



Ripple Lawsuit: Why Does it Matter to You?

Description

[Cryptocurrency](#) is an asset class that inspires a lot of excitement among investors through the potential of stellar returns — provided that things are going well. Unfortunately, the potential of high rewards comes with a significant degree of risk that's not suited for the faint of heart. Cryptocurrencies are incredibly volatile, they don't have fundamental factors that determine their inherent value, and they mostly rely on investor sentiment to derive value.

Regulatory crackdowns are a major source of problems for the cryptocurrency industry in several countries worldwide. Some countries have started adopting cryptocurrencies, even allowing crypto ETFs to trade on their stock exchanges. Others have outright banned any activity related to the new and volatile asset class.

All regulators are keeping a close eye on cryptocurrencies. There is a landmark case being fought by the U.S. Securities and Exchange Commission (SEC) right now. The SEC has accused Ripple Labs, the creators of **XRP** ([CRYPTO:XRP](#)), of raising capital through an unregistered digital asset securities offering.

What does the SEC vs. Ripple Labs lawsuit mean for crypto investors?

The SEC considers XRP token as a security. Securities have a legal status and have to be registered with an appropriate authority, which is the SEC in this case. Ripple Labs has countered the argument, stating that XRP is not a legal digital asset.

Being recognized as a security would mean that all cryptocurrencies will be recognized as legal digital assets, spelling bad news for the entire industry through a slew of regulatory proceedings that might follow.

The whole charm of cryptocurrencies is in the fact that they are not regulated by governments or central authorities of any kind. Being subject to security laws and processes could decimate that

aspect of the crypto industry.

Legally recognized securities need to be registered with the SEC. To remain listed, they have to file financial reports, share their holdings, and sustain a certain degree of liquidity and market capitalization. All these processes are time-intensive and expensive, taking away the convenience of not having to contend with them in the cryptocurrency industry.

Where is the lawsuit right now?

The lawsuit is still well underway, but the situation appears to [favour Ripple Labs](#). The blockchain developer has two solid defences that could help it win the case against the SEC.

The first defence is that the SEC did not provide Ripple Labs with timely notice that XRP is in any way violating securities laws. The second defence for Ripple Labs is that it is proving that XRP does not fall under the category applicable to securities laws. If Ripple Labs comes out as the winner, the case could be dismissed entirely. Such a development could spell great news for the broader industry in terms of dealing with regulatory issues.

William Hinman, the former director of the Division of Corporation Finance at the SEC, stated that **Ethereum** is not a security during his tenure in 2018. The SEC has claimed that the speech reflected only Hinman's opinion and not the government body's stance. The SEC is doing its best to keep Hinman from testifying and sharing documents that could prove Ripple Labs right.

Foolish takeaway

Many legal experts that have dealt with cases in capital markets believe that the SEC's case does not carry merit, and Ripple Labs is likely to win the case. If you have invested in any of the [major cryptocurrencies](#), the result of the case could significantly impact your investment returns.

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