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Chairwoman Waters, Ranking Member McHenry and Members of the Committee, thank you for this opportunity to testify on digital assets and the future of finance.

My name is Alesia Haas and I am Chief Financial Officer of Coinbase Global Inc. I also serve in the role of Chief Executive Officer of our U.S. subsidiary, Coinbase Inc. I joined Coinbase in 2018 after serving as Chief Financial Officer at Sculptor Capital and OneWest Bank and have over 20 years of experience in the finance industry.

I’d like to tell you about Coinbase, discuss the benefits and challenges of crypto, and close with our views on the legal and regulatory landscape.

Coinbase was founded in 2012 with the idea that anyone, anywhere, should be able to easily and securely send and receive Bitcoin, the first crypto asset created in 2009. Today, we are a leading provider of end-to-end financial infrastructure and technology for the cryptoeconomy. We define the cryptoeconomy as a fair, accessible, efficient, and transparent financial system for the internet age that leverages digital assets built on blockchain technology. Coinbase Global, Inc. (COIN) is registered with the SEC as a public company listed on Nasdaq with a market capitalization of $68 billion. Our primary operating company, Coinbase, Inc., and our affiliates (collectively, “Coinbase”) make up one of the largest digital asset financial infrastructure platforms in the world, including an exchange for digital assets.

Today, our platform enables 73 million individuals, businesses, and developers in over 100 countries to participate in the cryptoeconomy. For individuals, we offer a safe, trusted, and easy-to-use crypto account to buy, sell, store, spend, earn, and use crypto assets. For our 10,000-plus institutional customers, we offer a comprehensive solution that combines advanced trading, battle-tested custody, and financing. And, for our more than 185,000 developer partners, we provide technology and services, such as our Coinbase Cloud offering, that enable them to build crypto-based applications and securely accept crypto assets as payment.

Coinbase now has more than 3,000 full-time employees - more than double what we had at this time last year. Coinbase decided in May 2020 to become a remote-first company, not just during the COVID-19 crisis, but moving forward. The shift to remote work has enabled us to find and hire talent across the United States and around the world. We are no longer bound by proximity to a major city; we can hire the best and the brightest no matter where they live. We currently have employees in 45 states and the District of Columbia, including 24 of the 25 states represented by the Members of the Committee. This approach aligns with our mission of helping everyone achieve economic freedom regardless of location.

Coinbase is the largest U.S. digital asset exchange with the highest daily spot trading volume of Bitcoin. As of September 30, 2021, we supported 158 assets for Custody and 103 assets for Trading on our platform, including USD Coin ("USDC). USDC is a stablecoin issued by Circle Internet Financial, Ltd. ("Circle"), resold by Coinbase, and governed by the Centre Consortium, which Coinbase and Circle founded in 2018.

Every asset listed on the Coinbase platform is subject to a rigorous legal, compliance, and security review. As a founding member of the Crypto Ratings Council, Coinbase has led an industry effort to create consistent guidelines for evaluating the suitability of each token for trading.

With an early focus on regulatory requirements, Coinbase has set the standard for legal and regulatory compliance in the digital asset industry. Coinbase was among the first regulated digital asset exchanges in the United States. We are federally registered as a money services business with FinCEN, licensed as a money transmitter in 42 states, and hold a “BitLicense” from the New York Department of Financial Services. Coinbase affiliates also hold various registrations, such as Coinbase Custody Trust Company, a limited purpose trust company chartered by the New York State Department of Financial Services, and Coinbase Credit, which is authorized to engage in consumer lending in 15 states.

In addition to the various state regulatory regimes, our activities are subject to federal oversight from the Department of the Treasury’s FinCEN and Internal Revenue Service, the Commodity Futures Trading Commission, the Securities and Exchange Commission, the Federal Trade Commission, and the Consumer Financial Protection Bureau. We have a robust AML/BSA program, and we are one of only two digital asset members of the Department of the Treasury’s Bank Secrecy Act Advisory Group.

Coinbase has worked to develop best-in-class criminal investigative methods to help make the crypto ecosystem safe for our customers and the world. We have trained state, federal, and international law enforcement agencies to identify and pursue illicit use of digital asset technologies, and we host law enforcement for in-house secondments to partner with our Global Intelligence team on blockchain investigations. We have twice been recognized by FinCEN for providing essential intelligence to law enforcement authorities. In 2019, we received the Private/Public Partnership award from Homeland Security Investigations for our contribution to major law enforcement investigations.

One of Coinbase’s cultural values is to maintain a customer focus in everything we do. We aim to provide the best customer service response times in the industry, and we want our customers to trust that we will match their sense of urgency when they contact us. By the end of this year, we will have implemented 24/7 live phone and messaging support for all retail customers.

As a digitally native company, the security and operational resiliency of our platform has always been one of our foundational principles. We secure our customers’ funds with multiple layers of
protection, including, among others, cybersecurity industry best practices, physical security, and industry-leading identity management tools.

**Coinbase Roadmap**

Coinbase’s platform is powering the cryptoeconomy, which is a critical infrastructure layer to Web 3.0. The first iteration of the internet, or Web 1.0, was static content (e.g. a website describing a company's goods and services). Social media and mobile companies drove the creation of Web 2.0, which enabled users to interact with internet content in a dynamic way. We believe crypto and the blockchain will drive Web 3.0, which improves upon the past models to combine content, payments, and identity on decentralized platforms that are owned and controlled by individual consumers. One example of this innovation is new digital assets that will empower individuals to control their personally identifiable information and authorize its use in discreet and measurable ways. Similarly, a token in a Web 3.0 environment could be used by content creators to directly manage and monetize their intellectual property for things like music, art, books, and other creative content.

We believe Web 3.0 represents a paradigm shift in how we all interact with the internet, and that shift will unleash unprecedented innovation and economic freedom. The Coinbase product suite is being designed to fuel this shift by building technology and a new generation of financial infrastructure to support Web 3.0.

We are also continuing to invest in foundational tools that provide a reliable, scaled infrastructure in service of our customers. Coinbase has pioneered industry-leading security practices and backend technology that supports the demands of the crypto market, which is global, works in real-time, and operates 24/7. We have also invested heavily in regulatory compliance tools, including next-generation industry solutions such as compliance and market monitoring using blockchain analytics, a Travel Rule solution supported by a coalition of crypto providers known as TRUST, and the Crypto Ratings Council.

Coinbase’s efforts have helped drive a shift in crypto participation, particularly over the last year. Total crypto market capitalization at the end of Q3 was ~$2.0 trillion, up from ~$800 billion at the end of 2020, driven by higher crypto asset values and the ongoing proliferation of crypto assets. According to crypto.com, the number of crypto users globally doubled in the first half of 2021 to over 200 million, and the rate of crypto user growth is accelerating. Another survey by the Pew Research Center indicates that roughly 16 percent of Americans have invested in, traded, or used cryptocurrency.²

Coinbase’s roadmap for fostering economic freedom and the cryptoeconomy is based on three pillars.

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² See [16% of Americans Say They Have Ever Invested in, Traded or Used Cryptocurrency](https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/), Andrew Perrin (Nov. 11, 2021).
1. **New financial system.** Crypto is opening up a new financial system. This means creating new digital tools and services that enable people to do more with their crypto beyond buying, selling, or storing. We are seeing the needs of our customers evolve and we are building products accordingly. In the third quarter of 2021, nearly 50% of our transacting customers are doing something other than buying and selling crypto, including participating in Earn campaigns to learn about new crypto assets and then earn some of that asset or Staking their crypto to earn a reward. We are proud that our products and services are giving our customers opportunities to enhance their financial position and better participate in economic activities.

2. **App platform.** Crypto can serve as an app platform. The foundational benefit of crypto is that it allows for innovation of new financial and non-financial applications, like non-fungible art tokens (NFTs), that are controlled by the individual. Coinbase will enable institutions and app developers to plug into the existing crypto infrastructure via external APIs thus supporting application innovation. Coinbase will also build products that help customers benefit from this innovation. By supporting both the development of, and access to, these new applications, we will create the conditions for an entirely new ecosystem of Web 3.0 applications that put power back in the hands of individuals.

3. **Investment.** We want to empower everybody to achieve economic freedom through investing in and using crypto. At Coinbase, we believe we can enable customers to buy, sell, and hold crypto in a safe, informed, and compliant way. What began with the creation of Bitcoin in 2009 has subsequently blossomed into an industry with thousands of different crypto assets -- with diverse underlying use cases -- and a total market capitalization of $2.4 trillion as of this writing. We serve as the primary crypto account -- enabling customers to buy, sell, securely store, transact and use crypto -- for millions of customers who leverage our technology to invest in the cryptoeconomy.

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**What is Crypto?**

A blockchain is similar to a database or ledger, but unlike traditional ledgers, there is no need for a central authority to maintain it. Instead, blockchain-based ledgers are public, distributed, and immutable: anyone can download the ledger and see the entire history of every transaction that has ever occurred on a given blockchain. That free public history is an essential feature of a blockchain because it ensures that a counterparty possesses the digital asset that is being transacted. As a result, transactions can occur remotely without an intermediary vouching for either party.  

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Distributed ledgers are enabled by cryptography. At the core of all cryptocurrencies are private keys -- complex and secret numbers used by an individual transacting on the blockchain. A private key is mathematically linked to a public key, which is the address that others can use to transact with the owner of the private key. Put simply, a distributed ledger is really just the history of transactions between public keys. A transaction occurs if the private key associated with the public key cryptographically signs off on the transaction. Other than the owner, no one viewing the blockchain can see the private key by looking at the public key.

The cryptographic math that secures the blockchain generally obscures the identity of the owner of the private keys - making transactions pseudonymous. This means that a transaction can be tracked but the details are obfuscated. For example, the public blockchain does not indicate that a Coinbase wallet transacted with a PayPal wallet and does not disclose the identities of the individuals transacting.

The Benefits of Crypto

We believe the cryptoeconomy is a fair, accessible, efficient and transparent financial system for the internet age that leverages digital assets built on blockchain technology. Digital asset trading platforms, such as Coinbase, have emerged to meet the demand from Americans for access to innovative digital assets. The digital asset market infrastructure has developed dramatically in recent years to ensure exchange and trading services, clearing, settlement, and custody can be provided effectively and more efficiently across a suite of asset offerings. The benefits of these assets are many and the list is growing, but we believe there are 10 key benefits of crypto:

**Ten Key Benefits**

1. **Access.** Anyone, anywhere with an internet connection can directly access crypto networks. People may choose to work through central intermediaries, like Coinbase, but an intermediary is not required for access and participation in this market. This means the cryptoeconomy is not just available to sophisticated and institutional investors, but – even more importantly – to millions of people in the US and billions of people around the world, who often do not have access to traditional financial services.

Recent studies have shown that populations historically underrepresented in traditional finance are turning to the cryptoeconomy to find avenues that put them on even ground

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5 *Id.*

6 *Id.*
with other investors.\textsuperscript{7} This stands in stark contrast to the traditional financial system where Black and Hispanic communities are underrepresented.\textsuperscript{8}

2. \textit{Individual ownership.} Crypto assets are fundamentally different from traditional financial assets because they allow for simple and secure individual ownership without the need for a complex web of intermediaries to record ownership and confirm transactions. The upshot of this is that, in the crypto economy, consumers control their financial assets. This means that participants can maintain their own addresses or accounts on the distributed ledger, and can complete their transactions (\textit{e.g.}, payments or remittances) directly using software, rather than indirectly relying on intermediaries. This processing model can improve settlement certainty, reduce processing times, and minimize system demands on centralized entities.

3. \textit{Enhanced transparency.} Distributed ledgers are simultaneously hosted across multiple systems with no central authority. Recording a transaction requires consensus in accordance with the distributed ledger’s technology: for example, via a computationally intensive cryptographic problem (\textit{i.e.}, “proof of work”) or validation by the community of digital asset owners (\textit{i.e.}, “proof of stake”). The distributed nature of this validation process and the accessibility of the ledger provides enhanced transparency, as well as a readily accessible means of auditing past transactions.

4. \textit{Increased resiliency.} Because distributed ledgers are simultaneously hosted across multiple systems, they are highly resistant to corruption. An effective attack would require extraordinary resources and intense coordination. System failures of well established blockchain protocols are extremely unlikely.

5. \textit{Efficiency.} Digital assets, distributed ledger technology, and smart contracts can be designed to automatically execute transactions if specific conditions are met (\textit{e.g.}, release of collateral upon repayment of a loan). This enables real-time processing, which reduces counterparty risk and the risk of transaction delays or failures to clear transactions.

6. \textit{Lower transaction costs.} New entrants to the digital asset economy can immediately benefit from lower transaction costs when sending and receiving payments or holding digital assets. For example, an individual who wants to send money to family overseas

\textsuperscript{7} See 16\% of Americans Say They Have Ever Invested in, Traded or Used Cryptocurrency, Andrew Perrin (Nov. 11, 2021), \url{https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/}.

\textsuperscript{8} See Stocks are Soaring, and Most Black People are Missing Out, Stan Choe (Oct. 12, 2020), \url{https://apnews.com/article/virus-outbreak-race-and-ethnicity-business-us-news-ap-top-news-69fe836e19a8dfe89d73e8e4be6d480c}. 6
can eliminate the standard remittance fee of 6.5%\(^9\) by using crypto instead of the legacy fiat remittance and correspondent banking infrastructure.

7. **Continuous operation.** Digital assets and distributed ledgers are in continuous operation, allowing transactions to be processed and validated 24 hours a day, 365 days a year.

8. **Creator control.** Crypto can empower a new generation of creators who own their content and maintain lifetime monetization of it. For instance, crypto is increasingly enabling artists and other creators to release their product directly to consumers and receive credit for their creation beyond its initial sale.

9. **New ways to interact with assets.** Crypto will empower individuals to use and invest in assets in ways that have never been considered. Bitcoin and other cryptocurrencies are just the beginning. Technology is creating new ways to invest in an array of assets, such as real estate, creative works, and traditional financial products. This evolution will take place using decentralized protocols, enabling deep liquidity and global access to previously non-existent or hard to access products.

10. **Micro-transactions.** Crypto’s efficiency, coupled with its ability to transact in much smaller amounts, will allow for micro-payments that are impractical under traditional payments systems. These small transactions can have big impacts. At the individual level, for example, we could see this technology allowing hourly workers to be paid in real-time. This would help many workers avoid the high interest rates they often pay to payday lenders while waiting weeks for the close of a pay period to receive their paychecks.

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**The Challenges of Crypto**

As described above, we are beginning to see a more efficient, transparent, and cost-effective ecosystem as compared to traditional financial markets. These developments, driven by technological advancement, will empower market participants with greater and more direct control over their financial decisions. In turn, this will increase accessibility to financial services, reduce excess costs of the current system (which are often borne by retail customers) and create more transparency for regulators. In fact, regulators are already deriving benefits by leveraging this new technology to engage in market surveillance and combat illicit finance. These changes are contributing to one of the most dynamic and broad based periods of American financial innovation.

Disruption, however, generally results in both benefits and challenges. By drawing an even sharper contrast between new and old ways of doing business, crypto has increased the tension between traditional finance and financial services fueled by innovation. Crypto is an entirely new asset class that requires thoughtful consideration to address very real challenges, including

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helping individuals and businesses comply with U.S. tax law, combating illicit finance, and eliminating regulatory confusion.

**Key Challenges**

**Need for Purpose Built Crypto Tax Code**

Coinbase agrees with the goal of the IRS and Congress to ensure individuals and businesses pay the taxes they owe. Central to achieving this goal is recognizing the unique nature of crypto technology – and creating parity with other asset classes. Coinbase has developed a number of resources to help our customers meet their tax obligations, including a tax resource center\(^\text{10}\) and partnerships with both TurboTax and Cointracker to help customers accurately calculate their taxes owed.\(^\text{11}\)

Holders of digital assets want to pay their taxes, and centralized crypto intermediaries like Coinbase want clear rules and guidance to help them do that. Digital asset platforms should be subject to the same third-party reporting rules on our customers’ gains and losses that brokerage firms, like Fidelity and Charles Schwab, operate under today.

As we and others in the ecosystem have noted, the development of crypto, and financial innovation generally, has enormous potential for the American economy through increased job creation and GDP growth.\(^\text{12}\) As policymakers craft the laws to address this new innovation, they should do so openly with public participation to fully understand the implications of new tax policy. The recently passed infrastructure bill includes provisions related to the definition of broker and reporting requirements that could run counter to our efforts to achieve parity with traditional finance. The bill currently includes language that could be interpreted in a way that fails to recognize technological capabilities and limitations.\(^\text{13}\) The provisions could be fixed in either legislation or regulation, and we are eager to work with policymakers to find a path forward that supports innovation and enables tax compliance. Tax policy should be thoughtful and deliberate, particularly when new technology presents new opportunities and challenges.

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Controls and Oversight for Illicit Finance

Coinbase implements a robust Anti-Money Laundering (AML) program, requires Know Your Customer (KYC) information when onboarding customers, reviews transactions for suspicious activity, files Suspicious Activity Reports (SARs), and regularly engages with law enforcement. Yet, there is a very real problem that a small group of non-compliant foreign exchanges are the venues used by criminal actors to cash out their illicit gains, and those foreign exchanges use jurisdictional arbitrage to avoid U.S. regulations. Criminal actors generally avoid exchanges, like Coinbase, that have AML/KYC programs because they would likely be identified by us, have their account frozen, or referred to law enforcement.

As an example, research indicates that from 2017-2019, over 80% of ransomware cashout activity was handled by just four offshore entities.¹⁴ 2021 data so far shows that ~64% of ransomware cashouts occurred on just three foreign exchanges. Of the top 10 recipients of ransomware payments, eight are offshore exchanges and two are mixing services.

The reality is that crypto technologies are tools that can help identify and prevent criminal activities. Cryptocurrency is easier to track than fiat currency because searchable databases (public blockchains) exist for most transactions. The information in these blockchains exists permanently, and provides law enforcement with details about crypto transactions that are not available with fiat currency. The Department of Justice discusses this utility as part of its investigation methods; the September 2019 edition of the Department of Justice Journal of Federal Law and Practice says:

> Cryptocurrency, despite the purported anonymity it grants criminals, provides law enforcement with an exceptional tracing tool: the blockchain. While the blockchain’s historical ledger will not list the names of parties to transactions, it provides investigators with ample information about how, when, and how much cryptocurrency is being transferred.¹⁵

The public blockchains have helped advance law enforcement efforts with new tools that reveal the structure of organized ransomware crime rings and individual hackers in ways that are unavailable with fiat.

Policymakers should develop tailored solutions in this space to effectively target illicit activity that uses crypto. We know that a vast amount of illicit activity is happening on a small set of non-compliant offshore exchanges and mixing services that enable criminal actors to monetize their activity. Directing more of law enforcement’s investigations and resources to those actors can very effectively disrupt those actors’ infrastructure in the near-term. On a more long-term basis, we believe that the laws can be modified to provide broader forfeiture authority (i.e., not


¹⁵ 67 DOJ J. FED. L. & PRAC., No. 3 at 166 (2019).
just property traceable from or involved in the offense, but all assets of the criminal actor), and to include a universal venue provision for money laundering that allows for prosecution as long as a victim or some act was committed in the district.

Without tailored legislative solutions that are openly debated with public participation, the United States risks unnecessarily onerous and chilling laws and regulations. This could effectively push crypto activity underground or to offshore exchanges that have little or no compliance programs. Customers will be driven to offshore platforms, as will victims. Non-compliant exchanges do not implement a program for reporting potential illicit activity or working with law enforcement. All of this would undermine law enforcement efforts in the United States, and hurt U.S. consumers.

**New Asset Classes Create Opportunities for New Solutions**

Blockchain technology offers a foundation on which any thing of value -- debt, equity, collectibles, property, titles, currency, identities can be tokenized and transacted freely and transparently via a public ledger. This has and will continue to revolutionize how consumers exchange value, and will drive innovation across many familiar (and new/unfamiliar) asset classes. Regulatory clarity will be needed on how these assets are defined, whether the assets fall within existing regimes, and how consumer protection laws will apply to them.

As examples, the largest areas of tokenization to-date have been:

- **Bitcoin**: a deflationary commodity designed to prioritize scarcity and capital preservation;
- **Ether**: a commodity that allows individuals to transact on the Ethereum blockchain, enabling developers the ability to create and interact with smart contracts;
- **DeFi protocol tokens**: tokens that allows for direct participation in the governance of decentralized protocols;
- **Digital NFTs**: ownership of digital works; and
- **Stablecoins**: a stored value token intended to maintain a stable value over time.

We envision a future where this list expands to include tokenized collectibles like titles, property, art, and people's time, along with the tokenization of traditional asset classes like securities and commodities. Tokenizing anything of value gives rise to entirely new asset classes with characteristics that are not specific to any one existing regulatory scheme. Some assets may fit under existing regulatory agencies, whereas others warrant discussion as to how (or if) they should be regulated, and what form consumer protection takes as assets that previously fell outside regulatory perimeters become liquid tradable instruments.

Because of their nascent stage of development and unique underlying technology, digital assets trade in markets that are fundamentally different from traditional financial markets. As a result, existing regulatory regimes often do not accommodate this new technology. Below we identify a
case study that articulates a strong argument for why current securities laws need to be updated to accommodate this new asset class.

**Case Study: Securities Exchange Regulation Does Not Work for Digital Asset Trading Platforms**

Our federal securities laws, which originally date from the 1930s, include a list of more than 20 financial instruments that are considered securities. None of these categories are a good fit for most digital assets, which have characteristics and functions beyond those contemplated for regulation by securities laws. Similarly, the regulatory requirements for securities intermediaries (broker-dealers (BD), automated trading systems (ATS), and national securities exchanges) are ill-suited to regulate digital asset markets. They are designed to oversee market structures with intermediary systems significantly different from those of digital asset markets. Whatever the risks and benefits of this new asset class may be, existing laws and regulations were not designed with digital assets in mind.

Some, nevertheless, assert that applying these legacy requirements is appropriate. While applying existing regulation may appear, at first, like a straightforward solution, the reality is far more complex. Applying the requirements of securities laws to crypto platforms produces untenable results because the BD/ATS and national securities exchange models simply do not fit. This helps explain why no major cryptocurrency exchanges have registered under these frameworks, despite ongoing conversations with regulators on how to apply legacy rules to emerging crypto technologies.

In the traditional national securities exchange framework, securities exchanges like the NYSE or Nasdaq do not provide services to individuals or institutional investors. Instead exchange members must be registered broker-dealers or persons associated with a registered broker-dealer.\(^\text{16}\) Individuals and institutional investors are served by these broker-dealers, either directly or through a second set of broker-dealers who have access to an exchange member and trade securities for customers and provide custody for their customer’s securities and cash.

These broker-dealers often rely on another set of broker-dealers – clearing brokers – to clear, settle, and record their customer’s securities transactions. Banks may separately provide securities custody and transactional services to customers. And there are clearing agencies and transfer agents that serve market participants and securities issuers in providing further clearing, settlement, and recordkeeping services to facilitate securities trading on exchanges and in other markets. This highly intermediated and complex market structure evolved over a hundred years and is based upon legacy technology. It is complex and does not necessarily need to be duplicated when new technologies are able to provide more streamlined and efficient services.

Put differently, this...

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\(^\text{16}\) See Section 6(c)(1) of the Securities Exchange Act of 1934 (the "Exchange Act").
Coinbase, like other digital asset trading platforms, performs the full lifecycle of digital asset transactions within a single entity. We seamlessly host and directly serve tens of millions of customers. These customers benefit from direct access to our exchange and do not compensate or pay fees to broker-dealers or other gatekeepers as would be required for access to a securities exchange. Clearing brokers and related services are similarly not needed. Recordkeeping is native to blockchain transactions and settlement for digital assets takes place in minutes, compared to two days for equity securities. This eliminates the need to manage settlement risk by separating central counterparties from depositories, clearing agencies, transfer agents, and custody services.

The efficiency gains from straight-through-processing (streamlining trading, custody, clearing, and settlement services) can also serve to reduce risks in the system. Quicker settlement reduces reliance on capital and margin to facilitate trading and can avoid suspension of customer access to markets.

While the outdated and costly role of the broker-dealer as gatekeeper is eliminated, these types of traditional intermediaries can still engage in critical market-making activities that provide valuable liquidity benefits to all participants. This preserves the benefits of added liquidity provided by these intermediaries to markets, without the added fees being incurred by end users generated by layers of required intermediation.
Given the significant structural difference between securities markets and digital asset markets, we believe that regulators should not react by simply imposing the existing regulatory framework—designed for a different context—on digital asset activities. Doing so would be like responding to the automobile’s invention by requiring cars to be pulled by horses.

Instead, regulators should seek to preserve the benefits of this new market structure while fully addressing its risks. As we have described in our Digital Asset Policy Proposal, this would include comprehensive regulation of trading platforms—or digital asset marketplaces—and other market participants based upon the services they provide and the risks that those services raise. It would include, for example, disclosure requirements, obligations to protect customer assets, for cybersecurity and resilience, for post-trade transparency, to combat illicit crimes, and to mitigate conflicts of interest. Such an approach would ensure that US consumers have the protections of comprehensive federal regulation while also preserving the benefits of and innovations in digital asset markets.

A Path Forward

A Single Regulator is the Solution

At Coinbase, we have been urging policymakers to adopt clear rules for crypto because they lead to better oversight, more transparency, higher levels of confidence, and ultimately more adoption. For that reason, we have developed our Digital Asset Policy Proposal (#dApp), in which we shared our thoughts about the challenges of the existing framework of regulation. In the #dApp, we provided principles that Congress and the Administration could use to develop a new framework of regulation. These principles are articulated in four pillars.

First, we believe the government should regulate digital assets under a new framework. Our existing regulatory system does not work effectively for the open, decentralized networks that crypto has created. Financial regulation was built around a series of financial intermediaries—transfer agents, clearing houses and traditional brokers—which are not necessary to effectuate crypto transactions. Crypto and blockchain technology are potentially transformational across the broad gamut of financial services and activities, and therefore a single comprehensive framework of regulation would best advance regulatory outcomes, while ensuring that legacy regulation does not unnecessarily impede societally beneficial innovation.

Second, responsibility for this new framework should be assigned to a single federal regulator and a new registration process established for marketplaces for digital assets. In the tradition of other markets, a dedicated self-regulatory organization (SRO) should be established to strengthen the oversight regime and provide more-granular supervision of such marketplaces. Together, the regulator and the SRO can set new and well-informed rules that work for everyone in the digital asset ecosystem. This of course does not mean an entirely new regulatory agency is required. If it deems appropriate, Congress can identify an existing regulatory agency for this role and spare other agencies the inefficiencies and inconsistencies that come when multiple agencies seek to regulate the same aspects of the same industry at the same time.
Third, this separate framework should have three goals to ensure holders of digital assets are empowered and protected: 1) Enhance transparency through appropriate disclosure requirements. 2) Protect against fraud and market manipulation. 3) Promote efficiency and strengthen market resiliency. Each of these goals should be accomplished while recognizing that crypto has unique and novel characteristics that often unlock new and better ways to achieve these goals than may have been possible using legacy technologies.

Finally, it’s important to promote interoperability and fair competition. To realize the full potential of digital assets, marketplaces for digital assets must work with products and services across the cryptoeconomy. If fully realized, this can enshrine competition, encourage responsible innovation, and promote a thriving developer ecosystem.

**Conclusion**

Coinbase’s mission is to increase economic freedom in the world. We believe crypto will drive change across society in meaningful ways. Coinbase is committed to doing what we do best: finding ways for people to access crypto in order to access its benefits and bring about broad societal changes. While disruption always creates challenges, we believe there are exciting opportunities for policymakers to partner with technologists and industry stakeholders to design solutions that will improve the system for everyone. We applaud Chairwoman Waters, Ranking Member McHenry and the members of this Committee for holding this important hearing, and we appreciate the efforts of many who are working hard to find solutions to these complex public policy questions. Coinbase wants to be a helpful partner as you move forward on policy solutions that will help shape the future of the cryptoeconomy.