

Celsius's 18% Yields on Crypto Are Tempting—and Drawing Scrutiny

Alex Mashinsky's company promises big rewards if you let it hold your crypto. Regulators are trying to make sure it's playing by the rules.

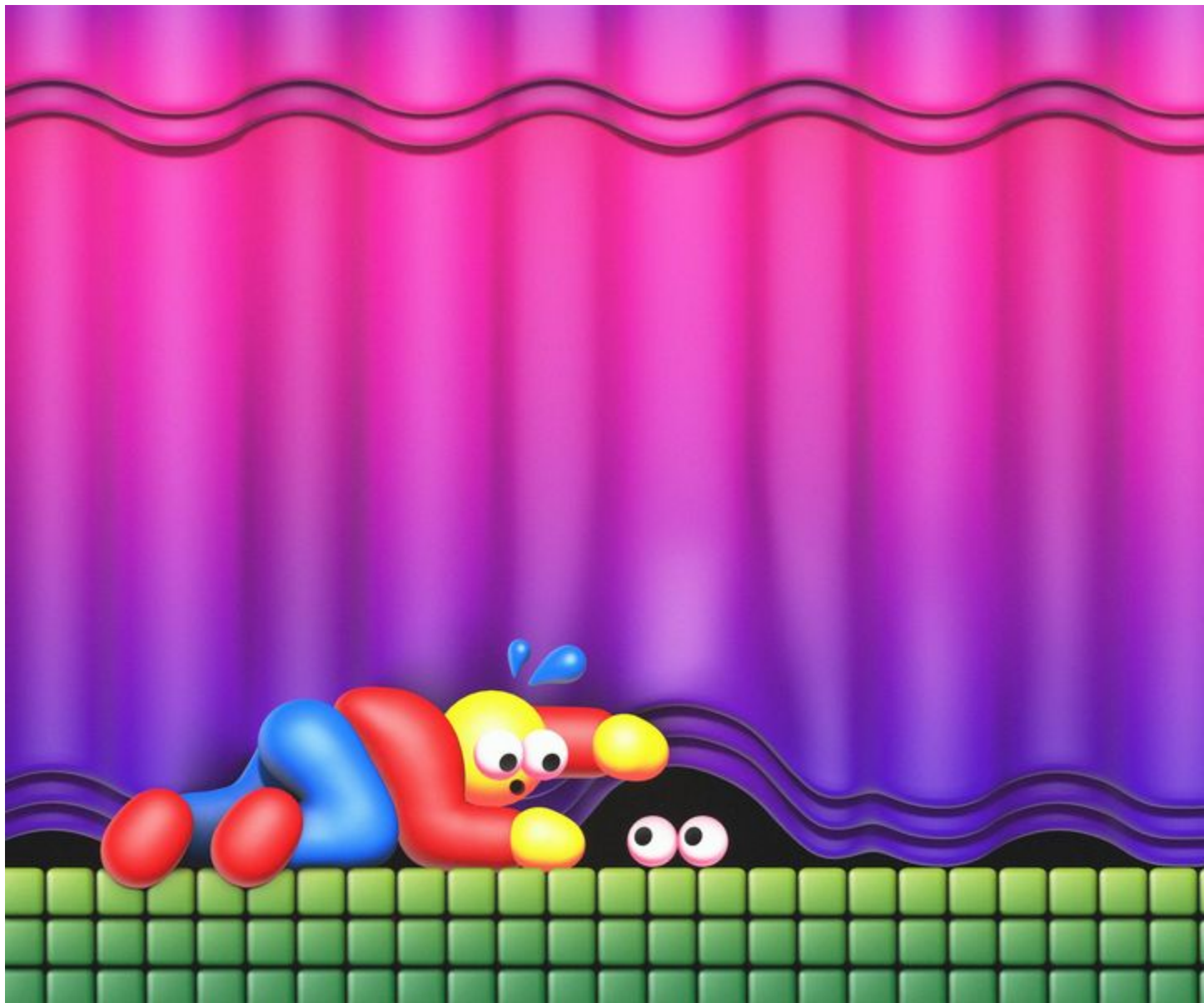


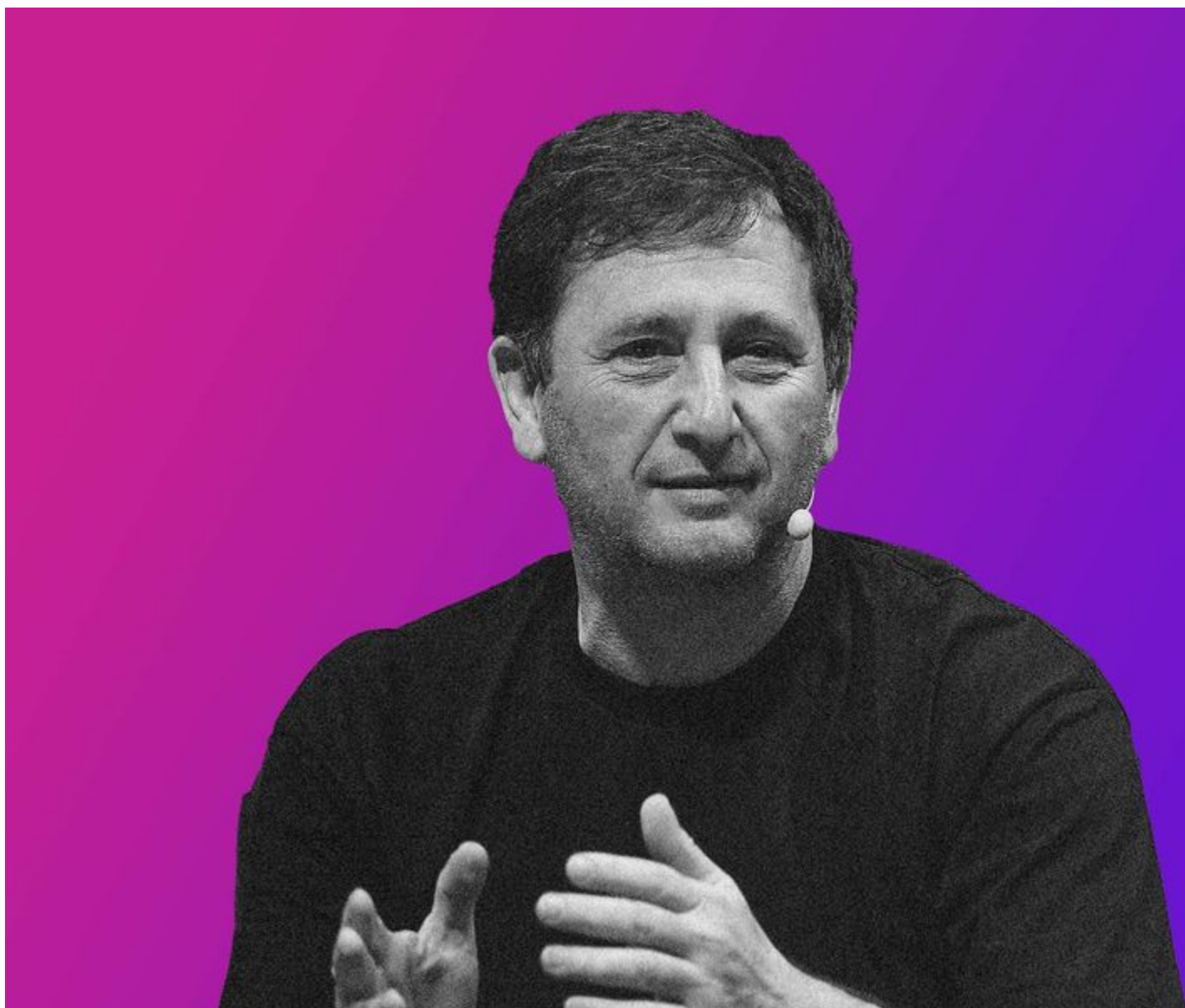
Illustration: Joel Plosz for Bloomberg Businessweek

By
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Every Friday, Alex Mashinsky sits in front of a video camera and livestreams for more than an hour with a sales pitch for his crypto company, Celsius Network LLC. Send money to Celsius, he says, and he'll make you rich by paying you interest of as much as 18% a year.

"The beauty of what Celsius managed to do is that we deliver yield, we pay it to the people who would never be able to do it themselves, we take it from the rich, and we beat the index," Mashinsky said during one stream in December. "That's like going to the Olympics and getting 15 medals in 15 different fields."

Celsius is effectively a bank for cryptocurrencies—though it's not regulated as one. Users deposit their Bitcoin, Ethereum, or Tether and receive weekly interest payments. But the rates Celsius pays are tens or hundreds of times higher than what conventional banks pay on savings accounts. Its assets more than quadrupled last year, to \$25 billion. Mashinsky tells his users—he calls them "Celsians" and says there are more than a million of them—that with Celsius they can stick it to greedy banks and help the less fortunate, and they shower him with praise for helping them make enough money to pay off their debts or even quit their jobs. Last year, Celsius raised an additional \$750 million from investors including Canadian pension fund Caisse de Dépôt et Placement du Québec. The valuation of the funding round—about \$3 billion—made Mashinsky a billionaire on paper.



Mashinsky
Photo: Getty Images

With Bitcoin and other cryptocurrencies crashing, even the fat yields Celsius offers may be looking less dazzling. Since deposits are held in cryptocurrency, users are at risk when prices drop. And they're not covered by federal deposit insurance. Celsius says its assets had declined to \$18.1 billion as of Jan. 21, and Mashinsky has been telling customers not to panic, the bottom is near.

Celsius is just one of many crypto-lending platforms attracting deposits by offering high rates, all paid in cryptocurrencies. Celsius's rates vary depending on the currency and other factors—about 3% to 8% on

Bitcoin, 4% to 7% on Ether, 9% to 11% on Tether, and its top rate of 18% on a coin called Synthetix. Investors get the highest rates if they accept yields in a token called CEL. Celsius says it's able to pay such rates because it invests the deposits and earns even bigger returns, in part by lending cryptocurrency to traders, who are willing to pay high rates to use it for bets. Roshun Patel, vice president for institutional lending at Genesis, a New York-based firm that also makes crypto loans to traders, says going rates for Bitcoin loans are 2% to 4%, with loans of stablecoins such as Tether costing more like 10%—which could be enough to cover what Celsius promises to pay depositors.

While the platforms are unregulated, the authorities are circling. The U.S. Securities and Exchange Commission is scrutinizing whether by offering crypto interest accounts, Celsius and other companies are selling unregistered securities against federal rules, say people familiar with the matter who weren't authorized to speak publicly. Securities regulators in Alabama, Kentucky, New Jersey, and Texas last year ordered or threatened to order the company to stop selling its products to residents of those states, and New York Attorney General Letitia James sent Celsius and other crypto companies a demand for information, often a precursor to a formal investigation. "Celsius doesn't apply visibility or transparency into what they're doing with the principal that customers are depositing with them," says Joe Rotunda, who heads enforcement for Texas' securities regulator. "It's one of the things that made us stand up and take notice."

Celsius in state filings has denied the regulators' allegations. "All discussions with regulators are confidential," says Bethany Davis, a spokeswoman for Celsius. "We always have and will continue to work with regulators in the U.S. and globally to operate in full compliance with the law."

Celsius is also facing heat from other quarters. After it came to light in November that the Israeli police were investigating the company's chief financial officer for a fraud unrelated to Celsius, the company said on Twitter the employee under investigation was suspended and no assets were mishandled. The former CFO didn't respond to a request for

comment. In December the **Times of Israel** reported that Celsius's chief revenue officer had founded a side business with a convicted money launderer. The CRO told the newspaper that the company wasn't related to Celsius and had never done any business.

Mashinsky, 56, is a charismatic pitchman who feeds off his customers' energy. Born in Ukraine and raised in Israel, he lives in an apartment on Manhattan's Upper East Side that he and his wife bought for \$8.7 million in 2018. In an interview there last year and another at the Bitcoin 2021 conference in Miami, Mashinsky told **Bloomberg Businessweek** that Celsius is able to pay such high yields because it passes along most of its earnings to its users. He said it's the traditional financial system that's ripping people off by taking their deposits, using them to make money, and then claiming it can only pay tiny interest rates. "Somebody is lying," Mashinsky said. "Either the bank is lying or Celsius is lying."

His pitch can be so hyperbolic that it sounds more like he's pushing the latest at-home business opportunity than a yield account. During another livestream in December, Mashinsky told the story of a customer who said Celsius had made her lazy—she was earning so much she didn't have to work. "I'm very happy for her and others," he said. "But if we give you financial freedom and we give you this opportunity, you still have the responsibility to help others." In testimonials posted last year on Twitter as part of a contest in which customers shared their "Celsius Story," many said they had entrusted Celsius with their life savings. One said he took out home equity and cashed in his work pension and his savings for his kids' education to put the money into the company's accounts. Another said it let him quit his job to move closer to his kid. One entry read: "I don't trust the banking system, but I trust #Celsius."

Mashinsky's website says he's "most known as the inventor of VOIP"—voice over internet protocol, the sending of phone calls over the internet, which would mean he was a pioneer in a foundational technology. But in interviews, people who worked on VOIP in its early days say Mashinsky didn't invent the technology. "He wasn't the first," says Ari Rabban, who worked for VocalTec Communications Ltd., generally acknowledged as

the first company to sell a VOIP product. “I don’t know why he says it. There’s no need to.”

The website says he founded three unicorns—which generally means startups valued at more than \$1 billion. One of those was an early player in the VOIP industry, Arbinet, which ran an online exchange where companies could buy and sell network capacity. Its valuation peaked at about \$800 million when it went public in 2004. But Mashinsky had been replaced as chief executive officer four years earlier. “Clients were extremely frustrated by the gap between Alex’s talk and the reality,” Jean-Louis Bravard, a former CEO of Arbinet, once said, according to a regulatory filing.

In his teens, Mashinsky started buying confiscated goods such as hairdryers and VCRs from customs auctions at Israel’s Ben Gurion Airport and reselling them for a profit, according to a 1999 article in the **Industry Standard**, a defunct tech publication. The article also said that Mashinsky had attended three universities but never graduated and that, after moving to New York, he tried a few businesses, like “importing urea from Russia, selling Indonesian gold to Switzerland, and brokering poisonous sodium cyanide excavated in China for use by gold miners in the U.S.” He also said he would like one day to get into the business of whole-body transplants. “Give an old person a new body—keep the head, keep the spine, and re-create the rest,” the article quotes him as saying.

Mashinsky raised \$50 million for Celsius in 2018 with a token sale. He says the company, originally based in the U.K., was the first to offer yield on crypto. Last year, executives said Celsius would move its operations to the U.S. Among its investors are stablecoin-issuer Tether International Ltd., which has been fined by regulators for lying about its assets—allegations Tether has denied. Mashinsky has said that Celsius also borrows money from Tether in the form of stablecoins, because traders often prefer to borrow Tether from Celsius, while depositors tend to send other coins.

In one of last year's interviews, Mashinsky said banking and securities laws shouldn't apply to Celsius, because cryptocurrencies are commodities, a view that many in the industry espouse. He compares Celsius to a neighbor who borrows a cup of sugar, then later gives back a cup and a tablespoon more. "Let's say we're neighbors, and I came to you, and I borrowed sugar because I'm out of sugar," he said. "The regulators today don't look at these kind of loans as something that they need to regulate."

Former employees, who requested anonymity to protect their job prospects, say that while the company's investment strategy makes sense, Celsius has taken risks with users' money that might surprise them. In addition to lending to institutional investors, they say, Celsius has invested hundreds of millions of dollars of customer funds through DeFi protocols—apps run only by software that lets users deposit funds and earn high yields. And they say one of the company's top DeFi money managers—who maintains an anonymous Twitter account with an avatar of a demon mutant ape—left in the summer amid a dispute. In December, Celsius said it had lost \$54 million in a DeFi hack but added that user assets weren't affected.

In recent months, Mashinsky has been talking more about making money by mining Bitcoin—running computers that help maintain the Bitcoin network in exchange for Bitcoin rewards. He told crypto publication **Blockworks** that Celsius had 22,000 specialized computers. Celsius also invested \$54 million in Bitcoin mining company Core Scientific. Since the deal was announced, Core's stock had dropped 21% as of Jan. 25.

"Look, there's no free lunch out there," says Duke University finance professor Campbell Harvey, who co-authored **DeFi and the Future of Finance**. "If someone is offering an extremely high expected return, you have to be very cautious."