

Creating awareness - Investor education and Protection Series
(Beware of Ponzi schemes and unregulated Deposit/Collective Investment schemes – 4)

Make more money from virtual money!
The unchartered world of cryptocurrencies

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While the discussion raged whether Bitcoin and similar cryptocurrencies were currency requiring regulation by RBI or a different asset class for investment, Amit Bhardwaj came out with an innovative plan of assured returns on Bitcoin investment. In 2015, Amit launched Bitcoin based investment option called “GainBitcoin” with an alluring offer to the investors.



The deal was simple. Invest in GainBitcoin and earn 10% per month for 18 months. The deal appeared simple as well as very enticing, but was the deal so simple and attractive?

No!

Like a typical Ponzi scheme, the whole mechanism was based on more investors coming in the system and forming a pyramid of investors, who provided fund for repaying to early round investors!

Bhardwaj was arrested in March 2018. It is alleged that Bhardwaj and his other accomplices had cheated about 8000 investors. Apparently, they had been operating 84,617 user ids and had accumulated 82,132 bitcoins!

Reserve Bank had been cautioning users, holders and traders of virtual currencies (VCs), including Bitcoins, regarding various risks associated in dealing with such virtual currencies since 2013. RBI had issued public notices on December 24, 2013, February 01, 2017 and December 05, 2017 in this regard. Finally, RBI through its [circular dated April 06, 2018](#), prohibited agencies/institutions regulated by it from dealing in virtual currencies. All the services for facilitating any entity or person in dealing with or settling VCs were to be stopped immediately. As per the circular, such services included, “*maintaining accounts, registering,*

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trading, settling, clearing, giving loans against virtual tokens, accepting them as collateral, opening accounts of exchanges dealing with them and transfer / receipt of money in accounts relating to purchase/ sale of VCs.”

Amit Bhardwaj is claimed to have started the first online retail trading platform of virtual currency in 2014 that accepted bitcoin. In 2015, Amit first launched GBminers and later established his company GainBitcoin.

In 2018, when Amit Bhardwaj was arrested, a new system of fraud based on cryptocurrency came to the light. The main charge against Bhardwaj was of duping innocent people through cryptocurrency based Ponzi scheme. He was the mastermind of India’s scandalous cryptocurrency based Ponzi schemes run under names GainBitcoin, GBMiners and GB21.

So, what is Bitcoin? Bitcoin is a typical cryptocurrency (CC), which is one of the first of its kind and is globally recognized as a valuable and secured investment.

Cryptocurrency, as per FATF², refers to a math-based, decentralised convertible virtual currency that is protected by cryptography i.e., it incorporates principles of cryptography to implement a distributed, decentralised, secure information economy. Cryptocurrency relies on public and private keys to transfer value from one person (individual or entity) to another, and must be cryptographically signed each time it is transferred. The safety, integrity and balance of cryptocurrency ledgers is ensured by a network of mutually distrustful parties (in Bitcoin, referred to as miners) who protect the network in exchange for the opportunity to obtain a randomly distributed fee (in Bitcoin, a small number of newly created bitcoins, called the “block reward” and in some cases, also transaction fees paid by users as a incentive for miners to include their transactions in the next block).

Bitcoin, as a cryptocurrency, was invented in 2008 by Satoshi Nakamoto, a presumed pseudonymous agency/person/group of persons. In 2009, implementation of this concept was initiated through release of Bitcoin, as open-source software. Bitcoin is a decentralised digital currency without a central bank and it is based on peer-to-peer Bitcoin network without the need for any intermediaries. Bitcoin, the cryptocurrency, is an asset which has no physical existence, consisting of nothing but a digital record stored on computers. All transactions are verified by network nodes through cryptography and those are recorded in a public distributed ledger. The transactions are recorded in a public distributed ledger called a Blockchain. Bitcoins are created as a reward for a process known as mining. All information necessary to transact Bitcoins are stored in a wallet. A Bitcoin wallet is defined as something that “stores the digital credentials for your Bitcoin holdings”³ and that allows one to access and to spend them. So, wallet is a “software that holds all your Bitcoin addresses and secret keys”⁴. It is used

² <https://www.fatf-gafi.org/media/fatf/documents/reports/Virtual-currency-key-definitions-and-potential-aml-cft-risks.pdf>

³ <https://unglueit-files.s3.amazonaws.com/ebf/05db7df4f31840f0a873d6ea14dcc28d.pdf>

⁴ <https://unglueit-files.s3.amazonaws.com/ebf/05db7df4f31840f0a873d6ea14dcc28d.pdf>

to send, receive and store Bitcoins. Precisely, the Bitcoin is defined by Andreas M. Antonopoulos in the book ‘Mastering Bitcoin’

“Bitcoin is a collection of concepts and technologies that form the basis of a digital money ecosystem. Units of currency called Bitcoins are used to store and transmit value among participant in the Bitcoin network. Bitcoin users communicate with each other using the Bitcoin protocol primarily via the Internet, although other transport networks can also be used. The Bitcoin protocol stack, available as open source software, can be run on a wide range of computing devices, including laptops and smartphones, making the technology easily accessible”.

Bharadwaj, a graduate Engineer, used sophisticated technical whiz to promote GainBitcoin in mainstream media. Even Bollywood stars helped in promotion of GainBitcoin.

Before duping investors, Bhardwaj had scrupulously built his background to showcase his expertise in technical field. He had started his career at one of India’s leading IT companies – Infosys. He left Infosys and started his Bitcoin venture. He also wrote and published several books on cryptocurrencies namely “Cryptocurrency for Beginners”, “Cryptocurrency Trading” and “Cryptocurrency Mining”. These books were launched at extravagant launching program, often hosted by celebrities, which were extensively publicised in social media. He was also invited as guest speaker on conferences organised by ASSOCHAM. In 2014, he launched “HighKart”, India’s first Bitcoin-based e-commerce platform. Thus, his strong and sound technical knowledge influenced gullible investors to invest in the scheme.




Amit Bhardwaj, Managing Director & CEO, GainBitcoin; Source- Google

To dupe individuals/investors, Bhardwaj, used promises similar to those of typical Ponzi schemes, i.e. of making double the investment in under two years through investment in his scheme. The scheme was different from other typical Ponzi scheme in the sense that it used cryptocurrencies instead of traditional money/currencies for transaction. The scheme had coincided with the Bull Run in cryptocurrencies over two-three years and there were many investors who were ready to invest, expecting huge return from such investment. Bhardwaj launched a multi-level marketing (MLM) model and it was used to publicise the GainBitcoin Ponzi scheme. Under the scheme, agents were offered significant amount of commission in

terms of Bitcoin for every investment made. Bhardwaj, first launched the Bitcoin mining company “GBMiners” and in 2015, he launched Bitcoin based investment option called “GainBitcoin”. The GainBitcoin investment scheme offered 10% monthly return for 18 months. In the scheme, investors were required to invest in Bitcoin and their returns were also paid in Bitcoin.

In 2017, Bhardwaj started facing problem in returning the promised sum (Bitcoins) to investors because fewer new investors were coming into the scheme. Then Bhardwaj and his team, to service their promise of high return, shifted pay-outs in the form of Bitcoins to an in-house crypto token called MCAP (acronym for Mining Capital) to overcome lack of availability of Bitcoins. As a result, most of investors of GainBitcoin left the program. MCAP was promised to grow faster in value and provide a much better yield than Bitcoin. In 2017, GainBitcoin was shut down and as per company, final settlement with all investors were done in MCAP tokens. Soon a new scheme was launched in new packaging of GB21. Unlike other scheme, in GB21, the entry investment was asked to be made in terms of MCAPs. The idea behind the scheme was to boost demand for MCAPs. Many of the old investors were credited MCAPs in newly launched scheme, GB21 platform, in a way forcefully switching them into the new scheme. Return on GB21 platform was promised to be higher, especially for duration beyond 4 months, as compared to the return on GainBitcoin platform.

Comparative Return on Investment	
 GAINBITCOIN 10% per Month for 18 Months	 0-4 Months 10% 5-8 Months 15% 9-12 Months 25%
Return of 180% in one and half year	Return of 200% in one year

The investigation report revealed that Bhardwaj along with his relatives, father Mahendra Kumar and second brother Ajay, was in director position of seven companies- Nexgen Facility Management Pvt Ltd., Miners India Technology Pvt Ltd., Norton Sales Pvt Ltd., Radox Infotech Pvt Ltd., Hans Clouding IT LLP, Sabtechs Services India Pvt Ltd. and Grand Wedding Solutions Ltd.

Norton Sales was registered with the Department of Consumer Affairs, Government of India and its registration documents showed that the company was registered as a ‘direct selling’ business. The documents also stated that the company would be offering ‘services’ under the identity of ‘GBMiners’.

After 2017, Bhardwaj swiftly moved his base to Dubai and continued operation in India from there through top-tier promoters he had enlisted in India for his MLM operations. Investigation

of Pune Police, revealed that out of the proceeds (money) that he had collected through GBMiners scheme, he bought multiple office properties at prime locations in Dubai. It was also uncovered by Pune Police that Bhardwaj had registered a string of companies across globe including in Singapore, Hong Kong, British Virgin Islands, Estonia, Duabi and USA.

Besides the arrests and filing of case against Bhardwaj, a number of cases were registered in Pune against Akash Sancheti, Kajal Shingavi and Vyas Narhari Sapa who were top-level MLM promoters of GainBitcoins. Among them, Sancheti and Vyas were allegedly involved in direct marketing of Bhardwaj's scheme. The duo apparently ran a company called Cloud Miners Pvt Ltd, which was purportedly an associate company of GainBitcoin. To market Bhardwaj's scheme, Sancheti, used to conduct seminars in city along with making prospective matrimony matches. After the initial interest in matrimonial alliance, Sancheti used to meet people in their community over marriage proposal. In that setting, he tried to convince the public to invest in his cryptocurrency scheme. Twenty-three complaints were registered against Sancheti. One of the victim of Sancheti, Nisha Raisonni stated that she had met Sancheti, as a perspective groom, for her sister's marriage. After the negotiation, Sanchati explained to her about the concept of Bitcoin and convinced her to invest in the scheme described by Sancheti.

During the court trial, Bharwaj's lawyer, Gaurav Jachak argued that Bhardwaj's company were making simple trading like shares and that did not require detail technical understanding of detail technology behind Bitcoin. As per his statement, people were complaining against it because they had received only 5% return instead of 30% return as per promise made to them. Jachak's main line of defence was that despite multiple notification by Reserve Bank of India in 2013 and 2017, people, who had invested in the scheme, were aware of devaluation of currency. It may be noted that RBI had issued a notification on cryptocurrencies on April 6, 2018 on the prohibition of dealing with virtual currencies by regulated entities. Supreme Court of India on March 4, 2020, however, has [quashed the RBI notification of April 06, 2018](#).

Jachak also argued that Bhardwaj's client's business was based in Singapore where trading of Bitcoin was allowed. To this defence, it may be pointed that on any MLM scheme, based in or outside India, which affects people in India, Indian law is applicable and the law could be enforced extraterritorially.

In the month of March 2018, Bhardwaj was arrested by Pune Police after investigation of the case. In June of the same year, Pune Police filed two separate chargesheets against Bharwaj and eight other accused. Considering health condition of Bhardwaj, Supreme Court granted interim bail to Bhardwaj in April 2019. Bhardwaj's two brothers and his father were also granted bail by Indian courts on various ground. Though the main accused are out on bail, the investigation is still on.

Role of IEPFA

IEPF Authority (IEPFA) has been set up under the Ministry of Corporate Affairs, Government of India as a **statutory body** under the provisions of section 125 of the Companies Act 2013. IEPFA was established on 7th September, 2016 primarily for administration of Investor Education and Protection Fund.

The Authority is entrusted with the responsibility of administration of the Investor Education Protection Fund (IEPF), making refunds of shares, unclaimed dividends, matured deposits/debentures etc. to investors and promoting awareness among investors.

Apart from other agencies, with whom one can file complaints (such as with the local police office/Economic Offence Wing Office) or report regarding Ponzi schemes/unregulated deposits/illegal collective investment schemes, IEPFA also has a system for reporting such schemes/activities. Affected parties or aware investors and public in general can report such suspicious activities online at <https://www.iepfportal.in/suspicious-scheme.html>. Any information that one can provide about any fraud or scam could help in taking proactive steps and such schemes can be stopped before others fall victim to them. The website has details guidelines about the process of filing report. It also **ensures complete confidentiality** about the submitter of information.

Information on filing Guidance and Confidentiality related to submitted information is as under:

a. What information should be provided in the Form on the website?

The submission shall be addressed based on the accuracy and completeness of the information received.

The critical information that is required to take further action includes:

- A description of the scheme, contact information of the company/agency, details of the people involved in the collection of money, or making publicity of any such scheme.
- Any other relevant information, documentation or proof that one may have.

Any information that one provides must be truthful to the best of one's knowledge or belief.

b. What happens after the information is sent to the IEPFA?

Information received by the Authority would be scrutinized on the basis of details provided, proofs attached, and authenticity of the information would be ascertained. The matter may be referred to appropriate law enforcement organisation/ regulatory authority for further necessary action, if required.

The confidentiality about the details of the person reporting shall be maintained.

IEPFA has also come out with an indicative guideline (<https://www.iepfportal.in/suspicious-scheme-detail.html>) on how to protect oneself from Ponzi schemes. Indicated hereunder are the caution points:

- Beware of promise of higher returns:

Any scheme promising abnormally high returns should be considered with caution. At the very basic level, abnormally high returns promised by the fraudsters should serve as a red flag for investors. Beware of promises of unrealistic returns.

- Unknown Company:

You might have heard about a scheme promising higher returns, but are you also aware about the company and its credibility? If not, how can you put your hard-earned money into a company or organisation which is unknown to you?

Don't rely on reputation or word of mouth alone. One of the best ways to know about a company is doing your own research on internet or social media. If you do not find any reliable information on the net, it is better to steer clear.

- Track Record of Promoters:

They should have clean image in terms of delivering promises. If you are unable to find any information, then do a search on the internet.

- Registration Requirements:

If a person is planning to invest in a non-banking finance company (NBFC), then he/she should be well aware that every NBFC is required to be registered with the Reserve Bank of India (RBI). NBFCs are not allowed to use the name of the RBI in any manner.

- Ratings Assigned:

NBFCs which accept deposits should have minimum investment grade credit rating granted by an approved credit rating agency for deposit collection.

- Terms & Conditions:

The charges should be considered well before taking the final call. Understand your investments; keep copies of all the investment and communications.

- Take Informed Decision:

One should check for the past record of the schemes, management team, corresponding regulations & financial information. Your decision should never be guided by greed. Check registration and background of individuals selling the investment. Do not trust anyone blindly in financial matters.

Remember that even if the promoters of an NBFC are of impeccable repute and the credit rating is good, there is risk on these deposits as they are unsecured and the risk of insolvency is there.

- Union Government model guidelines for states to curb Ponzi schemes:

The Union Government has issued model guidelines titled as "Direct Selling Guidelines 2016" framework for states to regulate direct selling and multi-level marketing businesses to protect consumers from Ponzi frauds.

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