FEDERAL TRADE COMMISSION
PROTECTING AMERICA'S CONSUMERS

For Release

FTC Announces Crackdown on Deceptive AI Claims and Schemes

With Operation AI Comply, agency announces five law enforcement actions against operations that use AI hype or sell AI technology that can be used in deceptive and unfair ways

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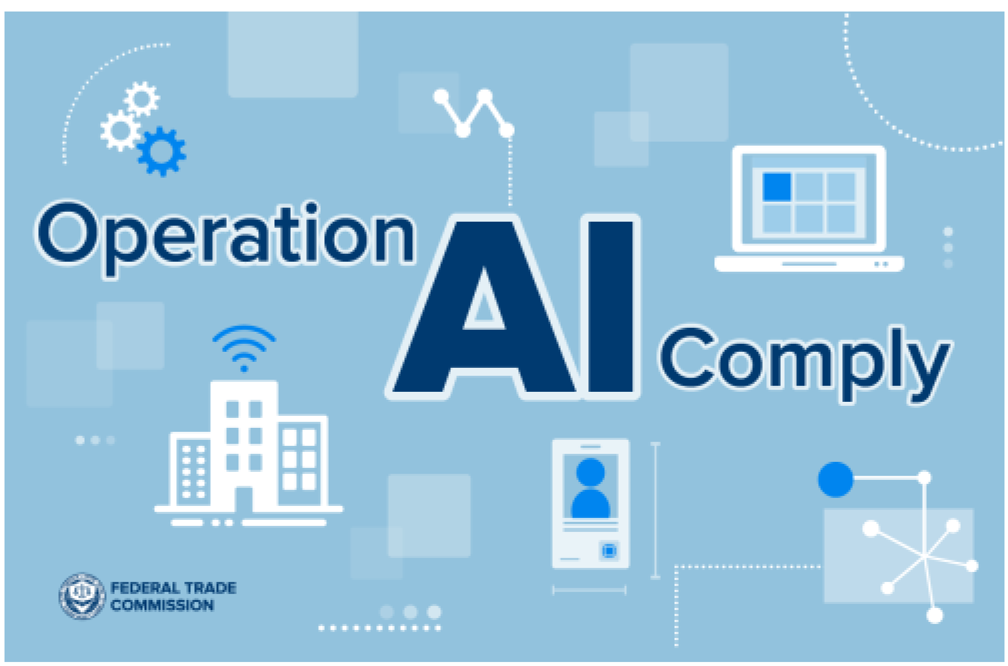
Tags: Consumer Protection | Bureau of Consumer Protection | Work-at-Home | Going into Business | deceptive/misleading conduct | Technology | Franchises, Business Opportunities, and Investments | Advertising and Marketing | Endorsements, Influencers, and Reviews | Online Advertising and Marketing | Advertising and Marketing Basics | Artificial Intelligence



The Federal Trade Commission is taking action against multiple companies that have relied on artificial intelligence as a way to supercharge deceptive or unfair conduct that harms consumers, as part of its new law enforcement sweep called Operation AI Comply.

The cases being announced today include actions against a company promoting an AI tool that enabled its customers to create fake reviews, a company claiming to sell "AI Lawyer" services, and multiple companies claiming that they could use AI to help consumers make money through online storefronts.

"Using AI tools to trick, mislead, or defraud people is illegal," said FTC Chair Lina M. Khan. "The FTC's enforcement actions make clear that there is no AI exemption from the laws on the books. By cracking down on unfair or deceptive practices in these markets, FTC is ensuring that honest businesses and innovators can get a fair shot and consumers are being protected."

Claims around artificial intelligence have become more prevalent in the marketplace, including frequent promises about the ways it could potentially enhance people's lives through automation and problem solving. The cases included in this sweep show that firms have seized on the hype surrounding AI and are using it to lure consumers into bogus schemes, and are also providing AI powered tools that can turbocharge deception.

DoNotPay

The FTC is taking action against DoNotPay, a company that claimed to offer an AI service that was "the world's first robot lawyer," but the product failed to live up to its lofty claims that the service could substitute for the expertise of a human lawyer.

According to the FTC's complaint, DoNotPay promised that its service would allow consumers to "sue for assault without a lawyer" and "generate perfectly valid legal documents in no time," and that the company would "replace the $200-billion-dollar legal industry with artificial intelligence." DoNotPay, however, could not deliver on these promises. The complaint alleges that the company did not conduct testing to determine whether its AI chatbot's output was equal to the level of a human lawyer, and that the company itself did not hire or retain any attorneys.

The complaint also alleges that DoNotPay offered a service that would check a small business website for hundreds of federal and state law violations based solely on the consumer's email address. This feature purportedly would detect legal violations that, if unaddressed, would potentially cost a small business $125,000 in legal fees, but according to the complaint, this service was also not effective.

DoNotPay has agreed to a proposed Commission order settling the charges against it. The settlement would require it to pay $193,000, provide a notice to consumers who subscribed to the service between 2021 and 2023 warning them about the limitations of law-related features on the service. The proposed order also will prohibit the company from making claims about its ability to substitute for any professional service without evidence to back it up.

The Commission vote authorizing the staff to issue the complaint and proposed administrative order was 5-0. Commissioner Holyoak issued a concurring statement joined by Chair Lina M. Khan. Commissioner Ferguson also issued a concurring statement**.** The FTC will publish a description of the consent agreement package in the Federal Register soon. The agreement will be subject to public comment for 30 days, after which the Commission will decide whether to make the proposed consent order final. Instructions for filing comments appear in the published notice. Once processed, comments will be posted on Regulations.gov.

Ascend Ecom

The FTC has filed a lawsuit against an online business opportunity scheme that it alleges has falsely claimed its "cutting edge" AI-powered tools would help consumers quickly earn thousands of dollars a month in passive income by opening online storefronts. According to the complaint, the scheme has defrauded consumers of at least $25 million.

The scheme is run by William Basta and Kenneth Leung, and it has operated under a number of different names since 2021, including Ascend Ecom, Ascend Ecommerce, Ascend CapVentures, ACV Partners, ACV, Accelerated eCom Ventures, Ethix Capital by Ascend, and ACV Nexus.

According to the FTC's complaint, the operators of the scheme charge consumers tens of thousands of dollars to start online stores on ecommerce platforms such as Amazon, Walmart, Etsy, and TikTok, while also requiring them to spend tens of thousands more on inventory. Ascend's advertising content claimed the company was a leader in ecommerce, using proprietary software and artificial intelligence to maximize clients' business success.

The complaint notes that, while Ascend promises consumers it will create stores producing five-figure monthly income by the second year, for nearly all consumers, the promised gains never materialize, and consumers are left with depleted bank accounts and hefty credit card bills. The complaint alleges that Ascend received numerous complaints from consumers, pressured consumers to modify or delete negative reviews of Ascend, frequently failed to honor their "guaranteed buyback," and unlawfully threatened to withhold the supposed "guaranteed buyback" for those who left negative reviews of the company online.

As a result of the FTC's complaint, a federal court issued an order temporarily halting the scheme and putting it under the control of a receiver. The FTC's case against the scheme is ongoing and will be decided by a federal court.

The Commission vote authorizing the staff to file the complaint was 5-0. The complaint was filed in the U.S. District Court for the Central District of California.

Ecommerce Empire Builders

The FTC has charged a business opportunity scheme with falsely claiming to help consumers build an "AI-powered Ecommerce Empire" by participating in its training programs that can cost almost $2,000 or by buying a "done for you" online storefront for tens of thousands of dollars. The scheme, known as Ecommerce Empire Builders (EEB), claims consumers can potentially make millions of dollars, but the FTC's complaint alleges that those profits fail to materialize.

The complaint alleges that EEB's CEO, Peter Prusinowski, has used consumers' money – as much as $35,000 from consumers who purchase stores – to enrich himself while failing to deliver on the scheme's promises of big income by selling goods online. In its marketing, EEB encourages consumers to "Skip the guesswork and start a million-dollar business today" by harnessing the "power of artificial intelligence" and the scheme's supposed strategies.

In social media ads, EEB claims that its clients can make $10,000 monthly, but the FTC's complaint alleges that the company has no evidence to back up those claims. Numerous consumers have complained that stores they purchased from EEB made little or no money, and that the company has resisted providing refunds to consumers, either denying refunds or only providing partial refunds.

As a result of the FTC's complaint, a federal court issued an order temporarily halting the scheme and putting it under the control of a receiver. The FTC's case against the scheme is ongoing and will be decided by a federal court.

The Commission vote authorizing the staff to file the complaint against Prusinowski and his company was 5-0. The complaint was filed in the U.S. District Court for the Eastern District of Pennsylvania.

Rytr

Since April 2021, Rytr has marketed and sold an AI "writing assistant" service for a number of uses, one of which was specifically "Testimonial & Review" generation. Paid subscribers could generate an unlimited number of detailed consumer reviews based on very limited and generic input.

According to the FTC's complaint, Rytr's service generated detailed reviews that contained specific, often material details that had no relation to the user's input, and these reviews almost certainly would be false for the users who copied them and published them online. In many cases, subscribers' AI-generated reviews featured information that would deceive potential consumers who were using the reviews to make purchasing decisions. The complaint further alleges that at least some of Rytr's subscribers used the service to produce hundreds, and in some cases tens of thousands, of reviews potentially containing false information.

The complaint charges Rytr with violating the FTC Act by providing subscribers with the means to generate false and deceptive written content for consumer reviews. The complaint also alleges that Rytr engaged in an unfair business practice by offering a service that is likely to pollute the marketplace with a glut of fake reviews that would harm both consumers and honest competitors.

The proposed order settling the Commission's complaint is designed to prevent Rytr from engaging in similar illegal conduct in the future. It would bar the company from advertising, promoting, marketing, or selling any service dedicated to – or promoted as – generating consumer reviews or testimonials.

The Commission vote authorizing the staff to issue the complaint and proposed administrative order was 3-2, with Commissioners Melissa Holyoak and Andrew Ferguson voting no. Commissioners Holyoak and Ferguson issued statements. The FTC will publish a description of the consent agreement package in the Federal Register soon. The agreement will be subject to public comment for 30 days, after which the Commission will decide whether to make the proposed consent order final. Instructions for filing comments appear in the published notice. Once processed, comments will be posted on Regulations.gov.

FBA Machine

In June, the FTC took action against a business opportunity scheme that allegedly falsely promised consumers that they would make guaranteed income through online storefronts that utilized AI-powered software. According to the FTC, the scheme, which has operated under the names Passive Scaling and FBA Machine, cost consumers more than $15.9 million based on deceptive earnings claims that rarely, if ever, materialize.

The complaint alleges that Bratislav Rozenfeld (also known as Steven Rozenfeld and Steven Rozen) has operated the scheme since 2021, initially as Passive Scaling. When Passive Scaling failed to live up to its promises and consumers sought refunds and brought lawsuits, Rozenfeld rebranded the scheme as FBA Machine in 2023. The rebranded marketing materials claim that FBA Machine uses "AI-powered" tools to help price products in the stores and maximize profits.

The scheme's claims were wide-ranging, promising consumers that they could operate a "7-figure business" and citing supposed testimonials from clients who "generate over $100,000 per month in profit." Company sales agents told consumers that the business was "risk-free" and falsely guaranteed refunds to consumers who did not make back their initial investments, which ranged from tens of thousands to hundreds of thousands of dollars.

As a result of the FTC's complaint, a federal court issued an order temporarily halting the scheme and putting it under the control of a receiver. The case against the scheme is still under way and will be decided by a federal court.

The Commission vote authorizing the staff to file the complaint against Rozenfeld and a number of companies involved in the scheme was 5-0. The complaint was filed in the U.S. District Court for the District of New Jersey.

The Operation AI Comply cases being announced today build on a number of recent FTC cases involving claims about artificial intelligence, including: Automators, another online storefront scheme; Career Step, a company that allegedly used AI technology to convince consumers to enroll in bogus career training; NGL Labs, a company that allegedly claimed to use AI to provide moderation in an anonymous messaging app it unlawfully marketed to children; Rite Aid, which allegedly used AI facial recognition technology in its stores without reasonable safeguards; and CRI Genetics, a company that allegedly deceived users about the accuracy of its DNA reports, including claims it used an AI algorithm to conduct genetic matching.

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Contact Information

Contact for Consumers

FTC Consumer Response Center
877-382-4357
https://reportfraud.ftc.gov

Media Contacts

Jay Mayfield
Office of Public Affairs
202-326-2656