



Commonwealth of Kentucky
Public Protection Cabinet
Department of Financial Institutions

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FOR IMMEDIATE RELEASE

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**32 STATES AND SEC SETTLE WITH BLOCKFI
KENTUCKY JOINS MULTIAGENCY SETTLEMENT FOR \$100 MILLION**

FRANKFORT, Ky. (Feb. 14, 2022) – The Kentucky Department of Financial Institutions (DFI) today announced it has joined with 31 other state securities regulators and the U.S. Securities and Exchange Commission (SEC) in a settlement with BlockFi Lending LLC (BlockFi). The digital-asset financial services company agreed to work with DFI to settle offers and sales of unregistered securities to Kentucky residents. The firm offered interest-bearing digital asset deposit accounts called BlockFi Interest Accounts (BIAs). As of Dec. 31, 2021, BlockFi had 407,030 BIA investors in the United States. As of June 30, 2021, at least 2,048 Kentuckians had invested \$26,862,719 in the accounts.

“Making sure Kentuckians are protected is a top priority for my administration,” said Gov. Andy Beshear. “And this agreement helps ensure Kentuckians investing in digital assets have the protections that both state and federal laws provide, as well as access to crucial information needed to help them understand the potential risks of their investment.”

BlockFi agreed to pay \$50 million to members of the North American Securities Administrators Association (NASAA) and \$50 million to the SEC. The 53 NASAA member agencies will share equally in their half of the settlement, with each receiving \$943,396.22 after executing the appropriate consent orders. The DFI is one of 32 NASAA members that have agreed to work with BlockFi to settle, and more jurisdictions are expected to follow.

Beginning in January 2021, NASAA member agencies in a multistate working group contacted BlockFi and provided notice that the company may have offered and sold securities not in compliance with state securities laws. In July 2021, DFI issued an [Emergency Cease and Desist Order](#), which found that BlockFi and its affiliates offered unregistered securities, in violation of the Kentucky Securities Act. In July and September 2021, Alabama, New Jersey, Texas, Vermont and Washington also filed actions against BlockFi concerning its offer and sale of unregistered securities.

As alleged in the state securities actions, BlockFi promoted its BIAs with promises of high returns for investors who purchased the lending products. The company took control of and pooled its investors’ loaned digital assets, and it exercised sole discretion over those assets,

including how to use them to generate a return and pay investors their promised interest. According to the state actions, BlockFi failed to comply with state registration requirements. As a result, the company sold investors unregistered securities in violation of state law, depriving them of critical information and disclosure necessary to understand the potential risks of these lending products.

BlockFi's agreement to settle with the DFI comes amidst rising concerns over the risks associated with the proliferation of "decentralized" and digital asset-based financial products and services being promoted to retail investors. Many of these products and services are analogous to traditional financial services offered by banks and brokerages, but without any of the regulatory safeguards provided by registered firms and products. Registered firms must truthfully disclose all known material facts and explain the risks associated with their investments, while the Securities Investor Protection Corporation insure depositors and investors against certain kinds of losses. Financial service firms operating in innovative fintech markets may not be complying with important laws that protect retail clients, and investors may not have access to the information they need to conduct due diligence and make fully informed decisions

"State securities regulators recognize the value new technology brings to financial markets. Complying with existing laws and regulations promotes competitive capital markets and continued investor protection," said Marni Rock Gibson, Director of DFI's Securities Division. "This action by NASAA member agencies and the SEC sets an example for other firms providing digital asset financial products and services of how to work toward complying with state and federal law."

Effective immediately, BlockFi will stop offering its BIAs to the public in all jurisdictions. In response to Kentucky's emergency action, BlockFi had already agreed to stop offering in the state. BlockFi's parent company, BlockFi Inc., represented it intends to file with state and federal regulators to offer and sell a new product called BlockFi Yield. As part of the settlement terms, BlockFi will stop allowing new investments in the BIAs until its securities are properly registered. BlockFi may continue to deploy digital assets for existing BIA investors and may continue to pay interest. Between February 14th and the date BlockFi Inc.'s securities are registered and qualified or permitted for sale with the states and SEC, current investors may keep their existing investments with BlockFi and will continue to earn interest under their initial agreement with the company. This measure is designed to protect the interests of existing investors while allowing BlockFi time to bring itself into compliance with state and federal law.

DFI continues to consider enforcement actions against firms that fail to comply with state law. Firms that need to register and deal with past unregistered activity should contact their state and federal regulators. DFI can be contacted at 502-573-3390 or kfi@ky.gov.

The DFI would like to thank its fellow NASAA member agencies, especially the multistate working group, for its coordinated efforts and the SEC for their collaboration and assistance.

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DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years, it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents by promoting access to a stable financial industry, implementing effective and efficient regulatory oversight, enforcing consumer protections, encouraging economic opportunities and encouraging sound financial decisions through financial empowerment programs.