

1 **STATE OF WASHINGTON**  
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**  
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING  
Whether there has been a violation of the  
Securities Act of Washington by:

Order No. S-21-3170-22-CO01

CONSENT ORDER

5 BlockFi Lending LLC;

6 Respondent.

7 **INTRODUCTION**

8 Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and BlockFi  
9 Lending LLC do hereby enter into this Consent Order in settlement of the matters alleged herein. BlockFi  
10 Lending LLC neither admits nor denies the Findings of Fact and Conclusions of Law as stated below.

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

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

18 This matter commenced on September 23, 2021 with the entry of a Statement of Charges S-21-3170-  
19 21-SC01 (the “SOC”) against BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC. The SOC set  
20 forth violations of the Securities Act of Washington, Ch. 21.20 RCW (the “Securities Act”) by these three  
21 BlockFi entities, specifically violations of the Securities Act’s provisions related to securities registration  
22 (RCW 21.20.140), broker-dealer or salesperson registration (RCW 21.20.040), and anti-fraud (RCW  
23 21.20.010); and

CONSENT ORDER

DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760

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

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

7 BlockFi will cease and desist offering or selling the BIAs or any security that is not registered,  
8 qualified, or exempt to new clients in the United States and cease accepting further investments or funds in  
9 the BIAs by current U.S. clients, unless and until the BIAs or other securities are registered, qualified, or  
10 otherwise exempt; and

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

15 BlockFi elects to waive permanently any right to a hearing and appeal under RCW 21.20.440 and  
16 Chapter 34.05 RCW with respect to the entry of this Order; and

17 BlockFi admits the jurisdiction of the Securities Division in this matter; and

18 Solely for the purpose of terminating the Multistate Working Group investigation and in settlement of  
19 the issues contained in this Order and the pending SOC, BlockFi, without admitting or denying the findings  
20 of fact or conclusions of law contained in this Order, consents to the entry of this Order.

21 NOW, THEREFORE, the Securities Administrator, as administrator of the Securities Act, hereby  
22 enters this Order:

23 //

1 **FINDINGS OF FACT**

2 1. The Securities Division has jurisdiction over this matter pursuant to the Securities Act.

3 2. BlockFi Inc., a Delaware corporation, incorporated on August 1, 2017, with offices at 201  
4 Montgomery Street, Suite 263, Jersey City, New Jersey, is a financial services company that, through its  
5 subsidiaries, generates revenue through cryptocurrency and other digital asset trading, lending, and  
6 borrowing, as well as investments and other types of transactions. BlockFi Inc.0 is not registered with the  
7 Securities Division in any capacity.

8 3. BlockFi Trading LLC, a Delaware limited liability company formed on May 28, 2019, with  
9 offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey, is a wholly owned subsidiary of  
10 BlockFi Inc. and acts as a money transmitter that accepts money and digital assets from investors and transfers  
11 the funds to BlockFi for investment in BIAs. BlockFi Trading LLC is not registered with the Securities  
12 Division in any capacity. It is registered as a money transmitter in Washington (WA Lic. #550-MT-121212;  
13 NMLS #1873137).

14 4. BlockFi, a Delaware limited liability company formed on January 11, 2018, with offices at 201  
15 Montgomery Street, Suite 263, Jersey City, New Jersey. BlockFi is a wholly owned subsidiary of BlockFi  
16 Inc. and an affiliate of BlockFi Trading LLC. BlockFi is the issuer of the BIAs. BlockFi is not registered with  
17 the Securities Division in any capacity. It is registered as a consumer loan company in Washington (WA Lic.  
18 #CL-1737520; NMLS #1737520).

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

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



1 Interest began accruing the day after assets were transmitted to BlockFi and compounded monthly, with  
2 interest payments made to accounts associated with each BIA investor, in digital assets, on or about the first  
3 business day of each month.

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

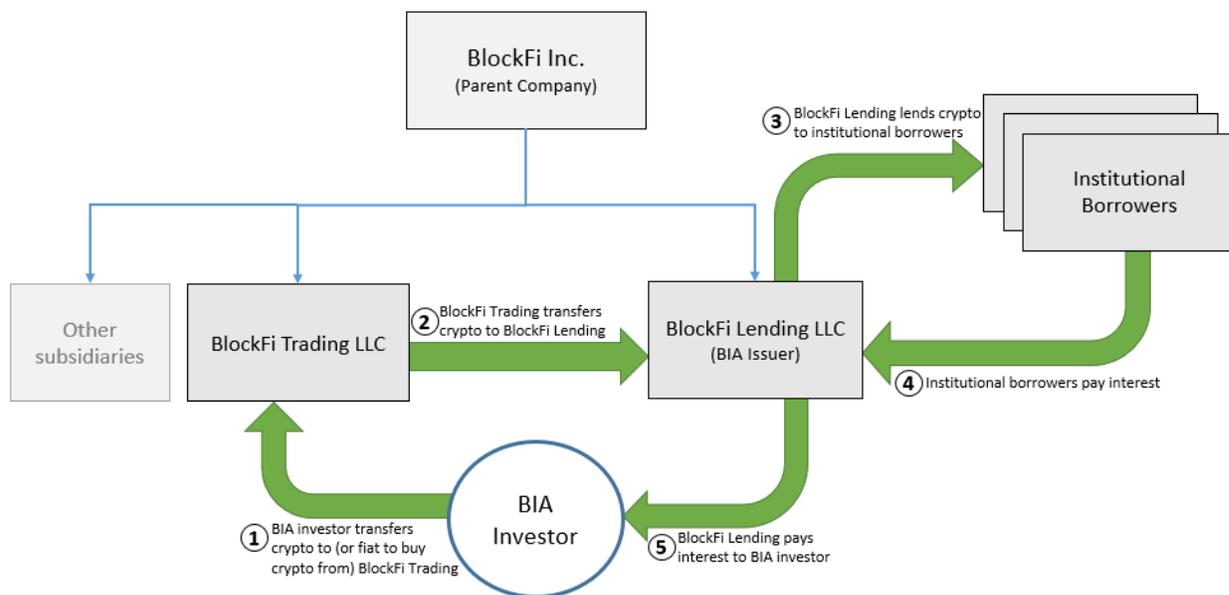
6 16. BlockFi represented it generated the interest it paid BIA investors by deploying investors'  
7 digital assets in various ways, including loans made to institutional investors, lending U.S. dollars to retail  
8 investors, and investing in digital assets, equities, and futures.

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

10 grant BlockFi the right, without further notice to [the investor], to hold the cryptocurrency held  
11 in [the] account in BlockFi's name or in another name, and to pledge, repledge, hypothecate,  
12 rehypothecate, sell, lend, or otherwise transfer, invest or use any amount of such  
13 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.

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

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



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.

1 23. As of December 31, 2019, BlockFi and its affiliates held approximately \$5,672,000 in BIA  
2 investor assets from Washington residents. As of December 31, 2020, BlockFi and its affiliates held  
3 approximately \$150,496,000 in BIA investor assets from Washington residents. As of December 31, 2021,  
4 BlockFi and its affiliates held approximately \$391,968,000 in BIA investor assets from Washington residents.

#### 5 **Marketing BlockFi's BIA**

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

12 25. 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% [annual  
14 percentage yield]," compounded monthly. BlockFi described it as "an easy way for crypto investors to earn  
15 bitcoin as they HODL."

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

21 27. On April 1, 2019, BlockFi began to "tier" the interest rates that investors received, initially  
22 announcing that "BIA balances of up to and including 25 [Bitcoin] or 500 [Ether] (equivalent to roughly  
23 \$100,000 and \$70,000 respectively) will earn the 6.2% APY interest rate. All balances over that limit will

1 earn a tiered rate of 2% interest.” Even when changing the interest rates customers receive, BlockFi touted  
2 the yields to investors. On August 27, 2021, BlockFi stated that the adjustments to interest rates are done  
3 “with the goal of maintaining great rates for the maximum number of clients.”

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

6 29. As of November 1, 2021, the interest rates BlockFi paid investors ranged from 0.1% to 9.5%,  
7 depending on the type of digital asset and the size of the investment. For example, investors could receive  
8 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%  
9 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.

#### 10 **Misrepresentation of Collateralization Practices For Institutional Loans**

11 30. BlockFi’s offer of BIAs included a material statement that was untrue or omitted a material  
12 fact that was necessary to make the statement made, in the light of the circumstances under which it was made,  
13 not misleading on its website from March 4, 2019 to August 31, 2021, concerning its collateral practices and,  
14 therefore, the risks associated with its lending activity.

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

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

21 33. Approximately 24% of institutional digital asset loans made in 2019 were over-collateralized;  
22 in 2020 approximately 16% were over-collateralized; and in 2021 (through June 30, 2021) approximately  
23 17% were over-collateralized.

1 34. 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 35. 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 portfolio,  
7 BIA investors did not have complete and accurate information with which to evaluate the risk that, in the  
8 event of defaults by its institutional borrowers, BlockFi would be unable to comply with its obligation to pay  
9 BIA investors the stated interest rates or return the loaned digital assets and accrued interest to investors upon  
10 demand.

#### 11 **Failure to Comply With Registration Requirements**

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

14 37. During the Relevant Period, BlockFi offered and sold securities in Washington that were not  
15 registered or permitted for sale in Washington as required by RCW 21.20.140.

16 Based upon the above Findings of Fact, the following Conclusions of Law are made:

#### 17 **CONCLUSIONS OF LAW**

18 38. The BIAs are securities as defined in RCW 21.20.005(17).

19 39. During the Relevant Period, BlockFi’s offer and sale of securities in Washington that were not  
20 registered or permitted for sale in Washington violated RCW 21.20.140.

21 40. During the Relevant Period, BlockFi’s offer included an untrue statement of a material fact or  
22 a statement that omitted to state a material fact necessary in order to make the statement made, in the light  
23

1 of the circumstances under which it was made, not misleading on its website concerning its collateral  
2 practices and, therefore, the risks associated with its lending activity. Such conduct violated RCW 21.20.010.

3 41. The foregoing violations of RCW 21.20.140 and RCW 21.20.010 constitute the basis for the  
4 assessment of an administrative fine and investigative costs against BlockFi pursuant to RCW 21.20.395 and  
5 RCW 21.20.390, respectively.

6 Based upon the foregoing and finding it in the public interest:

7 **UNDERTAKING**

8 42. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Securities Administrator  
9 for 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 RCW 21.20.140 within 30 days of the filing  
11 of the federal registration statement.

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

17 44. BlockFi's parent, BlockFi Inc., undertakes and agrees to cease and desist making any untrue  
18 statement of a material fact or to omit to state a material fact necessary in order to make the statement made,  
19 in the light of the circumstances under which it was made, not misleading.

20 45. BlockFi undertakes and agrees to pay an administrative fine of \$932,896.22 and investigative  
21 costs of \$10,500, for a total cumulative payment in fines and costs in the amount of \$943,396.22.

22 //

23 //

1 **ORDER**

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

4 IT IS HEREBY ORDERED:

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

10 2. This Order resolves the matter commenced by the Securities Division on September 23, 2021  
11 with the entry of Statement of Charges S-21-3170-21-SC01 against BlockFi Inc., BlockFi Lending LLC, and  
12 BlockFi Trading LLC.

13 3. This Order is entered into solely for the purpose of resolving the referenced multistate  
14 investigation and the Securities Division’s Statement of Charges S-21-3170-21-SC01, and is not intended to  
15 be used for any other purpose. Other than the obligations and provisions set forth herein, this Order does not  
16 limit or create liability for BlockFi nor limit or create defenses for BlockFi to any claims.

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

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

1 exemptions or safe harbor provisions. “Covered Persons” means BlockFi, its parent, or any of its affiliates  
2 and their current or former officers, directors, employees, or other persons that could otherwise be  
3 disqualified as a result of the Orders. This Order does not preclude BlockFi from paying interest or returns  
4 to existing clients, refunding principal to investors consistent with the terms of the BIAs, or otherwise  
5 lawfully dealing with existing clientele.

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

10 7. BlockFi is hereby ORDERED to pay an administrative fine of \$932,896.22 and investigative  
11 costs of \$10,500, for a total cumulative payment in the amount of \$943,396.22 to the Securities Division.

12 8. Payment shall be made in the following installments:

- 13 a. \$178,179.24 in administrative fine and \$10,500 in investigative costs within 14 days  
14 of the entry of this Order;
- 15 b. \$188,679.24 in administrative fine no later than August 15, 2022;
- 16 c. \$188,679.24 in administrative fine no later than February 14, 2023;
- 17 d. \$188,679.24 in administrative fine no later than August 14, 2023;
- 18 e. \$188,679.26 in administrative fine no later than February 14, 2024;

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







1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

Approved as to form by:

/s/ Steven R. Peikin  
Steven Peikin, New York Bar No. 2487627  
Sullivan & Cromwell LLP  
Attorney for BlockFi Inc.

SIGNED and ENTERED this 17th day of February, 2022.



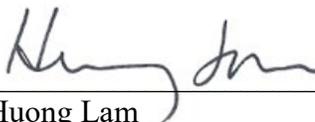
\_\_\_\_\_  
William M. Beatty  
Securities Administrator

Approved by:



\_\_\_\_\_  
Brian Guerard  
Chief of Enforcement

Presented by:



\_\_\_\_\_  
Huong Lam  
Acting Financial Legal Examiner Supervisor