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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING  
Whether there has been a violation of the  
Securities Act of Washington by:

COINBASE GLOBAL, INC.;  
COINBASE, INC.;

Respondents.

Order No. S-23-3540-23-SC01

STATEMENT OF CHARGES AND NOTICE OF  
INTENT TO ENTER ORDER TO CEASE AND  
DESIST, TO IMPOSE A FINE, AND TO CHARGE  
COSTS

**THE STATE OF WASHINGTON TO:**

**Coinbase Global, Inc.  
Coinbase, Inc.**

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the state of Washington has reason to believe that Respondents Coinbase Global, Inc. and Coinbase, Inc. violated the Securities Act of Washington. The Securities Administrator believes these violations justify the entry of an order against Respondents Coinbase Global, Inc. and Coinbase, Inc. to cease and desist from such violations, to impose a fine, and to charge costs pursuant to RCW 21.20.390 and RCW 21.20.395. The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

**Respondents**

1. Coinbase Global, Inc. is a Delaware corporation formed on January 27, 2014. Coinbase Global, Inc. is not registered with the Securities Division in any capacity, and has never been so registered.
2. Coinbase, Inc. is a Delaware corporation formed on May 14, 2012. Coinbase, Inc. is not registered with the Securities Division in any capacity, and has never been so registered. Coinbase, Inc. is registered with the Washington Department of Financial Institutions, Consumer Services Division as a money transmitter (NMLS #1163082). In April 2014, Coinbase, Inc. became a wholly-owned subsidiary of Coinbase

1 Global, Inc. as part of a corporate reorganization.

2 3. Coinbase Global, Inc. and Coinbase, Inc. are collectively referred to in this Statement of  
3 Charges as “Coinbase.” Coinbase is a remote-first company with no physical headquarters. Prior to May 2020,  
4 Coinbase was headquartered at 548 Market Street, Suite 23008 in San Francisco, California.

5 4. Coinbase operates a crypto platform that offers a staking rewards program, crypto borrowing,  
6 and crypto exchange services, among others, to retail and institutional customers. Coinbase conducts business  
7 in the United States through Coinbase’s mobile application and public website at <https://www.coinbase.com>.  
8 The Coinbase website is accessible to the general public, including residents of Washington.

### 9 **Nature of the Conduct**

#### 10 **Overview**

11 5. From as early as November 6, 2019, Coinbase has offered and sold unregistered securities, in  
12 the form of crypto asset staking rewards offerings (together the “Coinbase Staking Offerings,” each a  
13 “Coinbase Staking Offering”) made to the United States public at large and to Washington residents.

14 6. As of March 29, 2023, approximately 3,499,506 Coinbase customers in the United States were  
15 active investors in the Coinbase Staking Offerings with investments totaling at least \$4.8 billion.  
16 Approximately 111,818 of those customers were Washington residents, who held investments in the Coinbase  
17 Staking Offerings totaling approximately \$233,022,751.

#### 18 **Background: Crypto Assets and Proof-of-Stake**

19 7. Coinbase describes crypto assets as “decentralized digital money designed to be used over the  
20 internet.”<sup>1</sup> Crypto assets do not rely on middlemen like banks or payment processors to execute transactions.

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<sup>1</sup> As used in this Statement of Charges, “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.”

1 Rather, crypto assets rely on blockchains, which are ongoing, constantly re-verified records of every single  
2 transaction ever made using that crypto asset. The blockchain is distributed across participants of the crypto  
3 asset's network.

4 8. For crypto assets that use a proof-of-stake blockchain, transactions are added to the blockchain  
5 by "validators." Coinbase defines a validator as "a node on a proof of stake blockchain that is responsible for  
6 securing the network, storing the history of transactions and confirming the validity of new transactions added  
7 to the next block in the chain."

8 9. Coinbase has explained staking as follows in its March 20, 2023 comment letter to the  
9 Securities and Exchange Commission:

10 The protocol rules of a blockchain are often referred to as its 'consensus  
11 mechanism' and they dictate how the computers in the network reach agreement  
12 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....

13 Proof-of-stake is generally considered to be faster and less resource-intensive  
14 [than proof-of-work]. In proof-of-stake, participants must lock up, or "stake,"  
15 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 10. The chance of a validator being chosen to validate a transaction on a proof-of-stake blockchain  
17 is typically proportional to the amount of crypto assets being staked. If a chosen validator successfully  
18 validates a block, it is awarded the staking reward.

19 11. To participate as a validator in a proof-of-stake blockchain requires "a minimum number of  
20 tokens, technical knowledge, and a dedicated computer that can perform validations day or night without  
21 downtime." Participating as a validator comes with security considerations and risk of loss, because downtime  
22 or failure to comply with blockchain rules can cause a validator's stake to be "slashed," meaning their staked  
23

1 crypto assets are not returned. According to Coinbase, “[s]lashing is a penalty enforced at the protocol level  
2 associated with a network or validator failure.”

3 12. Coinbase advertises that a simpler way to participate in staking is through a crypto exchange  
4 like Coinbase and encourages customers to participate in staking through its Coinbase Staking Offerings.

### 5 **The Coinbase Staking Offerings**

6 13. The Coinbase Staking Offerings are offered exclusively by Coinbase through Coinbase’s  
7 smartphone application and public website; prospective investors can open accounts on either. The Coinbase  
8 Staking Offerings public website is <https://www.coinbase.com/earn>.

9 14. Coinbase has promoted its services and products, including the Coinbase Staking Offerings, in  
10 the United States through its smartphone application, website, blog, and Twitter account, among other media  
11 networks. In its marketing of the Coinbase Staking Offerings, Coinbase has touted the program as an easy and  
12 accessible way for retail investors to grow their investments, as compared to those investors staking on their  
13 own. Coinbase has also promoted the Coinbase Staking Offerings as safe and secure. For example, Coinbase  
14 has stated:

- 15 a. “Earn up to 6.00% APY [annual percentage yield] on your crypto. Put your crypto to  
16 work and earn rewards.”
- 17 b. “We’ll help you put your assets to work in the cryptoeconomy so you can grow your  
18 crypto holdings with little effort.”
- 19 c. “It’s easy. Start earning with a couple of clicks. You can earn on as little as \$1.”
- 20 d. “It’s secure. We take measures to mitigate risks and allow you to opt-out anytime.”
- 21 e. “You shouldn’t have to be an expert crypto trader to grow your crypto wealth. Offering  
22 an easy way for our customers to earn rewards from staking is an important step in  
23 building an open financial system.”

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

6 15. To participate in the Coinbase Staking Offerings, investors deposit designated crypto assets  
7 into their accounts or purchase the designated crypto assets from Coinbase’s platform and maintain a  
8 minimum amount of those designated crypto assets in Coinbase’s custody.<sup>2</sup> The minimum amounts Coinbase  
9 requires to participate in the Coinbase Staking Offerings are generally lower than the amounts that would be  
10 required for an individual to operate a validator node on their own.

11 16. Coinbase then, in its sole and absolute discretion, facilitates the staking of investors’ crypto  
12 assets by:

- 13 a. Aggregating investors’ deposits of crypto assets in an omnibus wallet.
- 14 b. Performing on-chain operations to configure validator nodes on the relevant blockchain  
15 network.
- 16 c. Bonding investors’ crypto assets to validator nodes for any period of time. These  
17 operations may be conducted for multiple investors in a single batch and typically incur  
18 on-chain fees borne by Coinbase and not passed on to investors.
- 19 d. Operating or engaging third parties to operate validator nodes that use the staked assets  
20 to validate transactions on the underlying protocol.

21 \_\_\_\_\_  
22 <sup>2</sup> Prior to March 21, 2023, for non-Ethereum assets, Coinbase automatically enrolled Coinbase account holders in a Coinbase  
23 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.

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

17. In return, investors earn interest, or rewards, 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.

18. On its public website, Coinbase publishes a list of crypto assets that it transacts in for the Coinbase Staking Offerings. That list states each of these assets' APY. The APY for deposited crypto assets in the Coinbase Staking Offerings have been upward of at least 6%, depending on which crypto assets were deposited.

19. Though the proof-of-stake protocol sets the rewards rate it pays to successful validators, Coinbase has sole discretion in determining its commission and thus the returns that investors in the Coinbase Staking Offerings ultimately receive.<sup>3</sup> Coinbase has set its commission at 25 to 35 percent of a Coinbase Staking Offering's rewards. Furthermore, participants in a Coinbase subscription program known as Coinbase One may have the opportunity to opt-in to lower commissions for certain assets ("Boosted Staking Rewards"). Coinbase may also offer lower commissions for certain assets on a promotional basis, and these promotions

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<sup>3</sup> Beginning no later than March 10, 2023, Coinbase explicitly states in its Coinbase User Agreement that it may change their commission rate at any time, even after the investor has staked their crypto asset.

1 may differ among Coinbase users.

2 20. Coinbase finances its payments to Coinbase Staking Offering investors through revenue from  
3 its business activities, including operating validator nodes, which verify transactions on proof-of-stake  
4 blockchains. Investors neither provide nor facilitate these activities or services.

5 21. As of mid-January 2023, Coinbase employed 64 engineers to support the Coinbase Staking  
6 Offerings.

7 22. On its public website, Coinbase notes that there are risks associated with the Coinbase Staking  
8 Offerings, including “the possible slashing of staked assets or rewards. Although it’s unlikely, there is a  
9 possibility you could lose your staked assets or rewards in case of a network or validator failure. We’ve taken  
10 measures to reduce these risks, but some events are outside our control.” In the event that crypto assets  
11 invested by Coinbase Staking Offerings investors are lost or reduced as the result of “slashing,” Coinbase  
12 may, in some circumstances, replace investors’ slashed assets staked in the Coinbase Staking Offerings at no  
13 additional cost.

14 23. Investors assume other risks related to the Coinbase Staking Offerings. For instance, investors  
15 take the risk of market events affecting the value of their staked assets for the designated lock-up period. On  
16 its public website, Coinbase states, “Staking requires assets to be locked on the protocol in order to earn  
17 rewards. During this time you won’t be able to trade or transfer your assets.”

18 24. Coinbase has no contractual obligation to retain a like amount of investors’ crypto assets (or  
19 comparable ones) in its possession or control to fully cover investors’ staked assets in the event of loss.

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

1 26. Coinbase's interest payments to investors in the Coinbase Staking Offerings function like those  
2 for pooled investment vehicles. However, investors in a Coinbase Staking Offering are not protected by  
3 investor and consumer protection organizations, such as the Securities Investor Protection Corporation  
4 (SIPC), the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration  
5 (NCUA).

### 6 Need For Further Investigation

7 27. The Securities Division is continuing to investigate the matter alleged herein to determine the  
8 full extent of the violations of the Securities Act that have occurred in this matter. The Securities Division  
9 may amend this Statement of Charges in the future to reflect any additional factual allegations and/or  
10 violations as a result of the continuing investigation.

### 11 Registration Status

12 28. Coinbase Global, Inc. is not currently registered to sell its securities in the state of Washington  
13 and has not previously been so registered, nor has it filed a claim of exemption from registration.

14 29. Coinbase, Inc. is not currently registered to sell its securities in the state of Washington and  
15 has not previously been so registered, nor has it filed a claim of exemption from registration.

16 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

### 17 **CONCLUSIONS OF LAW**

18 1. The offer and/or sale of the Coinbase Staking Offerings described above constitutes the offer  
19 and/or sale of a security as defined in RCW 21.20.005(14) and (17).

20 2. Respondents Coinbase Global, Inc. and Coinbase, Inc. violated RCW 21.20.140, the securities  
21 registration section of the Securities Act of Washington, by offering and/or selling securities for which no  
22 registration is on file with the Securities Administrator.



1                   **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

2                   Pursuant to RCW 21.20.390(1), and based upon the Tentative Findings of Fact and Conclusions of  
3 Law, the Securities Administrator intends to order Respondents Coinbase Global, Inc. and Coinbase, Inc.,  
4 and their agents and employees, to each permanently cease and desist from violating RCW 21.20.140.

5                   **NOTICE OF INTENT TO IMPOSE FINES**

6                   Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law,  
7 the Securities Administrator intends to order that Coinbase Global, Inc. and Coinbase, Inc. shall be jointly  
8 and severally liable for and shall pay a fine of \$4,000,000.

9                   **NOTICE OF INTENT TO CHARGE COSTS**

10                  Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of Law,  
11 the Securities Administrator intends to order that Respondents Coinbase Global, Inc. and Coinbase, Inc. shall  
12 be jointly and severally liable for and shall pay the costs, fees, and other expenses incurred in the  
13 administrative investigation and hearing of this matter, in an amount not less than \$10,000.

14                  **AUTHORITY AND PROCEDURE**

15                  This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject  
16 to the provisions of Chapter 34.05 RCW. Respondents Coinbase Global, Inc. and Coinbase, Inc. may each  
17 make a written request for a hearing as set forth in the Notice of Opportunity for Hearing accompanying this  
18 Order. If a respondent does not make a hearing request in the time allowed, the Securities Administrator  
19 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a  
20 permanent order to cease and desist as to that respondent, to impose any fines sought against that respondent,  
21 and to charge any costs sought against that respondent.  
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1 SIGNED and ENTERED this 6th day of June, 2023.



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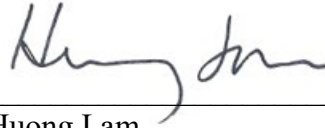
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10 William M. Beatty  
11 Securities Administrator

12 Approved by:



13 \_\_\_\_\_  
14 Brian Guerard  
15 Chief of Enforcement

16 Presented by:



17 \_\_\_\_\_  
18 Huong Lam  
19 Financial Legal Examiner Supervisor