

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

In the Matter of:
BLOCKFI LENDING LLC

Respondent.

ORDER NO: 22-34-S

**CEASE AND DESIST and CONSENT
ORDER**

WHEREAS BlockFi Lending LLC (“BlockFi”) is a New Jersey-based financial services company that offered and sold interest-bearing digital asset accounts called BlockFi Interest Accounts (“BIAs”), through which investors lend digital assets to BlockFi in exchange for BlockFi’s promise to provide variable monthly interest payment; and

State securities regulators, as members of the North American Securities Administrators Association (“NASAA”), formed a working group (the “Multistate Working Group”) and conducted an investigation into whether BIAs involved the offer and sale of unregistered securities by BlockFi to retail investors; and

BlockFi has cooperated with state securities regulators and the Multistate Working Group conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing access to facts relating to the investigations; and

BlockFi has advised the Multistate Working Group of its agreement to resolve the investigation pursuant to the terms specified in this Consent Order (the “Order”) and pursuant to the multistate resolution recommended by the Multistate Working Group; and

BlockFi will cease and desist offering or selling the BIAs or any security that is not registered, qualified, or exempt to new clients in the United States and cease accepting

1 further investments or funds in the BIAs by current U.S. clients, unless and until the BIAs or
2 other securities are registered, qualified, or otherwise exempt; and

3 BlockFi shall pay up to a total of fifty million dollars (\$50,000,000.00) in settlement
4 payments divided equally among the 50 states, the District of Columbia, Puerto Rico, and the
5 U.S. Virgin Islands and paid to each of the 53 Jurisdictions that enter into a consent order
6 pursuant to the terms of BlockFi's agreement with the Multistate Working Group; and

7 BlockFi elects to waive permanently any right to a hearing and appeal under AS
8 45.56.690(b), with respect to the entry of this Order; and

9 BlockFi admits the jurisdiction of the Alaska Division of Banking and Securities in
10 this matter; and

11 Solely for the purpose of terminating the Multistate Working Group investigation and
12 in settlement of the issues contained in this Order, BlockFi, without admitting or denying the
13 findings of fact or conclusions of law contained in this Order, consents to the entry of this
14 Order.

15 NOW, THEREFORE, the Alaska Department of Commerce, Community, and
16 Economic Development, Division of Banking and Securities, through its Director, as
17 administrator of the Alaska Securities Act, AS 45.56 *et seq.*, hereby enters this Order:

18 I. FINDINGS OF FACT

19 1. The Alaska Division of Banking and Securities ("Administrator") has jurisdiction
20 over this matter pursuant to the Alaska Securities Act (AS 45.56 *et seq.*).

21 2. BlockFi Inc., a Delaware corporation, incorporated on August 1, 2017, with offices
22 at 201 Montgomery Street, Suite 263, Jersey City, New Jersey, is a financial services
23 company that, through its subsidiaries, generates revenue through cryptocurrency and other
24 digital asset trading, lending, and borrowing, as well as investments and other types of

1 transactions.

2 3. BlockFi Trading LLC, a Delaware limited liability company formed on May 28,
3 2019, with offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey, is a
4 wholly owned subsidiary of BlockFi Inc. and acts as a money transmitter that accepts
5 money and digital assets from investors and transfers the funds to BlockFi for investment in
6 BIAs.

7 4. BlockFi, a Delaware limited liability company formed on January 11, 2018, with
8 offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey, is a wholly owned
9 subsidiary of BlockFi Inc. and an affiliate of BlockFi Trading LLC and is the issuer of the
10 BIAs.

11 5. Starting on January 7, 2021, members of the Multistate Working Group contacted
12 BlockFi to notify it that it may have offered and sold securities that may not comply with
13 state securities laws.

14 6. On July 19, 2021, New Jersey filed a summary cease and desist order alleging
15 BlockFi and its parent and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering
16 and selling unregistered securities in the form of BIAs.

17 7. On July 22, 2021, Alabama filed an order to show cause alleging BlockFi and its
18 parent and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and selling
19 unregistered securities in the form of BIAs.

20 8. On July 22, 2021, Texas filed a notice of hearing alleging BlockFi and its parent
21 and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and selling unregistered
22 securities in the form of BIAs.

23 9. On July 22, 2021, Vermont filed a show cause order alleging BlockFi and its parent
24 and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and selling unregistered

1 securities in the form of BIAs.

2 10. On July 29, 2021, Kentucky filed an emergency cease and desist order alleging
3 BlockFi and its parent and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering
4 and selling unregistered securities in the form of BIAs.

5 11. On September 23, 2021, Washington filed a statement of charges alleging BlockFi
6 and its parent and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and
7 selling unregistered securities in the form of BIAs.

8 12. On February 14, 2022, BlockFi agreed to cease and desist offering and selling BIAs
9 nationwide to new investors in the United States and cease and desist accepting further
10 investments or funds in the BIAs by current U.S. investors, including in Alaska.

11 THE OFFER AND SALE OF SECURITIES NATIONWIDE

12 13. From at least March 4, 2019 through February 14, 2022 (the “Relevant Period”),
13 BlockFi has offered and sold securities in the form of interest-bearing digital asset accounts
14 called BIAs and marketed, offered, and sold those securities to Alaska residents.

15 14. On March 4, 2019, BlockFi publicly announced the launch of the BIA, through
16 which investors could lend digital assets to BlockFi and in exchange, receive interest, “paid
17 monthly in cryptocurrency.” Interest began accruing the day after assets were transmitted to
18 BlockFi and compounded monthly, with interest payments made to accounts associated with
19 each BIA investor, in digital assets, on or about the first business day of each month.

20 15. Investors in BIAs lent digital assets to BlockFi in exchange for BlockFi’s promise
21 to provide a variable monthly interest payment.

22 16. BlockFi represented it generated the interest it paid BIA investors by deploying
23 investors’ digital assets in various ways, including loans made to institutional investors,
24 lending U.S. dollars to retail investors, and investing in digital assets, equities, and futures.

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17. Under BlockFi’s terms for the BIA, investors:

grant BlockFi the right, without further notice to [the investor], to hold the cryptocurrency held in [the] account in BlockFi’s name or in another name, and to pledge, repledge, hypothecate, rehypothecate, sell, lend, or otherwise transfer, invest or use any amount of such cryptocurrency, separately or together with other property, with all attendant rights of ownership, and for any period of time and without retaining in BlockFi’s possession and/or control a like amount of cryptocurrency, and to use or invest such cryptocurrency at its own risk.

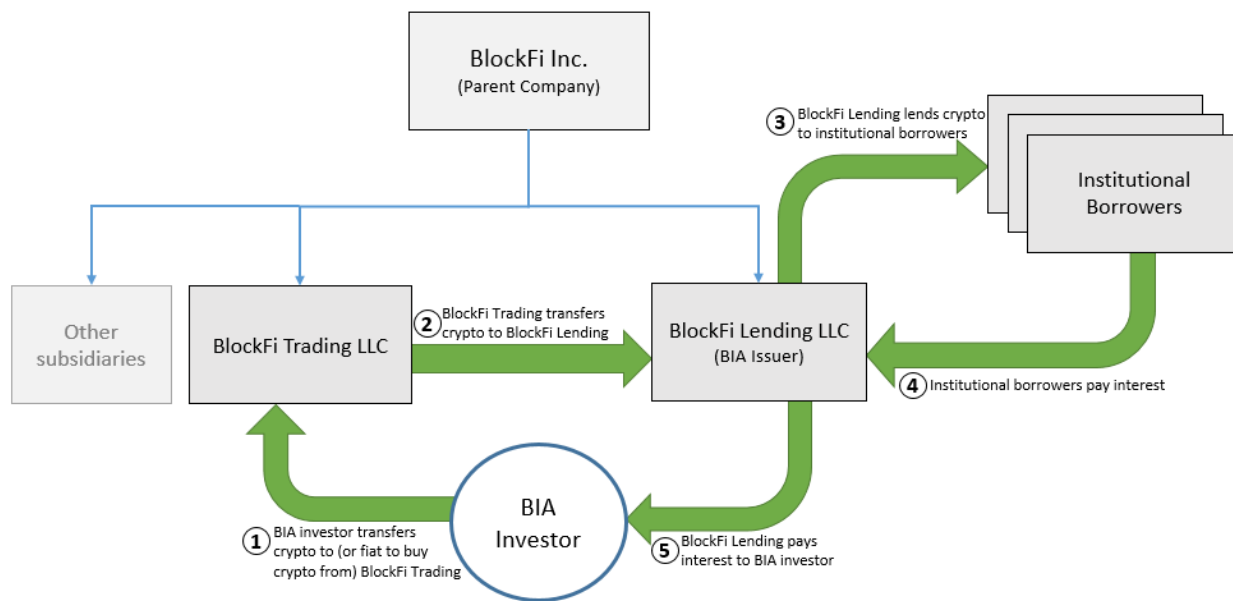
18. BlockFi offered and sold BIAs to obtain digital assets for the general use of its business, namely to use the assets in its lending and investment activities, which generated income both for BlockFi and to pay interest to BIA investors. BlockFi pooled the loaned assets, and exercised full discretion over how much to hold, lend, and invest. BlockFi had complete legal ownership and control over the digital assets loaned to it by BIA investors and advertised that it managed the risks involved.

19. To begin investing in a BIA, an investor could transfer digital assets to the digital wallet address assigned by BlockFi to the investor or purchase digital assets with fiat currency from BlockFi Trading LLC for the purpose of investing in a BIA. BlockFi Trading LLC accepted the digital asset or fiat from the investor, and then transferred the asset to BlockFi. BlockFi did not hold private keys for the investors’ wallet addresses; rather, investors’ digital assets were sent to BlockFi’s wallet addresses at third-party custodians.

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20. BIA investors were permitted to withdraw the equivalent to the digital assets they loaned to BlockFi and accrued interest at any time, with some limitations, and could borrow money in U.S. dollars against the amount of digital assets deposited in BIAs.

21. BlockFi adjusted the interest rates payable on BIAs for particular digital assets periodically, and typically at the start of each month. BlockFi set the rates based, in part, on “the yield that [BlockFi] can generate from lending,” to institutional borrowers, and thus interest rates were correlated with the efforts that BlockFi put in to generate that yield. BlockFi periodically adjusted its interest rates payable on the BIAs in part after analysis of current yield on its investment and lending activity. BIA investors could demand that BlockFi repay the loaned digital assets at any time.

22. As of March 31, 2021, BlockFi and its affiliates held approximately \$14.7 billion in BIA investor assets. As of December 8, 2021, BlockFi and its affiliates held approximately \$10.4 billion in BIA investor assets, and had approximately 572,160 BIA investors, including 391,105 investors in the United States.

23. As of December 31, 2019, BlockFi and its affiliates held approximately \$464,333 in

1 BIA investor assets from Alaska residents. As of December 31, 2020, BlockFi and its
2 affiliates held approximately \$9,984,281 in BIA investor assets from Alaska residents. As of
3 December 31, 2021, BlockFi and its affiliates held approximately \$23,059,143 in BIA
4 investor assets from Alaska residents.

5 MARKETING BLOCKFI'S BIA

6 24. BlockFi offered and sold the BIA securities to investors, including retail investors,
7 through advertising and general solicitations on its website, www.blockfi.com. BlockFi also
8 promoted distribution of the BIA offering through its social media accounts, including
9 YouTube, Twitter, and Facebook. In addition, through its "Partner" program, an affiliate
10 marketing program in which participants could "earn passive income by introducing your
11 audience to financial tools for crypto investors," BlockFi extended its distribution of the
12 BIA securities to retail investors through certain offers and promotions.

13 25. BlockFi regularly touted the profits investors may earn by investing in a BIA. When
14 announcing the BIA, BlockFi promoted the interest earned, promising "an industry-leading
15 6.2% [annual percentage yield]," compounded monthly. BlockFi described it as "an easy
16 way for crypto investors to earn bitcoin as they HODL."

17 26. Within the first few weeks of launching the BIA, BlockFi again touted investors'
18 potential for profit. On March 20, 2019, BlockFi announced that BIAs experienced
19 significant growth, including from large firms who participated in BIAs "as a way to bolster
20 their returns." BlockFi asserted that its "mission is to provide the average crypto investor
21 with the tools to build their wealth," and that it "look[ed] forward to giving even more
22 investors a chance to earn a yield on their crypto."

23 27. On April 1, 2019, BlockFi began to "tier" the interest rates that investors received,
24 initially announcing that "BIA balances of up to and including 25 [Bitcoin] or 500 [Ether]

1 (equivalent to roughly \$100,000 and \$70,000 respectively) will earn the 6.2% APY interest
2 rate. All balances over that limit will earn a tiered rate of 2% interest.” Even when changing
3 the interest rates customers receive, BlockFi touted the yields to investors. On August 27,
4 2021, BlockFi stated that the adjustments to interest rates are done “with the goal of
5 maintaining great rates for the maximum number of clients.”

6 28. On January 1, 2021, BlockFi advertised that it had “distributed more than \$50
7 million in monthly interest payments to [its] clients.”

8 29. As of November 1, 2021, the interest rates BlockFi paid investors ranged from
9 0.1% to 9.5%, depending on the type of digital asset and the size of the investment. For
10 example, investors could receive 9.5% in interest for up to 40,000 Tether (“USDT”) and
11 8.5% for anything over 40,000 USDT, as well as 4.5% interest for up to 0.1 Bitcoin
12 (“BTC”), 1% for 0.1 to 0.35 BTC, and 0.1% for anything over 0.35 BTC.

13 MISREPRESENTATION OF COLLATERALIZATION PRACTICES
14 FOR INSTITUTIONAL LOANS

15 30. BlockFi’s offer of BIAs included an untrue statement of a material fact on its
16 website from March 4, 2019 to August 31, 2021, concerning its collateral practices and,
17 therefore, the risks associated with its lending activity.

18 31. Beginning at the time of the BIA launch on March 4, 2019 and continuing to
19 August 31, 2021, BlockFi made a statement in multiple website posts that its institutional
20 loans were “typically” over-collateralized, when in fact, most institutional loans were not.

21 32. When BlockFi began offering the BIA investment, it intended to require over-
22 collateralization on a majority of its loans to institutional investors, but it quickly became
23 apparent that large institutional investors were frequently not willing to post large amounts
24 of collateral to secure their loans.

33. Approximately 24% of institutional digital asset loans made in 2019 were over-

1 collateralized; in 2020 approximately 16% were over-collateralized; and in 2021 (through
2 June 30, 2021) approximately 17% were over-collateralized.

3 34. As a result, BlockFi's statement materially overstated the degree to which it secured
4 protection from defaults by institutional borrowers through collateral. Through operational
5 oversight, BlockFi's personnel failed to take steps to update the website statement to
6 accurately reflect the fact that most institutional loans were not over-collateralized.

7 35. Although BlockFi made other disclosures on its website regarding its risk
8 management practices, because of BlockFi's misrepresentations and omissions about the
9 level of risk in its loan portfolio, BIA investors did not have complete and accurate
10 information with which to evaluate the risk that, in the event of defaults by its institutional
11 borrowers, BlockFi would be unable to comply with its obligation to pay BIA investors the
12 stated interest rates or return the loaned digital assets and accrued interest to investors upon
13 demand.

14 FAILURE TO COMPLY WITH REGISTRATION REQUIREMENTS

15 36. During the Relevant Period, BlockFi's offer and sale of BIAs was not done subject
16 to an exception or exemption from registration.

17 37. During the Relevant Period, BlockFi offered and sold securities in Alaska that were
18 not registered or permitted for sale in Alaska as required by AS 45.56.100.

19 38. During the Relevant Period, BlockFi offered and sold securities in Alaska without
20 being registered as a broker-dealer or agent as required by AS 45.56.300 and AS 45.56.330,
21 respectively.

22 **II. CONCLUSIONS OF LAW**

23 39. The BIAs are securities as defined in AS 45.56.900(32).

24 40. During the Relevant Period, BlockFi's offer and sale of securities in Alaska that

1 were not registered or permitted for sale in Alaska violated AS 45.56.100.

2 41. During the Relevant Period, BlockFi's offer and sale of securities in Alaska without
3 being registered as a broker-dealer or agent violated AS 45.56.300 and AS 45.56.330,
4 respectively.

5 42. During the Relevant Period, BlockFi's offer included an untrue statement of a
6 material fact on its website concerning its collateral practices and, therefore, the risks
7 associated with its lending activity in violation of AS 45.56.500(2).

8 43. The foregoing violations of AS 45.56.100, AS 45.56.300, AS 45.56.330, and AS
9 45.56.500(2) constitute the basis for the assessment of a civil penalty against BlockFi
10 pursuant to AS 45.56.690(d).

11 III. UNDERTAKING

12 44. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Administrator
13 for registration to offer and sell a new investment product, BlockFi Yield, which BlockFi
14 Inc. intends to register under the federal Securities Act of 1933, as required by AS
15 45.56.100 within 30 days of the filing of the federal registration statement.

16 45. BlockFi and BlockFi's parent, BlockFi Inc., further undertake and agree to cease
17 and desist offering or selling BIAs or any security that is not registered, qualified, or exempt
18 to new investors in the United States and cease and desist accepting further investments or
19 funds in the BIAs by current U.S. investors unless and until the BIAs or other securities
20 have been registered with the Administrator or are otherwise exempt.

21 46. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Administrator
22 for registration as a broker-dealer or engage a registered broker-dealer as required by AS
23 45.56.300 before offering or selling securities, unless otherwise exempt.

24 47. BlockFi's parent, BlockFi Inc., undertakes and agrees to cease and desist making

1 any untrue statement of a material fact.

2 48. BlockFi undertakes and agrees to pay a civil penalty in the amount of \$943,396.22.

3 IV. ORDER

4 On the basis of the Findings of Fact, Conclusions of Law, and BlockFi's consent to the entry
5 of this Order, IT IS HEREBY ORDERED:

6 49. This Order concludes the investigation by the Administrator and resolves any other
7 action the Administrator could commence against BlockFi and its affiliates concerning the
8 Findings of Fact and Conclusions of Law, including as it relates to the offer and sale of
9 BIAs without registration, qualification, or otherwise complying with an exemption and the
10 above-referenced statements regarding BlockFi's collateral practices made thereto during
11 the Relevant Period.

12 50. This Order is entered into solely for the purpose of resolving the referenced
13 multistate investigation and is not intended to be used for any other purpose. Other than the
14 obligations and provisions set forth herein, this Order does not limit or create liability for
15 BlockFi nor limit or create defenses for BlockFi to any claims.

16 51. This Order and the order of any other State in any proceeding related to BlockFi's
17 agreement to resolve the above-referenced multistate investigation (collectively, the
18 "Orders") shall not be used as sole grounds to deny registration or qualification of securities
19 issued by BlockFi or its parent BlockFi Inc.

20 52. This Order is not intended to subject any Covered Person to any disqualifications
21 under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the
22 U.S. Virgin Islands, or under the rules or regulations of any securities or commodities
23 regulator or self-regulatory organization, including, without limitation, any disqualification
24 from relying upon the state or federal registration exemptions or safe harbor provisions.

1 “Covered Persons” means BlockFi, its parent, or any of its affiliates and their current or
2 former officers, directors, employees, or other persons that could otherwise be disqualified
3 as a result of the Orders.

4 53. This Order does not preclude BlockFi from paying interest or returns to existing
5 clients, refunding principal to investors consistent with the terms of the BIAs, or otherwise
6 lawfully dealing with existing clientele.

7 54. BlockFi is hereby ORDERED to cease and desist from offering or selling the BIAs
8 or any security that is not registered, qualified, or exempt to new investors in Alaska and
9 cease and desist accepting further investments or funds in the BIAs by current Alaska
10 investors, unless and until the BIAs or other securities are registered or otherwise exempt in
11 Alaska.

12 55. BlockFi is hereby ORDERED to pay a civil penalty in the amount of \$943,396.22
13 to the State of Alaska.

14 56. Payment shall be made in the following installments:

- 15 a. \$188,679.24 within 14 days of the entry of this Order;
- 16 b. \$188,679.24 no later than August 15, 2022;
- 17 c. \$188,679.24 no later than February 14, 2023;
- 18 d. \$188,679.24 no later than August 14, 2023;
- 19 e. \$188,679.26 no later than February 14, 2024;

20 57. If BlockFi fails to make any payment by the date agreed and/or in the amount
21 agreed according to the schedule set forth above, all outstanding payments under this Order,
22 minus any payments made, shall become due and payable immediately at the discretion of
23 the staff of the Administrator without further application to the Administrator.

24 Payment must be made as follows:

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a. BlockFi may pay by bank cashier's check or certified check, made payable to the State of Alaska and hand delivered or mailed to:

Mailing Address
P.O. Box 110807
Juneau, AK 99811-0807

Physical Address
(No US mail delivery)
333 Willoughby AVE, 9th FL
State Office Building
Juneau, AK 99801

Payments must be accompanied by a cover letter identifying BlockFi and the file number of these proceedings.

58. This Order shall be binding upon BlockFi, its parent and affiliates, and their respective successors and assigns with respect to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

SIGNED AND ENTERED BY THE ADMINISTRATOR this 10th day of May _____, 2022.

Julie Sande, Commissioner
Department of Commerce, Community,
and Economic Development

5/10/22

Date

/s/ Robert H. Schmidt

Robert H. Schmidt, Director
Division of Banking and Securities

1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY BLOCKFI**

2 BlockFi hereby acknowledges that it has been served with a copy of this Order, has read the
3 foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the
4 same.

4 BlockFi admits the jurisdiction of the State of Alaska Division of Banking and Securities
5 (Administrator), neither admits nor denies the Findings of Fact and Conclusions of Law
6 contained in this Order, and consents to entry of this Order by the Administrator as settlement
7 of the issues contained in this Order.

6 BlockFi agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with
7 regard to any state, federal, or local tax for any civil penalty that BlockFi shall pay pursuant to
8 this Order.

8 BlockFi states that no promise of any kind or nature whatsoever was made to it to induce it to
9 enter into this Order and that it has entered into this Order voluntarily.

10 Jonathan Mayers _____ represents that s/he is General Counsel _____ of BlockFi
11 and that, as such, has been authorized by BlockFi to enter into this Order for and on behalf of
12 BlockFi.

12 Dated this 4th day of May _____, 2022.

13
14 BlockFi Lending LLC

15 By:

15 /s/ Jonathan Mayers

16 Title:

16 General Counsel

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18
19 SUBSCRIBED AND SWORN TO before me this 4th day of May _____, 2022.

20 [Affix seal]

20 /s/ Carline Bradshaw

21 Notary Public in and for the State of New York

22 My Commission expires: 4/28/2026

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1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY BLOCKFI INC.**

2 BlockFi Inc., BlockFi Lending LLC's parent, hereby acknowledges that it has been served with
3 a copy of this Order, has read the foregoing Order, is aware of its right to a hearing and appeal
in this matter, and has waived the same.

4 BlockFi Inc. admits the jurisdiction of the Administrator, neither admits nor denies the
Findings of Fact and Conclusions of Law contained in this Order, and consents to entry of this
5 Order by the Administrator as settlement of the issues contained in this Order.

6 BlockFi Inc. unconditionally guarantees payment of the civil penalty in the amount of Nine
Hundred forty-three thousand three hundred ninety-six dollars and twenty-two cents
7 (\$943,396.22) as agreed in this Order.

8 BlockFi Inc. agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with
regard to any state, federal, or local tax for any civil penalty that BlockFi Inc. shall pay
9 pursuant to this Order.

10 BlockFi Inc. states that no promise of any kind or nature whatsoever was made to it to induce it
to consent to this Order and that it has consented to this Order voluntarily.

11 Jonathan Mayers represents that s/he is General Counsel of BlockFi
12 Inc., and that, as such, has been authorized by BlockFi Inc. to enter into this Order for and on
behalf of BlockFi Inc.

13
14 Dated this 4th day of May, 2022.

15 BlockFi Inc.

16 By:

17 /s/ Jonathan Mayers

18 Title:

General Counsel

19
20 SUBSCRIBED AND SWORN TO before me this 4th day of May, 2022.

21 [Affix seal]

22 /s/ Carline Bradshaw

23 Notary Public in and for the State of New York

24 My Commission expires: 4/28/22