

Karima M. Woods, Commissioner

**BULLETIN**  
**22-SB-001-08/22**

**TO: DC INVESTORS AND ALL ENTITIES THAT OFFER OR PLAN TO OFFER  
DIGITAL ASSET INTEREST-BEARING ACCOUNTS OR SIMILAR PRODUCTS IN  
THE DISTRICT OF COLUMBIA**

**FROM: KARIMA M. WOODS, COMMISSIONER**

**SUBJECT: CRYPTOCURRENCY INTEREST-BEARING ACCOUNTS**

**DATE: August 22, 2022**

Over the past year, federal and state regulators have charged several companies that offer customers crypto-interest accounts with violating securities laws by failing to register those accounts as securities and adequately warning investors of the risks. The Department of Insurance, Securities and Banking (“DISB”) is issuing this bulletin to: (a) advise digital asset financial services companies that offer cryptocurrency interest-bearing accounts in the District of Columbia that such products constitute securities subject to registration and other securities law requirements; and (b) alert DC consumers about the risks associated with such accounts.

**Crypto-Interest Accounts**

A cryptocurrency interest-bearing account or “crypto-interest account” is a type of account offered by several digital asset financial services companies through which customers lend crypto assets to the company and, in exchange, receive interest paid in cryptocurrency. The companies, in turn, use those customer assets to attempt to generate profits through activities such as staking (locking up customers’ cryptocurrency for a period of time to contribute to the blockchain network), lending to third parties, or investing in other digital assets. The “interest” promised to investors is derived from anticipated profits from such activities.

**Crypto-Interest Accounts Are Securities, Subject to Registration and other Securities Laws Requirements**

These types of crypto-Interest accounts constitute securities because they are “investment contracts” under DC Official Code § 31-5601.01 (31) (defining investment contracts as securities) and under the U.S. Supreme Court Case *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946), which defines an investment contract as an arrangement involving “an investment of money in a common enterprise” with an expectation of profits “from the efforts of others.” *Id.* at 301. They may also

constitute debt securities under *Reves v. Ernst & Young*, 494 U.S. 56, 64–66 (1990), and its progeny. As securities, such accounts must be registered with DISB under DC Official Code § 31-5603.01 (if offered or sold to investors in the District) and with the U.S. Securities and Exchange Commission (SEC) under applicable federal law. DC and other securities laws also require companies to disclose material information about these accounts in a registration statement and prospectus and comply with other requirements that are designed to protect investors. **DISB will bring enforcement actions against companies that fail to register securities when required or fail to comply with applicable disclosure requirements and will seek all appropriate remedies, including cease and desist orders, disgorgement, restitution, and penalties.**

DISB also references our [Bulletin of August 4, 2022 \(22-BB-001-08/04\)](#) advising digital asset financial services companies that transmission of virtual currency in the District requires a money transmitter license.

### **Enforcement Actions Against Crypto-Lenders**

DISB, the SEC, and other state securities regulators have already charged several companies that offer customers crypto-interest accounts with violating securities laws by failing to register those accounts as securities and adequately warning investors of the risks. DISB recently issued a [cease-and-desist order](#) against Voyager Digital, LLC (Voyager Digital) and related entities directing them to stop selling unregistered securities in the form of cryptocurrency interest-earning accounts through its “Rewards Program.” Several states have also instituted enforcement actions against Voyager Digital. Furthermore, several states have brought actions against another crypto-interest firm, Celsius Network Inc., and related entities (Celsius). At least two states have also initiated fraud claims against Celsius’ CEO Alexander Mashinsky. Finally, in February 2022, the SEC and several states charged BlockFi Lending LLC (BlockFi) with failing to register the offers and sales of its cryptocurrency interest accounts. In that case, BlockFi agreed to pay \$100 million in penalties (\$50 million to the SEC and \$50 million to states, including DC, that took action against BlockFi) and pursue proper registration of its lending product. See below for relevant BlockFi links:

- [DISB Press Release](#)
- [DISB Order](#)
- [North American Securities Administrator Association \(NASAA\) Press Release](#)
- [SEC BlockFi Press Release](#)
- [SEC BlockFi Order](#)

DISB and other state and federal authorities are investigating other crypto companies that may have committed similar violations.

## Investors Should Exercise Caution and Report Securities Violations

Investors should exercise caution when considering investing in digital assets and report fraud to DISB. Digital assets contained in unregistered crypto-interest accounts are not protected by the Securities Investor Protection Corporation (SIPC), nor are they insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration (as a regular bank, savings or credit union account would be). This lack of a protective scheme and regulatory oversight subjects unregistered crypto-interest account holders/investors to additional risks not borne by investors who maintain assets with most SIPC member broker-dealers, or with banks, savings associations, or credit unions. DISB advises DC investors against investing in any crypto-interest accounts that are not registered with DISB and/or the SEC. If you suspect any crypto-interest accounts as being unregistered, we encourage you to report such information to DISB.

Even if a crypto lender is offering registered interest accounts, DISB urges investors to exercise caution when investing in such accounts or other crypto investments. Recent months have demonstrated that crypto markets can be highly volatile and unstable, leaving investors exposed to greater risk of large losses. Indeed, following a sharp decline in the cryptocurrency market in recent weeks, both Voyager Digital and Celsius Network initially froze their investors' accounts and subsequently filed for bankruptcy. With hundreds of thousands of customers and billions of dollars in cryptocurrencies at stake, investors stand to lose untold amounts of money. In addition, cryptocurrency, and decentralized digital asset finance (or "DeFi") are still relatively new phenomena (compared to traditional market infrastructure) and are evolving at a rapid pace, often in ways that cannot be predicted. This uncertainty creates higher risks for investors.

One of the biggest risks to cryptocurrency investors comes from uncertain and changing regulations in countries around the world. The decisions of regulators in China, for instance, can affect the value of cryptocurrency assets in the United States; it is much harder for U.S. consumers to make informed decisions about international regulatory risks than the ordinary risks related to traditional investment vehicles. Furthermore, numerous actors seek to prey upon consumers with cryptocurrency scams. Carefully consider the risks from hackers, too, and the risks associated with your key that gives an investor access to their cryptocurrency accounts. In February 2022, the Wormhole currency exchange platform lost \$320 million after a cyberattack, and it is unclear how funds were "restored." Your own key could be the victim of hacking, or you could simply lose or forget your key. Learn what recourse is available if you lose control of your key before you invest. Before you transmit cryptocurrency, be very certain of the destination "address" to which you are sending your cryptocurrency and that you have not been hacked in ways that divert your transactions to a fraud-doer's account.

In sum, verify that you are working with a reputable organization; be alert to claims of crypto returns that sound too good to be true, and **do not invest more than you can afford to lose.**

### Report Fraud

If you believe you have been the victim of fraud in connection with a crypto-interest account or DeFi or digital assets generally, or have been offered unregistered securities, contact the DISB

Enforcement and Consumer Protection Division at 202-727-8000. You may also report the matter to the SEC at [sec.gov/tcr](https://sec.gov/tcr), and/or file a report with the Federal Trade Commission (FTC) at [reportfraud.ftc.gov](https://reportfraud.ftc.gov), or call the FTC's Consumer Response Center at 877-382-4357.

### **Questions**

Any questions or concerns regarding this Bulletin may be directed to the Securities Bureau of the Department of Insurance, Securities and Banking by email at [securitiesbureau@dc.gov](mailto:securitiesbureau@dc.gov).

### **DISB Mission**

Our mission is three-fold: (1) cultivate a regulatory environment that protects consumers and attracts and retains financial services firms to the District; (2) empower and educate residents and (3) support the development and expansion of business.

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