



89 Main Street, Montpelier, VT 05620 - 3101  
(p) 802-828-3301 | [www.dfr.vermont.gov](http://www.dfr.vermont.gov)

## Recent Bankruptcy Cases Highlight the Risks of Investing in Cryptocurrency

### Investor Alert: December 1, 2022

The Vermont Department of Financial Regulation posts this alert to remind Vermont investors to exercise extreme caution when deciding to invest in cryptocurrency. Cryptocurrencies are not functional equivalents of traditional banking, securities, or insurance investment products. There is no lender of last resort, little to no financial disclosures, and usually no insurance protection for losses arising from market fluctuations, theft, or scams.

Recent events highlight these risks. On November 11, a U.S. based cryptocurrency exchange, FTX.US, along with FTX.COM and 130+ other businesses affiliated with founder Sam Bankman-Fried ("FTX") filed for Chapter 11 bankruptcy protection. The initial filing claimed between \$10 billion and \$50 billion of estimated assets and liabilities. FTX operated as a cryptocurrency exchange on which many other companies depended on for, among other things, their asset deployment activities. FTX had also expressed an intent to buy the assets of other distressed cryptocurrency companies. As a result, its bankruptcy creates systemic risk to the cryptocurrency industry.

On November 12, 2022, FTX claimed it was hacked and potentially lost \$473 million in assets. FTX represented it moved assets to "cold storage" to mitigate further loss. The Department warns investors not to visit the FTX.US and FTX.COM websites as they may be corrupted by malware and/or experiencing cyber-attacks. For the same reason, investors should unlink their bank account information from any FTX apps they might have on their phones, tablets, or other electronic devices.

Investors should also beware of "reload" scams where fraudsters purport to help you recoup funds that are locked in accounts or otherwise unavailable. In a new variation of a reload scam, fraudsters might tempt investors to try to recover their losses by investing in a new type of cryptocurrency or by offering to host digital wallets in which the investors provide the fraudsters with access to their private keys. There are many versions of the reload scam and the scam will likely continue to evolve. Investors should be cautious when interacting with any unfamiliar persons or entities or anyone whose identities and credentials cannot be independently verified.

The FTX bankruptcy followed Chapter 11 bankruptcy filings by the other crypto platforms including Celsius Network, LLC and Voyager Digital Holdings, Inc. The FTX bankruptcy filing could implicate the ability of Voyager Digital Holdings and Celsius Network to emerge successfully from their bankruptcy proceedings. Accordingly, the FTX bankruptcy may increase the risk that Vermont investors in these other companies will experience the loss of their investments.

And on November 28, 2022, another major crypto platform, BlockFi Inc., filed for Chapter 11 bankruptcy protection, BlockFi had reached a settlement with the Securities and Exchange Commission (SEC) and most U.S. states, including Vermont, in February 2022 arising from allegations that BlockFi was engaged in an unregistered securities offering. The bankruptcy filing may affect BlockFi's ability to meet its financial obligations under that settlement.

In all the above cases, a freeze on customer withdrawals preceded the bankruptcy filing. A freeze prevents investors from accessing their assets. Moreover, once a bankruptcy proceeding is filed, it is often not clear whether an investor or the cryptocurrency company owns the crypto assets. Investors could lose some or all their investments, either due to the company's insolvency or due to a court's determination that the company or a third party owns the crypto assets.

In light of the extreme systemic risk posed by these recent events, Vermont consumers with assets in any crypto platform should seriously evaluate whether to maintain those investments. Crypto companies that are not licensed by the Department, and so-called "crypto lenders" that claim to generate interest or returns by investing, trading, or making loans using customers' cryptocurrencies are especially dangerous.

---

Please see the [Department's Investor Alert dated August 23, 2021](#), for general cryptocurrency information.

To file a complaint or for further information, please contact the Department at 833-DFR-HOTLINE, the banking division at [dfr.bnkconsumer@vermont.gov](mailto:dfr.bnkconsumer@vermont.gov), or the securities division at [dfr.securitiesinfo@vermont.gov](mailto:dfr.securitiesinfo@vermont.gov).