Department of Financial Institutions – Division of Securities

Presented to Wisconsin Legislative Council Study Committee on Cryptocurrency

August 18, 2026

Mission Statement

The Wisconsin Department of Financial Institutions (DFI) is dedicated to protecting the safety and soundness of Wisconsin's financial institutions, safeguarding the investing public, facilitating commerce, and increasing financial capability throughout the state.

Organizational Overview

Wisconsin DFI has various divisions or offices:

- Banking (also administers the Wisconsin Consumer Act)
- Securities
- Corporate and Consumer Services (including business & charitable org. registrations, notary commissions, and UCC filings)
- Administrative Services and Technology
- Office of Credit Unions
- Office of Financial Capability (Financial Literacy, College Savings Program, and ABLE Program [in development])

Goal of the Division of Securities: Protect Investors

- Enforces Chapter 551 of the Wisconsin Statutes – the Wisconsin Uniform Securities Law (WUSL) and the administrative rules
- Registers and examine investment firms and their salespeople
- Registers securities product offerings
- Provides investor education
- Investigates investor complaints and other potential violations of securities law
- Takes enforcement actions for securities law violations

What is a security?

"Security" means a note; stock; treasury stock; security future; bond; debenture; evidence of indebtedness; limited partnership interest; life settlement investment or similar agreement; certificate of interest or participation in a profit-sharing agreement; collateral trust certificate; preorganization certificate or subscription; transferable share; investment contract; voting trust certificate; certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; … privilege on a security, certificate of deposit, or group or index of securities, …; … privilege entered into on a national securities exchange relating to foreign currency; or, in general, an interest or instrument commonly known as a "security"; ….

— Wis. Stat. § 551.102(28)

Additional Definition Categories

Subject to limited exception, a “security” also includes each of the following:

1. An <u>investment</u> in a <u>common enterprise</u> with the <u>expectation of profits</u> to be derived through the <u>essential managerial efforts of someone other than the investor</u>, where “common enterprise” means the fortunes of the investor are tied to the efficacy of the efforts of the offeror or a third party. [“Howey”]

2. Any investment by which an <u>offeree furnishes initial value to an offeror</u>, and a <u>portion of which is subjected to the risks of the enterprise</u>, and the furnishing of the initial value is induced by <u>representation that a valuable benefit to offeree beyond the initial value</u> as a <u>result of the operation of the enterprise</u>, and the <u>offeree does not exercise control over the managerial decisions of the enterprise</u>. [“Risk Capital”]

— Wis. Stat. § 551.102(28)(d)

Investment Contracts Are Securities

The definition includes an “investment contract” which provides flexibility in applying the securities law to a variety of investments, such as:

Orange Groves (SEC v Howey): 1946 case where a company sold plots of land with citrus trees along with a service contract to cultivate, harvest and market the fruit. Investors had no part in farming, but expected profits from the company’s labor.

Payphone Leasebacks (SEC v. Edwards**):** A company sold payphones to the public alongside a leaseback agreement. The company managed, maintained, and serviced the payphones, promising investors a fixed monthly return on their passive investment.

Other investment contracts: condominium pool rentals (place the unit in a resort-managed rental pool and share profits); whisky casks; artwork; livestock breeding programs (contracts to buy animals managed by a third party who promises to share profits from sale).

Professional Registration & Compliance Bureau

- Registers and examine investment firms and their salespeople
  - Examination focus on investment advisers managing under $100M in assets under management
  - Manual review of individuals seeking registration with disclosure
- Registers securities product offerings
- Investigates investor complaints against registered firms and individuals
- Provides investor education and outreach
- Active with the national organization of state securities regulators

Enforcement Bureau

- Investigates unregistered investment-related activities
- Investigates investor complaints against unregistered firms and individuals
- Pursues orders arising from violations of the WI securities law
- Provides investor education and outreach
- Active with the national organization of state securities regulators

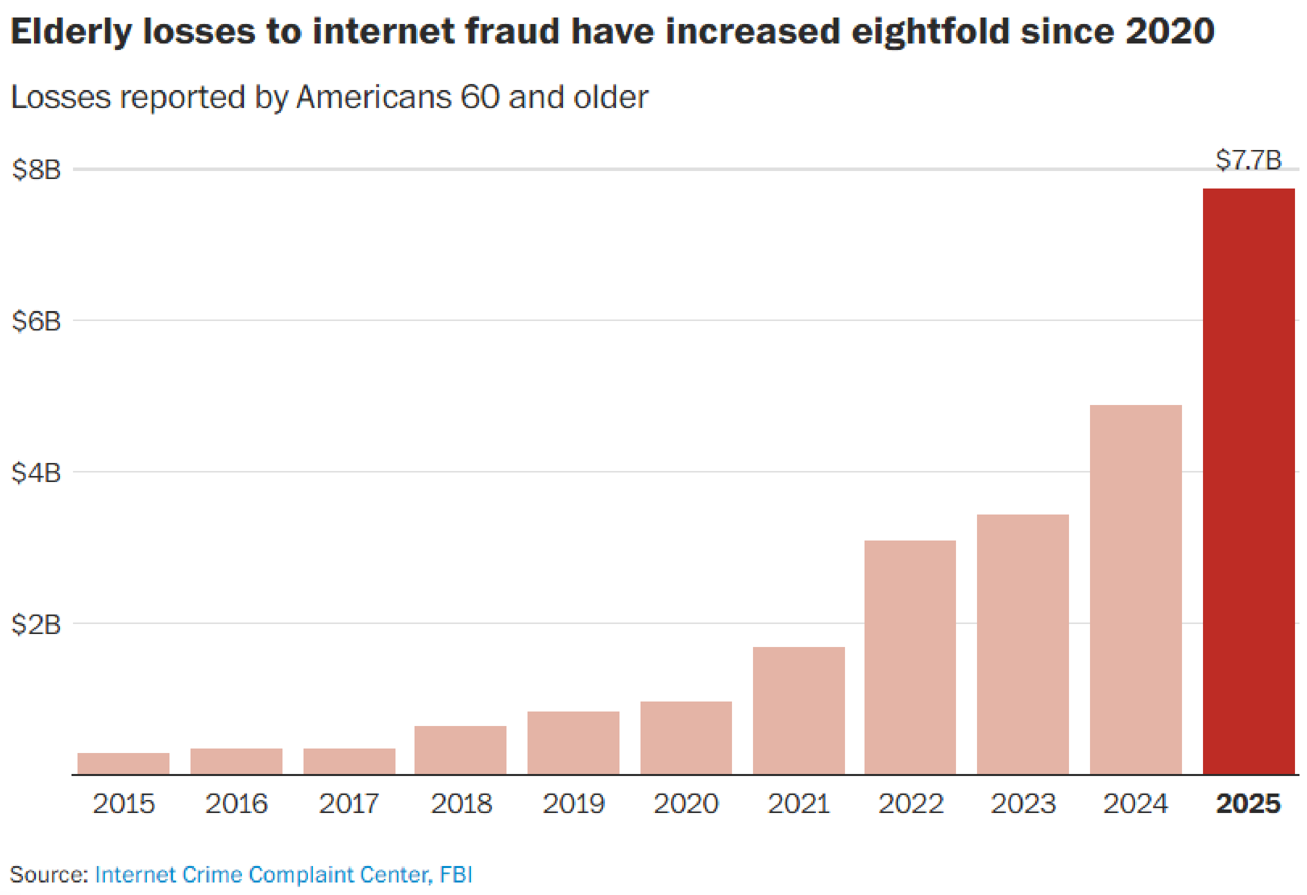
Remedies May Include:

- Injunctive relief in Cease and Desist Orders
- Civil Penalties: up to $5,000 per violation and $250,000 for more than one violation. These penalties can be doubled if the victim is at least 65 years old at the time of the transaction.
- Restitution
- Disgorgement of profits
- Criminal consequences: willful violation is a felony

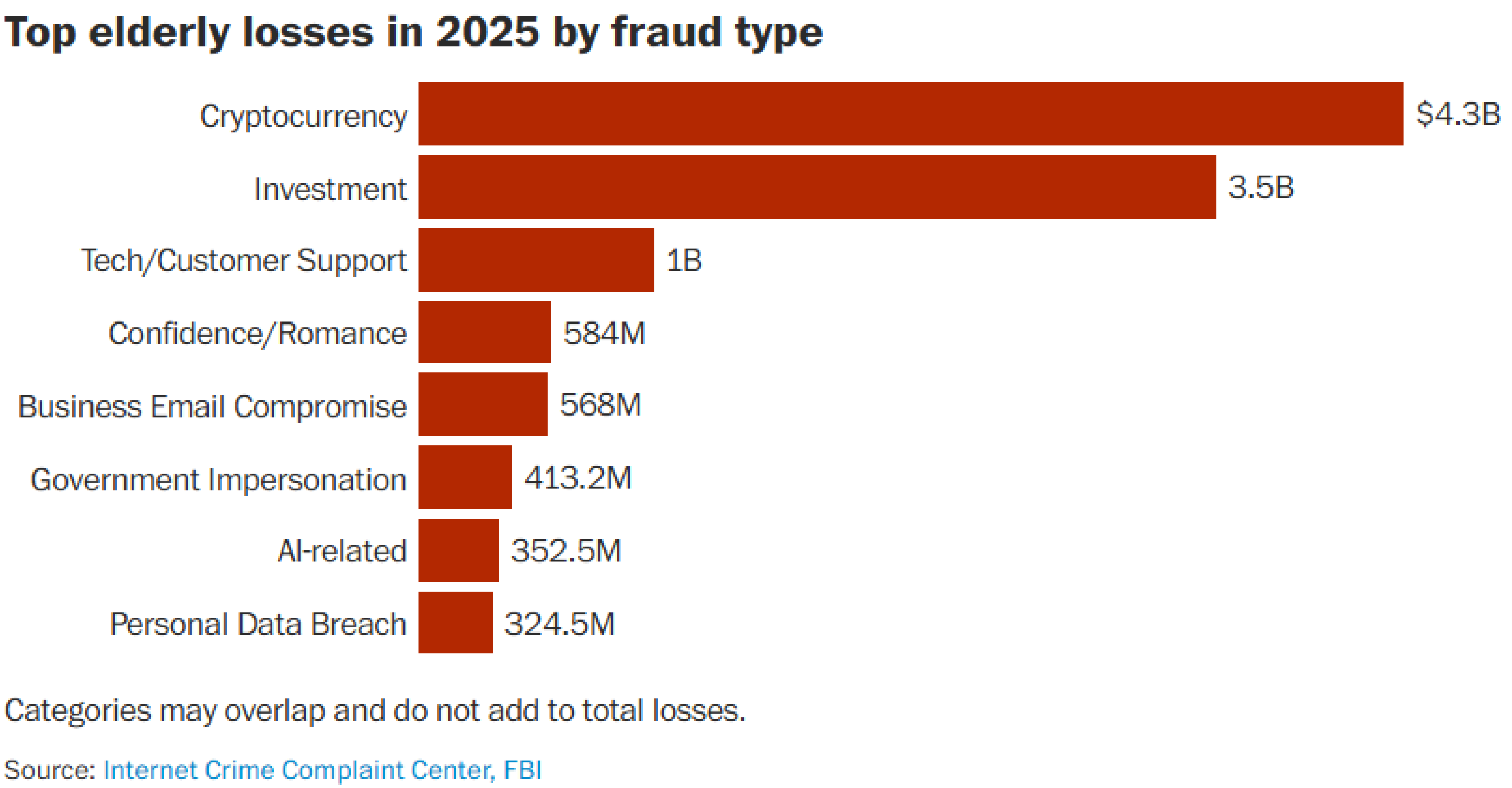
The Current State of Investment Scams

- More sophisticated than in the past (use of AI)
- More likely to involve cryptocurrency
- More likely to be initiated through technology (e.g., text, social media)
- Losses are more significant

The Current State of Investment Scams



The Current State of Investment Scams



Wisconsin-Specific Statistics 2025

Seniors were hit especially hard:

Wisconsin residents over 60 reported 3,014 Elder Fraud Complaints to the FBI for over $92 million in losses in 2025 alone.

Wisconsin residents over 60 experienced over $43 million in losses due to investment scams in 2025, which frequently involved the loss of retirement or other investment funds withdrawn from legitimate advisors.

Investment scam losses were by far the largest category of reported losses for seniors, making up almost half of all losses. The next largest category was tech support scams, coming in at just over one-quarter the size of the losses for investment scams.

Wisconsin residents over 60 were also disproportionately affected by cryptocurrency scams, which often included investment scams or other scams involving the loss of investment funds. They experienced $46 million in losses in 2025, which was roughly three times larger than any other age group.

Common types of Cryptocurrency Scams

- Financial Grooming (aka "Pig Butchering") Scams
- Investment Scams (AI Trading Bots)
- Phishing Scams
- Recovery Scams
- Fake ICO's (Initial Coin Offering)
- Fake Exchanges and Wallets / "Advanced Fee Scams"
- Malware and Hacking

DFI Investment Scam Tracker

Search the Investment Scam Tracker

Search the table below by company name, scam type, or keyword to learn about the specific complaints the DFI has received. Use this information to protect yourself when engaging in financial transactions. Below the table is a glossary explaining the types of common scams, links to additional investor resources, and list of frequently asked questions with answers to them. You can sort the list below by column or filter the list by entering any part of a column's content in the search field. Also, in the columns below the abbreviation "aka" stands for "also known as," "lnu" stands for "last name unknown," and "dba" stands for "doing business as."

Search:

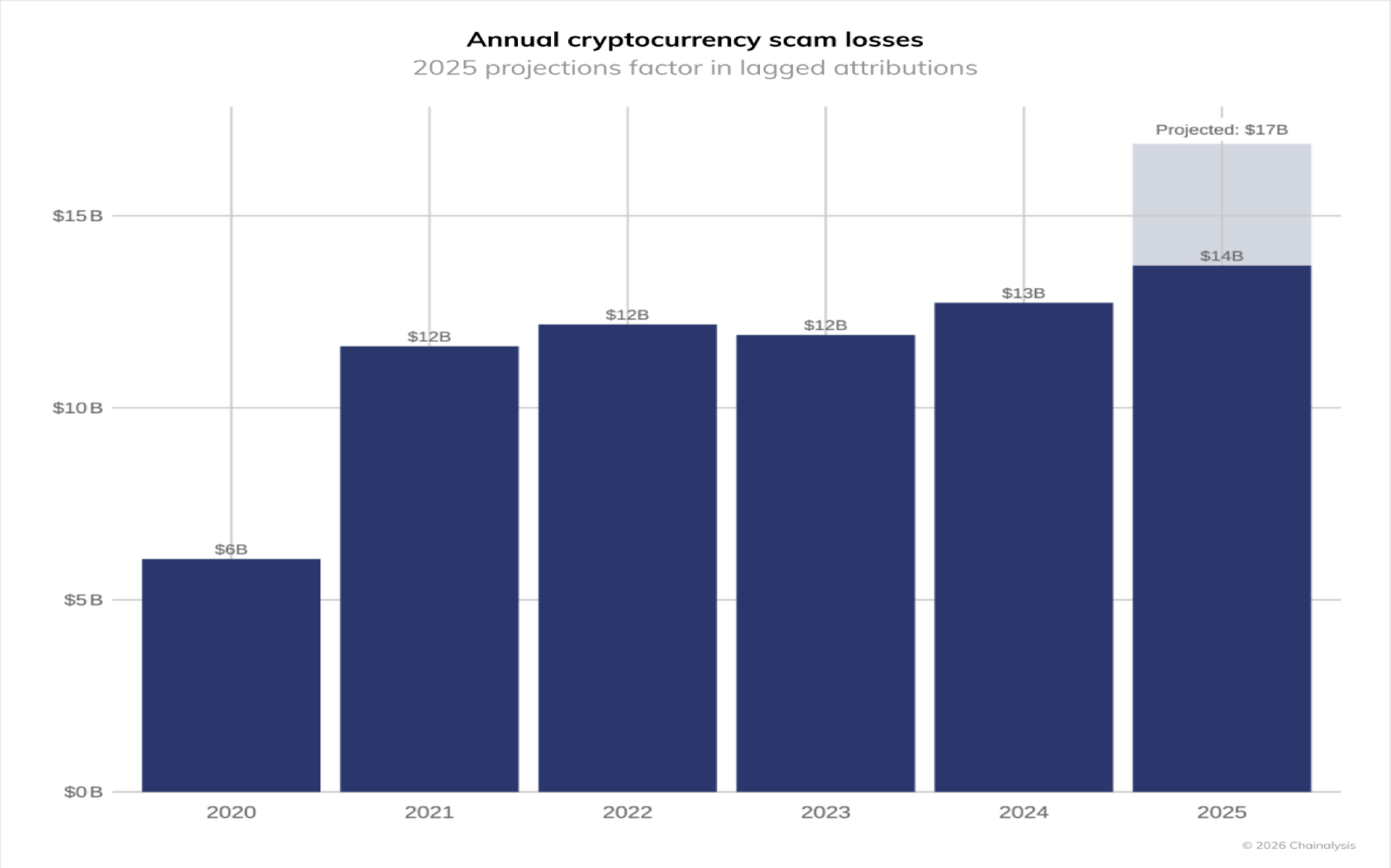
Date	Complaint Narrative	Scam Type	Subjects	Reported Loss Amount
7/2/2024	A Milwaukee, Wisconsin resident filed a complaint stating he received a random call from a person named "Emma." Emma developed a relationship with the complainant over the phone and convinced him to invest $21,000 worth of crypto on an investing website with the link commaex.com. The complainant is having difficulty working with Emma to get his initial funds back.	Fraudulent Trading Platform, Pig Butchering Scam	commaex.com, Emma	$21,000
6/25/2024	A Milwaukee, Wisconsin resident filed a complaint stating he received a random online message from "Bella Lynne." Lynne convinced the complainant to purchase $38,000 worth of crypto on an investing website with the link Ishopeedd.com. Lynne explained to the complainant that he could take his purchased cryptocurrency and sell it to others. He was also told he could earn cryptocurrency bonuses by referring the platform to others. The complainant is not able to retrieve his funds until he pays "domestic and international taxes" out of pocket.	Advanced Fee Scam, Fraudulent Trading Platform	Ishopeedd.com, Bella Lynne	$38,000
6/25/2024	A Superior, Wisconsin resident filed a complaint stating he responded to an online advertisement featuring a famous public figure. The online advertisement contained a link to a crypto investing website that the public figure supposedly endorses. The complainant invested $2,333 worth of crypto on the BitFunds platform using the link www.BitFunds.vip/h5/#. The BitFund's representative "Thomas" explained to the complainant he cannot receive his initial funds back because he supposedly violated "international terrorism and money laundering regulations."	Fraudulent Trading Platform	BitFunds	$2,333

https://dfi.wi.gov/Pages/Securities/InvestorResources/InvestmentScamTracker.aspx

Additional Market Context

1. How common is fraud and other illicit activity in the crypto industry?

2. How does the crypto industry compare to the broader financial services industry?


Annual cryptocurrency scam losses
2025 projections factor in lagged attributions
Projected: $17B
$15 B
$10 B
$5 B
$0 B
$6B
$12B
$12B
$12B
$13B
$14B
2020
2021
2022
2023
2024
2025
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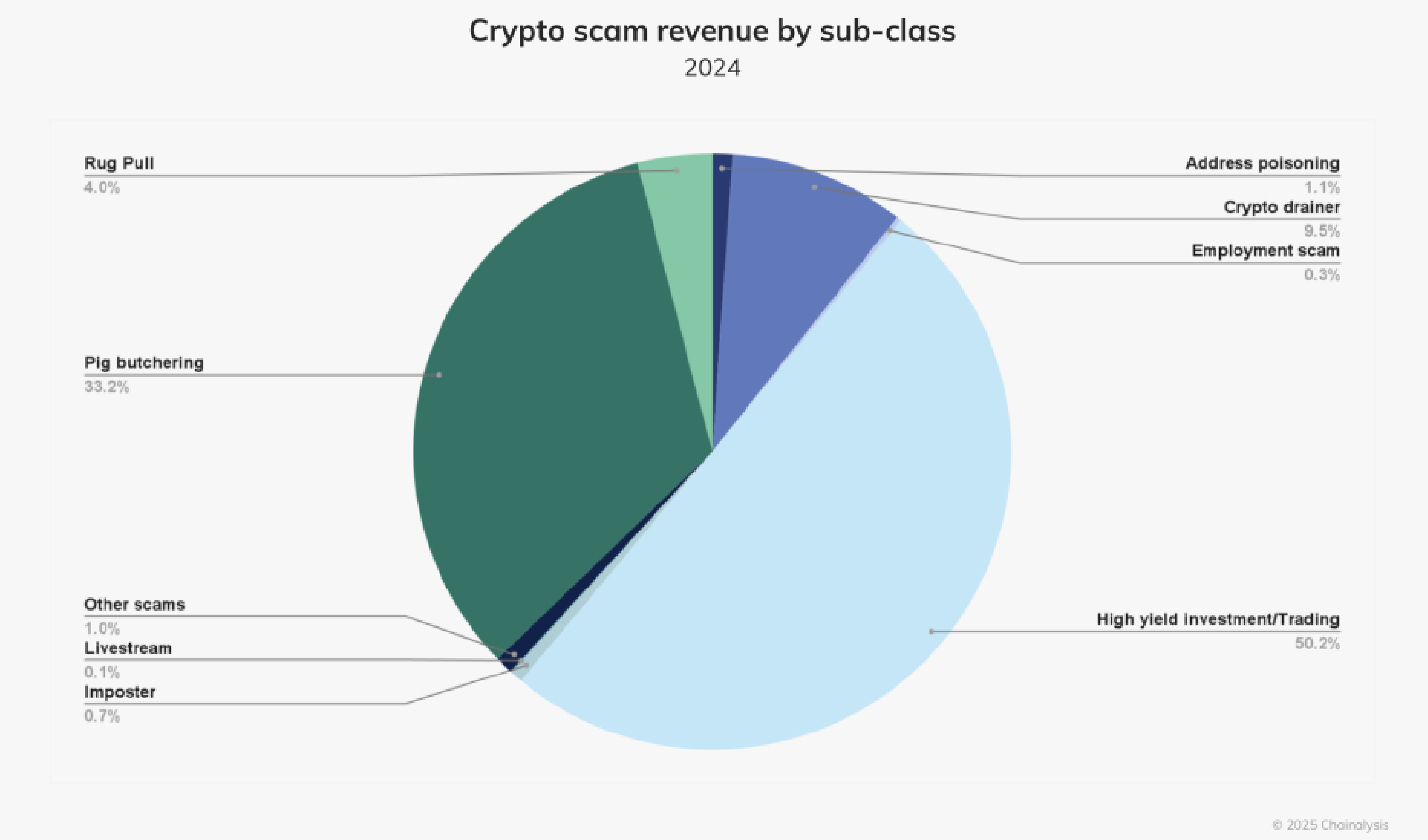
Crypto scam revenue by sub-class
2024
Rug Pull
4.0%
Pig butchering
33.2%
Other scams
1.0%
Livestream
0.1%
Imposter
0.7%
Address poisoning
1.1%
Crypto drainer
9.5%
Employment scam
0.3%
High yield investment/Trading
50.2%
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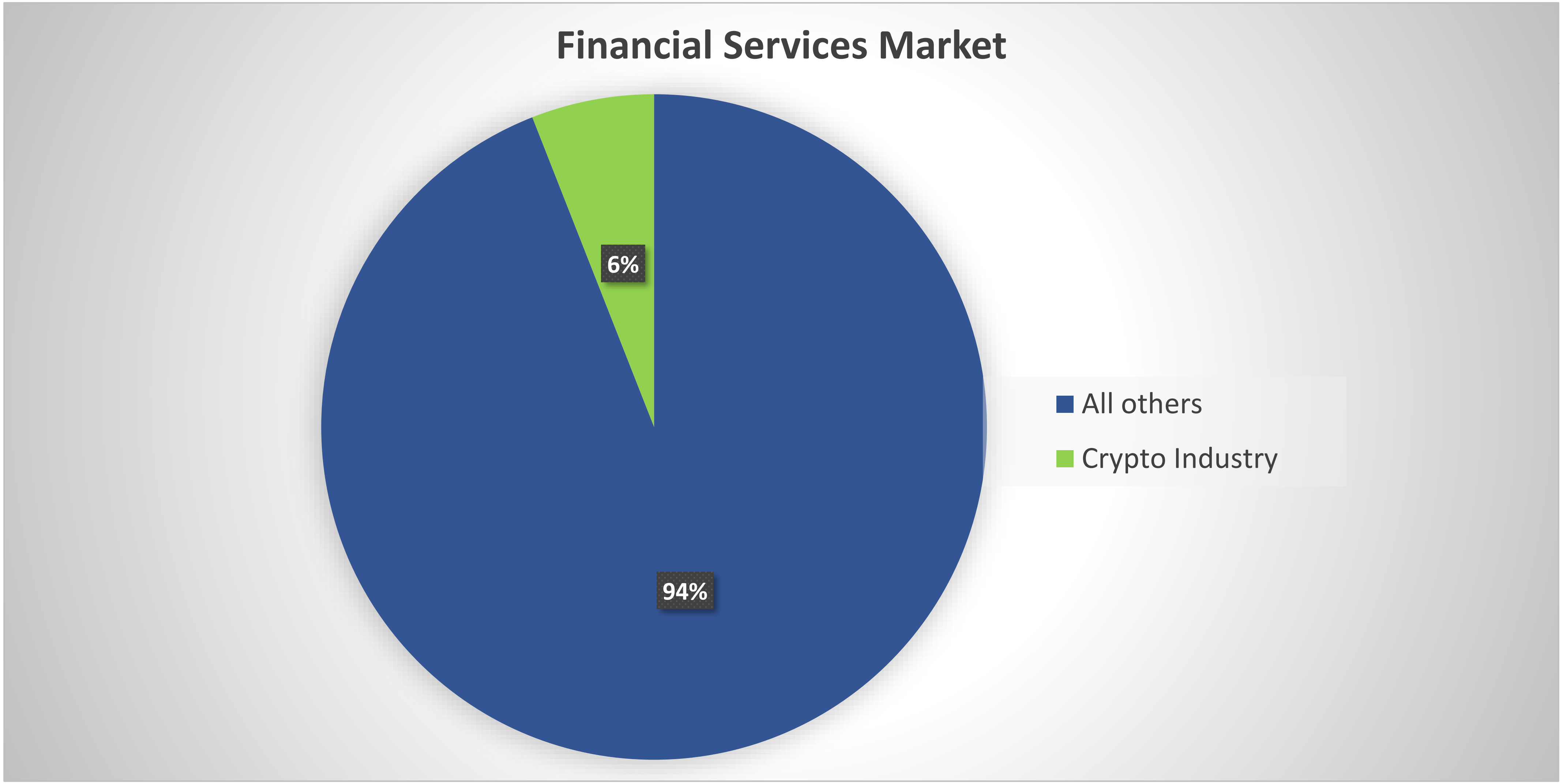
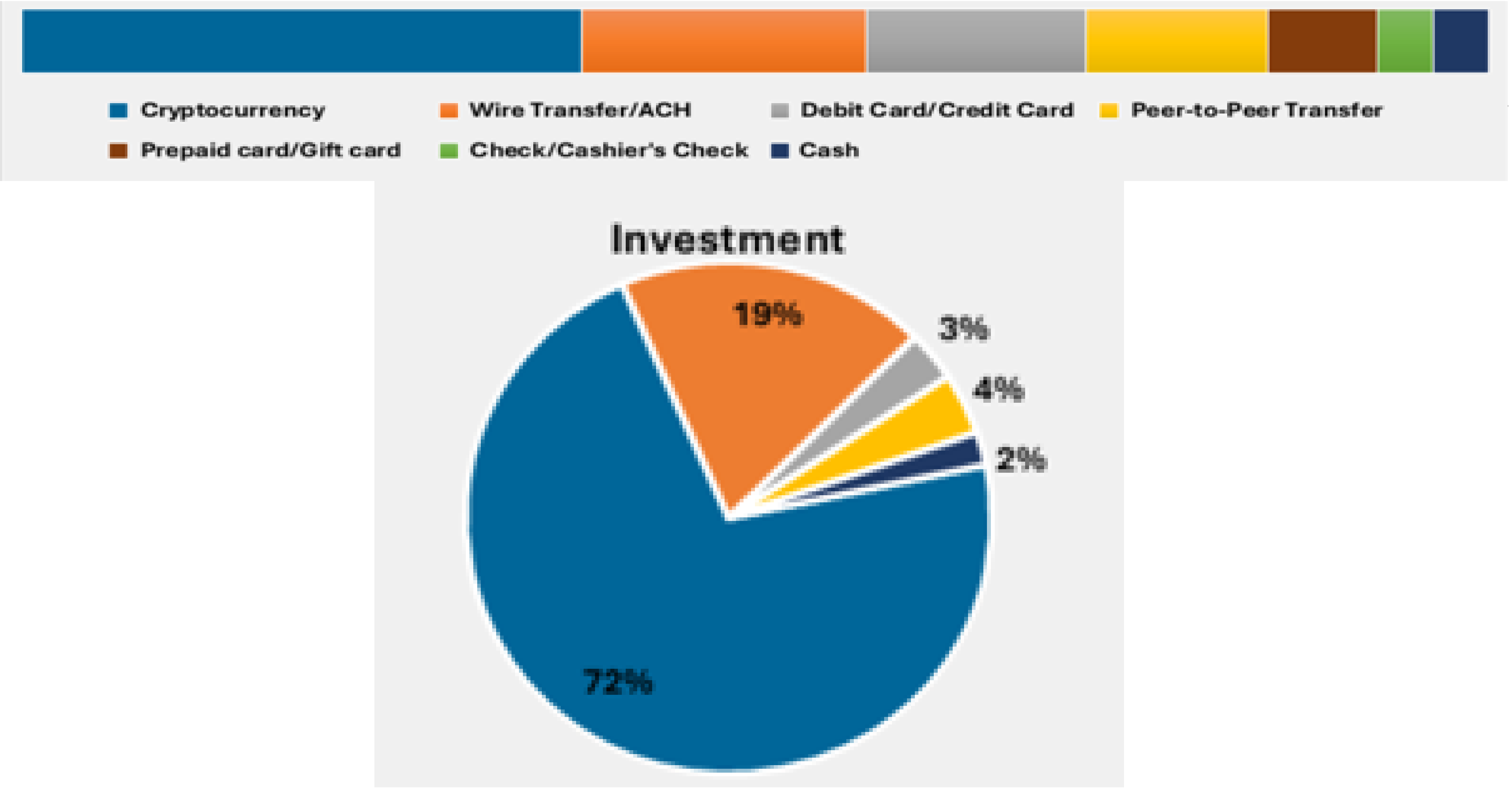
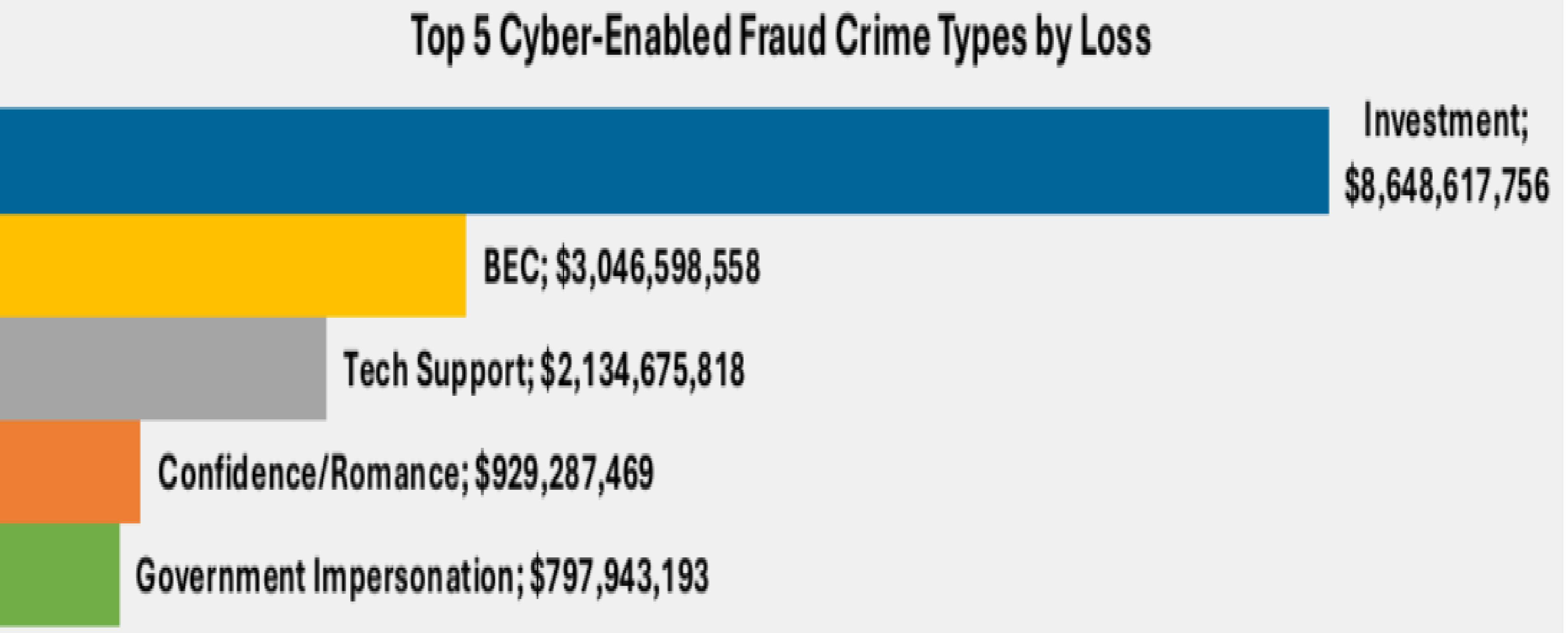
Crypto Industry Compared



Top Reported Transaction Types in Fraud




Top 5 Cyber-Enabled Fraud Crime Types by Loss
Investment; $8,648,617,756
BEC; $3,046,598,558
Tech Support; $2,134,675,818
Confidence/Romance; $929,287,469
Government Impersonation; $797,943,193

A few notes on items other than staking

- Large carveout for all crypto from definition of securities (or wholesale exemption)
- Specific carveout for a portion or aspect of crypto industry
- UCC update for CERs
- Entrepreneurial/Liaison Offices & Pilot Projects
- Potential Federal Legislation – Clarity Act

Staking Questions

1. How much do staking services vary?

2. In what ways do they tend to look more or less like securities?

Staking Services Details

Whole spectrum of products, including:

1) solo home staking;
2) true “SaaS” bespoke staking;
3) DEFI pooled staking; and
4) CEFI scalable staking.

ETH Solo Home Staking

For ETH as an example, what does solo home staking look like?

- ❑Minimum value for solo staking – 32 ETH (roughly $60,000 today)
- ❑Tequires significant, advanced tech knowledge and gear
- ❑Public reporting indicates the trailing 30-day APY as of 8.13.26 is about 2.6%; that’s about $130 per month on the $60,000 minimum stake
- ❑Assuming new gear purchase, a solo staker would not even be expected to exceed capital costs for 6 months or more
- ❑By public report, the first year return for a new solo staker is frequently negative
- ❑That said, a new solo staker can also leverage compounding returns

How are “Scalable Staking Services” often different from solo home protocol staking?

1. Utilize pooling – no minimum requirement (often as low as $1 to participate)
2. Assume custody of assets and maybe conversion rights – “not your keys, not your crypto”
3. Define their own fees and the returns they provide to program participants
4. Manage rewards by pooling & then distributing them to participants and offeror
5. Implement additional layers to maximize reward return (e.g. MEV) or contract out services
6. Subtract from rewards to customers any offsets for protocol penalties, etc.
7. Create liquidity reserves to allow immediate unbonding, thus lowering volatility risk
8. Offer guarantees or recovery rights to protect against slashing and other protocol penalties
9. Assume the governance rights on custodied assets
10. Offer derivative liquidity products (“wrapped” liquidity tokens of bonded assets)

More on MEV and Concentration Risks

- ❑What is MEV (Maximum Extractable Value)?
- ❑How does it work?
- ❑Who wins and who loses with MEV?
- ❑How does concentration of control in Scalable Staking Services effect the market?

Quick “nature of a security” refresh

1. Contribution of something of value
2. To a common enterprise (where the fortunes of the contributors and offerors are generally tied)
3. Where that contribution is at least minimally at risk of loss
4. But made with the expectation of a return beyond the initial contribution, often based on representations of offeror
5. Through the essential efforts of someone other than the investor or where the investor is passive and does not have control over the managerial decisions of the enterprise

Other considerations re: staking

Relevant court proceedings further suggest CEFI-level staking services are likely securities:

- SEC v. Binance (2024)
- SEC v. Coinbase (2024)
- SEC v. Kraken (2023)
- FTX Bankruptcy (2022)

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