

STATE OF NEVADA
OFFICE OF THE SECRETARY OF STATE
SECURITIES DIVISION

2250 LAS VEGAS BOULEVARD NORTH, SUITE 400
NORTH LAS VEGAS, NEVADA 89030

In the Matter of:

BLOCKFI LENDING LLC,

Respondent

ADMINISTRATIVE CONSENT ORDER

File No. INV21-156

NEVADA SECRETARY OF STATE
SECURITIES DIVISION

DATE FILED: 3-15-22

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 payments;

WHEREAS, the Division, various 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;

WHEREAS, BlockFi has cooperated with the Division, 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;

WHEREAS, BlockFi has advised the Division and the Multistate Working Group of its agreement to resolve the investigation pursuant to the terms specified in this Order and pursuant to the multistate resolution recommended by the Multistate Working Group;

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

1 **WHEREAS**, BlockFi has agreed to pay \$943,396.22 in settlement payments to each affected
2 jurisdiction that enters into a Consent Order pursuant to the terms of BlockFi's agreement with the
3 Multistate Working Group;

4
5 **WHEREAS**, BlockFi elects to permanently and expressly waive any right to a hearing and
6 appeal under the Act and/or to seek judicial review under the Nevada Administrative Procedure Act,
7 NRS Chapter 233B, with respect to this Order;

8 **WHEREAS**, BlockFi admits the jurisdiction of the Division in this matter; and

9 **WHEREAS**, solely for the purpose of terminating the Multistate Working Group investigation,
10 and in settlement of the issues contained in this Order, BlockFi, without admitting or denying the
11 findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

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13 **NOW THEREFORE**, the Administrator, pursuant to the Act, hereby enters the following:

14 **I. FINDINGS OF FACT**

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

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

24 3. BlockFi, a Delaware limited liability company formed on January 11, 2018, with offices at
25 201 Montgomery Street, Suite 263, Jersey City, New Jersey, is a wholly owned subsidiary of BlockFi
26 Inc. and an affiliate of BlockFi Trading LLC and is the issuer of the BIAs.
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1 4. Starting on January 7, 2021, members of the Multistate Working Group contacted BlockFi to
2 notify it that it may have offered and sold securities that may not comply with state securities laws.

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

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

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

12 8. On July 22, 2021, Vermont filed a show cause order alleging BlockFi and its parent and
13 affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and selling unregistered securities in
14 the form of BIAs.

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

18 10. On September 23, 2021, Washington filed a statement of charges alleging BlockFi and its
19 parent and affiliate, BlockFi Inc. and BlockFi Trading LLC, were offering and selling unregistered
20 securities in the form of BIAs.

21 11. On February 14, 2022, BlockFi agreed to cease and desist offering and selling BIAs
22 nationwide to new investors in the United States and cease and desist accepting further investments
23 or funds in the BIAs by current U.S. investors, including in Nevada.
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THE OFFER AND SALE OF SECURITIES NATIONWIDE

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

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

14. Investors in BIAs lent digital assets to BlockFi in exchange for BlockFi's promise to provide a variable monthly interest payment.

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

16. Under BlockFi's terms for the BIA, investors granted BlockFi the right, without further notice to the investors, to hold the cryptocurrency held in investor accounts 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.

17. 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

1 discretion over how much to hold, lend, and invest. BlockFi had complete legal ownership and control
2 over the digital assets loaned to it by BIA investors and advertised that it managed the risks involved.

3 18. To begin investing in a BIA, an investor could transfer digital assets to the digital wallet
4 address assigned by BlockFi to the investor or purchase digital assets with fiat currency from BlockFi
5 Trading LLC for the purpose of investing in a BIA. BlockFi Trading LLC accepted the digital asset
6 or fiat from the investor, and then transferred the asset to BlockFi. BlockFi did not hold private keys
7 for the investors' wallet addresses; rather, investors' digital assets were sent to BlockFi's wallet
8 addresses at third-party custodians.
9

10 19. BIA investors were permitted to withdraw the equivalent to the digital assets they loaned to
11 BlockFi and accrued interest at any time, with some limitations, and could borrow money in U.S.
12 dollars against the amount of digital assets deposited in BIAs.
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14 20. BlockFi adjusted the interest rates payable on BIAs for particular digital assets periodically,
15 and typically at the start of each month. BlockFi set the rates based, in part, on "the yield that
16 [BlockFi] can generate from lending," to institutional borrowers, and thus interest rates were
17 correlated with the efforts that BlockFi put in to generate that yield. BlockFi periodically adjusted its
18 interest rates payable on the BIAs in part after analysis of current yield on its investment and lending
19 activity. BIA investors could demand that BlockFi repay the loaned digital assets at any time.
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21 21. As of March 31, 2021, BlockFi and its affiliates held approximately \$14.7 billion in BIA
22 investor assets. As of December 8, 2021, BlockFi and its affiliates held approximately \$10.4 billion
23 in BIA investor assets, and had approximately 572,160 BIA investors, including 391,105 investors in
24 the United States.

25 22. As of December 31, 2019, BlockFi and its affiliates held approximately \$1,866,811.00 in 87
26 BIAs from Nevada residents. As of December 31, 2020, BlockFi and its affiliates held approximately
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1 \$48,143,216.00 in 854 BIAs from Nevada residents. As of December 31, 2021, BlockFi and its
2 affiliates held approximately \$109,951,261.00 in 4,777 BIAs from Nevada residents.

3 MARKETING BLOCKFI'S BIA

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

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

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

22 26. On April 1, 2019, BlockFi began to "tier" the interest rates that investors received, initially
23 announcing that "BIA balances of up to and including 25 [Bitcoin] or 500 [Ether] (equivalent to
24 roughly \$100,000 and \$70,000 respectively) will earn the 6.2% APY interest rate. All balances over
25 that limit will earn a tiered rate of 2% interest." Even when changing the interest rates customers
26 receive, BlockFi touted the yields to investors. On August 27, 2021, BlockFi stated that the
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1 adjustments to interest rates are done “with the goal of maintaining great rates for the maximum
2 number of clients.”

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

5 28. As of November 1, 2021, the interest rates BlockFi paid investors ranged from 0.1% to 9.5%,
6 depending on the type of digital asset and the size of the investment. For example, investors could
7 receive 9.5% in interest for up to 40,000 Tether (USDT) and 8.5% for anything over 40,000 USDT,
8 as well as 4.5% interest for up to 0.1 Bitcoin (BTC), 1% for 0.1 to 0.35 BTC, and 0.1% for anything
9 over 0.35 BTC.
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11 MISREPRESENTATION OF COLLATERALIZATION PRACTICES FOR INSTITUTIONAL
12 LOANS

13 29. BlockFi’s offer of BIAs included a statement that was materially false, fictitious, fraudulent,
14 or otherwise likely to deceive the public, in violation of NRS § 90.570, on its website from March 4,
15 2019 to August 31, 2021, concerning its collateral practices, and therefore, the risks associated with
16 its lending activity.

17 30. Beginning at the time of the BIA launch on March 4, 2019 and continuing to August 31, 2021,
18 BlockFi made a statement in multiple website posts that its institutional loans were “typically” over-
19 collateralized, when in fact, most institutional loans were not.
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21 31. When BlockFi began offering the BIA investment, it intended to require over-collateralization
22 on a majority of its loans to institutional investors, but it quickly became apparent that large
23 institutional investors were frequently not willing to post large amounts of collateral to secure their
24 loans.

25 32. Approximately 24% of institutional digital asset loans made in 2019 were over-collateralized;
26 in 2020 approximately 16% were over-collateralized; and in 2021 (through June 30, 2021)
27 approximately 17% were over-collateralized.
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1 33. As a result, BlockFi's statement materially overstated the degree to which it secured protection
2 from defaults by institutional borrowers through collateral. Through operational oversight, BlockFi's
3 personnel failed to take steps to update the website statement to accurately reflect the fact that most
4 institutional loans were not over-collateralized.

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

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

15 36. During the Relevant Period, BlockFi offered and sold securities in Nevada that were not
16 registered or permitted for sale in Nevada as required by NRS § 90.460.
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18 37. During the Relevant Period, BlockFi offered and sold securities in Nevada without being
19 registered as a dealer or agent as required by NRS § 90.310.
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21 II. CONCLUSIONS OF LAW

22 38. The BIAs are securities as defined in NRS § 90.295.

23 39. During the Relevant Period, BlockFi's offer and sale of securities in Nevada that were not
24 registered or permitted for sale in Nevada violated NRS § 90.460.

25 40. During the Relevant Period, BlockFi's offer and sale of securities in Nevada without being
26 registered as a dealer or agent violated NRS § 90.310.
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1 41. During the Relevant Period, BlockFi's offer included a statement that was materially false or
2 otherwise likely to deceive the public, in violation of NRS § 90.570 on its website concerning its
3 collateral practices, and therefore, the risks associated with its lending activity,

4 42. The foregoing violations of NRS § 90.310, § 90.460, and §90.570 constitute the basis for the
5 assessment of an administrative penalty against BlockFi pursuant to NRS § 90.630.
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7 **III. UNDERTAKING**

8 43. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Administrator for
9 registration to offer and sell a new investment product, BlockFi Yield, which BlockFi Inc. intends to
10 register under the federal Securities Act of 1933, as required by NRS § 90.460 within 15 days of the
11 filing of the federal registration statement.
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13 44. BlockFi and BlockFi's parent, BlockFi Inc., further undertake and agree to cease and desist
14 offering or selling BIAs or any security that is not registered, qualified, or exempt to new investors
15 in the United States and cease and desist accepting further investments or funds in the BIAs by current
16 U.S. investors unless and until the BIAs or other securities have been registered by the Administrator
17 or are otherwise exempt.
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19 45. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Administrator for
20 registration as a dealer or agent or engage a registered broker-dealer/agent as required by NRS §
21 90.310 before offering or selling securities, unless otherwise exempt.

22 46. BlockFi's parent, BlockFi Inc., undertakes and agrees to cease and desist making statements
23 that are materially false or otherwise likely to deceive the public.

24 47. BlockFi undertakes and agrees to pay an administrative penalty in the amount of \$943,396.22.
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ORDER

Finding the following appropriate and in the public's interest, and on the basis of the foregoing, and without either admitting or denying the allegations, Respondent consents to the entry of this Order,

IT IS HEREBY ORDERED:

48. Respondent will cease from violating the Act and will comply with said Act.

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

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

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

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

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

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

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

11 55. Upon notice of entry of this Order, Respondent will pay the Nevada Secretary of State a civil
12 penalty in the cumulative amount of \$943,396.22, due upon the Respondent's submission of its
13 Consent to Entry of this Administrative Order.

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

24 58. Amounts submitted under this Order shall be remitted by company check to:

1 Nevada Secretary of State
2 c/o Stacey Roter
3 2250 Las Vegas Boulevard North, Suite 400
4 North Las Vegas, NV 89030

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

8 60. In consideration, the Division will take no further action against Respondent based upon the
9 circumstances covered by this investigation and Order and close its administrative investigation of the
10 Respondent in connection with the aforementioned activities.

11 61. Nothing in this Order shall be construed as a waiver of the Division's right to investigate and
12 pursue any violations by Respondent in connection with other activity not set forth herein.

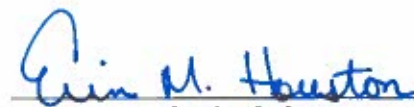
13 62. Nothing in this Order is intended to limit or create for third parties any private remedies
14 against Respondent.

15 63. This Order shall be effective as of the date on which it is signed by the Administrator as set
16 forth below.
17

18 **IT IS SO ORDERED.**

19 DATED this 15th day of March, 2022.

20 **BY ORDER OF THE ADMINISTRATOR**
21 Office of the Secretary of State, Securities Division

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23 ERIN M. HOUSTON
24 Deputy Secretary of State for Securities
25 Securities Administrator
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Respondent admits the jurisdiction of the Securities Division of the Nevada Office of the Secretary of State and consents, without admitting or denying the findings of facts and conclusions of law contained in this Order, to entry of this Order by the Administrator of the Division as settlement of the issues contained within this Order.

Respondent states that no promise of any kind or nature, other than the consideration set forth in the Order, was made to them to induce them to enter into this Order and that they have entered into this Order voluntarily.

Dated this 10th day of March, 2022.

BlockFi Lending LLC

DocuSigned by:
By: Jonathan Mayers
ADECF770BC65B4DB
Title: General Counsel

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BlockFi Inc. admits the jurisdiction of the Securities Division of the Nevada Office of the Secretary of State and consents, without admitting or denying the findings of facts and conclusions of law contained in this Order, to entry of this Order by the Administrator of the Division as settlement of the issues contained within this Order.

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 penalty that BlockFi shall pay pursuant to this Order.

BlockFi Inc. states that no promise of any kind or nature, other than the consideration set forth in the Order, was made to them to induce them to enter into this Order and that they have entered into this Order voluntarily.

Dated this 10th day of March, 2022.

DocuSigned by:
By: Donna M. Meyer
Title: General Counsel
ADEC770BC65B4DB