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PRESS RELEASE

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Attorney General Brown Brings Action Against Coinbase

BALTIMORE, MD (June 6, 2023) – Maryland Attorney General Anthony G. Brown’s Securities Division today announced that it has filed an [action](#) against Coinbase Global, Inc. and Coinbase, Inc. (collectively, “Coinbase”), ordering them to cease and desist violating Maryland law in connection with Coinbase’s crypto asset staking offerings. The Securities Division alleges that Coinbase offered and sold unregistered securities in a form that Coinbase calls “staking rewards.”

Staking occurs when crypto asset holders lock their crypto assets for a set period for the opportunity to validate transactions on the blockchain. If the holder is selected to validate transactions, the holder has an opportunity to earn more crypto assets if validation is performed in a timely manner. The more assets that a holder stakes, the more likely it is that the holder will be selected to validate transactions.

Blockchain staking is inherently risky for investors because their staked crypto assets are locked up for a designated period and cannot be withdrawn, subjecting investors to loss from market events. Other risks include the lack of insurance coverage for the staked assets, the chance of loss from network or validator failure, and the success (or failure) of Coinbase’s efforts and business as a whole. As of March 29, 2023, over 75,600 Marylanders had invested in Coinbase’s staking offering, and their accounts collectively held investments totaling at least \$84 million.

The Securities Division is alleging that Coinbase is selling securities that do not comply with the Securities Act. Investors who purchase securities may not receive protections when offers fail to comply with Maryland’s requirements, such as full disclosure of the information about the risks associated with the prospective investment and important information about the company, its operations, financial status, and the background and experience of its principals and key personnel.

Coinbase’s staking offerings function like pooled investment funds, where investors’ funds are pooled together and managed. Under these offerings, investors deposit crypto assets with Coinbase, and Coinbase then pools all deposited assets and stakes them on the relevant blockchains. Coinbase employs a team to engage in technical staking operations and generate profits in the form of crypto assets. Coinbase then takes a cut of those profits.

“Coinbase’s deliberate actions put Marylander investors’ hard-earned money at risk because they denied those investors the opportunity to make informed decisions about their finances,” **said Attorney General Brown**. “I will continue to fight on behalf of all Marylanders and hold corporations accountable when they violate the law.”

Today’s action does not prohibit Coinbase from offering staking as a service as long as it’s in compliance with Maryland’s laws. State securities laws require that issuers provide investors with the material information necessary to make an informed investment decision. The Securities Division reviews registered offerings, in part, to ensure that securities issuers provide investors the information needed to evaluate the pros and cons of participating in an investment.

Maryland has joined a working group of state securities regulators focused on crypto asset products. Through this coordinated effort, Maryland participated in the investigation of Coinbase, along with Alabama, California, Illinois, Kentucky, New Jersey, South Carolina, Vermont, Washington, and Wisconsin. Maryland also recognizes simultaneous enforcement efforts by the SEC.

Maryland continues to consider enforcement actions against firms that engage in staking offerings without complying with state law. Firms that need to register and those that have past unregistered activity should reach out to the Securities Division. In addition, investors should reach out to the Securities Division to check the registration status of a firm before investing their money in a staking offering.

If you are a client of Coinbase with complaints about your staking investment, please email the Securities Division at securities@oag.state.md.us to file a complaint related to your staking investment.

<https://www.marylandattorneygeneral.gov/press/2023/060623a.pdf>