

SEC Enforcement Case Summary Manipulation of Crypto Asset Securities

On October 9, 2024, in a coordinated case with the Federal Bureau of Investigation (**FBI**) and U.S. Attorney's Office brought by the SEC Division of Enforcement's Crypto Asset and Cyber Unit, the SEC charged three market makers and nine individuals for engaging in schemes to manipulate the markets for various crypto assets being offered and sold to retail investors. The schemes involved wash trading on popular crypto asset trading platforms and using algorithmic trading that generated quadrillions of transactions and billions of dollars of artificial trading volume.

According to the SEC's complaints, crypto asset promoters Russell Armand, Maxwell Hernandez, Manpreet Singh Kohli, Nam Tran, and Vy Pham (**Promoters**) hired so-called market makers ZM Quant and Gotbit to provide market-manipulation-as-a-service, which included generating artificial trading volume or manipulating the price of crypto assets that the Promoters offered and sold as securities to retail investors in unregistered transactions. The SEC also alleged that ZM Quant and a third so-called market maker, CLS Global, undertook similar schemes to manipulate the market of a crypto asset offered and sold as a security that was created at the direction of the FBI as part of its parallel investigation into potential market manipulation in the crypto asset industry.

The SEC noted in its complaint against CLS Global that the firm claims on its website that it provides clients, typically the offerors of crypto assets, with "market making" services that "leverage robust trading algorithms" and a "team of specialized experts" to "devise...effective trading strateg[ies]" for crypto assets. However, the SEC alleged that what CLS Global and the other market maker defendants in fact provide amounted to "on-demand market manipulation." For a monthly fee, CLS Global engages in manipulative trading of its clients' crypto assets to artificially inflate their price and trading volume for the express purpose of misleading investors to believe that there is a robust market for the crypto assets when in fact there is little or genuine interest in them. The firm then reports the fake trading volume on websites that are commonly accessed by investors seeking to buy and sell crypto assets and select trading platforms. The SEC complaint notes that CLS Global's business development manager pitched the market manipulation service, describing it as "wash trading" and touting the firm's ability to make such manipulation "not visible" to the investing public and instead to make it appear "like some organic buying and selling is happening."

The SEC further charged the Promoters with failing to register the offers and sale of securities with the SEC or rely on an available exemption from registration. Promoters were further charged with promoting investor interest through social media and other public communication channels, including X (formerly Twitter), Instagram, YouTube, Vimeo, Facebook, Reddit, Discord, Telegram, Medium, and public websites. The SEC highlighted that the activities of the Promoters and market makers caused significant harm to the integrity of the markets and to the investor victims who traded in crypto assets lured by the fake volumes and prices that were communicated.

These cases involve egregious market manipulation schemes using crypto asset securities and highlight the SEC's ongoing concern about the ease with which the market for crypto assets can be manipulated.

See Summary - <https://www.sec.gov/newsroom/press-releases/2024-166>