CFTC General Counsel to First Options (hereinafter "Exhibit 3"), dated July 6, 2018, purporting to respond to Hecroft's July 3 letter, and stating that the issue was "being resolved by the CFTC Appeals complaints [sic]" and promising to resolve the issue "within 30 working days."

120. Exhibit 3 was printed on CFTC letterhead, including the official CFTC seal.

121. As Hecroft knew when he sent Exhibit 3 to D.P., the document was a forgery, and was not written by the CFTC's General Counsel or any other CFTC official, but instead was fabricated, upon information and belief, by Defendants or someone acting in concert with Defendants for the purpose of deceiving D.P. and preventing her from discovering Hecroft's fraudulent scheme.

122. When D.P. told Hecroft that she needed access to her account funds to pay medical bills and that she had no available funds left, and suggested that she would contact the CFTC directly, Hecroft continued in his attempts to defraud D.P. of more funds, by arranging, on

or about July 11-12, 2018, for D.P. to receive transfers of Bitcoins worth approximately $4,500, purportedly in respect of a $3,000 loan from Folley and an additional $1,500 loan from Hecroft. On or about July 12, 2018, D.P. transferred an additional one Bitcoin to a wallet address provided by Hecroft.

123. On or about July 19, 2018, Hecroft sent D.P. another fake First Options letter addressed to the CFTC General Counsel's office, dated July 18, 2018, this time purportedly written by "Steven McGill," "Liquidation Officer" for "Firs Options Investment [sic]"—i.e., a person with the same name as the purported "Liquidation Officer" for Hunt's "Diamonds Trading Investment House." The letter, though purportedly addressed to the CFTC, directly addressed D.P. (e.g., referring to her investment portfolio as "your portfolio") and stated that Hecroft had committed "professional misconduct" by misappropriating $1,500 from another customer for D.P.'s benefit. No such letter was actually sent to the CFTC.

124. On or about July 19, 2018, D.P. forwarded to Hecroft an email from the CFTC Office of Customer Outreach and Education confirming that the CFTC does not accept tax payments. Hecroft still refused to acknowledge that his repeated demands for transfers of one Bitcoin to the purported "CFTC wallet" had been fraudulent. Instead, similar to Hunt's reaction when L.M. confronted him with the truth, Hecroft continued to insist, in an email on or about July 22, 2018, that the "tax" was real:

> In response to your curiosity regarding the tax issue on your Diamond Portfolio, it is with note [sic] that the CFTC oversees all Pre-liquidation and also meddles with investors funds which was meant for trading on designated contract markets which is kept apart from the Futures Commissions Merchant's (FCM) own funds.
>
> Moreover, the CFTC Regulations, vests the CFTC with omnibus powers which gives it leverage to exercise a large spectra of discretion during liquidation.

125. On or about July 23, 2018, Hecroft transferred to D.P. approximately $1,000 worth of Bitcoins—purportedly to honor her request for the return of her original principal investment—inducing D.P. to then transfer approximately $1,500 worth of Bitcoins to Hecroft in order to repay the funds Hecroft had supposedly misused according to the fake July 18 letter.

126. Hecroft subsequently justified his refusal to permit D.P. to liquidate funds from her account—purportedly hundreds of thousands of dollars' worth of Bitcoins—by fabricating documents concerning a purported dispute concerning the loan supposedly extended to D.P. by Folley.

127. Of particular note, Hecroft sent D.P. a letter dated August 2, 2018, on the letterhead of "First Options Bitcoin Investment Management," purportedly written by Steven McGill (again identified as "Liquidation Officer" for "Firs Options Investment [sic]"), stating that "Eva Marie" was demanding the return of her $3,000 loan, and indicating that D.P.'s portfolio at First Options contained 25.11 Bitcoins.

128. On or about August 3, 2018, D.P. asked Hecroft for the return of seven Bitcoins—i.e., two Bitcoins for the principal invested in each of her two diamond trading portfolios, and one Bitcoin for each of her three purported tax payments to the CFTC.

129. In response, Hecroft provided D.P. with letters from McGill, dated August 3, 2018, promising to refund 7.1 Bitcoins to D.P.—over $45,000—provided that D.P. first transferred $1,200 worth of Bitcoins to pay a "liquidation fee" and subsequently repay $3,000 to "Foley [sic]" and $1,500 to Hecroft.

130. On or about August 4, 2018, D.P. transferred approximately $1,200 worth of Bitcoins to a wallet address provided by Hecroft. When D.P. inquired about the status of her refund, Hecroft sent D.P., on or about August 6, 2018, a series of JPG documents purporting to

show that Folley had filed a "Complaint and Request for Injunction," dated August 6, 2018, which, Hecroft claimed, prevented First Options from liquidating D.P.'s account until D.P. repaid Folley's loan.

131. The "Complaint and Request for Injunction" reflected a pending action in the U.S. District Court for the Western District of Washington captioned "Eva-Marie Foley [sic] v. First Options Investment Company LTD [sic]," with case number CV42108-18. No such lawsuit has been filed in that Court.

132. On or about August 9, 2018, Hecroft told D.P. that First Options had determined to credit D.P. one Bitcoin—increasing her account balance to 8.1 Bitcoins.

133. On or about August 22, 2018, Hecroft emailed D.P. again, stating that Folley planned to bring another lawsuit, this time in D.P.'s "home country."

134. To date, D.P. has not been repaid any of the 8.1 Bitcoins purportedly credited to her account with First Options, and she has suffered losses in excess of $31,000.

V.

VIOLATIONS OF THE COMMODITY EXCHANGE ACT AND COMMISSION REGULATIONS

COUNT ONE

Violations of Section 4b(a)(2)(A)-(C) of the Act and Regulation 5.2 (Forex Fraud—Hunt)

135. The allegations set forth in paragraphs 1 through 134 above are re-alleged and incorporated herein by reference.

136. Section 4b(a)(2)(A)-(C) of the Act, 7 U.S.C. § 6b(a)(2)(A)-(C) (2012), makes it unlawful:

> for any person, in or in connection with any order to make, or the making of, any contract of sale of any commodity for future delivery, or swap, that is made, or to be made, for or on behalf of,

> or with, any other person, other than on or subject to the rules of a designated contract market—(A) to cheat or defraud or attempt to cheat or defraud the other person; (B) willfully to make or cause to be made to the other person any false report or statement or willfully to enter or cause to be entered for the other person any false record; [or] (C) willfully to deceive or attempt to deceive the other person by any means whatsoever in regard to any order or contract or the disposition or execution of any order or contract, or in regard to any act of agency performed, with respect to any order or contract for or . . . with the other person.

137. Pursuant to Section 2(c)(2)(C)(iv) of the Act, 7 U.S.C. § 2(c)(2)(C)(iv) (2012), 7 U.S.C. § 6b(a)(2) applies to Hunt's purported foreign currency transactions "as if" they were contracts of sale of a commodity for future delivery.

138. Regulation 5.2(b), 17 C.F.R. § 5.2(b) (2018), provides that it shall be unlawful for any person, by use of the mails or by any means or instrumentality of interstate commerce, directly or indirectly, in or in connection with any retail forex transaction: (1) to cheat or defraud or attempt to cheat or defraud any person; (2) willfully to make or cause to be made to any person any false report or statement or cause to be entered for any person any false record; or (3) willfully to deceive or attempt to deceive any person by any means whatsoever.

139. By the conduct alleged above, Hunt violated 7 U.S.C. § 6b(a)(2)(A)-(C) and 17 C.F.R. § 5.2(b) by cheating or defrauding or attempting to cheat or defraud customers, by willfully making or causing to be made false statements to customers, and by willfully deceiving or attempting to deceive customers, in connection with Hunt's offers to customers to enter into forex transactions. Among other things, Hunt: (1) misrepresented to at least one customer that his funds would be pooled and used to invest in, among other things, forex contracts for the benefit of the customer; (2) misrepresented to potential customers and at least one actual customer that Hunt had lengthy experience as a professional portfolio manager and was profitably trading forex contracts; (3) misrepresented to at least one customer that Hunt was

using his funds to trade forex contracts and was doing so profitably, including by providing the customer with fake account statements; (4) misrepresented to at least one customer that he could not withdraw any of his purported profits from trading forex unless he first paid a tax to the CFTC, including by arranging for the customer to speak to a person impersonating a CFTC employee and providing the customer with a fake CFTC memorandum; and (5) misappropriated the funds of at least one customer for unauthorized purposes rather than investing the funds for the customer's benefit.

140. Hunt directly engaged in the acts and practices described above willfully, knowingly, or with reckless disregard as to whether his representations were true or false.

141. Each misrepresentation, omission of material fact, false statement, and misappropriation, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of 7 U.S.C. § 6b(a)(2)(A)-(C) and of 17 C.F.R. § 5.2(b).

COUNT TWO

Violations of Section 4*o*(1) of the Act
(Fraud by Commodity Pool Operator—Hunt)

142. The allegations set forth in paragraphs 1 through 134 are re-alleged and incorporated herein by reference.

143. During the Relevant Period, Hunt acted as a commodity pool operator ("CPO"), as defined by Section 1a(11)(A)(i)(III) of the Act, 7 U.S.C. § 1a(11)(A)(i)(III) (2012), in that he engaged in a business that is of the nature of an investment trust, syndicate, or similar form of enterprise, operated for the purpose of trading in commodity interests and, in connection therewith, solicited, accepted, or received from others, funds, securities, or property (in the form of Bitcoins), either directly or through capital contributions, the sale of stock or other forms of securities, or otherwise, for the purpose of trading in commodity interests, including, in relevant

part, leveraged off-exchange forex transactions offered to persons that are not eligible contract participants, as described in Section 2(c)(2)(C)(i) of the Act, 7 U.S.C. § 2(c)(2)(C)(i) (2012).

144. Section 4*o*(1) of the Act, 7 U.S.C. § 6*o*(1) (2012), prohibits CPOs, whether registered with the Commission or not, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, from employing devices, schemes, or artifices to defraud any client or participant or prospective client or participant, or engaging in transactions, practices, or courses of business which operate as a fraud or deceit upon any client or participant or prospective client or participant.

145. By the conduct alleged above, Hunt violated 7 U.S.C. § 6*o*(1), in that, while acting as a CPO, by use of the mails or any means or instrumentality of interstate commerce (including Facebook and email), he directly or indirectly employed a device, scheme, or artifice to defraud a client or participant or engaged in transactions, practices, or courses of business which operated as a fraud or deceit upon a client or participant.

146. Among other things, Hunt: (1) misrepresented to at least one customer that his funds would be pooled and used to invest in, among other things, forex contracts for the benefit of the customer; (2) misrepresented to potential customers and at least one actual customer that Defendant had lengthy experience as a professional portfolio manager and was profitably trading forex contracts; (3) misrepresented to at least one customer that Defendant was using his funds to trade forex contracts and was doing so profitably, including by providing the customer with fake account statements; (4) misrepresented to at least one customer that the customer could not withdraw any of his purported profits from trading forex unless he first paid a tax to the CFTC, including by arranging for the customer to speak to a person impersonating a CFTC employee and providing the customer with a fake CFTC memorandum; and (5) misappropriated the funds

of at least one customer for unauthorized purposes rather than investing the funds for the customer's benefit.

147. Hunt directly engaged in the acts and practices described above willfully, knowingly, or with reckless disregard as to whether his representations were true or false.

148. Each misrepresentation, omission of material fact, false statement, and misappropriation, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of Section 4*o*(1) of the Act, 7 U.S.C. § 6*o*(1).

COUNT THREE

Violations of Section 6(c)(1) of the Act and Regulation 180.1(a)
(Fraud by Deceptive Device or Contrivance—Both Defendants)

149. The allegations set forth in paragraphs 1 through 134 are re-alleged and incorporated herein by reference.

150. Section 6(c)(1) of the Act, 7 U.S.C. § 9(1) (2012), makes it unlawful for any person, directly or indirectly, to:

> use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance, in contravention of such rules and regulations as the Commission shall promulgate by not later than 1 year after [July 21, 2010, the date of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act].

151. Section 1a(47)(A) of the Act, 7 U.S.C. § 1a(47)(A) (2012), defines "swap" to include, among other things, any agreement, contract, or transaction that: (a) is an option of any kind; (b) provides for payment dependent on the occurrence, nonoccurrence, or the extent of the occurrence of an event or contingency; or (c) provides on an executory basis for payments based on the value or level of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic

interests or property of any kind, without also conveying an ownership interest in any asset or liability.

152. Section 2(c)(2)(C)(ii)(I) of the Act, 7 U.S.C.§ 2(c)(2)(C)(ii)(I) (2012), makes 7 U.S.C. § 9(1) applicable to retail forex transactions.

153. Regulation 180.1(a), 17 C.F.R. § 180.1(a) (2018), provides, in part:

> It shall be unlawful for any person, directly or indirectly, in connection with any swap, or contract of sale of any commodity in interstate commerce, or contract for future delivery on or subject to the rules of any registered entity, to intentionally or recklessly:
>
> (1) Use or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud;
>
> (2) Make, or attempt to make, any untrue or misleading statement of a material fact or to omit to state a material fact necessary in order to make the statements made not untrue or misleading; [or]
>
> (3) Engage, or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person . . . .

154. During the Relevant Period, as described above, Defendants violated Section 6(c)(1) of the Act and Regulation 180.1(a) by, among other things, in connection with swaps (i.e., binary options), forex, and other contracts of sale of commodities in interstate commerce (e.g., diamonds), making or attempting to make untrue or misleading statements of material fact or omitting to state or attempting to omit material facts necessary in order to make statements made not untrue or misleading, including: (1) misrepresenting to customers that their funds would be used to invest in trading for the customers' benefit; (2) misrepresenting to customers their experience and track record as traders and portfolio managers; (3) misrepresenting that they were using customer funds to trade commodity interests and were doing so profitably, including by providing customers with fake account statements; (4) misrepresenting to customers that they could not withdraw any of their purported investment

profits unless they first paid a tax to the CFTC; and (5) misappropriating customer funds for unauthorized purposes rather than investing the funds for the customers' benefit.

155. Defendants engaged in the acts and practices described above willfully, intentionally, or recklessly.

156. Each act of (1) using or employing, or attempting to use or employ, a manipulative device, scheme, or artifice to defraud; (2) making, or attempting to make, untrue or misleading statements of material fact, or omitting to state material facts necessary to make the statements not untrue or misleading; and (3) engaging, or attempting to engage, in any act, practice, or course of business, which operated or would operate as a fraud or deceit upon any person, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation of 7 U.S.C. § 9(1) and 17 C.F.R. § 180.1(a).

VI.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court, as authorized by Section 6c of the Act, 7 U.S.C. § 13a-1 (2012), and pursuant to its equitable powers, enter an order:

A. Finding that Hunt violated Sections 4b(a)(2)(A)-(C), 4*o*(1), and 6(c)(1) of the Act, 7 U.S.C. §§ 6b(a)(2)(A)-(C), 6*o*(1), 9(1) (2012), and Regulations 5.2(b) and 180.1(a), 17 C.F.R. §§ 5.2(b), 180.1(a) (2018);

B. Finding that Hecroft violated 7 U.S.C. § 9(1) and 17 C.F.R. § 180.1(a);

C. Permanently enjoining Hunt and any other person or entity in active concert with him from engaging in conduct in violation of 7 U.S.C. §§ 6b(a)(2)(A)-(C), 6*o*(1), 9(1), and 17 C.F.R. §§ 5.2(b), 180.1(a);

D. Permanently enjoining Hecroft and any other person or entity in active concert with him from engaging in conduct in violation of 7 U.S.C. § 9(1), and 17 C.F.R. § 180.1(a);

E. Permanently enjoining Defendants and any other person or entity in active concert with them from, directly or indirectly:

1. Trading on or subject to the rules of any registered entity (as that term is defined in Section 1a(40) of the Act, 7 U.S.C. § 1a(40) (2012));

2. Entering into any transactions involving "commodity interests" (as that term is defined in Regulation 1.3, 17 C.F.R. § 1.3 (2018)) for their own personal account or for any account in which they have a direct or indirect interest;

3. Having any commodity interests traded on their behalf;

4. Controlling or directing the trading for or on behalf of any other person or entity, whether by power of attorney or otherwise, in any account involving commodity interests;

5. Soliciting, receiving, or accepting any funds from any person for the purpose of purchasing or selling any commodity interests;

6. Applying for registration or claiming exemption from registration with the Commission in any capacity, and engaging in any activity requiring such registration or exemption from registration with the Commission, except as provided for in Regulation 4.14(a)(9), 17 C.F.R. § 4.14(a)(9) (2018); and

7. Acting as a principal (as that term is defined in Regulation 3.1(a), 17

C.F.R. § 3.1(a) (2018)), agent or any other officer or employee of any person (as that term is defined in Section 1a(38) of the Act, 7 U.S.C. § 1a(38) (2012)) registered, exempted from registration, or required to be registered with the Commission except as provided for in 17 C.F.R. § 4.14(a)(9);

F. Directing Defendants to disgorge, pursuant to such procedure as the Court may order, all benefits received from the acts or practices which constitute violations of the Act and the Regulations, as described herein, and pre- and post-judgment interest thereon from the date of such violations;

G. Directing Defendants to make full restitution, pursuant to such procedure as the Court may order, to every customer whose funds they received or caused another person or entity to receive as a result of acts and practices which constitute violations of the Act and the Regulations, as described herein, and pre- and post-judgment interest from the date of such violations;

H. Directing Defendants to rescind, pursuant to such procedures as the Court may order, all contracts and agreements, whether implied or express, entered into between them and any customer whose funds were received by them as a result of the acts and practices which constituted violations of the Act and the Regulations as described herein;

I. Directing Defendants to pay a civil monetary penalty, to be assessed by the Court, in an amount not to exceed the penalty prescribed by Section 6c(d)(1) of the Act, 7 U.S.C. § 13a-1(d)(1) (2012), as adjusted for inflation pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Pub. L.

114-74, tit. VII, § 701, 129 Stat. 584, 599-600, *see* Regulation 143.8, 17 C.F.R. § 143.8 (2018), for each violation of the Act and Regulations, as described herein;

J. Directing that Defendants make an accounting to the Court of all of their assets and liabilities, together with all funds they received from and paid to investors and other persons in connection with commodity interests and all disbursements for any purpose whatsoever of funds received from commodity interests, including salaries, commissions, interest, fees, loans, and other disbursement of money or property of any kind from at least January 1, 2017, to the date of such accounting;

K. Requiring Defendants to pay costs and fees as permitted by 28 U.S.C. §§ 1920 and 2412(a)(2) (2012); and

L. Granting such other and further relief as the Court deems proper.

September 28, 2018

Respectfully submitted,
COMMODITY FUTURES TRADING COMMISSION

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Office of the General Counsel

MEMORANDUM

TO: INVESTMENT BROKERAGES/ TRADERS

FROM: Daniel J. Davis, General Counsel~

DATE: March 10, 2018

SUBJECT: Guidance Regarding Ethics Laws and Regulations Related to Tax Obligations/ Liquidation in Cryptocurrencies Portfolios.

CFTC Ethics has received numerous inquiries regarding the holding of or transacting in cryptocurrencies, or virtual currencies, such as Bitcoin. The following guidance discusses the rules related to Tax obligations/ Liquidation holding and of Portfolios in cryptocurrencies. The CFTC has determined that cryptocurrencies, such as Bitcoin, are commodities under the Commodity Exchange Act ("CEA").
[1] Because cryptocurrencies such as Bitcoin are commodities, they are not prohibited interests.
2 However, the ethics rules and regulations related to CFTC employee transactions in commodities will apply to your holdings and transactions in cryptocurrencies. ***Please note that ethics guidance varies from person to person based on various facts and circumstances. The fact that your colleague has been cleared to engage in virtual currency transactions does not mean that you may do so as well.***

This guidance is provided to help you understand your ethical obligations and assist you in complying with the requirements of the CEA, 7 U.S.C. 13(c) and (d)(l), the CFTC's supplemental ethics regulations at 5 C.F .R. 5101 and 17 C.F .R. 140. 73 5, and other Federal conflicts of interest statutes. This guidance is not a substitute for obtaining ethics advice. Please seek ethics advice when you have any questions about these types of transactions or any other ethics issue.

[1] For more information about cryptocurrencies and Bitcoin, see LabCFTC's "A CFTC Primer on Virtua] Currencies" or visit http://www.cftc.gov/Bitcoin/index.htm.

[2] Cryptocurrency, and commodities in general, do not fall within the definition of a prohibited interest as described by 17 C.F.R. 140.735-2a(b).

As a general matter, you should keep the following in mind when considering owning or engaging in transactions in cryptocurrencies:

- If your knowledge of cryptocurrencies is gained from the CFTC and your holdings or transactions of virtual currencies would lead a reasonable person to question your conduct, you may run afoul of the agency's ethical standards.
- You can own or transact in derivatives products (i.e., futures or swaps) regulated by the Commission.that are based on cryptocurrencies provided you have the necessary certifications (or any other commodity). For example, you can own or transact in Bitcoin futures products.
- _You cannot purchase cryptocurrencies, such as Bitcoin, on margin.
- You cannot transact in cryptocurrencies if you have nonpublic information regarding cryptocurrencies. Thus, if your job at the CFTC brings you in contact with information regarding enforcement actions regarding cryptocurrencies, surveillance of cryptocurrencies, or policy decisions regarding cryptocurrencies, you most likely have nonpublic information regarding cryptocurrencies and cannot trade them.
- Simply holding cryptocurrency or other commodities may not create an 18 U.S.C. 208 conflict of interest for you. However, if you participate personally and substantially in a particular matter that will directly or predictably affect your financial interests or your imputed financial interests (i.e., the financial interests or your spouse, dependents, and others, including certain business relationships), and you believe that your financial interest in the cryptocurrency (or the interest of your spouse, minor child, or other interested person) will also be affected, seek ethics advice before participating in the matter.

Endeavor to avoid any actions creating the appearance that you are violating the law.

Cryptocurrencies and their regulatory environment are evolving at a rapid pace and gaining significant attention from regulated entities and the public at large. In this environment, the situation is ripe for the public to question the personal ethics of employees engaging in cryptocurrency transactions. Please keep in mind that you must endeavor to avoid any actions creating the appearance that you are violating the law or government and Commission ethical standards. *See* 5 C.F.R. 2635.10l(b)(l4). Even if after reviewing this guidance, you think that you can transact in cryptocurrency without

violating any rules, ask yourself if a reasonable person given all of the facts would question your ethics. If so, then you should not engage in transactions for cryptocurrency. However, if you decide to engage in transactions for cryptocurrencies, we strongly encourage you to first seek ethics advice.

Liquidation Guidelines and Tax Obligations Of The Investing Party.

A Portfolio with Crytpocurrencies with leverage outside the Jurisdiction of CFTC incures a tax obligation of 10% at Liquidation.

Compliance with the aforementioned rule, shall be communincated to the Investment Brokerage/ Trader who shall in turn liquidate the portfolio after an authorization from the Tax Regulatory Unit.

Tax evasion at Liquidation is treated as a felony and in the event of such, the penalties specified by the Commodities Exchange Act prevails.

Failure to liquidate by after the pre-requisites, stipulated above have been complied with by the Investing Party, is an shall be treated as a felony which in turn, has the implications as prescribed by the Commodities Exchange Act on the Investment Brokerage/ Trader

Daniel J. Davis

U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
www.cftc.gov

Office of the General Counsel

MEMORANDUM

TO: INVESTMENT BROKERAGES/ TRADERS

FROM: Daniel J. Davis, General Counsel~

DATE: June 6th, 2018

SUBJECT: Guidance Regarding Ethics Laws and Regulations Related to Tax Obligations/ Liquidation in Cryptocurrencies Portfolios Above 5BTC.

CFTC Ethics has received numerous inquiries regarding the holding of or transacting in cryptocurrencies, or virtual currencies, such as Bitcoin. The following guidance discusses the rules related to Tax obligations/ Liquidation holding and of Portfolios in cryptocurrencies. The CFTC has determined that cryptocurrencies, such as Bitcoin, are commodities under the Commodity Exchange Act ("CEA").
[1] Because cryptocurrencies such as Bitcoin are commodities, they are not prohibited interests.
2 However, the ethics rules and regulations related to CFTC employee transactions in commodities will apply to your holdings and transactions in cryptocurrencies. ***Please note that ethics guidance varies from person to person based on various facts and circumstances. The fact that your colleague has been cleared to engage in virtual currency transactions does not mean that you may do so as well.***

This guidance is provided to help you understand your ethical obligations and assist you in complying with the requirements of the CEA, 7 U.S.C. 13(c) and (d)(l), the CFTC's supplemental ethics regulations at 5 C.F .R. 5101 and 17 C.F .R. 140. 73 5, and other Federal conflicts of interest statutes. This guidance is not a substitute for obtaining ethics advice. Please seek ethics advice when you have any questions about these types of transactions or any other ethics issue.

[1] For more information about cryptocurrencies and Bitcoin, see LabCFTC's "A CFTC Primer on Virtua] Currencies" or visit http://www.cftc.gov/Bitcoin/index.htm.

[2] Cryptocurrency, and commodities in general, do not fall within the definition of a prohibited interest as described by 17 C.F.R. 140.735-2a(b).

As a general matter, you should keep the following in mind when considering owning or engaging in transactions in cryptocurrencies:

- If your knowledge of cryptocurrencies is gained from the CFTC and your holdings or transactions of virtual currencies would lead a reasonable person to question your conduct, you may run afoul of the agency's ethical standards.
- You can own or transact in derivatives products (i.e., futures or swaps) regulated by the Commission.that are based on cryptocurrencies provided you have the necessary certifications (or any other commodity). For example, you can own or transact in Bitcoin futures products.
- _You cannot purchase cryptocurrencies, such as Bitcoin, on margin.
- You cannot transact in cryptocurrencies if you have nonpublic information regarding cryptocurrencies. Thus, if your job at the CFTC brings you in contact with information regarding enforcement actions regarding cryptocurrencies, surveillance of cryptocurrencies, or policy decisions regarding cryptocurrencies, you most likely have nonpublic information regarding cryptocurrencies and cannot trade them.
- Simply holding cryptocurrency or other commodities may not create an 18 U.S.C. 208 conflict of interest for you. However, if you participate personally and substantially in a particular matter that will directly or predictably affect your financial interests or your imputed financial interests (i.e., the financial interests or your spouse, dependents, and others, including certain business relationships), and you believe that your financial interest in the cryptocurrency (or the interest of your spouse, minor child, or other interested person) will also be affected, seek ethics advice before participating in the matter.

Endeavor to avoid any actions creating the appearance that you are violating the law.

Cryptocurrencies and their regulatory environment are evolving at a rapid pace and gaining significant attention from regulated entities and the public at large. In this environment, the situation is ripe for the public to question the personal ethics of employees engaging in cryptocurrency transactions. Please keep in mind that you must endeavor to avoid any actions creating the appearance that you are violating the law or government and Commission ethical standards. *See* 5 C.F.R. 2635.10l(b)(l4). Even if after reviewing this guidance, you think that you can transact in cryptocurrency without

violating any rules, ask yourself if a reasonable person given all of the facts would question your ethics. If so, then you should not engage in transactions for cryptocurrency. However, if you decide to engage in transactions for cryptocurrencies, we strongly encourage you to first seek ethics advice.

Liquidation Guidelines and Tax Obligations Of The Investing Party.

A Portfolio (above 5BTC) with Crytpocurrencies with leverage outside the Jurisdiction of CFTC incures a tax obligation of 10% at Liquidation which is to be remitted to the approved CFTC wallet.

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Compliance with the aforementioned rule, shall be communincated to the Investment Brokerage/ Trader who shall in turn liquidate the portfolio after an authorization from the Tax Regulatory Unit within 24hours of after the compliance has been confirmed.

Tax evasion at Liquidation is treated as a felony and in the event of such, the penalties specified by the Commodities Exchange Act prevails.

Failure to liquidate by after the pre-requisites, stipulated above have been complied with by the Investing Party, is an shall be treated as a felony which in turn, has the implications as prescribed by the Commodities Exchange Act on the Investment Brokerage/ Trader

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Office of the General Counsel

TO: FIRST OPTIONS

FROM: Daniel J. Davis, General Counsel~

DATE: July 6, 2018

SUBJECT: Re; Reply To D[redacted] P[redacted] Protest Letter.

RE: D[redacted] P[redacted] PROTEST LETTER

In response to your letter dated July 3RD on behalf of the aforementioned client, we have reviewed your complaints and all the accompanying documents which supports your claim of 1 BTC which was made vide a CFTC wallet address 1Q6JZXdHnfhBQgRcexhWFynLqoJ72QBUB on the 29th of June 2018 .

This is being resolved by the CFTC Appeals complaints as we received similar complaints of investors who had complied with this commission vide the same wallet address and this will be resolved within 30 working days.

We understand how adversely this may have on your company's reputation and more importantly, your clients interest and efforts are being in place to ameliorate this situation.

Please accept our apologies on this.

Daniel J. Davis
General counsel