

## ALABAMA SECURITIES COMMISSION

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### **ASC Joins with Other State Regulators to Settle with Digital Asset Lending Platform BlockFi for \$50 Million for Sales of Unregistered Securities**

**Montgomery, Alabama (February 14, 2022)** – The Alabama Securities Commission (ASC) announced that a digital asset financial services company, BlockFi Lending LLC (BlockFi), agreed to settlement terms regarding past unregistered offers and sales of securities to Alabama residents. The securities were in the form of interest-bearing digital asset deposit accounts called BlockFi Interest Accounts (BIAs). BlockFi represented it intends to register future products with the states and the SEC called “BlockFi Yield.” BlockFi further agreed to pay a settlement of \$943,396.22, subject to executing a consent order with ASC. BlockFi will refrain from soliciting new investors until its securities are registered, qualified, or permitted in Alabama.

The 53 NASAA member jurisdictions<sup>1</sup> will share equally in the \$50 million settlement, each receiving \$943,396.22 after executing the appropriate consent orders. The ASC is one of 32 NASAA member agencies that have already agreed to work with BlockFi to sign a settlement. More jurisdictions are expected to follow. Approximately 3,200 Alabamians were known BlockFi investors with an estimated invested value of \$36 million as of December 2021.

Beginning January 2021, a NASAA multi-state working group contacted BlockFi and provided notice that the company may have offered and sold securities not in compliance with state securities laws. On July 22, 2021, Alabama filed a show cause [order](#) against BlockFi and its parent and affiliate, BlockFi Inc. and BlockFi Trading LLC. The order alleges BlockFi, BlockFi Inc., and BlockFi Trading LLC were offering and selling unregistered securities in the form of BIAs. In addition to Alabama, other states also filed similar orders including New Jersey, Texas, Vermont, Kentucky, and Washington.

BlockFi’s agreement to enter into a settlement with the ASC comes amidst rising concerns over the proliferation of “decentralized” and digital asset-based financial products and services targeting retail investors. Many of these products and services are analogous to traditional financial services offered by banks and brokerages, but without any of the regulatory safeguards provided by registered firms and products. For example, registered firms must truthfully disclose all known material facts and explain the risks associated with their investments, while the Federal Deposit Insurance Corporation, National Credit Union Administration, and the Securities Investor Protection Corporation insure depositors and investors against certain kinds of losses. Financial service firms operating in innovative fintech markets may not be complying with important laws that protect retail clients, and investors may not have access to the information necessary to conduct due diligence and make fully informed decisions.

“State securities regulators recognize the potential value of new technology for the benefit of Main Street investors, but this new technology needs to be balanced with appropriate laws and regulations,” said Joseph P. Borg, NASAA Enforcement Section Committee Chair and Alabama Securities Commission

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<sup>1</sup> The 50 States, Washington D.C., Puerto Rico, and the U.S. Virgin Islands

Director. “This settlement recognizes the important work of state securities regulators and the SEC in making sure that those who are investing their hard-earned money understand the risks and rewards of their decisions.”

Effective immediately, BlockFi will stop offering its BIAs to the public. BlockFi’s parent company, BlockFi Inc., represented it intends to file with state and federal regulators to offer and sell a new product called BlockFi Yield so it can provide its services to investors in the future. As part of the settlement terms, although BlockFi will cease allowing new investments until its securities are properly registered, BlockFi may continue to deploy digital assets for existing BIA investors and may continue to pay interest. Between February 14th and the date BlockFi Inc.’s securities are registered and qualified or permitted for sale with the states and SEC, current investors may keep their existing investments with BlockFi and will continue to earn interest under their initial agreement with the company. This measure is designed to protect the interests of existing investors while allowing BlockFi time to comply with state and federal law.

The ASC will continue to consider enforcement actions against firms that fail to comply with state law. Firms that need to register and deal with past unregistered activity should contact their state and federal regulators. The ASC can be contacted at 1-800-222-1253.

The ASC would like to thank its fellow NASAA members especially the multi-state jurisdiction working group for its coordinated efforts and the SEC for their collaboration and assistance.

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For further information contact 1-800-222-1253 and ask for Public Affairs.

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