UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11357 / January 17, 2025

ADMINISTRATIVE PROCEEDING
File No. 3-22427

In the Matter of **DIGITAL CURRENCY GROUP, INC.** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") against Digital Currency Group, Inc. ("Respondent" or "Digital Currency Group").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Making Findings and a Imposing Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

In June and July of 2022, Digital Currency Group negligently engaged in conduct that misled investors in a lending program offered and sold to retail investors by one of its subsidiaries, Genesis Global Capital, LLC ("GGC"). GGC offered investors yield in return for the investors tendering bitcoin or other crypto assets to GGC. GGC comingled investors' assets and typically lent those assets out to institutional borrowers—generating revenue by charging interest to those borrowers. In mid-June 2022, a large borrower defaulted on a margin call, which compromised GGC's business. Yet, Digital Currency Group negligently engaged in conduct that misleadingly downplayed the impact of that default and overstated what Digital Currency Group did to help GGC in the aftermath. In short, Digital Currency Group's failure to exercise reasonable care created a materially false impression to the public regarding GGC's financial health.

In November 2022, faced with a wave of redemption requests that it could not satisfy, GGC suspended withdrawals. It filed for bankruptcy in January 2023.

Respondent

1. Digital Currency Group was founded in 2015 and is incorporated in Delaware, with its principal place of business in Stamford, Connecticut. Digital Currency Group has never been registered with the Commission in any capacity, nor has Digital Currency Group registered any securities with the Commission.

Other Relevant Entities

2. GGC, at all relevant times, was a Delaware limited liability company formed in 2017 and a wholly owned subsidiary of Genesis Global Holdco, LLC, which is wholly owned by Digital Currency Group. GGC has never been registered with the Commission in any capacity, nor had it registered any securities with the Commission.

Facts

3. From 2021 to 2022, GGC offered a crypto asset lending program to retail investors. GGC was in the business of lending crypto assets and U.S. dollars to institutional borrowers, such as crypto-focused hedge funds. The capital to run this business came, in part, from retail investors who tendered crypto assets to GGC in return for interest payments. GGC commingled the tendered crypto assets and lent them out to the institutional borrowers to generate revenue.

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[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

4. One of GGC's largest borrowers was the crypto asset hedge fund, Three Arrows Capital ("TAC"). As of early June 2022, TAC had outstanding loans from GGC that totaled approximately $2.4 billion. On June 13, 2022, TAC failed to meet a margin call and ultimately defaulted on these loans, leaving GGC only with collateral—mostly in the form of bitcoin or assets tied to the price of bitcoin. While the value of this collateral was fluctuating, Digital Currency Group was informed by GGC almost immediately that the value of the collateral fell far short of the $2.4 billion face value of the TAC loan. On June 13, 2022—the day of the default—this shortfall was at least $500 million. In the days that followed, the price of bitcoin—and, correspondingly, the value of the collateral—declined, causing GGC's exposure to grow. On June 15, GGC's estimated "mark to market deficit" on the TAC loan was over $800 million. And on June 16, it had reached $1 billion. GGC updated Digital Currency Group executives daily in the second half of June concerning any discussions with TAC to cure the default as well as the "mark to market" unsecured exposure GGC had with respect to the collateral it held.

5. Without additional capital to replace the $1 billion it had lost, GGC's viability as a business was at risk. First, as a result of the unsecured exposure, if too many GGC investors demanded their money or crypto assets back, GGC would not be able to pay them. Second, GGC had one billion fewer dollars on which to earn interest. Digital Currency Group understood GGC's revenue model and the risks accompanying a rush of investor demands for repayment of their loans.

6. Despite GGC's compromised financial condition in the second half of June, Digital Currency Group executives made clear to Digital Currency Group and GGC personnel that they needed to project strength.

7. On June 15, 2022, GGC tweeted that its balance sheet was strong. Digital Currency Group's executives retweeted this message. The tweet was materially false or misleading because it failed to take into account the unsecured exposure on the TAC loan. Indeed, given the size of the unsecured exposure at the time, GGC's balance sheet was not strong. Then, on June 17, 2022, GGC's CEO tweeted that GGC had "shed the risk" associated with the TAC default. This tweet was also materially false or misleading because GGC remained exposed to movements in the value of the collateral associated with the TAC loan. Digital Currency Group reviewed these tweets but failed to exercise reasonable care in connection with their publication by GGC.

8. Giving more urgency to the situation: GGC was required to provide a balance sheet to certain counterparties as of June 30, 2022. Digital Currency Group and GGC understood that if that balance sheet were to show negative equity—i.e., liabilities greater than assets—there would likely be a "run on the bank" that GGC likely would not survive.

9. More fundamentally, GGC needed additional capital—both to protect against a potential influx in redemption requests and to generate profit again as a business. Digital Currency Group understood this.

10. On June 30, Digital Currency Group executed a $1.1 billion promissory note (the "Note"). The Note created a $1.1 billion obligation from Digital Currency Group to GGC, but required no payments—other than any recoveries in the TAC liquidation proceeding—until 2032. Specifically, the Note had a 10-year term, accrued interest at 1%, and was non-callable. GGC recorded the Note on its balance sheet as a $1.1 billion asset. Importantly, this allowed it to show positive equity on its June 30th balance sheet when it otherwise would have shown negative equity. Through the summer of 2022, however, the terms of the Note were not disclosed to GGC's investors.

11. Executing the Note to create positive equity on the balance sheet without disclosing the terms of the Note to GGC investors allowed Digital Currency Group and GGC to obfuscate how and whether Digital Currency Group had stepped in to fix the problems caused by the TAC default. For example, in early July, GGC personnel—with the knowledge and participation of Digital Currency Group personnel—drafted a tweet, posted on July 6, stating that Digital Currency Group had "assumed certain liabilities of GGC related to [TAC] to ensure [GGC has] adequate capital to operate and scale our business for the long-term." This was false or misleading. Digital Currency Group had not transferred any capital to GGC. While the Note may have technically created positive equity on the GGC balance sheet, it had not improved GGC's financial stability. Digital Currency Group failed to exercise reasonable care in connection with GGC's publication of this tweet and was negligent in not ensuring that the detailed terms of the Note were disclosed by GGC to GGC's investors.

Violation

12. As a result of the conduct described above, Digital Currency Group violated Section 17(a)(3) of the Securities Act, which prohibits conduct in the offer or sale of securities that operates or would operate as a fraud or deceit upon the purchaser. Claims under Section 17(a)(3) of the Securities Act do not require a showing of scienter; instead, a showing of negligence is sufficient. *Aaron v. SEC*, 446 U.S. 680, 696-97 (1980).

13. As described above, by encouraging and perpetuating a narrative that GGC was in a strong financial position after the TAC default and by not ensuring the Note was accurately described, Digital Currency Group at least negligently engaged in materially false public messaging regarding GGC's financial condition.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Digital Currency Group's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act, Respondent Digital Currency Group cease and desist from committing or causing any violations and any future violations of Section 17(a)(3) of the Securities Act.

B. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $38,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

C. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

D. Payments by check or money order must be accompanied by a cover letter identifying Digital Currency Group, Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Mark R. Sylvester, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, N.Y.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary