UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10801 / July 13, 2020

SECURITIES EXCHANGE ACT OF 1934
Release No. 89296 / July 13, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-19873

In the Matter of

PLUTUS FINANCIAL INC.
d/b/a ABRA and PLUTUS
TECHNOLOGIES
PHILIPPINES CORP.

Respondents.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.


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 it and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant To Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, 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**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted to address many of the abuses that contributed to the 2008 financial crisis, including certain abuses associated with the over-the-counter derivatives market. Among other reforms, it prohibited the offer and sale of security-based swaps to most retail investors.

Abra is a private company headquartered in California that offers a phone application (“app”) allowing people to conduct financial transactions through contracts memorialized on the Bitcoin blockchain. Over two periods in 2019, Abra, Plutus Tech, and their employees, including Abra’s employees in California, offered contracts that people could purchase to get synthetic exposure to price movements of stocks and exchange-traded fund (“ETF”) shares that trade in the United States.

Starting on or about February 6, 2019, Abra offered contracts to investors in the United States and overseas. Abra ran a publicity campaign that promoted the offering and that Abra would not collect personal information – particularly information required to perform a know-your-customer (“KYC”) inquiry – about users who funded their accounts with Bitcoin or other digital assets. After conversations with Commission staff, Abra stopped all offers of those contracts.

Then, from May to November 2019, Abra restarted the business, this time attempting to limit its contracts to non-U.S. people. Specifically, the companies said that foreign investors would enter into contracts with Plutus Tech, a private Philippine company partially-owned by Abra and dependent on Abra for funding and on Abra employees in California to run most of the business. Abra employees in California designed the contracts; found investors and encouraged them to purchase; marketed the contracts to the public on the Internet, the app and elsewhere; screened and approved users who would be allowed to buy the contracts; and hedged the contracts by causing stock and ETF purchases in the United States. Non-U.S. people bought contracts. In addition, despite controls implemented by Plutus Tech and Abra, Plutus Tech appears to have entered into seven contracts with five people in the United States.

The contracts offered and sold by Abra and Plutus Tech were security-based swaps. As a result, Abra and Plutus Tech violated Section 5(e) of the Securities Act by offering and selling those security-based swaps to persons who were not eligible contract participants without an effective registration statement. In addition, Abra and Plutus Tech violated Section 6(l) of the
Exchange Act by effecting transactions with foreign and U.S. retail investors in security-based swaps that were not effected on a registered national securities exchange.

**Respondents**

**Plutus Financial Inc. d/b/a Abra** is a Delaware corporation with its principal place of business in Mountain View, California. The company has about 35 employees in California, and it has raised several rounds of funding from investment funds and financial companies.

**Plutus Technologies Philippines Corporation** is a private Philippine corporation with its principal place of business in Manila. Abra is a partial owner of Plutus Tech. Abra and Plutus Tech both use the trade name “Abra” as part of their business.

**Facts**

A. **Abra’s App**

1. Abra developed and owns an app that enables users to enter into financial transactions with Abra or Plutus Tech acting as the counterparty. Abra encouraged people to download the app and to fund their accounts by depositing dollars, Bitcoin, or other assets. If users fund with Bitcoin or other digital assets, then Abra collects an email address, phone number, IP address, and location details of the user.

2. Starting in about March 2018, Abra offered contracts that gave users synthetic exposure to price movements of dozens of currencies, such as the Euro or the Mexican peso, and a variety of digital assets, such as Ether (the “Initial Business”). The transactions were memorialized and operated on the Bitcoin blockchain. When users funded their accounts, Abra or its agents converted the users’ assets to Bitcoin and put those Bitcoin in a wallet on the Bitcoin blockchain that the user controlled. When users wanted to enter into a contract, Abra would create a “smart contract” on the Bitcoin blockchain that memorialized the terms of the contract. The user’s Bitcoin collateral was moved to a wallet that would only be unlocked after the user and Abra agreed to end the contract.

B. **In February 2019, Abra Started Offering Contracts That Would Give Users Synthetic Exposure To U.S. Stocks And ETF Shares**

3. On or about February 6, 2019, Abra announced that it was expanding its business to allow app users to enter into contracts that provided synthetic exposure to the price movement of U.S. stocks and ETF shares (the “Stock/ETF Business”).

4. Abra announced that it would enter into contracts, using the same structure as the Initial Business that would allow users to pick U.S. stocks and ETF shares as the reference assets. The company also represented on its website and elsewhere that users in 155 countries – including
the United States – would be able to sign into the app and “with a couple of taps” buy synthetic exposure to U.S. stocks and ETF shares.

5. On the front page of Abra’s website in February 2019, shown to the right, the company announced the Stock/ETF Business and wrote “Abra allows you to securely invest in 30 cryptocurrencies, 50 fiat currencies, and very soon global stocks and ETFs – all from one app.” Abra provided an image of its app showing the names and trading symbols of U.S.-listed stocks, including Alphabet, Amazon, Apple, Boeing, Facebook and Johnson & Johnson. In an initial post on the website, Abra said that the company would “start with popular US stocks and ETFs and add more global assets in the coming months.”

6. On or about February 6, 2019, an Abra executive represented in an interview posted online that if “you sign up today [] you’ll get an email the next few weeks when it’s your turn to start buying stocks and you’re off to the races.”

7. On the morning that Abra announced the offering, an Abra executive posted on Twitter a link to the company’s announcement, highlighting that users could invest as little as $5 and could buy synthetic exposure to fractional shares. The Abra executive wrote “Abra rolling out stock and ETF investing using bitcoin[,] Global! Fractional shares plus no limits and $5 minimum[,] No fees for 2019[,]” He later sent a tweet responding to a question that said “No KYC if depositing Bitcoin, Litecoin or Ether[,]”

8. Repeatedly in its marketing, Abra provided a link that retail investors could use to download the app and sign up with Abra in order get “early access” to the app by joining a waiting list. The company said it would not charge fees in 2019 to people who signed up early.

9. Abra said that it would sell contracts to people on its waiting list. Abra also said that people could improve their spot on the waiting list by recruiting friends to sign up for the list.

10. Abra described the contracts as investing in, or getting synthetic exposure to, U.S. stocks and ETF shares. Abra said that users would make or lose money on the contracts with the
same economic reality as people who owned the securities directly. For example, in a February 2019 blog post on the company’s website noted:

Crypto-collateralized contracts (C3) allow an investor to easily gain investment exposure to any asset, such as a stock, bond, another cryptocurrency, etc., by simply using bitcoin as the underlying technology for the investment. **In other words, if you want to invest $1,000 in Apple shares you will place $1,000 worth of bitcoin into a contract. As the price of Apple goes up or down versus the dollar, bitcoin will be added to or subtracted from your contract. When you settle the contract – or sell the Apple investment – the value of the Apple shares will be reflected in bitcoin in your wallet which can easily be converted back to dollars, or any other asset for that matter.**

When you enter into a C3, you’re effectively creating a smart contract which automatically determines – based on the price of the Apple shares – whether you have made money or lost money. The underlying bitcoin collateral then adjusts itself accordingly to be equal to the value of the Apple shares.

(Emphasis added.) In a separate statement, an Abra executive stated that Abra would pay users the value of dividends paid by the stocks and ETF shares.

11. Similar to the Initial Business, users would post collateral equal to the amount of exposure they wanted. That collateral would be held as Bitcoin in a wallet on the Bitcoin blockchain. Contracts would last 25 days, although users could end the contracts before the 25-day term if they wanted. If at the end of the contract term the market price for the reference asset had increased, then the user would receive the collateral plus a payment equivalent to the increase. If the market price had fallen, then the user’s collateral would be reduced by an equivalent amount.

12. Abra said that it would purchase trading data from companies that provide market data to other industry participants in order to settle contracts at market prices. Abra said that the company would hedge the Stock/ETF Business contracts by making purchases in the U.S. securities markets, for example by purchasing stock to hedge transactions where users purchased a contract that referenced that stock.

13. Abra set no requirements that people own any specific amount of assets to enter into the contracts. No one at Abra confirmed the identity or financial resources of people who received the offering or the people who signed up to enter into the contracts. App users voluntarily provided their email addresses. Abra also collected IP and location data for all users, but no additional information unless people funded their accounts using dollars.
14. Abra took no steps to determine whether users who downloaded the app were “eligible contract participants” as defined by the securities laws. Abra executives thought that many non-U.S. users would be retail investors new to stock investing, especially new to investing in U.S. stocks.

15. Abra ran an international publicity effort that announced the new products, social media posts on Twitter, LinkedIn, and Facebook, and interviews by Abra executives that were posted on the Internet. As part of the effort, Abra advertised that Abra would sell contracts referencing the “top 100 stocks in the NASDAQ.” More than 20,000 people signed up with Abra to be on the wait list of people who wanted to enter into the contracts.

C. Abra Stopped The Offer, But Then Restarted The Stock/ETF Business

16. In February 2019, staff of the SEC and the Commodity Futures Trading Commission contacted Abra. Days later, Abra said it would not enter into contracts referencing U.S. stocks or ETF shares. Later, Abra removed mention of the Stock/ETF Business from its website and social media.

17. No swaps were sold by Abra or Plutus Tech as part of the Stock/ETF Business between February and May 2019.

18. In May 2019, Abra restarted the Stock/ETF Business. Employees in California decided to limit offers and sales to persons that the company determined to be non-U.S. persons. They also drafted a new agreement under which investors would enter into swaps contracts with Plutus Tech rather than Abra.

19. Abra moved some aspects of the business outside the United States. For example, the app was run using servers in Asia. Abra also coded its website to only show pages about the Stock/ETF Business to people outside the United States. However, Abra employees in California conducted crucial parts of the Stock/ETF Business, including:

a. designing the swaps by, among other things, picking the reference assets by analyzing the most-popular kinds of stocks on the NASDAQ and by trying to identify ETFs that represented different geographic markets, deciding how to price the swaps, deciding that users would need to post 100% collateral, deciding that swaps would be indefinite and have no term, and deciding that users would get paid for dividend and corporate events;

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1 The definition of “eligible contract participant” includes categories of entities and individuals and, in certain cases, contains monetary thresholds. See 7 U.S.C. § 1a(18). For example, individuals need to have at least $5 million and often $10 million invested on a discretionary basis to qualify as eligible contract participants. See 7 U.S.C. § 1a(18)(xi).
b. finding investors and getting them to buy swaps by, among other things, designing or drafting advertising and social media to reach potential investors and by revising the app to encourage users to buy swaps;

c. marketing the swaps on the Internet, app and elsewhere by, among other things, making public statements telling people that they could buy the swaps, making public statements discussing the products and reasons to buy the products such as by touting the ability to invest small amounts of money in “fractional shares” and the access to stocks that had recently been listed through initial public offerings, publishing an “investing guide” on Abra’s website that explained how to fund an account and how to purchase exposure to more than 50 stocks and ETFs, and creating pages on the app that showed the list of stocks and ETFs and the prices at which users could buy swaps;

d. providing technology for reviewing users and approving users who would be allowed to buy the contracts by, among other things, reviewing “know your customer” data submitted by certain users and deciding what users were eligible to buy the swaps; and

e. setting the contract price and hedging the contracts by purchasing stocks and ETFs in the United States.

20. Abra believed that attracting a large user base would lead over time to revenue and profit opportunities. Abra employees in California and Plutus Tech employees emphasized the importance of creating a user base, so they decided initially not to charge any spread above the market price.

21. Abra employees in California hedged the swaps purchased by app users. Abra referenced the hedges in its public statements saying that the hedges reduced the users’ risks because the hedges would allow Abra to pay users who made successful investments. Initially, Abra borrowed Bitcoin from a New York entity, sold the Bitcoin for dollars, and used the dollars to purchase stocks and ETFs in Abra’s U.S. brokerage account. At some point in Summer 2019, Abra changed the hedging transactions so that Abra would lend capital to Plutus Tech and Abra employees in California would cause Plutus Tech to purchase stocks and ETFs at the Hong Kong branch of a U.S. broker-dealer. That broker would then purchase the stocks and ETFs in the United States.

22. Plutus Tech was the legal party to the swaps, but Plutus Tech relied on Abra employees to do the work discussed above. Plutus Tech relied on Abra to publicize the swaps on Abra’s website, and it relied on Abra to lend it money subject to an unwritten, no-interest agreement so it could purchase U.S. stocks and ETFs as hedges. People at the companies discussed arrangements under which Plutus Tech would pay Abra for its employees’ work, but they never finalized the terms of an agreement. When Abra’s executives reported to the
company’s board of directors, they included revenue from all swaps sales when they calculated Abra’s revenues.

D. App Users Entered Into Thousands of Swaps Referencing U.S. Stocks And ETFs

23. The contracts that Abra and Plutus Tech offered and sold as part of the Stock/ETF business were security-based swaps as defined by the Exchange Act because (1) those contracts provide on an executory basis for the exchange, on a fixed or contingent basis, of 1 or more payments based on the value or level of 1 or more securities and (2) those contracts were based on the value of individual securities.

24. No registration statements have ever been in effect for the swaps offered and sold as part of the Stock/ETF business, and they were not effected on a registered national securities exchange.

25. Abra effected more than 10,000 swaps referencing U.S. stocks and ETFs in a notional amount of more than $2.7 million between May and November 2019. The 10,000 swaps were sold to approximately 2,000 persons outside of the United States and approximately five persons in the United States.

26. Because Abra sold swaps at the same price that they could purchase hedges, Abra and Plutus Tech received revenue but no material profit on individual transactions.

27. Abra tried to avoid selling to U.S. persons by screening users based on characteristics such as the location of their phone number, internet protocol address, and any bank account. However, despite the screening efforts, and Abra and Plutus Tech appear to have sold about seven swaps to about five people who were in the United States.


Legal Analysis

29. Title VII of Dodd-Frank was enacted to enhance transparency and regulation in the over-the-counter derivatives market, including through several investor protection measures. Those measures included adding Section 5(e) of the Securities Act, which makes it unlawful for any person to offer to sell, offer to buy or purchase or sell a security-based swap to any person who is not an eligible contract participant without an effective registration statement. 15 U.S.C. § 77e(e). This requirement is intended to ensure that persons who are not eligible contract participants receive financial and other significant information to allow them to properly evaluate a transaction involving security-based swaps. It also included adding Section 6(l) of the Exchange Act, which makes it unlawful for any person to effect transactions in security-based swaps to any person who is not an eligible contract participant unless the transaction is effected on a registered national securities exchange. 5 U.S.C. § 78f(l).
30. The Commodity Exchange Act defines the term “swap” to include “any agreement, contract, or transaction

(iii) that provides on an executory basis for the exchange, on a fixed or contingent basis, of 1 or more payments based on the value or level of 1 or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and that transfers, as between the parties to the transaction, in whole or in part, the financial risk associated with a future change in any such value or level without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.


31. A security-based swap includes any agreement, contract, or transaction that is a swap as defined in the Commodity Exchange Act and is based on (1) an index that is a narrow-based security index, including any interest therein or on any value thereof, (2) a single security or loan, including any interest therein or on the value thereof, or (3) the occurrence, nonoccurrence, or extent of an occurrence of an event relating to a single issuer of a security or the issuers of securities in a narrow-based security index, provided that such event directly affects the financial statements, financial condition, or financial obligations of the issuer. See 15 U.S.C. § 78c(a)(68) (Exchange Act Section 3(a)(68)). The definition of “security-based swap” under the Securities Act is the same as the definition under the Exchange Act. See Rule 194 under the Securities Act.

A. The Contracts Offered and Sold by Abra And Plutus Tech Were Security-Based Swaps

32. As described in the Facts section above, the contracts that Abra and Plutus Tech offered and sold were security-based swaps as defined by the Exchange Act.

33. First, each contract offered and sold under the Stock/ETF Business was a swap because it provided on an executory basis for the exchange, on a fixed or contingent basis, of 1 or more payments based on the value or level of 1 or more securities and transfers, as between the parties to the transaction, in whole or in part, the financial risk associated with a future change in any such value or level without also conveying a current or future direct or indirect ownership interest in the underlying securities. A contract did not convey to the user any rights, title or interests in the reference asset. Instead, the value of the contract merely tracked the value of the underlying reference asset.

34. Second, many of the swaps were security-based swaps because they were based on the value of a single security, either a U.S. stock or an ETF share. The payments due under each contract were directly calculated by changes in the referenced security’s market price.
B. Abra And Plutus Tech Offered And Sold Security-Based Swaps In Violation Of Section 5(e) Of The Securities Act

35. Section 5(e) of the Securities Act makes it unlawful for any person to offer to sell, offer to buy or purchase or sell a security-based swap to any person who is not an eligible contract participant without an effective registration statement. See 15 U.S.C. § 77e(e).

36. The definition of “offer” or “offer to sell” under the Securities Act includes “every attempt or offer to dispose of, or solicitation of any offer to buy, a security or interest in a security for value.” 15 U.S.C. 77b(a)(3).

37. Abra and Plutus Tech, through Abra employees, offered to sell security-based swaps to the general public from February to November 2019 when Abra employees in California (1) publicly provided a description of the swaps into which it intended to enter with anyone who funded an account, (2) described key terms such as the list of reference assets and the fact that people would enter market orders, (3) caused the distribution of such information to the public, (4) encouraged people to download the app and to sign up for the waitlist with the company, and (5) encouraged people to recruit other investors who might be interested in the swaps. Abra offered in February 2019 and from May to November 2019, and Plutus Tech offered from May to November 2019. Plutus Tech – acting through Abra employees – also sold about seven security-based swaps to about five people in the United States.

38. No registration statements were in effect for the security-based swaps that Abra or Plutus Tech offered. Because Abra and Plutus Tech made a global offering using websites, social media and other means, the companies do not know the identity of the people to whom it made the offers or the identity of the more than 20,000 people who initially signed up in early 2019.

39. Abra and Plutus Tech violated Section 5(e) of the Securities Act when they offered to enter into security-based swaps with investors who were not eligible contract participants and when they sold swaps to five people in the United States because no registration statements were in effect for the offer and sale of the security-based swaps.

C. Abra And Plutus Tech Effected Transactions In Security-Based Swaps In Violation Of Section 6(l) Of The Exchange Act

40. Section 6(l) of the Exchange Act makes it unlawful for any person to effect a transaction in a security-based swap with or for a person that is not an eligible contract participant, unless such transaction is effected on a national securities exchange registered with the Commission. See 15 U.S.C. § 78f(l).

41. The Commission has written that “effecting” transactions was broader than just executing trades or forwarding securities orders and includes identifying potential purchasers,
screening potential participants, soliciting securities transactions, handling customer funds, and other roles:

Effecting transactions in securities includes more than just executing trades or forwarding securities orders to a broker-dealer for execution. Generally, effecting securities transactions can include participating in the transactions through the following activities: (1) identifying potential purchasers of securities; (2) screening potential participants in a transaction for creditworthiness; (3) soliciting securities transactions; (4) routing or matching orders, or facilitating the execution of a securities transaction; (5) handling customer funds and securities; and (6) preparing and sending transaction confirmations (other than on behalf of a broker-dealer that executes the trades).


42. Abra and Plutus Tech effected transactions in security-based swaps from May to November 2019. Plutus Tech entered into the contracts and Abra’s California employees ran the Stock/ETF Business, including but not limited to designing the contracts, finding investors and encouraging them to purchase, marketing the contracts to the public on the Internet, the app and elsewhere, approving users who would be allowed to buy the contracts, and hedging the contracts by causing stock and ETF purchases in the United States.

43. Abra and Plutus Tech violated Section 6(l) of the Securities Act when they effected transactions in security-based swaps with persons who were not eligible contract participants that were not effected on a registered national securities exchange.

**Abrá’s And Plutus Tech’s Remedial Efforts**

44. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Abra and Plutus Tech and cooperation afforded to the Commission staff.

IV.
In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents’ Offers.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Abra cease and desist from committing or causing any violations and any future violations of Section 5(e) of the Securities Act and Section 6(l) of the Exchange Act.

B. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Plutus Tech cease and desist from committing or causing any violations and any future violations of Section 5(e) of the Securities Act and Section 6(l) of the Exchange Act.

Respondents Abra and Plutus Tech shall pay, jointly and severally, a civil money penalty in the amount of $150,000 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). Payment shall be made in the following installments: 1) $75,000 within seven days of the entry of this Order and 2) $75,000 within 180 days of the entry of this order. Payments shall be applied first to post order interest, which accrues pursuant to pursuant to 31 U.S.C. 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

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

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Payments by check or money order must be accompanied by a cover letter identifying Plutus Financial Inc. d/b/a Abra and Plutus Technologies Philippines Corporation as 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 Daniel Michael, Division of Enforcement, Securities and Exchange Commission, Brookfield Place, 200 Vesey Street, Suite 400, New York, NY 10281-1022.

(4) 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 agrees 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.

By the Commission.

Vanessa A. Countryman
Secretary