coinbase

To:

Office of the Superintendent of
Financial Institutions
255 Albert Street
Ottawa, Ontario
K1A 0H2, Canada

July 20, 2026

Re: Capital and Liquidity Treatment of Crypto-asset Exposures (Banking)

Coinbase Global, Inc. (together with its subsidiaries, "**Coinbase**") appreciates the opportunity to comment on the draft revisions to the Capital and Liquidity Treatment of Crypto-asset Exposures (Banking) Guideline (the "**Draft Guideline**") proposed by the Office of the Superintendent of Financial Institutions ("**OSFI**").

Coinbase has long supported prudential frameworks that are technology-neutral and proportionate to the actual risks of the relevant exposure. We welcome aspects of the Draft Guideline, including the proposed look-through treatment for tokenized traditional assets, that reflect the principle that economically equivalent exposures should receive economically equivalent prudential treatment. We also welcome OSFI's effort to distinguish among tokenized traditional assets, value-referenced crypto-assets, and other crypto-assets rather than applying a fully monolithic approach across all digital assets.

However, we encourage OSFI to ensure that the final framework remains genuinely risk-based in operation with respect to assets issued or transacted on open (*i.e.*, "permissionless") blockchain networks, and to avoid unnecessary cliff effects and quantitative constraints that could deter responsible activity within the regulated perimeter.

Coinbase appreciates OSFI's engagement on these issues, and we remain available to discuss how well-calibrated prudential frameworks can support responsible innovation.

Yours sincerely,

Scott Baugess
Vice President, Global Regulatory Policy
Coinbase

coinbase

Introduction

Coinbase strongly believes that tokenized traditional assets should receive the same treatment as their underlying assets where equivalent risk outcomes can be demonstrated, and that permissionless blockchain networks should not be subject to punitive capital treatment solely because of their infrastructure design.

We support the Draft Guideline reflecting a constructive departure from previous proposals, including from the Basel Committee on Banking Supervision ("**BCBS**"), to automatically apply punitive risk-weighting to all tokenized assets on permissionless chains. However, whether the framework imposed by the final Guideline will be technology-neutral in practice and reflect the actual risk profile of a given exposure will depend on implementation.

While the Draft Guideline does not expressly prohibit favorable treatment for assets that operate on permissionless networks, certain Group 1 classification conditions may be difficult for public blockchain arrangements to satisfy, including requirements around participant traceability, clearly defined network elements, legal enforceability across jurisdictions, and the role of regulated or supervised entities in core functions.

Coinbase supports frameworks that allow risks to be mitigated through different combinations of network-level, issuer-level, and bank-level controls, rather than frameworks that recreate a de facto preference for permissioned systems through prescriptive conditions. As we discussed in our response to the BCBS Working Paper 44, regulators should refrain from treating the mere use of permissionless blockchains as the capital rule, and instead focus on the banks' risk mitigants to a holistic distributed ledger technology ("**DLT**") solution that may use a permissionless network.[1]

While Coinbase is not a bank subject to prudential capital rules, we have long advocated for a framework appropriately tailored to the risks because we recognize that banks play an important risk-management role across the financial system. Such a framework is critical to ensuring an open and inclusive financial ecosystem. Just as the open protocols underlying the internet drove decades of innovation and competition, permissionless blockchains lower barriers to entry, prevent the concentration of control in a small number of intermediaries, and enable market participants to transact directly on equal terms. Prudential frameworks should therefore evaluate these networks on the basis of their actual risk profile rather than penalizing their open design.

[1] *See* Coinbase, "Re: BCBS Working Paper 44 – Novel risks, mitigants and uncertainties with permissionless distributed ledger technologies" (Feb. 3, 2025), https://assets.ctfassets.net/o10es7wu5gm1/5kYnW2N9TsqTW1u0WaHN3O/d872899677865a19dd50a2216664e247/1.A._Coinbase_Submission_-_BCBS_WP44_Response_-_FINAL_02.03.2025.pdf.

In that spirit, we offer the following recommendations to the Draft Guideline for OSFI's consideration.

I. Group 1 Assets Fit Comfortably within Existing Prudential Frameworks

Recommendation: OSFI should: (i) clarify that Group 1 eligibility concerns prudential outcomes and actual risk mitigants; (ii) confirm that same-risk treatment applies to Group 1a tokenized traditional assets, and that tokenization alone never justifies more conservative treatment; and (iii) affirm that the purpose of the Group 1b conditions is to assess actual prudential risk.

Avoid de facto exclusion of permissionless design from favorable prudential treatment

We appreciate that the Draft Guideline does not explicitly exclude assets on permissionless chains from Group 1 treatment, and that Classification Condition 4 expressly contemplates that node validators "may be subject to appropriate risk management standards as an alternative to being regulated and supervised." This is a constructive recognition that a single governance model should not be the sole route to compliance.

At the same time, several of the Group 1 classification conditions could, if applied mechanically, function as a practical barrier for well-established public blockchain arrangements. In particular, Classification Condition 3 requires that "all transactions and participants are traceable" and that key network elements — including the "degree of access (*i.e.*, whether the network is restricted or unrestricted)" — be clearly defined. And Classification Condition 4 requires that entities executing transfers, storage, settlement, or reserve management be "regulated and supervised, or subject to appropriate risk management standards" and maintain a comprehensive governance framework.

We offer four recommendations to ensure these conditions operate in a genuinely risk-based manner:

1. **Equivalent prudential outcomes can be achieved through layered controls without replicating a permissioned governance model.** Governance, accountability, settlement integrity, and traceability can be supported through a combination of network-level, issuer-level, and institution-level controls. Many crypto-assets and the blockchain protocols they execute on are decentralized, meaning they lack a single, identifiable issuer or operator, yet nonetheless exhibit strong operational integrity and settlement finality. Where an asset's design does not provide for independent issuer-level controls, equivalent outcomes should be demonstrable through network- and institution-level controls together with the asset's empirical track record.

We accordingly recommend that OSFI clarify that: (i) Group 1 eligibility can be established through equivalent prudential outcomes even where the digital asset or the network it operates on is permissionless; (ii) no single governance model is the preferred or default route to compliance; and (iii) the absence of a single centralized operator does not, by itself, preclude a finding that settlement integrity, governance, and operational resilience are sufficient.

2. **OSFI should recognize the layered nature of blockchain infrastructure.** Blockchain technology has evolved into a multi-layered model in which functions are distributed across a base layer (L1) and higher layers (L2 and above). Permissioning, identity controls, and other regulatory functions can be applied at higher layers — for example, KYC/AML integration in applications, permissioned deployment environments, and privacy-preserving technologies — without compromising the neutrality, security, or decentralization of the base layer. Indeed, many arrangements described as "permissioned" today are in fact permissioned protocols and L2s that are built on public, permissionless L1s.

   A prudential assessment that focuses exclusively on the characteristics of the underlying L1, rather than on the full stack of technology that sits on top of it, is technically inaccurate and focuses on the wrong part of the stack. We encourage OSFI to affirm that the classification conditions may be satisfied by controls applied at the appropriate layer of the stack (typically the L2 or above) while preserving the overall neutrality and security of the underlying L1.

3. **Empirical track record should weigh heavily.** Consistent with the evolving nature of these markets, where a permissionless crypto-asset or network has established a successful, multi-year operational record on a major network — including maintaining strong adherence to any peg and demonstrating settlement integrity through periods of market stress — that evidence should weigh heavily in assessing whether the classification conditions are met.

   Empirical performance is often a more reliable indicator of resilience than formal governance structure, and giving it appropriate weight would preserve supervisory rigor while avoiding an outcome that categorically disadvantages open networks. For example, through their existence for more than a decade, neither the Bitcoin nor the Ethereum networks have been compromised, and they have maintained 24/7/365 operations. This is a better track record than many of the proprietary technology systems (many of which are unregulated) that critically important infrastructure currently relies on.[2]

[2] Systems relying on a central operator who must dictate and implement upgrades for all users have resulted in outages that have caused substantial economic harm — such as the CrowdStrike IT outage which was responsible for over $5 billion in direct economic losses. *See* CNN, "We finally know what caused the global tech outage - and how much it cost," (July 24, 2024), https://www.cnn.com/2024/07/24/tech/crowdstrike-outage-cost-cause/index.html

4. **Traceability and accountability can be supported through layered safeguards.** The traceability contemplated by Classification Condition 3 can be supported through regulated-firm controls, blockchain analytics, transaction monitoring, and custody controls, in addition to network-level features. We recommend OSFI confirm that these safeguards, individually or in combination, may be relied upon to satisfy the underlying objective.

Equivalent risk deserves equivalent prudential treatment

The Draft Guideline generally provides that Group 1a tokenized traditional assets held in the banking book are subject to the same credit treatment as the equivalent non-tokenized traditional assets, and that Group 1 assets map to the same market-risk factors as the underlying or reference asset. We strongly support this approach.

Prudential treatment should reflect economic substance over technological form. Where a tokenized exposure confers equivalent legal and economic rights and relevant risk mitigants are in place, tokenization should not, by itself, trigger a more conservative capital outcome.

We therefore support retaining OSFI's core approach for Group 1a assets, and we encourage OSFI to state as clearly as possible in the final Guideline that tokenization does not, on its own, justify more conservative treatment where the institution can demonstrate equivalence of rights, enforceability, operational resilience, and settlement integrity.

We would add one further point that bears on the calibration of the framework as a whole. DLT is not solely a source of novel risk. Like other foundational technology standards on which financial applications rely, such as SMTP for email transmission and TCP/IP for internet communication, DLT can be a catalyst for more efficient systems that ultimately reduce risk. In particular, by enabling atomic and near-real-time settlement, DLT can reduce settlement risk and related counterparty credit risk relative to traditional market structures, and can increase transparency and resilience by reducing reliance on single points of failure. We encourage OSFI to reflect this balanced view in the final Guideline, including in its approach to the infrastructure risk add-on discussed in Section IV below.

The purpose of the Group 1b conditions is to assess actual prudential risk

The Draft Guideline permits value-referenced crypto-assets that satisfy the Group 1b conditions to receive treatment linked to their structure and reference assets, subject to detailed requirements concerning reserve composition, redemption, legal rights, the stabilization mechanism, and the role of supervised issuers and service providers. Where those conditions are not met, an exposure falls into Group 2, with Group 2b attracting a full CET1 deduction and no hedging recognition.

Coinbase supports strong substantive standards for reserve quality, redemption rights,

and due diligence. We have also consistently cautioned, however, that excessively rigid classification rules can create arbitrary cliff effects, and we have supported approaches — such as the BCBS "narrowly passed" concept for the basis-risk test — that set a high bar while avoiding cliff-edge outcomes. Minor deviations in reserve composition or collateralization should not automatically push an otherwise lower-risk arrangement into a category subject to punitive treatment.

Two points on the monitoring and stabilization requirements merit particular attention:

- **Duration-sensitive measurement**. To the extent OSFI expects institutions to conduct statistical tests of a stablecoin's stability relative to its reference asset, the methodology should be suited to markets that trade continuously, 24/7/365. Daily point-in-time measurement is not sufficiently granular and can produce arbitrary results depending on the observation time. A duration-sensitive approach (*e.g.*, measuring the proportion of time on a rolling basis during which a peg deviation exceeds a defined threshold) more accurately reflects the actual risk profile of an arrangement and avoids overweighting fleeting, quickly arbitraged deviations while still capturing genuine, sustained depegging events.
- **Reasonable operational tolerances**. The final Guideline should permit reasonable operational tolerances where such tolerances are related to market behaviors that do not materially alter the risk profile of an arrangement. OSFI should make clear that the purpose of the Group 1b conditions is to assess actual prudential risk rather than compliance with narrowly specified and formalistic tests based on market observations that may not at every point in time reflect the intrinsic value of the assets being priced.

Furthermore, liquidity treatment for Group 1b assets should be more differentiated. Under the Guideline, Group 1a tokenized versions of high-quality liquid assets ("**HQLA**") may themselves qualify as HQLA whereas a digital wrapper around a portfolio of HQLA assets (*i.e.*, a Group 1b stablecoin) would not be considered HQLA. This should be corrected, and a compliant stablecoin like that envisioned under the federal Stablecoin Act regulated by the Bank of Canada, the European Union's Markets in Crypto-Assets Regulation, or the U.S.'s Guiding and Establishing National Innovation for U.S. Stablecoins Act, should have the ability to be treated as HQLA.

We appreciate OSFI's attention to the novel liquidity risks these instruments can present, and we agree that not all stablecoin arrangements warrant preferential liquidity treatment. However, fully reserved and highly liquid value-referenced crypto-assets can, in important respects, resemble short-term liquid instruments — such as money market funds — more closely than a blanket non-HQLA treatment implies, given their reserve composition, stability objective, and liquidity profile.

We therefore encourage OSFI to adopt a more differentiated liquidity treatment for certain Group 1b assets, particularly where the institution can demonstrate that the arrangement is fully backed by high-quality liquid reserve assets and is subject to robust redemption rights, bankruptcy remoteness, daily liquidity, and strong disclosure and audit requirements. At a minimum, the final Guideline should preserve room for more tailored calibration over time as reserve standards, market structure, and supervisory experience develop.

II. The Group 2 Exposure Limit Should Be Reconsidered

Recommendation: Remove the Group 2 exposure limit as redundant and unnecessary and lower the CET1 deduction. If any quantitative limit is retained, measure it on a net basis with full hedging recognition.

The Draft Guideline subjects institutions' aggregate Group 2 exposures to a limit of 5% of Net Tier 1 capital, measured on a gross basis using the higher of the absolute value of long and short exposures in each crypto-asset, and provides that any breach results in all Group 2 exposures being treated as Group 2b.

These measures would materially impact a bank's ability to engage in the digital asset ecosystem beyond stablecoins and thereby push such activity outside of the supervisory perimeter, which is contrary to what OSFI should be seeking to do. Instead, OSFI should apply a quantitative, risk-sensitive framework that differentiates across crypto assets based on liquidity, volatility, maturity and hedgeability. Such an approach would be consistent with a technology-neutral "same risk, same activity, same treatment" approach to the treatment of crypto asset exposures.

Pursuing a full CET1 capital deduction — an outcome that seeks to fully protect an institution against loss on the exposure — makes the cost of engaging in digital asset activity too punitive for banks and would leave them on the sidelines of a potentially meaningful part of the future financial ecosystem.

Group 2 assets like Bitcoin and Ether have already, and over a long period, demonstrated that they behave like traditional securities. Their market cap and trading volumes are commensurate with large U.S. equities, and both have adjusted bid-ask spreads that are tighter than those of all publicly listed companies in the U.S. save Apple and Nvidia. With these market quality metrics there is no rational basis to provide a treatment that is any more severe than securities with commensurate characteristics.[3]

[3] *See* Coinbase's submission to the SEC in support of approving an Ether exchange-traded product describing the market characteristics of Ether (Feb. 21, 2024). https://www.sec.gov/comments/sr-nysearca-2023-70/srnysearca202370-432799-1074283.pdf

While OSFI's limit of 5% of Net Tier 1 capital is significantly better than the 1% of Tier 1 capital originally contemplated by the BCBS, it is unnecessary given the conservative capital treatment already applied to Group 2 exposures.

Finally, we recommend that any retained limit be measured on a net rather than gross basis and recognize hedging, at least for Group 2a hedging-eligible crypto-assets. Requiring institutions to add long and short positions together, with hedging recognized only minimally, overstates economic exposure and can penalize prudent risk management.

III. AML/CFT Risk Can Be Managed Through Regulated-Firm Controls, not Only Protocol-Level Permissioning

Recommendation: OSFI should recognize that AML/CFT risk can be managed effectively through regulated-firm controls, and not only through protocol-level permissioning.

The Draft Guideline incorporates anti-money laundering and countering the financing of terrorism ("**AML/CFT**") considerations into Classification Condition 3 and into the risk-management expectations in Annex 4. We support the inclusion of AML/CFT considerations in the prudential analysis. We encourage OSFI, however, to make clear that protocol-layer whitelisting or comparable permissioning features are not the only credible way to manage AML/CFT risk associated with permissionless crypto-asset activity.

Regulated firms, including banks, already apply a mature and well-understood set of AML/CFT controls to crypto-asset activity, including customer due diligence, transaction monitoring, blockchain analytics, sanctions screening, Travel Rule compliance, and controls at the entry and exit points to the financial system. These controls can deliver the relevant risk outcome, individually or in combination, and the robust operation of these systems should be recognized as an equally valid mitigant to protocol-level permissioning. For many widely-used permissionless networks, protocol-level whitelisting would be impractical and would effectively exclude assets that are otherwise capable of being held and used safely within the regulated perimeter. We therefore recommend that the final Guideline remain principle-based on AML/CFT and recognize that appropriate outcomes can be achieved through different control models depending on the design of the asset and the role of the institution.

IV. Infrastructure Risk Add-on Is Unnecessary and Unwarranted

We welcome OSFI's decision to set the infrastructure risk add-on for Group 1 crypto-assets at zero. There is no justification for an infrastructure risk add-on on

permissioned blockchains where actors are known, transactions may be reversed, and the environment is generally controlled. For assets on permissionless chains, a specific chain's operational, implementation, and design risk must be taken into account in evaluating overall infrastructure risk. DLT has matured considerably and, as we noted previously, can be risk-reducing overall — *e.g.*, with respect to settlement risk — and well-established permissionless chains with a track record of soundness may not warrant an add-on.

We therefore recommend that any future decision by OSFI to introduce a non-zero infrastructure risk add-on be risk-based, evidence-driven, and subject to clear criteria, rather than applied as a blunt, uniform charge. A well-tested network that has benefited from years of open-source scrutiny presents materially different infrastructure risk than a new, untested one, and any add-on should reflect that difference. We would welcome OSFI's confirmation that it will consult with industry and rely on observed evidence of infrastructure weakness before adjusting the add-on.

Conclusion

Coinbase appreciates the opportunity to submit feedback to the Draft Guideline. We look forward to working with OSFI on these issues.