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Allegations of "Insider Trading" at Major Cryptocurrency Exchange Send Ripples Through Market

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December 21, 2017 | **CORPORATE**

The booming cryptocurrency market experienced some turbulence this past Tuesday with allegations being made that employees at a major cryptocurrency exchange, Coinbase, intentionally manipulated the price of Bitcoin Cash (BCH), an offshoot cryptocurrency created as a result of a hard fork in the Bitcoin blockchain. Within minutes of Coinbase's first listing of BCH on its exchange, BCH prices surged to over $8,000 per coin — more than twice the value at which BCH was trading only minutes earlier.

While the initial reaction was to call the pricing surge " insider trading,"with Coinbase promising to investigate and punish any employees that may have traded in violation of their company policies, there have subsequently been rumblings of more widespread leaks and general sloppiness on the part of Coinbase in keeping the news quiet in the days, weeks and months leading up to the launch.

The case also raises interesting questions regarding the potential for reactive regulation and enforcement (if any), as BCH's rapid price increase quickly collapsed—causing Coinbase to shut down BCH trading. The temporary shutdown raised the ire of investors, as it prevented many from selling their BCH and locking in any gain they may have otherwise realized from the price surge.

While some commentators have taken the stance that unfair play is part of the cryptocurrency game — and investors who are not comfortable should get out and stick with "safer" asset classes—it is more than likely that governmental agencies will disagree. Regulators already view the space as risky and rife with fraudsters and criminals, with one SEC official remarking that, "[a]s with any kind of newsworthy event, roaches kind of crawl out of the woodwork and try to scam money off of investors." Events such as the "BCH Gate" may serve as a launch point for regulators to become more invested in monitoring and regulating the space—and quickly.