

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11230 / September 12, 2023

INVESTMENT ADVISERS ACT OF 1940
Release No. 6414 / September 12, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21651

In the Matter of

YieldStreet Inc., and

YieldStreet Management, LLC,

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTIONS
203(e) AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against YieldStreet Inc. (“YS Inc.”) and YieldStreet Management, LLC (“YSM”) (collectively, “YieldStreet” or “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making

Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds that:

Summary

These proceedings arise out of YieldStreet’s failures to disclose critical information to investors in a September 2019 asset-backed securities offering that financed the deconstruction of retired ships. The failure to disclose such material information rendered statements made by YS Inc. and YSM misleading. From approximately June 2018 through September 2019 (the “Relevant Period”), private market alternative investment platform YieldStreet made six offerings of securities to finance loans to a single foreign borrower (the “Borrower”) to deconstruct ships. The ships served as collateral for the loans, and the Borrower was supposed to repay the loans with interest using the proceeds from the deconstruction. However, before the final offering involving the Borrower (the “Vessel Deconstruction VI Offering”) in September 2019, YieldStreet received information showing that certain ships securing earlier loans to the Borrower were reported as “broken up” or deconstructed without any notice to YieldStreet or repayment of the loans those ships secured. YieldStreet also learned that a number of other ships that served as collateral for these loans could not be located because their tracking systems were not operating. After YieldStreet received assurances from the Borrower that the ships still existed, YieldStreet proceeded with the Vessel Deconstruction VI Offering and raised \$14.5 million to fund additional loans to the Borrower without disclosing this material information to investors. YieldStreet later determined that the Borrower had stolen the deconstruction proceeds for several ships, including the ship securing the loan in the Vessel Deconstruction VI Offering. Investors in the Vessel Deconstruction VI Offering now face millions of dollars of losses.

Respondents

1. **YieldStreet Inc. (“YS Inc.”)** is a privately-held Delaware corporation, based in New York, New York. YS Inc. is not registered with the Commission in any capacity. YS Inc. operates the yieldstreet.com website through which it and affiliated entities solicited investors.

2. **YieldStreet Management, LLC (“YSM”)** is a Delaware limited liability company, based in New York, New York and has been registered with the Commission as an investment adviser since 2016. YSM is a wholly owned subsidiary of YS Inc. and provides advisory services to pooled investment vehicles that offer securities to investors through the yieldstreet.com website. One of these pooled investment vehicles (the “Fund”) issued notes for the Vessel Deconstruction VI Offering. YS Inc. employees perform all functions to operate YSM’s business.

Facts

Structure of the Investments

3. YS Inc. operates a website through which YS Inc., YSM, and other affiliated

entities offer accredited investors investments in a variety of “alternative” asset classes, including real estate, fine art, and supply chain finance loans. Throughout the Relevant Period, YS Inc. employees responsible for YieldStreet’s marine deconstruction asset class acted on behalf of both YS Inc. and YSM.

4. YS Inc. and YSM formed the Fund to, among other things, offer investments backed by marine deconstruction loans beginning in 2018. These loans financed the activities of borrowers that specialize in acquiring retired ships and then transporting and selling them to another party that would break down and sell parts and materials from the ships.

5. During the Relevant Period, YieldStreet affiliates made a series of loans to the Borrower, a group of companies based in the United Arab Emirates that transported retired ships and arranged their deconstruction. Each loan required the Borrower to make interest payments, with the balance due at a specified date intended to coincide with the Borrower’s sale of the ship to another entity that would perform the deconstruction.

6. YieldStreet offered accredited investors securities of pooled investment vehicles in the form of borrower payment dependent notes (the “Investor Notes”) through six separate offerings, each of which indirectly financed loans to the Borrower. The Fund invested in asset-backed loans, including whole loans and participation interests in loans. Returns on the Investor Notes depended on the performance of the loans that they funded.

7. The Fund was the issuer for the Investor Notes sold through the Vessel Deconstruction VI Offering. YSM acted as the Fund’s manager and investment adviser for this offering. YieldStreet solicited investments in the Investor Notes through the YS Inc. website, yieldstreet.com.

8. Each series of Investor Notes funded a specific marine deconstruction loan made to the Borrower. YieldStreet provided investors with various offering documents, including private placement memoranda and “Series Note Supplements,” which included specific disclosures related to the relevant loan, the collateral and other security for the loan, the Borrower, and the potential risks of the investment.

9. The collateral for each of the loans was the ship, or “vessel,” to be deconstructed, though YieldStreet did not identify for investors the specific ships involved. YieldStreet’s right to the ship was the most important security for the loan and ultimately for the Investor Notes, and YieldStreet assured investors that the scrap value of the ship would always exceed the outstanding loan balance.

10. Consistent with this investment structure, in the Series Note Supplements and other documents, YieldStreet told investors, among other things, that:

- a. the loan was “secured by a first mortgage lien on the Vessel”;
- b. “the aggregate scrap value of the Vessel [was required] to be no less than 120% of the total outstanding principal amount of the Loan throughout its

term...”, and

- c. in the event of default, the lender “could exercise remedies in respect of its first mortgage lien and foreclose on the Vessel to recover on its outstanding principal and interest.”

YieldStreet Discovers the “Broken Up” Status of Ships

11. Each ship securing the Investor Notes was equipped with a standard Automatic Identification System (“AIS”). AIS is a broadcast system that acts like a transponder and is intended to show the precise location of the ship, which it can update as often as every two seconds. Data provided by AIS systems, together with ship status information (*e.g.*, whether a ship is deconstructed or “broken up”), is gathered and reported by various independent providers and is available to the public through free or subscription-based services.

12. Before July 2019, YieldStreet did not use the publicly available information services to track the location or status information for ships that secured loans to the Borrower. YieldStreet relied on a third party (the “Servicer”) to service the loans and “monitor” the collateral, but the Servicer did not regularly track each ship’s reported status or location.

13. In late July 2019, because of concerns about compliance with international sanctions regimes, YieldStreet personnel working in Greece asked an outside contractor (not the Servicer) to use the publicly available information services to track all vessels securing the loans made to the Borrower. Several days after the initial request, the outside contractor reported that a few of the ships that secured loans to the Borrower “appear ‘broken up.’” According to the outside contractor, many of the vessels securing loans to the Borrower also had stale AIS information, meaning that the ships had not provided AIS updates for an extended period of time and could not be located.

14. YieldStreet discussed these reports with the outside contractor and an outside marine specialist. Based on conversations with the outside marine specialist, YieldStreet personnel working in Greece believed that the public reports showing past deconstruction might be incorrect since ship owners may have been motivated to falsely report high numbers of vessels scrapped each year, and that the Borrower might have turned off AIS signals due to costs associated with keeping them on.

15. In August 2019, YieldStreet held a call with the Borrower to discuss several issues regarding the loans and the collateral securing the loans. The Servicer and the outside contractor were also present for the call. During the call, YieldStreet asked about the itinerary of the vessels that secured loans to the Borrower and the fact that “AIS appears to be off” for certain vessels. YieldStreet asked the Borrower to ensure that AIS systems were operational at all times. However, YieldStreet did not ask the Borrower or Servicer why the ships were reported as “broken up” in publicly available information sources.

16. After the call, and prior to the final offering, YieldStreet received from the Borrower (including via the Servicer) false sale documents and assurances suggesting that the

ships still existed and were under contract for sale and deconstruction at a later date. However, YieldStreet never located the ships by, for example, verifying that the Borrower turned on AIS for the ships and obtaining updated AIS tracking information.

17. In 2020, YieldStreet concluded that the Borrower had by that time already deconstructed all but one of the ships that collateralized loans to the Borrower, and that the Borrower had stolen the proceeds.

YieldStreet Proceeds with the Final Offering

18. YieldStreet proceeded with the Vessel Deconstruction VI Offering on September 29, 2019. The offering documents for this offering made the same security and risk disclosures included in prior offerings, including the statement that, if the Borrower defaulted, the lender “could exercise remedies in respect of its first mortgage lien and foreclose on the Vessel to recover on its outstanding principal and interest.”

19. In the Vessel Deconstruction VI Offering, YieldStreet failed to disclose any information concerning the stale AIS signals. YieldStreet also failed to disclose the reports YieldStreet had received indicating that ships securing prior loans to the Borrower had been reported as “broken up” without notice to YieldStreet or repayment of the loans, and the heightened risk that YieldStreet would be unable to seize the collateral in the event of default. As a result, YieldStreet’s statements about the collateral and security for the Vessel Deconstruction VI Offering were materially false and misleading. .

20. YSM also failed to adopt and implement written policies and procedures reasonably designed to prevent misleading disclosures to investors concerning the collateral for the loan that secured payments on the Investor Notes and the risk that YieldStreet might be unable to foreclose on ships in the event of default.

21. In October 2019, the Borrower failed to make a payment on the loan backing the Vessel Deconstruction VI Offering. In response to Yieldstreet’s inquiries, the Borrower offered various excuses and apparently false assurances before the Borrower eventually claimed insolvency, without notice to Yieldstreet. YieldStreet later concluded that the Borrower had caused the ship securing the loan backing the Vessel Deconstruction VI Offering to be deconstructed on September 23, 2019, without notice to YieldStreet and without using the funds to repay the loan underlying the Vessel Deconstruction VI Offering. As a result, YieldStreet was unable to foreclose on the ship to mitigate investor losses.

22. Since discovering the apparent fraud, Respondents have stopped offering securities to finance marine deconstruction loans and have voluntarily undertaken extensive litigation efforts that may result in recoveries for affected investors, including investors in the Vessel Deconstruction VI Offering.

YieldStreet’s Remedial Efforts

23. In determining to accept the Offers, the Commission considered remedial acts

promptly undertaken by Respondents and cooperation afforded the Commission staff.

Violations

24. As a result of the conduct described above, Respondents violated Section 17(a)(2) of the Securities Act, which prohibits, in the offer or sale of securities, obtaining money or property by means of any material misstatement or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

25. As a result of the conduct described above, Respondents violated Section 17(a)(3) of the Securities Act, which prohibits any person from directly or indirectly engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser in the offer or sale of securities.

26. As a result of the conduct described above, YSM willfully¹ violated, and YS Inc. caused YSM's violations of, Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which make it unlawful for any investment adviser to a pooled investment vehicle to "[m]ake any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle" or "engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle."

27. As a result of the conduct described above, YSM willfully violated, and YS Inc. caused YSM's violations of, Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require a registered investment adviser to, among other things, "adopt and implement written policies and procedures reasonably designed to prevent violation" of the Advisers Act and the rules adopted thereunder.

Disgorgement

28. The disgorgement and prejudgment interest ordered in paragraph IV.C. is consistent with equitable principles and does not exceed Respondents' net profits from their violations, and will be distributed to harmed investors to the extent feasible. Upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest

¹ "Willfully," for purposes of imposing relief under Section 203(e) of the Advisers Act, "means no more than that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act and Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondents shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

B. Respondent YieldStreet Management, LLC is censured.

C. Respondents shall pay disgorgement, prejudgment interest, and civil monetary penalties, jointly and severally, totaling \$1,939,220.41 as follows:

- i. Respondents shall pay disgorgement of \$888,909.16 and prejudgment interest of \$50,311.25, which shall be offset by \$601,650 from Respondents' actions to forego collection of a fee receivable, consistent with the provisions of this Subsection C.
- ii. Respondents shall pay a civil monetary penalty in the amount of \$1,000,000, consistent with the provisions of this Subsection C.
- iii. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the penalties, disgorgement and prejudgment interest described above for distribution to affected investors. 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, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they 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 Respondents 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.
- iv. Within ten (10) days of entry of this Order, Respondents shall deposit the full amount of the disgorgement, prejudgment interest, and civil money

penalties, less the amount already offset, (the “Fair Fund”) into an escrow account at a financial institution not unacceptable to the Commission staff and Respondents shall provide evidence of such deposit in a form acceptable to the Commission staff. The account holding the assets of the Fair Fund shall bear the name and the taxpayer identification number of the Fair Fund. If timely payment into the escrow account is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 [17 C.F.R. § 201.600] and/or 31 U.S.C. § 3717.

- v. Respondents shall be responsible for administering the Fair Fund and may hire a professional at their own cost to assist in the administration of the distribution. The costs and expenses of administering the Fair Fund, including any such professional services, shall be borne by Respondents and shall not be paid out of the Fair Fund.
- vi. Respondents shall distribute from the Fair Fund an amount to each investor who invested in the Vessel Deconstruction VI Offering, pursuant to a disbursement calculation (the “Calculation”) that will be based on the amount each investor invested. The Calculation will be submitted to, reviewed, and approved by the Commission staff in accordance with this Subsection C. The Calculation shall be subject to a *de minimis* threshold. No portion of the Fair Fund shall be paid to any affected investor account in which Respondents, or any of their current or former officers or directors, has a financial interest.
- vii. Respondents shall, within ninety (90) days from the date of this Order, submit the Calculation to the Commission staff for review and approval. At or around the time of submission of the proposed Calculation to the staff, Respondents shall make themselves available, and shall require any third-parties or professionals retained by Respondents to assist in formulating the methodology for their Calculation and/or administration of the distribution to be available, for a conference call with the Commission staff to explain the methodology used in preparing the proposed Calculation and its implementation, and to provide the staff with an opportunity to ask questions. Respondents also shall provide the Commission staff such additional information and supporting documentation as the Commission staff may request for the purpose of its review. In the event of one or more objections by the Commission staff to Respondents’ proposed Calculation or any of its information or supporting documentation, Respondents shall submit a revised Calculation for the review and approval of the Commission staff or additional information or supporting documentation within ten (10) days of the date that the Commission staff notifies Respondents of the objection. The revised Calculation shall be subject to all of the provisions of this Subsection C.
- viii. Respondents shall, within thirty (30) days of the written approval of the

Calculation by the Commission staff, submit a payment file (the “Payment File”) for review and acceptance by the Commission staff demonstrating the application of the methodology to each affected investor. The Payment File should identify, at a minimum, (1) the name of each affected investor; (2) the net amount of the payment to be made, less any tax withholding; and (3) the amount of any *de minimus* threshold to be applied. The Respondents shall exclude from the payee file all payments to payees that appear on the U.S. Treasury Department Specially Designated Nationals List.

- ix. Respondents shall disburse all amounts payable to affected investors within ninety (90) days of the date the Commission staff accepts the Payment File unless such time period is extended as provided in Paragraph (xiv) of this Subsection C. Respondents shall notify the Commission staff of the date and the amount paid in the distribution.
- x. If Respondents are unable to distribute or return any portion of the Fair Fund for any reason, including an inability to locate an affected investor or a beneficial owner of an affected investor or any factors beyond Respondents’ control, Respondents shall transfer any such undistributed funds to the Commission for transmittal to the United States Treasury in accordance with Section 21F(g)(3) of the Exchange Act once the distribution of funds is complete and before the final accounting provided for in Paragraph (xiii) of this Subsection C is submitted to the Commission staff.
- xi. Payment must be made in one of the following ways:
 - 1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - 2) Respondents 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) Respondents 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

Payments by check or money order must be accompanied by a cover letter identifying YieldStreet Inc. and Yieldstreet Management, LLC as the Respondents 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 Osman Nawaz, Chief, Complex Financial Instruments Unit, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl Street, Suite 20-100, New York, NY 10004.

- xii. The Fair Fund is a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code (“IRC”), 26 U.S.C. §§1.468B.1-1.468B.5. Respondents agree to be responsible for all tax compliance responsibilities associated with the Fair Fund’s status as a QSF. These responsibilities involve reporting and paying requirements of the Fund, including but not limited to: (1) tax returns for the Fair Fund; (2) information return reporting regarding the payments to investors, as required by applicable codes and regulations; and (3) obligations resulting from compliance with the Foreign Account Tax Compliance Act (“FATCA”). Respondents may retain any professional services necessary. The costs and expenses of tax compliance, including any such professional services, shall be borne by Respondents and shall not be paid out of the Fair Fund.

- xiii. Within one hundred fifty (150) days after Respondents complete the disbursement of all amounts payable to affected investors, Respondents shall return all undisbursed funds to the Commission pursuant to the instructions set forth in this Subsection C. The Respondents shall then submit to the Commission staff a final accounting and certification of the disposition of the Fair Fund for Commission approval, which final accounting and certification shall include, but not be limited to: (1) the amount paid to each payee; (2) the date of each payment; (3) the check number or other identifier of the money transferred; (4) the amount of any returned payment and the date received; (5) a description of the efforts to locate a prospective payee whose payment was returned or to whom a payment was not made for any reason; (6) the total amount, if any, to be forwarded to the Commission for transfer to the United States Treasury; and (7) an affirmation that Respondents have made payments from the Fair Fund to affected investors in accordance with the Calculation approved by the Commission staff. The final accounting and certification, together with proof and supporting documentation of such payment in a form acceptable to Commission staff, should be sent to Osman Nawaz, Chief, Complex Financial Instruments Unit, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl Street, Suite 20-100, New York, NY 10004, or such other address as the Commission staff may provide. Respondents shall provide any and all supporting documentation for the accounting and certification to the Commission staff upon its request, and shall cooperate with any additional

requests by the Commission staff in connection with the accounting and certification.

- xiv. The Commission staff may extend any of the procedural dates set forth in this Subsection C for good cause shown. Deadlines for dates relating to the Fair Fund shall be counted in calendar days, except if the last day falls on a weekend or federal holiday, the next business day shall be considered the last day.

By the Commission.

Vanessa A. Countryman
Secretary