Press Release

BlockFi Agrees to Pay $100 Million in Penalties and Pursue Registration of its Crypto Lending Product

Company also agrees to attempt to bring its business into compliance with the Investment Company Act of 1940 within 60 days

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Washington D.C., Feb. 14, 2022 — The Securities and Exchange Commission today charged BlockFi Lending LLC (BlockFi) with failing to register the offers and sales of its retail crypto lending product. In this first-of-its-kind action, the SEC also charged BlockFi with violating the registration provisions of the Investment Company Act of 1940. To settle the SEC's charges, BlockFi agreed to pay a $50 million penalty, cease its unregistered offers and sales of the lending product, BlockFi Interest Accounts (BIAs), and attempt to bring its business within the provisions of the Investment Company Act within 60 days. BlockFi's parent company also announced that it intends to register under the Securities Act of 1933 the offer and sale of a new lending product. In parallel actions announced today, BlockFi agreed to pay an additional $50 million in fines to 32 states to settle similar charges.

"This is the first case of its kind with respect to crypto lending platforms," SEC Chair Gary Gensler said. "Today's settlement makes clear that crypto markets must comply with time-tested securities laws, such as the Securities Act of 1933 and the Investment Company Act of 1940. It further demonstrates the Commission's willingness to work with crypto platforms to determine how they can come into compliance with those laws. I'd like to thank and commend our remarkable SEC staff and state regulators for their efforts and collaboration on this settlement."

"Crypto lending platforms offering securities like BlockFi's BIAs should take immediate notice of today's resolution and come into compliance with the federal securities laws," said Gurbir S. Grewal, Director of the SEC's Division of Enforcement. "Adherence to our registration and disclosure requirements is critical to providing investors with the information and transparency they need to make well-informed investment decisions in the crypto asset space."

According to the SEC's order, from March 4, 2019 until today, BlockFi offered and sold BIAs to the public. Through BIAs, investors lent crypto assets to BlockFi in exchange for the company's promise to provide a variable monthly interest payment. The order finds that BIAs are securities under applicable law, and the company therefore was required to register its offers and sales of BIAs but failed to do so or to qualify for an exemption from SEC registration. Additionally, the order finds that BlockFi operated for more than 18 months as an unregistered investment company because it issued securities and also held more than 40 percent of its total assets, excluding cash, in investment securities, including loans of crypto assets to institutional borrowers.

The order also finds that BlockFi made a false and misleading statement for more than two years on its website concerning the level of risk in its loan portfolio and lending activity.

Without admitting or denying the SEC's findings, BlockFi agreed to a cease-and-desist order prohibiting it from violating the registration and antifraud provisions of the Securities Act and the registration provisions of the Investment Company Act. BlockFi also agreed to cease offering or selling BIAs in the United States.

The SEC's investigation was conducted by Gwen Licardo, Craig Welter, and Kenneth Gottlieb, with assistance from Brent W. Wilner, under the supervision of Hane L. Kim, Chief of the Retail Strategy Task Force; Lara Shalov Mehraban, Associate Regional Director of the SEC's New York Regional Office; and Kristina Littman, Chief of the Cyber Unit. The SEC appreciates the assistance of state regulators that are members of the North American Securities Administrators Association.

The SEC's Office of Investor Education and Advocacy and Enforcement's Retail Strategy Task Force has issued an Investor Bulletin on Crypto Asset Interest-bearing Accounts. Investors can find additional information about crypto assets at Investor.gov.

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Related Materials

- SEC Order