



NEWS RELEASE | **FOR IMMEDIATE RELEASE** | February 14, 2022

The North Dakota Securities Department Joins with 31 Other State Securities Regulators and the US Securities and Exchange Commission to Settle with Digital Asset Lending Platform BlockFi for \$100 Million for Sales of Unregistered Securities

Bismarck ND – The North Dakota Securities Department today announced that a digital-asset financial services company, BlockFi Lending LLC ([BlockFi](#)), agreed to settlement terms related to the offer and sale of unregistered securities in the form of interest-bearing digital asset deposit accounts, called BlockFi Interest Accounts ([BIAs](#)), to North Dakota residents. As of December 31, 2021, BlockFi had 407,030 BIA investors in the US, of which at least 495 were North Dakota residents.

BlockFi agreed to pay \$50 million to 53 state and territorial regulatory agencies that are members of the North American Securities Administrators Association (NASAA), and \$50 million to the SEC. The 53 NASAA member agencies will share equally in their half of the settlement, with each receiving \$943,396.22 after executing consent orders. The North Dakota Securities Department is one of 32 state securities regulators that have already agreed to work with BlockFi to settle, and more jurisdictions are expected to follow.

In January 2021, a multistate working group of securities regulators provided notice to BlockFi that the company may have offered and sold securities in violation of state securities laws, and several actions were subsequently filed against the company. As alleged in the state actions, BlockFi promoted its BIAs with promises of high returns for investors who purchased the lending products. It took control of and pooled its investors' loaned digital assets, and exercised sole discretion over the pooled digital assets, including how to use the digital assets to generate a return and pay investors their promised interest. According to the filed state actions, BlockFi failed to comply with state registration requirements and, as a result, investors were sold unregistered securities in violation of state law and were deprived of critical information and disclosure necessary to understand the potential risks of these lending products.

BlockFi's agreement to enter into a settlement with the North Dakota Securities Department 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. Companies offering traditional financial services through new fintech innovations 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.

"While new technology may alter the form of a financial instrument or transaction, it may not alter the substance. Digital asset intermediaries engaging in securities transactions need to come into compliance with the existing laws and regulations designed to protect investors who put their assets at risk." said Securities Commissioner Karen Tyler. "This action by state securities regulators and the SEC is instructive for other firms providing digital asset financial products and services on how to work toward complying with state and federal law. And these firms should recognize that regulatory compliance supports not only the integrity of our capital markets, but also the confidence and willingness of investors to participate in them."

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. As part of the settlement terms, BlockFi will cease allowing new investments in the BIAs 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 bring itself into compliance with state and federal law.

The North Dakota Securities Department will continue to investigate and bring enforcement actions against firms that fail to comply with state securities law. Firms that need to register and deal with past unregistered activity should contact their state and federal regulators.

The Department would like to thank its fellow NASAA member agencies, especially the multistate working group, for its coordinated efforts and the SEC for their collaboration and assistance.

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