

**Current Event Research Paper**

**Unraveling the Binance Securities Violation**

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## **Unraveling the Binance Securities Violation**

This research paper delves into a recent and resonant current event that has garnered widespread attention within the cryptocurrency realm – SEC charges against Binance Holdings Ltd., the world's largest digital asset exchange, its U.S. affiliate BAM Trading Services Inc., and founder Changpeng Zhao, citing 13 violations of securities laws.

The paper provides an overview of the event, offering insights into Binance's historical background and operational framework within the crypto asset trading landscape. A detailed analysis of the specific securities laws violated will be presented, highlighting the legal intricacies of the case.

Further sections examine the broader implications of the event on the cryptocurrency industry, evaluating its impact on related companies and industries. The roles and responses of key stakeholders—investors, the SEC, and other companies—are explored to understand the event's wider ramifications. The analysis contributes to a nuanced understanding of the SEC's role in overseeing digital asset exchanges.

### **Description of the current event**

According to the SEC's press release published on June 5, the Securities and Exchange Commission (SEC) has filed 13 charges against Binance Holdings Ltd. ("Binance"), its U.S.-based affiliate BAM Trading Services Inc. ("BAM Trading"), and their founder Changpeng Zhao. The charges encompass a range of securities law violations, revealing an intricate web of deception, conflicts of interest, and calculated evasion of the law (2023).

Providing a background overview of Binance and its establishment, Changpeng Zhao, also known as CZ, founded Binance in 2017. He quickly transformed it into the largest and most

popular cryptocurrency exchange globally, offering trading in over 350 cryptocurrencies (Peters, 2023). Recognized for its low fees and native token, BNB, Binance enables users to buy, sell, and trade a wide variety of cryptocurrencies. The platform also provides various services, including futures and margin trading, staking, cryptocurrency conversion, crypto loans, and support for blockchain projects.

One major violation involves Binance and BAM Trading operating unregistered national securities exchanges, broker-dealers, and clearing agencies, resulting in at least \$11.6 billion in revenue from transaction fees, especially from U.S. customers, and Changpeng Zhao is held liable as a control person for these registration violations (“SEC Files 13,” 2023).

Another set of charges pertains to the unregistered offer and sale of various crypto assets, including Binance's native token BNB, stablecoin Binance USD (BUSD), certain crypto-lending products, and a staking-as-a-service program. The SEC alleges that these offerings were not properly registered, violating critical registration-related provisions of federal securities laws.

Press release also reveals that Zhao and Binance were engaged in misleading practices regarding the restriction of U.S. investors from accessing Binance.com (2023). Despite public claims that U.S. customers were restricted, the SEC contends that Zhao and Binance surreptitiously allowed high-value U.S. customers to continue trading on Binance.com, undermining their own controls.

Furthermore, the complaint reveals that Zhao and Binance exercised control over customer assets, permitting the commingling and diversion of customer funds, including sending billions to a third party called Merit Peak Limited, owned by Zhao (2023).

Investigations also shed light on manipulative trading activities, accusing Sigma Chain, an entity owned by Zhao, of engaging in manipulative trading that artificially inflated Binance.US platform's trading volume (2023). The SEC alleges that BAM Trading and BAM Management misled investors about non-existent trading controls over the Binance.US platform.

### **A detailed discussion of the relevant law**

This case involves serious allegations of federal securities law violations against Binance and CZ.

Firstly, Binance and CZ are accused of engaging in the unregistered offering and sale of crypto asset securities, failing to provide investors with essential information about associated risks and trends. This violates Sections 5(a) and 5(c) of the Securities Act (SEC v. Binance, 2023). These legal provisions are in place to ensure that the public receives accurate details necessary for making well-informed investment choices. Binance's assets meet the SEC's criteria for investment contracts, as investors place their funds in a common enterprise with a reasonable expectation of profits from the efforts of others (SEC v. Howey, 1946). Consequently, securities must be registered with the SEC, and adherence to proper regulatory procedures and oversight is imperative.

Secondly, based on the case, Binance is alleged to have violated Sections 5, 15(a), and 17A(b) of the Exchange Act by operating as an unregistered exchange, broker-dealer, and clearing agency (2023). This conduct evades regulatory oversight designed to protect investors.

Thirdly, BAM Trading and BAM Management are accused of obtaining money or property through materially false and misleading statements, engaging in transactions that operated as fraud or deceit upon purchasers (SEC v. Binance, 2023). This violates Section 17(a)

(2) and (3) of the Securities Act (SEC v. Binance, 2023). To elaborate, BAM Trading and BAM Management are accused of misleading investors regarding their control mechanisms for preventing manipulative trading on the Binance.US Platform. They raised funds based on misrepresented surveillance capabilities that were nearly non-existent. Furthermore, the accusation suggests that they were engaged in manipulative activities, such as artificially inflating trading volumes to create the illusion of a fair, secure, and stable trading market.

Throughout these events, the civil action states that Zhao served as a control person of Binance and BAM Trading under Exchange Act Section 20(a) (2023). In simple terms, as the founder of Binance, he could be found liable for the aforementioned violations unless he "acted in good faith and did not directly or indirectly induce" the fraud (Drylewski, 2022).

### **An analysis of the current event**

The current event involving the Securities and Exchange Commission (SEC) filing 13 charges against Binance, BAM Trading, BAM Management, and Changpeng Zhao is of profound significance to the industry, given the alleged serious violations of federal securities laws. The statutory and legal framework of the violations and their subsequent prosecution underscores the critical need for adherence to registration requirements to maintain market integrity and safeguard investor interests.

Furthermore, the charges against BAM Trading and BAM Management for fraudulent misrepresentations, violating Section 17(a)(2) and (3) of the Securities Act, highlight the essential role of transparent and truthful disclosures in preserving the credibility of financial markets.

The ongoing case involving Binance not only targets the platform and its founder but also extends to individuals involved in operational and promotional aspects of fraudulent activities. Notably, Cristiano Ronaldo's participation in a class-action lawsuit related to endorsing Binance's cryptocurrency NFTs exemplifies this broader legal pursuit (Business Standard, 2023). It suggests that the SEC is setting precedents by holding individuals accountable for promoting potentially illicit financial products. This approach, exemplified by cases involving celebrities like Ronaldo, underscores the responsibility influencers bear for the products they endorse, emphasizing the need for accountability in contributing to potential deception.

The resolution of the case, including guilty pleas, penalties, and regulatory measures against Binance, demonstrates the SEC's systematic approach to addressing violations with broad implications. The outcomes will likely establish benchmarks for how the industry operates, discloses information, and engages with investors. While the ultimate winner remains to be seen through legal proceedings, the industry, investors, and regulators stand to benefit from increased clarity, transparency, and adherence to regulatory standards.

The SEC's role in uncovering violations and addressing national security concerns related to Binance's exploitation by terrorists and cybercriminals enhances its image as a vigilant regulatory body (“Binance and CEO”, 2023). The ongoing case serves as a positive development in curbing illicit activities in the digital asset space and may reshape investor perspectives on digital assets in favor of traditional securities.

Looking ahead, if the SEC continues to navigate the case successfully, punishing all guilty parties, it could instill a new level of trust among investors and reshape industry practices. Companies in the digital assets industry may incur potential losses due to changes in investors' attitudes and trust towards cryptocurrencies. This risk is further heightened by increased

oversight from regulatory bodies, necessitating strong adherence to securities laws and regulations. The charges and legal actions emphasize the risks associated with unregistered and non-compliant platforms, serving as a cautionary tale for investors to exercise due diligence and prioritize regulatory oversight in the crypto space.

Adding the final perspective to the case, if the prosecution results in a decrease in the production of NFTs, bitcoins, and cryptocurrencies, particularly since Binance is/was the largest supplier of these digital currencies, it could have a significant positive impact on the environment for the reason that the production and transfer of NFTs, in particular, are known to be highly energy-intensive processes (Garnett, 2022).

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