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**UNITED STATES DISTRICT COURT**

**FOR THE NORTHERN DISTRICT OF CALIFORNIA**

JEFFREY BERK, BILLY CROWE,  
PREETHAM PERIASWAMI,  
NATHANIEL PYRON SPENCER  
SOLTAU, MICHAEL SHRIBER, and  
NIKO YOUNTS, on behalf of themselves  
and all others similarly situated,

Plaintiffs,

vs.

COINBASE, INC., a Delaware  
Corporation d/b/a Global Digital Asset  
Exchange (“GDAX”), BRIAN  
ARMSTRONG, DAVID FARMER and  
ADAM WHITE,

Defendants.

Case No.: 3:18-cv-01364-VC

**FIRST AMENDED CLASS ACTION  
COMPLAINT**

JURY TRIAL DEMAND

Plaintiff, Jeffrey Berk (“Berk”), Spencer Soltau (“Soltau”), Michael Shriber (“Shriber”), Billy Crowe (“Crowe”); Nathaniel Pyron (“Pyron”); Niko Younts (“Younts”) and Preetham Periaswami (“Periaswami” with Berk, Soltau, Shriber, Crowe, Pyron and Younts, “Plaintiffs”), individually and on behalf of all other persons similarly situated, by their undersigned counsel, allege in this first amended class action complaint, the following based upon their knowledge with respect to their own acts, and upon the investigation of their counsel, which include public statements made by defendant Coinbase, Inc. (“Coinbase” or the “Company”), Brian Armstrong (“Armstrong”), its founder and chief executive officer, David Farmer (“Farmer”), its director of communications, and Adam White (“White”), a former vice president and general manager (“White”, together with Armstrong and Farmer, the “Individual Defendants”, with Coinbase, “Defendants”), a review and analysis of media reports, interviews, social media and other information concerning the Company and its actions with regard to the cryptocurrency Bitcoin Cash (“Bitcoin Cash” or “BCH”).

### **INTRODUCTION**

1. This is a class action on behalf of all Coinbase customers who placed purchase, sale or trade orders with Coinbase or the GDAX (now known as CoinPro) in connection with Coinbase’s launch of bitcoin cash or BCH (the “Launch”) during the period of December 19, 2017 through and including December 21, 2017 (the “Class Period”), for restitution and/or the monetary losses they sustained as a result of Coinbase’s and the Individual Defendants’ negligence and/or wrongdoing (the “Class”). Excluded from the Class are Defendants, any entity owned or controlled by them, and any officer, director, employee or agent of any of the Defendants, and any heirs, assigns, or family members of any individual defendant.

2. It is also an action for common law conversion against Coinbase for wrongly exercising its dominion and control over the bitcoin cash or BCH which was issued to certain members of the Class after the fork of BTC resulting in BCH, which conversion caused members of the subclass to suffer damage (the “BCH Subclass”).

3. This action (“Action”) arises from the fraud, negligence and the unfair and unlawful business practices engaged in by the Individual Defendants and Coinbase, in

connection with the Launch, in which the Individual Defendants and Coinbase: (1) made false and deceptive statements about when and the extent to which Coinbase would support BCH and Coinbase's compliance with applicable laws; (2) manipulated the price of bitcoin ("BTC") and BCH, in order to draw miners or those creating BTC and BCH, as further explained below, and customers away from BTC and other alternative coins, in order to artificially inflate the price of BCH, and depress the price of BTC; and (3) to facilitate the pump and dump scheme perpetuated by insiders who were tipped by Coinbase as to when it planned to fully Launch BCH, and who used that non-public information to buy and sell BCH during the Launch.

4. Coinbase and the Individual Defendants engaged in these acts : (1) in order to increase Coinbase's profits, which were being significantly reduced as the cost of mining BTC which was becoming prohibitively expensive; and was slowing transactions as the public entered the cryptocurrency arena, thereby reducing Coinbase's fees; (2) to depress the price of BTC, and impact the futures contracts and futures trading that was launched by the Commodities Mercantile Exchange ("CME") the day before the Launch; and (3) to enable insiders to dump significant amounts of BCH at inflated prices.

5. As a consequence of this scheme, and/or their fraudulent, unfair, unlawful and/or negligent acts, the Individual Defendants and Coinbase enabled Coinbase to earn significant fees from the panicked purchases of its customers, from which it earned a spread over the already inflated price for BCH, and to avoid a "run" on the Company by sellers anxious to take advantage of inflated price, by closing down trading within minutes of the Launch to all except certain insiders who were positioned to and did dump massive amounts of BCH during the Launch. This was particularly important, as GDAX operates on a time-price priority basis, meaning essentially that it operates on a first in-first out basis so that traders who are able to submit their orders first, and at certain prices, are more likely to get their orders filled, as further discussed below.

6. They were also able to significantly increase the price and popularity of BCH, and thus increase the number of transactions and concomitant fees that could be charged by Coinbase, while drawing customers and other investors away from BTC and other alternative

coins where transactions and fees had slowed. In short, the sudden Launch was effectively part of an attack by Coinbase and Armstrong to depress the price of BTC and to inflate the price of BCH, to encourage more transactions and greater profitability for Coinbase.

7. As a result of their conduct during the Launch, Coinbase is presently subject to an investigation by the Commodity Futures Trading Commission (the “CFTC”) respecting whether it manipulated the spot market for BTC, thereby impacting the price of BTC futures being traded on the CME.

8. After the “bungled” Launch, in a tacit admission that its Launch was at least negligent, Coinbase changed the process by which it announced the addition of new assets. As it stated in a September 25, 2018 blog, entitled “Coinbase’s New Asset Listing Process”, its new process requires Coinbase to pre-announce the listing of a new asset “far in advance”, in order to allow for sufficient liquidity and an orderly boot up of the market.

9. It further noted on its March 16, 2018 blog, entitled “Our Process for adding new assets to Coinbase and GDAX (March 2018 update)”, that announcements would be made via the Company’s blog or Twitter when it began final testing of the technical integration of a new asset, and that another announcement would be made via its blog and Twitter when the integration was complete and the Company was ready to allow deposits of the asset. It stated that under this new policy, it would allow at least 24 hours of deposits before opening the order book for a new asset, and that assets would only be added after an internal committee conducted a legal and risk assessment of the proposed asset. This assessment would include such factors as liquidity, price stability, and other market health metrics, and the persons constituting the committee would be subject to confidentiality and trading restrictions beyond those of a standard employee confidentiality and trading policy.

10. With regard to forked assets, such as BCH, the process would apply “but with the variation that we may offer a forked or airdropped assets in withdrawal-only mode, e.g. similar to how we allowed customers to withdraw Ethereum Classic (ETC).” That is, such assets could only be withdrawn from the Coinbase platform but not traded.

11. It further purportedly conducted an investigation of the insider trading that occurred during the Launch. Although it subsequently leaked to a Fortune.com reporter that as a result of this investigation, it was not taking any disciplinary action, it did not specifically deny that insider trading had occurred, nor has it specifically made an announcement of the results of the investigation. It further did not address how the Company and its legal counsel could conduct an insider trading investigation, when some of the trading occurred on other exchanges for which it cannot obtain trader identification information, or how it could identify traders even on its own systems when trading is purportedly anonymous.

### **Coinbase**

12. Coinbase is one of the largest and most accessible exchanges for the trading, buying and selling of virtual or cryptocurrency. At this point, it has more retail customers than Charles Schwab, approximately 20 million, and reaches into over 30 countries.

13. Coinbase is the major “on ramp” for individual investors to get involved in cryptocurrency. It is one of the only cryptocurrency exchanges to accept fiat currency (typical government issued currency) and to maintain banking relationships such that customers, particularly unsophisticated retail customers, can buy and sell cryptocurrency through the use of credit cards and their bank accounts. Many other exchanges only allow for cryptocurrency to cryptocurrency exchanges.

14. Given that it is one of the largest cryptocurrency exchanges in the world, it generally can provide more liquidity to customers seeking to buy, sell or exchange cryptocurrency.

15. Accordingly, whether and how Coinbase supports a particular cryptocurrency on its platform is critical to the liquidity and availability of that virtual currency to customers and directly impacts on the price of that currency. At least one commentator has called listing on Coinbase as the “golden ticket for a digital asset.” Deconstructing the ‘Coinbase Effect’, July 2018, <https://bravenewcoin.com/insightsdeconstructing-the-coinbase-effect>. This is especially important for retail customers seeking to purchase a particular virtual currency with fiat or legal tender (rather than with another form of cryptocurrency).

16. Coinbase has repeatedly stated that its mission is to have to the most secure and “compliant” digital currency exchange in the world.

17. Armstrong has made repeated statements that “compliance is key to digital currency’s success”, and in one particular blog, stated that Coinbase “spent many years and millions of dollars working to become the best in the industry at compliance.”

<https://blog.coinbase.com/building-the-bridge-why-compliance-is-key-to-digital-currencys-success-7bfdd88a084c>. It presently bills itself as “the easiest and most trusted place to buy and sell crypto.” <https://blog.coinbase.com>.

18. Coinbase touts its relationship with regulators, and that it is a licensed entity, including holding a “Bitlicense” with the New York Department of Finance.

<https://blog.coinbase.com/coinbase-obtains-the-bitlicense-f1c3e35c4d75>.

19. It has also announced that it maintains a policy against insider trading by its employees and contractors. <https://blog.coinbase.com/our-employee-trading-policy-at-coinbase-1d4e860b7837>.

20. During the relevant time period, Coinbase has also represented to its customers that it had a detailed procedure for determining when to add a digital asset to its platform.

21. In November 2017, Coinbase published a report called “GDAX Digital Asset Framework: Factors we evaluate when considering which new assets to support on GDAX” (the “Digital Asset Framework”).

22. In the Digital Asset Framework, which was created with the help of Farmer and White, among others, Coinbase indicated that it was providing its customers with insight into how it evaluated digital assets for listing on GDAX. Some of the standards which Coinbase and Farmer and White indicated were considered by Coinbase in supporting or launching a new coin, was the liquidity and market capitalization of the digital asset, its “trade velocity” and whether “[t]he asset would not affect Coinbase or GDAX’s ability to meet compliance obligations, which include: (1) Anti-Money Laundering (AML) program and (2) obligations under government licenses in any jurisdiction (e.g. Money Transmitter Licenses)”.

23. Accordingly, the Digital Asset Framework gave customers and Class members the misleading impression that Coinbase would not launch a new currency unless there was liquidity, sufficient market capitalization and that the Company had considered its “trade velocity”, among other things.

Armstrong Advocates for BCH Well Before the Launch

24. On August 1, 2017, the well known cryptocurrency BTC “forked” such that a new blockchain was formed and a new currency was created known as bitcoin cash or BCH.

25. Several large investors and influential persons in the cryptocurrency world, including Armstrong and non-party, Roger Ver (“Ver”), a very early bitcoin investor sometimes known as the bitcoin “Jesus”, had long been proponents of the fork, and of the creation of another currency, that became BCH.

26. Armstrong and Ver had publicly stated on numerous occasions and at about the time of the BCH Launch, that the price of BTC transactions had become too high, and that the mining of BCH had become too expensive.

27. They also publicly stated that the time in which it took to create an addition to the blockchain was slowing down transaction times, such that as early as 2016, they advocated for a fork in the chain.

28. Mining is the process through which cryptocurrency transactions are verified and added to the blockchain, and the means through which new coins of a particular currency are created. This done through powerful computers, that use a tremendous amount of energy, which solve complex computational math problems. When these math problems are solved, they produce new cryptocurrency.

29. Armstrong in particular had publicly stated that the cost of mining BTC had become sufficiently high such that it was cutting into and decreasing Coinbase’s profits, and had been advocating for the creation of a fork which would cost less to mine, resulting in larger block chains being formed, and allowing more transactions and thus more fees to be charged by Coinbase.

30. With Armstrong as the big advocate for BCH, prior to the fork, Coinbase made a number of statements that it would not support trading for BCH, in an attempt to keep all the BCH from the fork for itself.

31. After customer outrage and threats of potential suits for conversion, Coinbase and the Individual Defendants had to change their tune, and soon started making statements that that Coinbase would support BCH, but by January 2018, and then for withdrawals so that it could be traded on other exchanges. They further stated that they would keep their customers informed of their decision and that they would only support BCH if and when they could ensure an orderly market, liquidity and that there were no additional risks in supporting BCH.

32. Nevertheless, when faced with declining profits and long transaction times from BTC, pressure from insider traders who had over a month lead time to position themselves for the Launch, and competition from the CME futures trading contracts which commenced on December 18, 2018 (and which would have drawn customers away from Coinbase), on December 19, 2017, with barely over an hour lead time, Coinbase announced that it was launching BCH in an attempt to depress the price of BTC and inflate the price of BCH, with disastrous results.

33. Within minutes of the opening of BCH on the GDAX and Coinbase to public trading, given the pent up purchasing pressure from insiders who had already placed orders on the order books and had cash in their USD electronic wallets, the price of BCH skyrocketed to over \$16,000, and then traded around \$9,500. At the same time, BCH was trading on other exchanges in a range from around \$2,500 to \$4,000. For example, the range for BCH on EXX.com on that day was a low of \$2457 and a high of \$4024; on Huobi.pro BCH was traded for a low of \$1990 and a high of \$2410 and on Binance BCH traded from a low of \$2604 to a high of \$5389.

34. Coinbase insiders, including possibly Ver and others associated with Armstrong, were able to sell into this manipulated market at prices far above the prices in other exchanges and early in the process, which is particularly important as GDAX orders are filled on a “price-time priority”, meaning that earlier in time orders have priority over later orders assuming that



the price of the order can be matched—a critical issue for getting an order filled where there is limited liquidity for an asset, as with BCH. In fact, a massive sell order at about \$8,500 was executed.

35. Although customers who had not had prior notice of the Launch placed sell orders, given the order imbalance (an imbalance of supply and demand for BCH) that had then occurred, Coinbase halted trading as quickly as it had started it, after about two minutes, and then shut down selling. In the meanwhile, it filled buy orders at what it knew to be prices artificially inflated by a pump and dump orchestrated by insiders who had been tipped off to the Launch date over a month before and thus were able to immediately submit orders (and were prepared by having cash in their electronic wallets) taking advantage of the price-time order priority and any liquidity for BCH. In effect, insiders were able to place orders early, drive up the price of BCH, and then dump their BCH through sell orders, which were then filled by Coinbase's customers, with later submitted purchase orders.

36. Non-insider customers who put in later sell orders were unable to get any execution, however, when Coinbase shut down the exchange given the lack of liquidity and the order book imbalance caused by insiders.

37. Customers and Class members who had put in market orders (orders that the purchases be filled at market prices) experienced massive “slippage”, or prices far above what was originally quoted to them, as their purchase orders were filled by the BCH dumped at inflated prices by insiders.

38. In the face of the price run up, Armstrong stated that it looked like there had been insider trading—presumably in direct conflict with the Company's policies, and that the Company was undertaking an internal investigation. Yet, no official announcement of the results of this investigation was ever made, nor was anyone ever terminated.

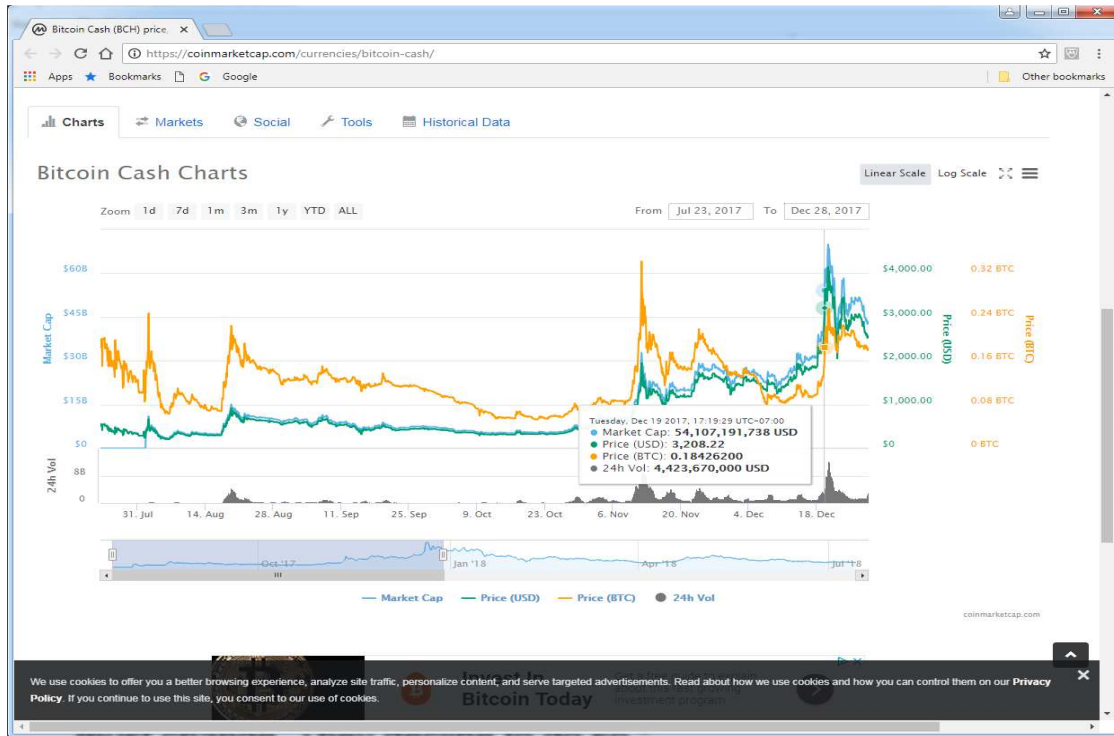
39. The cause for this pump and dump is apparent. As Coinbase stated in its Bitcoin Cash Launch Retrospective published around January 9, 2018, it notified its employees on Monday, November 13th that it would fully support BCH trading. On November 13, 2017, and over the two weekend days prior (November 11 and 12, 2017), BCH experienced the greatest

spike in volume and price that occurred during the entire life span of the currency since its issuance on July 23, 2017, as indicated in the following chart:



40. Although this activity, occurring just at the time that Coinbase announced to its employees the launch date for BCH, was suspicious, Coinbase did little or nothing to investigate it at that time, contrary to its obligations under the FinCen Know Your Customer Rules, nor did it take any steps to enforce its toothless insider trading policy, which it failed to even to disseminate to the many short term contractors which it employed.

41. The next great spike in volume and price was on the December 19, 2017, the day on which Coinbase opened trading and the couple of days prior (even though Coinbase was still stating publicly as late as the morning of the 19<sup>th</sup> that it was not yet supporting trading in BCH), unequivocally demonstrating insider trading, as shown in the following chart:



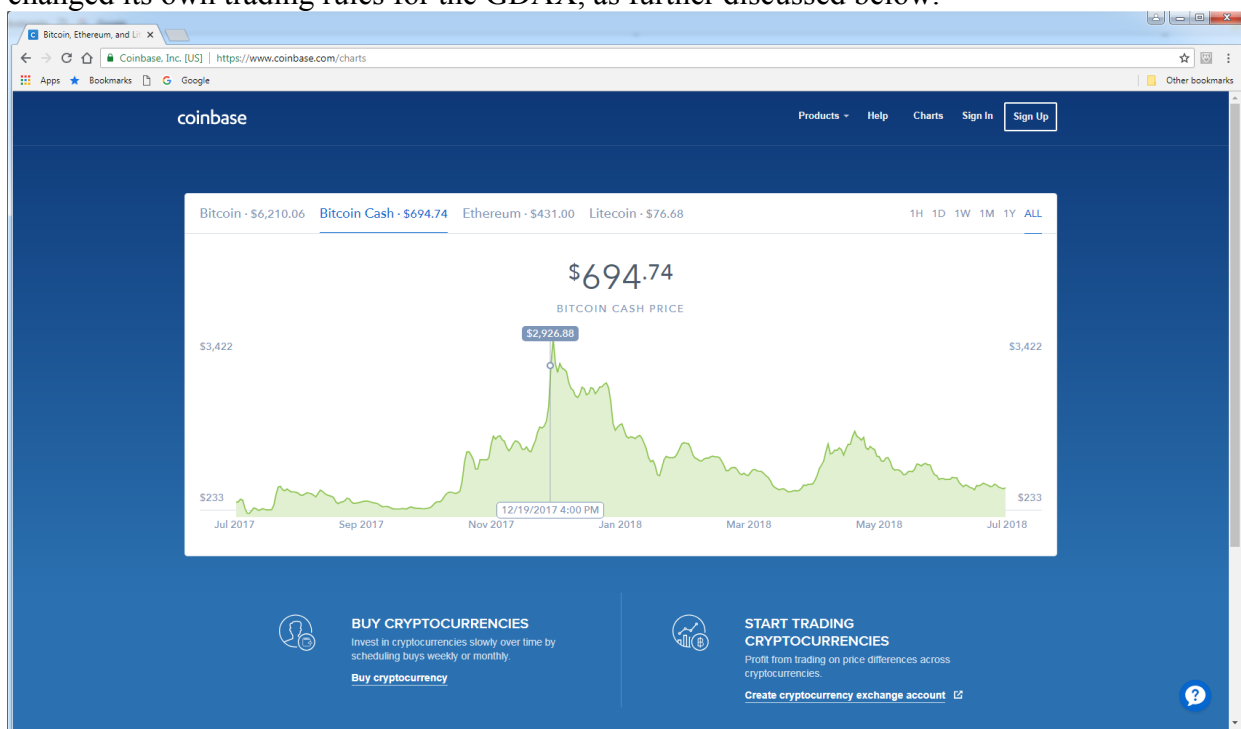
42. Notably, although it knew that it was going to fully Launch BCH in mid December, Coinbase did not revise its false “roadmap” of supported digital currencies that appears in the Supported Digital Currencies section of its website, which noted that only withdrawals of BCH were projected, and said absolutely nothing about a full Launch in mid-December, nor did it inform its customers in advance so that they could be prepared at the Launch—a factor that is particularly important given that orders are filled by price-time priority.

43. The sudden and unannounced launch of BCH had its intended effect—not only did insiders make massive profits, aided and abetted by Coinbase, but the price of BTC and other alt-coins (alternative coins or cryptocurrency other than BTC) dropped dramatically with the Launch and the heralding of BCH as the new bitcoin.

44. Nonetheless, Coinbase and Armstrong, among others, used the Launch to manipulate and depress the price of BTC, to ensure that customers were not driven away by the launch of the CME futures for BTC (which are less risky than spot trading on Coinbase), and to aid the insider trading of BCH.

45. Coinbase earned fees on the transactions and a spread on the inflated price at which it filled orders, and halted sales before it would have had to sell out its own reserve of BCH.

46. Thereafter, Coinbase and Armstrong tried to sweep the entire manipulation scheme under the table by eliminating the price spike from the price history of BCH, as shown on their website which shows the high price for BCH on December 19, 2017 at \$2926.88 and the high on December 20, 2017 as \$3421.45, as demonstrated in the chart below. Coinbase also changed its own trading rules for the GDAX, as further discussed below.



47. In yet another tacit admission of its negligence, and that its trading rules were inadequate at the time, on January 11, 2018, Coinbase announced an “update” to its trading rules, which it admitted were designed to “provide a more fair and orderly market for all customers”, including rules that would allow the market to move to full trading mode only when there has been consideration of order book liquidity and price volatility.

<http://blog.coinbase.com/market-structure-updatge-2650072c6e3b>.

48. The Launch and the events leading up to it constitute violations of the consumer protection laws, fraud, conversion, and/or negligence. Moreover, given the fees and spread earned by Coinbase by filling purchase orders at unfair and inflated prices, it was unjustly enriched.

### **Jurisdiction and Venue**

49. This action is brought under diversity jurisdiction under the Class Action Fairness Act, 28 U.S.C. §1332(d), in that the named Plaintiffs are citizens of states different from the Defendants, and the aggregate amount in controversy for all Class members exceeds \$5,000,000, exclusive of interest and costs.

50. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b), as Coinbase resides in this judicial district, and all Defendants are residents of the State of California. Substantial acts in furtherance of the alleged conduct have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information and the manipulation of the market for BCH, occurred in substantial part in this Judicial District.

### **Parties**

#### **Plaintiff Berk**

51. Plaintiff Berk is a citizen of Arizona. On December 19, 2017, within about a minute of BCH going live on Coinbase, Plaintiff attempted to purchase BCH. Plaintiff placed a purchase order for BCH at a time when Coinbase indicated that BCH was trading at about \$2000 per coin.

52. Generally when a purchaser places orders, Coinbase provides the purchaser with a window of 15 to 20 seconds to accept the stated price. If the customer does not accept the price within that window, Coinbase rejects the purchase and tells the purchaser that the price is no longer available.

53. That is not what occurred here. Instead, Plaintiff Berk placed his order at the price of about \$2000 BCH-the false and manipulated price that was represented by Coinbase,

which was presenting false statements to the market about the price at which Coinbase was executing trades.

54. The following day, December 20, 2018, at about 3:07 p.m., Plaintiff received notification from Coinbase that his order executed at the inflated price of \$4200.98 per BCH. Plaintiff Berk's order was executed at prices 100% greater than the price represented by Coinbase at the time that he submitted his order.

#### **Plaintiff Soltau**

55. Plaintiff Soltau is a resident of Wisconsin and has been a Coinbase customer since the summer of 2017.

56. Plaintiff Soltau received notice that Coinbase was going to list BCH approximately one hour before the Launch. He placed an order to purchase BCH when it was trading at \$4,000 per BCH. The order executed immediately at a price of \$7,000 per BCH, well above the price at which he placed the order.

57. Plaintiff Soltau immediately tried to sell the BCH he had just purchased but trading was halted and he was unable to sell his BCH purchased at an inflated price. By the next day, the price of BCH had dropped to under \$4,000 immediately causing him a loss. He then sold the next day at a loss.

#### **Plaintiff Shriber**

58. Plaintiff Shriber, a resident of South Carolina, is a former Marine, who was wounded in action, and is currently on disability.

59. He opened a Coinbase account on or about September 2017. He learned about the BCH Launch from a colleague and transferred \$18,000 into his Coinbase account.

60. He attempted to purchase \$18,000 worth of BCH at the Launch, and received a message that that there was a temporary problem with the cite, and that it would re-open the following day. At the time, the price of BCH was \$8,100 per BCH, but he was unaware of whether he had purchased any BCH.

61. When the exchange opened the following day, Plaintiff Shriber got confirmation that he had purchased 2.2 BCH at \$8,100 per BCH. By that time, however, the BCH was BCH opened at a price of about \$3,000 to \$3,200 per BCH, and only worth about \$6,000.

62. Plaintiff Shriber lost about \$12,000 plus the opportunity to sell his BCH on December 19<sup>th</sup>, when the price was over \$8,100 per BCH. Moreover, given that he received a delayed confirmation of his purchase, he was unable to cancel it his purchase on December 19<sup>th</sup>.

### **Plaintiff Periaswami**

63. Plaintiff Periaswami is a resident of India. He opened his Coinbase account on or about August 10, 2017. At the time of the events herein, Plaintiff Periaswami lived in South Carolina.

64. He learned that Coinbase had launched trading in BCH from a colleague, and transferred BCH that he had earlier purchased on Bitstamp to his Coinbase account, which transfer was completed, as confirmed in an email from Coinbase.

65. He immediate attempted to sell 2.5811 BCH on Coinbase multiple times on December 19<sup>th</sup>, at a time when it was trading at \$8,500 per BCH, and was prevented by Coinbase from being able to do so because it halted trading.

66. His funds and his BCH were locked up until the following day when Coinbase resumed trading, at which time the price of BCH had dropped to about \$3,000 per BCH.

67. He sold his BCH at a loss and at a total value of \$3,326.

### **Plaintiff Crowe**

68. Plaintiff Crowe opened a Coinbase account in September 2017 and is a resident of New York.

69. Plaintiff Crowe received an email addressed to “Dear GDAX Customer” on the evening of December 19, 2017, stating that GDAX “that Bitcoin Cash (“BCH) is now listed and available for trading on GDAX.” That email further stated that Coinbase had made the decision to list BCH, “by considering such factors as customer interest, developer support, network

security, market capitalization, trading volume, and our Digital Asset Framework,” and hyperlinked to the Company’s Digital Asset Framework.

70. The email further stated, “[t]he following order books have been created and will remain in post-only mode until there is sufficient liquidity for trading”, and then listed “BCH-USD”.

71. Relying on this email and the representations therein, Plaintiff Crowe placed a purchase order for two BCH, which according to GDAX at the time these orders were placed, showed a price of \$2,000 per BCH. The purchase executed immediately at \$5,000 per BCH for a total of \$10,000.

72. When Plaintiff Crowe attempted to immediately sell the BCH he had just purchased, he received messages that the site was down and he found that he was locked out of his account. Although he tried to sell on December 19th, he was disabled from doing so.

73. The next day, BCH opened at about \$3,000—significantly less than the price at which his purchases had been filled, locking in a loss.

74. He has continued to hold his two BCH.

### **Plaintiff Pyron**

75. Plaintiff Pyron has been a customer of Coinbase since October, 2017, and is a resident of California.

76. Plaintiff Pyron learned of the BCH Launch within minutes of the Launch, and immediately placed a purchase order for 113 BCH, which was filled at \$5,000 per BCH, or a total of \$595,000. At the time of his purchases, Coinbase indicated to Plaintiff Pyron that he had purchased BCH at \$3,000 per BCH.

77. When he learned of the price at which his purchase executed, he immediately tried to place a sell order but the system was halted.

78. He called the support line and sent emails to them. When he was able to finally get through to a technician told him that there had been a “software glitch” and that his account would be rectified. She further advised Plaintiff Pyron to sign up for text alerts, which he did.

79. He never heard anything further from Coinbase.



80. He subsequently sold his BCH at a significant loss in excess of \$350,000.

### **Plaintiff Younts**

81. Plaintiff Younts has had a Coinbase account since early 2017, and is a resident of Ohio. He was eligible to receive BCH in his Coinbase wallet as a result of the Fork on August 1, 2017.

82. On December 19, 2017, he saw a tweet from Coinbase about two to three minutes before BCH commenced trading that trading was going to commence.

83. He then received a notice that 10 BCH, the amount which he was eligible to receive in the Fork, was in his account at the value of \$80,000.

84. He immediately attempted to sell portions of his 10 BCH and would continue to do so over the next few hours, through various means, including through the Coinbase app on his cellphone, but was disabled from making any sales, and was locked out of his account.

85. In the meantime, the header of his screen (and that of all GDAX traders) had the wrong price for BCH, and a price far less than the price at which was trading (between \$7,000 to over \$9,000 per BCH).

86. Although Plaintiff Younts had contact with certain executives at Coinbase about the situation, he never received any responses to his complaints, and continues to hold his 10 BCH.

### **Defendants**

87. Coinbase maintains its principal place of business in San Francisco, California and is incorporated in Delaware. It is one of the most powerful digital currency exchanges in the world, buying and selling Bitcoin, BCH, Litecoin, and Ethereum.

88. Coinbase is essentially divided into two parts: it provides services for retail customers through its retail division, and secondly, through the GDAX exchange, provides services that are more directed at professional traders. However, Coinbase uses the GDAX to fill consumer orders.

89. Through the GDAX Coinbase is supposed to match buyers and sellers and fulfill orders placed through the retail portion of its platform.

90. Coinbase makes money in at least two ways. First, it engages in trading of its own corporate funds on the GDAX. According to a report entitled, “Virtual Markets: Integrity Initiative”, issued by the Office of the New York State Attorney General (“NYAG”), dated September 18, 2018 (the “NYAG Report”), at least 20% of the trading on GDAX is proprietary trading. The NYAG Report, based upon questionnaires executed by Coinbase and other digital currency exchanges, states, “Coinbase, disclosed that almost twenty percent of executed volume on its platform was attributable to its own trading.” NYAG Report at 25.

91. Although Coinbase has denied that statement, stating “[w]hen Coinbase executes these trades, it does so on behalf of Coinbase Consumers, not itself”, <https://blog.coinbase.com/correcting-the-record-coinbase-does-not-engage-in-proprietary-trading-97e66145af6e>, Coinbase’s trading rules during the Class Period specifically admit that the Company trades its own corporate funds. Its Market Trading Rules at Rule 3.2 state, “Coinbase, Inc., which owns and operates Coinbase Pro [formerly GDAX] and Prime, also trades its own corporate funds on Coinbase Pro and Prime.” [https://www.coinbase.com/legal/trading\\_rules?locale=en-US](https://www.coinbase.com/legal/trading_rules?locale=en-US).

92. Coinbase further makes money through the fees that it charges, which are some of the highest fees in the industry. Coinbase charges transaction fees on the conversion of fiat currency to virtual currency, the use of credit cards, and the deposit and withdrawal of funds, among other ways.

93. It further makes money on the spread for each trade. Coinbase charges a pre-determined spread for each trade of 0.50% above the market exchange rate. Consequently, if a customer is buying one BTC at the price of \$6654.74, the customer must pay an extra 0.5% or \$33.37 in fees. The customer also pays commissions for each transaction to Coinbase in addition to the spread, which can be a variable or flat fee depending upon the size, purchase method and location of the transaction.

94. The number of transactions and transaction fees is the key to Coinbase’s profitability. As explained in the article entitled, “Coinbase” How They Make Money”, <https://blocklr.com/news/coinbase-how-they-make-money/>:

Coinbase has 20 million users. For each of them, Coinbase makes a minimum of \$0.99 per deposit, through typically its closer to 3%. If they choose to exchange currencies on Coinbase Pro, Coinbase take 0.30% per transaction, unless the customer is a very high volume trader. Next, to convert BTC/USD again, Coinbase take another 3%. By Coinbase's [sic] count, they've traded more than \$150 billion dollars—meaning that they've charged fees on over \$150 billion dollars.

95. According to a January 23, 2018 article, entitled, "Coinbase is Making \$2.7 million a Day", <https://news.bitcoin.com/coinbase-making-2-7-million-day/>, the Company's revenues exceeded \$1 billion in 2017, most of it from trading fees, and is expected to go public at some point.

96. Coinbase is an exchange, and a money transmitter, and as such is Coinbase is subject to state regulation as a money transmitter. It is also licensed by the New York State Department of Financial Services (the "DFS") and must comply with the guidance provided by the DFS, as further discussed below. Moreover, it is one of four cryptocurrency exchanges which are used to set the benchmark for prices for the CME bitcoin futures exchange. Accordingly, it is also governed by the CFTC, and must adhere to the rules of the Commodity Exchange Act given its position as one of the entities setting the benchmark for BTC futures.

97. Transactions on the GDAX are controlled by an electronic book that can be seen by traders called the order book. The order book as demonstrated in paragraph \_\_ below, shows all the open orders for a particular currency, with the sell orders on the top and buy orders on the bottom, divided by buckets of prices and showing the market size at each buy and sell price. The order books also shows the spread between the buy and sell orders. An algorithm is used to match the buy and sells orders according to certain rules, including time-price priority. As a general matter, purchases and sales are matched on a first in, first out basis, where possible. The trading history for a particular asset is also shown in real time in a column to the right of the trading screen. A trader typically sees a screen similar to the below:

**[need to insider a screen shot of a screen here]**

98. Armstrong is one of the founders and the chief executive officer of Coinbase, and one of its primary spokespersons. Armstrong works from the Coinbase headquarters in San Francisco, California. During the Class Period, Armstrong made repeated statements in relation to the Company's Launch of BCH.

99. Farmer is Coinbase's Director of Communications. Farmer works from the Coinbase headquarters in San Francisco. During the Class Period, Farmer made statements in relation to the Company's Launch of BCH.

100. White was a vice president and general manager of Coinbase during the Class Period, and one of its principal spokespersons, and worked at the San Francisco headquarter of Coinbae. During the relevant period, he made statements in relation to the Company's Launch of BCH. He left Coinbase in about October 2018.

#### **Coinbase's Duties and Obligations**

101. During his written testimony to Congress in about March 2018, Coinbase's Chief Legal Risk Officer, Michael Lempres ("Lempres") stated that those operating in the cryptocurrency space, including Coinbase, were regulated by four regulatory agencies, including the SEC, the CFTC, with respect to spot markets and market manipulation, FinCen which has authority for Know Your Customer (KYC) and Anti- Money Laundering (AML) matters, and the Federal Trade Commission ("FTC") for false advertising and consumer protection. <http://blog.coinbase.com/coinbase-written-testimony-for-the-subcommittee-on-capital-markets-securities-and-investment-47f8a260ce41>.

102. Lempres further stated that "this federal regulatory regime exists alongside vibrant state regulations", noting that Coinbase holds "40 licenses in 38 states, including a Bitlicense in New York State. That Bitlicense is intended to be a comprehensive consumer protection regime specific to operations of digital currency businesses."

103. Coinbase was issued a Bitlicense by the New York State Department of Financial Services or DFS in about March 2017. Under the Rules and Regulations pertinent to Virtual Currencies, Rule 200.18, Coinbase is prohibited from engaging in false, misleading or deceptive advertising.

104. Rule 200.18 (d) states in relevant part” “each Licensee and any person or entity acting on its behalf, shall not, directly or by implication, make any false, misleading, or deceptive representations or omissions.”

105. Rule 200.19, entitled “Consumer protection”, provides that Licensees must make certain disclosures to their customers. Under Section (c), such disclosures include the “terms of transactions”, as follows: “*Prior* to each transaction in Virtual Currency, each Licensee shall furnish to each customer a written disclosure in clear, conspicuous, and legible writing . . . the amount of the transaction.” (emphasis added).

106. Rule 200.19(g) further requires that Coinbase take steps to prevent fraud and that it not engage in fraudulent activity. That section states: “Prevention of fraud. Licensees are prohibited from engaging in fraudulent activity. Additionally, each Licensee shall take reasonable steps to detect and prevent fraud, including by establishing and maintaining a written anti-fraud policy.”

107. The DFS “Guidance on Prevention of Market Manipulation and Other Wrongful Activity” (Feb. 7, 2018), available at <https://www.dfs.ny.gov/legal/industry/il180207.pdf>, further requires that virtual asset platforms implement measures designed to effectively detect, prevent and respond to fraud, and market manipulation.

108. Coinbase is also governed by FinCen’s Know Your Customer Rule as it operates as a money services business. The KYC rule requires Coinbase to obtain information about its customers in order to, *inter alia*, protect itself from corrupt acts. Under the KYC requirements, Coinbase was required to adopt policies to monitor transactions and to manage risk.

109. Under these regulations, Coinbase is not only required to obtain customer due diligence, but to conduct ongoing monitoring to identify and report suspicious transactions, and to maintain and update customer information.

110. Although Coinbase had an insider trading policy, it did little or nothing to monitor whether in fact there was insider trading, nor did it enforce its policies even after suspicious trading occurred in BCH about the time that it announced the date of the Launch to its employees.

111. As one of the exchanges used as a benchmark for the CME BTC futures contracts, Coinbase is further governed by certain provisions of the CEA, and is under investigation by the CFTC with respect to whether there was market manipulation of the price of BTC in relation to the CME's first contracts for the sale of BTC futures.

112. As one of the exchanges acting as the benchmark for the CME's BTC figures contracts, Coinbase is under the CFTC's antifraud jurisdiction and is thus subject to the standards set forth Sections 6 and 9 of the CEA, and Rule 180.1, concerning the dissemination of materially false and misleading statements in connection with the sale of a commodity, and 180.2, which prohibits the use of manipulative devices in connection with the sale of a commodity.

113. Coinbase is further subject to the money transmission laws of the various states in which it is licensed.

#### **The NYAG Finds Coinbase and other Exchanges Are Conflicted**

114. Based upon questionnaires responded to by nine cryptocurrency trading platforms including Coinbase, in September 2018, the NYAG produced a report entitled "The Virtual Markets Integrity Initiative" as part of the NYAG's duties of enforcing laws the protect investors and consumers from unfair and deceptive practices.

115. Through its investigation, the NYAG sought and obtained details on these trading platforms' operations and how they protected customers' assets.

116. The NYAG Report makes three key findings applicable to Coinbase: (1) that virtual assets trading platforms are often engaged in several lines of business that create conflicts of interest, such as acting akin to a traditional broker dealer, while engaging in proprietary trading, and allowing platform employees with access to customer information and new currency listings to trade on their own or competing platforms; (2) that platforms lack robust real-time and historical market surveillance capabilities, like those found in traditional trading venues, to identify and stop suspicious trading patterns; and that (3) virtual asset trading platforms do not engage in independent auditing procedures necessary to confirm whether they are responsibly holdings their customers' virtual assets.

117. In particular with employee trading, the NYAG found that Coinbase did not require either pre-clearing or disclosures to be filed by its employees, unlike other platforms.

118. The NYAG Report further noted that certain fees and processes, like those charged and engaged in by Coinbase favor professional traders over retail traders. For instance, the NYAG Report notes that Coinbase charges fees for deposits and withdrawals thereby discouraging retail customers from moving funds onto and off the platform, that it allows for different and complex order types, such allowing post-only mode, which benefit professional traders and do not necessarily benefit retail customers, and that it allows for automated trading.

119. With regard to market manipulation, although it found that Coinbase had a formal policy, it noted that the industry generally lacks serious market surveillance capacities to detect and punish suspicious activity and did not point to Coinbase as an exception to that rule.

120. It also found that no platform, including Coinbase, articulated a consistent methodology for determining whether and why to list a particular asset and that even platforms that look at total value or “market capitalization”, such as Coinbase, lacked “rhyme or reason” as to how those objective factors were applied.

### **Factual Background**

#### **Cryptocurrency**

121. BTC is a digital currency that was created as a response to the 2008 financial crisis and is the first decentralized digital currency that works without a bank or central authority, but rather on a peer to peer basis.

122. It is powered by its users who use cryptography to control its creation. The Bitcoin protocol and software are published openly, and all Bitcoin transactions are kept on a ledger visible to all users in a “blockchain”. A blockchain is a continually growing chain of blocks of cryptographically secured records of transactions. Blocks are created when the distributed computers complete the work of cryptographically securing the information.

123. Global actors that do the work of storing and securing the data do so for the chance to obtain cryptocurrency when new chains are formed and are only added to the block

chain when there is consensus. As a general rule, decisions about the blockchain, and any changes in the software are essentially controlled by a group of miners and developers.

124. Coinbase is one of the most popular and accessible exchanges for the purchase, sale and use of cryptocurrency and the only exchange which allows the purchase and sale of digital currency with any fiat currency.

125. Coinbase customers can set up what is known as a wallet, in which they keep their Bitcoins or other digital currency for later use or for investment.

126. As one of the largest exchanges for the purchase and sale of Bitcoin and other digital currencies, the issue of whether Coinbase will maintain a market and support a cryptocurrency is essential to people who want to buy or sell the currencies.

#### **BCH is Created Through a Hard Fork**

127. Bitcoin is one of the first digital currencies to gain widespread acceptance and use. As Bitcoin increased in popularity, and the number of transactions increased, a disagreement arose among key miners and Bitcoin developers about how to proceed with Bitcoin, and how to upgrade the network to accommodate more transactions.

128. After a meeting in Hong Kong, about 80% of Bitcoin miners and developers agreed to split the chain to create a new form of Bitcoin called Bitcoin Cash or BCH through the hard fork process.

129. A hard fork occurs when a cryptocurrency splits into two, and the cryptocurrency's existing code is changed, resulting in both an old version and a new version of the currency. The hard fork is created through a new ledger with a different set of code requiring all nodes or computers to make a change in their software.

130. On about August 1, 2017, Bitcoin experienced a hard fork, and BCH was created through a change in the Bitcoin protocol. At the time, anyone who held a Bitcoin was supposed to receive the equivalent numbers of BCHs.

#### **Coinbase States that It will Not Support BCH So that it Can Keep It**

131. Although many of Coinbase's customers were due to receive BCH in their on-line wallets maintained by Coinbase, Coinbase and the Individual Defendants made repeated



statements that it would not support BCH unless it could ensure an orderly market, liquidity and that there were no “additional” risks in doing so. They further stated that they would keep customers informed as to their position with regard to supporting BCH.

132. After several comments falsely denying that Coinbase would support BCH at all—despite the fact that Armstrong had been heralding it as the true bitcoin since at least 2016, in a blog on July 27, 2017, Farmer stated, “[o]ur policy is to support only one version of a digital currency. In order to determine which fork to support we look at factors such as size of the network, market value and customer demand. We make this decision carefully because safely supporting a new digital currency requires significant work for many teams.”

133. In that blog, Farmer further stated that it would keep “users informed about these events through our blog, status page, twitter and support assets page”.

134. This statement was deceptive in that it gave the investing public the false impression that Coinbase was carefully considering the Launch, and various factors, such as market value, when in fact, Armstrong was a massive proponent of BCH, and was merely timing the launch for when it would do the most damage to the price of BTC. Moreover, it was merely an excuse for Coinbase to retain the BCH for itself.

135. On July 28, 2017, Coinbase publicly tweeted that:  
Coinbase does not intend to interact with the Bitcoin Cash Blockchain, or to access bitcoin cash (BCC) [later to become BCH]. In order to safely and securely access bitcoin cash, Coinbase would need to undertake a process of designing and testing significant changes to our systems—including hot and cold storage. This is one of the core reasons customers will not be able to withdraw bitcoin cash after the fork on August 1<sup>st</sup> 2017. If this decision were to change in the future and we were to access bitcoin cash, we would distribute to customers bitcoin cash (BCC) associated with bitcoin (BTC) balances at the time of the fork on August 1, 2017. Coinbase would not keep the bitcoin cash associated with customer bitcoin (BTC) balances for ourselves.

136. This statement was misleading for the same reason—the real reason Coinbase refused to launch BCH, was so that it could retain the assets for itself.

137. Customers who kept their Bitcoins on hard drives or off line, were able to access the equivalent amount of BCH. But Coinbase customers who kept their Bitcoins in their on-line wallets at Coinbase did not receive their distributions, with Coinbase initially keeping the BCH.

138. Although customers' BCH was associated with their Bitcoins, they were unable to withdraw their Bitcoins, or access and trade or sell their BCH.

139. Given the length of time that it takes for customers to move from one exchange to another, moreover, it was impossible for Coinbase customers to quickly move their BTC from Coinbase to another exchange that was supporting BCH, so that they could access their BCH and could commence trading it.

140. In essence, Coinbase held their property captive forcing them to lose millions in value, and causing at least one cryptocurrency expert, Professor Tim Wu, to publicly state that Coinbase could be held liable under common law property principles.

**After a Customer Uproar, Coinbase Announces That it Will Support BCH Withdrawals by January 2018 If it Can Make An Orderly Market, There is Liquidity and “No Additional Risks” Emerge**

141. Coinbases' plan to retain the BCH which Armstrong so greatly supported, however, was foiled when customers began accusing Coinbase of converting their property.

142. In response to this customer outrage, Coinbase and the Individual Defendants were forced to change their position regarding launching BCH. Thus, on August 3, 2017, Farmer, issued a blog entitled, “Update on Bitcoin Cash”.

143. In that blog, Farmer stated that “[a]dding new digital assets to GDAX . . . must be approached with caution,” and noted that Coinbase’s “top priority is always the safety of customer funds.”

144. He further stated that “we spend extensive time designing, building, testing and auditing our systems to ensure that the digital assets we support remain safe and secure.” As Farmer explained, “[w]e may not always be first in adding an asset, but if we do, you can be *sure that we have invested significant time and care in supporting that digital asset securely.*”

*We believe this is the best approach for us to maintain customer trust and ensure a fair and orderly market.”* (emphasis added).

145. Farmer then went on to state that:  
Over the last several days, we’ve examined all of the relevant issues and have decided to work on adding support for bitcoin cash for all GDAX customers. We made this decision based upon factors such as the security of the network, customer demand, trading volumes, and regulatory considerations.

146. Farmer then clarified that Coinbase planned “to have support for bitcoin cash by January 1, 2018”, but that by support he meant only that customers would be able to withdraw their BCH—not to trade it. He further stated that such support would be forthcoming only if no “additional risks emerge[d] during that time.”

147. Farmer’s statements, made only to quell the customer uprising, clearly indicated to the investing public: (1) that Coinbase would only support BCH when it was sure that it could maintain a “fair and orderly” market; (2) that BCH would not be in more than withdrawal mode by January 1, 2018; and (3) that such support would occur only if no additional risks occurred—all of which were untrue.

148. However, retaining BCH until that time had a great benefit for Coinbase, as it was able to raise \$100 million in Series D funding from a group of private equity and venture capital investors, including Spark Capital, Greylock Partners, Battery Ventures, Section 32, and Draper Associates on August 10, 2017.

### **Coinbase Determines that It will Launch BCH and Insiders Start to Trade**

149. Although Coinbase maintains that it formally notified its employees on November 13, 2017 that it would begin supporting BCH, trading in the currency spiked in volume and price over the two day weekend prior to the 13<sup>th</sup> and continued on that day.

150. Although there was purportedly a policy in place at Coinbase that prohibited insider trading, this spike in trading in BCH indicated to Coinbase and Armstrong, at least, that there was insider trading based upon this information and that Coinbase did not and could not enforce its anemic insider trading policy, consistent with the NYAG Report, nor did it

investigate this suspicious activity under the KYC rules. *See* Bitcoin Cash Chart in Paragraph —.

151. Given its exponential growth at that time, moreover, Coinbase was staffed in significant part with many short term temporary employees, at all levels of the Company. However, Coinbase did not take steps to monitor much less ensure that these employees were informed about its insider trading policies.

152. Moreover, despite the fact that Coinbase knew that statements made by Farmer and the Company regarding BCH were false, and that in fact, it was going to fully support trading in mid December, neither Coinbase, nor the Individual Defendants did anything to inform their customers or the investing public about this change of plans, or to correct the Company's and Farmer's earlier statements.

153. Further, the Company took no steps to correct its now false and inaccurate "roadmap" or that section of its website concerning which currencies it would support and the degree of support.

154. As demonstrated in the screen shot below of Coinbase's website on December 13, 2017, a full month after it had made the decision to fully launch BCH, its website shows that support for "Buy", "Sell", and "Deposit" are not planned and that that support of the currency for withdrawals only is "projected". <https://medium.com/@MishaGuttentag/5-important-unanswered-questions-after-gdax-coinbases-bch-retrospective-37e573a9a8f1>.

## Supported Digital Currencies

Coinbase and GDAX provide varying levels of support for different Digital Currencies.

Availability for buying, selling, depositing, and withdrawing supported Digital Currencies varies by Digital Currency. Fees and availability also depend on your country, and payment method.

The following table lists all supported Digital Currencies on Coinbase and GDAX:

	Coinbase				GDAX			
	Buy	Sell	Deposit	Withdraw	Buy	Sell	Deposit	Withdraw
<b>Bitcoin (BTC)</b>	✓	✓	✓	✓	✓	✓	✓	✓
<b>Litecoin (LTC)</b>	✓	✓	✓	✓	✓	✓	✓	✓
<b>Ethereum (ETH)</b>	✓	✓	✓	✓	✓	✓	✓	✓
<b>Ethereum Classic (ETC)</b>	x	x	x	x*	x	x	x	x
<b>Bitcoin Cash (BCH)</b>	x	x	x	Projected	x	x	x	Projected
<b>Bitcoin2x (B2X)</b>	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected

Digital Currencies or other tokens that are not listed on this page are not supported by Coinbase. Coinbase is unable to process any transaction made using an unsupported Digital Currency. For more information, please refer to our User

155. Neither Coinbase, nor its spokesmen, Armstrong, Farmer or White, said anything publicly that indicated that Coinbase had been testing its systems and was building functionality to buy, sell or trade BCH, and did not update this “roadmap” until the day that it commenced the Launch.

156. By failing to timely inform customers of the Launch, Defendants ensured that customers would not have enough time to place orders, so that Coinbase’s order books for BCH would be “fair and orderly” as represented previously by Farmer.

157. By failing to take any steps to prevent insider trading and price manipulation, they further ensured that the price of BCH would be inflated at the time of the Launch.

158. This in fact did start a run up of the price. As the referenced chart shows, days before the actual Launch, insiders commenced cheaply purchasing BCH on other exchanges, running up the price of the asset. *See Bitcoin Cash Chart in Paragraph \_\_\_.*

159. Although this should have been apparent to Coinbase and the Individual Defendants, they did nothing to stop this run up or the insider trading that contributed to the run up.

### **Coinbase Continues to Disseminate False Statements on the Day of the Launch**

160. Even the morning of the Launch, December 19<sup>th</sup>, Coinbase continued to disseminate false and misleading statements regarding its support of BCH.

161. In a Coinbase FAQ the morning of December 19<sup>th</sup>, Coinbase again stated that it was only supporting withdrawals: “for now, Coinbase plans on supporting bitcoin cash withdrawals. If this changes, we will notify all customers with an update e-mail”, and further stated that Coinbase would not support BCH withdrawals until January 1, 2018.

162. It again stated that it was “*currently* designing, building, testing and auditing our systems, to enable you to *withdraw* your bitcoin cash balance,” (emphasis added) at a time when it presumably had achieved full functionality.

### **Coinbase Suddenly Proceeds with the BCH Launch Which is a Disaster**

163. Suddenly, at about 4:06 p.m. Pacific Time on December 19<sup>th</sup>, with minimal prior notice, Coinbase indicated that it was opening access to Bitcoin cash that day for buying, selling and trading, in post-only mode; that is, in a mode where only what is known as “maker” orders would be posted. (GDAX divides orders between maker and taker. A maker order is an order that is at a different price than all other orders on the order books and will remain open at the price until the order books filled, cancelled or expired. It essentially makes the market. Taker orders are matched according to price-time priority with maker orders, until the taker order is filled, thus taking liquidity). The alleged purpose was to establish liquidity, encourage price discovery and mitigate the risk of a volatile market.

164. Then, at 5:15 p.m. Pacific Time, Coinbase stated that trading would begin at 5:20 on the BCH-USD trading book, and orders began matching. At this time, Coinbase knew the orders on its post-only book were primarily purchase orders that would drive the price sharply higher.

165. Nonetheless, in a tweet, Coinbase stated, “Buy, sell and receive Bitcoin Cash on Coinbase,” and cited to its blog implying that it now had the capacity to handle the Launch.

166. On its blog, Coinbase stated that its failure to support BCH was contrary to its prior public statements and its purported mission statement that it operated “by the principle that our customers should benefit to the greatest extent possible from forks or other network events” and that doing so was essential to its “mission to make Coinbase the most trusted, safe, and easy-to-use digital currency exchange.”

167. It further stated that “Sends and receives” were available immediately, and that buys and sells would be available to all customers once there was sufficient liquidity on GDAX, within a few hours.

168. Within minutes of this announcement, given the effective lack of prior notice, and post-only trades from insider traders who were prepared to trade at the opening and take advantage of the time-price priority (including by having cash in their USD Coinbase wallet, among other things), the price of BCH was run up to artificially inflated prices, which insiders then took advantage of by selling at these inflated prices, knowing that non-insider customers would submit taker purchase orders which would be used to fill their sell orders at inflated prices.

169. The price of BCH skyrocketed to over \$16,000 per coin, and then to about \$9,500 per coin—thousands of dollars more than it was selling on any other exchange.

170. Two minutes and 40 seconds later, the book was closed, trading was suddenly halted and over 4,443 orders were placed with 3,461 orders matched, equal to \$15.5 million of trading. Coinbase cancelled “resting orders” or orders “resting” in the order book and cleared the BCH order books.

171. Unsurprisingly, given the lack of notice enabling an orderly opening, liquidity quickly thinned by insiders who were prepared to sell at BCH's sudden opening, leaving the rest of Coinbase's customers out of luck. After two minutes, Coinbase halted and cancelled trading, leaving its customers and Class members with the inability to get out their money or their BCH, or to sell the BCH that Coinbase had effectively caused them to purchase at highly inflated prices.

172. By 6:30 pm PST, Coinbase announced that the BCH-USD, BCH-EUR, and BCH-BTC books would move to "cancel-only" mode (which prevent trades from filling and allow traders to cancel their orders (although the cancel button was also disabled)), due to thinning liquidity and that all open orders essentially for any other Coinbase customers seeking to trade that day, would be cleared so that any Coinbase customer who did not know or who were not immediately prepared to trade at Coinbase's sudden open, were prevented from buying at a fair price, rather an artificially manipulated price, or to sell their BCH, even where they were sold BCH at an inflated price. Moreover, they were made to pay fees and a spread over this inflated price.

173. Moreover, in addition to the fact that the cancel button failed to work, many of these purchases executed almost immediately at inflated prices (as insiders dumped at inflated prices), preventing non-insiders from cancelling their trades, and/or the trade information was not sent until the following day, so that customers had no information and thus did not know that their purchases had executed at artificially inflated prices.

174. Despite the fact that the price of BCH was clearly highly inflated through insider trading, and that because of the time-price priority, insiders prepared to sell at the opening, benefitted at the expense of the average customer, Coinbase nonetheless continued to fill purchase orders at highly inflated prices, treating customers as takers and forcing them to take insiders inflated maker orders.

175. No other exchanges had the same impact on prices or the liquidity that Coinbase had, and given that, and the cost and difficulty for retail investors seeking to withdraw or move their funds (and the lack of time given the sudden Launch), Coinbase had the power to and



could manipulate the price of BCH and depress the price of BTC. In fact, BCH did trade at artificially high prices.

### **Coinbase Hides the Evidence**

176. Given the unprecedented run up of the price of BCH before the Launch, Armstrong himself finally publicly admitted that there might have been insider trading, and that Coinbase was commencing an investigation.

177. However, neither Coinbase nor the Individual Defendants ever announced the results of this investigation. Rather, at some point in July 2018, Coinbase leaked to a Fortune.com reporter that two law firms had conducted an investigation and that as result, Coinbase was not going to take disciplinary action against any employee or contractor but fell short of actually stating that insider trading did not take place.

178. Moreover, Defendants then falsely eradicated the artificial price spike that they had created on December 19<sup>th</sup>, from BCH's trading history as found on their website, in an effort to sweep the entire manipulation scheme, and their own negligence, among other things, under the proverbial rug, but locked in massive losses for customers.

179. On December 21, two days later, they changed the GDAX rules to justify their conduct.

180. Prior to December 21, 2017, Section 3.3 of the GDAX rule provided only that, “[a]ll traders have equal access to the GDAX API and Web Interface. Coinbase does not provide prioritized access to any trader.” Section 3.11 of the GDAX Rules stated that GDAX does not use artificial market integrity measures such as ‘circuit breakers’ or trading halts.

181. However, on December 21, 2017, Coinbase suddenly changed these rules adding the following clause to Section 3.3, “GDAX Market Operations has the authority to take any action deemed appropriate to preserve market integrity. Such actions include, but are not limited to, the halting of trading, modifying risk-mitigation parameters, restricting Trader access to GDAX or any other actions deemed to be in the best interests of the Exchange.”

182. In other words, Coinbase effectively changed the rules to provide its insiders with priority access to trading, while allowing it to halt trading of other customers because insiders had run up the price of BCH—in direct contravention to its priority and trading rules. **Coinbase is Under Investigation by the CFTC After Refusing to Provide Data About BTC Manipulation**

183. On December 1, 2017, the CME announced that it was commencing the sale of BTC futures, and that Coinbase would be one of four exchanges that would be used to set the benchmark prices for BTC. The settlement price is determined at 3:00 p.m. Central Time each business day.

184. The CME futures commenced trading on December 18, 2017, with a reference or benchmark for BTC of \$19,500—the day before the sudden BCH Launch.

185. After the settlement of the first contract in January 2018, the CME requested trading information from each of the four exchanges it used as a benchmark, including Coinbase. Several of the exchanges, however, responded that the requests were intrusive and refused to provide the CME with all of the requested trading data, or provided it with limited information for selected market participants rather than a complete order book.

186. The CFTC is presently investigating whether there has been manipulation in the price of BTC on the various benchmark exchanges, including Coinbase.

187. However, the sudden BCH Launch, had its intended effect on the price of BTC. As a result of that Launch, the price of BTC dropped from \$\_\_\_ to \$\_\_\_, which further impacted BTC futures, particularly for those traders who were short BTC.

### **CLASS ACTION ALLEGATIONS**

188. Plaintiffs bring this Action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(2) and (b)(3) on behalf the Class, the BCH Subclass defined in paragraphs 1 and 2, above, and the Fraud Subclasses, as defined below.

189. The members of the Class and Subclasses are so numerous that joinder of all members is impracticable. Throughout the Class Period, Coinbase had over 20 million customers, and approximately \$11 billion (USD) of BCH was traded on December 20, 2017.

190. While the exact number of Class and Subclass members are unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, customers may be determined through Coinbase's documents.

191. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct. Plaintiffs' claims are also typical of members of the Subclasses that they seek to represent as all members of the Subclass were similarly affected by certain of the Defendants' wrongdoing.

192. Plaintiffs will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class litigation. Plaintiffs will fairly and adequately protect the interests of the Subclasses and have retained competent and experienced counsel in class litigation.

193. Common questions of law and fact exist as to all members of the Class and Subclasses and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) Whether Defendant Coinbase and the Individual Defendants violated California Unfair Competition Law;
- (b) Whether Defendant Coinbase's conduct and that of the Individual Defendants in launching BCH at the time in which they did, was negligent;
- (c) Whether Defendants engaged in fraudulent conduct;
- (d) Whether Coinbase was unjustly enriched by its wrongdoing; and
- (e) Whether Coinbase wrongfully converted the BCH of members of the BCH Subclass.

194. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the monetary losses suffered by individual Class and Subclass members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

195. The claims asserted herein are a matter of public policy, and do not arise out of the Plaintiff's or any other customer contract.

**The Arbitration Agreement is not Enforceable**

196. The Arbitration Agreement found in the User Agreement is not enforceable.

197. First, the Arbitration Agreement specifically states that, “[i]f a court decides that any provision of this section 7.2 is invalid or unenforceable, that provision shall be severed and the other parts of this section 7.2 shall still apply.”

198. Thus, the Court must determine in the first instance, the enforceability of the Arbitration Agreement.

199. Second, the “delegation provision” or the reference to the AAA rules conflicts with the Arbitration Agreement making any delegation ambiguous at best.

200. The delegation agreement was never agreed to and was merely part of the AAA Rules that were hyperlinked to the User Agreement that was also hyperlinked.

201. The User Agreement is 30 pages long. At page 10, the User Agreement, in a section regarding Customer Disputes that was not referenced at the “click” stage, is yet another hyperlink to the AAA Rules, which are over 44 pages. At page 17 of those rules is one paragraph regarding the delegation. A consumer merely by clicking a button at the opening page has not formed consent to a provision that is nested over 30 pages and two hyperlinks away from the opening account page.

202. Further, this Arbitration Agreement constitutes a consumer contract of adhesion and is thus procedurally unconscionable.

203. Moreover, it contains an unconscionable fee shifting provision making it unenforceable.

204. As the Court found in the Order Denying Motion to Compel and Granting Motion to Dismiss, entered on October 23, 2018, the claims asserted here do not arise under the User Agreement and therefore, are not subject to the Arbitration Agreement.

**COUNTS**

**Count I: Violation of California's Unfair Competition Law (Cal. Bus. & Prof. Code 17200, et seq.) Against Coinbase and the Individual Defendants**

205. Plaintiffs incorporate all of the above allegations as if fully set forth herein.

206. California's Unfair Competition Law prohibits and makes actionable unfair competition, including unlawful, unfair or fraudulent business practices, and unfair, deceptive, untrue or misleading advertising.

207. Defendant Coinbase's conduct and the Individual Defendants' business practices, all of which emanated from California, constitute both unfair business practices, and unlawful business practices.

208. Coinbase and the Individual Defendants are alleged to have disseminated materially false and misleading statements respecting when and the extent to which Coinbase would support BCH and add it to the platform as well as its compliance with applicable laws and regulations, as part of a scheme to depress the price of BTC and inflate the price of BCH. It is alleged that they did this to increase the fees and spread earned by Coinbase and the number of cryptocurrency transactions it processed. Plaintiffs and Class members relied upon these misrepresentations.

209. They are further alleged to have made a sudden announcement of the Launch, which was contrary to their earlier statements, and which they knew from at least the order books prior to opening, would result in an order book imbalance, a lack of liquidity and was risky but nonetheless opened it in order to draw customers away from the CME futures contracts, and to aid and abet insiders who had earlier been tipped as to the Launch date and were prepared for the Launch.

210. They are further alleged to have failed to take appropriate action to prevent insider trading after the mid-November 2017 spike in the price of BCH.

211. As a consequence of these actions, Class members sustained damage, including paying inflated prices for BCH, paying a spread to Coinbase over this inflated price, paying transaction fees to Coinbase for their transactions, and/or being unable to access their funds or BCH in order to sell it when Coinbase suddenly shut down trading. Moreover, Coinbase and the

Individual Defendants tipped trading in favor of Coinbase's insiders and those tipped by those insiders who were knew and were prepared for the Launch when it was announced.

212. Coinbase's acts and practices constitute "unfair" business acts and practices, in that the harm caused by their wrongful conduct outweighs any utility of such conduct, and such conduct (i) offends public policy, (ii) is immoral, unscrupulous, unethical, oppressive, deceitful and offensive, or (iii) has caused and will continue to cause substantial injury to consumers such as Plaintiffs and the Class.

213. These unfair s unfair practices have no utility and the damage that they caused to Class members far outweighs any utility that these actions had if they had any utility.

214. As a direct, proximate and foreseeable result of Defendants' unfair and deceptive business practices, Plaintiffs and Class members sustained losses, and Coinbase benefitted by selling BCH at inflated prices, obtaining both fees and compensation thereby.

215. The wrongful conduct is further unlawful as it violates a number of regulations and statutes to which Coinbase admits it must adhere.

216. The conduct alleged above violates provisions of Coinbase's Bitlicense. That prohibits Coinbase from, among other things, making false and misleading statements, or omissions (Rule 200.18). It further requires that prior to each transaction in virtual currency, Coinbase is required to provide to each customer, the amount of the transaction.

217. It also requires that Coinbase not engage in fraudulent activity and that it take reasonable steps to detect and prevent fraud (Rule 200.19(g)).

218. Certain of these actions were further a violation of the KYC rules, which require Coinbase to adopt policies to monitor transactions and to manage risk and to report suspicious activity.

219. Although during the relevant period, Coinbase had a written insider trading policy, and required certain identifying information to be provided by its customers, it was aware, since at least mid-November 2017, that there had been suspicious trading in BCH that was timed to their disclosure of the Launch date to their employees, but failed to take any actions or to report or monitor this activity until after the Launch.

220. It further Launched BCH at time when it knew from at least the order books, if not from other indicia, such as an increase in mining, and a spike in BCH's prices on other exchanges that there was suspicious activity in the trading of BCH, but did nothing to investigate and instead opened trading in order to draw customers away from the CME futures market.

221. Further, Coinbase and the Individual Defendants violated Sections 6 and 9 of the CEA, and Rules 180.1. and 180.2.

222. Coinbase's and the Individual Defendants' conduct, including making false and misleading statements about the Launch and Coinbase's ability to handle the Launch, their failure to report or monitor suspicious trading activity in BCH commencing in November 2017, and even on the post-only order book before full trading began, which were all intended to artificially inflate the price of BCH (and depress the price of BTC), constitutes manipulation under CEA Sections 6 and 9.

223. Regulation 180.1, makes it unlawful to: (1) use or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud; (2) make, or attempt to make, any untrue or misleading statement of a material fact or to omit to state a material fact necessary in order to make the statements made not untrue or misleading; or (3) engage, or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person. 17 C.F.R. § 180.1(a)(1)(2014). Regulation 180.2 prohibits conduct that manipulates or attempts to manipulate any trading in commodities.

224. Coinbase and the Individual Defendants by making untrue statements of material fact or omitting to state facts necessary to make the statements they made, not untrue or misleading, in connection with the sale of a commodity or contract of sale of a commodity alone constitutes violations of the CEA. And the entire process of the sudden Launch, with its intended purpose of artificially inflating the price of BCH, and depressing the price of BTC and other alt-coins in order to draw miners and customers away from BTC, and increase Coinbase's profitability, the day after the CME launch of BTC futures constitute manipulation or attempts to manipulate trading in commodities.

225. Defendants engaged in the acts and practices described above willfully, intentionally, or recklessly.

226. By this conduct, Defendants violated Section 6 and 9 of the Act and Regulations 180.1 and 180.2.

227. Each act of: (1) using or employing, or attempting to use or employ, a manipulative device, scheme, or artifice to defraud; (2) making, or attempting to make, untrue or misleading statements of material fact, or omitting to state material facts necessary to make the statements made not untrue or misleading; and (3) engaging, or attempting to engage in any act, practice or course of business, which operated or would operate as a fraud or deceit upon any person, including but not limited to those specifically alleged herein, is alleged as a separate and distinct violation.

228. Plaintiffs therefore seek damages to the extent allowable, and an order enjoining Defendants from engaging in any conduct in violation of the CEA.

229. Plaintiffs and Class members are entitled to and do seek an order of restitution and disgorgement.

230. Plaintiffs are entitled to recover his attorneys' fees and costs under California Code of Civil Procedure, Section 1021.5.

### **Count II-Negligence against Coinbase and the Individual Defendants**

231. Plaintiffs repeat the allegations above as if fully set forth herein, other than those sounding in fraud. Plaintiffs explicitly disclaims any allegations of fraud in relation to this Count.

232. Coinbase owed Plaintiffs and Class Members a duty of reasonable care, which it breached by engaged in misfeasance, when it suddenly opened BCH for full trading before it was fully prepared to do so and before non-insiders has an opportunity to prepare for trading, (ie. making sure that they had cash in the Coinbase wallet rather than another digital asset).

233. Coinbase has effectively admitted that its process in launching BCH was negligent by thereafter adopting its New Asset Listing Process, which set forth a process to be able to ensure sufficient liquidity and an orderly market for a new assets with a stable price.



That process required Coinbase to pre-announce the listing of a new asset far in advance. Such announcements would include an announcement at the time of when it began final testing of the technical integration of the asset, and another when it was ready to allow deposits.

234. It would then allow 24 hours for deposits before opening the order book.

235. With assets created by a fork, that would also include limiting activity to withdrawals (as Coinbase announced it was going to initially do with BCH), and listing the asset only after an internal committee, subject to the highest confidentiality, determined that such listing was appropriate.

236. In November 2017, Coinbase published a report called “GDAX Digital Asset Framework: Factors we evaluate when considering which new assets to support on GDAX” (the “Digital Asset Framework”).

237. In the Digital Asset Framework, which was created with the help of Farmer and White, among others, Coinbase indicated that it was providing its customers with insight into how it evaluated digital assets for listing on GDAX. Some of the standards which Coinbase and Farmer and White indicated were considered by Coinbase in supporting or launching a new coin, was the liquidity and market capitalization of the digital asset, its “trade velocity” and whether “[t]he asset would not affect Coinbase or GDAX’s ability to meet compliance obligations, which include: (1) Anti-Money Laundering (AML) program and (2) obligations under government licenses in any jurisdiction (e.g. Money Transmitter Licenses)”.

238. The way in which Coinbase launched BCH was a violation of its own Digital Asset Framework.

239. By operating an exchange through which customers, and particularly retail customers, could buy, sell and trade currency, Coinbase owed the highest duties of reasonable care to its customers.

240. Coinbase was negligent in performing these duties, and in failing to make accurate pre-announcements about the Launch, and to take deposits sufficiently in advance to allow liquidity to develop, and to be able to open an orderly market. It was negligent in being unprepared to make the Launch when it did.

241. Coinbase's and the Individual Defendants' failure to take these steps were responsible for putting Plaintiffs and Class members in a worse position and created a foreseeable risk of harm, giving rise to a duty to act with reasonable and ordinary care. Their actions were intended to impact an identifiable class—the Class pled here.

242. The facts alleged above indicate that: (1) the transactions complained of herein were directed at and intended to effect Plaintiffs and the defined Class above; (2) the harm of market manipulation of the price of BCH during its Launch, and the failure of Coinbase to have ensured that it was prepared to engage in the Launch, resulted harm to Plaintiffs and the defined Class that was reasonably foreseeable; (3) it is certain that Plaintiffs and Class members suffered damage in overpaying for or receiving too little BCH, paying a spread to Coinbase and paying transaction fees, and/or being unable to sell their BCH during the Launch (whereas insiders were able to do so); (4) Coinbase's and the Individual Defendants' conduct is directly responsible for the damage suffered by Plaintiffs and Class members; (5) there is moral blame attached to this conduct as Coinbase's conduct in allowing this manipulation infects the entire cryptocurrency community; and (6) there should be a policy of preventing such future harm.

243. As a proximate result of Coinbase's and the Individual Defendants' actions, Plaintiffs and Class members suffered general and special damages.

244. Coinbase here does have a responsibility or duty for Plaintiff's purely economic loss.

### **Count III-Unjust Enrichment under California Law Against Coinbase**

245. Plaintiffs repeat and reallege the above allegations as if fully set forth herein.

246. Coinbase launched BCH into the stream of commerce nationally and in California with knowledge that BCH would be purchased and sold by consumers at artificially inflated prices, and that Coinbase would earn fees, and a spread on this inflated price.

247. As a consequence of the Launch, Coinbase received transaction fees and a spread on the purchases that were made by Class members and received more in both transaction fees (given the number of transactions) and on the spread and did so with the intention of keeping these transaction fees and the spread that it made.

248. Coinbase engaged in the Launch knowing that the prices at which BCH was being sold was artificially inflated, and that many of its customers would be unable to sell their BCH when it halted trading.

249. Coinbase received an economic benefit at the expense of the Class.

250. In these circumstances, principles of equity and good conscience make it unjust for Coinbase to retain the benefits conferred on it by the Class and it should be required to compensate Plaintiffs and the Class for these benefits.

**Count IV—Fraud Against Coinbase and the Individual Defendants by Plaintiff Pyron Under California law on behalf of a nation-wide class**

251. Plaintiff Pyron repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

252. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

253. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be unable to maintain an orderly market for BCH during a sudden launch and that there would be a

lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.

254. Defendants made these statements with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch.

255. Plaintiff Pyron and members of the Class justifiably relied upon these materially false statements, and were damaged thereby, as further discussed above.

**Count V—Fraud against Coinbase and the Individual Defendants, alternatively brought by Plaintiff Berk on behalf of an Arizona Subclass**

256. Plaintiff Berk repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

257. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

258. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the

time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be unable to maintain an orderly market for BCH during a sudden launch and that there would be a lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.

259. Defendants made these statements they knew that they were materially false and misleading and made them with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch. They made these statements with the intention that they be acted upon or not acted upon in a manner which they reasonably contemplated.

260. Plaintiff Berk and members of the Arizona Subclass were ignorant of the falsity of these statements, and justifiably relied upon these material false statements, and had a right as customers of Coinbase to rely upon them, and suffered proximate damages thereby, as further discussed above.

**Count VI—Fraud against Coinbase and the Individual Defendants, alternatively brought by Plaintiff Crowe on behalf of a New York Subclass**

261. Plaintiff Crowe repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

262. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and

misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

263. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be unable to maintain an orderly market for BCH during a sudden launch and that there would be a lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.

264. Defendants made these statements with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch.

265. Plaintiff Crowe and members of the New York Subclass justifiably relied upon these material false statements, and were damaged thereby, as further discussed above.

**Count VI—Fraud against Coinbase and the Individual Defendants, alternatively brought by Plaintiff Shriber on behalf of a South Carolina Subclass**

266. Plaintiff Shriber repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

267. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

268. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be unable to maintain an orderly market for BCH during a sudden launch and that there would be a lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.

269. Defendants made these statements they knew that they were materially false and misleading and made them with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch. They made these statements with the intention that the be acted upon or not acted upon in a manner which they reasonably contemplated.

270. Plaintiff Shriber and members of the South Carolina Subclass were ignorant of the falsity of these statements, and justifiably relied upon these materially false statements, and had a right as customers of Coinbase to rely upon them, and suffered proximate damages thereby, as further discussed above.

**Count VII—Fraud against Coinbase and the Individual Defendants, alternatively brought by Plaintiff Soltau on behalf of a Wisconsin Subclass**

271. Plaintiff Soltau repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

272. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

273. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be unable to maintain an orderly market for BCH during a sudden launch and that there would be a lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.



274. Defendants made these statements with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch.

275. Plaintiff Soltau and members of the Wisconsin Subclass justifiably relied upon these materially false statements, and were damaged thereby, as further discussed above.  
**Count VII—Fraud against Coinbase and the Individual Defendants, alternatively brought by Plaintiff Younts on behalf of an Ohio Subclass**

276. Plaintiff Younts repeats and realleges each and every allegation stated above as if fully set forth herein, other than those allegations relating the negligence.

277. During the relevant time period and the Class period alleged herein, Coinbase and the Individual Defendants made material misrepresentations of fact, and/or material non-disclosures respecting if and when Coinbase would support the launch of BCH, and whether it would fully support such a launch or only withdrawals. They also made materially false and misleading statements regarding Coinbase's compliance with relevant regulations and rules pertinent to its operations.

278. At the time that Coinbase and the Individual Defendants made these statements, they knew that: (1) Armstrong favored BCH over BTC and other alt-coins; (2) Coinbase was attempting to maintain possession and control over the BCH that was awarded to Subclass members in the Fork; (3) Coinbase and Armstrong disfavored BTC because it had become too expensive and slow and were taking steps to launch BCH; (3) Coinbase had tipped insiders and their employees as to the date upon which Coinbase was going to announce and commence a full launch of BCH; (4) insider trading BCH had caused a spike in the price of BCH about the time that they were told of the Launch date, contrary to Coinbase's insider trading policy, but Coinbase did not and could not take steps to prevent insider trading; (5) the order book in post-only mode before full trading on December 19, 2017, demonstrated that Coinbase would be

unable to maintain an orderly market for BCH during a sudden launch and that there would be a lack of liquidity; and (6) that the CME was about to launch its BTC futures contracts and the date upon which the CME was going to make that launch, and that Coinbase intended to launch BCH at that time.

279. Defendants made these statements with an intent to deceive their customers about how and when they were going to Launch BCH, and failed to disclose the truth about when they were going to engage in the Launch, in order to draw customer and miners away from BTC, to avoid losing customers to the CME upon the launch of BTC futures, and to aid and abet insiders and others associated with Armstrong, such as Ver, who were pumping and planned to dump BCH at the Launch.

280. Plaintiff Younts and members of the Ohio Subclass justifiably relied upon these materially false statements, and were damaged thereby, as further discussed above.

#### **Count VIII—Conversion on Behalf of the BCH Subclass Against Coinbase**

281. Plaintiff Younts brings this claim on behalf of a Subclass of Class members who received maintained a wallet with Coinbase at the time of the Fork on August 1, 2017, and did not receive the BCH to which they were entitled until December 19, 2017.

282. This claim is brought under California law as Coinbase is resident there and the facts and circumstances giving rise to the claims asserted herein arose in California.

283. Plaintiff Younts repeats and realleges paragraphs \_\_ through \_\_, as if fully set forth therein.

284. At the time of the Fork, Coinbase failed and refused to distribute BCH to those Class members who maintained wallets with Coinbase.

285. Plaintiff Younts and other Subclass members had an ownership right to that BCH and a right to possess that BCH, and to have that BCH in their Coinbase wallets so that they could withdraw that BCH without having an obligation to remove that BCH and to open another account on another exchange or to otherwise have to store that BCH somewhere other than their Coinbase wallet by a date certain.

286. Coinbase had a duty to distribute to Subclass members in a timely manner the BCH that was awarded to them as a consequence of the Fork.

287. Coinbase failed and refused to distribute that BCH to the wallets on Subclass members, requiring them to remove their BCH by a certain date.

288. For that BCH which was not removed, Coinbase continued to exercise dominion and control and converted that BCH to its own use until the evening of December 19, 2017, when it suddenly distributed the BCH to the wallets of Subclass members.

289. By exercising such dominion and control over this BCH, and not distributing it until the time that it announced the Launch, Coinbase caused Subclass members damage, in that they did not have access to their BCH, and therefore were delayed in being able to prepare for and take advantage of the sudden announcement of the Launch in a timely manner which was especially important given the time-price priority method by which GDAX fills orders.

290. Because of this time delay, and the sudden distribution of BCH that had been awarded to and was owned by Subclass members since August 1, 2017, Subclass members were damaged in that they missed the opportunity to quickly take advantage of the sudden Launch, and access to the BCH in a timely manner.

#### **PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs, on behalf of themselves and all other Class members similarly situated, pray for relief and judgment as follows:

(a) Determining that this is a proper class action pursuant to Rule 23(a) and (b)(2) and (3) of the Federal Rules of Civil Procedure and that the claims brought herein are not subject to arbitration;

(b) Awarding compensatory damage and restitution in favor of Plaintiffs and the other Class and/or Subclasses members against Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be determined at trial, including interest thereon, and/or disgorgement of profits earned by Coinbase for the wrongdoing alleged above;

(c) Awarding Plaintiffs and the Class and/or Subclasses their reasonable costs and expenses incurred in this action, including a reasonable allowance of fees for Plaintiffs' attorneys and experts; and

(d) Awarding Plaintiffs and the other Class' and/or Subclass' members such other and further relief as the Court deems appropriate.

**JURY TRIAL DEMAND**

Plaintiffs demand a jury trial on all issues so triable.

DATED: 11/20/2018

**GREEN & NOBLIN, P.C.**

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