

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

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

7 **Celsius Network Inc.;**
8 **Celsius Network Limited;**
9 **Celsius US Holding LLC,**
10 **Celsius Network LLC;**
11 **Celsius Lending LLC;**

12 Respondents.

Order No. S-21-3212-21-SC01

13 **STATEMENT OF CHARGES AND NOTICE OF**
14 **INTENT TO ENTER ORDER TO CEASE AND**
15 **DESIST, TO IMPOSE A FINE, AND TO CHARGE**
16 **COSTS**

17 **THE STATE OF WASHINGTON TO:**

18 Celsius Network Inc.,
19 Celsius Network Limited,
20 Celsius US Holding LLC,
21 Celsius Network LLC, and
22 Celsius Lending LLC

23 **STATEMENT OF CHARGES**

24 Please take notice that the Securities Administrator of the state of Washington has reason to believe
25 that Respondents Celsius Network Inc., Celsius Network Limited, Celsius US Holding LLC, Celsius
26 Network LLC, and Celsius Lending LLC have violated the Securities Act of Washington. The Securities
27 Administrator believes these violations justify the entry of an order against Respondents Celsius Network
28 Inc., Celsius Network Limited, Celsius US Holding LLC, Celsius Network LLC, and Celsius Lending LLC
29 to cease and desist from such violations, to impose a fine, and to charge costs pursuant to RCW 21.20.390
30 and RCW 21.20.395. The Securities Administrator finds as follows:

31 **TENTATIVE FINDINGS OF FACT**

32 **Respondents**

33 1. Celsius Network Inc. is a Delaware corporation formed on February 8, 2018 with its principal
34 place of business in Hoboken, New Jersey. Celsius Network Inc. owns over 82% of Celsius Network

1 Limited. Celsius Network Inc. is not registered to do business in Washington and is not registered with the
2 Securities Division in any capacity.

3 2. Celsius Network Limited is an England and Wales private limited company formed on
4 February 9, 2018 with its principal place of business in London, England. Celsius Network Limited wholly
5 owns Celsius US Holding LLC. Celsius Network Limited is not registered to do business in Washington
6 and is not registered with the Securities Division in any capacity.

7 3. Celsius US Holding LLC is a Delaware limited liability company formed on October 5, 2020
8 with its principal place of business in Hoboken, New Jersey. Celsius US Holding LLC wholly owns Celsius
9 Network LLC and Celsius Lending LLC. Celsius US Holding LLC is not registered to do business in
10 Washington and is not registered with the Securities Division in any capacity.

11 4. Celsius Network LLC is a Delaware limited liability company formed on June 14, 2021 with
12 its principal place of business in Hoboken, New Jersey. Celsius Network LLC is not registered to do
13 business in Washington and is not registered with the Securities Division in any capacity.

14 5. Celsius Lending LLC is a Delaware limited liability company formed on October 5, 2020 with
15 its principal place of business in Hoboken, New Jersey. Celsius Lending LLC is registered as a foreign
16 limited liability company in Washington but is not registered with the Securities Division in any capacity.

17 6. The above-named entities will be collectively referred to in this Statement of Charges as
18 “Respondents” or “Celsius.” Celsius provides various virtual currency-related financial services to retail
19 and institutional customers in the United States, including trading, borrowing, and lending services. Celsius
20 is also engaged in other income-generating virtual currency activities such as proprietary trading, staking,
21 and mining.

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1 **Nature of the Conduct**

2 **Overview**

3 7. From approximately June 2018 until February 2019, and again from approximately January
4 2020 to July 2021, Celsius offered their Earned Interest Program (“EIP”) to Washington customers. The
5 EIP enabled customers to earn interest, called “rewards,” on virtual currencies that the customer deposited
6 with Celsius. Celsius offered the EIP through two methods: (1) Earned Interest Accounts (“EIAs”) that
7 customers can open directly with Celsius, or (2) the API Partners Program, where partner companies can
8 utilize Celsius’ platform to offer their customers the opportunity to participate in the EIP. To earn income
9 to pay interest to EIP customers, Celsius engaged in numerous activities, including lending the customers’
10 virtual currencies to retail and institutional borrowers. To date, Celsius has paid interest to at least 1,400
11 Washington residents through the EIP. As of August 29, 2021, Washington customers have a collective
12 account value of over \$137,000,000.

13 8. Celsius promoted the EIP to Washington residents primarily online. Celsius maintained a
14 website at <https://celsius.network>, through which it provided information about its EIP, a list of supported
15 virtual currencies and their corresponding interest rates, and an updated total of Celsius users and
16 “community assets” on deposit with Celsius. Celsius also promoted the EIP on social media and in numerous
17 “Ask Mashinsky Anything” (“AMA”) YouTube videos featuring its CEO, Alex Mashinsky.

18 9. Celsius in particular marketed itself as a virtual currency financial solution for its
19 “community” of retail customers called “Celsians.” Celsius represented that it provided “fair and transparent
20 services that have been abandoned by banks” to its retail customers. In an AMA and other online content,
21 Celsius stated that it returns up to 80% of its earnings to customers.

22 10. Celsius has advertised interest rates of up to 17% APY on particular virtual currencies, much
23 higher than the rates currently being offered for short-term, investment grade, fixed income securities or for

1 bank savings accounts. Celsius does not insure EIAs against losses incurred by customers, nor are EIAs
2 insured by the FDIC, SIPC, or NCUA.

3 **Earned Interest Accounts**

4 11. Celsius allows anyone 18 years and older and residing in a permissible jurisdiction to open
5 EIAs on its website and mobile app. Celsius collects customer information, including photo identification,
6 to verify the customer’s identity for “Know Your Customer” (KYC) and anti-money laundering (AML)
7 purposes.

8 12. Celsius also requires customers to accept its Terms of Service upon signing up for an EIA,
9 including the transfer of “all right and title” in the virtual currency from the customer to Celsius. Beginning
10 around August 2021, Celsius began informing customers, through the Terms of Service, that their deposit
11 of virtual currencies into the EIA constituted a loan from the customer to Celsius, and that the interest that
12 Celsius paid to the customer was a finance fee.

13 13. When an EIP customer funds their EIA with a supported virtual currency, Celsius then
14 transfers the virtual currency into its own wallet, where it is pooled with virtual currency from other EIP
15 customers and other Celsius assets.¹ Celsius then deploys the EIP virtual currency towards various income-
16 generating activities (see Paragraph 19).

17 14. Celsius credits the customer’s EIA with interest on a weekly basis. The customer can choose
18 between receiving interest in like-kind virtual currency or, where available, in CEL Tokens, Celsius’ own
19 virtual currency.² Celsius pays interest to the customer until the customer withdraws their virtual currencies
20

21 ¹ However, beginning some time in 2020 until approximately July 2021, Celsius transferred Washington customers’ EIP virtual
22 currencies to a third-party custodian for holding. Celsius maintains that the virtual currencies held by the custodian were not
23 deployed in income-generating activities, though these Washington customers still earned interest on their virtual currencies like
any other EIP customer.

² According to Celsius, CEL Tokens are only available to accredited investors in the United States. Celsius maintains a trading
platform where customers can buy and sell CEL Tokens, though Celsius states that this service is not available to Washington
residents.

1 or uses their virtual currencies as collateral against loans that the customer takes out from Celsius.³ Celsius
2 allows EIA customers to withdraw their virtual currencies at any time, subject to a maximum three-day
3 processing period.

4 15. Celsius revisits the interest rate also on a weekly basis. According to Celsius, it determines
5 interest rates based largely on “market demand” for a particular virtual currency. For certain virtual
6 currencies such as Bitcoin and Ether, Celsius further sets the interest rate using a tiered structure.

7 **API Partner Program**

8 16. Celsius offers other companies the opportunity to provide the EIP to their own customers by
9 becoming an API Partner. Celsius conducts due diligence on a potential API Partner prior to the
10 establishment of the relationship. An API Partner can provide Celsius’ EIP to its own customers through
11 two different types of accounts: Segmented and Omnibus. Both types of API accounts are subject to the
12 same restrictions and conditions as those on Celsius’ own platform.

13 17. With Segmented Accounts, the API Partner’s customers establish a direct relationship with
14 Celsius. Celsius onboards those customers in the same way that it brings on its own customers, including
15 verifying customer identities for KYC/AML purposes. The API Partner’s customers must also open their
16 own Celsius EIA and accept Celsius’ Terms of Service, though the customer accesses their account through
17 the Partner’s platform. Celsius pays interest directly into the customer’s account.

18 18. Omnibus Accounts, on the other hand, require the API Partner to establish its own EIP account
19 with Celsius. Celsius pays interest into that account, and the API Partner then distributes the interest to its
20 own customers. Celsius does not maintain a relationship with the API Partner’s customers and does not
21 know their identities. However, Celsius conducts additional due diligence into the Partners’ business
22

23 ³ The retail borrowing program is not open to Washington residents, according to Celsius.

1 practices and reviews, among other things, the Partners’ policies and procedures related to KYC/AML rules.
2 Celsius establishes a direct contractual relationship with the API Partner and requires the API Partner to
3 offer the same interest to its customers that Celsius offers to its own customers.

4 **Deployment and Income-Generating Activities**

5 19. Celsius uses the virtual currencies deposited by EIP customers in several income-generating
6 activities. These activities include lending the virtual currencies to institutional and retail borrowers, posting
7 it as collateral for its own stablecoin borrowing, and using the virtual currencies for market making, staking,
8 mining, yield farming, and proprietary trading. Celsius also invests the EIP virtual currencies, at times
9 through third party asset managers that are vetted by Celsius. Celsius regularly researches the market to
10 identify other possible income-generating activities and has multiples teams tasked to review the potential
11 of these activities.

12 20. With regard to institutional and retail lending, Celsius manages most, if not all, aspects of the
13 loan and lending process. Among other things, Celsius obtains borrower information, assesses their credit
14 risks, tailors terms of the loans, including any required collateral, in accordance with the borrower’s risk
15 profile, monitors counterparty risk after the loan has been funded, liquidates posted collateral where needed,
16 and services the loans.

17 21. Celsius uses the income it receives from these activities to pay interest to EIP customers and
18 for operating expenses, among other uses.

19 22. Celsius requires EIP customers to agree to the commingling and deployment of their virtual
20 currencies in this manner in Celsius’ Terms of Service. Celsius customers agree to relinquish all rights and
21 title to the virtual currency and to allow Celsius to “pledge, re-pledge, hypothecate, rehypothecate, sell,
22 lend, or otherwise transfer or use any amount of [the virtual currency], separately or together with other
23

1 property,....and to use or invest such [virtual currency].” EIP customers have no control over how their
2 virtual currencies are deployed by Celsius.

3 **Material Misleading Statements and Omissions in Offer and Sale of EIPs**

4 23. In offering the EIPs to Washington residents, Celsius failed to fully disclose material aspects
5 of its business and the EIP including, but not limited to, the types of trading and investment activities that it
6 engages in using EIP virtual currencies, the identities and creditworthiness of those who borrow EIP virtual
7 currencies, the amount of virtual currencies used in each income-generating activity, and Celsius financial
8 statements or other information reflecting its financial state.

9 24. In addition, Celsius’ statements that it provides 80% of its revenue to its customers is
10 misleading, as EIP customers are only entitled to earning interest at set rates determined by Celsius.

11 **Need For Further Investigation**

12 25. The Securities Division is continuing to investigate the matter alleged herein to determine the
13 full extent of the violations of the Securities Act that have occurred in this matter. The Securities Division
14 may amend this Statement of Charges in the future to reflect any additional factual allegations and/or
15 violations as a result of the continuing investigation.

16 **Registration Status**

17 26. Celsius Network Inc. is not currently registered to sell the Earned Interest Program in the state
18 of Washington and has not previously been so registered, nor has it filed a claim of exemption from
19 registration.

20 27. Celsius Network Inc. is not currently registered as a broker-dealer in the state of Washington
21 and has not previously been so registered.

22 28. Celsius Network Limited is not currently registered to sell the Earned Interest Program in the
23 state of Washington and has not previously been so registered, nor has it filed a claim of exemption from

1 registration.

2 29. Celsius Network Limited is not currently registered as a broker-dealer in the state of
3 Washington and has not previously been so registered.

4 30. Celsius US Holding LLC is not currently registered to sell the Earned Interest Program in the
5 state of Washington and has not previously been so registered, nor has it filed a claim of exemption from
6 registration.

7 31. Celsius US Holding LLC is not currently registered as a broker-dealer in the state of
8 Washington and has not previously been so registered.

9 32. Celsius Network LLC is not currently registered to sell the Earned Interest Program in the
10 state of Washington and has not previously been so registered, nor has it filed a claim of exemption from
11 registration.

12 33. Celsius Network LLC is not currently registered as a broker-dealer in the state of Washington
13 and has not previously been so registered.

14 34. Celsius Lending LLC is not currently registered to sell the Earned Interest Program in the state
15 of Washington and has not previously been so registered, nor has it filed a claim of exemption from
16 registration.

17 35. Celsius Lending LLC is not currently registered as a broker-dealer in the state of Washington
18 and has not previously been so registered.

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

20 **CONCLUSIONS OF LAW**

21 1. The offer and/or sale of the Earned Interest Program described above constitutes the offer
22 and/or sale of a security as defined in RCW 21.20.005(14) and (17).

1 2. Celsius Network Inc., Celsius Network Limited, Celsius US Holding LLC, Celsius Network
2 LLC, and Celsius Lending LLC violated RCW 21.20.140, the securities registration section of the Securities
3 Act of Washington, by offering and/or selling securities for which no registration is on file with the
4 Securities Administrator.

5 3. Celsius Network Inc., Celsius Network Limited, Celsius US Holding LLC, Celsius Network
6 LLC, and Celsius Lending LLC violated RCW 21.20.040, the licensee registration section of the Securities
7 Act of Washington, by offering and/or selling said securities while not being registered as a broker-dealer
8 in the state of Washington.

9 4. Celsius Network Inc., Celsius Network Limited, Celsius US Holding LLC, Celsius Network
10 LLC, and Celsius Lending LLC violated RCW 21.20.010, the anti-fraud section of the Securities Act of
11 Washington, by making untrue statements of material fact or omitting to state material facts necessary to
12 make the statements made, in light of the circumstances in which they were made, not misleading.

13 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

14 Pursuant to RCW 21.20.390(1), and based upon the Tentative Findings of Fact and Conclusions of
15 Law, the Securities Administrator intends to order Celsius Network Inc., Celsius Network Limited, Celsius
16 US Holding LLC, Celsius Network LLC, and Celsius Lending LLC, and their agents and employees, to
17 each permanently cease and desist from violating RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

18 **NOTICE OF INTENT TO IMPOSE FINES**

19 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,
20 the Securities Administrator intends to order that Celsius Network Inc., Celsius Network Limited, Celsius US
21 Holding LLC, Celsius Network LLC, and Celsius Lending LLC shall be jointly and severally liable for and
22 for and shall pay a fine of \$100,000.

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1 **NOTICE OF INTENT TO CHARGE COSTS**

2 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
3 the Securities Administrator intends to order that Celsius Network Inc., Celsius Network Limited, Celsius
4 US Holding LLC, Celsius Network LLC, and Celsius Lending LLC shall be jointly and severally liable for
5 and for and shall pay the costs, fees, and other expenses incurred in the administrative investigation and
6 hearing of this matter, in an amount not less than \$6,500.

7 **AUTHORITY AND PROCEDURE**

8 This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject
9 to the provisions of Chapter 34.05 RCW. Celsius Network Inc., Celsius Network Limited, Celsius US
10 Holding LLC, Celsius Network LLC, and Celsius Lending LLC may each make a written request for a
11 hearing as set forth in the Notice of Opportunity for Hearing accompanying this Order. If a respondent does
12 not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above
13 Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and
14 desist as to that respondent, to impose any fines sought against that respondent, and to charge any costs
15 sought against that respondent.

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17 SIGNED and ENTERED this 20th day of October, 2021.

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21 _____
22 William M. Beatty
23 Securities Administrator

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Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Huong Lam
Financial Legal Examiner