

Coinbase tumbles after SEC warns of securities violations

March 23 2023, by Michelle Chapman



An advertisement for Bitcoin cryptocurrency is displayed on a street in Hong Kong, Thursday, Feb. 17, 2022. Markets this year are roiling, uncertainty abounds and the U.S. government has had to step in to rescue two large American banks in recent days. So why is Bitcoin, considered among the riskiest bets of them all, rising so fast? Credit: AP Photo/Kin Cheung, File

Shares of Coinbase tumbled 15% Thursday after the cryptocurrency trading platform received a warning from the Securities and Exchange Commission that it could face securities charges.

The cryptocurrency trading [platform](#) said in an SEC filing late Wednesday that it had received a Wells Notice from the agency, which indicates that regulators believe laws protecting investors were violated.

Among the practices being targeted by the SEC is "staking," which is "Coinbase Earn" by the company.

Users of trading platforms can stake their cryptocurrency, essentially locking up some of their assets, in exchange for payment later, much like earning interest rates in a savings account. Those assets are used by platforms like Coinbase Global Inc. to guarantee other transactions taking place on the blockchain.

The SEC says Coinbase and other platforms must register as a securities platform to offer such services, and only after it is approved by the SEC's Division of Corporation Finance.

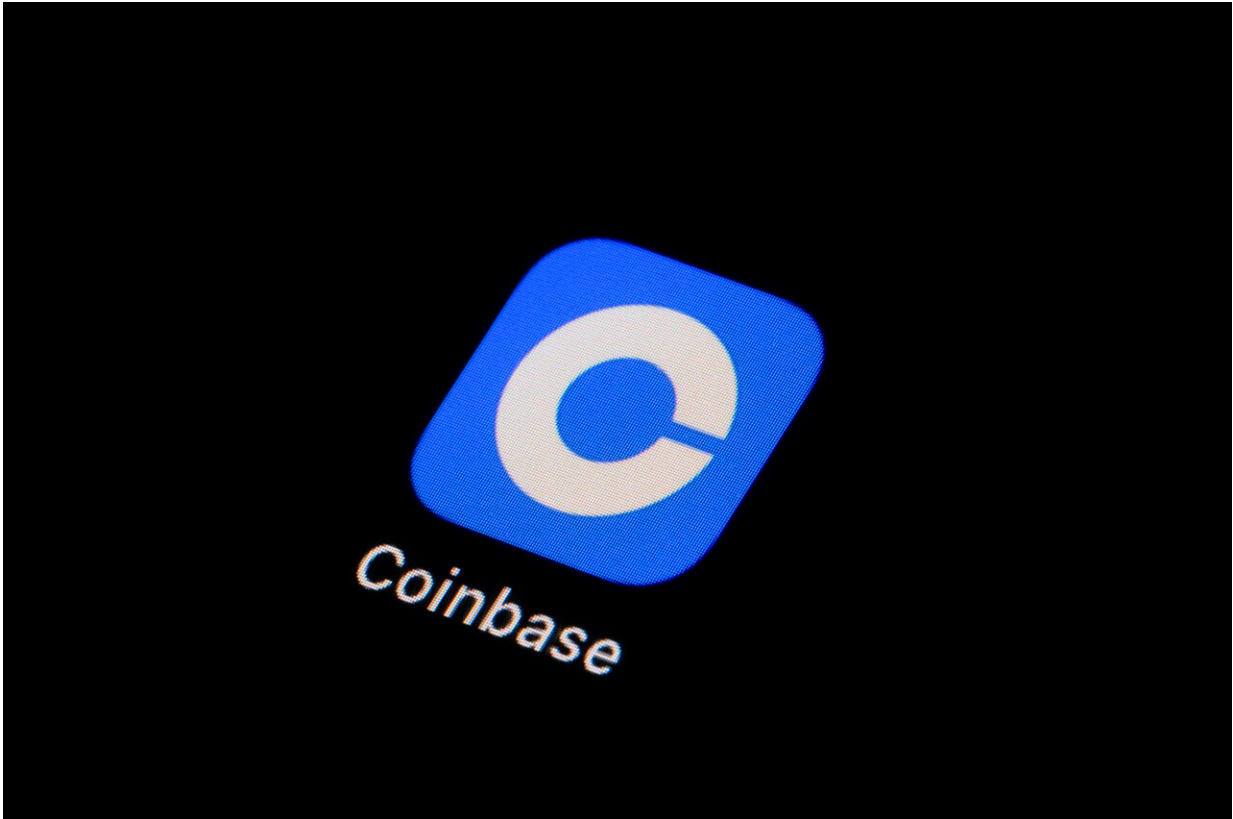
A Wells Notice for Coinbase is another warning shot from SEC Chair Gary Gensler who is attempting to establish the agency's oversight of crypto firms when they wander into areas typically associated with banking.

Kraken, a rival crypto exchange platform, agreed to settle in February for \$30 million and to stop offering staking as a service.

Analysts that follow crypto and Coinbase said there is a significant threat for the company.

"We continue to see regulatory risk as meaningful for Coinbase given

substantial (high quality) earnings growth potential from services like staking that are at risk of regulatory elimination," wrote analysts with JP Morgan on Thursday.



The Coinbase app icon is seen on a smartphone, Tuesday, Feb. 28, 2023, in Marple Township, Pa. Coinbase's stock is tumbling before the market open on Thursday, March 23, after the cryptocurrency trading platform received a warning from the Securities and Exchange Commission that it could possibly face securities charges. Credit: AP Photo/Matt Slocum

Coinbase CEO Brian Armstrong lashed out at the SEC late Wednesday and the company has been critical of regulations related to staking, calling them vague.

"Going forward the [legal process](#) will provide an open and public forum before an unbiased body where we will be able to make clear for all to see that the SEC simply has not been fair, reasonable, or even demonstrated a seriousness of purpose when it comes to its engagement on digital assets," [Armstrong tweeted](#).

In a blog post, Coinbase Chief Legal Officer Paul Grewal said that the SEC matter was a "disappointing development."

"Rest assured, Coinbase products and services continue to operate as usual," Grewal said.

In January New York announced a \$100 million [settlement with Coinbase](#) over what [state officials](#) called significant failures in the cryptocurrency trading platform's systems for spotting potential criminal activity.

Under the terms of the settlement, the San Francisco company agreed to pay a \$50 million penalty to New York state and will invest another \$50 million in its compliance program. An independent monitor installed by the state will work with Coinbase for a year to oversee compliance.

That same month, Coinbase announced that it was cutting approximately 20% of its workforce, or about 950 jobs, in a second round of [layoffs](#) in less than a year. Coinbase announced the elimination of 1,100 jobs in June, or approximately 18% of its global workforce, in a first round of cuts.

Coinbase was founded in 2012 and has no headquarters. It went public in April 2021 by listing its stock directly and skipping the traditional process of hiring underwriters.

Cryptocurrency has been on a tear this year after plunging severely in

2022. Bitcoin climbed another 3% Thursday to \$27,700 and is now up 68% for the year in an era of mass layoffs in the tech sector and widespread anxiety about stability in the U.S. banking sector.

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Citation: Coinbase tumbles after SEC warns of securities violations (2023, March 23) retrieved 6 May 2024 from <https://techxplore.com/news/2023-03-coinbase-sec-violations.html>

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