

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 BlockFi Inc.;
8 BlockFi Trading LLC; and
9 BlockFi Lending LLC,

10 Respondents.

Order No. S-21-3170-21-SC01

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

15 **THE STATE OF WASHINGTON TO:**

16 **BlockFi Inc.**
17 **BlockFi Trading LLC**
18 **BlockFi Lending LLC**

19 **STATEMENT OF CHARGES**

20 Please take notice that the Securities Administrator of the state of Washington has reason to believe
21 that Respondents BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC violated the Securities
22 Act of Washington. The Securities Administrator believes these violations justify the entry of an order
23 against Respondents BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC to cease and desist
from such violations, to impose a fine, and to charge costs pursuant to RCW 21.20.390 and RCW 21.20.395.

The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. BlockFi Inc. is a Delaware entity formed on August 1, 2017 with its principal place of business
in Jersey City, New Jersey. BlockFi Inc., through its wholly-owned subsidiaries, BlockFi Lending LLC and
BlockFi Trading LLC, is in the business of providing virtual currency trading services and financial
products to retail and institutional customers. BlockFi Inc. is not registered with the Securities Division in
any capacity.

1 6. BlockFi offers its BIAs to the general public through its website (www.blockfi.com). On its
2 website, BlockFi describes BIAs as providing “market-leading yields to crypto investors who store their
3 crypto at BlockFi.” BlockFi advertises that customers can earn up to 7.5% APY (as of September 7, 2021)
4 on virtual currency that customers deposit into their BIA. Currently, BlockFi accepts and pays interest on
5 several types of virtual currencies, including Bitcoin, Ether, and Litecoin, as well as the stablecoins USDC
6 and Tether (USDT).¹ BlockFi allows customers to withdraw their virtual currency from their BIA at any
7 time, subject to processing times of up to seven days. Unlike bank, brokerage, or credit union depository
8 accounts (which are generally FDIC, SIPC, or NCUA-insured, respectively), BIAs are not insured against
9 losses incurred by customers.

10 7. BlockFi sets BIA interest rates and credits BIA customer accounts with earned interest on a
11 monthly basis. According to BlockFi, interest rates are based on market demand for the particular virtual
12 currency. BlockFi uses a tiered approach to calculate the interest owed to BIA customers.

13 8. BlockFi requires its customers to open BIA accounts by signing up on their website or on their
14 mobile app, a process that BlockFi advertises as taking less than two minutes. As part of the sign-up process,
15 BlockFi requires BIA customers to accept, among other things, the “Interest Account Terms” (“BIA
16 Terms”). BlockFi allows anyone over the age of 18 and residing in a jurisdiction where BIAs are offered,
17 to apply for a BIA account. BlockFi verifies the customer’s identity to comply with applicable “Know Your
18 Customer” (KYC) and anti-money laundering laws and regulations.

19 9. Once the BIA is open, the customer deposits a supported virtual currency into their account.
20 BlockFi Trading receives this initial deposit, then transfers the customer’s virtual currency to BlockFi
21 Lending to hold.

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23 ¹ A stablecoin is a type of virtual currency whose value is pegged to a particular fiat currency, such as the U.S. dollar, thus making the stablecoin less volatile compared to other virtual currencies.

1 10. To pay interest to BIA customers, BlockFi commingles BIA customers' like-kind virtual
2 currency together and rehypothecates, or uses, the customers' virtual currency in various income-generating
3 activities. For example, BlockFi lends BIA virtual currency to "trusted institutional or corporate borrowers."
4 BlockFi also uses the virtual currency for proprietary trading and hedging activities. BlockFi represents on
5 its website that it purchases "as principal, SEC-regulated equities and predominately CFTC-regulated
6 futures" as a way to pay interest to BIA customers.

7 11. BlockFi requires BIA customers to agree to the rehypothecation of their virtual currency when
8 the customer accepts the BIA Terms during account sign-up. Specifically, BlockFi requires that BIA
9 customers agree that BlockFi may hold the virtual currency in BlockFi's name, that their virtual currencies
10 can be commingled with other customers' virtual currency, and that BlockFi may "pledge, repledge,
11 hypothecate, rehypothecate, sell, lend, or otherwise transfer, invest or use" the virtual currency "with all
12 attendant rights of ownership, and for any period of time...." BlockFi determines how BIA customers'
13 virtual currencies are deployed; BIA customers have no control over how their virtual currencies are used
14 by BlockFi.

15 12. BlockFi implements, or represents that it implements, various risk mitigation strategies
16 towards its lending activities. BlockFi states on its website that it conducts credit due diligence on borrowers
17 and requires most borrowers to post collateral. BlockFi sets the amount of collateral depending on the
18 borrower's credit profile and size of the loan portfolio. BlockFi further represents that it utilizes its
19 "automated risk management system" to "monitor[] positions 24/7" and maintains a reserve balance to
20 fulfill BIA customer withdrawal demands. BlockFi also purportedly maintains an internal risk committee
21 to evaluate, among other things, credit and market risks that may affect its business.

22 13. In offering the BIAs to Washington residents, BlockFi has failed to fully disclose material
23 aspects of its business that may impact BIAs, including, but not limited to, the types of investments, trades,

1 and hedging activities that it engages in with BIA customers' virtual currencies; the identities and
2 creditworthiness of the institutions that borrow BIA virtual currencies; and information or statements related
3 to BlockFi's financial state.

4 **Need For Further Investigation**

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

9 **Registration Status**

10 15. BlockFi Inc. is not currently registered to sell its securities in the state of Washington and has
11 not previously been so registered, nor has it filed a claim of exemption from registration.

12 16. BlockFi Inc. is not currently registered as a securities salesperson or broker-dealer in the state
13 of Washington and has not previously been so registered.

14 17. BlockFi Trading LLC is not currently registered to sell its securities in the state of Washington
15 and has not previously been so registered, nor has it filed a claim of exemption from registration.

16 18. BlockFi Trading LLC is not currently registered as a securities salesperson or broker-dealer
17 in the state of Washington and has not previously been so registered.

18 19. BlockFi Lending LLC is not currently registered to sell its securities in the state of Washington
19 and has not previously been so registered, nor has it filed a claim of exemption from registration.

20 20. BlockFi Lending LLC is not currently registered as a securities salesperson or broker-dealer
21 in the state of Washington and has not previously been so registered.

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

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2 **CONCLUSIONS OF LAW**

3 1. The offer and/or sale of the BlockFi Interest Accounts described above constitutes the offer
4 and/or sale of a security as defined in RCW 21.20.005(14) and (17).

5 2. BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC violated RCW 21.20.140, the
6 securities registration section of the Securities Act of Washington, by offering and/or selling securities for
7 which no registration is on file with the Securities Administrator.

8 3. BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC violated RCW 21.20.040, the
9 licensee registration section of the Securities Act of Washington, by offering and/or selling said securities
10 while not being registered as a securities salesperson or broker-dealer in the state of Washington.

11 4. BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC violated RCW 21.20.010, the
12 anti-fraud section of the Securities Act of Washington, by making untrue statements of material fact or
13 omitting to state material facts necessary to make the statements made, in light of the circumstances in
14 which they were made, not misleading.

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

16 Pursuant to RCW 21.20.390(1), and based upon the Tentative Findings of Fact and Conclusions of
17 Law, the Securities Administrator intends to order BlockFi Inc., BlockFi Trading LLC, and BlockFi
18 Lending LLC, and their agents and employees, to each permanently cease and desist from violating RCW
19 21.20.010, RCW 21.20.040, and RCW 21.20.140.

20 **NOTICE OF INTENT TO IMPOSE FINES**

21 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,
22 the Securities Administrator intends to order that BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending
23 LLC shall be jointly and severally liable for and shall pay a fine of \$100,000.

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2 **NOTICE OF INTENT TO CHARGE COSTS**

3 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,
4 the Securities Administrator intends to order that BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending
5 LLC shall be jointly and severally liable for and shall pay the costs, fees, and other expenses incurred in the
6 administrative investigation and hearing of this matter, in an amount not less than \$10,500.

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. BlockFi Inc., BlockFi Trading LLC, and BlockFi Lending LLC
10 may each make a written request for a hearing as set forth in the Notice of Opportunity for Hearing
11 accompanying this Order. If a respondent does not make a hearing request in the time allowed, the Securities
12 Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and
13 to enter a permanent order to cease and desist as to that respondent, to impose any fines sought against that
14 respondent, and to charge any costs sought against that respondent.

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17 SIGNED and ENTERED this 23rd day of September, 2021.

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21 _____
22 William M. Beatty
23 Securities Administrator

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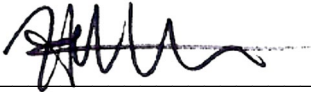
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