

To: **Re: Request for Comment on Developing a Framework on Competitiveness of Digital Asset Technologies. (Docket ITA-2022-0003)**

Department of Commerce
International Trade Administration

Date:

05 July 2022

Coinbase Global, Inc. (Coinbase) welcomes the opportunity to comment on the International Trade Administration's (ITA) request for comment on "Developing a Framework on Competitiveness of Digital Asset Technologies" (the RFC). Our response contemplates both the questions asked in the RFC, as well as President Biden's Executive Order on "Ensuring Responsible Development of Digital Assets" (the Executive Order) issued on March 9, 2022.

Both the RFC and the Executive Order reflect an important underlying tenet that the U.S. must maintain its competitive advantage in technology in order to preserve our economic and national security. We believe leading on digital assets and crypto is – and will be – central to U.S. global competitiveness, and we urge the Department to work across the government to ensure U.S. leadership and a level playing field globally.

Sincerely,



Faryar Shirzad
Chief Policy Officer
Coinbase Global, Inc.

Summary of Recommendations:

Coinbase believes the following three recommendations are key to the global competitiveness of the U.S.:

1. Create, in partnership with Congress, a regulatory structure that appropriately regulates digital assets service providers (DASPs) and digital asset markets.
2. Protect both the onramp to Web3 and the privacy and security of consumers, including through the development and use of decentralized IDs and promoting interoperability.
3. Ensure international cooperation on regulatory harmonization, law enforcement, and future trade agreements.

Why Does the U.S. Need to Maintain Leadership in Crypto?

The cryptoeconomy is a fair, accessible, efficient and transparent system that leverages digital assets built on blockchain technology to transfer value or ownership. Digital asset trading platforms like Coinbase have emerged to meet the demand from users in the United States and around the world for access to innovative digital assets and products. Crypto is no longer simply buying, trading, selling, and speculating on Bitcoin, the benefits of these assets are many and the list is growing. It is imperative that the U.S. adopt policies that promote responsible innovation in crypto in order to achieve the following key 10 benefits:

Ten Key Benefits

1. Access. Anyone, anywhere with an internet connection can directly access crypto networks. Access is not limited by education, race, geography, age, or any other personal characteristic. Coinbase strives to make it easy and safe to access the cryptoeconomy, but today's market for Bitcoin and other tokens is just the beginning. The activity we will see in the future will be based on individuals owning and controlling their digital life – not governments, technology companies, or banks.
2. Equity. The traditional financial system has long been inequitable for many populations for a number of reasons. Recent studies have shown that populations historically underrepresented in traditional finance are turning to the

cryptoeconomy to find avenues for economic opportunity.¹ This stands in contrast to the traditional financial system where Black and Hispanic communities are underrepresented.² Crypto allows for a fairer system, where the potential for discrimination and disparities is significantly reduced.

3. *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. In the crypto economy, consumers control their financial assets; participants can maintain their own addresses or accounts on the distributed ledger, and can complete their transactions (*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.
4. *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 (*i.e.*, "proof of work") or validation by the community of digital asset owners (*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.
5. *Increased resiliency*. Because distributed ledgers are simultaneously hosted across multiple systems, they are highly resistant to corruption and cyberattacks. An effective attack would require extraordinary resources and intense coordination. System failures of well established blockchain protocols are extremely unlikely.
6. *Efficiency*. Digital assets, distributed ledger technology, and smart contracts can be designed to automatically execute transactions if specific conditions are met (*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.

¹ See *16% of Americans Say They Have Ever Invested in, Traded or Used Cryptocurrency*, Andrew Perrin (Nov. 11, 2021), <https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/>.

² See *Stocks are Soaring, and Most Black People are Missing Out*, Stan Choe (Oct. 12, 2020), <https://apnews.com/article/virus-outbreak-race-and-ethnicity-business-us-news-ap-top-news-69fe836e19a8dfe89d73e8e4be6d480c>.

7. 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 can eliminate the standard remittance fee of 6.5%³ by using crypto instead of the legacy fiat remittance and correspondent banking infrastructure.
8. 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.
9. Creator control. Crypto can empower a new generation of creators who own their content and maintain life-time 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.
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.

What is Coinbase's Role in the Cryptoeconomy?

Coinbase plays an integral role in the global cryptoeconomy as the largest and only publicly-traded crypto exchange in the United States. Coinbase was founded in 2012 as an easy and trusted place to buy and sell Bitcoin. Since then, Coinbase has helped fuel the development of an entire industry with thousands of different blockchains, tokens, and projects. Today, we offer much more than bitcoin trading, enabling millions of individuals, businesses, and developers in over 100 countries to easily and securely invest, spend, save, earn, and use crypto. We currently list 166 assets for trading and 212 assets for custody on our platform, all of which undergo rigorous legal, compliance, and security review before being added to the platform. We have also invested in more than 300 teams and projects in recent years through Coinbase Ventures, building everything

³ See *An Analysis of Trends in Cost of Remittance Services*, Remittance Prices Worldwide Quarterly, Issue 36 (Dec. 2020), https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q42020.pdf.



from layer 1 protocols, Web3 infrastructure, centralized on-ramps, decentralized finance, NFTs, metaverse technologies, to developer tooling and more.

Our mission is to increase economic freedom in the world. In order to do that, we have worked to build a company that is the most trusted, secure, and compliant onramp to the cryptoeconomy. Our early focus on regulatory compliance, consumer protection, and innovation has helped drive growth in both our products and services and our consumer base. We are a leading provider of end-to-end financial infrastructure and technology for the cryptoeconomy. Coinbase Global, Inc. (COIN) is a public company registered with the SEC and began trading on the Nasdaq in April 2021. 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 our exchange for digital assets.

We power the cryptoeconomy by combining the best of both emerging blockchain technology and traditional finance to create trusted and easy-to-use products for the industry. We have built a robust backend technology platform to support the global, real-time, and 24/7/365 demands of crypto asset markets. We invest heavily in regulatory compliance. We are also working with regulators around the world to shape policy, and have pioneered industry-leading security practices for safeguarding crypto assets. Our early focus on trust and usability has allowed us to become the primary on-ramp to the cryptoeconomy from the fiat-based financial system.

We have tens of millions of users around the world who rely on Coinbase to provide a safe, trusted, and easy-to-use crypto account to buy, sell, store, spend, earn, and use crypto assets. We also offer a comprehensive solution that combines advanced trading, custody services, and financing for roughly 13,000 institutional customers. On top of our retail and institutional services, we provide technology and services, such as Coinbase Cloud, that enable more than 230,000 developers to build crypto-based applications and securely accept crypto assets as payment. These numbers reflect our belief that crypto can and will be based on the following three pillars:

Crypto as...

1. **New financial system.** Crypto is opening up a new financial system. This means creating new digital tools and services that enable people to expand their use of crypto beyond buying, selling, or storing in a safe and compliant way. The needs of our customers are evolving: On average, 54% of our monthly transacting customers engaged in activities beyond buying and selling crypto, including the use of stablecoins and other tokens as payment methods. We are building products accordingly, and supporting external projects that drive new financial use cases. Decentralized finance, smart contracts, and other new technologies will

drive innovation and exponentially expand opportunities to improve our financial system in the U.S. and globally.

2. **App platform.** Crypto and blockchain technologies will provide the next app platform. Fundamental to crypto is the decentralization of ownership, which gives individuals the opportunity to develop new financial and non-financial applications, like non-fungible tokens (NFTs). Coinbase is building tools that both enable individuals, institutions, and app developers to plug into the existing crypto infrastructure to create new products, as well as benefit from the distribution and use of these products. By supporting both the development of and access to these new applications, Coinbase can help fuel the development of Web 3.0.
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. The world of crypto has expanded far beyond Bitcoin to include assets with diverse use cases and characteristics, and we are working to give consumers the tools they need to make informed decisions, including participating in Earn campaigns to learn about new crypto assets.

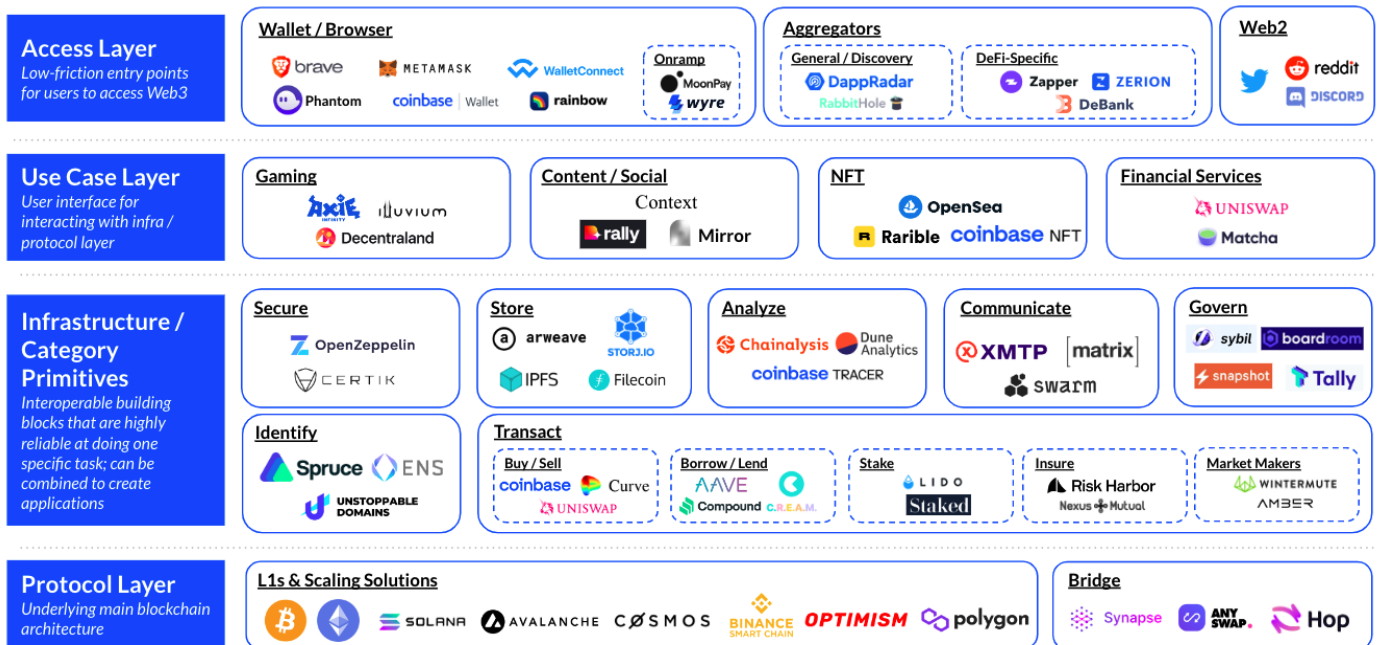
What is Web3 and Why Does It Matter to U.S. Competitiveness?

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 first iteration of the internet, or Web 1.0, was static content (e.g. a website describing a company's goods and services). In the era of Web 2.0, social media and mobile companies enabled users to interact with internet content in a dynamic way. Web 3.0 is the next evolution, driven by crypto and blockchain technology. Crypto is the magic ingredient because it can combine content, payments, and identity on decentralized platforms that are owned and controlled by individual consumers.

Web3 is a trustless, permissionless, and decentralized internet that leverages blockchain technology. Web3's defining feature is ownership. Whereas the first iteration of the commercial internet (Web1) was read-only for most users, and Web2 allowed users to both read & write on centralized platforms (Twitter, Facebook, YouTube, etc), Web3 gives users full ownership over their content, data, and assets via blockchains. It empowers users to read-write-own.

Web3 is an entirely new internet that is built in layers – in a stack – just like Web 2.0. Although the Web3 stack is still nascent and fragmented (see chart⁴), it is quickly evolving.

⁴ *A simple guide to the Web3 stack.* Connor Dempsey, Angie Wang, and Justin Mart (Jan, 13, 2021), <https://blog.coinbase.com/a-simple-guide-to-the-web3-stack-785240e557f0>



Source: Coinbase Ventures

The Web3 stack will enable an expansive range of potential applications, as well as new services that improve the user experience in our digital economy.

- **In social media, digital assets will change governance.** Digital assets will give users the ability to vote on future policies like content moderation, store their own content, and exercise data rights.
- **In content creation, digital assets will provide transparency and monetization to creators and consumers.** Currently, content creators cannot track engagement and share in revenue without relying on an aggregator. Digital tokens allow any creator – not just major labels or studios – to issue, track, and earn from their content.
- **In payments, digital assets will provide accessibility.** With current solutions, users pay high transaction costs, limiting the flow of value through the digital economy. With digital assets, users can transfer value at lower cost over distributed networks in the form of tokens.
- **In gaming, digital assets will allow for custody and portability.** With current solutions, users cannot store or transfer digital goods/experiences to other users or different gaming services. In Web3, users can buy and sell digital goods with other users as tokens, or transfer them between different services.
- **In supply chain, digital assets solve the problem of contractor transparency.** Current supply chain efforts rely on disparate systems to identify and track contractors, including subcontractors and country of origin. This is acute in the military. In Web3, the military and key suppliers can transact directly with digital assets that represent trusted credentials and are tracked on an immutable blockchain.

- **In cloud services, digital assets can help solve the problem of pooling.** Current cloud service solutions involve building centralized infrastructure at scale that is costly, and may be vulnerable or unreliable. In a digital asset ecosystem, tokens can reward suppliers who pool underutilized storage or computing capacity as part of a decentralized cloud service, and track their contributions.
- **In business, decentralized autonomous organizations (DAOs) will reinvent how people work.** For example, a global talent pool could use a DAO to work on their own time and receive ownership stakes in the networks in which they choose to participate. While early service DAOs are crypto focused, one can envision a future in which a ride hailing app is replaced by a DAO that pairs drivers with riders, while paying drivers an ownership stake in the network (though it will be while before DAOs integrated beyond the purely digital realm).

The U.S. is poised to continue leading in the development of Web3 because we value the tenants that underpin Web3: freedom, property rights, privacy, and innovation. It is imperative that the U.S. promote the development and adoption of Web3 or we risk ceding our broader technology leadership to other, more forward looking countries.

Specifically, we need to recognize that a thriving Web3 economy will depend on three things: security, trust, and integrity. There are clear ways in which digital asset technology can advance each of these, and these goals should be the standards by which regulatory decisions are made.

1. **Security.** Users should be able to store and transact their assets without fear of error, failure, corruption, or attack. In Web3, we accomplish this goal by empowering users to control their own assets via wallets.
 - Importantly, a wallet is not merely a store of financial assets. It is also a store of identity, a record of transactions, and the gateway through which an individual interacts with Web3.
 - This breadth means that the security, privacy, and anonymity implications of the visibility into a wallet – by a regulator or anyone else – go far beyond the implications of visibility into a single transaction in traditional finance.
 - Accordingly, efforts to gain visibility into wallets should be approached with particular caution and thoughtfulness. Global regulators are carefully considering how to develop a risk-based approach to regulating personal wallets. The U.S. should ensure regulations related to wallets held by users appropriately recognize the value of privacy and security, while also giving law enforcement the tools they need to prevent bad actors from engaging in illicit activity
- **Trust.** Users should be able to engage in more efficient forms of authenticating information about another party before making a transaction or entering into an agreement. In Web3, we give users' the ability to verify and store their identity

credentials in the form of tokens associated with their unique wallet identifiers – a method of authentication that is more efficient for both users and compliance teams across the economy rather than traditional identity verification processes, like providing a driver’s license. This:

- Reduces the risk of exposure (users can “unbundle” different attributes and choose how much information to expose to others),
 - Protects integrity (users can protect the integrity of their underlying proof of identity documentation), and
 - Enables portability (users can transfer identity data between digital services (e.g. platform ratings).
- **Integrity.** There should be effective measures in place to prevent and detect unlawful activity. Blockchain technology offers unique characteristics that can help combat the traditional use of cash to subvert authorities, while still providing individuals with choice and privacy.
 - Unlike cash, digital asset transactions are publicly visible. Authorities can quickly identify suspicious activity,
 - Unlike cash, digital asset transactions are associated with a public identifier. This can be correlated with other information about a user to assemble a detailed picture of suspicious activity, and
 - Unlike cash, digital asset transactions leave a permanent and traceable record that can help to support legitimate enforcement

Pursuing these three goals – security, trust, and integrity – as part of our Web3 strategy will help drive the U.S. toward global leadership in developing a robust and safe digital ecosystem.

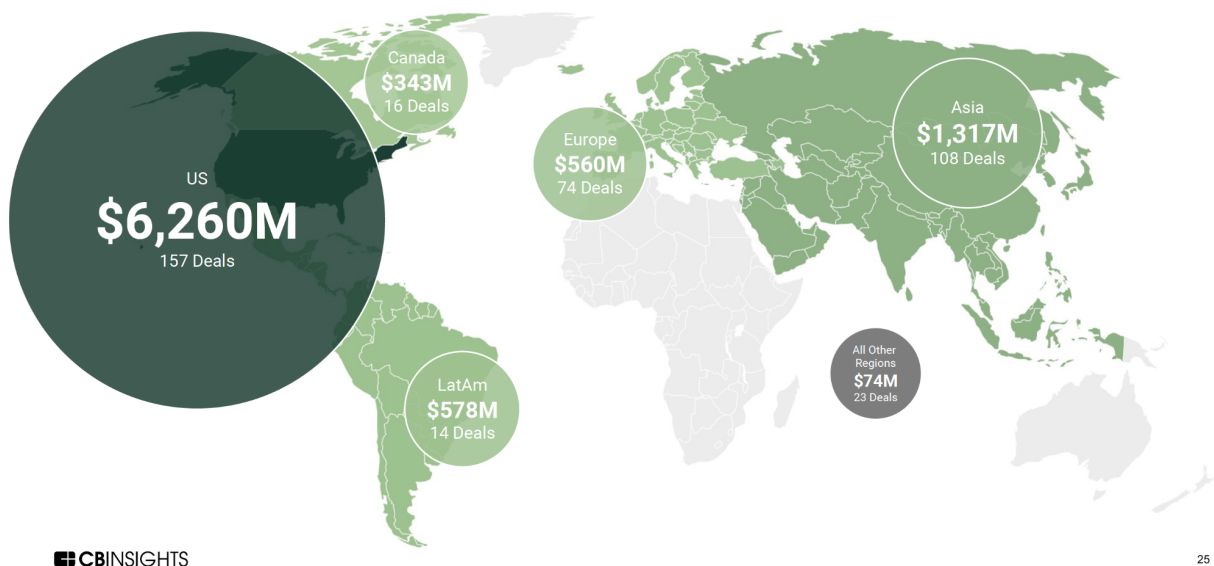
Is the U.S. Globally Competitive in Crypto?

Overall, the US ranks 25th in the Heritage Foundation Economic Freedom Index, excelling in the areas of rule of law, financial freedom, and business freedom, and underperforming in the areas of government size, monetary freedom, and fiscal health.⁵ Coinbase’s mission is to increase economic freedom in the world through the use of cryptocurrencies and decentralized web3 platforms. The United States has an opportunity to advance the goals of economic freedom – both at home and abroad – by playing a leadership role in the next phase of transformation of the global digital economy.

⁵ <https://www.heritage.org/index/>

The United States has been a global leader in technological progress for more than a generation. Access to talent, deep pools of liquidity and investment, rule of law, a strong commitment to research and development, reasonable regulation for technology companies, and intellectual property rights have fueled the founding and growth of the world's biggest and most successful technology companies here in the United States. And yet, the landscape has been changing as other countries use both incentives and protectionist action to compete with the U.S. in building the next generation of leading technology companies and in efforts to blunt the United States' leadership edge. Further, the cryptoeconomy presents complex social and political questions for which governments across the world are struggling to develop strategic approaches that balance the opportunities and benefits of digital innovation with actual risks.

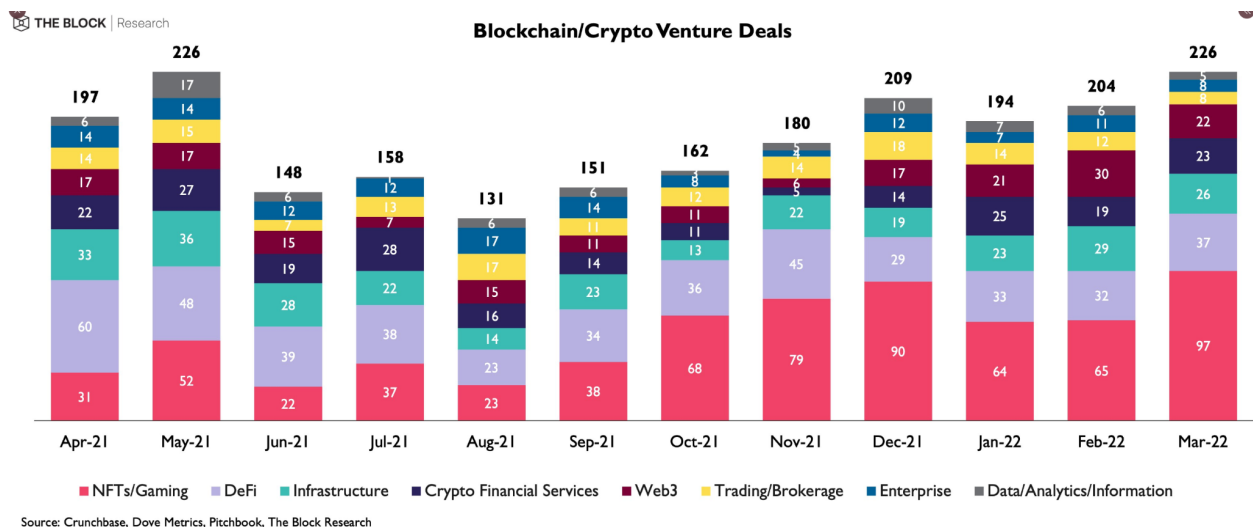
Currently, there is mixed evidence on where the United States ranks compared to other countries with regards to supporting and adopting digital assets. An area where the US is the uncontested leader is in funding crypto startups. According to CBInsights, \$6.3B was invested in the US in Q4 2021, more than twice the amount invested by all other countries combined.



Source: CBInsights 2021 State of Blockchain Report.

According to data from The Block, the U.S. hit a record in venture funding for crypto and blockchain companies in Q1 2022 of \$12.5 billion — a figure that has increased for seven

consecutive quarters.⁶ The investments were also broadbased, ranging from NFTs to enterprise solutions to blockchain analytics.⁷



Source: Crunchbase, Dove Metrics, Pitchbook, The Block Research

Coinbase Ventures, the venture capital arm of Coinbase that generally targets early stage projects, also continued to grow its investment base, closing 71 new deals across the cryptoeconomy in 2022 Q1.⁸

⁶ *The Block Q1 Funding Recap*. John Dantoni (April 2022)

<https://www.theblockresearch.com/q1-22-blockchain-private-funding-and-ma-recap-141539>

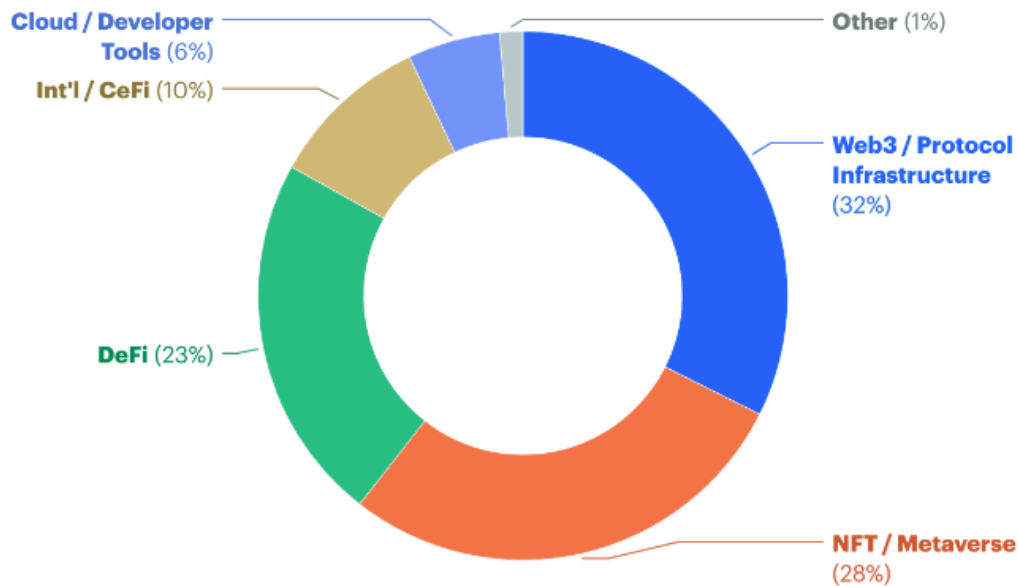
⁷ See *The Block Q1 Funding Recap*. John Dantoni (April 2022)

<https://www.theblockresearch.com/q1-22-blockchain-private-funding-and-ma-recap-141539>

⁸ *Coinbase Ventures Q1 Recap and Market Outlook*. Connor Dempsey (April 21, 2021),

<https://blog.coinbase.com/coinbase-ventures-q1-recap-and-market-outlook-f84488b25ae9>

Q1 2022 Ventures investments by category



Source: Coinbase Ventures

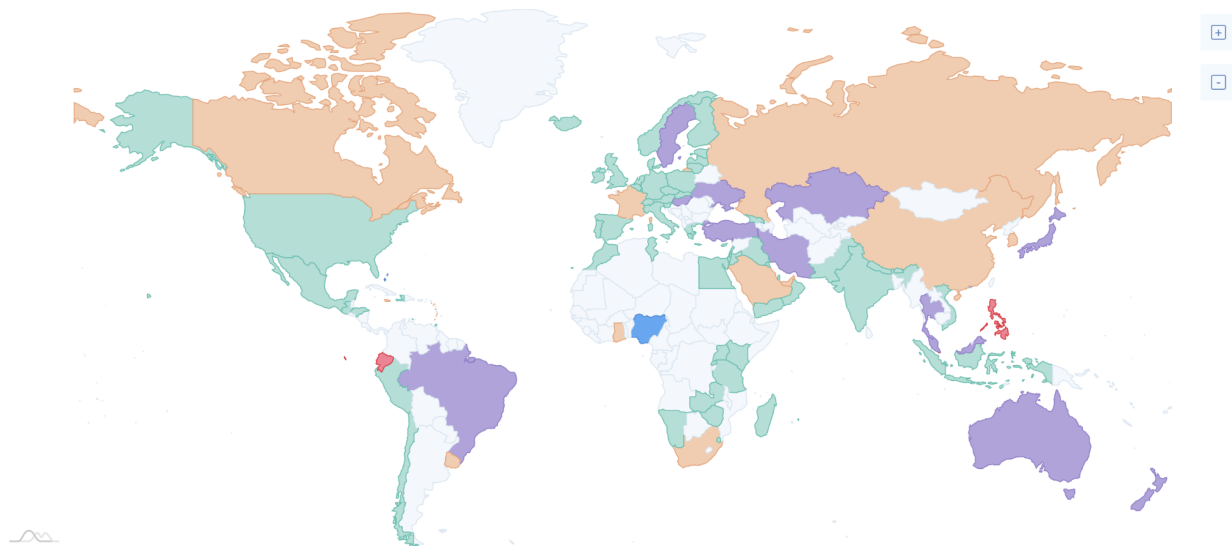
In addition to private investment, governments across the world are increasingly investing in central bank digital currencies, which will drive both the development and use of crypto across economies. Currently, 92 countries are exploring a central bank digital currency (CBDC). Of this number, ten countries have fully launched a CBDC and fifteen more countries are in various stages of pilot testing.⁹ This investment presents new challenges, particularly related to interoperability, use case, government surveillance, citizen privacy, and government control over markets. The US is still in the research phase of exploring the feasibility and desirability of CBDCs, while many other countries have already been working on a proof of concept, pilot, or launched already.

⁹ <https://www.atlanticcouncil.org/cbdctracker/> (June 8, 2022),

Today's Central Bank Digital Currencies Status

Database update: May 2022 • News update: Sep, 21 22

Cancelled Research Proof of concept Pilot Launched Show all



Source: CBDC Tracker. <https://cbdctracker.org/>

Although deal volumes are slowing amid the macro economic slowdown, the continued growth in early stage investment is a reflection of the ongoing influx of new companies and projects being formed in the space. Further, we expect continued investment given some of today's most successful projects were funded during the bear market of 2018/19.

While the U.S. continues to lead in venture investments, other surveys paint a different picture of the role of the US in the worldwide crypto economy:

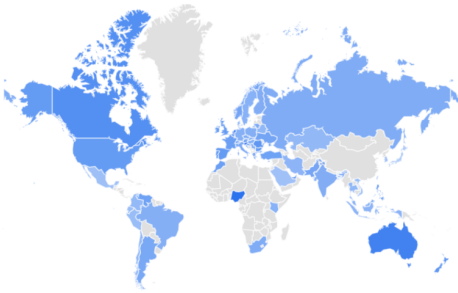
- The Coincub Global Crypto Rankings 2021 report ranks the US as the third best crypto economy after Singapore and Australia, scoring high in institutional acceptance, exchanges and wallet availability, and banks activity in crypto, and low in DeFi acceptance and transparency.¹⁰
- Chainalysis's 2021 Global Crypto Adoption Index ranks the U.S. only 8th, dipping 2 positions since the previous year.¹¹
- Finder Cryptocurrency Adoption Index ranks the US only 17th out of 27th for the percentage of people owing cryptocurrencies.¹²

¹⁰ Coincub Global Crypto Rankings. <https://coincub.com/crypto-ranking-guide-for-2021-q4/>

¹¹ 2021 Chainalysis Global Crypto Adoption Index. <https://blog.chainalysis.com/reports/2021-global-crypto-adoption-index/>

¹² 2021 Finder Cryptocurrency Adoption Index. <https://www.finder.com/finder-cryptocurrency-adoption-index>

- Web searches for the “Cryptocurrency” topic are more frequent in Singapore and Netherland, and the US ranks only 19th.



1	Singapore	100	<div style="width: 100%;"></div>
2	Netherlands	81	<div style="width: 81%;"></div>
3	Slovenia	81	<div style="width: 81%;"></div>
4	Nigeria	76	<div style="width: 76%;"></div>
5	Cyprus	68	<div style="width: 68%;"></div>

Source: Google Trend. Topic: Cryptocurrency. Past 12 months.

Crypto is fast moving and is resulting in an advanced technology sector with direct consumer use applications. Despite varying rankings across different surveys, a consistent finding is that the United States has significant room to improve its position as leader in digital assets. We must leverage our competitive advantages, including access to talent and financing, know-how, and rule of law, in order to facilitate and benefit from the solutions that will help solve some of the world’s biggest challenges.

Key Factors That Will Drive Future Competitiveness

Regulatory Clarity

The single biggest barrier to crypto innovation in the U.S. is the lack of a clear, efficient, and consistent regulatory structure for digital assets, exchanges, and other businesses that interact with digital assets. That is not to say that crypto is not regulated. The industry must comply with a myriad of regulations, both at the state and federal level. Coinbase, for example, currently has nearly 50 regulators in the U.S. alone, including:

- 42 state banking regulators from which we have money transmitter licenses;
- 15 states in which we are authorized to engage in consumer lending;
- New York Department of Financial Services, which regulates our primary crypto trading entity (under a “BitLicense”) and our primary custody entity (under a New York Trust Charter);
- The U.S. Department of Treasury’s FinCEN, which regulates us as a money services business;
- Department of Treasury’s Internal Revenue Service, which requires us as a broker to report crypto transactions;
- Commodity Futures Trading Commission, which oversees crypto commodity spot and derivatives markets and regulates our Designated Contract Markets entity;
- National Futures Association, which oversees our pending license to operate as a Futures Commission Merchant;



- Securities and Exchange Commission, which regulates our two (dormant) broker-dealer entities;
- Federal Trade Commission, which enforces federal consumer protection laws to prevent fraud, deception, and unfair business practices; and
- Consumer Financial Protection Bureau, which enforces consumer protection laws for financial services.

Despite the number of regulators, we still lack the ability to offer many assets, services, and products to our customers due to regulatory uncertainty, primarily at the federal level. The uncertainty does not just impact a major centralized exchange like Coinbase; it hits the small projects and founders who are developing the next big thing, but who may not have the legal capacity to untangle the complexity and uncertainty of the U.S. regulatory landscape.

We applaud President Biden for issuing an Executive Order that recognizes the need for coordinated policymaking on crypto and digital assets in the U.S. Not all crypto activity is the same and not all digital assets are created equal. Digital assets have different characteristics and different risks; some function like a currency used for payments, some perform like commodities that provide utility and functionality, some operate like securities for debt and equity, and some look like none of the above. A one-size-fits-all model of regulation does not work, and only serves to blunt important innovation. It is, therefore, critical that policymakers take a calibrated and targeted approach to the regulation of digital assets and only apply rules relevant to the function of a particular digital asset. To this end, policymakers should engage with industry and other key stakeholders to deeply understand both the technology and the implications of the technology on today's and tomorrow's markets for both retail and institutions.

The U.S. is not alone in evaluating how to regulate digital assets. In fact, many important markets around the world – including the European Union, Germany, Switzerland, United Kingdom, Australia, Brazil, Singapore and others – have moved, or are in the process of moving, forward to develop workable regulations.

A critical central component of a workable regulatory regime is the regulation of digital asset service providers (DASPs) like Coinbase. We define a DASP as any legal entity that conducts the following operations on behalf of its customers/clients: (i) exchange between digital assets and fiat currencies; (ii) exchange between one or more digital assets; or (iii) safe keeping and administration of digital assets. There are different approaches to date:

- The EU has just last week reached agreement on a regulatory framework for stablecoin issuers and DASPs more generally and extending the AML regime to digital assets.

- The UK has taken important steps towards developing regulations on stablecoins and then plans to move forward on a broader regulatory framework for digital assets; while in the interim is developing a bespoke AML regime and integrating the crypto industry into their financial promotions regulatory regime.
- In Asia, several markets have progressed elements of the regulatory framework, including Japan and Singapore.

Different jurisdictions have their own existing laws, regulatory authorities, rulemaking processes, and outlook on the path forward. Nonetheless, we believe every jurisdiction, including the U.S., should have common core principles and best practices, including:

1. Protecting consumers
2. Safeguarding financial stability
3. Preventing financial crimes
4. Promoting responsible innovation.

The following key components associated with these principles and best practices would provide an effective regulatory framework for digital assets and the provision of digital asset services:

1. Regulatory classification
2. Licensing & authorization
3. Supervisory powers
4. Activities of DASPs (issuance, custody, exchange & trading, clearing & settlement)
5. Governance & conflicts
6. Risk management
7. Capital, liquidity & resilience
8. Market integrity
9. Consumer protection and marketing
10. Anti-money laundering (AML) and sanctions.

Finally, it is important the framework be dynamic so that (1) the rules are sufficiently flexible and regulators can be nimble/agile in the application of the rules, and (2) any regulatory approach is technology neutral, with activities treated consistently, based on risk. The market is at an early stage of development across the world, and a flexible, risk-based and proportionate approach to regulation will secure innovation for the future, while maintaining financial stability, consumer protection and market integrity.

The U.S. is falling behind in terms of adopting these core principles, best practices, and key components. We currently rely on a multitude of state laws and federal laws passed as far back as 1933. Our existing laws were not written to facilitate efficient and comprehensive oversight of a financial system that is evolving into a new era defined by blockchain technology and digital assets. Neither existing securities or commodities law accommodates the efficiency, seamlessness, and transparency of digital asset markets.



Simply put: applying old rules to new markets, market participants, and assets will not help us achieve any of the core principles listed above.

We need a regulatory regime that provides for consistent and clear rules across our financial regulators to ensure a level playing field and strong consumer protections. Most importantly, primary authority must be vested in a single regulator to avoid consumer confusion, regulatory duplication, and unnecessary litigation. We believe the Commodity Futures Trading Commission should be given clear authority to regulate both the futures and spot markets for digital asset commodities, which make up an overwhelming majority of the current trading activity in crypto. At the same time, the SEC should create the rules of the road for digital asset securities so that tokenization of the debt and securities markets can develop. Any digital assets that are not digital asset commodities or digital asset securities should be allowed to flourish as part of the Web3 ecosystem.

We believe the U.S. can and should play a leadership role to ensure a level playing field for crypto around the world, and we urge policymakers to help ensure all global providers play by similar rules and help consumers understand which operators meet certain minimum standards. Regulation will encourage the growth of legitimate and trusted industry players in both the U.S. and abroad.

Protecting the Onramp to Web3

Self-hosted (or personal) wallets are the future of ownership in the U.S. and are the onramp to Web3. Personal wallets will enable individuals to hold value ranging from real estate tokens to utility tokens to decentralized ID tokens (decentralized IDs allow individuals to share specific information with third parties as needed while maintaining control over the use of their personal information). It is important that the U.S. government create policy related to personal wallets that is rooted deep in technological understanding of blockchain and the importance of protecting individual privacy. The policy must be finely tailored so consumers do not feel incentivized to use offshore, unregulated crypto providers in order to avoid government surveillance, while at the same time ensuring law enforcement has the tools necessary to quickly and effectively respond to evolving threats.

The development of decentralized IDs and validation techniques for personal information will help on both fronts: it will give users powerful tools for engaging in the crypto economy in a safe way, while allowing legitimate law enforcement needs to be met.. The crypto industry is leading efforts to develop standards for decentralized IDs, but the government can help by promoting adoption across industries and government entities. Decentralized IDs will make everything from healthcare to financial services more efficient by allowing entities to trust verification by third parties that have already onboarded a specific customer.

In addition to supporting the growth and use of decentralized IDs and the emerging Web3 stack, U.S. policy must recognize the need for and enable interoperability and the ability to move seamlessly across the ecosystem. Interoperability is necessary for decentralized protocols to interact with each other and other networks. Entrenching the dominance of major players, like we've seen in social media and other Web 2.0 ecosystems, should be avoided. Avoiding "lock-in" effects, in particular, is key, as well as ensuring consumer protection, consumer financial protection laws, data privacy, and data security.

International Trade

International trade has always been shaped by technological innovation. The increase in digital trade raises new challenges and opportunities for U.S. trade policy, including how to best address new and emerging barriers. Despite their promising potential, digital assets may not solve existing problems facing global trading linkages and could raise new complications. Many questions are raised by the intersection of cross-border investments and the introduction of digital assets because current frameworks were built well before the age of digital technologies. We should be cautious of disempowering this potential through ill-fitting trade agreements that hamper the development of these innovative technologies and allow other countries to invest in the technology for their own gain -- and likely at the United States' expense.

Trade agreements: To achieve the full potential of digital currencies, it will be crucial for countries to develop new types of trade agreements to enable market access for private issuers of digital assets to allow payments to operate in conjunction with each other, and to allow data to flow freely and securely. Singapore, Australia, the UK, Chile and New Zealand have championed such forward-looking trade agreements. We need to take a closer look at these proposals and their ability to foster continued innovation and U.S. leadership.

As digital assets grow around the world and policymakers contemplate the appropriate regulatory treatment of digital assets, **regulatory harmonization** across jurisdictions is important. A number of jurisdictions already have bans in place or severe restrictions on activities that banks and traditional financial institutions can play or prohibitions on crypto exchanges.

We must work with our partners and allies together with new and emerging industry leaders and global standard setters to create an international framework for regulation that fosters consumer protections and enables jurisdictions which are uncertain about how to regulate this space to use an international model that allows for digital innovation and the development of Web3.

Engagement with law enforcement: The crypto ecosystem is not a haven for bad actors and criminals, but industry and law enforcement must nonetheless be vigilant in efforts to

combat illicit activity. According to Chainalysis' Crypto Crime Report for 2022, "transactions involving illicit addresses represented just 0.15% of cryptocurrency transaction volume in 2021." Yet, the total value of illicit transaction volume nearly doubled from 2020 to 2021, reaching \$14 billion.¹³ For this reason, many industry players have developed important tools for identifying and interdicting illicit activity. At Coinbase, we have developed best-in-class criminal investigative methods since our founding 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.

While we are proud of our successes investigating criminal activity, there remains an acute challenge when it comes to overseas activity. A small group of non-compliant foreign crypto exchanges are often venues used by criminal actors to cash out their illicit gains, and those foreign exchanges use jurisdictional arbitrage to avoid U.S. regulations. A good example of these types of actors are Suex and Chatex, two Russian-affiliated exchanges, both of which were sanctioned in 2021 by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) for accepting funds from ransomware operators, scammers, and other cybercriminals. Criminal actors generally avoid exchanges like Coinbase because we have systems that enable us to identify criminals, freeze their accounts, and refer them to law enforcement. It is important that the government continue to provide OFAC, FinCEN, and other enforcement agencies the resources necessary to investigate and sanction bad actors. Further, the government should fund international partnerships that will help combat efforts by unregulated international entities to move crypto in a manner that facilitates illegal activity.

The government can also help improve law enforcement efforts across jurisdictions in the United States. Despite the significant advances in crypto investigation expertise throughout law enforcement agencies over the last several years, many agencies continue to lack the tools and resources necessary to pursue crypto-related crime. This is especially true in large-scale cases where victims may be located across the country, or in cases where the criminals are based overseas. We would recommend that Congress ensures law enforcement is well equipped and appropriately funded to develop local-state-federal task forces to share information and combat illegal activity.

Conclusion

¹³ Chainalysis, 2022 Crypto Crime Report
<https://go.chainalysis.com/rs/503-FAP-074/images/Crypto-Crime-Report-2022.pdf>



Blockchain technology and digital assets are paving the way to Web3, which is a more fair, accessible, efficient and transparent system to transfer value and ownership. The benefits of Web3 and crypto range from better access to more equity to cheaper services to creator control. In order to achieve these benefits, it is imperative that the U.S. adopt policies that promote responsible innovation in crypto. We urge the Administration to: (1) create a coordinated approach to regulation for digital asset service providers (DASPs) and digital asset markets; (2) protect the onramp to Web3, the privacy and security of consumers, and encourage interoperability; and (3) ensure international cooperation on regulatory harmonization, law enforcement, and future trade agreements.