



FEDERAL BUREAU OF INVESTIGATION SITUATIONAL INFORMATION REPORT

Criminal Reporting Highlights

Cleveland Division

20 June 2011

(U) Cleveland Division Monthly Economic Crime Highlights

(U) Legal Aspects of Online Gaming Financial Transactions

(U//FOUO) According to an FBI Cyber Division Intelligence Study, cyber criminals illegally amass virtual game currencies and exchange them for real money through activities such as gaining unauthorized access to a computer or network (hacking), compromising passwords, exploiting game software, and creating virtual world-specific fraud schemes. These activities are illegal as defined by the Computer Fraud and Abuse Act, Title 18 United States Code Section 1030 (18 U.S.C. § 1030) and cause financial harm to US game companies and US persons.¹

- (U) Open source reports indicate some groups known as gold farming firms employ workers on 12-hour shifts to play popular online games for the sole purpose of gathering virtual resources for resale.
- (U//FOUO) Sporadic reporting since 2008 indicates some frauds and thefts of virtual currency, goods, and services have resulted in individual and corporate losses in the tens and hundreds of thousands of dollars.
- (U) Real-Money Trading is the practice of exchanging virtual game currency or virtual items for real money or exchanging real money for virtual game currency or virtual items.
- (U) Gold Farming, by the strictest definition, is the process of gathering virtual items within an online video game for the *purpose* of selling those items in exchange for real-world money.²

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(U) Note: This product reflects the views of Cleveland Division and has not been vetted by FBI Headquarters.

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(U) Legal Aspects³

(U) Legitimate activities include buying goods from a virtual sanctioned shop and operating businesses within virtual worlds.

(U) Terms of Service/End User License Agreement Violations (possibly committed by Gold Farming Firms):

- (U) Buying virtual items or game currency to meet a personal, short term Massive Multiplayer Online Games (MMOG) goal;
 - (U) Cashing out virtual inventory when cancelling a game subscription;
 - (U) Selling game account when cancelling a game subscription;
 - (U) Using exploits, such as dupes.
- (U) Illegal activities
 - (U) Computer Intrusion
 - (U) Malware
 - (U) Phishing
 - (U) Fraud
 - (U) Copyright infringement (disputed-under evaluation in courts)

FBI Analyst Comment:

(U//FOUO) FBI Cleveland assesses fraudulent MMOG activity is occurring at a minimal level in the Northern District of Ohio (NDOH). Investigation revealed a small number of suspicious financial transactions involving PayPal accounts occurred in the NDOH during May 2011. Although not directly linked to MMOG, collateral reporting suggests PayPal may be a means for redeeming virtual currency.

(U) Securities and Commodities Fraud: 2010 National Threat Study, 17 June 2011

(U) Emerging Trends and Activity: One- to Three-Year Outlook⁴

(U) The FBI assesses that securities and commodities fraud will continue to remain a high threat to the United States over the next one to three years. Regardless of economic conditions, perpetrators will attempt to exploit their knowledge of the securities and commodities markets while preying on the relative lack of knowledge or access of their victims. While the schemes may be similar, economic conditions and financial product innovations may give criminals additional tools with which to conduct their schemes.

- (U) Should the US economy continue to experience slow growth through 2012 as the Congressional Budget Office (CBO) projects, investors likely will seek the next safe, high-yield investment product, and securities fraud perpetrators will be ready to sell these investors securities that are too good to be true.⁵ Internet-based securities fraud schemes, offering penny stocks or other worthless products, will very likely be prevalent. The FBI also expects traditional boiler room schemes to continue targeting investors with these types of schemes.
- (U) Conversely, if the economy returns to a rate of high growth as the CBO projects for 2012, companies and investment firms will again be under increased pressure to attain earnings targets. Executives could be tempted to manipulate financial statements to make their companies or investments appear healthier than they actually are, or to mask fraudulent activity. As a result, fraudulent securities may be introduced into the market. The value of these securities will collapse as soon as the corporate fraud is discovered,

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destroying the securities' value. The schemes can result in large losses and further damage investor confidence in the financial markets.

(U) The FBI assesses that Ponzi schemes, affinity frauds, and commodities frauds will likely remain a threat to investors over the next one to three years. Investors, weary of the unpredictable markets, may look for safe investment schemes advertising better than average returns. Someone of the same ethnic group, religion, or other demographic may be able to exploit these desires, making affinity frauds more attractive for criminals.

- (U) *Precious Metals Fraud*: Precious metals fraud—especially schemes involving gold and silver—could increase. As investors become increasingly nervous about the effect of debt on the US dollar and the stock market, they may increasingly turn to precious metals. The market has seen this trend, as of 14 December 2010, when gold was selling at approximately \$1,400 an ounce.⁶ Ponzi and commodities scheme operators may exploit this more effectively in an uncertain economic environment. Criminals may also try to manipulate the market, possibly through illegal trading strategies or misrepresentations of supply and demand.
- (U) *Exchange Traded Funds*: The FBI assesses that the deceptive and fraudulent marketing of Exchange Traded Funds (ETF), which are highly leveraged and often volatile investment vehicles, may pose an increasing threat to inexperienced retail investors over the next one to three years. As the ETF market continues to grow, more and more retail investors, who are less sophisticated than institutional investors, are putting their money into these investment products.⁷ The potential exists for a large number of investors to be defrauded by dealers who misrepresent the products as a long-term investment vehicle, rather than a short-term one.
- (U) *Sovereign Wealth Funds*: The FBI assesses that sovereign wealth funds (SWF), because of their large size, may pose an increasing threat to US and international financial markets over the next one to three years. SWFs are large and generally opaque hedge funds that are owned by another sovereign nation. The largest 50 SWFs had a combined value of \$4.1 trillion, as of November 2010, according to the Sovereign Wealth Institute.⁸ In a global economy, the US economy is increasingly vulnerable to insider trading and market manipulation schemes resulting from these investment vehicles. SWF can be used to access proprietary information or as tools of the controlling sovereign country to influence the United States politically, militarily, and economically.

FBI Analyst Comment:

(U//FOUO) Based on an informal examination of pending investigations and monthly reviews of suspicious financial activity, FBI Cleveland assesses each of the above mentioned schemes are on the increase in the NDOH.

(U//LES) Investment Banks Likely Will Attempt to Disguise High-Risk Activity Prohibited Under the Volcker Rule⁹

(U//LES) The FBI assesses some investment banks likely will attempt to disguise or conceal relationships and transactions proscribed by the Volcker Rule, a regulatory provision that will prohibit banks from engaging in certain risky investment strategies likely to harm shareholders

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or other securities market participants. Among potential tactics for circumventing the rule are the following:

- (U//LES) Attempting to conceal prohibited proprietary trading activity by disguising it as market-making investments supporting customer trades.
- (U//LES) Asserting the rule applies only to short-term proprietary investments and permits some banks to invest in long-term, high-risk assets and securities.
- (U//LES) Creating separate bank-run hedge funds or moving proprietary traders into asset management units to disguise investment activity.

FBI Criminal Intelligence Section Analyst Comment:

(U//LES) The FBI assesses some banks consider risky proprietary trading and investments attractive, despite the risk to investors, because of the potential for significant profits. The FBI therefore anticipates banks will continue attempts to circumvent regulations intended to prohibit such activity.

(U) This report has been prepared by the Cleveland Division of the FBI. Comments and queries may be addressed to the Cleveland White Collar Crime squad at (216) 522-1400.

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(U) Endnotes

¹ (U) FBI Intelligence Study; 7 June 2011; “(U//FOUO) Cyber Criminals Exploitation of Real-Money Trading”; page 5; UNCLASSIFIED//FOR OFFICIAL USE ONLY; SECRET//NOFORN.

² (U) FBI Intelligence Study; 7 June 2011; “(U//FOUO) Cyber Criminals Exploitation of Real-Money Trading”; page 4; UNCLASSIFIED//FOR OFFICIAL USE ONLY; SECRET//NOFORN.

³ (U) FBI Intelligence Study; 7 June 2011; “(U//FOUO) Cyber Criminals Exploitation of Real-Money Trading”; page 18; UNCLASSIFIED//FOR OFFICIAL USE ONLY; SECRET//NOFORN.

⁴ (U) FBI Intelligence Threat Study; 17 June 2011; “(U) Securities and Commodities Fraud: 2010 National Threat Study”; Pages 12-14; UNCLASSIFIED; UNCLASSIFIED//LAW ENFORCEMENT SENSITIVE.

⁵ (U) Online Publication; Congressional Budget Office; “The Budget and Economic Outlook: Fiscal Years 2010-2020”; January 2010; <http://www.cbo.gov/ftpdocs/108xx/doc10871/Frontmatter.shtml>; accessed on 19 April 2010; The Congressional Budget Office’s economic projections for the next decade.

⁶ (U) Internet site; Yahoo Finance; “Online Commodity Report for Gold–December 2010”; 10 December 2010; <http://finance.yahoo.com/q?s=GCZ10.CMX>; accessed on 14 December 2010. Source is a finance site used to give price quotes for securities and commodities at a particular time.

⁷ (U) Online News Article; *Economist*; “A Fast-Growing Industry is Attracting More Regulatory Attention”; 24 June 2010; <http://www.economist.com/node/16438622/print>; accessed on 15 December 2010. Source is a widely read British weekly magazine covering politics and economics.

⁸ (U) Internet site; Sovereign Wealth Fund Institute; “Sovereign Wealth Fund Rankings, as of November 2010”; http://www.swfinstitute.org/fund_rankings; accessed on 15 December 2010; Source is an independent organization studying the influence and effects of sovereign wealth funds on the global economy.

⁹ (U) FBI Criminal Intelligence Section Current Intelligence Report; 6 June 2011; “(U//LES) Investment Banks Likely Will Attempt to Disguise High-Risk Activity Prohibited Under the Volcker Rule”; page 2; UNCLASSIFIED//LAW ENFORCEMENT SENSITIVE; /SECRET//NOFORN.