Coinbase Global, Inc.
Third Quarter 2023 Earnings Call
November 2, 2023

Anil Gupta, Vice President, Investor Relations: Good afternoon and welcome to the Coinbase third quarter 2023 earnings call. Joining me on today's call are Brian Armstrong, Co-Founder and CEO; Emilie Choi, President and COO; Alesia Haas, CFO; and Paul Grewal, Chief Legal Officer. I hope you've all had the opportunity to read our shareholder letter, which was published earlier today on our Investor Relations website.

Before we get started, I'd like to remind you that during today's call, we may make forward-looking statements. Actual results may vary materially from today's statements. Information concerning risks, uncertainties, and other factors that could cause these results to differ is included in our SEC filings.

Our discussion today will also include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in our shareholder letter on our IR website.

Non-GAAP financial measures should be considered in addition to, not as a substitute for, GAAP measures. We are once again using Say Technologies to enable our shareholders to post questions. In addition, we'll take some live questions from our research analysts. And with that, I'll turn it over to Brian and Alesia for opening comments.

Brian Armstrong, Co-Founder and CEO: Thanks, Anil. Let me start with a provocative statement. On chain is the new online. The Internet was and is a game-changing technology that redefined our modes of communication, business and social interaction. It broke down barriers, democratized access to information, and made knowledge universally accessible.

Blockchain and crypto are doing the same thing today with a re-decentralization of the web and the introduction of a new building block: ownership. Instead of just reading and writing on the traditional Internet, onchain, you can now read, write and own. Onchain is about digital assets, broader access to financial services, and even changes how we think about identity, governance, artwork and non-financial services.

Crypto creates a level playing field where everyone, irrespective of their socioeconomic status or geographic location, has access to more robust and transparent systems. Crypto creates a world with fewer middlemen, lower fees, faster transaction speeds, and greater protection and control over one's digital assets and identity.

It is for all of these reasons that we believe that crypto is the greatest tool in increasing global economic freedom. We also think that onchain will be as essential and impactful as the Internet is today. If we look back to the early years of the Internet, the companies that ignored the noise and built for the future of the Internet now stand as tech giants.

The onchain companies of today will be the tech giants of tomorrow. Coinbase stands at the forefront of this technology and continues to build a responsible, compliant, trusted, financially strong, and innovative business that is building those linchpin products.

Speaking of financial strength, Q3 has been another strong quarter for us. In Q3, we delivered positive adjusted EBITDA for the third consecutive quarter and demonstrated continued operational discipline. In fact, we're on track to deliver meaningful positive adjusted EBITDA this year, which reflects the direction we set at the start of this year to be a company that can generate adjusted EBITDA in all market conditions.

We thought it may take us more time to get here, but through operational discipline, rigorous cost management and more favorable interest rates, I'm very pleased with the results we've delivered. Our balance sheet remains strong and our financial position enables us to continue to invest in the future and deliver products and services that expand the utility of crypto, which brings me to what we've built this quarter.

We've obtained licenses that enable us to access new markets, continued to drive toward regulatory clarity for crypto, and build innovative products that expand the utility for crypto. This continues to be a year of international progress for Coinbase, starting with international expansion here. In 2023, we officially launched three key Go Deep markets: Brazil, Singapore, and this quarter, in Canada. Country launches are a significant investment for Coinbase.

When we launch in a country, we hire local leadership, we work with local regulators, and we establish new payment rails to enable seamless fiat crypto transfers. In Q3, we also obtained key licenses or registrations in Singapore and Spain and continue to pursue and obtain licenses and registrations where it's clear that we need them to serve our customers.

Speaking of licenses, let's talk about derivatives. Unlocking the ability to offer derivatives products to users is a huge opportunity for Coinbase, as the global derivatives market for crypto represents 75% of all trading volume. Trading volume that up until now was largely going through unregulated offshore exchanges. Derivatives products are an important tool as the ability to trade crypto using margin, essentially giving traders the ability to use margin, increases their capital efficiency and access to the crypto market less upfront investment.

In Q3, Coinbase International Exchange received regulatory approval from the Bermuda Monetary Authority to enable perpetual futures for eligible non-U.S. retail customers, which we began offering just last month. And Coinbase Financial Markets also received regulatory approval from the National Futures Association to offer futures to eligible U.S. customers via Advanced Trading.

And as of yesterday, we now offer regulated futures to U.S. customers via Coinbase Financial Markets. Customers seek to do business with trusted counterparties when they trade complex, levered products such as derivatives and perpetual futures. And Coinbase Financial Markets and Coinbase International Exchange are best positioned to be that trusted partner. We're just getting started and plan to roll out additional products and expand to more markets over time with derivatives.

Speaking of launching new products in Q3, we launched our new Layer 2 solution called Base. As I touched on last quarter, most blockchain transactions today are happening on what are called layer 1s and layer 1 networks are slow, they're inefficient and expensive to use. I think of the jump from L1 to L2s as the jump that the Internet made when it went from dial-up to broadband.

Layer 2s are built on top of layer 1 to make them faster and more efficient, and they result in lower transaction costs and higher confirmation speeds. Our Base platform enables developers to harness the full power efficiency and cost savings of a layer 2 network with the convenience of it being built in right into the Coinbase ecosystem.

In August, we moved BASE on to mainnet, which means now available to everyone, and to celebrate the launch we created an onchain movement this summer for developers in the crypto community called Onchain Summer. During that campaign, we saw over 10 million NFTs minted across more than 1 million wallets on Base. This momentum helped drive rapid growth of Base, including more than $500 million in assets that are now on the platform. While early, we are encouraged by the early utility of Base and are optimistic about the role layer 2s can play not only for Coinbase but also for the growth and development of the entire cryptoeconomy. Finally, I just want to touch on how Coinbase is driving regulatory clarity for the industry.

One of the biggest items holding back adoption of this technology is the lack of clear rules and regulation, most notably in the US. We're actively involved in U.S. legislation with a variety of bills that are in development, and we're still confident that the US. will get this right, embrace innovation and propose clear rules. American crypto holders are owed clarity and they are an increasingly expanding voter base.

There are 52 million crypto holders in the United States. To put that into context, that's more than the owners of electric vehicles and more than all collective members of US unions. The American people are embracing crypto as more Americans grow unhappy with the traditional financial system. Only 9% of those surveyed say that they are satisfied with the current US financial system, and only 22% of people think that it's better than any other country's. And nearly two in five younger people—that's 38%—say crypto and blockchain can increase economic opportunities for them in ways traditional finance can't.

To aid in the mission of driving for crypto regulation, Coinbase is a proud supporter of an independent movement known as Stand with Crypto that now has more than 100,000 advocates and continues to stand with the American people to drive towards clarity in the US. While the US continues to struggle to keep pace, the rest of the world has made great strides in embracing crypto and onchain technology with clear legislation.

We're seeing global efforts to bring crypto into regulatory scopes as 83% of the G20 nations are adopting crypto regulations. Most recently, we've seen this with MiCA legislation in Europe, and it's incredibly encouraging to see that now 27 countries stand together with one unified set of rules for crypto, something the US desperately needs.

In response to this groundbreaking regulation, Coinbase moved quickly and recently announced that Ireland will be our MiCA hub. We continue to work with regulators around the world on laws for cryptocurrencies and act quickly to embrace new regulation when it's developed.

In conclusion, although we continue to be in a down market with volatility, the lowest we've seen in years, Coinbase is financially healthy with our third consecutive quarter of positive adjusted EBITDA. Meanwhile, we have the most trusted brand and the easiest to use products and continue to build innovative key technologies that expand the utility of crypto and best position Coinbase to take advantage of the next bull market.

We continue to do the work of running a trusted, secure, and compliant crypto platform. And this is our competitive advantage. We have a long-term focus on building and following the rules, which has proven to be the right strategy. We believe onchain is the new online and the unchanged technology represents the same opportunity that the Internet did before it.

With compliant and responsible companies like Coinbase leading the charge, onchain applications are set to become the foundational pillars of the future financial system and more.

With that, I'll hand it over to you, Alesia, to tell us more about our Q3 performance.

Alesia Haas, CFO: Thanks, Brian, and good afternoon, everyone. As Brian shared, Q3 was a strong quarter where we saw the efforts of multi-quarter initiatives come to fruition. Further, we continue to make progress on building an increasingly efficient and financially disciplined company.

Let's dive right into our Q3 results, and I'm going to start with transaction revenue, which was $289 million, down 12% quarter-over-quarter. In Q3, crypto asset volatility, a driver of our trading business, continued to decline, and it reached levels that we haven't measured since 2016. As a result, total Coinbase trading volume declined 17% quarter-over-quarter, which outperformed the global spot market, which declined 24% quarter-over-quarter.

The blended average fee for Consumer was higher in Q3 as compared to Q2 and was again driven largely by the mix of Simple versus Advanced Trading volume in the quarter. We continue to experiment with our pricing models for both our Consumer and Institutional products, and price changes may impact future quarters, but that was not the case in Q3.

Turning now to subscription and services. Revenue was $334 million, essentially flat quarter-over-quarter. Overall, we saw inflows of native in custody, we saw an increase in stakes balances, and we saw growth in USDC on our platform. However, offsetting this unit growth were price effects, as crypto market cap declined approximately 9% quarter-over-quarter.

Now shifting to expenses. Total operating expenses declined 4% and quarter-over-quarter to $754 million. Technology and development, general and administrative and sales and marketing were collectively $654 million, down 1% quarter-over-quarter. Expenses did come in at the low end of our outlook driven primarily by a shift in timing of certain legal and marketing expenses from Q3 to Q4. Net loss was $2 million, and adjusted EBITDA was $181 million.

Our Q3 net loss benefited from two transactions. First, we completed a debt repurchase in the quarter, which had a favorable impact of $82 million. Second, we had a $50 million gain on strategic investments. Both of these items were recorded in our other income. Additionally, in the quarter, we increased a valuation allowance on deferred tax assets, which contributed to the higher tax rate. You can read more about our effective tax rate in our shareholder letter.

Now I'd like to turn to our outlook for the fourth quarter. In our letter, we noted that October transaction revenue was approximately $105 million. We're expecting subscription and services revenue to be approximately flat with the Q3 levels and this assumes no material change to crypto asset prices or market conditions as compared to the month of October.

In terms of expenses, we expect technology and development and general and administrative to be between $525 million and $575 million, which is lower compared to the Q3 levels. A key driver of this decrease quarter-over-quarter is lower stock-based compensation in Q4 as compared to Q3, which as we have previously shared, has a non-linear expense recognition timing.

We're expecting sales and marketing expenses to be between $85 million and $95 million, slightly higher than Q3 levels due to the shift in timing from Q3 to Q4 for certain expenses that I noted earlier. Just as I noted that Q4 is lower than Q3 for SEC, when we look ahead to Q1 of 2024, SEC will be sequentially higher than Q4. As Brian mentioned, we expect to deliver meaningful adjusted EBITDA in 2023, which I want to note is an improvement from our prior goal of just improving adjusted EBITDA in 2023 as compared to 2022 on an absolute basis.

To close, Q3 was a strong quarter for the business despite the low volatility environment. We're pleased with the revenue performance as well as our ability to grow our USDC resources while opportunistically reducing our total debt. As we look ahead toward next year, we see a wide variety of positive catalysts for the crypto industry on the horizon as well as potential risks. We're closely monitoring these inputs as we plan for the coming year, and we will share more with you next quarter.

Anil Gupta, Vice President, Investor Relations: Thank you both. So with that, let's turn to shareholder questions. We're taking the most upvoted questions as determined by the number of shares, and we might combine questions that touch on the same themes. First question is, will Coinbase consider reducing transaction fees to make them more competitive with other platforms where ETFs are being traded at significantly lower prices. Emilie?

Emilie Choi, President and COO: Sure. Thanks for the question. So to answer it directly, we have no current plans to reduce transaction fees because of ETFs. If you just zoom out a little bit, spot ETF should be a positive catalyst for the entire crypto space. They should add credibility to the market, and we should see increased liquidity and market stability as we've seen with other asset classes such as gold.

ETFs should expand the pie and bring new people and institutions into the cryptoeconomy. One stat that I find really powerful is that 52 million Americans own crypto today despite the current regulatory overhang. So imagine what will happen once ETFs are introduced and widely available. RIAs, retirement funds, and other institutions that have been precluded from this asset class historically will gain access to crypto for the first time, and that's very powerful.

In terms of economic impact, as we said before, the primary way that we'll monetize ETFs directly in the near term is through custody fees. And Coinbase is very proud to have been selected to partner with the majority of the potential issuers who are among the world's most trusted financial institutions.

Over time, we think there will be other ways to monetize, but that's too early to get into those now. And we also believe that the approval of these products will renew interest in crypto generally and that we would benefit from increased demand and trading volume as a result. Operationally, we are set and ready to go. And once approval arrives, we are ready to hit the ground running.

Anil Gupta, Vice President, Investor Relations: Second question, when do you see Coinbase with positive earnings per share, Alesia?

Alesia Haas, CFO: Let's dial back. Looking back the last several years, we were actually net income positive in 2021 in the midst of a bull market. That changed in 2022 as the market turned. We are in a nascent industry, and what we like to do here is we balance our investment in growth in product innovation and profitability. You may recall that we pivoted in the middle of last year to evolve from a company that's profitable through a cycle to one that can generate positive adjusted EBITDA in all market conditions. And that was a very deliberate shift in our strategy. We are focused on that as our goal at this time, generating positive adjusted EBITDA in all market conditions. And year-to-date, we've made significant progress towards that goal. You've noted that this is the third consecutive quarter that we've had positive adjusted EBITDA this year. And all of those were in excess of $100 million.

And as we said earlier in this call, we are on track this year to deliver meaningful positive adjusted EBITDA in 2023. And all of this is in a down market at a level of multi-year low levels of volatility.

As a result, we believe we have a strong position to enable us to continue to invest in the future in our strategy to bring new product innovation to the market during this challenging point in the crypto market cycle. We have a strong balance sheet with over $5 billion in USD resources -- and we further strengthen the balance sheet this year as we repurchased debt. And so with that, that is our focus. Adjusted EBITDA, investing in the future in trusted products and services to expand the utility of crypto.

Anil Gupta, Vice President, Investor Relations: Next question. How is Coinbase handling and preparing for the challenges around the IRS proposed regulations on reporting of digital assets? Alesia?

Alesia Haas, CFO: Well, this is a great question, and we're spending a lot of time working on this internally. So I'm glad we had a chance to highlight some of the work here. First, I want to share some background for those who are unfamiliar with the proposed regulations. The IRS recently proposed rules that would require Coinbase and other crypto platforms to report every crypto transaction of our US customers.

When I say every transaction, that includes those onchain transactions related to payments, NFTs, everyday applications. For example, using crypto to buy a cup of coffee becomes a reportable transaction. This means for Coinbase alone, we could be required to report billions of transactions to the IRS each year. The IRS has admitted that it will receive 8 billion reports. That is more than all current tax reporting combined. This creates a huge compliance burden for us, for the industry. And importantly here, it threatens our customers' privacy and ultimately, we believe, would impede the adoption of crypto.

I want to state that we have long supported broker reporting of transactions on our exchange on par with the reporting requirements for traditional finance. But we believe these proposed rules are unworkable and impractical because they reach far beyond that objective.

They set a dangerous precedent for surveillance of non-financial transactions and could lead to the invasion of privacy for American people. So we've been very active here. First, we filed a comment letter introducing our concerns and highlighting the challenges raised by the proposed regulations. We are actually preparing a more detailed comment letter to be submitted shortly with further observations and recommendations regarding the proposed regs. We're also preparing oral testimony on our perspective and concerns at an IRS hearing scheduled for November 7.

And lastly, we're working with trade associations and peer companies to provide industry-wide perspectives. We've made the public aware of these proposed rules. We've mobilized with Stand with Crypto to encourage public comments to the IRS and are proud of seeing tens of thousands of comment letters be submitted so far.

So while we think these proposed regs went too far and are unworkable, we think a staged approach to broker reporting is the correct path with the realistic targets and effective dates for the industry, and we remain committed towards transparency and working towards this objective.

Anil Gupta, Vice President, Investor Relations: Thank you. So with that, Sarah, let's switch and take questions from our analysts, please.

Operator: Your first question comes from the line of Ken Worthington with JPMorgan.

Kenneth Worthington, JP Morgan: I wanted to dig in further on derivatives. So you got your FCM license and you rolled out derivative trading on your website. I guess, importantly, when does Coinbase start to launch on mobile, and how are you thinking about marketing and growing that? And then more broadly, as we think about derivative growth for Coinbase inside and outside the U.S., how much of a void is there in derivatives given the FTX blow up and the pressure on Binance and how challenging might that volume be to pursue?

Brian Armstrong, Co-Founder and CEO: Yes. Thanks for the question. I can start off. So I think the first part of your question was really about rolling out derivatives on mobile. And while I don't want to give any kind of like launch dates on the call here, you can imagine that's one of several things that we're working on, which would improve people's access to it, both for retail and institutions actually.

And so there's still a lot of work to be done to fully integrate our derivatives products into our other products, both Coinbase Prime and our retail app. I do think that we have a big opportunity to essentially go out and provide some trusted infrastructure around this. As I mentioned in the opening statements, people really care about their counterparties in this market. And I do think Coinbase has the best reputation out there in terms of being trusted and we can be an important player by providing the structure in a way that's regulated and compliant and has our long track record of cybersecurity, for instance.

Just a few pieces of data that we haven't shared, I think, before. So we've done about $10 billion in notional volume in Q3 on derivatives, which is that sounds like a big number, but in the derivative space, it's actually -- it's a good start, but it's still relatively small.

We've also been really increasing the number of institutions we've been onboarding. So in Q3, we now have over 100 institutions that have been onboarded. So with our launches that we talked about, we've got a lot of work in front of us, but we're making really good progress on that.

And I can't really predict what percentage of the derivatives market would come over. But I know it's important for the space to have trusted infrastructure, and that's what we're going to go build.

Operator: Your next question comes from the line of Devin Ryan with JMP Securities.

Devin Ryan, JMP Securities: Just want to talk a little bit about Base and the adoption that you're seeing. You guys gave a few stats there. It sounds like off to a really good start. So just maybe want to talk about what you guys think are going to be some of the biggest applications that are going to be on Base? What makes it attractive relative to other layer 2s?

Just Coinbase as this starts to become hopefully a bigger contributor for you, how should we think about kind of the ability to monetize and also just geography where kind of that shows up?

Brian Armstrong, Co-Founder and CEO: Yes. So I can start off with some of the applications, then I'll turn it over to Alesia to talk about monetization.

So look, I think if anybody was sitting there kind of when broadband was first introduced on the Internet, and they tried to predict what the use cases would be. There's probably some good video clips, we can go back and look at people predicting that. And I'm sure they look a little bit silly because it would have been hard to predict Uber and Netflix and all these kind of things that were enabled.

So there's a little bit -- I don't want to make any kind of firm predictions here, but I can definitely say that one area we're excited about is payments, for instance, just because if you think about -- on Layer 1 today, if it costs between $1 and $15 or so to make a transaction, and it takes anywhere from minutes to an hour to confirm that could be serving these use cases around trading because people don't necessarily do trading every second. They might need to do it periodically. And so L1 has served use cases like trading well.

But if you're trying to build a global payment network, it really benefits everyone to have that happen fast and cheap. So for instance, if you're at a merchant and you hit send, you want the kind of confirmation to show up ideally within a few seconds. You don't want to be sitting and waiting around for 20 minutes or something like that.

So payments -- and by the way, payments could be a whole variety of things, right? It could mean sort of commerce type applications.It could mean peer to peer. It could mean B2B, it could mean remittance. It could mean payments in third-party applications that are like these new types of dapps that are being created.

So I made this analogy at one point in the past, but what we saw the friction was reduced from sending a text message to sending a WhatsApp message is it went from like $0.25 to send a text message to being free on WhatsApp we saw in order of magnitude more messages sent every day. And I think if you bring down the friction of payments or transactions on these layer 2, you could see an order of magnitude more transactions happening on these chains.

Now we don't know exactly all of the things that it will be used for, but we are seeing good early adoption of Base, as I mentioned. So we've had more than 1 million transacting wallets over the last month, for instance, and Base is still quite new. 10 million NFTs got minted during Onchain Summer. $500 million in assets have been locked up on the platform already. So that's a great sign of adoption.

Hopefully, this new kind of -- this new efficiency that is introduced with Layer 2 creates thousands of different types of applications, and we'll see which of those rise to the top. Alesia, you want to talk about monetization?

Alesia Haas, CFO: I'll just quickly add on here, Brian. So Base monetizes both directly and indirectly. On a direct basis, we do earn sequencer fees. We are reporting those as transaction fees. And today, they are included in the consumer transaction fees in our financial statements. It's very early. They are not material enough to break out. But over time as hopefully they grow we would provide more disclosure in the future.

But more importantly I think are the indirect opportunities where, as Brian said if we see the proliferation of opportunities for apps on Base this will provide opportunities for our Wallet product, for more money to come from traditional fiat into crypto, and we are an onramp into that overall economy so we can see opportunities to earn revenue in many of our existing products as well.

Operator: Your next question comes from the line of Mike Colonnese with HC Wainwright.

Mike Colonnese, HC Wainwright: Question from me on the spread. So retail spreads have consistently increased for four quarters in a row now which I know you guys have attributed to the mix shift towards higher yielding Simple trading volumes. And now looking back you’re about 100 bps higher than you were in 2021 when trading activity was certainly more robust on the platform. So if you could help us to understand what spreads could look like when mix flips and Advanced traders become more active again, could we get back to 2021 type levels of will some of these pricing changes allow spreads to be above those type of levels? Thanks

Alesia Haas, CFO: Thanks for the question. It’s a good chance for me to remind everybody that when we look at the weighted average fees by taking our transaction revenues divided by volume, it’s an output, not an input. And so mix and behavior on our platform are really important drivers of what that output is in terms of blended fee rates.

We've shared with you in Q1 earlier this year where we did increase spread on Simple trading. So that is for an example, if we went back to the volumes and the mix we saw in 2021, we would see higher fees on the platform as a result of that Q1 decision.

But we would see fees that looked much more like the 2021 fees if the mix shift because as we've shared over the last two quarters, we've seen more volume reduction in our Advanced trades than we have in our Simple trade. And so today, more and more of the volume is coming from the Simple trade products than it did in past periods.

So I think mix is a very critical input into what that resulting fee rate is. As we've said before, our fees are transparent. They're disclosed to our customers, and so customers get the choice of how they transact on our platform. And it's possible behavior shifts over time, but this is the behavior that we're seeing today, and we will be transparent with you and talk about how that shifts in future market conditions.

Operator: Your next question comes from the line of Joseph Vafi with Canaccord.

Joseph Vafi, Canaccord: Maybe Brian, could you give us the latest from your team in Washington on the legislative front? I know, obviously, Congress has been a little bit preoccupied with the speaker and the like. But it does feel like legislation coming out of the Congress could ultimately be kind of a silver bullet relative to the current environment of regulation by enforcement?

Brian Armstrong, Co-Founder and CEO: Yes, sure. Happy to give an update. So we've certainly been very focused on getting clarity in the U.S. I do think it's a major issue that's holding back the U.S. right now.

And although we've been able to make great progress in other countries in terms of licensing in the meantime and with our derivatives licensure in the U.S., we still need to get more clarity. So there's a few things we can do on that front. One of them is our SEC case. I think hopefully, we'll get some clarity from the courts there next year or at some point.

And the other one is Stand With Crypto. So I mentioned that at the beginning, we're really trying to activate the 52 million Americans who own crypto to come out in force in this 2024 election, make their voice heard, make sure that folks in DC recognize that 9 out of 10 Americans don't feel the current financial system is serving them. And there's enough Americans now that have used this technology. It's actually 5x the number that own electric vehicles and 3x the number that have union cards, right? They don't recognize the scale of it quite yet.

But we've now seen over 100,000 people kind of raise their hand and say, I want to be an advocate for crypto, on StandWithCrypto.org, I encourage people to check out if they haven't. And we've been able to start to drive that towards comment letters with the IRS, calling their representatives in Congress. And so some of the things we've been asking them to talk to Congress about is what you mentioned, the legislation.

So there are a couple of bills that for those who that don't know, there are a couple of bills that got approved bipartisan support through the House committees. This is the FIT21 bill, stands for the Financial Innovation and Technology 21st century. So FIT21 is one of those. There's also a stablecoin bill. In the Senate, the Lummis & Gillibrand have some legislation they're working on.

And so I would say of the folks that I meet with in D.C. the majority opinion, 80% of people I talk to, is it's a pretty common sense approach. They say this is interesting new technology. We don't exactly know how it could be useful, but it has some innovation potential, but let's make sure we protect consumers so they won't get harmed, make sure we don't have any more blow-ups. And also, let's make sure America doesn't get left behind. I mean, 83% of the G20 countries are already working on legislation or why isn't the U.S.?

And so I know Patrick McHenry now that the kind of question marks about who is going to be speaker have passed. He's publicly said that it's a priority for him to get back to advancing crypto legislation.

So I'm optimistic that America will get this right. And whether it's through the courts or through Congress passing legislation or the 2024 election, America is going to get this right. We're going to make sure that happens. And the 52 million Americans that have used crypto are going to make sure that happens more importantly.

Operator: Your next question comes from the line of Ben Budish with Barclays.

Ben Budish, Barclays: I wanted to follow up on the earlier question around the transaction fees. You talked a little bit in the Q&A about the mix, but just kind of parsing your words very carefully from the prepared remarks, you said you may raise fees and then later you said you wouldn't raise fees in response to the ETF. So I guess, could you perhaps remind us like what are the considerations there?

I know you've sort of changed the approach more recently to think about balancing the output of volume and revenues, you no longer just optimizing for volumes, but how are you thinking about potentially -- and I guess, maybe I don't mean to misinterpret your words, if you mean may raise them, you may lower them. But how are you thinking about adjusting them in the future?

Alesia Haas, CFO: Experimentation has long been part of our product strategy and increasingly part of our pricing strategy to experiment around which model works best for our customers. So for example, Coinbase One started as a pricing experiment in many ways, and we're proud to see the continued growth of Coinbase One in many quarters.

As we shared in Q1 of this year, we raised fees on our spread within Simple trading, and we did not see any change in our customer behavior as a result of that. And so Ben just to answer your question is, we may increase, we may decrease in other products and we will continue to learn what works best for our customers over time ultimately to drive engagement and revenue on our platform.

And speaking to Emilie's comment on ETFs, what we wanted to say very specifically is that is not necessarily a driver. The driver is overall customer engagement with our products, overall competitive environment broadly, and we take all of that as input to inform our strategies and pricing experiments.

Operator: Your next question comes from the line of Owen Lau with Oppenheimer.

Owen Lau, Oppenheimer: So you continue to manage the expense down sequentially, even though the headcount, I think, is higher in the third quarter compared to the second. Your expense guidance indicates that it will continue to go down in the fourth quarter because of stock-based comp?

And Alesia, you also mentioned some guidance in the first quarter as well. But can you please talk about if there's any other levers you can pull to manage or expand? And also, how will international expansion and other growth initiatives will impact your expense growth in the near term?

Alesia Haas, CFO: Thanks, Owen. As we said this year, our focus has been on financial discipline and prudent allocation of our expenses. The underlying theme here around stock-based compensation is it has a nonlinear expense recognition.

And so if you look back a quarter, what we shared with you is that the first half stock-based compensation was going to be very similar to the second half, although Q3 and Q4 were going to have different levels. And so driving the Q4 expense is a lot of the reduction in stock-based comp that we just see naturally, seasonally occurring in the fourth quarter.

Broadly, though, the international growth and new product innovation is all within the expense envelope and outlook that we provided for Q4.

We've shared with you before our approach to allocating our expenses aligned with a 70-20-10 model or 70 -- roughly 70% of our resources is going to our core products, 20% is strategic and 10% to our venture kind of newest product initiatives that are very early stage.

Brian's talked a lot about the importance of a company of a lot of innovation and fail fast, so we continue to try and experiment with new things. So that's all included in that outlook, and we feel really good about our ability to continue to invest in growth, invest in innovation while generating positive adjusted EBITDA and building a company that's more financially efficient.

Operator: Your next question comes from the line of John Todaro with Needham & Company.

John Todaro, Needham & Company: Sorry for asking another one on the take rate. But I just wanted to understand, so Advanced going down versus Simple. Is it the understanding that Advanced users for some reason, are using a Simple interface or are Advanced users leaving the platform maybe to go to DEXs or some other trading venue?

Alesia Haas, CFO: In general, what we see in low volatility environments, is less trading from Advanced users from market makers and participants that are looking for arbitrage opportunities across the ecosystem and across the variety of exchanges. So this is more of a comment on the overall volatility environment and the opportunity to make appropriate trades in this environment than it is around losing customers or them switching platforms.

Operator: Your next question comes from the line of Bo Pei with US Tiger Securities.

Bo Pei, US Tiger Securities: So two, if I may. So given our emphasis on onchain activity, what is the next move to further build our onchain product portfolio, do you plan to launch any DEX yourself or just focusing on developing the infrastructure? And then second, another follow up on the retail spreads. So do we charge different spreads for different digital assets? Is Bitcoin trading spread lower than the overall average on our platform?

Alesia Haas, CFO: I'll answer the ticky tacky on fees, and I'll let Brian then talk about the future of onchain product road maps. Pricing experiments at this point in time historically have really been by product, but in the future, we may evaluate different pricing experiments by coins of geographies as well. So all of those are opportunities. But historically, they've been largely by product.

Brian Armstrong, Co-Founder and CEO: Yes. So thanks for asking about the move to onchain. So obviously, with the introduction of Base, we're making a big investment there. And one of our next major efforts is going to be how to integrate that into all of our products. And I'm really making a push internally to get more and more of the activity on Coinbase happening onchain.

So there's a few areas where we've been doing that to date. Coinbase Wallet is our self-custodial wallet. So all of the transactions happening there are onchain. That's where we saw over 1 million wallets being active on Base in the last month. Things like Coinbase Commerce are putting efforts into how more and more of this can happen on Layer 2 onchain.

Actually, we created some end-to-end metrics internally, where we look at all the transactions happening on the Coinbase platform. And some of those, especially in our centralized exchange products are happening offchain, that's where you kind of get high-frequency trading happening on our exchange that's not -- those aren't all happening onchain today. But if you look at all the transactions being generated, I think only about 7% or so is happening on Layer 2 today, and we need to increase that percentage. I think this is true, not just of Coinbase, by the way, but just the entire crypto industry.

As we get Layer 2 needs to really become the default, I would say, for payments for interacting with dapps, for NFTs, for decentralized social, for identity -- decentralized identity applications.

So if we can get Layer 2 to be the default internally, and we're sort of taking our own metrics around that. Hopefully, the rest of the industry will also join us on that. And I think that's going to be a big factor in kicking off another wave of adoption and utility around crypto.

Anil Gupta, Vice President, Investor Relations: We have one question left in the queue. So let's take that, please.

Operator: Your final question comes from the line of Eric Dray with Bank of America.

Eric Dray, Bank of America: Just wanted to follow up on the legal front. Kind of two parts here. One, I appreciate kind of the date, the January 17 date there. Is there any other date that investors should kind of be aware of? And then second, Brian, you talked a little bit about your conversations in Washington, how have people been prioritizing crypto regulation heading into such a key election year?

Paul Grewal, Chief Legal Officer: This is Paul Grewal well. Let me just speak to the first part of your question. The January 17, 2024 date is the most important day to focus on in our enforcement case with the SEC. That's the date that the district judge will hear oral arguments in our motion for judgment. We think it's an important opportunity to present the court with even more reason to grant our motion than that was laid out in our papers.

We were gratified that the court set an oral argument date was something that we requested specifically, and we're looking forward to that opportunity.

But it's also important to understand we do not expect that the court will necessarily rule on the motion on that date when the core issues or opinion on our motion, of course, is fully within her discretion.

But whether we win or lose the motion, we're fully prepared to litigate the case going forward, and we remain confident in the strength of our position in this case. We remain confident in the end, we will win this case. So more to come there, but the 17th is really the most important critical day to focus on in terms of next steps and next events in the enforcement case.

Brian Armstrong, Co-Founder and CEO: Yes. And I think the other part of your question was about how folks are prioritizing crypto as an issue in D.C. So I can say for some of the folks that we've engaged with over there, it's probably their top legislative priority. But the D.C. has something crisis coming up every week or two here, government shutdown, new speaker, the issues in the Middle East. So we don't pretend to be the top issue for everybody at all times.

All we can do is kind of meet with folks, be an educational resource, make sure they know that there are 52 million Americans that really care about this. We actually -- and then also, in some cases, help the parties come together to sort of negotiate language in some of these bills and things like that, that can build support for it. One other thing that we did. I mentioned earlier that we did a Stand With Crypto Day actually, where we invited about 40 or 50 different crypto-entrepreneurs around the U.S., all flew into D.C.

And what was pretty cool about it was that they got to meet with their representatives in many of these States and actually talk to them about what they're building in their jurisdictions with crypto, why they're excited about it, and they were able to speak just very passionately about it.

Where something I'm happy to speak with all these folks as well, but sometimes they can think, okay, well, this is a big Tech company or a FinTech company that's not located, do people in my area actually care about this, the people that I'm serving and it was really cool to have those folks fly in and put a face to the name how they're creating jobs with crypto, how they believe this is helping their hometowns and building the future of the financial system because it's sorely in need of an update.

So we're certainly working to make it a priority. And I think whenever these issues come up, like we see consumer harm or some issue. It just really highlights the need for regulation and to make sure that U.S. doesn't fall behind here. The vast majority of activity in crypto today is legitimate, positive, it is people who are passionate about updating the financial system and using the technology kind of like the early users of the Internet. And sometimes it feels generational.

There's an older generation. They haven't used it, but they don't use ecommerce either, right? So they're -- sometimes they have a little trouble wrapping their head around it, but they often will talk to their staffers, to their children. Some of the younger folks in Congress just immediately get it. And so it's one of these things that's inevitable. It's just a matter of educating folks about it and making sure we get the right outcome.

Anil Gupta, Vice President, Investor Relations: All right. Well, that does it. Thank you all for joining us, and we look forward to speaking to you again on our next call.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect your lines.