STATE OF ALABAMA

ALABAMA SECURITIES COMMISSION

IN THE MATTER OF:	)	
COINBASE GLOBAL, INC.	)	**ADMINISTRATIVE ORDER**
COINBASE, INC.	)	**NO. SC-2023-0009**
RESPONDENTS	)	

ORDER TO SHOW CAUSE WHY THE ALABAMA SECURITIES COMMISSION SHOULD NOT ORDER RESPONDENTS TO CEASE AND DESIST FROM FURTHER OFFERS OR SALES OF SECURITIES IN THIS STATE

The Alabama Securities Commission ("Commission"), having the authority to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Securities Act"), and Title 8, Chapter 7A, Code of Alabama 1975, the Alabama Monetary Transmission Act ("AMTA"), upon due consideration of the subject matter hereof, has determined as follows:

STATEMENT OF FACTS

1. Coinbase (referring collectively to Coinbase Global, Inc. and Coinbase, Inc.) is a financial services company that generates revenue through its crypto asset[1] platform, which among

[1] As used in this Order, "crypto asset" refers to an asset that is issued and/or transferred using distributed ledger or blockchain technology—including, but not limited to, so-called "digital assets," "virtual currencies," "cryptocurrencies," "coins," and "tokens."

other things enables customers to buy, sell, borrow, trade, deposit and stake crypto assets. Since November 6, 2019, Coinbase has been, at least in part, funding its income generating activities through the sale of unregistered securities in the form of crypto asset staking rewards offerings (together the "Coinbase Staking Offerings," each a "Coinbase Staking Offering") offered to Coinbase account holders.

2. Staking is one method by which owners of a particular crypto asset can commit their crypto assets to support a blockchain network, with a blockchain being a digital ledger that records crypto transactions. Coinbase has explained staking as follows in its March 20, 2023, comment letter to the Securities and Exchange Commission:

> The protocol rules of a blockchain are often referred to as its 'consensus mechanism' and they dictate how the computers in the network reach agreement on what transactions and blocks to add to the blockchain... The most commonly-known consensus mechanisms are based on what are called "proof-of-work" and "proof-of-stake" protocols...
>
> Proof-of-stake is generally considered to be faster and less resource-intensive [than proof-of-work]. In proof-of-stake, participants must lock up, or "stake," their cryptocurrency in order to validate transactions and add new blocks to the blockchain. These "validators" receive rewards from the protocol for their contribution to securing the blockchain...

3. Coinbase defines a "validator" as "a node on a proof of stake blockchain that is responsible for securing the network, storing the history of transactions and confirming the validity of new transactions added to the next block in the chain."

4. Coinbase states that staking is available to anyone who wants to participate, but requires "a minimum number of tokens, technical knowledge, and a dedicated computer that can perform validations day or night without downtime." Furthermore, Coinbase notes that participating on this level comes with security considerations and is a serious obligation, because downtime can cause a validator's stake to become "slashed." According to Coinbase, "[s]lashing is a penalty enforced at the protocol level associated with a network or validator failure."

5. Coinbase indicates that for a majority of participants, a simpler way to participate in staking is through a crypto exchange like Coinbase and encourages customers to participate in staking though its Coinbase Staking Offerings.

6. Prior to March 21, 2023, for non-Ethereum assets, Coinbase automatically enrolled Coinbase account holders in a Coinbase Staking Offering once the account holder had a required minimum balance of an eligible designated crypto asset. Beginning on March 21, 2023, Coinbase discontinued its prior practice of automatically enrolling customers holding eligible designated crypto assets in a Coinbase Staking Offering. As of March 21, 2023, Coinbase account holders must affirmatively opt to purchase Coinbase Staking Offerings.

7. To implement each Coinbase Staking Offering, Coinbase aggregates investor deposits in an omnibus wallet, performs operations to configure validator nodes, bonds investors' crypto assets to validator nodes, and operates, or engages third parties to operate, validator nodes to validate transactions. In exchange for investing in a Coinbase Staking Offering, an investor is promised and periodically paid an attractive annual interest rate of up to 6 percent, a rate that Coinbase refers to as "rewards."

8. Once rewards are received by the Coinbase or third-party validator nodes, Coinbase maintains the rewards received in a Coinbase omnibus wallet, re-stakes any rewards earned in unstaked form, and periodically credits investors' Coinbase accounts with rewards, after taking a percentage commission.

9. Coinbase takes 25 to 35 percent of a Coinbase Staking Offering's rewards as a commission. Participants in a Coinbase subscription program known as Coinbase One may have the opportunity to opt-in to lower commissions for certain assets. Coinbase may also offer lower commissions for certain assets on a promotional basis, and these promotions may differ among Coinbase users.

10. As of mid-January 2023, Coinbase employed approximately 64 engineers to support the Coinbase Staking Offerings.

11. The Coinbase Staking Offerings are not registered with the Commission or any other securities regulatory authority; nor are they otherwise exempt from registration. Crypto

assets contained in the Coinbase Staking Offerings are not insured or otherwise protected by the Securities Investor Protection Corporation ("SIPC"), the Federal Deposit Insurance Corporation ("FDIC"), or the National Credit Union Administration ("NCUA"). This lack of a protective scheme or regulatory oversight subjects investors in each Coinbase Staking Offering to additional risks not borne by investors who maintain assets with most SIPC member broker-dealers, banks, savings associations, or credit unions, although Coinbase does disclose the lack of insurance of crypto assets to investors in each of the Coinbase Staking Offerings.

12. Despite the Coinbase Staking Offerings lacking the safeguards that the SIPC, FDIC, and NCUA would offer, and lacking the regulatory oversight of securities registration, by March 29, 2023, the Coinbase Staking Offerings had approximately 3,499,506 U.S. investors. Those investors represented approximately $4.8 billion in assets from the sale of these unregistered securities, of which approximately 33,001 were Alabama-based investors representing approximately $23,927,757 in assets, in violation of the Securities Act.

The Respondent

13. Coinbase, Inc. was founded in 2012. In April 2014, Coinbase, Inc. became a wholly owned subsidiary of Coinbase Global, Inc. as part of a corporate reorganization.

14. Coinbase is a remote-first company with no physical headquarters. Prior to May 2020, Coinbase was headquartered at 548 Market Street, Suite 23008, San Francisco, CA 94104.

15. Coinbase operates a crypto asset platform that offers the Coinbase Staking Offerings, crypto asset borrowing, and crypto asset exchange services, among other offerings, to retail and institutional customers.

16. Coinbase conducts business in the United States through Coinbase's mobile application and public website at https://www.coinbase.com/. The Coinbase mobile application and website are accessible to the general public, including residents of Alabama.

17. Coinbase, Inc. is not presently registered to offer or sale securities nor has it ever been registered, to offer or sale securities with the Commission; nor have the Coinbase Staking Offerings ever been registered with the Commission or with any other federal or state securities regulatory authority.

The Coinbase Staking Offerings Securities

18. Since November 6, 2019, Coinbase, has offered and sold unregistered securities, in the form of the Coinbase Staking Offerings, to the United States public at large and to Alabama residents.

19. The Coinbase Staking Offerings are offered to Coinbase account holders through Coinbase's smartphone application and public website; prospective investors can open accounts on either. The public web page for the Coinbase Staking Offerings is https://www.coinbase.com/earn.

20. The web page for the Coinbase Staking Offerings states:

a) "Earn up to 6.00% APY on your crypto. Put your crypto to work and earn rewards."

b) "We'll help you put your assets to work in the cryptoeconomy so you can grow your crypto holdings with little effort."

c) "We take measures to mitigate risks and allow you to opt-out anytime."

21. To participate in a Coinbase Staking Offering, Coinbase account holders must first deposit designated crypto assets into their accounts or purchase the designated crypto assets from Coinbase's platform and maintain a minimum amount of those designated assets in Coinbase's custody.

22. Coinbase account holders can then opt-in to invest in a Coinbase Staking Offering.

23. Prior to March 21, 2023, for non-Ethereum assets, Coinbase automatically enrolled Coinbase account holders in a Coinbase Staking Offering once the account holder had a required minimum balance of an eligible designated crypto asset. Beginning on March 21, 2023, Coinbase discontinued its prior practice of automatically enrolling customers holding eligible designated crypto assets in Coinbase Staking Offerings. As of March 21, 2023, Coinbase account holders must affirmatively opt to purchase Coinbase Staking Offerings.

24. Coinbase stakes, or facilitates the staking of, those assets by:

a. Aggregating investors' deposits of crypto assets in an omnibus wallet.

b. Performing on-chain operations to configure validator nodes on the relevant blockchain network.

c. Bonding investors' crypto assets to validator nodes for any period of time. These operations may be conducted for multiple investors in a single batch and typically incur on-chain fees borne by Coinbase and not passed on to investors.

d. Operating, or engaging third parties to operate, validator nodes that receive rewards for using the staked assets to validate transactions on the underlying protocol.

e. Maintaining rewards received from investors' staked crypto assets in a Coinbase omnibus wallet and re-staking any rewards earned in unstaked form.

f. Periodically crediting investors' Coinbase accounts with rewards, after taking a percentage commission.

g. In certain cases, voting on investors' behalf on matters related to the governance of the underlying crypto asset protocol.

h. Drawing down or exiting validator nodes when an investor requests to unstake an asset, which may be done in conjunction with multiple investors in a single batch.

25. On its public website, Coinbase states: "Another risk [of staking] is the possible slashing of staked assets or rewards. Although it's unlikely, there is a possibility you could lose your staked assets or rewards in case of a network or validator failure. We've taken measures to reduce these risks, but some events are outside our control." In the event that any crypto assets invested by Coinbase Staking Offerings account holders are lost or reduced as the result of "slashing," Coinbase may, in some circumstances, replace investors' slashed assets staked in the Coinbase Staking Offering at no additional cost.

26. Investors assume other risks related to the Coinbase Staking Offerings. For instance, investors incur the risk of market events affecting the value of their staked assets for the designated lock-up period when the investor may not be able to sell or dispose of their staked

assets. On its public website, Coinbase states: "Staking requires assets to be locked on the protocol in order to earn rewards. During this time you won't be able to trade or transfer your assets."

27. In return, investors in each of the Coinbase Staking Offerings earn interest on their staked crypto assets in the form of like-kind crypto assets. Investor earnings are based on the type and amount of crypto assets they have staked though each Coinbase Staking Offering, net of Coinbase's commissions.

28. Coinbase publishes a list of crypto assets for which it offers a Coinbase Staking Offering on its public website. That list states each of these assets' annual interest rate, expressed as an annual percentage yield.

29. The annual interest rates for crypto assets in the Coinbase Staking Offerings have been up to 6 percent depending on which crypto assets were staked.

30. Coinbase has promoted its services and products, including the Coinbase Staking Offerings, in the United States through its smartphone application, website, blog, and Twitter page, among other media networks, all of which are available to Alabama residents.

31. Coinbase finances its interest payments to investors in the Coinbase Staking Offerings through revenue from its business activities, including operating validator nodes, which verify transactions on proof-of-stake blockchains. Investors neither provide nor facilitate these activities or services.

32. Whether investors in the Coinbase Staking Offerings receive interest payments depends entirely on the success of Coinbase as a business and its managerial and entrepreneurial efforts. These investors do not engage in any substantive program activities beyond depositing crypto assets into a Coinbase Staking Offering.

33. Coinbase's interest payments to investors in Coinbase Staking Offerings function like those for pooled investment vehicles. However, investors in a Coinbase Staking Offering are not protected by investor- and consumer-protection organizations, such as the SIPC, FDIC, or the NCUA.

CONCLUSIONS OF LAW

34. Pursuant to Section 8-6-2(10), Code of Alabama, 1975, the definition of a "security" in part includes investment contracts. The securities offered by **RESPONDENTS** require the investment of crypto assets from investors who expect profits to be derived from the efforts of **RESPONDENTS** and are securities as defined by the Act.

35. Pursuant to Section 8-6-3(a), Code of Alabama, 1975, it is unlawful for any person to transact business as an agent unless he is registered under the Act. **RESPONDENTS** acted as an issuer of **COINBASE** while not registered with the Commission in violation of the Act.

36. Pursuant to Section 8-6-4, Code of Alabama, 1975, it is unlawful for any person to offer or sell any security in this state unless it is registered or subject to a perfected exemption from registration under the Act. The securities offered by **RESPONDENTS** are neither registered nor

subject to a perfected exemption from registration and are being offered and sold to Alabama investors in violation of the Act.

This Order is appropriate in the public interest for the protection of investors and is consistent with the purposes of the Act.

This Order does not prevent the Commission from seeking such other civil or criminal remedies that may be available to it under the Alabama Securities Act.

If the allegations set forth herein are found to be true, through either administrative adjudication or default of the **RESPONDENTS**, it is the intention of the Commission to impose sanctions upon the **RESPONDENTS**. Such sanctions may include, inter alia, an administrative assessment imposed on **RESPONDENTS**, an additional administrative assessment for investigative costs arising from the investigation of the violation(s) described herein against **RESPONDENTS**, and a permanent order to bar **RESPONDENTS** from participation in any securities related industry in the state of Alabama. Failure to respond within 28 days of service of this Order shall be deemed a waiver of the right to a hearing and will result in the entry of a final order directing **RESPONDENTS** to cease and desist from violating the Alabama Securities Act and permanently barring **RESPONDENTS** from participation in any securities related industry in the state of Alabama.

ACCORDINGLY, IT IS HEREBY ORDERED that **RESPONDENTS SHOW CAUSE** to the Commission within 28 days of the date of this **ORDER**, why **RESPONDENTS** should not be ordered to cease and desist from any further violations of the Alabama Securities Act.

Entered at Montgomery, Alabama, this 6th day of June, 2023.

ALABAMA SECURITIES COMMISSION

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BY:

AMANDA L SENN

Director