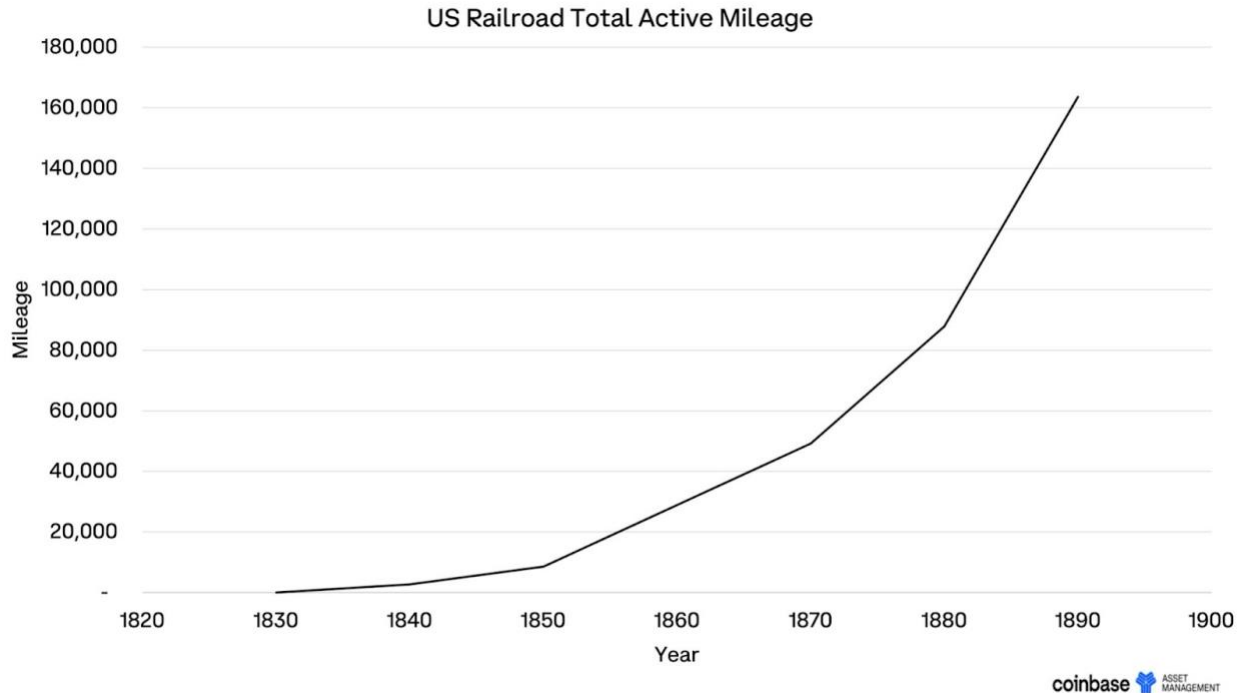


market notes: Digital's First Institutional Cycle

Build a standard, and they will come. It happened in the United States with railroads, and we believe it's happening again with digital asset rails.

Build a standard, and they will come. It happened in the United States with railroads, and we believe it's happening again with digital asset rails.



Source: United States Census Bureau, *Report on Transportation Business in the United States at the Eleventh Census 1890*, <https://www.census.gov/history/pdf/1890statisticalcompendium.pdf>

market notes: Digital’s First Institutional Cycle
5/31/24 - Sebastian Bea (President) and Marcel Kasumovich (Deputy CIO), Coinbase Asset Management

- 1. Striving for improvement:** When goods arrived at Lewiston in Niagara, hundreds of men were employed to portage them across impossibly difficult terrain. The method worked, but rail offered a better way. And so, the US built its first “gravity road” in 1764. It was slow, costly, and prone to failure. But it represented the future. Sound familiar? The integration of Digital Networks and Digital Assets into financial rails is retracing these steps.
- 2. Embracing the struggle:** Innovation means overcoming challenges. The introduction of the railway in the United States faced two major conflicts – the American Revolution and the War of 1812. Despite these disruptions, capital continued to flow into the future through railroad stocks and bonds. And like any radical innovation, there were also

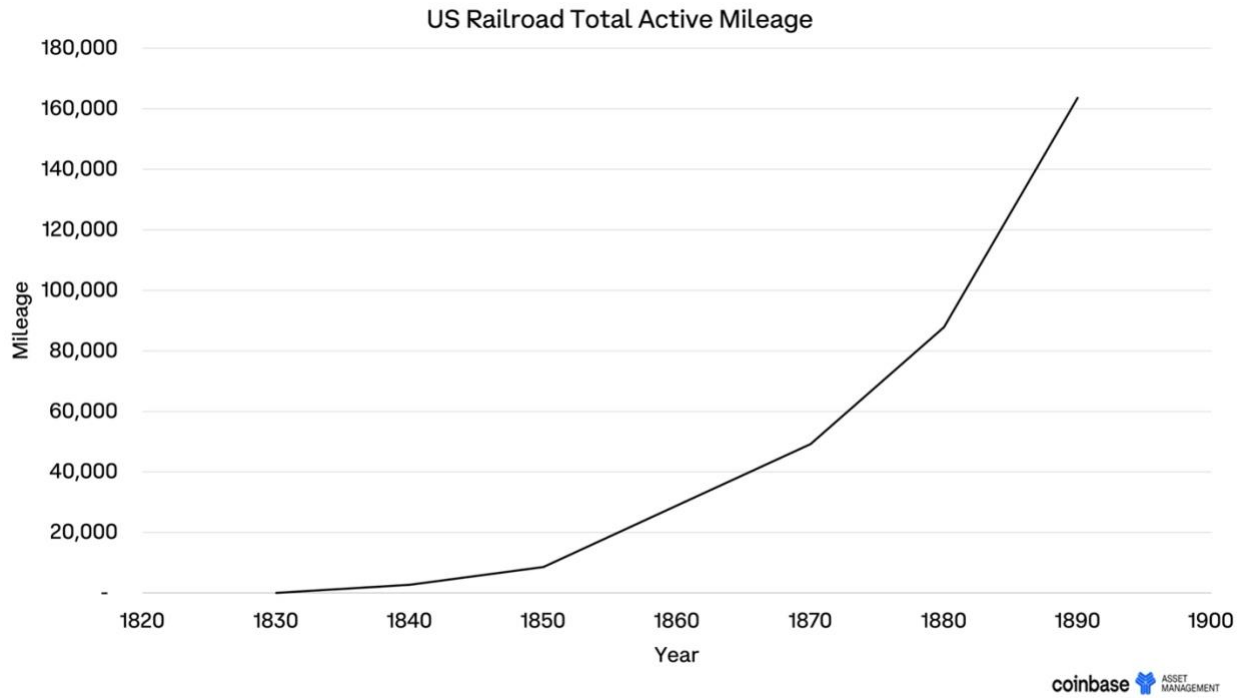
[scandals](#), now relegated to footnotes. Digital finance isn't revealing new ground in this history – it's reliving past norms.

3. **Standardizing innovation:** Mainstream adoption of any innovation requires agreed-upon standards. Different track widths across US states were inefficient, leading to "[gauge wars](#)," similar to current debates over the best digital base layer. Once a standard gauge was adopted, US rail scaled rapidly. The "[best gauge](#)" didn't necessarily win, and regulatory uncertainty persisted. Laws evolved with adoption, much like the current digital landscape.
4. **Analyze, don't judge:** Innovation races ahead, and new standards follow. Gaps emerge. A barrier to US digital asset adoption is the gap between regulators and rules. Regulatory uncertainty arises when new rules are slow to guide regulators. This dynamic is amplified today as countries compete for global market share on new innovation. US policy has fallen behind on digital innovation. But two recent signals make it clear that the gap will close.
5. **Repealing SAB 121:** The US Senate sent shockwaves when 60 votes were cast to [repeal](#) Staff Accounting Bulletin No. 121. "SAB 121" blocked banks from providing simple digital services like custody, as it required banks to put customer custodial assets on balance sheet. Capital costs more than 10-times the potential custody revenue. A potential repeal of SAB 121 sends a strong signal – digital assets now have [bipartisan](#) support from US lawmakers.
6. **Passing FIT21:** The Financial Innovation and Technology for the 21st Century Act (FIT21), built to provide regulatory clarity for digital asset innovation, passed the US House with overwhelming bipartisan support. Recognizing the sea-change, the White House issued a statement that it looked forward to developing legislation for digital assets. It sends a powerful signal to the Senate – you better act. We expect compromise and comprehensive legislation to follow.
7. **Starting the conversation:** The details of the new legislation and their regulatory application aren't perfect. But they don't have to be. It marks the beginning of a positive pivot. Less regulatory uncertainty can reaccelerate capital spending plans. Take Mastercard's public [pronouncement](#) of entry into payments this week. It's a slick user experience run by Mastercard aliases instead of clunky blockchain addresses. It's the future finally arriving.
8. **Emphasizing stablecoins:** Stablecoins are the obvious killer application, *already* succeeding despite regulatory friction and backed [almost entirely](#) by US dollars. Encouraging scale is in the US's interests. And the House passed the [CBDC Anti-Surveillance State Act](#) on May 23, signaling strong support for stablecoins. Details will

decide winners and losers, not the strategic direction. Stablecoins can scale rapidly with clarity on US standards. We believe that's coming.

9. **Focusing on indices:** The success of US Bitcoin ETPs and the unexpected political pivot to approve Ethereum elevates interest in further developments. It's tempting to focus on the next asset to cross the US ETP hurdle. But traditional asset players are focused on targeted use-cases, thus their attraction to Bitcoin and Ethereum. Passive exposure is a more likely path for institutions to diversify into smaller digital assets. Indices can be expected to gain traction.
10. **Learning from history:** "If I had asked people what they wanted, they would have said faster horses", said Henry Ford. We are reminded that innovators have a heavy burden, believing in the benefits of change that only they initially see. We expect that improving visibility will accelerate engagement in digital assets' first institutional cycle. Wait-and-see behavior driven by regulatory uncertainty will likely be inverted by clarity – act now, or be left behind. All Aboard.

Figure 1: Innovators Innovate, Standards Bring Scale



Source: United States Census Bureau, *Report on Transportation Business in the United States at the Eleventh Census 1890*, <https://www.census.gov/history/pdf/1890statisticalcompendium.pdf>

Disclaimer

This communication, including any attachments, is intended only for the use of the addressee and may contain information that is confidential or otherwise protected from disclosure. Any unauthorized use, distribution, modification, forwarding, copying or disclosure is strictly prohibited. If you have received this communication in error, please delete this message, including any attachments, and notify the sender immediately. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase any security or other financial product or investment and is not intended as investment, tax, or legal advice. Unless otherwise noted, all information is estimated, unaudited and may be subject to revision without notice. Past results are not indicative of future results.

This communication may contain statements of opinion, including but not limited to, the author's analysis and views with respect to: digital assets, projected inflation, macroeconomic policy, and the market in general. Statements of opinion herein have been formulated using the author's experience, research, and/or analysis, however, such statements also contain elements of subjectivity and are often subjective in nature. In addition, when conducting the analyses on which it bases statements of opinion, the author(s) will incorporate assumptions, which in some cases may be shown to be inaccurate in the future, including in certain material respects. Nothing in this presentation represents a guarantee of any future outcome. The author(s) are under no obligation to update this document, notify any recipients, or re-publish the content contained herein in the event that any factual assertions, assumptions, forward-looking statements, or opinions are subsequently shown to be inaccurate.

This Presentation may contain statements of opinion, including but not limited to, Coinbase AM's analysis and views with respect to: digital assets, projected inflation, macroeconomic policy, the market adoption of digital assets, and the market in general. Statements of opinion herein have been formulated using Coinbase AM's experience, research, and/or analysis, however, such statements also contain elements of subjectivity and are often subjective in nature. In addition, when conducting the analyses on which it bases statements of opinion, Coinbase AM will incorporate assumptions, which in some cases may be shown to be inaccurate in the future, including in certain material respects. Nothing in this video presentation represents a guarantee of any future outcome. Information provided reflects Coinbase AM's views as of the date of this video presentation and are subject to change without notice. Coinbase AM is under no obligation to update this Video Presentation, notify any recipients, or re-publish the content contained herein in the event that any factual assertions, assumptions, forward-looking statements, or opinions are subsequently shown to be inaccurate.

Certain information contained in this Communication constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Forward-looking statements made in this communication are based on current expectations, speak only as of the date of this communication, as the case may be, and are susceptible to a number of risks, uncertainties and other factors. Assumptions relating to the foregoing involve judgments with respect to, among other things, projected inflation, the regulation of digital assets and macroeconomic policy, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation to future results or that the objectives and plans expressed or implied by such forward-looking statements will be achieved.

Certain information contained herein may have been obtained from third party sources and such information has not been independently verified by the author(s). References herein to third parties are for illustrative purposes and are not an endorsement or recommendation for products or services. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information. While such sources are believed to be reliable, the author(s) do not assume any responsibility for the accuracy or completeness of such information.

The information and any disclosures provided herein do not constitute a solicitation or offer to purchase any security or other financial product or investment and is not intended as investment, tax, or legal advice. Unless otherwise noted, all information is estimated, unaudited and may be subject to revision without notice. Past results are not indicative of future results.