



Customer Advisory: Beware Virtual Currency Pump-and-Dump Schemes

The U.S. Commodity Futures Trading Commission (CFTC) is advising customers to avoid pump-and-dump schemes that can occur in thinly traded or new “alternative” virtual currencies and digital coins or tokens. Customers should not purchase virtual currencies, digital coins, or tokens based on social media tips or sudden price spikes. Thoroughly research virtual currencies, digital coins, tokens, and the companies or entities behind them in order to separate hype from facts.

Pump-and-dump schemes have been around long before virtual currencies and digital tokens. Historically, they were the domain of “boiler room” frauds that aggressively peddled penny stocks by falsely promising the companies were on the verge of major breakthroughs, releasing groundbreaking products, or merging with blue chip competitors. As demand in the thinly traded companies grew, the share prices would rise. When the prices reached a certain point, the boiler rooms would dump their remaining shares on the open market, the prices would crash, and investors were left holding nearly worthless stock.

Old Scam, New Technology

The same basic fraud is now occurring using little known virtual currencies and digital coins or tokens, but thanks to mobile messaging apps or Internet message boards, today’s pump-and-dumpers don’t need a boiler room, they organize anonymously and hype the currencies and tokens using social media.

Some of these pump-and-dump groups and chat rooms contain thousands of members. The members subscribe to the group and follow the conversations as they indicate when the next pump-and-dump will occur. On the day of the scam, the organizer counts down the buy signal:

“15 mins left before the pump! Get ready to buy”

“5 minutes till pump, next message will be the coin! Tweet about us and send everyone the link to telegram (sic) for outsiders to see what we are pumping so they can get in on the action too!! lets (sic) take it to the MOON!!!!!!”

Blow the whistle on pump-and-dump schemers

Virtual currency and digital token pump-and-dump schemes continue because they are mostly anonymous.

If you have original information that leads to a successful enforcement action that leads to monetary sanctions of \$1 million or more, you could be eligible for a monetary award of between 10 percent and 30 percent.

For more information, or to submit a tip, visit the CFTC’s [whistleblower.gov](https://www.cftc.gov/whistleblower) website.



The next post announces the coin that will be bid up, followed by the exchange platform where the pump will take place.

Some pump and dumps use false news reports, typically about a famous high-tech business leader or investor who plans to pour millions of dollars into a small, lesser known virtual currency or coin. Other fake news stories have featured major retailers, banks, or credit card companies, announcing plans to partner with one virtual currency or another. Links to the phony stories are also accompanied by posts that create false urgency and tell readers to buy now.

Once the pump begins, it can be over in a matter of minutes. In the example above, the buy and sell cycle was over in less than eight minutes. Commonly, it is the people pulling the strings who get out first making the most in the scheme, and leaving everyone else scrambling to sell before losing their investment.

These pump and dumps occur in the largely unregulated cash market for virtual currencies and digital tokens, and typically on platforms that offer a wide array of coin pairings for traders to buy and sell. While the scams have been around as long as the virtual currency markets themselves, the number of new virtual currency and digital coin traders has grown substantially, increasing the number of potential victims or unwitting perpetrators.

The CFTC has received complaints from customers who have lost money to pump-and-dump schemes. While its regulatory oversight authority over commodity cash markets is limited, the CFTC maintains general anti-fraud and manipulation enforcement authority over virtual currency cash markets as a commodity in interstate commerce. In addition, some of the coin exchanges are taking measures to identify and block accounts that participate in pump-and-dump activities.

Protect Yourself

The best protection for customers is to only purchase alternative virtual currencies, digital coins, or tokens that have been thoroughly researched. Remember:

- Don't purchase digital coins or tokens because of a single tip, especially if it comes over social media.
- Don't believe ads or websites that promise quick wealth by investing in certain digital coins or tokens.
- Do not participate in pump-and-dump trades; market manipulation is against the law and many participants end up losing money.
- There is no such thing as a guaranteed investment or trading strategy. If someone tells you there is no risk of losing money, do not invest.

If you believe you may have been the victim of fraud, or to report suspicious activity, contact us at 866.366.2382 or visit [CFTC.gov/TipOrComplaint](https://www.cftc.gov/TipOrComplaint).