

US steps up crypto crackdown with Coinbase suit

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US securities regulators sued Coinbase in the latest crackdown by authorities on the cryptocurrency market.

In their second major action against a big crypto player in two days, US regulators sued Coinbase on Tuesday, alleging its failure to register as a securities exchange venue exposed investors to risk.

The Securities and Exchange Commission charged that the largest digital

currency trading platform in the United States had made billions of dollars by "unlawfully facilitating the buying and selling of crypto asset securities."

Shares of Coinbase tumbled on news of the lawsuit, which comes on the heels of charges unveiled Monday against cryptocurrency exchange Binance and founder Changpeng Zhao for numerous alleged securities law violations.

Coinbase slammed the SEC for turning the screws on a market that is still largely unregulated, a criticism that was levied by Binance the day before.

"The SEC's reliance on an enforcement-only approach in the absence of clear rules for the digital asset industry is hurting America's economic competitiveness and companies like Coinbase that have a demonstrated commitment to compliance," said Paul Grewal, general counsel of Coinbase.

At a congressional hearing later Tuesday, Grewal called for "legislation that allows fair rules for the road to be developed transparently" without litigation.

But more than six months after the spectacular failure of crypto exchange giant FTX and its boss Sam Bankman-Fried, Washington is still grappling with how to tighten oversight of a market that has been likened to the "Wild West."

Need for oversight

The largest crypto asset trading platform in the United States, Coinbase had 110 million users and \$80 billion in assets at the end of 2022.

Filing a complaint in federal court, the SEC said Coinbase's failure to register as a securities exchange "has deprived investors of significant protections, including inspection by the SEC, record-keeping requirements, and safeguards against conflicts of interest, among others."

The suit follows Monday's move against Binance and Zhao for operating what the SEC called "an extensive web of deception" and "calculated evasion of the law."

On Tuesday, the SEC asked the federal court to freeze assets affiliated with Binance and Zhao.

SEC Chair Gary Gensler told CNBC the crackdown was needed to protect US financial markets, the world's biggest.

"We punch above our weight class in the capital markets in part because of robust oversight in the markets," said Gensler.

Oversight "builds trust in the investing public, you become the destination of choice," Gensler said. "The crypto markets are undermining that trust."

But Gensler's approach to cryptocurrency has come under fire from House Republicans, in part over criticism that his agency has overstepped its domain.

Under the US system, securities are regulated by the SEC, while commodities are overseen by the Commodities Futures Trading Commission (CFTC).

Ahead of its hearing Tuesday, the Republican-led House Agriculture Committee, while declining to comment on the specifics of the Coinbase

case, tweeted that "regulation by enforcement is not an appropriate way to govern a market, adequately protect customers, or promote innovation."

At Tuesday's hearing, CFTC Chair Rostin Behnam highlighted key problems at the center of recent failures of crypto entities, including undisclosed conflicts of interest and the comingling of funds among entities.

"This is the reason we're here. There is confusion and uncertainty," he said. "Hopefully we can clear that up."

These issues are at the heart of the US criminal case against Bankman-Fried, who is scheduled to be tried in October in New York.

James Angel, a Georgetown University professor specializing in financial markets and fintech, said the SEC's suits—while protective of investors—fall short of the comprehensive regulatory design needed for an evolving market.

"This Johnny-come-lately action is not the sign of a healthy regulatory apparatus, but it's sort of the best we can do at this time," said Angel, who sees little chance for congressional passage of legislation on digital oversight given the current political polarization.

Coinbase shares fell 12.1 percent to \$51.61.

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