To:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton HM12
policy@bma.bm

13 October 2025

Re: Proposed Payment Services Act

Coinbase Global, Inc. (together with Coinbase Bermuda Limited, Coinbase Bermuda Services Limited, and its other subsidiaries, "**Coinbase**") appreciates the opportunity to respond to the *Proposed Payment Services Act* ("**Consultation**").

Coinbase Global, Inc. is an affiliate of Coinbase, Inc., one of the leading exchanges for crypto assets. Coinbase is committed to building an open financial system and reimagining the future of finance through new technologies and innovative products.

We commend the Bermuda Monetary Authority for their thoughtful and forward-thinking approach in developing this proposed PSA framework. The BMA's commitment to creating a functionally-based, risk-proportionate regulatory structure demonstrates a sophisticated understanding of both traditional payment services and emerging digital asset technologies. By establishing clear delineations between different regulatory regimes, creating appropriate safe harbors for decentralized innovation, and implementing a tiered licensing system that scales oversight to actual risk, the BMA is positioning Bermuda as a global leader in pragmatic financial services regulation.

We particularly appreciate the BMA's recognition that effective regulation requires ongoing dialogue with industry. This collaborative approach to rulemaking fosters innovation while maintaining regulatory certainty and consumer protections that are essential for a thriving digital economy. We look forward to continued engagement.

Sincerely,

Tom Duff Gordon,
VP, International Policy
Coinbase Global, Inc.

Jeffrey Baron,
COO, Coinbase Bermuda

Introduction

We support the **Consultation's** functional approach to regulating digital assets and stablecoins. Our feedback, arranged into five themes, emphasizes the need for regulatory clarity, proportionality, and practical frameworks that accommodate both traditional financial services and emerging technologies like DeFi. We continue to advocate for risk-based regulation that avoids duplicative requirements while ensuring appropriate oversight of consumer-facing entities.

Key Points by Theme:

- **Regulatory Framework Delineation**: We support clear separation between the Payment Services Act (PSA) and Digital Asset Business Act (DABA), with stablecoins appropriately regulated under PSA as payment instruments. We recommend the BMA formally adopt a "same activity, same risk, same regulatory outcome" principle and establish streamlined licensing processes for firms operating across both frameworks to avoid duplicative compliance burdens.
- **Payment Service Provider Categories**: We endorse the three-pillar structure (Digital Facility Providers, Payment Handling Providers, and Payment Technology Providers) as appropriately risk-based. We particularly support explicit exclusions for decentralized infrastructure providers and blockchain node operators, creating safe harbors for open-source innovation while regulating commercial access points rather than protocols themselves.
- **Tiered Licensing Regime**: We strongly support the five-tier licensing structure (T, M, F, F-PG, F-R) as implementing proportionality principles effectively. We emphasize the strategic importance of the reciprocal jurisdiction (F-R) framework for attracting global firms and recommend the BMA publish clear criteria for jurisdiction designation, particularly regarding stablecoin reserve management and AML/CFT standards.
- **Proportionality and Risk-Based Exemptions**: We advocate for a formal "safe harbor" for low-risk stablecoin issuers meeting strict criteria including full backing by high-quality liquid assets, regular public audits, bankruptcy-remote reserves, and guaranteed 1:1 redemption. We support case-by-case assessment of limited networks with published risk factors to provide regulatory predictability.
- **AI Payments Hub**: We endorse the proposed collaborative platform as forward-thinking and appropriate for addressing emerging technologies like DeFi and programmable payments. We support exploring consumer protection mechanisms including chargeback-like features for stablecoin transactions to facilitate mainstream adoption.

More detailed responses follow. As always, we would be happy to discuss.

Delineation of the Payment Services Act (PSA) and the Digital Asset Business Act (DABA)

We support the proposal to create a “more precise delineation” between the scope of the PSA and the existing DABA. A clear and consistent regulatory framework is essential for firms to make informed decisions. This functional approach, distinguishing between payment services and broader digital asset activities, provides the regulatory clarity that the industry needs.

A pragmatic approach to stablecoins

We strongly support the proposal to regulate stablecoins under the PSA framework, specifically with the new Digital Facility Provider Category (DFP). Stablecoins are a “digitally native settlement instrument that is essential to the digital asset economy,” and it is appropriate to regulate them based on their primary payment function. This functional classification provides a clear regulatory home for these instruments and avoids the definitional uncertainty seen in other jurisdictions. The primary regulatory objective should be to ensure that, in the event of an issuer’s wind down, holders can recover the underlying fiat currency on a 1:1 basis.

Clear rules for custody and issuance

We support the proposed distinction for custody services, where DFP license covers custodial wallets for an issuer’s own stablecoin while DABA governs custody of third party assets. Furthermore, providing exemptions for DABA licensed firms conducting ancillary payment activities is a critical component for creating an efficient regulatory experience and avoiding duplicative requirements for firms with multifaceted business models.

We recommend the BMA formally adopt a guiding principle of “same activity, same risk, same regulatory outcome” to govern the PSA/DABA boundary. This technology-neural principle ensures that regulatory treatment is based on the economic function and risk profile of an activity, rather than the specific technology used or the particular license an entity happens to hold. This approach provides a coherent and adaptable foundation of regulation in a rapidly evolving landscape.

We also urge the BMA to publish detailed guidance to illustrate how the BMA will delineate activities between the PSA and DABA. This proactive measure would provide the “clear, predictable” framework that businesses require to make informed operational decisions. Such guidance allows firms to “understand the potential consequences of stablecoin design choices and other business model decisions before committing significant capital and resources thereby reducing regulatory risk and encouraging investment in the jurisdiction.

Lastly, we advocate for a streamlined, efficient process for DABA-licensed firms to have PSA scoped activities added as an extension or permission to their existing license, rather than requiring a separate and complete license application under the PSA. This approach directly addresses the industry wide problem of “duplicative requirements”. By reducing the compliance burden and administrative friction, Bermuda would significantly enhance its attractiveness as a jurisdiction for innovative, multi-functional financial services companies.

The proposed PSP categories

The three pillar structure is a functional framework that currently organizes the market based on the handling of customer funds. This ensures that regulatory intensity is proportional to the risks of a given business model.

Digital Facility Provider: We support the scope of the DFP category, which captures entities that issue and administer stored value facilities. The explicit inclusion of “issuing or redeeming stablecoins” provides essential regulatory certainty for this cornerstone of the digital asset economy.

Payment Handling Provider: The definition of PHPs, focusing on entities that temporarily receive and transmit funds to execute a payment, is appropriate. The exclusion of decentralized protocols lacking a controlling legal entity is a key distinction that correctly targets regulations at centralized intermediaries where traditional financial risks reside.

Payment Technology Provider: We strongly support the creation of the PTP category and, in particular, the explicit exclusion of "decentralized infrastructure providers, including blockchain node operators, [and] protocol developers” that do not commercially interface with end users. This provision creates a vital safe harbor for the open-source innovation that underpins public blockchain networks and the broader DeFi ecosystem.

This approach provides a workable answer to the global challenge of regulating DeFi. Instead of attempting to regulate decentralized protocols themselves, the BMA proposes to regulate the commercial access points. This sidesteps the difficult issue of identifying a “Responsible Person” in a truly decentralized arrangement. This distinction allows permissionless innovation to flourish at the protocol level while ensuring consumer-facing entities are subject to appropriate oversight for risks like cybersecurity and operational integrity.

We recommend refining the PTP definition and its accompanying guidance to explicitly state that it applies to entities exercising “control or sufficient influence” over a non-custodial payment protocol. This clarification provides a clear and appropriate regulatory home for DeFi projects in their “functional” stage of decentralization, fostering responsible innovation within a defined legal framework.

Additionally, developing an interactive self-classification tool based on clear, functional questions would serve as a valuable public good, providing immediate regulatory clarity, reducing the administrative burden on new applicants, and allowing BMA staff to focus on more substantive supervisory matters.

Lastly, in the guidance for the PTP category, we would like to see the process of progressive decentralization explicitly recognized. The framework should create a clear and transparent pathway for a PTP-licensed entity to apply to relinquish its license upon demonstrating that it has achieved “full decentralization”. This provides a complete and credible regulatory lifecycle for DeFi projects, from incubation to maturity.

The tiered licensing regime

The proposed five-tiered licensing structure is an implementation of the principle of proportionality. This approach responds to the need for regulation scaled to the actual risks of different business models, moving away from the “disproportionate compliance expectations” and “blanket” approaches that can stifle growth.

The class T and class M licenses formalize a regulatory sandbox environment, providing a supervised pathway for startups to develop, test, and scale their products within a regulated framework. The dedicated class F-PG license for wholesale and institutional providers is a useful tool. It correctly recognizes that these entities present a “differentiated risk profile” and allows for a more proportionate compliance framework.

The Class F-R license is a strategically significant element that directly addresses the problem of “jurisdictional divergence.” By creating a framework for mutual recognition, Bermuda can attract global firms seeking a single, credible regulatory home. This aligns with our views that overseas stablecoins should be permitted to operate in Bermuda provided they are subject to sound home country regulation. An F-R license could simplify global operations by reducing the friction of navigating inconsistent national rules.

For the F-R license, the BMA should publish a clear and detailed framework outlining the criteria it will use to designate a “Reciprocal Jurisdiction." This framework should have a primary focus on establishing equivalence in stablecoin reserve management standards, AML/CFT effectiveness, and prudential requirements.

For the F-PG license, the BMA should explicitly link the modified regulatory requirements to the principle of proportionality in its public guidance. The guidance should clearly state that because institutional clients have sophisticated risk management capabilities, certain retail-focused consumer protection rules may be disapplied or modified. This provides a clear justification for the existence of the separate license class and delivers the regulatory predictability that businesses require.

Lastly, the consultation's proposal that applicants can apply directly for the F,F-PG, or F-R license without needing to progress sequentially through the class T and M sandbox licenses should be operationalized. This is critically important for attracting globalized players who do not require a testing environment and are seeking an efficient path to full market entry.

Proportionality in practice

The proposed exclusions and exemptions reinforce the framework's commitment to proportionality. The exemption for entities already subject to prudential regulation, such as licensed banks, is a logical measure that avoids duplicative oversight. The narrowly tailored exemption for internal corporate treasury functions, combined with a "look-through approach" to prevent misuse is an appropriate anti-avoidance measure.

Risk based approach to limited networks

The case by case assessment for limited network systems like gift cards and loyalty schemes is a pragmatic approach. Basing the decision on risk factors ensures that low-risk activities are not unduly captured, which aligns with the principle of proportionality and avoids the rigid, "blanket" approaches seen elsewhere.

We recommend the BMA to formally establish a "safe harbor" within the PSA framework for stablecoin issuers that meet the strict, low risk criteria in the following:

- **Full backing by high-quality liquid assets (HQLA):** Stablecoin reserves must be composed 100% of the highest-quality, most liquid assets. This should be narrowly defined as short-term government treasury debt with maturities of one year or less, and cash deposits held at regulated and creditworthy financial institutions.
- **Regular public audits and attestations:** Issuers must commit to conducting regular attestations and annual full audits of its reserve assets, performed by a reputable, independent third party auditor. The results of these audits must be made publicly available in a timely manner to ensure full transparency and build market trust.
- **Bankruptcy remoteness of reserves:** Reserve assets must be held in a legal structure that ensures they are operationally segregated and legally protected from the creditors of the issuer in the event of insolvency. The issuer should be required

to obtain a legal opinion confirming the bankruptcy-remote status of the asset-holding structure.

- **Guaranteed 1:1 redemption:** the issuer must provide users with a clear, direct, and legally enforceable claim to redeem the stablecoin for the underlying fiat currency on a 1:1 basis. The terms, conditions and timelines for redemption must be clearly and publicly disclosed.

We also urge the BMA to provide clear guidance that the exemption for "decentralized infrastructure providers" applies specifically to entities, individuals, or protocols that do not have a "Responsible Person" exercising control or sufficient influence. This ensures that the exemption is applied precisely to truly decentralized infrastructure and is not used as a loophole for unregulated commercial activity conducted by a "decentralized in name only" project.

For the case by case by case assessment of closed-loop and limited network systems, the BMA should publish the specific risk factors that will guide its determination. These factors should include quantitative and qualitative measures such as transaction volume and value, the degree of interoperability with external payments systems, and the potential for consumer harm or reliance. This transparency provides much needed predictability for businesses operating in this space.

The AI payments hub

The proposal to establish an AI payments hub as a "collaborative platform" is a forward-thinking initiative. This approach recognizes that emerging technologies like AI and DeFi require continuous dialogue and collaboration between regulators and industry. Building this on the BMA's existing innovation hub provides a proven framework.

Addressing emerging FinTech issues

The hub is the appropriate forum to address complex regulatory questions around DeFi intermediaries and programmable payments. This proactive engagement allows for a deeper understanding of novel technologies before imposing rules that might stifle innovation or produce unintended consequences. The hub can also serve as a platform for the collective identification and mitigation of systemic risks, such as smart contract vulnerabilities

We support the Hub's objective to "explore mechanisms to enhance user protection," including assessing "chargeback-like mechanisms" for stablecoin transactions. This demonstrates a commitment to solving practical barriers to the mainstream adoption of digital currency payments. Developing a workable model for consumer recourse could become a template for other jurisdictions.

Relevant documents

2023.10.19.DeFi Policy Recommendations ;
2024.12.17.Regieme for Payments/E-money.docx ;
2024.10.31. BoE approach to Innovation in Money and Payments ;
2021.12.10.Stablecoin Infrastructure Principles ;
2025.03.28 FSB Crypto Asset Framework (brief) ; IIF
2024.07.16.Digitalassets, Stablecoins ;
BMA regulatory trajectory