



Office of the Chair

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**Remarks of Chair Lina M. Khan
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Hello, everyone—thanks so much for having me. I’m thrilled to be joining this important conversation.

As we all know, get-rich-quick schemes are as old as commerce itself. But the digital economy has created new tactics and vehicles for fraudsters to exploit. At the FTC we’ve been squarely focused on identifying the worst offenders and the areas where unlawful business practices that harm the financial well-being of Americans persist.

I want to touch on three areas in particular where we have seen some of these pernicious practices—and share the steps that the FTC is taking to ensure we are undertaking effective and efficient enforcement that promotes deterrence, rather than playing whack-a-mole.

The first area is imposter scams. Government and business impersonation schemes cheat American consumers and small businesses out of billions of dollars every year. These scammers often pretend to be working for government institutions—like the Social Security Administration or the IRS—and tell targets that if they don’t hand over money or submit sensitive personal information, they could lose a government benefit, face a tax liability—or even be arrested. Both our enforcement work and consumer data suggest that government and business impersonation scams appear highly prevalent and increasingly harmful. These scams have been the top category of fraud reports and the largest source of total reported consumer financial losses for several years. To address this persistent fraud, the FTC recently proposed a trade regulation rule to combat government and business impersonation schemes.¹ If finalized, this rule could have a market-wide impact and serve as a deterrent for bad actors, given that a rule here would subject first-time violators to civil penalties. It could also enable the Commission to obtain redress for the people who lose money to these impersonation scams.

A second area where we continue to see pernicious activity is false earnings claims. False earnings claims routinely mislead Americans into investing thousands of dollars into opportunities that turn out to be a sham. Be it misleading claims about multilevel marketing schemes that lure in aspiring entrepreneurs, false marketing from for-profit schools targeted at hopeful students, or deceptive representations from “gig” platforms that draw workers, the cost

¹ Press Release, Fed. Trade Comm’n, FTC Proposes New Rule to Combat Government and Business Impersonation Scams (Sept. 15, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/09/ftc-proposes-new-rule-combat-government-business-impersonation-scams>.

of these false claims can be devastating. These claims lose people money and time and saddle them with debt. The economic precarity spurred for many by the pandemic further created an environment ripe for these tactics, where fraudsters can use false claims to prey on Americans seeking additional income or a new job. These tactics can also harm law-abiding businesses, who may lose out to rivals that are winning customers through deceptive claims. To address this practice and better promote deterrence, earlier this year the FTC initiated a rulemaking to challenge false earnings claims.² Here too, a final rule could enable us to impose civil penalties on violators and return money to injured consumers, workers, and entrepreneurs.

A third area where we have seen persistent harmful activity is fake online reviews. Online reviews are essential, but it's hard to know when they can be trusted. Precisely because of the importance of reviews, firms can face powerful incentives to game the system. Businesses have been caught leaving positive reviews for their own products or services, suppressing negative ones, and boosting bad reviews of their competitors. The incentives extend beyond the seller of the product itself. The platforms that host reviews may also, in some instances, benefit indirectly from fake ratings and endorsements and have financial incentives to turn a blind eye to misconduct that brings in revenue. These practices don't only harm the consumers who place their trust in fake reviews. They also pollute the marketplace and put honest businesses at a competitive disadvantage. A rulemaking we initiated earlier this year could combat deceptive or unfair review and endorsement practices, such as using fake reviews, suppressing negative reviews, and paying for positive reviews.³ A rule that triggers stiff civil penalties for violators would make the market fairer for consumers and honest businesses alike.

While the Commission has had a long record of enforcement and education in each of these areas, the continuing persistence of these practices suggests that the type of market-wide rules we are considering may be necessary to fully combat lawbreaking and protect Americans.

Lastly, I'll note that we continue to monitor cryptocurrency scams. As some speakers have pointed out today, the digital asset marketplace has core features that make it easy for scammers to target consumers. It runs on complex code that most ordinary people can't scrutinize. And there's often no central authority to flag or reverse shady transactions. The schemes deployed by scammers are not new, but the lack of guardrails in this new marketplace has given scammers a new way to take advantage of consumers.

FTC data show that since the start of 2021, more than 46,000 Americans collectively reported losing over 1 billion dollars in crypto to scams—most of it to investment-related fraud promising big returns in a hurry.⁴ These losses in 2021 were nearly sixty times what they were in 2018. Scammers use social media as a vehicle to target consumers. Nearly half of those who

² Press Release, Fed. Trade Comm'n, FTC Takes Action to Combat Bogus Money-Making Claims Used to Lure People Into Dead-End Debt Traps (Feb. 17, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/02/ftc-takes-action-combat-bogus-money-making-claims-used-lure-people-dead-end-debt-traps>.

³ Press Release, Fed. Trade Comm'n, FTC to Explore Rulemaking to Combat Fake Reviews and Other Deceptive Endorsements (Oct. 20, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/10/ftc-explore-rulemaking-combat-fake-reviews-other-deceptive-endorsements>.

⁴ Emma Fletcher, *Reports Show Scammers Cashing in on Crypto Craze*, FTC CONSUMER PROTECTION DATA SPOTLIGHT (June 3, 2022), <https://www.ftc.gov/news-events/data-visualizations/data-spotlight/2022/06/reports-show-scammers-cashing-crypto-craze>.

reported crypto losses said their problems started with seeing an ad, post, or message on a social media platform—suggesting that dominant platforms in particular can serve as a key vehicle for these scams to proliferate.

We are bringing our full set of enforcement tools to bear on these types of fraudulent schemes. We have brought actions resulting in refunds amounting to hundreds of thousands of dollars to consumers who lost money to allegedly deceptive chain referral schemes involving cryptocurrencies.⁵ And we recently went to court to enforce a civil investigative demand against a cryptocurrency exchange that reportedly lost more than 200 million dollars' worth of consumers' crypto assets.⁶

Just yesterday we announced an action against DK Automation and its owners, for allegedly using unfounded claims of big returns to entice consumers into moneymaking schemes involving business coaching and cryptocurrency.⁷ As noted in our complaint, the defendants promised consumers that they could “generate passive income on autopilot” when the truth was that few consumers ever made money from these schemes.⁸ A proposed order would require the defendants to turn over \$2.6 million to be used to refund consumers harmed by their alleged deception.

As we work to stand up guardrails, we can also equip consumers with information that makes it easier to spot common crypto scams. The FTC's Division of Consumer and Business Education regularly releases publications and does outreach to directly warn communities about the various types of crypto fraud.⁹ We also recently held a briefing with local and ethnic media outlets to help sound the alarm on crypto scammers. Working with federal and state regulators—including our friends in the FLEC—has also allowed us to disseminate FTC resources more broadly in both English and Spanish.

Across all of this work, our efforts prioritize redressing consumer harm and preventing future misconduct. Protecting Americans from unexpected losses and holding bad actors accountable are what drive the FTC's efforts in this space. I look forward to working with partners here and across the country to continue this important work. Thank you.

⁵ Press Release, Fed. Trade Comm'n, FTC Sends Refunds to Victims of Deceptive Money-Making Schemes Involving Cryptocurrencies (Nov. 4, 2020), <https://www.ftc.gov/news-events/news/press-releases/2020/11/ftc-sends-refunds-victims-deceptive-money-making-schemes-involving-cryptocurrencies>.

⁶ See Petition for an Order to Show Cause and for Summary Enforcement of Civil Investigative Demands, *FTC v. Bachi.Tech Corp.*, No. 2:22-cv-06463 (D.N.J. filed Nov. 4, 2022).

⁷ Press Release, Fed. Trade Comm'n, FTC Takes Action to Stop DK Automation and Kevin David Hulse From Pitching Phony Amazon and Crypto Moneymaking Schemes (Nov. 16, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/11/ftc-takes-action-stop-dk-automation-kevin-david-hulse-pitching-phony-amazon-crypto-moneymaking>.

⁸ Complaint for Permanent Injunction, Monetary Relief, Civil Penalties, and Other Relief, *FTC v. DK Automation, LLC*, No. 1:22-cv-23760 (S.D. Fla. Nov. 16, 2022), https://www.ftc.gov/system/files/ftc_gov/pdf/DK-Automation-Complaint.pdf.

⁹ See, e.g., Fletcher, *supra* note 4; Fed. Trade Comm'n, *What To Know About Cryptocurrency and Scams* (May 2022), <https://consumer.ftc.gov/articles/what-know-about-cryptocurrency-and-scams>.