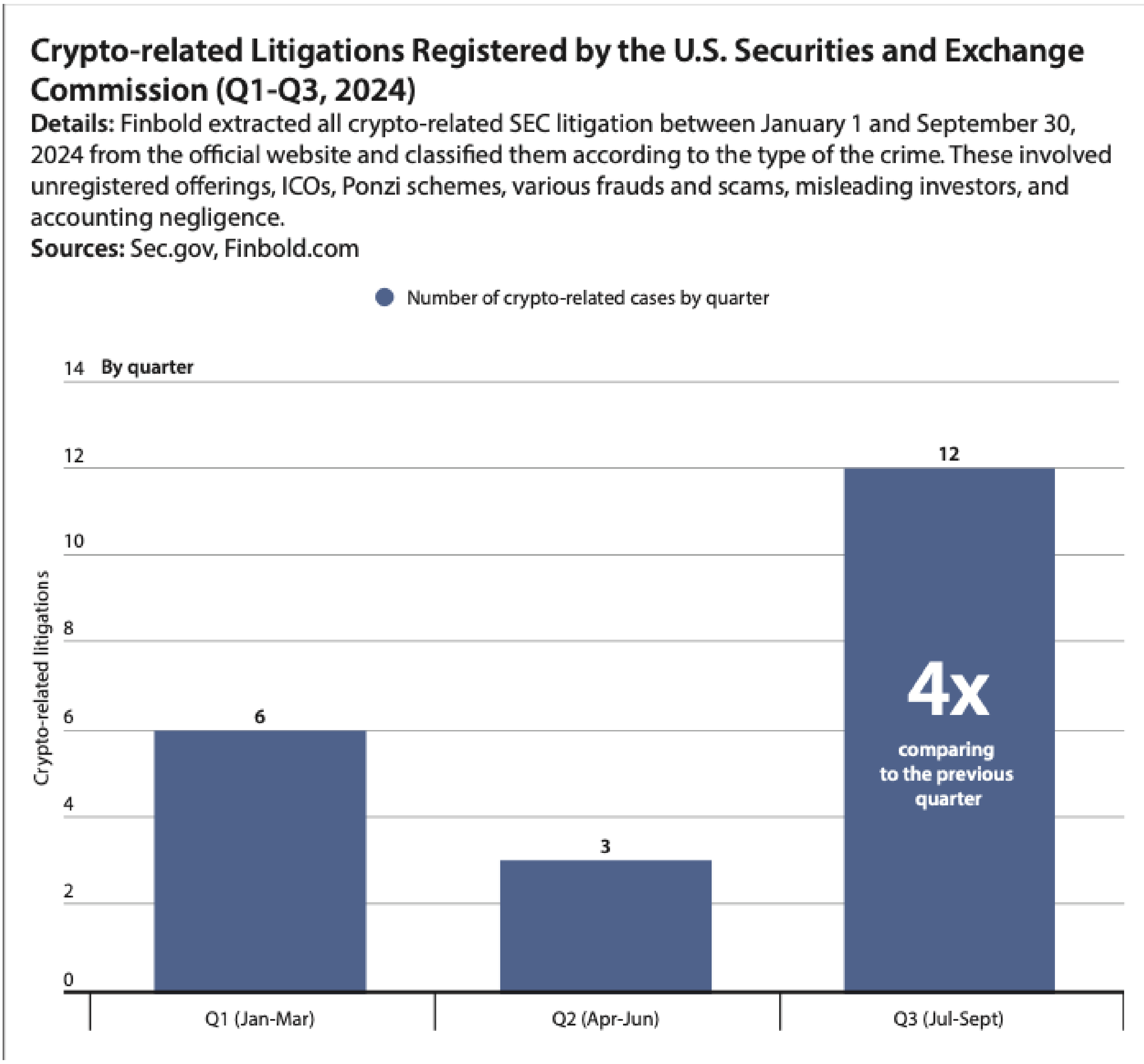
Cryptocurrency Crimes Surge Four Times as Crypto-related SEC Litigations Boom in Third Quarter

October 8, 2024. Andreja Stojanovic.



After a slow start in 2024, the SEC significantly ramped up its cryptocurrency-related litigation in the third quarter (Q3) of the year.

Finbold Research found that, between the start of July and the end of September, the number of cases involving cryptocurrencies increased fourfold compared to Q2 2024. Additionally, half of all digital assets cases brought forth by the SEC were in Q3, and September alone featured more total litigation releases than the entire first quarter.

In fact, while Q1 saw only six digital asset cases and the April-to-June trimester only three, the Commission brought forth 12 cryptocurrency complaints and announcements, including the conclusion of the complaint against the FTX auditor, Prager Metis CPAs, LLC.

SEC settles with auditor who failed to spot FTX-Alameda risks

By October 2024, the Prager Metis case had become particularly relevant, considering both the impact the company's failures had on FTX users and the recent court approval of the bankruptcy repayment plan.

The SEC alleged that between February 2021 and April 2022, Prager failed to follow the Generally Accepted Auditing Standards (GAAS) as well as its own internal guidelines.

Furthermore, the watchdog singled out the failure to adequately assess the systemic risks arising from the relationship between FTX and Alameda Research as particularly damaging.

Though the settlement reached between the regulator and the firm has yet to receive court approval – as of October 8, 2024 – Prager Metis will likely pay a USD 745,000 civil penalty and implement remedial procedures, including having an independent consultant to ensure compliance and adherence to best practices.

Unregistered offerings remain the most frequent SEC complaint

Throughout 2024, the Securities and Exchange Commission has brought forth an exceptionally wide variety of complaints against individuals and entities involved with cryptocurrencies.

Beyond high-profile cases, the SEC has continued to focus on other recurring issues, such as unregistered offerings and sales of securities, and a string of companies – including Geosyn Mining, Plutus Lending, TrueCoin, and Mango Labs – and individuals were sued over the infringement.

Numerous cryptocurrency companies, as well as the community as a whole, have been critical of the SEC for years over its allegedly unclear or even unfair guidelines and standards in classifying digital assets as securities. So far, the regulator has maintained that the relevant rules and practices – including the Howey Test – are clear. It sometimes even rebuked companies by saying that their dislike of the law does not make their activities legal.

Fraudsters and scammers abuse cryptocurrency’s popularity and adoption

The less controversial complaints demonstrate that cryptocurrencies remain highly popular with scammers.

A significant proportion of all related litigation was levied against individuals and companies that attempted various types of fraud, with Ponzi and Pyramid schemes accounting for a large number of cases.

Additionally, fraudsters frequently lie to traders when they solicit them to invest using fake proof of compliance or falsified historical performance records.

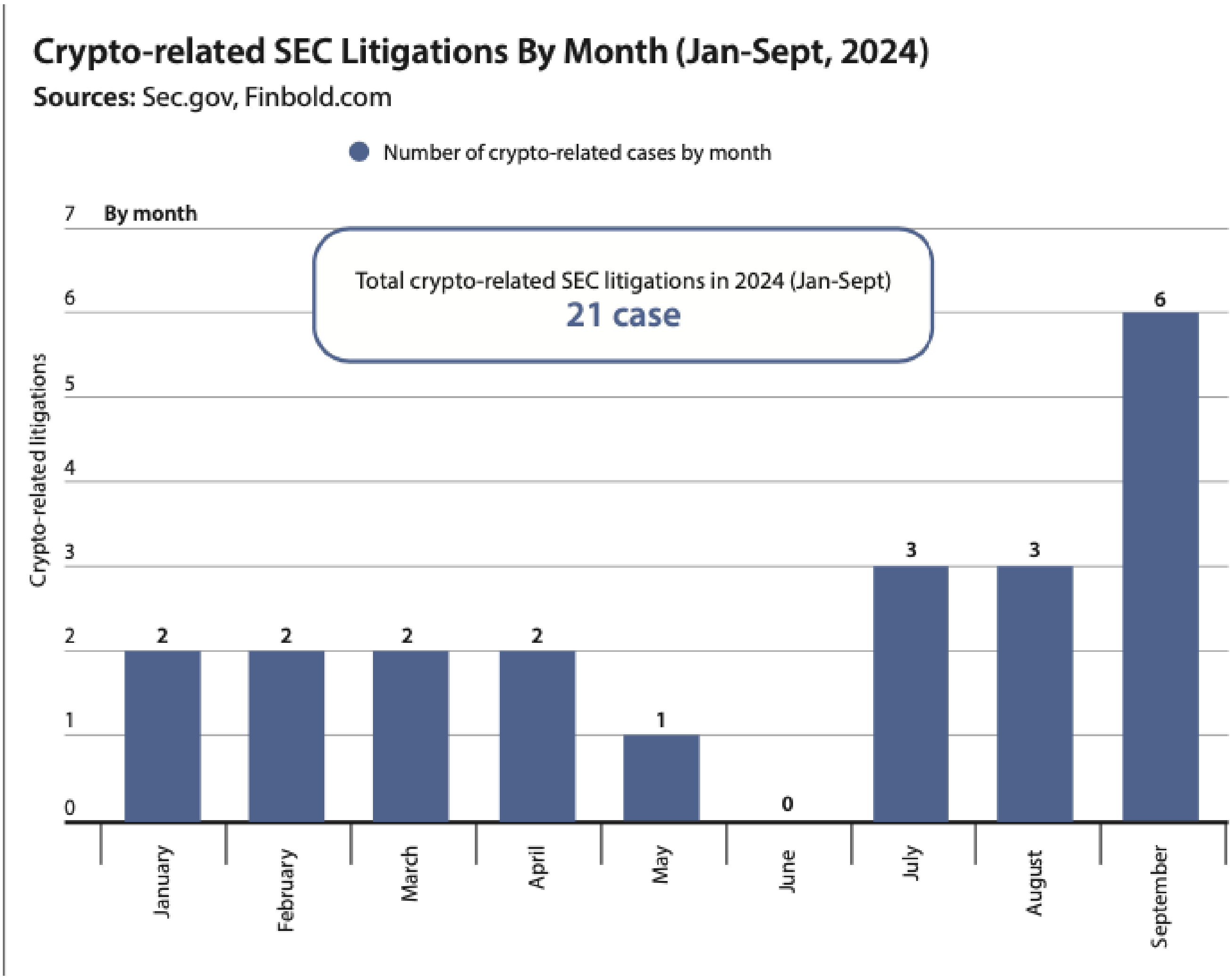
Scammers also commonly commit the so-called ‘offering fraud’ – a crime that involves taking investors’ money for completely non-existent funds or projects.

Major romance scam tricked and robbed crypto investors of USD 2.2 million

One of the most notable such cases in 2024 involved a company called CoinW6. CoinW6 used a romance scam to trick a large number of individuals into investing through one of the related portals—CoinW6.com, 6hsh.com, dmd567.com, bybit.cc, and cglobalw.com—all the while promising a three percent per-day return rate.

Furthermore, not only did the criminals allegedly steal approximately USD 2.2 million from 11 individuals, but they also, once investors attempted to withdraw their money, essentially attempted to extort them over fictitious added fees, and taxes.

Some instances even included blackmail, using sensitive private messages obtained via the romance scam. The SEC published the complaint on September 17, 2024, and the scheme lasted from about July 2022 to at least December 2023.



Crypto-related SEC Litigations By Type (Jan-Sept, 2024)

Sources: Sec.gov, Finbold.com

Quarter	Initial Coin Offering (ICO)	Ponzi/Pyramid scheme	Other fraud or scam	Unregistered offering/sales	Other
Q1 (Jan-Mar)	1	2	3	0	1
Q2 (Apr-Jun)	0	0	0	2	0
Q3 (Jul-Sept)	0	1	4	5	2
Total	1	3	7	7	3

SEC concludes major cryptocurrency insider trading case in 2024

Given the variety of complaints involving cryptocurrencies, it isn't surprising that many of them involve multiple crimes.

Another notable example was published on March 11, 2024, when the SEC reported it had concluded the long-lasting case against the former Coinbase (NASDAQ: COIN) product manager Ishan Wahi and several of his friends who collectively engaged in insider trading.

The regulator alleged that Wahi abused his foreknowledge of which cryptocurrencies would be listed on the popular exchange – and, therefore, which are likely to see their prices rocket due to exposure – and notified his friends so they could invest after benefitting from material non-public information.

The release itself was centered on the fact that the SEC obtained a default judgment against Sameer Ramani, one of Wahi's friends involved in the scheme, on March 1. Ramani was ordered to pay more than USD 2.4 million in disgorgement and civil penalties. In addition to being a high-profile case, the fine was one of the largest levied against insider traders in 2024.

Still, it is dwarfed by the USD 39.5 million fine levied against Shaohua (Michael) Yin and Benjamin Bin Chow. This penalty accounts for more than half of the USD 66.8 million imposed against insider traders since January 1.

Crypto-related crime only a minority of SEC 2024 enforcement

Finally, despite the sharp rise in the number of cryptocurrency-related cases in Q3 and their continued existence through the rest of the year, it is worth pointing out that digital assets account for a relatively small minority of all complaints published by the SEC in 2024.

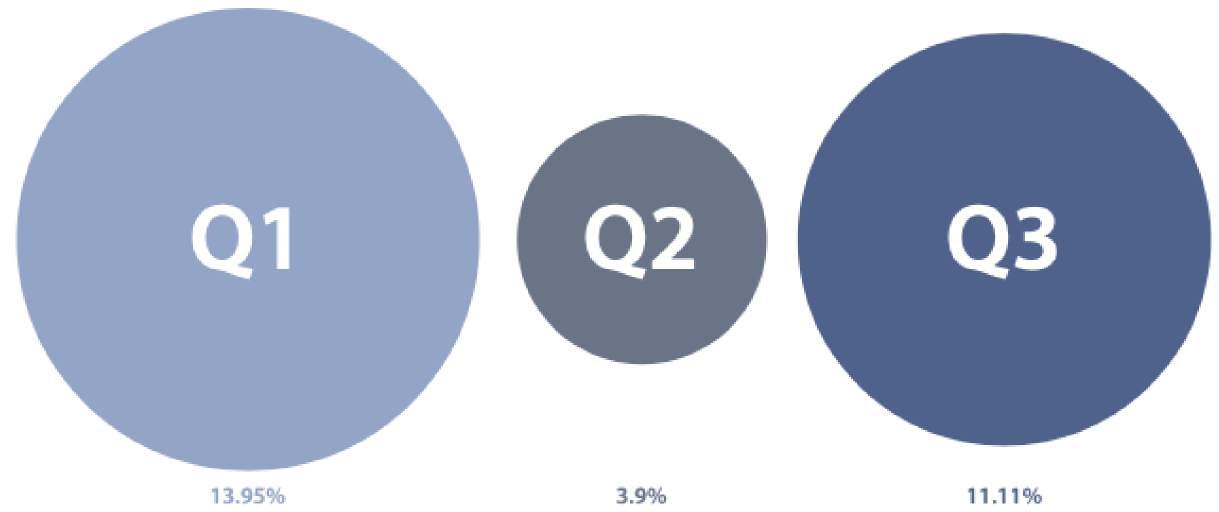
Indeed, out of the 228 cases reported between January 1 and September 30, only 21 involved cryptocurrencies and blockchain companies. – 9.21 percent of the total figure. Even in September, the overall busiest month of the year, the share did not exceed 11.11 percent.

Furthermore, many of them are not truly lawsuits targeting the industry, as many involved other types of fraud that simply utilized cryptocurrencies' popularity and reputation as lucrative – if risky – investment vehicles.

Crypto-related Litigations' % Share of All SEC Cases in 2024 (Q1-Q3)

Details: includes litigation types: insider trading, cryptocurrency, market manipulation, and misleading investors

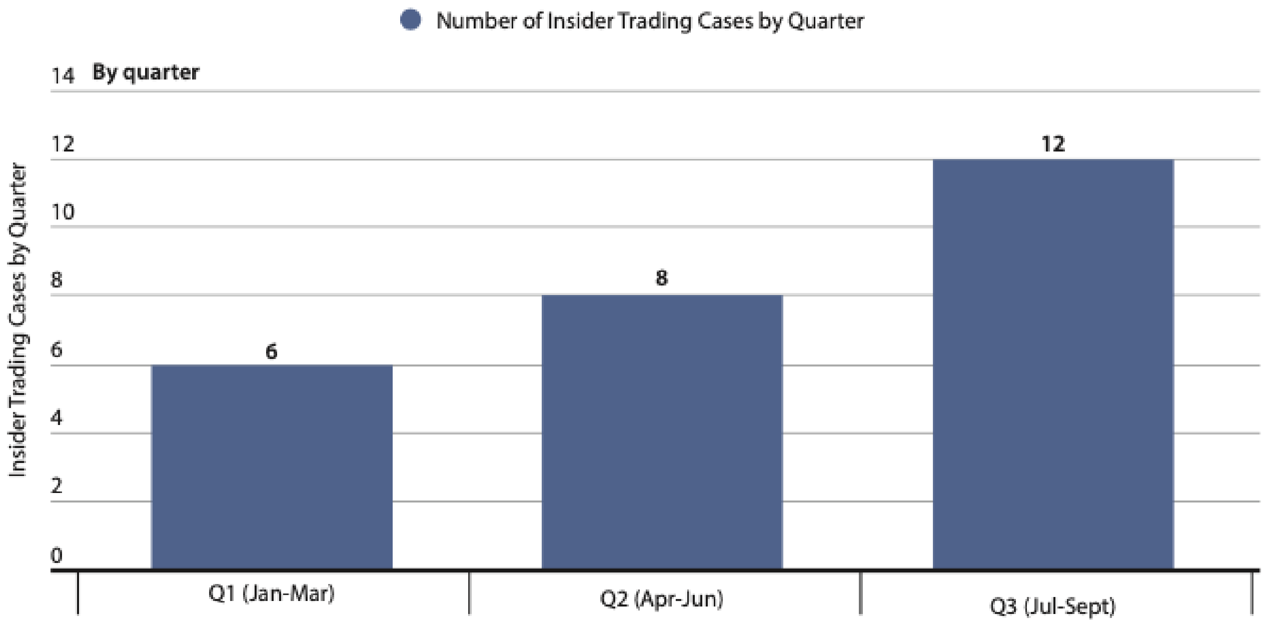
Sources: Sec.gov, Finbold.com

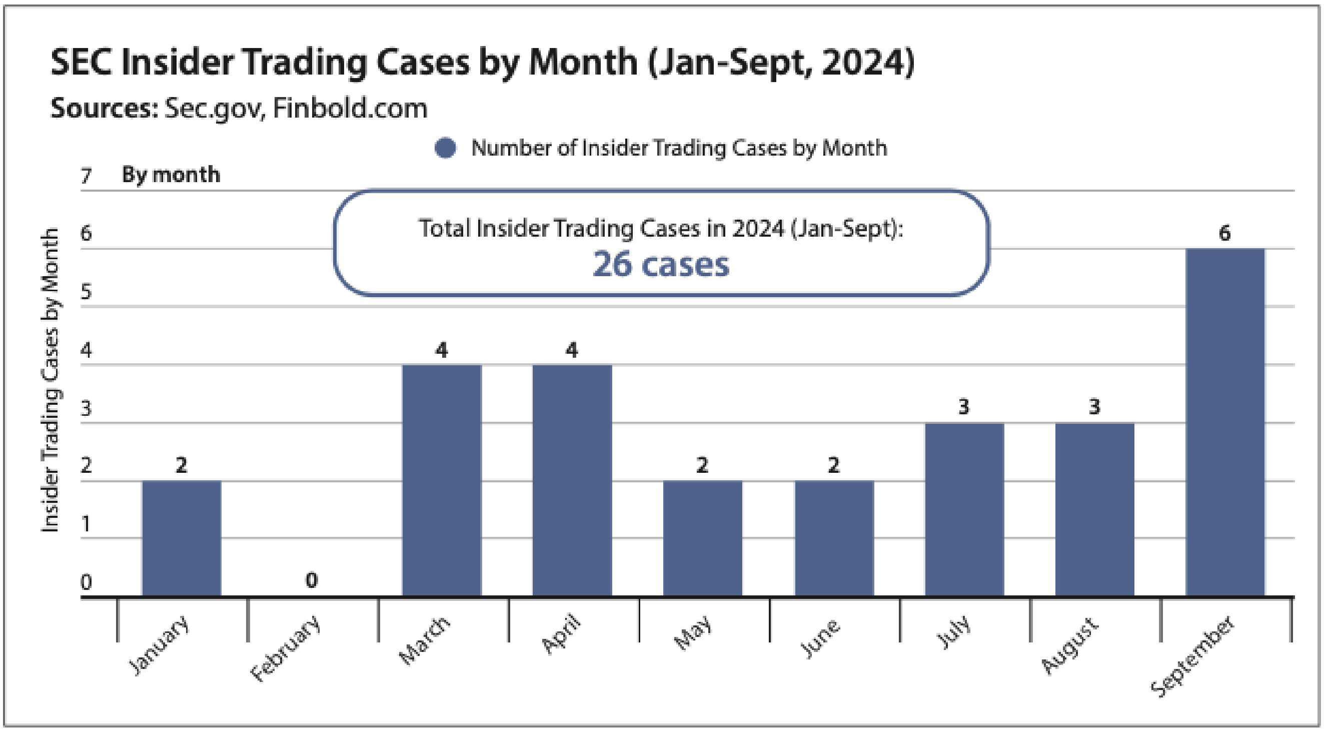


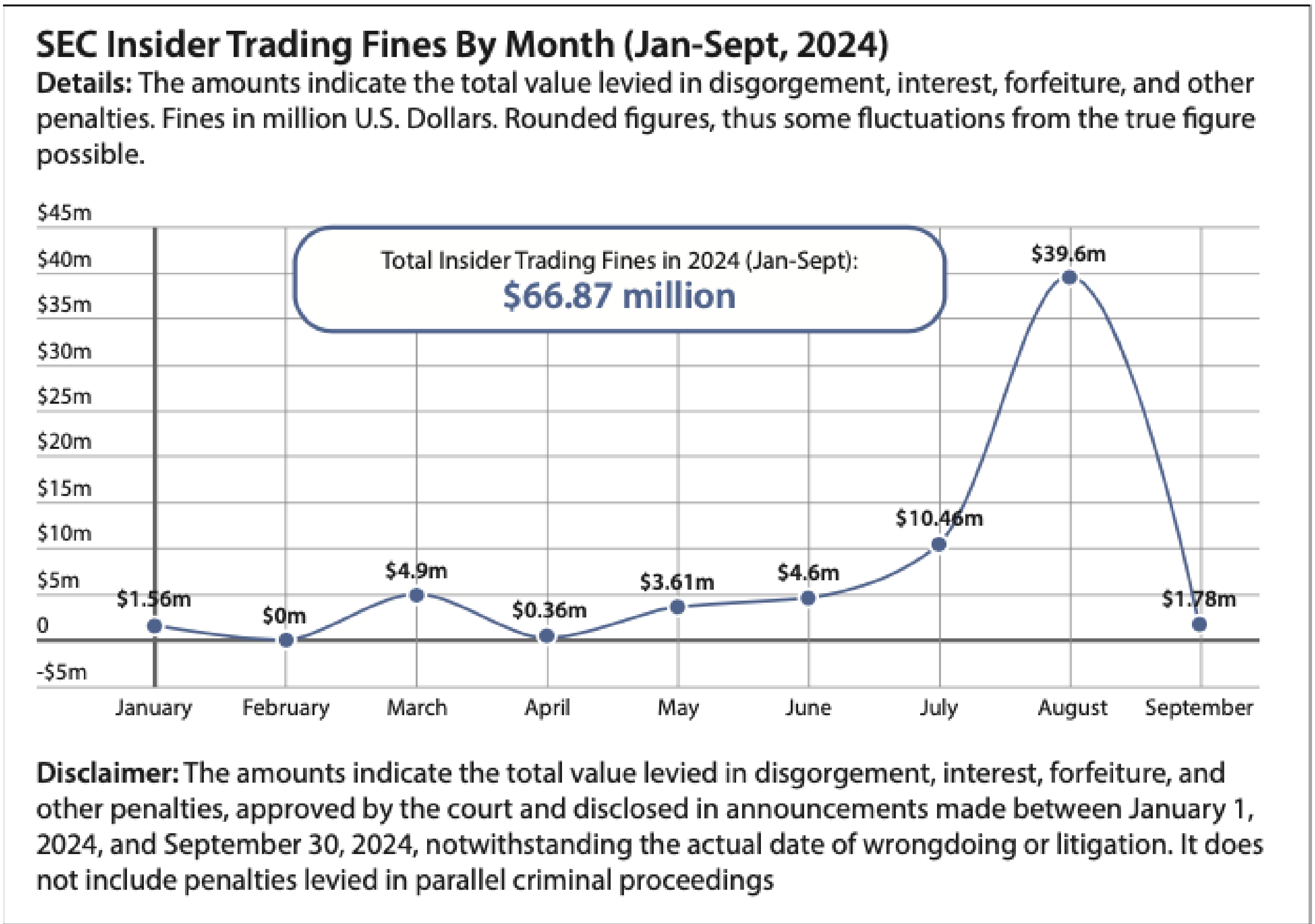
SEC Insider Trading cases by Quarter (Q1-Q3, 2024)

Details: Using information available via the SEC website, Finbold manually identified and cataloged all instances of alleged insider trading against individuals and entities between January 1, 2024, and September 30, 2024. Said cases were cataloged and tallied to find the number of complaints by quarter and by month in 2024.

Sources: Sec.gov, Finbold.com







As cryptocurrency adoption grows, regulatory scrutiny and legal actions are likely to intensify, suggesting a future where crypto must operate within more clearly defined legal frameworks.

Andreja is a skilled finance news reporter, copywriter, and screenwriter with a growing fascination for finance, especially in the wake of the retail investing *boom. He has since committed himself to providing rigorous coverage of financial news and the exploration of intricate financial concepts.*