STATE OF NEW JERSEY
BUREAU OF SECURITIES
P.O. Box 47029
Newark, New Jersey 07101
(973) 504-3600

IN THE MATTER OF:	
Coinbase Global, Inc. and Coinbase, Inc., Respondents.	**SUMMARY PENALTY AND CEASE AND DESIST ORDER**

Pursuant to the authority granted to Amy G. Kopleton, Acting Chief of the New Jersey Bureau of Securities ("Bureau Chief"), under the Uniform Securities Law (1997), N.J.S.A. 49:3-47 to -89 ("Securities Law") and certain regulations thereunder, and based upon documents and information obtained during the investigation by the New Jersey Bureau of Securities ("Bureau"), the Bureau Chief hereby finds that there is good cause and it is in the public interest to enter this Summary Penalty and Cease and Desist Order ("Order") against Coinbase Global, Inc. and Coinbase, Inc. (collectively, "Coinbase").

The Bureau Chief makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Coinbase is a financial services company that generates revenue through its crypto asset[1] platform, which among 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 (the "Coinbase Staking

[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."

Securities") in crypto asset staking rewards offerings (each a "Coinbase Staking Offering," together the "Coinbase Staking Offerings") offered to Coinbase account holders.

2. Coinbase publishes a list of each crypto asset for which it offers Coinbase Staking Securities through a Coinbase Staking Offering on its public website.

3. Coinbase defines a crypto asset as "[a]ny digital asset built using blockchain technology, including cryptocurrencies, stablecoins, and security tokens."

4. According to Coinbase, "crypto makes it possible to transfer value online without the need for a middleman like a bank or payment processor." Rather, crypto assets rely on blockchains, which are ongoing, constantly re-verified records of every single transaction ever made using that crypto asset. Coinbase indicates that "[u]nlike a bank's ledger, a crypto blockchain is distributed across participants" of the crypto asset's entire network.

5. Staking is one method by which owners of a particular crypto asset can commit their crypto assets to support a blockchain network. For crypto assets that use a proof-of-stake blockchain, transactions are added to the blockchain by "validators." 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."

6. Coinbase has explained staking as follows:

> 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...

7. The chance of a validator node being chosen to validate a transaction on a proof-of-stake blockchain is typically proportional to the amount of crypto assets being staked. If a chosen validator node successfully validates a block, it is awarded the staking reward.

8. 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."

9. Coinbase notes that participating as a validator comes with security considerations and is a serious obligation, because downtime or failure to comply with blockchain rules can cause a validator's stake to become "slashed," meaning a validator will lose a predefined percentage of its staked tokens. According to Coinbase, "[s]lashing is a penalty enforced at the protocol level associated with a network or validator failure."

10. 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 through the Coinbase Staking Securities offered and sold through its Coinbase Staking Offerings.

11. 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 Securities. As of March 21, 2023, Coinbase account holders must affirmatively opt to purchase Coinbase Staking Securities.

12. To implement each Coinbase Staking Offering through which the Coinbase Staking Securities are offered and sold, 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 on each particular blockchain. In exchange for investing in a particular Coinbase Staking Security, an investor is promised and periodically paid an attractive interest rate of up to 10 percent annual percentage yield, a payment that Coinbase refers to as "rewards."

13. 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.

14. 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. Coinbase may also offer lower commissions for certain Coinbase Staking Securities on a promotional basis, and these promotions may differ among Coinbase users.

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

16. The Coinbase Staking Securities are not registered with the Bureau or any other securities regulatory authority; nor are they otherwise exempt from registration. The Coinbase Staking Securities 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 in each of the Coinbase

Staking Offerings to investors.

17. Despite the Coinbase Staking Securities 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 Securities had approximately 3,515,092 U.S. investors. Those investors represented approximately $4.8 billion in assets from the sale of these unregistered securities, of which approximately 145,270 were New Jersey-based investors representing approximately $210.3 million in assets, in violation of the Securities Law.

A. The Respondents

18. Coinbase, Inc. was founded in 2012, as a Delaware Corporation.

19. In January 2014, Coinbase Global, Inc. was incorporated as a Delaware corporation to act as the holding company of Coinbase, Inc. and other subsidiaries.

20. In April 2014, Coinbase Global, Inc. completed a corporate reorganization whereby Coinbase, Inc. became a wholly-owned subsidiary of Coinbase Global, Inc.

21. 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, California 94104.

22. 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.

23. 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 New Jersey.

24. Neither Coinbase Global, Inc. nor Coinbase, Inc. are presently registered, nor have they ever been registered, in any capacity with the Bureau; nor have the Coinbase Staking Securities ever been registered with the Bureau or with any other federal or state securities regulatory authority.

B. <u>The Coinbase Staking Securities</u>

25. Since November 6, 2019, Coinbase has offered and sold Coinbase Staking Securities to the United States public at large and to New Jersey residents.

26. Coinbase Staking Securities 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.

27. The web page for the Coinbase Staking Offerings represents as follows:

a) "Earn up to 10.00% 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. Some protocols may require you to wait until unstaking is complete to transfer or sell your assets."

28. To acquire Coinbase Staking Securities, 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 crypto assets in Coinbase's custody. The minimum amount of the designated crypto asset that Coinbase requires to participate in certain Coinbase Staking Offerings is lower than the amount that would be required for an individual to operate a validator node on their own.

29. After acquiring the minimum required amount of designated crypto assets, Coinbase account holders can opt-in to acquire a particular Coinbase Staking Security.

30. Coinbase stakes, or facilitates the staking of, investors' crypto 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 use 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 un-staked form.

f) periodically crediting investors' Coinbase accounts with rewards, after taking a percentage of the rewards as a 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 un-stake an asset, which may be done in conjunction with multiple investors in a single batch.

31. Coinbase has promoted its services and products, including the Coinbase Staking Securities, in the United States through its smartphone application, website, blog, and Twitter page, among other media networks, all of which are available to New Jersey residents. In its marketing of the Coinbase Staking Securities, Coinbase has touted the securities as secure and accessible to the

retail investor, as compared to those investors staking crypto assets on their own. For example, Coinbase has stated:

a) "It's easy. Start earning with a couple of clicks. You can earn on as little as $1."

b) "It's secure. We take measures to mitigate risks and allow you to opt-out anytime."

c) "You shouldn't have to be an expert crypto trader to grow your crypto wealth. Offering an easy way for our customers to earn rewards from staking is an important step in building an open financial system."

d) "With today's launch, Coinbase is offering an easy, secure way for anyone to actively participate in the Tezos network. While it's possible to stake Tezos on your own or via a delegated staking service, it can be confusing, complicated, and even risky with regard to the security of your staked Tezos. We're changing that with staking rewards on Coinbase."

32. On its public website, Coinbase states: "[A] 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 Securities' investors are lost or reduced as the result of "slashing," Coinbase may, in some circumstances, replace investors' slashed assets staked in the Coinbase Staking Securities at no additional cost.

33. Investors assume other risks related to the Coinbase Staking Securities. 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."

34. In return, investors in Coinbase Staking Securities 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 in Coinbase Staking Securities, net of Coinbase's commissions.

35. The list of each crypto asset for which Coinbase offers Coinbase Staking Securities, published on Coinbase's public website, states the annual interest rate, expressed as an annual percentage yield, for each of the crypto assets.

36. The annual interest rates for crypto assets invested in Coinbase Staking Securities have been up to 10 percent depending on which crypto assets were staked.

37. Coinbase finances its interest payments to investors in the Coinbase Staking Securities 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.

38. Whether investors in the Coinbase Staking Securities 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 program activities beyond acquiring Coinbase Staking Securities using designated crypto assets.

39. Coinbase's interest payments to investors in the Coinbase Staking Securities function like those for pooled investment vehicles.

CONCLUSIONS OF LAW

COINBASE OFFERED AND SOLD UNREGISTERED SECURITIES
N.J.S.A. 49:3-60

40. The preceding paragraphs are incorporated by reference as though set forth verbatim herein.

41. The Coinbase Staking Securities are securities as defined in N.J.S.A. 49:3-49(m).

42. The Coinbase Staking Securities were and are required to be registered with the Bureau pursuant to N.J.S.A. 49:3-60.

43. The Coinbase Staking Securities have not been registered with the Bureau, are not exempt from registration, and are not federally covered.

44. Coinbase has offered and sold unregistered securities in violation of N.J.S.A. 49:3-60.

45. Each violation of N.J.S.A. 49:3-60 is a separate violation and is cause for the imposition of civil monetary penalties pursuant to N.J.S.A. 49:3-70.1.

46. Based on the foregoing the denial of certain exemptions is in the public interest.

CONCLUSION

THEREFORE, it is on this 6th day of June 2023, **ORDERED** that:

47. Effective on June 6, 2023, Coinbase Global, Inc. and Coinbase, Inc., and any person, agent, employee, broker, partner, officer, director, affiliate, successor, or stockholder thereof, under any of their direction or control shall CEASE AND DESIST from:

a) offering for sale any security, including the Coinbase Staking Securities, to or from New Jersey unless the securities are registered with the Bureau, are covered securities, or are exempt from registration under the Securities Law; and

b) violating any other provisions of the Securities Law and any rules promulgated thereunder for the offer or sale of any security in New Jersey.

48. Coinbase Global, Inc. and Coinbase, Inc. be, and hereby are jointly and severally assessed and liable to pay civil monetary penalties in the amount of five million dollars ($5,000,000), pursuant to N.J.S.A. 49:3-70.1, for violations of the Securities Law described in this Order, which are immediately due and payable.

49. Payment of civil monetary penalties shall be made by certified check, bank check, or an attorney trust account check, payable to "State of New Jersey, Bureau of Securities," and delivered to the Bureau of Securities, Attn: Bureau Chief, 153 Halsey Street, 6th Floor, Newark, New Jersey 07102. The civil monetary penalties shall be deposited in the Securities Enforcement Fund, pursuant to N.J.S.A. 49:3-66.1.

50. All exemptions contained in N.J.S.A. 49:3-50 subsection (a) paragraph 9, 10, and 11 and subsection (b) are hereby DENIED as to Coinbase Global, Inc. and Coinbase, Inc.

51. All exemptions to the registration requirements provided by N.J.S.A. 49:3-56(b), N.J.S.A. 49:3-56(c), and N.J.S.A. 49:3-56(g) are hereby DENIED as to Coinbase Global, Inc. and Coinbase, Inc.

Amy G. Kopleton
Acting Chief, New Jersey Bureau of Securities

NOTICE OF RIGHT TO HEARING

Pursuant to N.J.S.A. 49:3-69(a)(1)(i), the Bureau Chief shall entertain on no less than three days' notice a written application to lift the Order to Cease and Desist on written application of the person subject thereto and in connection therewith may, but need not, hold a hearing and hear testimony, but shall provide to the person subject thereto a written statement of the reasons for the Order to Cease and Desist.

Pursuant to N.J.S.A. 49:3-69(a)(l)(ii), upon service of notice of the Order to Cease and Desist issued by the Bureau Chief, the person subject thereto shall have up to 15 days to respond to the Bureau in the form of a written answer and written request for a hearing. The Bureau Chief shall, within five days of receiving the answer and request for a hearing, either transmit the matter to the Office of Administrative Law for a hearing or schedule a hearing at the Bureau of Securities. Orders issued pursuant to N.J.S.A. 49:3-69 shall be subject to an application to vacate upon 10 days' notice, and a preliminary hearing on the Order shall be held in any event within 20 days after it is requested, and the filing of a motion to vacate the Order shall toll the time for filing an answer and written request for a hearing.

Pursuant to N.J.S.A. 49:3-69(a)(l)(iii), if any person subject to the Order fails to respond by filing a written answer and written request for a hearing with the Bureau or moving to vacate the order within the 15-day prescribed period, that person shall have waived the opportunity to be heard. The Order will be a Final Order and shall remain in effect until modified or vacated.

NOTICE OF OTHER ENFORCEMENT REMEDIES

You are advised that the Uniform Securities Law provides several enforcement remedies, which are available to be exercised by the Bureau Chief, either alone or in combination. These remedies include, in addition to this action, the right to seek and obtain injunctive and ancillary relief in a civil enforcement action, N.J.S.A. 49:3-69, and the right to seek and obtain civil penalties in an administrative or civil action, N.J.S.A. 49:3-70.1.

You are further advised that the entry of the relief requested does not preclude the Bureau Chief from seeking and obtaining other enforcement remedies against you in connection with the claims made against you in this action.