

# Galaxy Settles with NYAG as State Crypto Enforcement Ramps Up

April 7, 2025

On March 27, 2025, the New York Attorney General's Office (the "NYAG") announced a \$200 million settlement with Galaxy Digital Holdings LTD and related entities ("Galaxy"), resolving an investigation into alleged market manipulation of the digital asset Luna from 2020 through Luna's collapse in 2022. The resolution reflects a growing trend of state attorneys general—particularly in left-leaning states—pursuing enforcement actions in areas and industries, including crypto, in which the federal government is stepping away from enforcement efforts.

Luna was a digital token that functioned as a critical part of the Terra blockchain. Both were created by Terraform Labs Pte. Ltd. ("Terraform"), a Singaporean company founded in 2018. TerraUSD, a stablecoin on the Terra blockchain pegged 1:1 to the U.S. dollar, sought to maintain its peg through the trading of Luna in an economic model known as "burn and mint equilibrium." In this structure, TerraUSD was intended to remain stable while Luna absorbed market volatility. The market price of a Luna token dramatically increased from \$0.31 in late 2020 to \$119.18 in April 2022, before collapsing in May 2022.

According to the NYAG, Galaxy and its founder Michael Novogratz played a pivotal role in "kickstarting" interest in Luna and driving the price higher through consistent promotion while discreetly selling millions of Luna tokens acquired at a significant discount directly from Terraform. By the time Luna collapsed and lost over \$40 billion in market value in a few days, Galaxy allegedly had disposed of almost all its Luna tokens and realized hundreds of millions of dollars in profit. The NYAG determined this simultaneous conduct, public promotion while maintaining and effecting a present intent to sell, violated New York's antifraud laws.

Galaxy entered into an Assurance of Discontinuance (AOD) in which it neither admitted nor denied the NYAG's findings, and agreed that it will (i) refrain from violating any applicable laws, including the Martin Act and New York Executive Law § 63(12), (ii) create, maintain and adhere to numerous new policies and procedures designed to restrict Galaxy's ability to publicly comment on and trade cryptocurrencies

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and (iii) pay \$200 million in disgorgement to the State of New York over the next three years.

### NYAG FOUND THAT GALAXY VIOLATED THE MARTIN ACT AND NEW YORK EXECUTIVE LAW § 63(12)

The Martin Act<sup>1</sup> is considered one of the most expansive and punitive securities fraud laws in the United States.<sup>2</sup> It prohibits companies and individuals from making material misrepresentations in the public offering, selling, purchasing, promotion or distribution of securities or commodities. New York courts have held that at least some cryptocurrencies are commodities under the Martin Act.<sup>3</sup> A Martin Act violation can exist in cases of actual fraud as well as where an act may only tend to deceive or mislead.

Similarly, New York Executive Law § 63(12) authorizes the NYAG to bring enforcement actions against any entity that engages in “repeated fraudulent or illegal acts” or demonstrates “persistent fraud or illegality” in the conduct of business. Fraud under § 63(12) has been interpreted to include conduct that merely has the capacity to deceive or that “creates an atmosphere conducive to fraud.”<sup>4</sup> Neither the Martin Act nor § 63(12) requires the NYAG demonstrate an intent to defraud, or that any person actually relied on an alleged misrepresentation.<sup>5</sup> Taken together, these laws give the NYAG an extremely powerful tool to pursue companies for potential misconduct, even if it does not rise to the level of securities or commodities fraud under federal law.

### NYAG’S FINDINGS ON GALAXY’S ALLEGED MISCONDUCT

Over 25 pages, the NYAG traces Galaxy’s alleged involvement in Luna from August 2020 through Luna’s collapse in May 2022. The allegations include the following: Galaxy contemplated serving in an “official advisor” role to Terraform in exchange for a significant discount on Luna’s then-market price but decided against it. Instead, in late October 2020, Galaxy signed an agreement with Terraform where, in exchange for \$4 million upfront, it would receive roughly 18.5 million Luna at a 30% discount to the then-market price of \$0.31, or roughly \$0.22 per token. A fraction of the Luna would

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<sup>1</sup> N.Y. Gen. Bus. Law § 23-A.

<sup>2</sup> The Martin Act has been called “the worst law in America.” *The Worst Law in America*, Wall St. J. (March 25, 2018), <https://www.wsj.com/articles/the-worst-law-in-america-1522014930>.

<sup>3</sup> See *James v. iFinex Inc.*, 185 A.D.3d 22, 28 (N.Y. App. Div. 2020).

<sup>4</sup> *People v. Northern Leasing Sys., Inc.*, 193 A.D.3d 67, 75 (N.Y. App. Div. 2021).

<sup>5</sup> See *New York v. Rachmani Corp.*, 71 N.Y.2d 718, 725–26 (N.Y. 1988); *People v. American Motor Club*, 179 A.D.2d 277, 283 (N.Y. App. Div. 1992).

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vest, becoming available to Galaxy, every 30 days for one year. Under the terms of the agreement, Galaxy could immediately sell once it received each month's allotment.

The following month, before Galaxy received its first disbursement, Novogratz announced Galaxy's purchase of Luna and began promoting the token on podcasts and Twitter. In January 2021, Galaxy contributed to a piece in Bloomberg about Luna, which highlighted Galaxy's investment in Luna and, according to the NYAG, led to a jump in Luna's market price. By the end of January, when Galaxy received and immediately sold its third disbursement of tokens, Luna's market price was roughly \$1.50. At that point, Galaxy had already recouped its \$4 million investment.

The NYAG alleges that over the months that followed, a pattern emerged. Novogratz made favorable public statements about Luna and Terraform's founder Do Kwon on social media, at one point suggesting that Kwon was the next Sam Bankman Fried. In March 2021, Novogratz pledged to get a Luna tattoo when Luna hit \$100 and favorably compared Luna to Bitcoin and Ether. In July, Novogratz tweeted that he was long on Luna. Yet at the same time as these promotional activities were occurring, Galaxy received monthly disbursements of Luna and sold most or all of the tokens it received shortly thereafter, at increasingly higher market prices: approximately \$7.40 in March and up to \$18 by May.

Over the summer of 2021, the price of Luna fell. According to the NYAG, Galaxy did not immediately sell any tokens from its July disbursement, and Novogratz continued promoting the token. By November, after Galaxy received its final three disbursements in one lump sum, Luna's market price had risen to roughly \$47. Before the end of the year, Luna reached \$100 (and Novogratz got a Luna tattoo). In January 2022, as Luna's price began to fall, Novogratz repeatedly tweeted in support of Luna, urging the public on January 5th to "keep the faith." The NYAG alleges that at the same time, Galaxy was liquidating its stock of Luna. On November 4, 2021, Galaxy had 5.4 million Luna. By the end of February 2022, Galaxy had sold all but 2,060 Luna.

In March 2022, crypto market conditions were increasingly volatile, similar to those when TerraUSD briefly depegged the previous year, and Galaxy Digital Research published a report warning that Luna could be at risk of a death spiral. In May, that fear was realized. By May 12, 2022, the price of Luna was approximately half a cent.

Throughout its allegations, the NYAG states that Galaxy and Novogratz publicly made false statements about Luna and Terraform, often based on representations made to Galaxy by Terraform that Galaxy did not independently verify. Based on these misrepresentations, and Galaxy's and Novogratz's consistent promotion of Luna while simultaneously selling the tokens as soon as they vested, the NYAG found that Galaxy violated the Martin Act and Executive Law § 63(12).

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## THE SETTLEMENT'S RESTRICTIONS ON GALAXY

In addition to agreeing to pay \$200 million in disgorgement over the next three years, and not to violate any applicable laws, Galaxy agreed to numerous substantial and ongoing programmatic changes. These include significant restrictions on how Galaxy and affiliated persons may publicly comment on cryptocurrencies and other digital assets. Any favorable statements about cryptocurrency to the retail public must be accompanied by a clear explanation of how the valuation or price target was reached and “prominent disclosure[s]” on any financial interests Galaxy or an affiliated person has in that asset and whether the speaker or anyone at Galaxy intends to sell any portion of that asset.

Galaxy must maintain extensive records on all public communications about cryptocurrency by anyone at Galaxy for at least six years from the date of the communication; those records must include details of the event, details on the communication, and the names of those in attendance to the extent they are known. Galaxy must also monitor and approve any purchase of cryptocurrency by affiliated persons and solicit a legal opinion from an attorney barred in New York on whether that cryptocurrency is a security. Finally, any Galaxy entity that conducts business in New York must register as a domestic or foreign corporation with the Department of State.

## THE EXPANDING REACH OF STATE ATTORNEYS GENERAL

The NYAG's investigation of and settlement with Galaxy is an example of what appears to be a growing trend—state attorneys general, especially in blue states, seeking to fill the enforcement void as federal regulators pull back. Recent examples can be seen in California, Minnesota, Michigan and New York.<sup>6</sup>

New York may be leading the charge and even press further than federal regulators have done. Under the previous administration, the SEC considered Galaxy a victim of Terraform's fraud rather than a wrongdoer; a Galaxy employee testified as a witness for

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<sup>6</sup> See e.g., Press Release, California Office of the Attorney General, *Attorney General Bonta Alerts Businesses: It Remains Illegal to Bribe Foreign-Government Officials* (April 2, 2025), <https://oag.ca.gov/news/press-releases/attorney-general-bonta-alerts-businesses-it-remains-illegal-bribe-foreign>; Press Release, Michigan Department of Attorney General, *AG Nessel Joins Lawsuit Against Deere & Company for Unlawful Repair Monopoly* (Feb. 10, 2025), <https://www.michigan.gov/ag/news/press-releases/2025/02/10/ag-nessel-joins-lawsuit-against-deere-company-for-unlawful-repair-monopoly>; Press Release, Office of Minnesota Attorney General Keith Ellison, *Attorney General Ellison sues Glock for making and selling handguns that can easily be turned into machine guns* (Dec. 12, 2024), [https://www.ag.state.mn.us/Office/Communications/2024/12/12\\_Glock.asp](https://www.ag.state.mn.us/Office/Communications/2024/12/12_Glock.asp).

the SEC at Terraform's trial. The New York Attorney General is now pressing for a new bill, the FAIR Business Practices Act, that will further expand New York's consumer protection law to permit the NYAG to bring unfair, deceptive, and abusive acts and practices claims, similar to those previously brought by the CFPB. In announcing this proposal last month, the NYAG stated that its purpose is "to ensure that as Washington retreats from protecting consumers, New York steps up to lead."<sup>7</sup> It remains to be seen whether the bill will gain traction in Albany.

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<sup>7</sup> Press Release, Office of the New York State Attorney General, *Attorney General James Takes Action to Protect New York Consumers and Small Businesses* (March 13, 2025), <https://ag.ny.gov/press-release/2025/attorney-general-james-takes-action-protect-new-york-consumers-and-small>