coinbase

To: Reserve Bank of Australia
8 Chifley Square
Sydney, NSW 2000

Date: 11 December 2024

Coinbase Global, Inc. (together with Coinbase Australia Pty Ltd, "**Coinbase"**) appreciates the opportunity to respond to the Consultation paper Project Acacia - Exploiting the role of digital money in wholesale tokenised markets (("**Consultation**") published by the Reserve Bank of Australia ("**RBA**") and the Digital Finance Cooperative Research Centre ("**DFCRC**").

Coinbase started in 2012 with the idea that anyone, anywhere, should be able to send and receive Bitcoin easily and securely. Today, we are publicly listed in the United States and provide a trusted and easy-to-use platform that millions of verified users in over 100 countries rely on to access the crypto economy.

Coinbase commends the RBA & DFCRC's continued exploration of the use cases for digital money and the role of blockchain solutions in their future. We would encourage further consideration of the role permissionless systems may serve as a foundational layer for financial infrastructure.

Coinbase also appreciates the RBA & DFCRC opening up the opportunity for industry to contribute to Project Acacia by participating in the Industry Advisory Group, which we have applied to be part of.

Yours sincerely,

Tom Duff Gordon, Vice President, International Policy, Coinbase

John O'Loghlen, APAC Regional Manager, Coinbase

Introduction

Coinbase welcomes the opportunity to respond to the Consultation. While Coinbase has not applied to be part of the experimentation portion of Phase 2 of Project Acacia, we commend the RBA & the DFCRC's continued exploration of the use cases for digital money and the role of blockchain solutions in their future.

We have focused our response on the core questions we feel we can provide useful insight on, particularly regarding potential wholesale market opportunities, potential regulatory obstacles and the critical role of stablecoins.

Broadly, as the RBA and DFCRC consider the broad spectrum of financial innovation afoot today, we would encourage an ultimate goal of delivering a "mixed payments ecosystem," including reserve bank digital currencies (RBDC), stablecoins, and tokenised deposits co-existing and delivering competition and choice. While there are features of regulation that can promote such an ecosystem, we would also encourage consideration of all means of digital innovation through pilot programmes like Project Acacia.

Coinbase appreciates the RBA and DFCRC inviting industry contributions to Project Acacia through the Industry Advisory Group, to which we have applied (see Annex). We are particularly eager to join this forum and potentially participate in future phases exploring retail access. We look forward to sharing insights from our global policy experience and involvement in similar pilots worldwide.

The Importance of Permissionless DLT Systems

Coinbase applauds the RBA & DFCRC's recognition of the need to keep pace with technological advances in the marketplace to preserve the role of reserve bank money in the financial system. Given rapid innovation in this sector, we believe there is clear additional value in considering the inclusion of programmable, permissionless blockchains (DLT systems) in project Acacia's Phase 2. DLT systems are general-purpose proven technologies already providing simplified, scalable access for both incumbents and innovators to build upon and drive sustainable innovation in the financial sector. Those DLT systems on which the largest stablecoins now operate are the standout example in this respect, with widespread adoption and smart contract capabilities that could directly support innovation in wholesale markets and complement the RBA's vision for a wholesale RBDC in Australia.

Wholesale market opportunities

Question 1: What are the key opportunities and challenges of asset tokenisation in wholesale domestic markets? How can the challenges be overcome?

Well-designed infrastructure for transactions and settlements in wholesale tokenised asset markets can enable safe, sustainable operations for diverse market participants while promoting innovation and competition. Expanding access to digital money settlement through RBA-administered infrastructure or reserve bank assets could enhance speed, transaction certainty, and improve cost.

Further, the Reserve Bank should consider whether regulated stablecoins could serve as on-chain cash settlement assets for capital markets. Pursuant to our recommendation of a mixed-payment ecosystem, we would recommend considering in Phase 2 of Project Acacia whether stablecoins - in addition to RBDC - could be used for settlement purposes, and what benefits they may uniquely offer.

Regulatory obstacles

Question 2: What regulatory obstacles exist to an efficient settlement mechanism for wholesale tokenised asset markets, including the development of new forms of money to support this? What solutions do you suggest?

Wholesale tokenised asset markets can draw upon a number of emerging technologies to drive efficiency, reduce cost, and spur innovation. However, the current regulatory treatment of emerging technologies - namely crypto assets, stablecoins, and their underlying technology remains uncertain. The Australian Investments and Security Commission (ASIC) has recently issued a consultation, CP381, with some indication around both licensing obligations for entities in Australia as well as classification of certain services and assets as financial products. However, it remains unclear how the consultation will materially evolve particularly in light of parallel efforts by the government to advance exposure draft legislation. Initially however, some of the regulatory treatment under CP381 could introduce barriers to innovation within the Australian market not matched in other jurisdictions.

Legal classification - whether a tokenised asset is a financial product, tokenised tangible asset, or a digital form of money - is a potential regulatory obstacle. To that end, we are concerned with the potential for conflicting classifications of similar assets that have diverse utility, as well as, regulatory treatment for clearing and settlement that do not align to, or recognise the unique attributes of, atomic settlement on digital ledger technology.

Conflicting and ambiguous legal classifications of tokenised assets will require lengthy ASIC assessment periods before Phase 2 experimentation can begin for the appropriate waivers to be in place. Examples of potential regulatory obstacles can be observed in ASIC's consultation CP381, where stablecoins can be classified as Managed Investment Schemes or Non-Cash Payment Facilities and potentially derivatives. Another issue that may arise is in regards to wrapping and bridging tokens for interoperability purposes as ASIC has stated that it thinks these may be derivatives.

During the scope of Phase 2 there should be consideration to an approach of 'permitted until proven high risk' for projects and businesses that make it through the rigorous selection process, when baseline level technical features and capabilities can be expected of participants. This may allow for more experimentation time, while ASIC can assess the necessary waivers under the current regulatory framework in parallel. The findings from assessments could form an ancillary objective of Phase 2, to inform Treasury's forward work plan to clarify regulations in the digital asset economy, which would complement the DFCRC's recent recommendations of Key Policy Reforms to Support Tokenisation of Real World Assets in Australia.

Asset focus

Question 3: Should efforts to support tokenised markets be focused on large existing asset classes or newer ones, and why?

We believe that there is merit to including both large existing asset classes and newer ones. Tokenising assets on modern market infrastructure with atomic settlement can streamline transactions and settlements across most asset types and forms of money. While assets reliant today on paper-based, intermediated systems may initially see the greatest benefits, newer assets unburdened by existing infrastructure may integrate more easily into digital systems.

One can also imagine instances in which existing and new asset classes would interact. For instance, one could utilise non-fungible digital certificates (newer asset) for authenticity and provenance associated with a supply chain's financial transactions (large, existing asset). Fractionalisation of large existing asset classes, like real estate or infrastructure may allow for an increase in liquidity and price discovery, allowing investors to assemble more balanced portfolios. Tokenising new assets would provide similar benefits to investors and society.

The Critical Role of Stablecoins

Question 7: Do you see a role for privately issued forms of digital money in enabling tokenisation in wholesale markets? If so, what types of privately-issued digital money – for example, deposit tokens, RBDCs or fiat-backed stablecoins – are best suited to play this role, and why? What are the market characteristics that will enable privately issued forms of digital money to be utilised and the design features of such forms to be effective and efficient?

As we noted at the top of this consultation response, we would encourage the development of a mixed payment ecosystem - where there are opportunities for innovation and interoperating use cases between stablecoins, tokenised deposits, and RBDCs. We would encourage Phase 2 of Project Acacia to include the full spectrum of money - including stablecoins and tokenised deposits. In a digital payments future,

whether it be wholesale or retail, RBDCs, tokenised deposits,and stablecoins can play complementary roles. We encourage a level playing field that facilitates a competitive landscape and drives maximum market utility.

Stablecoins are currently the most prolific and used form of programmable money. They play a key role in supporting digital asset markets and payments by acting as a safe medium for settling transactions, preserving value, transferring funds, and producing income for digital asset owners. Stablecoins have a clear track record of providing a solid foundation for innovation in retail payment practices even without a direct link to central bank money. As stablecoins can be held and used without the need of a bank account, they accelerate the development of new digitally-oriented business models, even when digital banking solutions are lacking.

We would encourage the RBA and DFCRC to consider, as part of Phase 2, the potential for stablecoins to be directly backed by the RBDC, with reserves therefore held by the RBA. When well-structured, with reserve assets wholly backed by risk-free sovereign debt, stablecoins maintain an economic equivalence to central bank money (i.e. based on the same faith and trust in government).We believe this is but one of many arrangements where the market will benefit from the unique attributes of both private- and publicly-issued forms of money interacting with one another.

Question 8: While cross-border settlements are not the focus of the current phase of Project Acacia, the RBA and DFCRC are interested in stakeholders' views on which settlement models may be particularly suited for cross-border settlements. Are any of the models better-suited than others to facilitate innovation in cross-border transactions?

Permissionless blockchains are providing simplified, scalable access to innovators and users around the world. One of the most promising use cases for these permissionless systems is cross-boarder payments using stablecoins as the settlement asset. Stablecoins on permissionless blockchains should be considered for inclutions in any future phases of Project Acacia that focus on the facilitation of cross-border settlements. Details regarding the high rates of usage of stablecoins can be found in the following paragraphs.

Stablecoins are increasingly being used to construct robust payment systems on crypto rails, facilitating remittance payments and streamlining cross-border transactions. The stablecoin market settled more than $10.8T worth of transactions in 2023 – or US$2.3T if we exclude "inorganic activity, like bots or automated transactions.[1] As at August 2024,

[1] Coinbase Institutional - Stablecoins and the New Payments Landscape

volumes on that adjusted basis were growing by 17% YoY , which means stablecoins are quickly catching up to today's largest payment networks.

Stablecoins provide significant cost stavings over the current cost of a cross border transaction, reducing this cost from 6.35% on average[2] to 0.5-3.0% and trending lower due to technical innovations of the underlying permissionless infrastructure they run on.

The current, and growing usage of stablecoins for cross-border settlement

Interoperability Challenges

Question 13: Do you have experience or insights in addressing the challenges of interoperability between asset ledgers that may be relevant to the objectives of Project Acacia?

Interoperability between asset ledger remains an area that the industry is continually innovating in, though it is not solved at scale.

Wrapping and bridging of assets remains a key way to move assets between ledgers, while ‘intent messaging’ is emerging as a more efficient way for users to ensure that their purpose for interacting across chain is fulfilled in one instruction, without them needing to manually complete every step separately and in series[3,4]. For now, centralised entities are generally the facilitator of these solutions.

Phase 2 should look to include some of these entities to facilitate cross ledger activities. A secondary goal of the phase should be an assessment of the risks associated with these intermediary actions and inform future government reforms. Including the regulatory classification of wrapped or bridged assets referenced in Question 2 which is an obstacle that will need to be addressed for Phase 2 waivers.

[2] World Bank - Remittance Prices Worldwide
[3] Agoric - Asset Delivery in Fast USDC
[4] ERC-7863 - Cross chain intents

Annex: Expression of interest in joining Industry Advisory Group for Project Acacia

Name: David Menz, a representative of Coinbase

Contact (email and phone) details: david.menz@coinbase.com | +65 8281 7229

Professional activities: APAC Policy Manager, Coinbase

Phase 2 participation status: Coinbase has not applied to participate in Phase 2 experimentation.

Skills and expertise:

Coinbase

Coinbase is a leader in global digital asset policy with dedicated policy teams across the world. We are a trusted industry counterpart, helping policy makers and regulators to navigate the digitisation of the economy through blockchain and tokenised markets. We hope to bring value through sharing our global experiences and insights to the industry working group.

David Menz

David Menz is a policy professional focused on blockchain and digital assets. Experience:

- ASIC - Cryptocurrency and ICO Specialist | Jul 2017 - Aug 2019
    - Authored ASIC's intra and international contributions to crypto asset policy, including IOSCO's ICO paper and the FSB's paper on digital asset financial stability risks. Founding member of ASIC's crypto asset working group.
- Treasury - Director of Digital assets and crypto unit | May 2022 - Apr 2024
    - Lead the Treasury team responsible for digital asset reforms. Scope included digital asset platforms, CBDCs, stablecoins, DAOs and asset tokenisation.
- Coinbase - APAC Policy Manager | Jun 2024 - Present
    - Helping achieve Coinbase's policy objectives across APAC with a focus on Australia.

Comments on scope and plans for Phase 2: As per submission above