Securities Regulation Daily Wrap Up, BLOCKCHAIN—S.D.N.Y.: Action against Ripple Labs for failure to register settles; penalty reduced 60 percent, (May 9, 2025)

By Rebecca E. Hoffman, J.D.

Commissioner Crenshaw said in dissent that the rules for crypto offerings may eventually change, but this settlement undermines the current rules.

The latest in a string of SEC moves to ease off prosecution of crypto entities is a May 8 settlement of the enforcement action against Ripple Labs, Inc., and two executives, for allegedly offering and selling unregistered digital securities. The parties agreed to ask the Southern District of New York to dissolve the injunction and order that all but $50 million of the original civil penalty, currently in escrow, be returned to Ripple (SEC v. Ripple Labs, Inc., No. 20-cv-10832 (S.D.N.Y. May 8, 2025)).

The district court in 2023 held that Ripple violated federal securities laws because sophisticated institutional buyers of "XRP" tokens were entitled to the protections that registration under Securities Act Section 5 would afford, while those who bought XRP on digital asset exchanges (mostly retail investors), certain Ripple employees, and third-party developers who received XRP were not entitled to the protections afforded by registration because they did not acquire XRP via investment contracts as had the institutional buyers.

Penalty and injunction. On Aug. 7, 2024, the district court ordered that Ripple pay a civil penalty of over $125 million, and enjoined further violations of Securities Act Section 5. The court stayed enforcement of the monetary penalty and directed Ripple to set up an escrow account in the company's law firm's name to hold the funds.

According to the settlement, the parties agreed that the SEC would dismiss its appeal of the final judgment and Ripple would dismiss its cross-appeal, and the parties would request that the court dissolve the injunction and order the penalty funds released, with $50 million going to the Commission and the rest back to Ripple. They also agreed not to vacate or amend the order that granted in part and denied in part the parties' motions for summary judgment.

The SEC stated in a press release that its "decision to exercise its discretion and seek a resolution of this pending enforcement action rests on its judgment that such resolution will facilitate the Commission's ongoing efforts to reform and renew its regulatory approach to the crypto industry, not on any assessment of the merits of the claims alleged in the action."

Dissent. Similar recent dismissals that appear to reflect the "renew[ed] regulatory approach" are *SEC v. Balina*, *SEC v. Dragonchain, Inc.*, and *SEC v. Coinbase, Inc.*, as Commissioner Caroline A. Crenshaw explains in her dissent, calling the trend "the programmatic disassembly of the SEC's crypto enforcement program." She notes that even were the law to change at some point, so that registration requirements differ for crypto securities, the Ripple judgment applied the current law to the facts and should remain in place.

"[W]e are today accepting a diluted settlement," Crenshaw said, "that erases the investor protections we already won, based on a non-existent framework that may or may not come to fruition potentially years from now." Crenshaw lamented "the agency's new apparent mission of dismantling our crypto enforcement program and eroding investor protections."

The case is No. 20-cv-10832.

Companies: Ripple Labs, Inc.

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