

**STATE OF VERMONT  
DEPARTMENT OF FINANCIAL REGULATION**

**In Re:** )  
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**BLOCKFI LENDING LLC** ) **DOCKET NO. 21-025-S**  
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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

WHEREAS, 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

WHEREAS, this docket was opened on July 22, 2021 with the entry of an Order to Show Cause against BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC (the “Order to Show Cause”). The Order to Show Cause set forth violations of the Vermont Securities Act, 9 V.S.A. Chapter 150 (the “Securities Act”), and ordered BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC to show cause to the Commissioner of Financial Regulation (“Commissioner”) why an order should not be entered by the Commissioner directing BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC to cease and desist offering BIAs in Vermont; and

WHEREAS, 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

WHEREAS, 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

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; and

WHEREAS, BlockFi shall pay up to a total of fifty million dollars (\$50,000,000.00) in settlement payments divided equally among the 50 states, the District of Columbia, Puerto Rico,

and the U.S. Virgin Islands and paid to each of the 53 Jurisdictions that enter into a consent order pursuant to the terms of BlockFi's agreement with the Multistate Working Group; and

WHEREAS, BlockFi elects to waive permanently any right to a hearing and appeal under the Securities Act, the Administrative Procedure Act, 3 V.S.A. chapter 25, the rules, regulations, and orders of the Commissioner or of the Department of Financial Regulation (the "Department"), or otherwise, with respect to the entry of this Order; and

WHEREAS, BlockFi admits the jurisdiction of the Commissioner and the Department in this matter; and

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

NOW, THEREFORE, the Commissioner, as administrator of the Securities Act, hereby enters this Order:

1. Each of BlockFi and its parent company, BlockFi Inc., a Delaware corporation, admits the jurisdiction of the Commissioner and the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Commissioner.

## **I. FINDINGS OF FACT**

2. The Commissioner and the Department have jurisdiction over this matter pursuant to the Securities Act and 8 V.S.A. Chapter 1.

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

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

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

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

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

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

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

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

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

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

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

#### THE OFFER AND SALE OF SECURITIES NATIONWIDE

14. From at least March 4, 2019 through February 14, 2022 (the “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 Vermont residents.

15. 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.

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

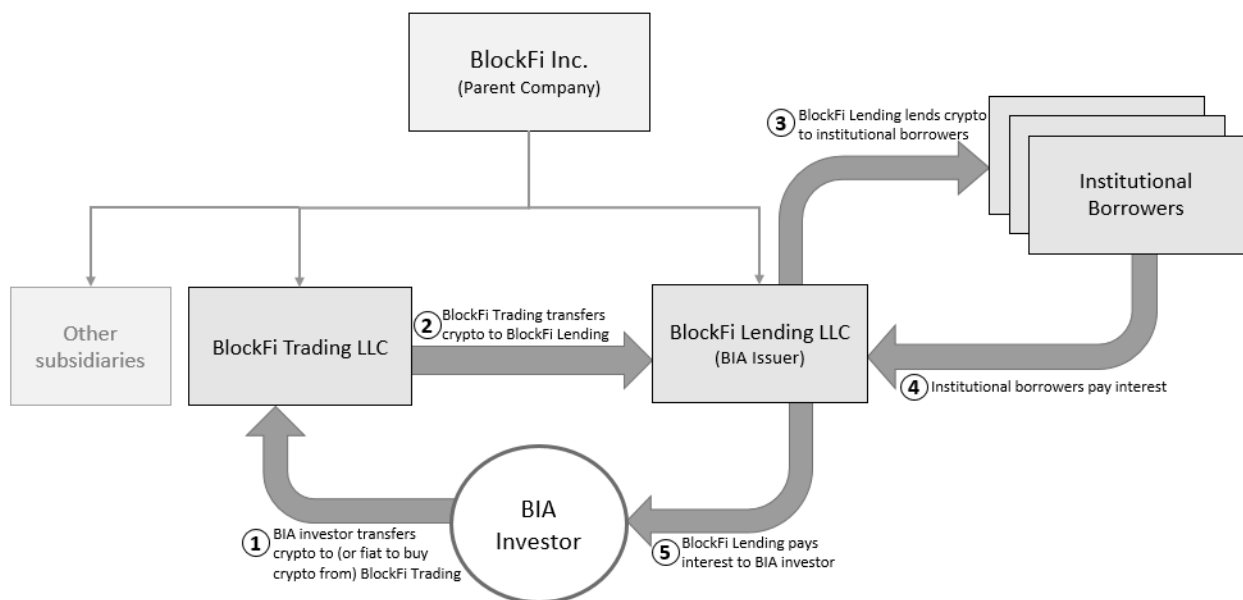
17. BlockFi represented it generated the interest it paid BIA investors by deploying investors' digital assets in various ways, including loans made to institutional investors, lending U.S. dollars to retail investors, and investing in digital assets, equities, and futures.

18. 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.

19. 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.

20. 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.



21. 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.

22. 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.

23. 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.

24. As of December 31, 2019, BlockFi and its affiliates held approximately \$44,018 in BIA investor assets from Vermont residents. As of December 31, 2020, BlockFi and its affiliates held approximately \$4,598,602 in BIA investor assets from Vermont residents. As of December 31, 2021, BlockFi and its affiliates held approximately \$6,525,449 in BIA investor assets from Vermont residents.

#### MARKETING BLOCKFI’S BIA

25. BlockFi offered and sold the BIA securities to investors, including retail investors, through advertising and general solicitations on its website, [www.blockfi.com](http://www.blockfi.com). BlockFi also promoted distribution of the BIA offering through its social media accounts, including YouTube, Twitter, and Facebook. In addition, through its “Partner” program, an affiliate marketing program in which participants could “earn passive income by introducing your audience to financial tools for crypto investors,” BlockFi extended its distribution of the BIA securities to retail investors through certain offers and promotions.

26. BlockFi regularly touted the profits investors may earn by investing in a BIA. When announcing the BIA, BlockFi promoted the interest earned, promising “an industry-leading 6.2% [annual percentage yield],” compounded monthly. BlockFi described it as “an easy way for crypto investors to earn bitcoin as they HODL.”<sup>1</sup>

27. Within the first few weeks of launching the BIA, BlockFi again touted investors’ potential for profit. On March 20, 2019, BlockFi announced that BIAs experienced significant growth, including from large firms who participated in BIAs “as a way to bolster their returns.” BlockFi asserted that its “mission is to provide the average crypto investor with the tools to build

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<sup>1</sup> HODL is a term derived from a misspelling of “hold,” in the context of buying and holding cryptocurrencies.

their wealth,” and that it “look[ed] forward to giving even more investors a chance to earn a yield on their crypto.”

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

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

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

#### MISREPRESENTATION OF COLLATERALIZATION PRACTICES FOR INSTITUTIONAL LOANS

31. BlockFi made an untrue statement of a material fact, and omitted to state a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading, on its website from March 4, 2019 to August 31, 2021, concerning its collateral practices and, therefore, the risks associated with its lending activity.

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

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

34. Approximately 24% of institutional digital asset loans made in 2019 were over-collateralized; in 2020 approximately 16% were over-collateralized; and in 2021 (through June 30, 2021) approximately 17% were over-collateralized.

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

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

#### FAILURE TO COMPLY WITH REGISTRATION REQUIREMENTS

37. During the Relevant Period, BlockFi's offer and sale of BIAs was not done subject to an exception or exemption from the registration requirements of the Securities Act.

38. During the Relevant Period, BlockFi offered and sold securities in Vermont that were not registered or permitted for sale in Vermont as required by 9 V.S.A. Chapter 150, Subchapter 3.

### **II. CONCLUSIONS OF LAW**

39. The BIAs are securities as defined in 9 V.S.A. § 5102.

40. During the Relevant Period, BlockFi's offer and sale of securities in Vermont that were not registered or permitted for sale in Vermont violated 9 V.S.A. Chapter 150, Subchapter 3.

41. During the Relevant Period, BlockFi made an untrue statement of a material fact, and omitted to state a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading, on its website concerning its collateral practices and, therefore, the risks associated with its lending activity, in violation of 9 V.S.A. § 5501.

42. The foregoing violations of the Securities Act constitute the basis for the assessment of a civil penalty against BlockFi pursuant to 9 V.S.A. § 5604.

### **III. UNDERTAKINGS**

43. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Securities Division of the Department of Financial Regulation for registration to offer and sell a new investment product, BlockFi Yield, which BlockFi Inc. intends to register under the federal Securities Act of 1933, as required by 9 V.S.A. § 5303, within 30 days of the filing of the federal registration statement.

44. BlockFi and BlockFi's parent, BlockFi Inc., further undertake and agree to cease and desist offering or selling BIAs or any security that is not registered, qualified, or exempt to new investors in the United States, including in Vermont, and cease and desist accepting further investments or funds in the BIAs by current U.S. investors, including Vermont investors, unless

and until the BIAs or other securities have been duly registered under Subchapter 3 of the Securities Act and other applicable state and federal securities laws or are otherwise exempt.

45. BlockFi's parent, BlockFi Inc., undertakes and agrees not to engage or pay transaction based compensation to any person to offer or sell, or facilitate the offer or sale of, securities in Vermont, unless such person is a registered broker dealer or agent as required by 9 V.S.A. § 5401 or exempt from such registration requirements.

46. BlockFi's parent, BlockFi Inc., undertakes and agrees to cease and desist making any untrue statement of a material fact, or omitting to state a material fact necessary in order to make any statement made, in light of the circumstances under which they were made, not misleading, in connection with the offer to sell, the offer to purchase, the sale, or the purchase of a security, directly or indirectly.

47. BlockFi undertakes and agrees to pay settlement payments to the Department in the amount of \$943,396.22, of which \$801,886.79 shall be a civil penalty and \$141,509.43 shall be a payment to the Financial Services Education and Victim Restitution Special Fund pursuant to 9 V.S.A. § 5616(f).

#### **IV. ORDER**

On the basis of the Findings of Facts, Conclusions of Law, and BlockFi's consent to the entry of this Order,

#### **IT IS HEREBY ORDERED:**

48. This Order concludes the investigation by the Department and resolves any other action the Commissioner could commence against BlockFi and its affiliates concerning the Findings of Fact and Conclusions of Law in this Order, 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.

49. This Order resolves the matter docketed on July 22, 2021 with the entry of the Order to Show Cause against BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC.

50. This Order is entered into solely for the purpose of resolving the referenced multistate investigation and Order to Show Cause 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, the "Orders") shall not be used as sole grounds to deny registration or qualification of securities issued by BlockFi or its parent BlockFi Inc.



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

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

54. BlockFi is hereby ORDERED to cease and desist from offering or selling the BIAs or any security that is not registered, qualified, or exempt to new investors in Vermont, and cease and desist accepting further investments or funds in the BIAs by current Vermont investors unless and until the BIAs or other securities are duly registered under Subchapter 3 of the Securities Act or otherwise exempt in Vermont.

55. BlockFi is hereby ORDERED to pay \$943,396.22 in settlement payments to the Department of Financial Regulation, of which \$801,886.79 shall be a civil penalty and \$141,509.43 shall be a payment to the Financial Services Education and Victim Restitution Special Fund pursuant to 9 V.S.A. § 5616(f).

56. Payment shall be made in the following installments:

- a. \$188,679.24 due on February 28, 2022;
- b. \$188,679.24 due on August 14, 2022;
- c. \$188,679.24 due on February 14, 2023;
- d. \$188,679.24 due on August 14, 2023; and
- e. \$188,679.24 due on February 14, 2024.

57. If BlockFi fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the Commissioner.

58. Each payment must be made in one of the following ways:

- a. BlockFi may transmit payment by bank wire transfer to the Vermont Department of Financial Regulation, which will provide detailed wire transfer instructions upon request; or

- b. BlockFi may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Vermont Department of Financial Regulation and hand delivered, mailed via first class mail, or delivered by Federal Express to:

Attn: Beth Sides  
Department of Financial Regulation  
Securities Division  
89 Main Street  
Montpelier, VT 05620-3101

Each payment (including payments by wire transfer) must be accompanied by a cover letter identifying BlockFi and the docket number of these proceedings delivered to the address set forth directly above. BlockFi shall send an electronic copy of the cover letter by e-mail to Ethan McLaughlin at [ethan.mclaughlin@Vermont.gov](mailto:ethan.mclaughlin@Vermont.gov) and to Beth Sides at [beth.sides@vermont.gov](mailto:beth.sides@vermont.gov) and to such other persons as the Department may designate from time to time.

59. 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 ORDER OF THE COMMISSIONER this 14<sup>th</sup> day of February, 2022.



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Michael Pieciak  
Commissioner of Financial Regulation

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

BlockFi hereby acknowledges that it has been served with 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.

BlockFi admits the jurisdiction of the Vermont Commissioner of Financial Regulation and the Vermont Department of Financial Regulation, neither admits nor denies the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this Order by the Commissioner as settlement of the issues contained in this Order.

BlockFi 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 or other payment that BlockFi shall pay pursuant to this Order.

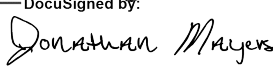
BlockFi states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

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

Dated this 13<sup>th</sup> day of February, 2022.

BlockFi Lending LLC

DocuSigned by:

By: 

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Title: General Counsel

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

BlockFi Inc., BlockFi Lending LLC’s parent, hereby acknowledges that it has been served with 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.

BlockFi Inc. admits the jurisdiction of the Vermont Commissioner of Financial Regulation and the Vermont Department of Financial Regulation, neither admits nor denies the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this Order by the Commissioner as settlement of the issues contained in this Order.

BlockFi Inc. unconditionally guarantees any and all settlement payments, including any civil penalties or other payment obligations of BlockFi arising under this Order, as and when due, including, without limitation, BlockFi’s payment obligations in the amount of nine hundred forty-three thousand three hundred ninety-six dollars and twenty-two cents (\$943,396.22) as agreed in this Order.

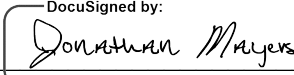
BlockFi Inc. agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any civil penalty or other payment that BlockFi Inc. shall pay pursuant to this Order.

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.

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

Dated this 13th day of February, 2022.

BlockFi Inc.

DocuSigned by:  
By:   
Title: General Counsel  
ADEC770BC65B4DB