

**COMMONWEALTH OF KENTUCKY  
PUBLIC PROTECTION CABINET  
DIVISION OF SECURITIES**

In the Matter of	§	
	§	
BLOCKFI LENDING LLC	§	Matter No. 2021-AH-00020
	§	
Respondent.	§	CONSENT ORDER
	§	
	§	

WHEREAS BlockFi Lending LLC ("BlockFi") is a financial services company based in New Jersey 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 payments;

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;

WHEREAS this matter commenced in Kentucky on **July 29, 2021**, when the Commissioner of the Kentucky Department of Financial Institutions ("DFI") entered an **Emergency Cease and Desist Order** against BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC. The **Emergency Cease and Desist Order** set forth violations of the Kentucky Revised Statutes' (KRS) Chapter 292, the Securities Act of Kentucky;

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;

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;

WHEREAS BlockFi will continue to 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;

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;

WHEREAS BlockFi elects to permanently waive any right to a hearing and appeal under KRS 13B or KRS 292 with respect to the entry of this Order;

WHEREAS BlockFi admits the jurisdiction of DFI over 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 DFI Administrative Action No. 2021-AH-00020, BlockFi, without admitting or denying the findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

WHEREAS the Commissioner of DFI, as administrator of the Securities Act of Kentucky, hereby states as follows:

### **I. FINDINGS OF FACT**

1. DFI has jurisdiction over this matter pursuant to KRS Chapter 292.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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.
9. 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.

10. 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.

11. 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.

12. 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 the Commonwealth of Kentucky.

#### THE OFFER AND SALE OF SECURITIES NATIONWIDE

13. 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 Kentucky residents until July 29, 2021.

14. 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.

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

16. 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.

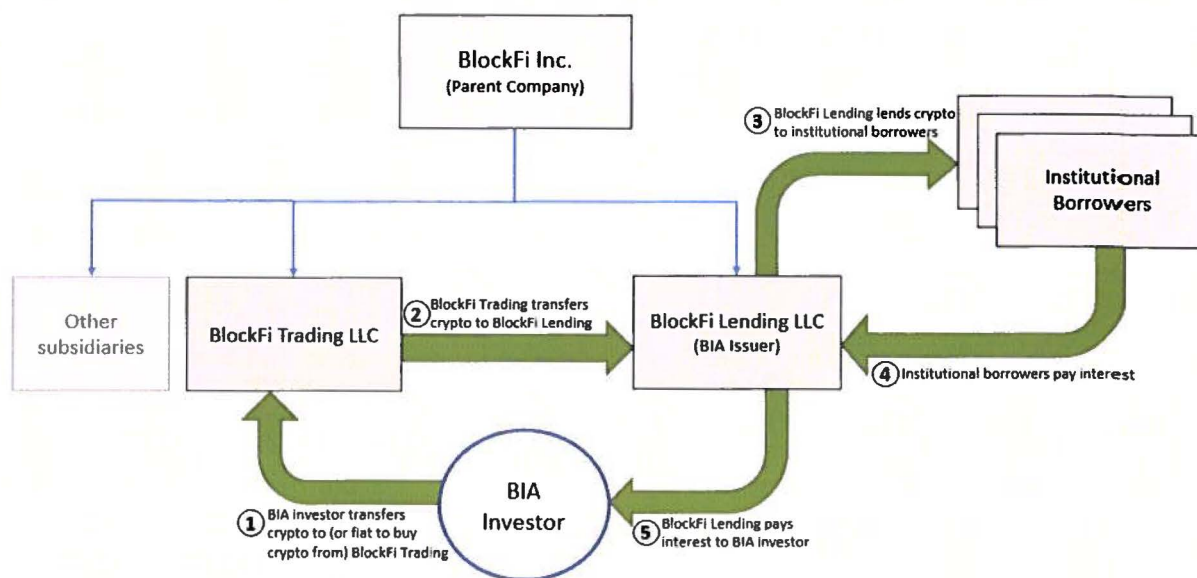
17. Under BlockFi’s terms for the BIA, investors:

[G]rant 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.

18. 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.

19. 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.<sup>1</sup> (See Figure 1)

Figure 1:



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.

23. As of June 30, 2021, BlockFi and its affiliates held approximately \$26.5 million in BIA investor assets from Kentucky residents.

<sup>1</sup> See Figure 1 for a diagram depicting the relationship between BlockFi Inc., BlockFi Trading LLC, BlockFi Lending LLC, BIA investors, and institutional borrowers.

## MARKETING BLOCKFI'S BIA

24. 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.

25. 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."

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

27. 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."

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

29. 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.

## FAILURE TO COMPLY WITH REGISTRATION REQUIREMENTS

30. During the Relevant Period, BlockFi's offer and sale of BIAs was not performed subject to an exception or exemption from registration.

31. During the Relevant Period, BlockFi offered and sold securities in Kentucky that were not registered or permitted for sale in Kentucky as required by KRS 292.340.

## II. CONCLUSIONS OF LAW

32. The BIAs are securities as defined in KRS 292.310.

33. During the Relevant Period, BlockFi's offer and sale of securities in Kentucky that were not registered or permitted for sale in Kentucky violated KRS 292.340.

34. The foregoing violations of KRS 292.340 constitute the basis for the assessment of a civil fine against BlockFi pursuant to KRS 292.500.

### III. UNDERTAKING

35. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Commissioner 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 KRS 292.340 within **30 days** of the filing of the federal registration statement.

36. 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 and cease and desist accepting further investments or funds in the BIAs by current U.S. investors unless and until the BIAs or other securities have been registered by the Commissioner or are otherwise exempt.

37. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Commissioner for registration as a broker-dealer or agent or engage a registered broker-dealer or agent as required by KRS 292.330 before offering or selling securities, unless otherwise exempt.

38. BlockFi undertakes and agrees to pay a civil fine in the amount of \$943,396.22.

### IV. ORDER

NOW, THEREFORE, on the basis of the Findings of Facts, Conclusions of Law, and BlockFi's Undertaking along with its consent to the entry of this Order,

IT IS HEREBY ORDERED:

39. This Order concludes the investigation by DFI and resolves any other action DFI could commence against BlockFi and its affiliates concerning the Findings of Fact and Conclusions of Law, 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.

40. This Order resolves the matter commenced on **July 29, 2021** with the entry of the **Emergency Cease and Desist Order** against BlockFi Inc., BlockFi Lending LLC, and BlockFi Trading LLC.

41. This Order is entered into solely for the purpose of resolving the referenced multistate investigation and DFI Administrative Action No. 2021-AH-00020 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.

42. 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.

43. 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.

44. 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.

45. 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 Kentucky and cease and desist accepting further investments or funds in the BIAs by current Kentucky investors, unless and until the BIAs or other securities are registered or otherwise exempt in Kentucky.

46. BlockFi is hereby ORDERED to pay a civil fine in the amount of \$943,396.22 to DFI.

47. Payment shall be made in the following installments:

- a. \$188,679.24 within 14 days of the entry of this Order;
- b. \$188,679.24 due no later than August 15, 2022;
- c. \$188,679.24 due no later than February 14, 2023;
- d. \$188,679.24 due no later than August 14, 2023; and
- e. \$188,679.26 due no later than February 14, 2024.

48. Pursuant to KRS 292.322(2), the Commissioner designates \$100,000 of BlockFi's initial payment of \$188,679.24 shall be applied to DFI's securities fraud prosecution and prevention fund.

49. 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 staff of DFI without further application to DFI.

50. Payment must be made in one of the following ways:

- a. BlockFi may transmit payment electronically to DFI, which will provide detailed ACH transfer instructions upon request;
- b. BlockFi may make direct payments from a bank account via ACH payment, upon request to DFI; or
- c. BlockFi may pay by certified check, bank cashier's check, or United States postal money order, made payable to "Kentucky State Treasurer", with "2021-AH-00020" indicated in the memo field, and hand delivered or mailed to:

Kentucky Department of Financial Institutions  
Securities Division  
500 Mero Street 2 SW 19  
Frankfort, KY 40601

Payments must be accompanied by a cover letter identifying BlockFi and the file number of these proceedings. A copy of the cover letter must be sent to DFI's Division of Securities.

51. 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 THE Commissioner this 2nd day of March, 2022.

/s/ Charles A. Vice

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CHARLES A. VICE, COMMISSIONER  
Department of Financial Institutions  
500 Mero Street, Frankfort, Kentucky, 40601



**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 DFI, neither admits nor denies the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this Order by DFI 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 fine 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 s/he 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 1<sup>ST</sup> day of MARCH, 2022.

BlockFi Lending LLC

By: [Signature]  
Title: GENERAL COUNSEL

SUBSCRIBED AND SWORN TO before me this 1<sup>ST</sup> day of MARCH, 2022.

[Affix seal]

Cate M. Llewellyn  
Notary Public, State of New York  
No. 01LL6424633  
Qualified in New York County  
Commission Expires November 8th, 2025

Notary Public in and for the State of NEW YORK

My Commission expires: 11 / 8 / 2025

**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 DFI, neither admits nor denies the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this Order by DFI as settlement of the issues contained in this Order.

BlockFi Inc. unconditionally guarantees payment of the civil fine 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 fine 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 s/he 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 1<sup>ST</sup> day of MARCH, 2022.

BlockFi Inc.

By: [Signature]  
Title: GENERAL COUNSEL

SUBSCRIBED AND SWORN TO before me this 1<sup>ST</sup> day of MARCH, 2022.

[Affix seal]

[Signature]

Cate M. Llewellyn  
Notary Public, State of New York  
No. 01LL6424633  
Qualified in New York County  
Commission Expires November 8th, 2026

Notary Public in and for the State of NEW YORK

My Commission expires: 11/8/2025