

**STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION**

IN THE MATTER OF:)	
)	
CHAIN GROUP ESCROW SERVICE)	
)	ADMINISTRATIVE ORDER
)	NO. CD-2018-0003
<u> RESPONDENT</u>)	

CEASE AND DESIST ORDER

The Alabama Securities Commission ("Commission"), having the authority to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Act"), upon due consideration of the subject matter hereof, has determined as follows:

RESPONDENT

1. **CHAIN GROUP ESCROW SERVICE ("CGES")** is an entity that purports to conduct business as an internet-based escrow company by means of the domain name, "chain.group" and is accessible via the websites: www.chain.group/4243 and www.chain.group/4823. The websites for CGES indicate that the web administrator is ENOM, LLC, located at 5808 Lake Washington Blvd. NE STE 201, Kirkland, Washington 98033 and via www.enom.com.

STATEMENT OF FACTS

2. In December 2017, an Alabama resident discovered CGES while searching the internet for a virtual currency trading software application that could execute searches and trade virtual currency without human intervention, commonly referred to as a "bot", in order to facilitate the exchange of virtual currency. Upon discovering the CGES website, the Alabama resident opened an investment trading group account and conducted an ACH transfer of USD funds in excess of \$10,000.00 to the CGES account.

3. According to the CGES website white paper and marketing materials, CGES is an independent international organization specializing in escrow services between investors and "Trade Groups" trading in cryptocurrencies. The "About" section contains the following

statement: “[m]aking an investment on this proposal, you are investing not in a third-party Trade Group, but directly in the service providing a process of interaction between investors and trade groups.” CGES also lists the following objectives:

- a) “Making a profit from the operation of the service;”
- b) “Liberalization of the trade in cryptocurrencies and creation of opportunities for making profits for civilians, who do not have sufficient expertise to trade in cryptocurrencies on their own;”
- c) “Popularization of independent decentralized cryptocurrencies as universal payment instruments;”

4. According to the CGES website, account holders may open a “Trade Group” account, deposit fiat and or virtual currency to the Trade Group and begin earning money every day.” In addition, CGES allows investors to deposit and withdraw currencies through exchanges such as “Bitcoin,” “Advcash,” “Exmo,” “Perfect Money,” and “Payer.”

5. CGES claims to pay investors 0.2% per day, “guaranteed,” over a 500-day period. CGES allows investors the option to choose from seven (7) separate trade groups to make cryptocurrency investments in entities such as *Dragon Foundation*, *X-BOTS* and *CloudShare*. These third-party trade groups are purportedly serviced by CGES but are not owned or managed by CGES. CGES trade group plans require a minimum deposit amount of \$10.00 and a maximum deposit of \$1 million USD. In addition, “investors can withdraw or compound profit daily.”

6. CGES fees are as follows: 0.5% for each internal transfer between investors; 0.5% per withdrawal amount from investor wallets; and a 2.5% fee on deposits.

7. The CGES marketing materials “Terms of Services” section makes the following claims about CGES:

- a) That CGES has one “[i]nvestment offer (investment plan),” aside from the third-party trade groups.
- b) That “[t]he service offers a 0.2% daily return for a term of 500 days plus 100% of principal refund after the 500 day term. It mean [sic] we offer to double your capital in 500 days.”

8. According to the CGES marketing materials, funds received for the investment plan will be applied to the following services:

- a) “Improvement of the technical complex of the service;”
- b) “Creating professional multimedia materials;”
- c) “Advertising the platform on AdWords and other platforms;”
- d) “Advertising the service online;”
- e) “Conducting market research to further the advertising campaign;”

9. CGES purportedly offers investors the following: an opportunity to pool invested funds in trade group accounts; the opportunity for trade groups to make their investment proposals; and it authorizes CGES investors to choose trade groups. CGES investors are guaranteed a profit as exorbitant as 0.25% daily.

10. On or about December 14, 2017, the Alabama resident deposited \$10,133.74 into a CGES trade group account. Upon receipt of the funds, CGES communicated with the Alabama resident that his/her current return of investment (“ROI”) would be a minimum of 0.1%. However, the subsequent ledgers issued to the Alabama resident indicated a return averaging between 2.1% and 2.5% daily.

11. On or about January 2018, the Alabama resident reviewed his/her online CGES account which indicated a current ROI of 20.51% or \$2078.43. The Alabama resident made several attempts to withdraw funds, in USD, from the trade group account. Each attempted withdrawal was met with an error code or a notice that the transaction was “pending.” Upon close examination of the block chain account, the Alabama resident discovered that the bitcoin wallet address used by the trade group was drained of all funds.

12. The CGES website marketing materials make no representations concerning the type of investment fund or interest-generating vehicle. The CGES materials make no representations regarding the corporate office location, identity of the principals of CGES, their management team or their expertise in the cryptocurrency field. Furthermore, the CGES marketing materials make no representations regarding the third-party agreements and conditions with the “Trade Groups.”

13. According to the CGES white paper “Legal Notice” section, CGES “[i]s not a legal entity registered in a country in the world,” and ... “[i]nvestments in any trade group may be outside the law depending on legislative acts of your country of citizenship.”

14. An internet Facebook search revealed that CGES has an active Facebook account under the name of “chain.group” and lists a phone number (202-600-8248) as the only contact information. An online search of the phone number revealed numerous complaints filed with the Federal Trade Commission related to telemarketing and high yield scams. The last activity on the Facebook account is a December 21, 2017, post stating: “Dear users, tomorrow we will start to return your money. For more information send us messages [sic]. We will be happy to pay back your money so please inform and tell your friends.”

15. On March 19, 2018, a review of the registration files of the Alabama Securities Commission revealed no record of registration, nor any perfected exemption from registration, for the securities offered and sold by CGES. In addition, the **RESPONDENT** was neither registered to offer or sell securities in Alabama nor exempt from registration.

16. A corporation search of the Alabama Secretary of State's online website revealed no registration for CGES as a business entity or foreign corporation authorized to do business in the State of Alabama.

CONCLUSIONS OF LAW

17. Pursuant to Section 8-6-2(10), Code of Alabama 1975, the definition of "security" includes investment contracts and profit sharing agreements. CGES' automated investment plans require investors to invest money into the common investment plan in order to pool their investments with other investors. Investors share and expect a profit, as represented by CGES, and the profit is derived from the managerial efforts of CGES. Therefore CGES' investment plans constitute investment contracts and profit sharing agreements and are "securities" as defined by the Act.

18. Pursuant to Section 8-6-4, Code of Alabama 1975, it is unlawful for any person to offer or sell any security in this state unless it is registered under the Act, the security is exempt from registration under Section 8-6-10; or the transaction is exempt under Section 8-6-11. The securities, i.e. the investment contracts and/or the profit sharing agreements offered and sold by CGES were neither registered nor subject to a perfected exemption from registration in Alabama at the time of solicitation or sale and were offered and sold in violation of the Act.

19. Pursuant to Section 8-6-2(5), Code of Alabama 1975, the definition of an "issuer" includes every person who proposes to issue, or has issued, any security. **RESPONDENT**, by issuing securities, to wit: investment contracts and/or profit sharing agreements, is an "issuer" as defined by the Act.

20. Pursuant to Section 8-6-17(a)(2), Code of Alabama 1975, it is unlawful for a person, in connection with the offer, sale or purchase of a security, to make or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading. **RESPONDENT** failed to disclose that the investments offered and sold by CGES were securities which required registration in the state of Alabama, a material omission, in violation of the Act.

21. Pursuant to Section 8-6-17(a)(3), Code of Alabama 1975, it is unlawful for a person, in connection with the offer, sale or purchase of a security, to engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon a person. Respondent CGES' business model- revealed through the website, marketing materials, and Facebook page contain information that is materially misleading or would otherwise deceive the public in violation of the Act.

This Order does not prevent the Commission from seeking such other civil or criminal remedies that are available to it under the Act.

This Order is appropriate in the public interest for the protection of investors and is consistent with the purposes of the Act.

Additionally, if the allegations set forth herein are found to be true, through either administrative adjudication, failure of the **RESPONDENT** to make a timely request for hearing, or default of the **RESPONDENT**, it is the intention of the Commission to impose sanctions upon the **RESPONDENT**. Such sanctions may include, inter alia, an administrative assessment imposed on **RESPONDENT**, an additional administrative assessment for investigative costs arising from the investigation of the violation(s) described herein against **RESPONDENT**, and a permanent order to bar **RESPONDENT** from participation in any securities related industry in the state of Alabama.

ACCORDINGLY, IT IS HEREBY ORDERED that **RESPONDENT** immediately **CEASE AND DESIST** from further offers or sales of any security into, within or from the state of Alabama.

Entered at Montgomery, Alabama, this 20th day of April 2018.

ALABAMA SECURITIES COMMISSION
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BY:


Joseph P. Borg
Director

