

STATE OF NEW JERSEY
BUREAU OF SECURITIES
P.O. Box 47029
Newark, New Jersey 07101
(973) 504-3600

IN THE MATTER OF:

BlockFi Inc.,
BlockFi Lending, LLC, and
BlockFi Trading, LLC,

Respondents.

**SUMMARY CEASE
AND DESIST ORDER**

Pursuant to the authority granted to Christopher W. Gerold, Chief of the New Jersey Bureau of Securities (“Bureau Chief”), under the Uniform Securities Law (1997), N.J.S.A. 49:3-47 to -89 (“Securities Law”) and certain regulations thereunder, and based upon documents and information obtained during the investigation by the New Jersey Bureau of Securities (“Bureau”), the Bureau Chief hereby finds that there is good cause and it is in the public interest to enter this Summary Cease and Desist Order (“Order”) against BlockFi, Inc., BlockFi Lending, LLC, and BlockFi Trading, LLC.

The Bureau Chief makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. BlockFi, Inc. (“BFI”) is a financial services company that generates revenue through cryptocurrency trading, lending, and borrowing, as well as engaging in propriety trading. Since March 4, 2019, BFI, through its affiliates BlockFi Lending, LLC (“BlockFi”) and BlockFi Trading, LLC (“Trading”) has been, at least in part, funding its lending operations and proprietary trading through the sale of unregistered securities in the form of cryptocurrency interest-earning

accounts. BlockFi refers to these unregistered securities as its “Crypto Interest Account” or the “BlockFi Interest Account” (the “BIAs”).

2. BlockFi allows investors to purchase the BIAs by depositing certain eligible cryptocurrencies into accounts at BlockFi. BlockFi then pools these cryptocurrencies together to fund its lending operations and proprietary trading. In exchange for investing in the BIAs, investors are promised an attractive interest rate that is paid monthly in cryptocurrency. The BIAs are not protected by Securities Investor Protection Corporation (the “SIPC”) or insured by the Federal Deposit Insurance Corporation (the “FDIC”). The BIAs are subject to additional risk, compared to assets held at SIPC member broker-dealers, or assets held at banks and savings associations, almost all of which carry FDIC insurance. Nor are they registered with the Bureau or any other securities regulatory authority, or exempt from registration. Despite the additional risk, and lack of safeguards and regulatory oversight, as of March 31, 2021, BlockFi held the equivalent of \$14.7 billion from the sale of these unregistered securities in violation of the Securities Law.

3. The Bureau Chief enters this Order to protect the investing public by halting the offer and sale of these unregistered securities. Nothing in this order shall preclude BlockFi, Trading, or BFI from paying interest on the existing BIAs or refunding principal to the BIA Investors consistent with the BIA Terms and BlockFi Terms and Conditions.

A. The Respondents

4. BFI is a Delaware corporation, incorporated on August 1, 2017, with offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey. On March 12, 2019, BFI filed as a foreign corporation with the State of New Jersey, Division of Revenue and Enterprise Services. BlockFi and Trading are wholly-owned subsidiaries of BFI.

5. BlockFi is a Delaware limited liability company formed on January 11, 2018, with offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey. On December 9, 2019, BlockFi filed as a foreign limited liability company with the State of New Jersey, Division of Revenue and Enterprise Services.

6. Trading is a Delaware limited liability company formed on May 28, 2019, with offices at 201 Montgomery Street, Suite 263, Jersey City, New Jersey. On May 29, 2019, Trading filed as a foreign limited liability company with the State of New Jersey, Division of Revenue and Enterprise Services.

7. BFI conducts its business on the internet, through a website accessible to the general public at <https://www.blockfi.com/> (the “BFI Website”), which is also accessible through BFI’s own proprietary app via smartphone.

8. None of BFI, BlockFi or Trading is presently registered, nor have any of them ever been registered in any capacity with the Bureau.

B. The BlockFi BIA Securities

a. BlockFi BIAs

9. BlockFi offers and sells BIAs through individual and business accounts. Investors in these accounts (“BIA Investors”) deposit certain popular cryptocurrencies with BlockFi to purportedly earn “up to 7.5 APY.” The purported interest rates advertised by BlockFi are well in excess of the rates currently being offered by short-term investment grade fixed income securities or on bank savings accounts.

10. BlockFi offers the BIAs to anyone over the age of eighteen, except for residents of New York and certain foreign jurisdictions.

11. When an investor signs up with BlockFi, they check a box in which they certify that they (i) are 18 years or older and (ii) have read and accepted the “Terms & Conditions”,

“Interest Account Terms,” and “Privacy Policy,” which are available via hyperlinks. Links to these documents also appear in small font type at the bottom of each BFI Website page.

12. The BIA Interest Account Terms (“BIA Terms”) state that BlockFi does not require a minimum amount of cryptocurrency for deposit in a BIA, but reserves the right to institute a minimum deposit amount in the future.

13. BlockFi only accepts certain types of cryptocurrencies for deposit in a BIA. According to the BFI Website, BIAs can be opened by depositing eligible cryptocurrency with BlockFi’s affiliate, Trading, who then transfers the deposited cryptocurrency to BlockFi, or by sending a wire transfer to Trading to purchase eligible cryptocurrency, which Trading then immediately transfers to BlockFi.

14. According to the BFI Website, BlockFi uses Gemini Trust Company, LLC, a New York trust company; BitGo, an institutional digital asset custodian, as its primary digital asset custodians for the BIAs.

15. According to the BlockFi Interest Account Agreement for business accounts, corporate BIA Investors are offered a fixed interest rate on a certain minimum amount of digital currency deposits and then for any cryptocurrency deposited in the BIA in excess of the minimum amount, interest accrues at the interest rate “announced” by BlockFi pursuant to the BIA Terms. Despite the BIA Terms indicating that BlockFi does not require a minimum amount of cryptocurrency for deposit in the BIA, the BlockFi Interest Account Agreement for corporate accounts requires a certain minimum amount of digital currency deposits to be maintained in the account at all times until a stated maturity date.

16. BIA Investors with individual accounts earn a variable interest rate on their investment and may withdraw their digital assets at any time, subject to a maximum seven-day processing time specified by BlockFi.

17. The variable interest rates for the individual account BlockFi BIA Investors are posted on the BFI Website. How interest is calculated and credited to BIAs is illustrated on the BFI Website and specified in the BIA Terms:

For most crypto investors, keeping their digital assets on an exchange or in cold storage is their long-term strategy. But this doesn't help create more wealth for them beyond the value of their investments increasing. An easy way to earn crypto is with the power of compound interest. In the same way it works within the traditional financial world, there are services like the BlockFi Interest Account that offer options for increasing your overall cryptocurrency holdings. The principle is the same but instead of depositing dollars, you deposit crypto.

For example, using a similar example to the one above, let's say you deposit 1 Bitcoin on February 28, 2019, earning 6% compound interest annually. On April 1 your new balance 1.005 BTC. And just like that, after 31 days, you earned 0.005 in Bitcoin interest.

Date	Days ^{per} Month	Interest [฿]	Balance [฿]
2/28/19	–	–	1.000
3/31/2019	31	0.0051	1.005
4/30/2019	30	0.0050	1.010
5/31/2019	31	0.0051	1.015
We ditched the annual fee! Check out our new credit card perks and join the waitlist today 🎁!			
7/31/2019	31	0.0052	1.025
8/31/2019	31	0.0052	1.031
9/30/2019	30	0.0051	1.036
10/31/2019	31	0.0053	1.041
11/30/2019	30	0.0051	1.046
12/31/2019	31	0.0053	1.051
1/31/2020	31	0.0054	1.057
2/29/2020	29	0.0050	1.062
Balance	–	฿0.062	฿1.062

This chart does not reflect our current rates.

At the end of 12 months of storing your 1 Bitcoin, your new balance would be 1.062 Bitcoin. But what if you had originally deposited 5 Bitcoin? Your 12-month balance would be 5.309 BTC. It's as easy as that for individuals and businesses to passively earn Bitcoin, Ether, or other currencies that we offer over time and increase their overall cryptocurrency portfolio.

18. BlockFi states that the interest rates payable by BlockFi on BIAs are subject to change in BlockFi's sole discretion and may change monthly. BlockFi's current policy is to notify

BIA Investors of interest rate changes before they are implemented. BlockFi notes that changes are typically effective the first business day of the month.

19. BIA interest rates for deposits of certain cryptocurrencies are “tiered” depending upon the nature and amount of the cryptocurrency invested as explained on the BFI Website:

As you may know, the interest we are able to pay is based on the yield we're able to generate. For all assets we currently have a tiered Interest Structure.

As an example, here's how it would work across a few different scenarios:

- If you hold 1 BTC: 0.25 BTC would earn 4% APY, and the remaining 0.75 BTC would earn 1.5% APY.
- If you hold 25 BTC: 0.25 BTC would earn 4% APY, 4.75 BTC would earn 1.5% APY, and the remaining 20 BTC would earn 0.25% APY.
- If you hold 100 ETH: 5 ETH would earn 4% APY, 45 ETH would earn 1.5%, and the remaining 50 ETH would earn 0.25% APY.

20. BlockFi advertises that interest on the BIAs is paid to investors in cryptocurrency, is calculated on the daily balance method, and is credited to the BIA Investors’ accounts monthly.

21. The BFI Website advertises that the BIA “provides market-leading yields to crypto investors” and currently advertises an annual return of up to 7.5% on certain digital assets deposited in a BIA:

BLOCKFI INTEREST ACCOUNT

Earn more from your crypto

With a BlockFi Interest Account (BIA), your cryptocurrency **can earn up to 7.5% APY**. Interest accrues daily and is paid monthly. There are no hidden fees, no minimum balances, and no reason to wait.

[Open your Account →](#)

See how much you can earn

GUSD
Crypto

10,000
Crypto Amount

10 years

\$ 1,060.23
USD Interest per year

10,602.32
Total Crypto Earnings

\$ 10,602.32
Total USD Interest over 10 years

This calculator is indicative and for informational purposes only and is not a guarantee of actual interest that may be earned. Actual earned interest will be payable in cryptocurrency and will vary depending on the actual rate that applies to the cryptocurrency in your BIA from time to time. The USD-equivalent value of earned interest will vary depending on the conversion rate between USD and the applicable cryptocurrency from time to time.

22. The BFI Website contains a page with a detailed presentation of the cryptocurrencies it accepts for investment into the BIAs and the corresponding interest rates offered for each type of cryptocurrency deposit:

Interest Rates		
Check here to find the latest rates for interest-earning accounts and loans. Please note that interest rates, withdrawal limits, and fees are subject to change		
BlockFi Interest Account (BIA)		
Annual Percentage Yield (APY)* BlockFi Interest Account clients can deposit their crypto and earn interest. Paid out at the beginning of every month, the interest earned by account holders compounds, increasing the annual yield for our clients. BlockFi uses a tiered interest structure. Click here to learn how our tiers work.		
Currency	Amount**	APY
BTC (Tier 1)	0 - 0.25 BTC	4%
BTC (Tier 2)	0.25 - 5 BTC	1.5%
BTC (Tier 3)	> 5 BTC	0.25%
ETH (Tier 1)	0 - 5 ETH	4%
ETH (Tier 2)	5 - 50 ETH	1.5%
ETH (Tier 3)	> 50 ETH	0.25%
LTC (Tier 1)	0 - 100 LTC	4.5%
LTC (Tier 2)	> 100 LTC	2%
LINK (Tier 1)	0 - 750 LINK	3%
LINK (Tier 2)	> 750 LINK	0.5%
USDC (Tier 1)	0 - 50,000 USDC	7.5%
USDC (Tier 2)	> 50,000 USDC	5%

GUSD (Tier 1)	0 - 50,000 GUSD	7.5%
GUSD (Tier 2)	> 50,000 GUSD	5%
PAX (Tier 1)	0 - 50,000 PAX	7.5%
PAX (Tier 2)	> 50,000 PAX	5%
PAXG (Tier 1)	0 - 5 PAXG	2%
PAXG (Tier 2)	> 5 PAXG	0.5%
USDT (Tier 1)	0 - 50,000 USDT	7.5%
USDT (Tier 2)	> 50,000 USDT	5%
BUSD (Tier 1)	0 - 50,000 BUSD	7.5%
BUSD (Tier 2)	> 50,000 BUSD	5%
DAI (Tier 1)	0 - 50,000 DAI	8.5%****
DAI (Tier 2)	> 50,000 DAI	6%****
UNI (Tier 1)	0 - 750	3.75%****
UNI (Tier 2)	> 750	1.5%****
BAT (Tier 1)	0 - 25,000	3.65%****
BAT (Tier 2)	> 25,000	1.4%****

* APYs reflect effective yield based on monthly compounding. Actual yield will vary based on account activity and compliance with BlockFi's terms and conditions. Rates are largely dictated by market conditions, which are a key factor in a company's ability to provide its clients yield on their crypto assets. For more information, please see our Terms of Service. Rates are subject to change. BlockFi will communicate any rate changes prior to these changes taking effect. Digital currency is not legal tender, is not backed by the government, and the BlockFi Interest Account (BIA) is not a bank account nor a brokerage account, and is not subject to FDIC or SIPC protections.

**Although there is no minimum balance required to earn interest, accounts are still subject to Gemini's withdrawal minimums: 0.003 BTC and 0.056 ETH. Withdrawals for balances smaller than these amounts may take up to 30 days to process.

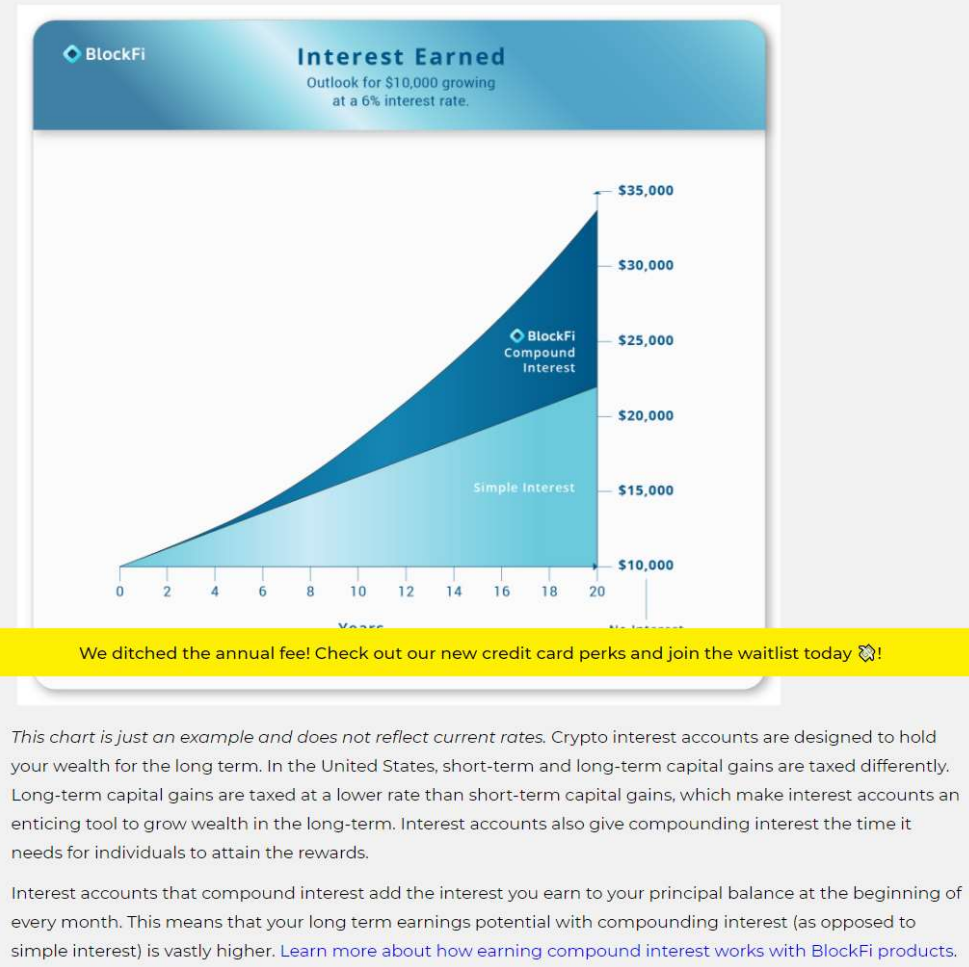
***BlockFi Interest Accounts are available in most countries worldwide and all U.S. states other than NY.

****Terms Apply

23. The BFI Website advertises the BIAs as part of a long-term investment strategy for investors, claiming that a BIA “provides clients with the ability to earn more crypto while holding for long-term investments. Interest is paid monthly and compounds. This significantly increases the potential earnings of long-term account holders.”

24. The BFI Website includes a chart stating “BlockFi’s Interest Account works hardest for you as a long-term investment,” which claims to illustrate the projected effect of holding a BIA as a long-term investment:

BlockFi's Interest Account works hardest for you as a long-term investment.



b. BlockFi's Use of the BIA Funds

25. The BlockFi BIA Terms provide that a BlockFi BIA Investor relinquishes control over the deposited cryptocurrency to BlockFi and BlockFi is free to use those assets as it sees fit, including commingling cryptocurrency with those of other BIA Investors, investing those assets in the market, and lending those assets to institutional and corporate borrowers. Without any control over the investments once deposited, the BIA Investors are passive investors.

26. Specifically, Section H, Paragraph 1 of the BIA Terms, “Consent to Utilize Assets” provides:

Except where prohibited or limited by applicable law, in consideration for the cryptocurrency earned on your account, you grant BlockFi the right, without further notice to you, to hold the cryptocurrency held in your 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.

27. BlockFi then pools these cryptocurrencies together, where according to BlockFi, it (1) reserves a portion of the cryptocurrencies to meet investor withdrawal demands, (2) lends some or all of the balance to third parties, or (3) purchases equities, options, and futures for its own account. BlockFi uses the revenue from those activities to pay the BIA Investors the agreed-upon interest rate, and keeps the remainder for itself as profit.

28. BlockFi does not disclose to investors: (a) the amount of money devoted to each of these investment activities; (b) the nature and creditworthiness of the borrowers, as well as the identity of any borrowers to whom BlockFi has lent material amounts of cryptocurrency; (c) the terms and duration of the loans; (d) the types of equities, options, and futures it trades; or (e) the profits or losses derived from these activities.

c. The BIAs Are Unregistered Securities

29. The BFI Website claims that BFI is a “US regulated” entity, and that “[BlockFi] play[s] by the rules, to the benefit of [BlockFi] and [its] clients.” While certain of BlockFi’s loan products appear to be licensed under various state licensing requirements for money services businesses or money transmitters, the BlockFi BIAs are not currently registered with any federal

or state securities regulator, or exempt from registration – as required by law, even though the BIAs are “securities” and subject to such requirements.

30. BlockFi fails to disclose to BIA Investors that its BIA product is not currently registered by federal or state securities regulatory authorities, even though the BIA is a “security” and should be registered as such.

31. Further, the BFI Website contains a “Disclosure and Complaints” page which states, “To File a complaint, please contact BlockFi’s Customer Service at <https://blockfi.com/contact> before contacting your jurisdiction with a complaint.” It then provides a list of state banking regulators and contact information including the New Jersey Department of Banking and Insurance. However, BlockFi fails to explain that the New Jersey Department of Banking and Insurance does not license the BIA, or that complaints should be filed with the New Jersey Bureau of Securities, because the BIA is a security.

CONCLUSIONS OF LAW

BLOCKFI, TRADING AND BFI OFFERED AND SOLD UNREGISTERED SECURITIES N.J.S.A. 49:3-60

32. The preceding paragraphs are incorporated by reference as though set forth verbatim herein.

33. The BIAs are securities as defined in N.J.S.A. 49:3-49(m).

34. The BIAs were and are required to be registered with the Bureau pursuant to N.J.S.A. 49:3-60.

35. The BIAs have not been registered with the Bureau, are not exempt from registration, and are not federally covered.

36. BlockFi, Trading and BFI have offered and sold unregistered securities in violation of N.J.S.A. 49:3-60 and continue to do so.

37. Each violation of N.J.S.A. 49:3-60 is a separate violation of the Securities Law and is cause for the denial of certain exemptions.

38. N.J.S.A. 49:3-69(a)(1) empowers the Bureau Chief to issue a cease and desist order against persons engaged in prohibited activities, directing them to cease and desist from further illegal activity or doing acts in furtherance thereof.

CONCLUSION

THEREFORE, it is on this 19th day of July 2021, **ORDERED** that:


39. Effective on July 22, 2021, BlockFi, Trading and BFI and any person, agent, employee, broker, partner, officer, director, affiliate, successor, or stockholder thereof, under any of their direction or control shall **CEASE AND DESIST** from:

- a) offering for sale any security, including any BIA, to or from New Jersey unless the security is registered with the Bureau, is a covered security, or is exempt from registration under the Securities Law; and
- b) violating any other provisions of the Securities Law and any rules promulgated thereunder for the sale of any security in New Jersey.

40. Nothing in this order shall preclude BlockFi, Trading, or BFI from paying interest on the existing BIAs or refunding principal to the BIA Investors consistent with the BIA Terms and BlockFi Terms and Conditions.

41. All exemptions contained in N.J.S.A. 49:3-50 subsection (a) paragraph 9, 10, and 11 and subsection (b) are hereby **DENIED** as to BlockFi, Trading, and BFI.

42. All exemptions to the registration requirements provided by N.J.S.A. 49:3-56(b), N.J.S.A. 49:3-56(c), and N.J.S.A. 49:3-56(g) are hereby **DENIED** as to BlockFi, Trading, and BFI.



Christopher W. Gerold
Chief, New Jersey Bureau of Securities

NOTICE OF RIGHT TO HEARING

Pursuant to N.J.S.A. 49:3-69(a)(1)(i), the Bureau Chief shall entertain on no less than three days' notice a written application to lift the Order to Cease and Desist on written application of the person subject thereto and in connection therewith may, but need not, hold a hearing and hear testimony, but shall provide to the person subject thereto a written statement of the reasons for the Order to Cease and Desist.

Pursuant to N.J.S.A. 49:3-69(a)(1)(ii), upon service of notice of the Order to Cease and Desist issued by the Bureau Chief, the person subject thereto shall have up to 15 days to respond to the Bureau in the form of a written answer and written request for a hearing. The Bureau Chief shall, within five days of receiving the answer and request for a hearing, either transmit the matter to the Office of Administrative Law for a hearing or schedule a hearing at the Bureau of Securities.

Orders issued pursuant to N.J.S.A. 49:3-69 shall be subject to an application to vacate upon 10 days' notice, and a preliminary hearing on the Order shall be held in any event within 20 days after it is requested, and the filing of a motion to vacate the Order shall toll the time for filing an answer and written request for a hearing.

Pursuant to N.J.S.A. 49:3-69(a)(1)(iii), if any person subject to the Order fails to respond by filing a written answer and written request for a hearing with the Bureau or moving to vacate the order within the 15 day prescribed period, that person shall have waived the opportunity to be heard. The Order will be a Final Order and shall remain in effect until modified or vacated.

NOTICE OF OTHER ENFORCEMENT REMEDIES

You are advised that the Uniform Securities Law provides several enforcement remedies, which are available to be exercised by the Bureau Chief, either alone or in combination. These remedies include, in addition to this action, the right to seek and obtain injunctive and ancillary relief in a civil enforcement action, N.J.S.A. 49:3-69, and the right to seek and obtain civil penalties in an administrative or civil action, N.J.S.A. 49:3-70.1.

You are further advised that the entry of the relief requested does not preclude the Bureau Chief from seeking and obtaining other enforcement remedies against you in connection with the claims made against you in this action.