

**ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF MARYLAND**

IN THE MATTER OF: *

BLOCKFI LENDING, LLC * Securities Docket No. 2022-0075

Respondent. *

* * * * *

CONSENT ORDER

WHEREAS BlockFi Lending LLC (“BlockFi”) is a New Jersey-based financial services company 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 payment; and

WHEREAS, the Securities Division of the Office of the Maryland Attorney General (the “Division”), pursuant to the authority granted in Section 11-801 of the Maryland Securities Act, Corporations and Associations Article, Title 11, Annotated Code of Maryland (2014 Repl. Vol. and 2020 Supp.) (the “Act” or “Securities Act”), undertook an investigation into whether BIAs involved the offer and sale of unregistered securities by BlockFi; and

WHEREAS, that investigation was undertaken with other State securities regulators, as members of the North American Securities Administrators Association (“NASAA”), which formed a working group (the “Multistate Working Group”) to collaborate on such investigations; and

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; and

WHEREAS, on the basis of that investigation the Maryland Securities Commissioner (the “Commissioner”) found grounds to conclude that Respondent has engaged in acts or practices constituting violations of the registration and antifraud provisions of the Act; and

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; and

WHEREAS, this Order concludes the investigation by the Division and resolves any other action the Division 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 below-referenced statement regarding BlockFi’s collateral practices made thereto, for the period from at least March 4, 2019 through February 14, 2022 (the “Relevant Period”); and

WHEREAS, BlockFi will 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; and

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; and

WHEREAS, the Respondent expressly consents to the Commissioner’s jurisdiction in this matter and to the terms of this Consent Order; and

WHEREAS, the Respondent waives its rights to a hearing and any rights it may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Consent Order; and

WHEREAS, solely for the purpose of terminating the Multistate Working Group investigation and in settlement of the issues contained in this Order, without holding a hearing in this matter and without trial or adjudication of any issue of fact or law, BlockFi, without admitting or denying the Findings of Fact or Conclusions of Law contained in this Order, consents to the entry of this Order; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Consent Order; and

NOW, THEREFORE, THE COMMISSIONER FINDS, CONCLUDES, AND ORDERS:

I. JURISDICTION

1. The Securities Commissioner has jurisdiction in this proceeding pursuant to Section 11-801 of the Securities Act.

II. FINDINGS OF FACT

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 Maryland.

THE OFFER AND SALE OF SECURITIES NATIONWIDE

13. During the Relevant Period, BlockFi offered and sold securities in the form of interest-bearing digital asset accounts called BIAs and marketed, offered, and sold those securities to Maryland residents.

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.

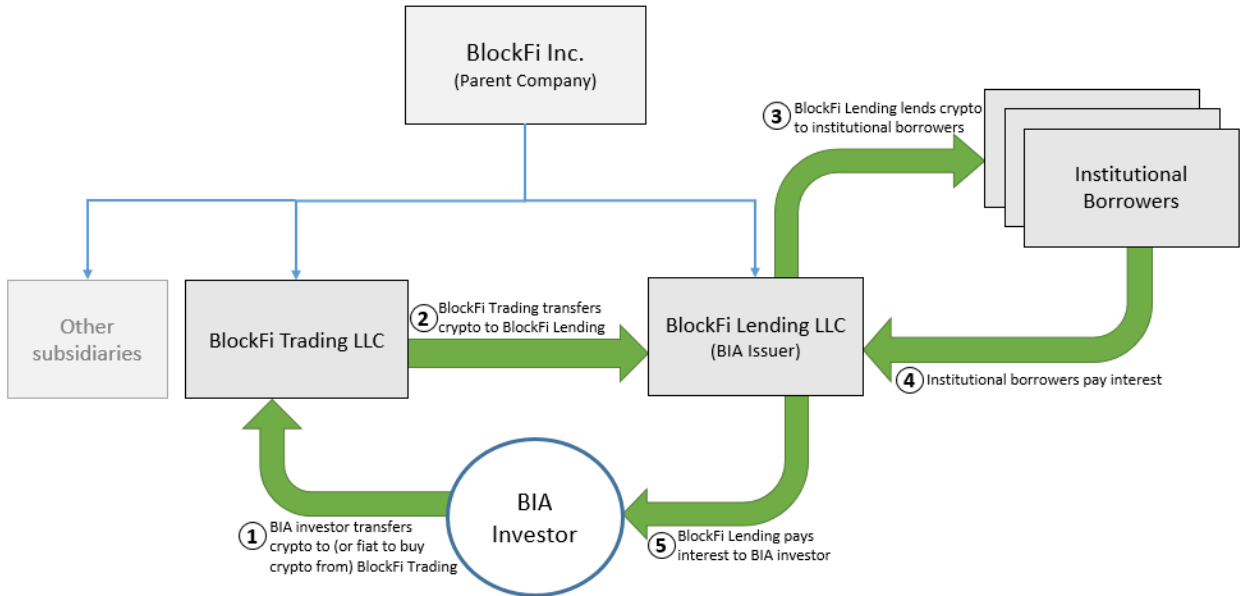
17. Under BlockFi’s terms for the BIA, investors:

grant 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.



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 December 31, 2019, BlockFi and its affiliates held approximately \$2,976,034 in BIA investor assets from Maryland residents. As of December 31, 2020, BlockFi and its affiliates held approximately \$34,938,300 in BIA investor assets from Maryland residents. As of December 31, 2021, BlockFi and its affiliates held approximately \$131,685,658 in BIA investor assets from Maryland residents.

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. 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.

MISREPRESENTATION OF COLLATERALIZATION PRACTICES FOR INSTITUTIONAL LOANS

30. BlockFi’s offer of BIAs included an untrue statement of a material fact on its website from March 4, 2019 to August 31, 2021, concerning its collateral practices and, therefore, the risks associated with its lending activity.

31. Beginning at the time of the BIA launch on March 4, 2019 and continuing to August 31, 2021, BlockFi made a statement in multiple website posts that its institutional loans were “typically” over-collateralized, when in fact, most institutional loans were not.

32. When BlockFi began offering the BIA investment, it intended to require over-collateralization on a majority of its loans to institutional investors, but it quickly became apparent that large institutional investors were frequently not willing to post large amounts of collateral to secure their loans.

33. Approximately 24% of institutional digital asset loans made in 2019 were over-collateralized; in 2020 approximately 16% were over-collateralized; and in 2021 (through June 30, 2021) approximately 17% were over-collateralized.

34. As a result, BlockFi’s statement materially overstated the degree to which it secured protection from defaults by institutional borrowers through collateral. Through operational

oversight, BlockFi's personnel failed to take steps to update the website statement to accurately reflect the fact that most institutional loans were not over-collateralized.

35. Although BlockFi made other disclosures on its website regarding its risk management practices, because of BlockFi's misrepresentations and omissions about the level of risk in its loan portfolio, BIA investors did not have complete and accurate information with which to evaluate the risk that, in the event of defaults by its institutional borrowers, BlockFi would be unable to comply with its obligation to pay BIA investors the stated interest rates or return the loaned digital assets and accrued interest to investors upon demand.

FAILURE TO COMPLY WITH REGISTRATION REQUIREMENTS

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

37. During the Relevant Period, BlockFi offered and sold securities in Maryland that were not registered or permitted for sale in Maryland as required by Section 11-501 of the Securities Act.

38. During the Relevant Period, BlockFi offered and sold securities in Maryland without being registered as a broker-dealer or agent as required by Sections 11-401 and 11-402 of the Securities Act.

III. CONCLUSIONS OF LAW

The Commissioner concludes that:

39. The BIAs are securities as defined in Section 11-101(s)(1) of the Securities Act.

40. During the Relevant Period, BlockFi's offer and sale of securities in Maryland that were not registered or permitted for sale in Maryland violated Section 11-501 of the Securities Act.

41. During the Relevant Period, BlockFi's offer and sale of securities in Maryland without being registered as a broker-dealer or agent violated Sections 11-401 and 11-402 of the Securities Act.

42. During the Relevant Period, BlockFi's offer included an untrue statement of a material fact on its website concerning its collateral practices and, therefore, the risks associated with its lending activity in violation of Section 11-301 of the Securities Act.

IV. UNDERTAKING

43. BlockFi's parent, BlockFi Inc., undertakes and agrees to make the appropriate filing with the Commissioner 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 Section 11-501 of the Securities Act within 30 days of the filing of the federal registration statement.

44. 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.

45. BlockFi's parent, BlockFi Inc., undertakes and agrees to file with the Commissioner for registration as a broker-dealer and/or agent, or engage a registered broker-dealer and/or agent as required by Sections 11-401 and 11-402 of the Securities Act before offering or selling securities, unless otherwise exempt.

46. BlockFi's parent, BlockFi Inc., undertakes and agrees to cease and desist making any untrue statement of a material fact.

47. BlockFi undertakes and agrees to pay a civil monetary penalty pursuant to Section 11-702 of the Maryland Securities Act in the amount of \$943,396.22 for the violations set forth in this Consent Order.

48. BlockFi Inc. undertakes and agrees to unconditionally guarantee payment of the civil monetary penalty 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.

49. BlockFi and BlockFi Inc. undertake and agree that they shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for the civil monetary penalty that BlockFi or BlockFi Inc. shall pay pursuant to this Order.

50. BlockFi and BlockFi Inc. acknowledge that the monetary penalty imposed under this Consent Order is not dischargeable in bankruptcy.

51. BlockFi and BlockFi Inc. undertake and agree to comply fully with the Securities Act and the regulations promulgated thereunder.

V. SANCTIONS

NOW, THEREFORE, IT IS HEREBY ORDERED, and BlockFi expressly consents and agrees:

52. BlockFi shall cease and desist from offering or selling the BIAs or any security that is not registered, qualified, or exempt to new investors in Maryland and cease and desist accepting further investments or funds in the BIAs by current Maryland investors, unless and until the BIAs or other securities are registered or otherwise exempt in Maryland.

53. BlockFi shall pay a civil monetary penalty pursuant to Section 11-702 of the Securities Act in the amount of \$943,396.22 to the State of Maryland, Office of the Attorney General. Payment shall be made by electronic funds transfer, for which written payment

processing instructions will be provided by the State of Maryland, Office of the Attorney General.

54. Payment shall be made in the following installments:
 - a. \$377,358.48 due within 14 days of entry of this Order;
 - b. \$188,679.24 due no later than February 14, 2023;
 - c. \$188,679.24 due no later than August 14, 2023;
 - d. \$188,679.26 due no later than February 14, 2024.

55. BlockFi and BlockFi, Inc. acknowledge that, for the purposes of exceptions to discharge set forth in Sections 523 and 1192 of the Bankruptcy Code, 11 U.S.C. §§ 523; 1192, the findings in this Order are true and admitted by BlockFi, and any debt for disgorgement, prejudgment interest, civil penalty, or any other amounts due by BlockFi under this Order or any other judgment, order, consent order, decree, or settlement agreement entered in connection with this proceeding, is a debt for violation by BlockFi of the Maryland securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C §523(a)(19) and incorporated by reference under Section 1192 of the Bankruptcy Code, 11 U.S.C § 1192. BlockFi and BlockFi, Inc. acknowledge that the monetary penalty imposed under this Consent Order is not dischargeable in bankruptcy.

56. BlockFi and BlockFi Inc. shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for the civil monetary penalty that BlockFi or BlockFi Inc. shall pay pursuant to this Order.

57. BlockFi and BlockFi Inc. shall comply fully with the Securities Act and the regulations promulgated thereunder.

VI. JURISDICTION RETAINED, CONSTRUCTION, AND DEFAULT

58. Jurisdiction shall be retained by the Commissioner for such further orders and directions as may be necessary or appropriate for the construction or enforcement of this Consent Order.

59. In the event that judicial intervention in this matter is sought by the Commissioner or Respondent, subject matter jurisdiction will lie in the Circuit Court for Baltimore City pursuant to Section 11-702 of the Securities Act. The Circuit Court for Baltimore City will have personal jurisdiction over Respondent pursuant to Section 6-103(b) of the Courts and Judicial Proceedings Article, Title 6, Annotated Code of Maryland (2013 Repl. Vol. and 2016 Supp.). Venue will be properly in that Court pursuant to Section 6-201(a) and 6-202(11) of that Article.

60. If BlockFi fails to comply with any term of this Consent Order, the Commissioner may institute administrative or judicial proceedings against Respondent to enforce this Consent Order and/or to sanction Respondent for violating an Order of the Commissioner, and may take any other action authorized under the Securities Act or under any other applicable law, including the issuance of fines or penalties as provided by the Securities Act. In any such proceeding, the Division may also seek other sanctions for the violations that initiated this matter. Solely for the purpose of determining those sanctions, the Findings of Fact and violations of the Securities Act set forth in this Consent Order shall be deemed admitted, and may be introduced into evidence against Respondent.

61. The terms of this Consent Order may only be vacated or modified by a subsequent order issued by the Commissioner, by agreement with BlockFi except as to any non-substantive matters.

62. This Order is entered into solely for the purpose of resolving the referenced multistate investigation 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.

63. 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.

64. 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.

65. 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.

66. 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.

SO ORDERED:

**Commissioner's Signature on File
w/Original Document**

Date: September 30, 2022

Melanie Senter Lubin
Securities Commissioner

CONSENTED TO:

BlockFi Inc.

BlockFi Inc., on behalf of itself and BlockFi Lending, LLC

By:

Title:

SUBSCRIBED AND SWORN TO before me this ____ day of _____, 2022.

Notary Public in and for the State of _____

My Commission expires: _____