

ALABAMA SECURITIES COMMISSION

Post Office Box 304700 Montgomery, Alabama 36130-4700
Telephone: (334) 242-2984 or 1-800-222-1253 Fax: (334) 242-0240
Email: asc@asc.alabama.gov Website: www.asc.alabama.gov

Alabama Securities Commission Issues Show Cause Order To Crypto Asset Company Coinbase

Montgomery, Alabama (June 6, 2023)- The Alabama Securities Commission (ASC) announced today that it has issued a Show Cause Order to the crypto asset company Coinbase, Inc. and its parent corporation Coinbase Global, Inc. (collectively, "Coinbase"). The Order gives Coinbase 28 days to show cause why they should not be directed to cease and desist from selling unregistered securities in Alabama. The action is the result of a multi-state task force of ten state securities regulators that includes Alabama, California, Illinois, Kentucky, Maryland, New Jersey, South Carolina, Vermont, Washington, and Wisconsin.

The Alabama Show Cause Order alleges that Coinbase violates the securities law by offering its staking rewards program accounts to Alabama residents without a registration to offer or sell these securities. Staking occurs when investors lock their crypto assets for a set period to help support the operation of a blockchain. In return, the investor is promised more crypto assets. Under Coinbase's staking rewards program, investors deposit crypto assets with Coinbase, which then facilitates the staking of these assets on the blockchain. The program is offered to the public and advertises a return of up to 6% on investments. Coinbase pools investors' crypto assets and employs a team to generate staking rewards. Coinbase takes a cut of those profits before sharing them with investors.

The ASC action does not prohibit Coinbase from offering staking as a service, so long as it complies with Alabama's laws. The purpose of registering an offer and sale of securities, in part, is to ensure that investors receive all material information needed to evaluate the risks of participating in an investment, including in a staking rewards program.

"The ASC is committed to protecting Alabama consumers and investors, including those who choose to invest in the decentralized finance space. This action is another step toward ensuring that investors in crypto asset products are offered the same protections under our laws and are fully aware of the risks involved in these investments," said ASC Director Amanda Senn.

Unlike banks and traditional brokerage firms, Coinbase's nearly 3.5 million staking rewards program accounts nationwide are not insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC). There is no protection from loss for any of these accounts, including the more than 33,000 accounts currently held by Alabama investors. Investors are encouraged to contact ASC to confirm the registration status of a staking rewards program before investing their money.

The ASC cautions investors to research any investment opportunity thoroughly. Call the ASC at 1-800-222-1253 and ask for the registration department to check out persons offering investment opportunities, investment advice for a fee, and any products they offer. Contact the ASC to report suspected fraud, inappropriate securities business practices, or to obtain consumer information. Free investor education and fraud prevention materials are available at www.asc.alabama.gov.

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For further information, contact 1-800-222-1253 and ask for Public Affairs.

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