

May 1, 2018

VIA ELECTRONIC AND EXPRESS MAIL

Simon G. Bandler, Senior Advisor & Special Counsel
John D. Castiglione, Asst. Attorney General, Investor Protection Bureau
Office of the Attorney General of the State of New York
120 Broadway
New York, NY 10271

RE: Coinbase Voluntary Response to the New York Attorney General
Virtual Markets Integrity Initiative

Dear Messrs. Bandler and Castiglione:

I write on behalf of Coinbase, Inc. ("Coinbase") in response to the New York State Office of the Attorney General ("OAG") Virtual Markets Integrity Initiative. Coinbase is firmly committed to the protection of virtual currency consumers and investors, and we are pleased to cooperate in this OAG initiative. In fact, we applaud the OAG for taking action to bring further transparency to the virtual currency markets. We are happy to provide information about the policies and programs we have in place to help ensure our customers can safely transact and invest in virtual currencies. Our full response to the OAG Questionnaire is provided under separate cover and please do not hesitate to contact us if you have any follow up inquiries.

Introduction to Coinbase

Coinbase was founded in 2012 with a mission to create an open financial system for the world. From our inception, we sought to operate transparently under regulation and view ourselves as a leader in the legitimization and maturation of the crypto economy. We provide an onramp for acquiring, trading and holding virtual currencies. Through our strategy of operating the most trusted and easiest to use virtual currency exchange and wallet, we have grown into one of the largest and most successful virtual currency businesses in the world. Coinbase and its affiliates serve millions of customers around the globe; we securely store billions of dollars-worth of virtual currencies on behalf of our customers; we have traded over \$150 billion in assets on our platform; and we have more than 300 employees in four offices around the world (with full time contractors, we have nearly 1,000 dedicated personnel). We have received over \$225 million in funding from some of the nation's leading venture capital and financial service firms. Although we consider ourselves a growth-stage company, Coinbase today operates as a profitable and self-sustaining business.

Regulatory Oversight of Coinbase

Coinbase has been registered as a money service business with FinCEN since 2013. In addition, we have 41 licenses in 39 states. Most of these licenses are money transmission licenses. Significantly, we hold a Bitlicense from New York State's Department of Financial Services ("DFS"), the nation's only license specific to virtual currency regulation and supervision. That license entails considerable regulatory oversight, including frequent onsite examinations, substantial net worth requirements, and near-continuous interaction with the DFS. Other states where Coinbase is licensed require Coinbase to report information and provide certain consumer disclosures about the virtual currency business activity on our platform. Our anti-money laundering ("AML") compliance program is designed to build upon the highest levels of compliance in our industry. One measure of our commitment to compliance is the fact that nearly 20% of our employees work in our compliance group. Our Know Your Customer ("KYC") and Bank Secrecy Act ("BSA") programs are particularly well supported, and we have been recognized for our leadership in this area by serving as the only virtual currency company currently invited to participate in FinCEN's Bank Secrecy Act Advisory Group ("BSAAG").

In addition to our formal regulatory role, Coinbase continuously shares its expertise to promote the transparency and integrity of our ecosystem. We train more law enforcement agencies globally than anyone. We have a team of individuals who offer expert training on cryptocurrencies and the blockchain to the world's leading law enforcement agencies, including: the Federal Bureau of Investigation, Drug Enforcement Agency, Marshals Service, U.S. Postal Service, Department of Homeland Security, U.S. Secret Service, Internal Revenue Service's Criminal Investigative Division, Europol, Interpol, Scotland Yard, the Royal Canadian Mounted Police, the Swiss Federal Police, the Spanish Federal Police and many state and local agencies, including the Manhattan District Attorney's Office. As one recent example, Coinbase is privileged to participate in the New York Bank Share, a meeting of financial institutions, money service businesses, lawyers in private practice, and the District Attorney's Office to discuss pertinent financial issues and trends relating to anti-money laundering, sanctions, and other initiatives. Coinbase is proud to be a trusted partner to law enforcement and is committed to providing training and assistance when requested.

Coinbase maintains regular communication with federal regulators to discuss aspects of our business that may be relevant to those agencies. One federal agency, the Commodities Futures Trading Commission ("CFTC"), has already asserted jurisdiction over the virtual currency spot markets based on their authority related to fraud and market manipulation. Another federal agency, the Securities Exchange Commission ("SEC"), has asserted jurisdiction over the marketplace in so called securities tokens, which in the view of the SEC meet the definition of securities under federal law. Other federal consumer protection agencies, including the Federal Trade Commission ("FTC") and the Consumer Financial Protection Bureau ("CFPB"), are actively engaged in the virtual currency marketplace. Coinbase will continue to monitor developments with each of the above agencies, and others, and we will seek appropriate additional licensure under state or federal law where necessary to support our business.

Coinbase's Commitment to Customer and Investor Protection

Since its inception Coinbase has been committed to building a culture of compliance as demonstrated by its dedication to investor and consumer protection. This commitment distinguishes Coinbase from many of its competitors. To that end, Coinbase has taken extensive measures to ensure that it maintains its place as a leader in protecting consumers and ensuring the fairness and integrity of virtual currency markets. A few key areas are worth highlighting.

1. Cybersecurity

First and foremost we have very strong cybersecurity protections to ensure that we remain the most trusted company in this space. Our cybersecurity program is state of the art and it is critical to the success of our business. As part of Coinbase's commitment to compliance with the newly enacted New York cybersecurity regulation, 23 NYCRR 500, we have established a cybersecurity program and related policies and training, conduct periodic penetration testing and vulnerability assessments, and undertake security risk assessments among myriad other operational and technical safeguards. We operate an active bug bounty program to pay third-party developers for vulnerability tips. We will continue to invest aggressively in industry-leading technology and practices to secure customers' data and virtual currency assets, even as our investment and commitment to security go far beyond what the law requires.

2. Customer Support & Disclosures

We continue to invest heavily in our customer support operations. Since March of last year, Coinbase has increased full-time staffing in our customer support team by about a factor of ten. With the addition of several hundred email and phone support agents, more advanced quality control and triage processes, and the recruitment of executive leadership to our operational and support teams, we have dramatically reduced customer support wait times and a backlog of open tickets. And we will do more. We have revamped and continue to iterate on our support team training and quality assessment, we are investing to establish 24/7 global tiered coverage with staff located in multiple continents, live multi-language support, and revamping improved FAQ and other support pages this year.

We have also taken great care in our product design, transaction confirmation prompts, receipts, and user tools to create an intuitive and transparent consumer platform. These include pre-transaction disclosure of applicable fees and calculation methods, transaction receipts, anticipated transaction settlement windows, trading limits, readily accessible account records, and general risks disclosures. We also offer tax gain calculations tools, simple product descriptions, and other general information about how the company is regulated, insured, and our operating practices. We supplement tools and disclosures built into our products with regular customer announcements, support, and engagement through social media, our blog,

and other communications channels. In short, our customers expect a level of support and transparency that is consistent with large, heavily regulated financial institutions, and we will rise to meet those expectations to continue to earn and strengthen customer trust.

3. *Platform Reliability*

We also continue to invest heavily in our technical backend and system stability. Despite extremely competitive demand for experienced, technical engineering employees, we have more than doubled the size of our full-time employee engineering team in the past year, including addition of senior personnel to our teams supporting infrastructure, site reliability, and payments operations. Our professionals have worked hard to achieve greater efficiencies in database management, improved caching to reduce load on our databases, an overhaul of our APIs, and substantial re-architecting of our code base. These efforts and others have resulted in a 1000% increase in our surge, transaction capacity relative to Q3 of 2017. We expect to again double this capacity in coming months, all while maintaining the highest standard of security expected by our customers. Although even the most sophisticated financial institutions experience platform downtime—most recently evidenced in reports of widespread website outages among national brokerage firms this February—we strive to provide near continuous support for our users. We are proud to have delivered 99.97% uptime to users of the platform in the period January 1 to present, and 99.99% uptime in the month of April.

4. *Market Integrity*

Coinbase is among industry leaders in implementing internal policies and procedures to strengthen the integrity of market operations, often going beyond what applicable law or regulation requires. These include policies and procedures to monitor and restrict employee trading and personal conflicts, to ensure the confidentiality of customer personal information and trading activity, to restore or introduce trading products to market with minimal disruption and/or volatility, and trading rules that prohibit fraudulent and/or manipulative conduct. We are also in the process of enhancing our market operations through the addition of more robust and automated surveillance tools and dedicated compliance staffing. These additional resources will improve our capacity to detect and prevent fraud and manipulative conduct as part of our commitment towards complying with the February 7, 2018 guidance issued by the New York DFS.

Today Coinbase supports only four virtual currencies on our platform: Bitcoin, Ethereum, Litecoin, and Bitcoin Cash. We are very deliberate about which tokens we support for general trading to ensure compliance with law and to ensure that consumers are not exposed to assets which we consider to be insecure or otherwise unsuitable for our platform. Not all exchanges give such a priority to compliance with the laws, and many assets are currently available to investors outside of regulatory oversight. At Coinbase, we have worked to bring clarity to the issue of what assets we can support since 2016. To help potential market participants, we published our Digital Asset Framework to provide transparency about how we consider listing

new assets. We have also established—and shared with our customers—a process by which a select group of internal experts and support teams deliberate as to which assets to add to the platform, subject to strict confidentiality and personal trading restrictions.

Going Forward

This letter describes only a few of the many measures we take to protect consumers and ensure the fairness and integrity of our platform. We are confident that our full response to the OAG questionnaire will provide a useful benchmark for the OAG Initiative. We are transmitting our full response via an encrypted end-to-end secure file exchange service consistent with our security protocol. We request confidential treatment under N.Y. Pub. Off Law Sections 84, et. seq. for our response.

In closing, we note that all of the matters discussed in our response to the OAG questionnaire continue to be the subject of close discussion and examination by the NY DFS. We will continue to work with the DFS, and other state regulators, to ensure that we continue to deliver to our customers the most trusted and easiest to use platform to access virtual assets. As described above and in our response, Coinbase believes that trust is enhanced through partnership with policymakers, regulators, and law enforcement agencies. We look forward to cooperating further with the OAG's Initiative and assisting policy makers and regulators in shaping a responsibly regulated, high integrity virtual currency marketplace.

Please contact me if we may serve as a resource or be of any further help in this matter.

Sincerely,



Mike Lempres

Chief Legal & Risk Officer, Coinbase

cc: Juan Suarez, VP of Legal, Coinbase
Maribeth Bushey, Consumer Counsel
Cassie Lenchner, Deputy Superintendent for Compliance, NY DFS