ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF SOUTH CAROLINA

IN THE MATTER OF:	)	
	)	
Coinbase Global, Inc.; and Coinbase, Inc.,	)	**ORDER TO CEASE AND DESIST**
	)	**Matter No. 20225292**
	)	
Respondents.	)	
	)	

I. PRELIMINARY STATEMENT

Pursuant to the authority granted to the Securities Commissioner of South Carolina (the "Securities Commissioner") under the South Carolina Uniform Securities Act of 2005, S.C. Code Ann. § 35-1-101, *et seq.*, and the regulations and rules promulgated thereunder (collectively, the "Act"), and delegated to the Securities Division of the Office of the Attorney General of the State of South Carolina (the "Division") by the Securities Commissioner, the Division conducted an investigation into the securities-related activities of Coinbase Global, Inc. ("Coinbase Global") and Coinbase, Inc. (collectively, "Coinbase" or the "Respondents"). In connection with its investigation, the Division has determined that evidence exists to support the Findings of Fact and Conclusions of Law set forth below, and the issuance of this Order to Cease and Desist.

II. JURISDICTION

1. The Securities Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

III. RELEVANT PERIOD

2. Except as otherwise expressly stated, the conduct described herein occurred between November 6, 2019, and the present (the "Relevant Period").

IV. THE RESPONDENTS

3. Coinbase, Inc. is a Delaware corporation formed on May 14, 2012.

4. Coinbase Global is a Delaware corporation formed on January 27, 2014, and acts as the holding company of Coinbase, Inc. and other subsidiaries.

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

6.

11. As of March 29, 2023, the Coinbase Staking Offerings had approximately 3,515,092 U.S. investors with investments totaling approximately $4.8 billion in assets from the sale of these unregistered securities. Approximately 43,703 of those investors were South Carolina-based investors with investments totaling approximately $37,741,045.

B. Crypto Assets and Proof-of-Stake

12. Coinbase describes crypto assets, sometimes referred to as cryptocurrency, as "decentralized digital money designed to be used over the internet."

13. 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 network.

14. 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."

15. Coinbase has explained staking as follows in its March 20, 2023, comment letter to the United States 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 …

16. The chance of a validator 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 successfully validates a block, it is awarded the staking reward.

17. To participate as a validator in a proof-of-stake blockchain requires "a minimum number of tokens, technical knowledge, and a dedicated computer that can perform validations day or night without downtime."

18. Participating as a validator comes with security considerations and risk of loss, because downtime or failure to comply with blockchain rules can cause a validator's stake to be "slashed," meaning their staked crypto assets are not returned. According to Coinbase, "[s]lashing is a penalty enforced at the protocol level associated with a network or validator failure."

19. 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 its Coinbase Staking Offerings.

C. The Coinbase Staking Offerings

20. The Coinbase Staking Offerings are offered exclusively by Coinbase through Coinbase's mobile application and public website, and prospective investors can open accounts on either. The Coinbase Staking Offerings' public website is https://www.coinbase.com/earn.

21. The Coinbase Staking Offerings' website represents as follows:

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. Some protocols may require you to wait until unstaking is complete to transfer or sell your assets.”

22. Coinbase has promoted its services and products, including the Coinbase Staking Offerings, in the United States through its mobile application, website, blog, and Twitter account, among other media networks, all of which are available to South Carolina residents. In its marketing of the Coinbase Staking Offerings, 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 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[1] network. While it’s possible to stake Tezos on your own or via a delegated staking service, it can be confusing,

[1] The Tezos network is a decentralized blockchain network with a native cryptocurrency known as Tez (XTZ).

> complicated, and even risky with regard to the security of your staked Tezos. We're changing that with staking rewards on Coinbase."

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

24. To participate in the Coinbase Staking Offerings, investors must first deposit 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 generally lower than the amount that would be required for an individual to operate a validator node on their own.

25. 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 participate in Coinbase Staking Offerings.

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

27. The annual percentage yields for invested crypto assets in the Coinbase Staking Offerings have been up to at least 6 percent depending on which crypto assets were staked.

28. Coinbase then, in its sole and absolute discretion, 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; and

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.

29. In return, investors in 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 through each Coinbase Staking Offering, net of Coinbase's commissions. Coinbase typically takes 25 to 35 percent of a Coinbase Staking Offering's rewards as a commission.

30. Coinbase finances its interest payments to Coinbase Staking Offering investors 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

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."

36. 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

41. The Coinbase Staking Offerings were and are required to be registered with the Division pursuant to S.C.

IX. NOTICE OF OPPORTUNITY FOR HEARING

Each of the Respondents is hereby notified that it has the right to a formal hearing on the matters contained herein. To schedule a hearing, a Respondent must file with the Division within thirty (30) days after the date of service of this Order, a written Answer specifically requesting a hearing. If any Respondent requests a hearing, the Division, within fifteen (15) days after receipt of a written request, will schedule a hearing for that Respondent. The written request shall be delivered to the Office of the Attorney General, 1000 Assembly Street, Columbia, South Carolina 29201, or mailed to the Office of the Attorney General, Attention: Securities Division, P.O. Box 11549, Columbia, South Carolina 29211-1549.

In the written Answer, a Respondent, in addition to requesting a hearing, shall admit or deny each factual allegation in this Order, shall set forth the specific facts on which the Respondent relies, and shall set forth concisely the matters of law and affirmative defenses upon which the Respondent relies. If the Respondent is without knowledge or information sufficient to form a belief as to the truth of an allegation, the Respondent shall so state.

Failure by a Respondent to file a written request for a hearing in this matter within the thirty-day (30) period stated above shall be deemed a waiver by that Respondent of the right to such a hearing. Failure by a Respondent to file an Answer, including a request for a hearing, shall result in this Order's becoming final by operation of law. The regulations governing the hearing process can be found at S.C. Code of Regulations § 13-604.

This Order does not prevent the Division or any agency from seeking additional remedies as are available under the Act, including remedies related to the offers and sales of securities by the Respondents set forth above.

Assistant Deputy Attorney General