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U.S. SECURITIES AND EXCHANGE COMMISSION

Investor Bulletin: Crypto Asset Interest-bearing Accounts

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The SEC's Office of Investor Education and Advocacy and the Division of Enforcement's Retail Strategy Task Force are issuing this Investor Bulletin to educate investors about risks with accounts that pay interest on crypto asset deposits.

Crypto assets, including so-called cryptocurrencies, stablecoins, tokens, and other digital assets have been of increasing interest to retail investors over the last few years. This Investor Bulletin highlights the risks that may be involved in a recent financial product related to crypto assets—an interest-bearing account for crypto asset holdings.

Not the Same as Bank Deposits

These products may sound similar to interest-bearing accounts with a bank or credit union, but investors need to be aware that these crypto asset-related accounts are not as safe as bank or credit union deposits.

Banks and credit unions are regulated by both federal and state banking regulators (https://www.investor.gov/introduction-investing/investing-basics/glossary/banking-regulators) . Banking rules limit the amount of risk that banks and credit unions are allowed to take with your deposited funds. These rules are designed to decrease the possibility that your bank or credit union becomes insolvent and unable to provide you your funds when you want to withdraw those funds.

In addition, the Federal Deposit Insurance Corporation (https://www.fdic.gov/) (FDIC (https://www.fdic.gov/)) and National Credit Union Administration (https://www.ncua.gov/) (NCUA (https://www.ncua.gov/)) provide an additional level of protection by insuring your deposits with a bank or federal credit union. Should your bank or credit union become insolvent this deposit insurance covers your deposit up to a certain amount. Together, banking regulations and deposit insurance help to assure depositors that their money is available when they need it.

Insurance for traditional securities accounts. Similar to deposit insurance, securities accounts that you hold with a U.S.-registered broker (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-0) may also be insured by the Securities Investor Protection Corporation (https://www.sipc.org/) (SIPC (https://www.sipc.org/)) up to a certain amount for losses related to the broker going out of business. SIPC does not (https://www.investor.gov/introduction-investing/investing-basics/glossary/securities-investor-protection-corporation-sipc) protect you against losses caused by a decline in the market value of your securities nor does it protect for the loss of most crypto assets, or any investment contracts not registered (https://www.investor.gov/introduction-investing/investing-basics/glossary/registration-under-securities-act-1933) with the SEC.

Companies offering interest-bearing accounts for crypto assets do not provide investors with the same protections as do banks or credit unions, and crypto assets sent to those companies are not currently insured. ***As a result, you should not expect the same level of security, safety and soundness with these crypto asset interest-bearing accounts that you have with bank or credit union deposits.***

Risks with Crypto Asset Investments

Crypto assets held in an interest-bearing account may be used to invest in various crypto asset-related products, schemes or other activities, including lending programs in which the crypto assets are loaned to borrowers. The interest being paid to you is based on these investment activities. These investment activities by the company are subject to the same risks (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-39) that you are subject to with crypto assets, including:

- volatility and illiquidity in the crypto asset markets;
- the risk that the company holding your crypto assets might fail or go bankrupt;
- unpredictability, including that the market for a particular crypto asset may disappear altogether or the crypto asset may no longer be tradable anywhere;
- changes in regulation by federal, state or foreign governments that may restrict the use and exchange of crypto assets;
- the inability to be made whole should fraud, default or a mistake occur; and
- potential fraud (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/digital-asset) , technical glitches, hackers (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-59) or malware.

Your holdings of crypto assets may be adversely affected should any of these risks be realized in the company's investment activities. ***You should carefully review the documents and disclosures relating to the interest-bearing account to be fully aware of the risks to your deposited assets.***

SEC Enforcement Action. The SEC announced (https://www.sec.gov/news/press-release/2022-26) charges against BlockFi Lending LLC (BlockFi) with respect to its BlockFi Interest Account (BIA) product. According to the SEC, investors lent crypto assets to BlockFi through the BIAs; BlockFi used investors' crypto assets to make investments, including loans to institutional investors; and investors received interest paid monthly in crypto assets.

The SEC's order (https://www.sec.gov/litigation/admin/2022/33-11029.pdf) found that the BIAs were securities and BlockFi did not register (https://www.investor.gov/introduction-investing/investing-basics/glossary/registration-under-securities-act-1933) its offering of the BIAs. In addition, according to the order, BlockFi made a materially false and misleading statement on its website concerning its collateral practices, thus understating the degree of risk in its lending program. Further, the SEC found that BlockFi operated as an unregistered investment company (https://www.investor.gov/introduction-investing/investing-basics/glossary/investment-company) due to the amount of investment securities it held.

In settling this matter with the SEC, BlockFi agreed to stop offering BIAs to new investors or accepting additional assets in the BIAs by current investors, and to not violate these securities laws in the future. BlockFi's parent company, BlockFi Inc., has also publicly announced that it intends to register (https://www.investor.gov/introduction-investing/investing-basics/glossary/registration-under-securities-act-1933) under the Securities Act the offer and sale of a new investment product, BlockFi Yield, with the SEC.

Additional Resources

If you are considering an investment opportunity involving digital assets, see the SEC resources available at Spotlight on Digital Assets (https://www.investor.gov/additional-resources/specialized-resources/spotlight-initial-coin-offerings-digital-assets) .

For additional investor educational information, see the SEC's website for individual investors, Investor.gov (http://www.investor.gov) .

Call OIEA at 1-800-732-0330, ask a question using this online form (https://www.sec.gov/oiea/QuestionsAndComments.html) , or email us at Help@SEC.gov (mailto:Help@SEC.gov) .

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