



SEC vs. Ripple Lawsuit: Why Should You Care?

Description

[Cryptocurrency](#) is a highly volatile asset, and the major cause of its volatility is the regulatory crackdown. China and India have banned crypto, while Canada and the United States are adopting it. They even approved crypto [ETFs](#) to trade on their exchanges. However, regulators keep a close watch on all crypto coins. The crypto community is witnessing a landmark lawsuit; the SEC has alleged that **Ripple Labs** raised capital from **XRP** ([CRYPTO:XRP](#)) without informing the commission.

The SEC vs. Ripple lawsuit means two things to crypto investors

The fact that the SEC [filed](#) a lawsuit shows that the regulator regards XRP as a security. Securities have a legal status. If SEC proves that XRP is a security, the crypto community could get recognition as a legal digital asset.

However, legal status brings legal procedures. That means XRP will be subject to all the security laws and processes. That would take away the charm of cryptocurrencies as a global currency with little to no regulations and administrative requirements.

Legal securities listed on an exchange have to register with the SEC, file financial reports, disclose holdings, and maintain liquidity and market caps to avoid delisting. All these procedures are expensive and time consuming. This will take away the two things crypto is famous for: that it's faster to develop and less costly to trade. Take the example of **Dogecoin**; it was developed in "about two hours" in 2013. But with rules in place, crypto will become more stable and less risky.

You may argue that crypto is not cheap, as entities spend money to build and maintain the blockchain infrastructure. Moreover, crypto miners pay the costs of electricity and computing hardware to mine crypto. But building and mining crypto are nowhere close to what the Wall Street investment banks charge for an initial public offering ([IPO](#)).

Secondly, listing and trading shares on the public exchange is a lot of work. The company has to give

returns to shareholders and maintain accounts. Crypto exchanges have less administrative hassle. The developers can focus on making the crypto coin energy efficient.

Who is winning the Ripple lawsuit?

Here is a quick peek into who is winning the landmark case. Ripple is using two major defences to win the case.

Firstly, it is trying to prove that the SEC did not give it fair notice that XRP violates securities laws. Secondly, it is trying to prove that XRP is [not a security](#). If Ripple succeeds in proving the second defence, it will dismiss the SEC's claim that Ripple violated [Section 5](#) of the 1933 Securities Act. The Act requires all issuers to register non-exempt securities with the SEC.

The turning point in the Ripple lawsuit

The turning point for the lawsuit is William Hinman's 2018 speech on **Ethereum** and 67 other emails containing drafts of the speech. Hinman was director of the SEC's Division of Corporation Finance between 2017 and 2020. In a 2018 speech, he stated that Ethereum is not a security. His ruling on ETH was controversial back then, and he left SEC shortly after. The SEC claimed that Hinman's statements were his opinion but agrees that its staff was involved in drafting the speech.

The SEC is trying to block Hinman from testifying and seeking ways to avoid sharing documents related to the speech. If these documents prove Ripple right, it has to convince the court to give XRP a similar regulatory status as Bitcoin and Ether. According to Ripple, Hinman could provide "a critical window into the SEC's communications with important third parties about the regulatory status of digital assets."

Investor takeaway

Many lawyers that are experienced in the capital markets believe that SEC's case is without merit. They say that Ripple has a [high chance](#) of winning. If you've invested in Ether, Bitcoin or XRP, keep a close watch on the case as the verdict could shoot up or pull down crypto prices.

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