NEW YORK STATE SENATOR

Kevin Thomas

NY Sen. Thomas Introduces Legislation to Crack Down on Cryptocurrency Scammers

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| ISSUE: **CRYPTOCURRENCY**, **CONSUMER PROTECTION**, **RUG PULLING**, **CRYPTO FRAUD**

| COMMITTEE: **CONSUMER PROTECTION**

(Albany, NY) — New York State Senator Kevin Thomas (D-Levittown) has introduced new legislation (S.8839) to enhance consumer protections in the growing cryptocurrency industry by giving prosecutors a legal framework to pursue crypto crimes. The bill seeks to amend the penal code to establish “rug pulls” and other cryptocurrency scams as criminal offenses in New York State.

Cryptocurrency is a virtual currency that uses cryptography to secure transactions. As a medium of exchange, an investment product, a technology, and an emerging economic sector, virtual currency is complex and evolving rapidly. Cryptocurrency is becoming increasingly popular with scammers because it is hard-to-trace, not well understood by the general public, and lacks the standard consumer protections that come with established financial markets. The Better Business Bureau reports that crypto-related scams have tripled between 2019 and 2021, and that cryptocurrency accounted for the second-highest scam losses reported to the Federal Trade Commission in 2021, with losses of $750 million. With the advancement of this new technology, it is vital to enact regulations that both align with the industry's spirit of innovation and the necessity to protect consumers.

The new legislation introduced by Senator Thomas, who chairs the Senate Consumer Protection Committee, amends the penal law by adding a new article that defines and establishes the following crypto scams as crimes:

- Illegal Rug Pulls - "Rug pulls" are a lucrative scam in which a cryptocurrency developer promotes a new project—usually a new token—to investors, and then disappears with tens of millions or even hundreds of millions of dollars, leaving their investors with a valueless asset. The bill proposes a legal change that would impose rug pull penalties on developers who sell "more than 10% of such tokens within five years from the date of last sale of such tokens."
- Private Key Fraud - Private key fraud involves disclosing or misusing another person's private keys without prior affirmative consent.
- Fraudulent Failure to Disclose Interest in Virtual Tokens - Developers can be penalized with fraudulent failure to disclose an interest in digital tokens if they fail to publicly disclose personal crypto holdings on the landing page of the primary website.
- Virtual Token Fraud - Individuals can be charged with Virtual Token Fraud if they engage in deceptive or fraudulent acts related to the purchase or sale of virtual tokens.

"New York is the center for both the global financial system and a growing cryptocurrency industry," said Senator Kevin Thomas. "It's crucial that we properly balance consumer protection with creating an environment that is ripe for investment and innovation. This future-forward legislation will protect consumers, enhance the security and reliability of the crypto ecosystem, and provide clearer guidance to allow companies to innovate and thrive in the crypto economy."

The bill has been referred to the Senate Codes Committee. A companion bill, A.8820, has been introduced in the lower house by Assemblymember Clyde Vanel.

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RELATED LEGISLATION

2021-S8839

- Introduced
- - In Committee Assembly
  - In Committee Senate
- - On Floor Calendar Assembly
  - On Floor Calendar Senate
- - Passed Assembly
  - Passed Senate
- Delivered to Governor
- Signed By Governor
-

Establishes certain offenses relating to crypto fraud

April 22, 2022

In Senate Committee Codes

Sponsored by Kevin Thomas

Do you support this bill?