

SEC Fines 31-year-Old Founder Of Crypto Exchange

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The 31-year-old founder of cryptocurrency trading platform EtherDelta has agreed to pay \$388,000 to settle SEC charges that he operated an unregistered national securities exchange.

The case is the first SEC enforcement action charging a digital coin platform as an unregistered national securities exchange.

EtherDelta, launched in 2016, and founder Zachary Coburn provided a marketplace for bringing together buyers and sellers for digital asset securities through the combined use of an order book, a website that displayed orders, and a “smart contract” run on the Ethereum blockchain. Coburn, a Chicago resident and former broker with an SEC-registered options broker-dealer, sold EtherDelta to a foreign buyer and ceased collecting fees from the platform in 2017, the SEC said.

In settling the charges, Coburn agreed to pay \$300,000 in disgorgement, \$13,000 in prejudgment interest and a \$75,000 penalty, without admitting or denying the charges. The SEC said its determination not to impose a greater penalty was due to Coburn's cooperation.

"EtherDelta had both the user interface and underlying functionality of an online national securities exchange and was required to register with the SEC or qualify for an exemption," said Stephanie Avakian, co-director of the SEC's Enforcement Division.

Over an 18-month period, EtherDelta's users executed more than 3.6 million orders for ERC20 tokens, including tokens that are securities under the federal securities laws, the SEC said.

Almost all of the orders placed through EtherDelta's platform were traded after the SEC issued its 2017 DAO Report, which concluded that certain digital assets, such as DAO (decentralized autonomous organization) tokens, were securities and that platforms that offered trading of these digital asset securities would be subject to SEC regulation.

"We are witnessing a time of significant innovation in the securities markets with the use and application of distributed ledger technology," said Steven Peikin, co-director of the SEC's Enforcement Division. "But to protect investors, this innovation necessitates the SEC's thoughtful oversight of digital markets and enforcement of existing laws."

The SEC has previously brought enforcement actions relating to unregistered broker-dealers and unregistered ICOs, including some of the tokens traded on

EtherDelta, but this is the SEC's first enforcement action charging such a platform with operating as an unregistered national securities exchange.