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10
11 **UNITED STATES DISTRICT COURT**
12 **CENTRAL DISTRICT OF CALIFORNIA**
13 **WESTERN DIVISION**
14

15 SECURITIES AND EXCHANGE
16 COMMISSION,

17 Plaintiff,

18 vs.

19 RARI CAPITAL, INC.; JAI BHAVNANI;
JACK LIPSTONE; and DAVID LUCID,

20 Defendants.
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Case No. 2:24-cv-7967

COMPLAINT

1 In support of its Complaint against Defendants Rari Capital, Inc. (“Rari
2 Capital”), Jai Bhavnani, Jack Lipstone, and David Lucid, Plaintiff Securities and
3 Exchange Commission (“SEC”) alleges as follows:

4 **JURISDICTION AND VENUE**

5 1. The Court has jurisdiction over this action pursuant to 28 U.S.C. §
6 1331, Sections 20(b), 20(d), and 22(a) of the Securities Act of 1933 (“Securities
7 Act”) [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)], and Sections 21(d), 21(e), and 27(a)
8 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d),
9 78(u)(e), and 78aa].

10 2. Defendants have, directly or indirectly, made use of the means or
11 instrumentalities of interstate commerce in connection with the acts, practices, and
12 courses of business alleged in this Complaint.

13 3. Venue is proper in this district pursuant to Section 22(a) of the
14 Securities Act, 15 U.S.C. § 77v(a), and Section 27(a) of the Exchange Act, 15
15 U.S.C. § 78aa(a), because certain of the transactions, acts, practices and courses of
16 conduct constituting violations of the federal securities laws occurred within this
17 district. In addition, venue is proper in this district because Defendants Bhavnani
18 and Lipstone reside in this district.

19 **SUMMARY**

20 4. In 2020, Bhavnani, Lipstone, and Lucid (together the “co-founders”)
21 created Rari Capital (together with the co-founders, “Defendants”) and began
22 developing Rari Capital’s protocol, a so-called decentralized finance (“DeFi”)
23 project that provided financial services on the Ethereum blockchain and utilized
24 blockchain-based smart contracts (*i.e.*, programs run on a blockchain) to facilitate
25 investment opportunities for investors. As part of the protocol, the co-founders
26 developed two primary investment products called Earn pools and Fuse pools
27 (together, the “Rari protocol”).
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1 5. This Complaint details multiple violations of the federal securities
2 laws that stemmed from Defendants’ creation and operation of the Earn pools and
3 Fuse pools. First, Rari Capital violated Sections 5(a) and 5(c) of the Securities Act
4 because it offered and sold securities in the form of interests in the Earn pools
5 (represented by a crypto assets in the form of ERC-20 tokens that had various
6 names including the “Rari Fund Token”), purported governance crypto assets
7 called Rari Governance Tokens (“RGT”), and interests in the Fuse pools
8 (represented by a crypto asset called the “fToken”) without registering any of
9 those offers and sales and without qualifying for any exemptions from such
10 registration requirements. Second, Defendants violated Section 17(a)(3) of the
11 Securities Act, and Rari Capital, Bhavnani, and Lipstone also violated Section
12 17(a)(2) of the Securities Act, by making materially false and misleading
13 representations about the Earn product to investors. Third, Defendants violated
14 Section 15(a) of the Exchange Act by engaging in unregistered broker activity in
15 connection with the Fuse pools.

16 6. The Earn product, which first began receiving investor deposits in or
17 around July 2020, functioned like a crypto asset investment fund where investors
18 deposited crypto assets into initially one investment pool and Rari Capital then
19 deployed the pooled assets into investment opportunities at third-party crypto
20 asset lending platforms to seek returns for investors (referred to as “yield
21 farming” in the DeFi community). After the Earn product’s initial release,
22 Defendants created additional investment pools with varying risk profiles and
23 continued to expand investment opportunities for these pools. In return for their
24 investment in an Earn pool, investors received ERC-20 tokens, such as Rari Fund
25 Tokens, that could be traded on secondary crypto asset trading platforms, and that
26 represented their pro rata shares of the pool’s assets and through which they
27 earned a pro rata share of the interest earned by the pool. For a limited period,
28 Earn pool investors also received a distribution of RGT, Rari Capital’s purported

1 governance crypto asset. At its height, investors invested at least \$95 million of
2 crypto assets into Rari Capital's Earn product. Rari Capital publicly advertised
3 interests in the Earn pools and the RGT distribution, both of which were
4 investment contracts and therefore securities, but did not register those offers and
5 sales with the SEC even though there were no applicable exemptions from
6 registration.

7 7. Defendants also made material misstatements to investors, falsely
8 claiming that the Earn pools, through a Rari Capital developed smart-contract
9 mechanism called the "Yield Aggregator," automatically and autonomously
10 rebalanced pool assets between investment opportunities in search of the highest
11 yields. Although Rari Capital scripted the Yield Aggregator to automatically and
12 autonomously rebalance assets, in practice the Yield Aggregator often failed to
13 operate and required manual prompting from Rari Capital employees to run its
14 rebalancing mechanism. Additionally, Defendants materially misled investors by
15 touting high interest rate returns of the Earn pools without factoring in the fees
16 charged by Rari Capital and other transaction costs, which significantly reduced
17 the returns paid to investors. About a third of investors in the Earn pools lost
18 money because blockchain transaction fees and other platform fees exceeded any
19 returns on their investments.

20 8. In or around March 2021, Defendants released what became Rari
21 Capital's most popular product, the borrowing and lending platform called Fuse,
22 which at its height held crypto assets worth at least \$1 billion USD. The Fuse
23 platform allowed individual users (or pool creators) to create unique pools to
24 facilitate the lending and borrowing of crypto assets, including crypto assets
25 offered and sold as securities. The Fuse pools were based on a set of smart
26 contracts developed and controlled by Defendants that were deployed and run on
27 the Ethereum blockchain. Defendants also provided a front-end user interface that
28 allowed users to interact with the platform. Investors deposited crypto assets into

1 specific pools and received an fToken, tradeable on secondary crypto asset trading
2 platforms, representing their pro rata interests in those pools' assets and through
3 which they earned their pro rata interests in those pools' earnings. A portion of
4 that paid interest was also allocated to the Rari protocol as a performance fee,
5 with the remainder going to investors on a pro rata basis. The interest earned by
6 investors depended on the underlying pool of assets and how much that pool had
7 generated by lending its crypto assets. Rari Capital advertised Fuse's services
8 through Rari Capital's public website, social media channels, and direct
9 communications, but did not register the offer or sale of interests in the Fuse
10 pools, which constituted investment contracts and thus securities, with the SEC
11 even though there were no applicable exemptions from registration.

12 9. Defendants also operated as unregistered brokers through the Fuse
13 platform, which engaged in transactions for the accounts of Fuse users involving
14 certain crypto assets offered and sold as securities, including MATIC, LINK,
15 FTM, UST, and RGT. The underlying smart contracts, which, as noted above,
16 were developed and controlled by Defendants through at least early 2022,
17 received transaction instructions from users to move crypto assets offered and
18 sold as securities into and out of certain Fuse pools, and the smart contracts
19 developed and controlled by Defendants carried out those instructions.

20 Defendants also created and administered several of the larger Fuse pools, one of
21 which included at least one crypto asset offered and sold as a security. In addition,
22 the Rari Capital team programmed the Fuse platform to assign a letter-graded
23 "Rari Safety Score" to the Fuse pools based on a risk assessment of each pool.
24 Defendants generated revenue for the Rari protocol by charging a performance-
25 based fee of approximately 10 percent of the interest earned from depositing and
26 borrowing activity in each pool.

27 10. Ultimately, operations of the Fuse platform were suspended after an
28 unknown third party was able to drain over \$80 million of users' crypto assets

1 from pools connected to the platform through an exploit of a design vulnerability
2 in the smart contracts' coding.

3 11. The SEC seeks Final Judgments that: (a) permanently enjoin
4 Defendants from violating the federal securities laws and rules set forth in this
5 Complaint; (b) permanently enjoin Rari Capital from participating in the issuance,
6 purchase, offer, or sale of any securities; (c) permanently enjoin Bhavnani,
7 Lipstone, and Lucid from participating in the issuance, purchase, offer, or sale of
8 any crypto assets offered and sold as securities; (d) order Bhavnani, Lipstone, and
9 Lucid to disgorge all ill-gotten gains they received as a result of the alleged
10 violations pursuant to Sections 21(d)(3), (5), and (7) of the Exchange Act [15
11 U.S.C. §§ 78u(d)(5), (d)(3), and (d)(7)], and to pay prejudgment interest thereon;
12 (e) order Bhavnani, Lipstone, and Lucid to pay civil money penalties pursuant to
13 Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the
14 Exchange Act [15 U.S.C. § 78u(d)(3)]; and (f) order Bhavnani, Lipstone, and
15 Lucid barred from serving as an officer or director of a public securities issuer
16 pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)].

17 DEFENDANTS

18 12. **Rari Capital, Inc.** is a Delaware corporation created in June 2020 by
19 Bhavnani, Lipstone, and Lucid. Rari Capital's operations were principally based
20 in Los Angeles, California. Rari Capital was the relevant legal entity listed in the
21 Terms of Service for the user interface facilitating the Earn and Fuse platforms.
22 Rari Capital has never been registered with the SEC in any capacity and has never
23 had any securities registered with the SEC.

24 13. **Jai Bhavnani**, currently age 22, resides in Los Angeles, California.
25 Bhavnani co-founded Rari Capital and served as the company's Chief Executive
26 Officer. Since Rari Capital's inception, Bhavnani was responsible for key
27 decision making and investor communications, and was involved in marketing
28

1 efforts for the Rari protocol. Bhavnani has never been registered with the SEC in
2 any capacity or associated with any registered broker-dealers.

3 14. **Jack Lipstone**, currently age 23, resides in Los Angeles, California.
4 Lipstone co-founded Rari Capital and served as the company's Chief Operating
5 Officer. Lipstone was largely responsible for business development, marketing
6 efforts, and community management for the Rari protocol. Lipstone has never
7 been registered with the SEC in any capacity or associated with any registered
8 broker-dealers.

9 15. **David Lucid**, currently age 23, resides in Austin, Texas. Lucid co-
10 founded Rari Capital and served as the company's Chief Technology Officer.
11 Lucid was primarily responsible for developing the smart contracts underlying the
12 Rari protocol. Lucid has never been registered with the SEC in any capacity or
13 associated with any registered broker-dealers.

14 **RELATED ENTITY**

15 16. **Rari Capital Infrastructure LLC** ("Rari Capital Infrastructure") is
16 a Delaware limited liability company that was formed in March 2022 to facilitate
17 development of, among other things, the Fuse platform, following a leadership
18 change within the Rari protocol. Rari Capital Infrastructure thereafter wound
19 down operations of the Rari protocol after an exploit of the Fuse platform in May
20 2022 resulted in the loss of over \$80 million of investors' assets. Rari Capital
21 Infrastructure has never been registered with the SEC in any capacity and has
22 never had any securities registered with the SEC.

23 **BACKGROUND ON CRYPTO ASSETS**

24 17. The term "crypto asset" generally refers to an asset issued and/or
25 transferred using distributed ledger or blockchain technology, including assets
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1 sometimes referred to as “cryptocurrencies,” “digital assets,” “virtual currencies,”
2 “digital coins,” and “digital tokens.”

3 18. A blockchain or distributed ledger is a peer-to-peer database spread
4 across a network of computers that records all transactions in theoretically
5 unchangeable, digitally recorded data packages, referred to as “blocks.” The
6 system relies on cryptographic techniques for secure recording of transactions.

7 19. A blockchain “protocol” is a code, software, or algorithm that
8 governs how a blockchain, or a feature of a blockchain, operates.

9 20. A “wallet” is a piece of hardware or software on which crypto asset
10 owners typically store the cryptographic key information providing them control
11 over their crypto assets. Crypto wallets offer a method to store and manage
12 critical information about crypto assets, *i.e.*, cryptographic information necessary
13 to identify and transfer those assets.

14 21. A “smart contract” is a software or code that, based on
15 programmable conditions, is deployed and run on a blockchain.

16 22. On July 25, 2017, the SEC issued the *Report of Investigation*
17 *Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO*,
18 advising “those who would use . . . distributed ledger or blockchain-enabled
19 means for capital raising[] to take appropriate steps to ensure compliance with the
20 U.S. federal securities laws,” and finding that the offering of crypto assets at issue
21 in that report were offered and sold as investment contracts and, thus, securities.

22 FACTUAL ALLEGATIONS

23 **A. Rari Capital Engaged in the Unregistered Offer and Sale of Interests in** 24 **the Earn Pools and RGT as Securities**

25 *i. Interests in the Earn Pools*

26 23. In 2020, Defendants began developing the Earn product, which was
27 the first investment product for the Rari protocol. Earn functioned like a crypto
28 asset investment fund that utilized blockchain-based smart contracts and other

1 coding to receive and deploy investors' assets. Rari Capital's initial public
2 advertisements described the Earn product as a "website where you can deposit
3 your crypto-assets and we will automatically rebalance it into the highest-yielding
4 stable opportunities."

5 24. Defendants released one Earn pool in July 2020, and then released an
6 updated version of the product in October 2020 that expanded the offering to three
7 investment pools with varying risk profiles. However, all the Earn pools operated
8 in the same way. Rari Capital developed a smart-contract mechanism for the Earn
9 pools, referred to as the Yield Aggregator, that purported to move new investor
10 assets into investment opportunities and rebalance existing pools of assets among
11 different third-party investment opportunities to maximize returns. Defendants
12 claimed that the Yield Aggregator performed this movement of assets and
13 rebalancing automatically and autonomously. The investment opportunities
14 consisted primarily of investments into third-party crypto asset lending platforms.
15 Based on an algorithm run through computer code, the Yield Aggregator
16 purportedly would determine whether it was economical to move invested assets
17 into other investment opportunities. Over time, the co-founders, at times with
18 input from the community of users or supporters, expanded the options for the
19 third-party platforms to which the Earn pools, through the Yield Aggregator,
20 could deploy investors' assets.

21 25. In return for depositing crypto assets into an Earn pool, investors
22 received an ERC-20 token, initially the Rari Fund Token, tradeable on secondary
23 crypto asset trading platforms, that represented each investor's interest in the
24 specific investment pool and right to any profits that were shared pro rata with
25 other token holders.

26 26. Rari Capital disclosed that the Rari protocol charged investors a
27 withdrawal fee. In addition, Rari Capital disclosed that it charged a performance
28 fee on Earn pool profits that was originally 20% and was later updated to 9.5% of

1 such profits. The fees, paid in crypto assets, were stored in the Rari protocol. A
2 portion of such fees were distributed to wallets controlled by the co-founders and
3 others to support further protocol development and cover expenses, including one
4 wallet, known as the Rari Capital Treasury, that received approximately \$370,000
5 in fees from the Earn pools between July 2020 and September 2021.

6 27. Rari Capital marketed interests in the Earn pools to investors through
7 direct communications with investors, a public website for Rari Capital, public
8 interviews, and through social media channels including Twitter, Telegram,
9 Discord, and Medium, among others. Rari Capital advertised the pools' ability to
10 maximize yield for investors and make investing in DeFi easy for anyone. Rari
11 Capital further publicly advertised the annual percentage yield, or "APY," for the
12 Earn pools, often highlighting particularly high APYs on social media platforms
13 such as Twitter.

14 28. An investor's purchase of an interest in these opportunities—which
15 occurred by the investor depositing money, in the form of crypto assets, into an
16 Earn pool and receiving a token that evidenced the investor's interest in the pool
17 and a right to receive a pro rata share of the interest earned through the pool's
18 activity—constituted the offer and sale of investment contracts and thus securities.

19 29. Investors in the Earn product invested in a common enterprise with
20 other investors and with Rari Capital. After directing the crypto assets into the
21 pools, the investors no longer controlled those assets. Investors' crypto assets
22 were then pooled by the smart contracts. Investors depended on Rari Capital to
23 develop algorithms, smart contracts, and downstream lending opportunities to
24 invest their assets for a return, as well as the efforts of Rari Capital and the co-
25 founders to further improve the Earn product, including by generating better
26 investment opportunities. For example, an Earn pool's annual percentage yield
27 depended on both the Yield Aggregator's ability to invest and rebalance the assets
28 in that pool into higher yield generating investment opportunities, and the Rari

1 Capital team's ability to create more investment strategies with higher returns.
2 Because Rari Capital did not segregate the pooled assets by investor (but only by
3 type of crypto asset), each investor's fortunes were tied to the fortunes of other
4 investors, and each investor profited or suffered losses equally and in proportion
5 to their pro rata investments in the Earn pools. In addition, because Rari Capital
6 directly shared in the returns investors made by receiving performance fees on
7 Earn pool profits, the Earn pool investors' fortunes were also linked to those of
8 Rari Capital. As stated on Rari Capital's website in or around October 2020,
9 "[t]he more money you make, the more money we make."

10 30. Through its public statements, and given the economic reality of the
11 Earn pools, Rari Capital invited Earn pool investors to reasonably expect that they
12 would earn profits derived from the efforts of Rari Capital and others.

13 **ii. RGT**

14 31. In October 2020, in conjunction with the expansion of the Earn
15 product to three investment pools, Rari Capital launched a so-called "liquidity
16 mining" program that offered RGT to investors who invested crypto assets in one
17 or more of the Earn pools during a 60-day period. The program was intended to
18 encourage new and existing investors to make investments in the Earn pools.
19 Investors also continued to receive Rari Fund Tokens as well as other ERC-20
20 tokens. Under the program, Rari Capital planned to release 87.5% of the RGT to
21 investors in the Earn pools and retain 12.5% of the tokens to compensate the Rari
22 Capital team, as well as certain advisors to Rari Capital.

23 32. Prior to the October 2020 launch, as part of the RGT distribution,
24 Rari Capital offered a "Launch Partner Program" to solicit commitments of at
25 least \$100,000 USD to invest in the Earn pools from venture capital firms and
26 other high net-worth investors. In return, investors would receive pro rata interests
27 in the profits of the Earn pools and a proportional distribution of RGT. Rari
28 Capital sent emails to investors and potential investors explaining that their

1 | investments would start generating returns right away because their crypto assets
2 | would be invested by the Yield Aggregator, and because the investors would
3 | receive RGT. The Launch Partner Program functioned to guarantee revenues,
4 | from withdrawal fees and performance fees, that Rari Capital and its co-founders
5 | could use to continue developing and growing the Rari protocol, and also enabled
6 | Rari Capital to use RGT to fund its additional growth. Indeed, Rari Capital
7 | retained 12.5% of the RGT to use as compensation and benefited, together with
8 | investors, from any increases to RGT's price.

9 | 33. As with the Earn pools, Rari Capital marketed RGT as an investment
10 | opportunity into its efforts to grow the Rari Capital platform. RGT purported to
11 | give holders the ability to vote on certain governance decisions affecting the Earn
12 | pools, such as upgrades to the protocol and changes to fees. However, Rari
13 | Capital invited RGT investors to expect RGT to increase in value based on Rari
14 | Capital's efforts to develop and increase usage of the Rari Capital platform, and
15 | the expectation that RGT would be tradeable on secondary crypto asset trading
16 | platforms. Although RGT did not entitle holders to pro rata shares of the Earn
17 | pool profits, Rari Capital publicly explained that 70% of the fees earned from the
18 | Earn pools would be used to buy back and burn RGT, and one of Rari Capital's
19 | public posts on Medium explained that RGT "will be burned on every cent made
20 | by the protocol . . . decreasing the total supply of the token as the protocol
21 | succeeds." According to Rari Capital, a declining supply of RGT would cause the
22 | price of RGT in the secondary market to increase to the benefit of RGT holders
23 | and investors. Investors shared proportionally in any increases in RGT's value
24 | because the amounts of RGT they received were proportional to the amounts they
25 | invested in the Earn pools. Furthermore, Rari Capital made clear to investors that
26 | it was working to develop the secondary trading market for RGT through efforts
27 | to make RGT available for trading on secondary crypto asset trading platforms.
28 |

1 34. RGT was offered and sold as an investment contract. Investors who
2 invested in RGT expected the value of RGT to increase based on the efforts of
3 Rari Capital and others.

4 ***iii. Rari Capital Failed to Register the Offer and Sale of Interests in***
5 ***the Earn Product and RGT with the SEC***

6 35. Rari Capital made use of various means and instrumentalities of
7 interstate commerce to offer and sell interests in the Earn pools and distribute
8 RGT by, among other things, engaging in general solicitation through the Rari
9 Capital website and through social media channels. Rari Capital was also
10 involved in many direct communications with investors, including through email,
11 Telegram, and telephone calls.

12 36. Rari Capital never filed a registration statement with the SEC for its
13 offers and sales of interests in the Earn pools and RGT. No exemption from
14 registration applied.

15 37. In total, investors invested crypto assets worth millions of dollars in
16 the Earn pools through approximately 1,900 unique addresses.

17 38. Defendants transferred approximately \$370,000 in Earn pool fees to
18 the Rari Capital Treasury. The co-founders, in turn, took payments from the
19 crypto assets in the Rari Capital Treasury, primarily to reimburse them for certain
20 costs incurred in starting Rari Capital.

21 39. With respect to RGT, Rari Capital initially minted approximately 10
22 million RGT, with a reserve of 12.5% for the Rari Capital team, but all of which
23 was eventually distributed to users of the Earn pools. RGT was available for
24 trading on numerous secondary crypto asset trading platforms, including Binance,
25 Coinbase, and Uniswap.

B. Defendants Materially Misrepresented the Operations of the Earn Pool Product

40. Defendants claimed to investors that a key feature of the Earn pools was that they were balanced by the Yield Aggregator, a set of blockchain-based smart contracts and programming that operated autonomously and continuously to move invested assets into investment opportunities, and rebalance those assets among investment opportunities to obtain the advertised returns for investors. Accordingly, Rari Capital, Bhavnani, and Lipstone specifically marketed the Earn pools as functioning “automatically” and “autonomously.”

41. Although Rari Capital scripted the Yield Aggregator to automatically and autonomously rebalance assets, in practice the rebalancing mechanism often failed to operate at all and required manual input from the Rari Capital team, such as from Lucid, to run the rebalancer code. There were multiple times when the rebalancing mechanism failed and the Rari Capital team did not immediately manually run the rebalancer code, and, as a result, as one example, the rebalancing occurred days after the deposit of investor assets. Contrary to the false and misleading representations in Defendants’ marketing materials, investor assets in the Earn pools were not always automatically or continuously rebalanced into higher-yielding strategies. Moreover, by manually turning on the Yield Aggregator when the rebalancing mechanism failed, Defendants created the false and misleading impression that the Yield Aggregator did in fact operate on its own at all times. The misrepresentations about the rebalancing mechanism of the Earn pools were material to investors in the Earn pools because a reasonable investor would consider the operation of the rebalancing mechanism an important fact in evaluating the performance of the Earn pools and considering a potential investment.

42. In addition, Rari Capital’s marketing materials sometimes misleadingly touted the high APYs of the Earn pools without factoring in the

1 impact of the fees collected by Rari Capital and other costs. Those fees and costs
2 had the effect of significantly reducing the actual returns paid to investors. Indeed,
3 approximately 33% of investors lost money on their investments in the Earn pools
4 as a result of the Rari Capital fees and other costs that investors incurred. These
5 misleading statements about the supposedly high APYs of the Earn pools were
6 material to investors in the Earn pools.

7 **C. Rari Capital Engaged in the Unregistered Offer and Sale of Interests in**
8 **the Fuse Pools, Which Were Offered and Sold as Securities**

9 43. Defendants created and launched the Fuse platform in March 2021.
10 The Fuse platform allowed individual users to create unique pools to facilitate the
11 depositing and borrowing of crypto assets, including crypto assets offered and
12 sold as securities. The Fuse platform enabled pool creators to customize the
13 depositing and borrowing parameters for the pools, such as the types of crypto
14 assets that could be deposited and lent, fee amounts, interest rate curves, and
15 collateral requirements. After creating a pool on the Fuse platform, the pool
16 creator had the option of retaining administrator rights to alter the parameters for
17 the given pool, sometimes referred to as a “liquidity pool.”

18 44. The Fuse platform was based on a set of smart contracts developed
19 by Defendants and others on the Rari Capital team that were deployed and run on
20 the Ethereum blockchain, and that owned the crypto assets deposited by investors.
21 Defendants also developed and provided a web-based user interface that enabled
22 users to access and interact with the smart contracts underlying the Fuse platform.
23 Through the Fuse platform, users could either deposit crypto assets into a pool
24 and earn their respective share of interest on lending and borrowing activity in
25 that pool, or, after depositing crypto assets as collateral, borrow from a pool by
26 withdrawing other crypto assets. In each specific Fuse pool, the smart contracts
27 pooled together the crypto assets deposited by investors of that pool and made
28 those crypto assets available for borrowing. Users who borrowed crypto assets

1 paid interest, which funded returns to the investors who deposited the crypto
2 assets in the pool. Investors who deposited the crypto assets received an fToken,
3 an ERC-20 token tradeable on secondary crypto asset trading platforms, that
4 evidenced their interest in their specific Fuse pool and their right to receive a pro
5 rata share of the pool's interest earnings.

6 45. Through the smart contracts developed by Defendants, Fuse received
7 depositing and borrowing transaction instructions from users and executed those
8 instructions, if the conditions for such requests were met within a given Fuse pool.
9 Defendants, through permissions programmed into the Fuse platform's smart
10 contracts, maintained the ability to shut down the platform, replace the platform's
11 underlying smart contracts, and revoke the pool creators' administrator rights.

12 46. Through Rari Capital's public website, social media channels, and
13 direct communications, Rari Capital solicited users to deposit crypto assets into
14 and borrow crypto assets from the pools on the Fuse platform. Rari Capital also
15 promoted Fuse and specific Fuse pools by touting the purportedly high APYs
16 associated with certain pools.

17 47. Based on the facts set forth above, an investor's purchase of an
18 interest in these opportunities—which occurred by the investor depositing money,
19 in the form of crypto assets, into a Fuse pool and receiving a token that evidenced
20 the investor's interest in the pool and a right to receive a pro rata share of the
21 interest earned through the pool's activity—constituted the offer and sale of
22 investment contracts and thus securities.

23 48. Investors tendered money, in the form of crypto assets, to the Fuse
24 platform to participate in the Fuse pools. Investors' crypto assets were then pooled
25 by smart contracts and were made available for borrowing. Users who borrowed
26 crypto assets paid interest to the pools they borrowed from. A portion of those
27 interest payments, in turn, constituted the returns that were paid to Fuse pool
28 investors who had deposited their crypto assets in the pools, while another portion

1 of the interest payments was earned by the Rari protocol in the form of
2 performance fees. The returns earned by Fuse pool investors arose from the
3 activities of the pools, which were facilitated by the smart contracts, in lending the
4 crypto assets and receiving interest from that lending activity. In this way, each
5 pool investor's fortunes were tied to the fortunes of the pool's other investors. In
6 addition, because Rari Capital received some of the interest paid by borrowers to
7 the Rari protocol, the Fuse pool investors' fortunes were also linked to those of
8 Rari Capital.

9 49. Through its public statements and the economic structure of the Fuse
10 pools, Rari Capital invited Fuse pool investors to reasonably expect that they
11 would earn profits derived from the efforts of Rari Capital and others.

12 50. Rari Capital made use of various means and instrumentalities of
13 interstate commerce to offer and sell interests in the Fuse pools by, among other
14 things, engaging in general solicitation through the Rari Capital website and
15 through social media channels. Rari Capital was also involved in many direct
16 communications with investors, including through email, Telegram, and telephone
17 calls, to offer and sell the Fuse pool interests.

18 51. Rari Capital never filed a registration statement with the SEC for its
19 offers and sales of interests in the Fuse pools. No exemption from registration
20 applied.

21 **D. Defendants Acted as Unregistered Brokers**

22 52. For the pools to function, Fuse, through the smart contracts created
23 by Defendants, received depositing and borrowing transaction instructions from
24 users and carried out those instructions, if the conditions for such requests were
25 met within a given Fuse pool. Some of the transactions that Fuse effected for the
26 accounts of its users involved certain crypto assets offered and sold as investment
27 contracts, as defined by the Supreme Court case *SEC v. W.J. Howey Co.*, 328 U.S.
28 293 (1946), and thus securities.

1 53. Through Rari Capital’s public website, social media channels, and
2 direct communications, Defendants solicited users to deposit crypto assets into,
3 and borrow crypto assets from, the pools on the Fuse platform. Defendants also
4 promoted Fuse and specific Fuse pools by touting the purportedly high APYs
5 associated with certain pools.

6 54. In addition, Defendants engaged in certain services to support and
7 encourage depositing and borrowing on the Fuse platform. For example, the Rari
8 Capital team programmed the Fuse platform to assign a “Rari Safety Score,”
9 graded from A to F, to each Fuse pool that purported to provide a risk assessment
10 of each pool. Fuse users could view these “Rari Safety Scores” on both the
11 platform’s user interface and Rari Capital’s website. Defendants also created and
12 administered several of the larger Fuse pools.

13 55. For these services, the Rari protocol charged a performance-based
14 fee of approximately 10 percent on the interest earned in each Fuse pool. Interest
15 earned in each pool depended on the interest rate curve selected by the pool
16 creator and fluctuated based on the depositing and borrowing transactions within
17 the pool. A smart contract developed by Defendants automatically calculated
18 these fees, and once accrued, Defendants maintained the authority to collect them.
19 Defendants at times exercised this authority.

20 56. Defendants were never associated with a broker and never registered
21 as brokers with the SEC, and did not operate pursuant to any exception or
22 exemption from registration.

23 57. Starting in December 2021, the co-founders of Rari Capital took less
24 active roles in developing the Fuse platform. In March 2022, certain individuals
25 created Rari Capital Infrastructure LLC separately from Rari Capital and its co-
26 founders to operate and further develop the Fuse platform. This change in
27 leadership was announced in June 2022. Rari Capital Infrastructure continued to
28

1 solicit users over the internet to lend and borrow crypto assets on the Fuse
2 platform.

3 58. At Fuse's peak, the smart contracts for the Fuse platform held crypto
4 assets purportedly having a market value of at least \$1 billion. Over the life of the
5 Fuse platform, approximately 180 Fuse pools were created and over 10,000 users
6 used the platform at one time or another.

7 **FIRST CLAIM FOR RELIEF**

8 **(Violations of Securities Act Sections 5(a) and 5(c) against Rari Capital)**

9 59. The SEC realleges and incorporates by reference Paragraphs 1
10 through 58 as if fully set forth herein.

11 60. By engaging in the conduct described above, Defendant Rari Capital,
12 directly or indirectly, made use of the means or instruments of transportation or
13 communication in interstate commerce, or of the mails, to offer to sell or to sell
14 securities through the use or medium of any prospectus or otherwise, or carried or
15 caused to be carried through the mails or in interstate commerce, by means or
16 instruments of transportation, securities for the purpose of sale or for delivery
17 after sale, when no registration statement had been filed or was in effect as to such
18 securities, and when no exemption from registration was applicable.

19 61. By engaging in the conduct described above, Defendant Rari Capital
20 has violated and, unless restrained and enjoined, will continue to violate Securities
21 Act Sections 5(a) and 5(c) [15 U.S.C. §§ 77e(a) & 77e(c)].

22 **SECOND CLAIM FOR RELIEF**

23 **(Violations of Securities Act Section 17(a)(2) against Rari Capital, Bhavnani, 24 and Lipstone)**

25 62. The SEC realleges and incorporates by reference Paragraphs 1
26 through 58 as if fully set forth herein.

27 63. Defendants Rari Capital, Bhavnani, and Lipstone, by engaging in the
28 conduct described above, directly or indirectly, in the offer or sale of securities,

1 by use of any means or instruments of transportation or communication in
2 interstate commerce or by use of the mails, obtained money or property by means
3 of untrue statements of material fact or by omitting to state a material fact
4 necessary in order to make the statements made, in light of the circumstances
5 under which they were made, not misleading.

6 64. By reason of the foregoing, Defendants Rari Capital, Bhavnani, and
7 Lipstone violated and, unless restrained and enjoined, will continue to violate
8 Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

9 **THIRD CLAIM FOR RELIEF**

10 **(Violations of Securities Act Section 17(a)(3) against Rari Capital, Bhavnani,**
11 **Lipstone, and Lucid)**

12 65. The SEC realleges and incorporates by reference Paragraphs 1
13 through 58 as if fully set forth herein.

14 66. Defendants Rari Capital, Bhavnani, Lipstone, and Lucid, by
15 engaging in the conduct described above, directly or indirectly, in the offer or sale
16 of securities, by use of any means or instruments of transportation or
17 communication in interstate commerce or by use of the mails, engaged in
18 transactions, practices, or courses of business which operated or would operate as
19 a fraud or deceit upon purchasers.

20 67. By reason of the foregoing, Defendants Rari Capital, Bhavnani,
21 Lipstone, and Lucid violated and, unless restrained and enjoined, will continue to
22 violate Section 17(a)(3) of the Securities Act [15 U.S.C. § 77q(a)(3)].
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FOURTH CLAIM FOR RELIEF

(Violations of Exchange Act Section 15(a) against Rari Capital, Bhavnani, Lipstone, and Lucid)

68. The SEC realleges and incorporates by reference Paragraphs 1 through 58 as if fully set forth herein.

69. At all relevant times, by engaging in the conduct described above, Defendants Rari Capital, Bhavnani, Lipstone, and Lucid, and each of them, directly or indirectly, made use of the mails and the means and instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, securities, without registering with the SEC as a broker or dealer in accordance with Section 15(b) of the Exchange Act [15 U.S.C. § 78o(b)], and without complying with any exemptions promulgated pursuant to Section 15(a)(2) of the Exchange Act [15 U.S.C. § 78o(a)(2)].

70. By engaging in the conduct described above, Defendants Rari Capital, Bhavnani, Lipstone, and Lucid, directly or indirectly, violated and, unless restrained and enjoined, will continue to violate Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that the Court enter Final Judgments:

(a) Permanently enjoining Defendant Rari Capital, and those persons in active concert or participation with it, who receive actual notice of the judgments by personal service or otherwise, and each of them, from violating Sections 5(a), 5(c), 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)(2), and 77q(a)(3)] and Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)];

(b) Permanently enjoining Defendants Bhavnani and Lipstone, and those persons in active concert or participation with each of them, who receive actual

1 notice of the judgments by personal service or otherwise, and each of them, from
2 violating Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§
3 77q(a)(2) and 77q(a)(3)] and Section 15(a) of the Exchange Act [15 U.S.C. §
4 78o(a)];

5 (c) Permanently enjoining Defendant Lucid, and those persons in active
6 concert or participation with him, who receive actual notice of the judgments by
7 personal service or otherwise, and each of them, from violating Section 17(a)(3)
8 of the Securities Act [15 U.S.C. § 77q(a)(3)] and Section 15(a) of the Exchange
9 Act [15 U.S.C. § 78o(a)];

10 (d) Permanently enjoining Defendant Rari Capital from directly or
11 indirectly, including, but not limited to, through any entity owned or controlled by
12 Rari Capital, participating in the issuance, purchase, offer, or sale of any
13 securities;

14 (e) Permanently enjoining Defendants Bhavnani, Lipstone, and Lucid
15 from directly or indirectly, including, but not limited to, through any entity owned
16 or controlled by Bhavnani, Lipstone, or Lucid, participating in the issuance,
17 purchase, offer, or sale of any crypto assets offered and sold as securities;
18 provided however, that such injunction shall not prevent Bhavnani, Lipstone, and
19 Lucid from purchasing or selling securities for their own personal accounts;

20 (f) Ordering that Defendants Bhavnani, Lipstone, and Lucid be barred
21 from serving as an officer or director of a public issuer pursuant to Section
22 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)];

23 (g) Ordering Defendants Bhavnani, Lipstone, and Lucid to disgorge all
24 ill-gotten gains received as a result of their unlawful conduct plus prejudgment
25 interest thereon pursuant to Sections 21(d)(3), 21(d)(5), and 21(d)(7) of the
26 Exchange Act [15 U.S.C. §§ 78u(d)(3), 78u(d)(5), and 78u(d)(7)];

1 (h) Ordering Defendants Bhavnani, Lipstone, and Lucid to pay civil
2 penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and
3 Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

4 (i) Retaining jurisdiction of this action in accordance with the principles
5 of equity and the Federal Rules of Civil Procedure in order to implement and
6 carry out the terms of all orders and decrees that may be entered, or to entertain
7 any suitable application or motion for additional relief within the jurisdiction of
8 this Court; and

9 (j) Granting such other relief to the SEC as the Court may deem just and
10 proper.

11
12 Dated: September 18, 2024

/s/ Madiha M. Zuberi
MADIHA M. ZUBERI
ERIN E. WILK
Attorneys for Plaintiff
Securities and Exchange Commission