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DFR Encourages Celsius Network Investors to Proceed with Caution

Investor Alert: July 7, 2022 regarding Celsius Network LLC and its affiliates (“Celsius” or “Celsius Network.”)

Celsius Network is a cryptocurrency company, unlicensed in Vermont, that offered its customers interest-bearing cryptocurrency accounts. Celsius promised customers high interest rates (up to 17%) on deposits of cryptocurrencies. On June 12, 2022, Celsius announced that it was pausing all withdrawals, swaps, and transfers between customer accounts. This action impacts hundreds of thousands of customers and billions of dollars of cryptocurrencies, including accounts of some Vermonters.

The Department believes Celsius is deeply insolvent and lacks the assets and liquidity to honor its obligations to account holders and other creditors. Celsius deployed customer assets in a variety of risky and illiquid investments, trading, and lending activities. Celsius compounded these risks by using customer assets as collateral for additional borrowing to pursue leveraged investment strategies. Additionally, some of the assets held by Celsius are illiquid, meaning they may be difficult to sell, and a sale may result in financial losses. The company’s assets and investments are probably inadequate to cover its outstanding obligations.

Recent volatility in cryptocurrency markets

Cryptocurrencies are a new and often volatile type of investment product. In the best of times, cryptocurrencies are generally highly speculative and risky investments. Significant fluctuations in value are possible due to general market conditions, market manipulation, and the nature of the tokens themselves. Since early 2022, however, and particularly since May 2022, the value of most types of cryptocurrencies has plummeted. Coins or tokens held as deposits in financial services company Celsius Network are no exception. But in addition to the ordinary risks of cryptocurrency

investing, holders of Celsius interest accounts were also exposed to credit risk that Celsius would not be able to return their tokens upon withdrawal.

Celsius is very likely insolvent

Celsius Network has been operating in multiple jurisdictions, including in Vermont. The Department believes Celsius has been engaged in an unregistered securities offering by offering cryptocurrency interest accounts to retail investors. Celsius also lacks a money transmitter license. This means that until recently, Celsius was operating largely without regulatory oversight.

Due to its failure to register its interest accounts as securities, Celsius customers did not receive critical disclosures about its financial condition, investing activities, risk factors, and ability to repay its obligations to depositors and other creditors.

The Department has joined a multistate investigation of Celsius arising from the above concerns.

Previous representations made by the Company, its CEO, and other Celsius representatives about the safety of customer funds and the company's ability to meet withdrawal obligations are untrue.

The Department is aware of reports that Celsius has consulted with insolvency counsel and is considering a bankruptcy filing. If you are a Celsius customer, a bankruptcy filing could affect your investor rights and the value of your Celsius interest account balances. You should consult your own counsel if you have questions about your individual situation and how a bankruptcy proceeding could affect your investment in Celsius.

Market Rumors and Scams

Celsius customers may receive communications or read information on the internet suggesting that they place their deposit accounts on "HODL mode" as a show of support for Celsius. As of June 12, 2022, Celsius has frozen investor accounts. As a result, there is no benefit either to customers or to Celsius to placing deposit accounts into "HODL mode." It is also highly unlikely that placing accounts into "HODL mode" will have any effect on the value of cryptocurrency assets held in such accounts or the value of Celsius assets and investments. The freezing of the accounts does not prevent further declines in value.

Additionally, there are online forums encouraging investors to participate in a “short squeeze” of the Celsius token, CEL. These forums encourage people to purchase CEL tokens in order to drive up the price of the token, thereby hurting individuals who may hold a “short” position in CEL. Celsius has not disclosed adequate or complete information to the public to enable investors to make informed purchases and sales of CEL. Investors who purchase CEL tokens are taking a risk that those tokens will sharply decrease in value, or even become worthless, in the future. Concerted efforts to manipulate the price of CEL may also violate state and federal laws.

Vermont investors should be wary of any communications or suggestions they place accounts in “HODL mode,” invest more in CEL tokens, or otherwise take actions which require them to pay additional sums. Vermont investors should be very wary of communications purporting to come from Celsius, especially if they suggest or request additional investments or payments. The nature of cryptocurrency and the manner in which it is sold or exchanged lends itself to fraud, market manipulation and other criminal activity, including various types of scams. Cryptocurrency transactions cannot be reversed. Cryptocurrency exchanges lack the protections afforded by banks and other investment companies. [See DFR Investor Alert dated August 23, 2021](#). Financial distress and periods of extreme market volatility increase these risks.

As always, investors should beware of any opportunity that seems too good to be true. If you have questions or wish to file a complaint, please contact the Department. You may file a complaint through the Department’s web site at <https://dfr.vermont.gov/consumers/file-complaint>.

The Department will update this Alert in the event of a bankruptcy filing by Celsius or other significant developments.