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10 **UNITED STATES DISTRICT COURT**  
11 **NORTHERN DISTRICT OF CALIFORNIA**  
12 **SAN FRANCISCO DIVISION**

13 LARRY PEARL and ERIC  
14 VLADIMIRSKY, individually and on behalf  
15 of all others similarly situated,

16 Plaintiffs,

17 v.

18 COINBASE GLOBAL, INC. and  
19 COINBASE INC.,

20 Defendants.

Case No.: 3:22-cv-03561-MMC

21 **FIRST AMENDED CLASS ACTION**  
22 **COMPLAINT FOR:**

- 23 1. Negligence
- 24 2. Negligence *Per Se*
- 25 3. Negligent Misrepresentation
- 26 4. Violation of Cal. Bus. & Prof. Code §§  
27 17500, *et seq.*
- 28 5. Violation of Cal. Civ. Code §§ 1750, *et*  
*seq.*
6. Violation of Cal. Bus. & Prof. Code §§  
17200, *et seq.*

**JURY TRIAL DEMANDED**

1 **CLASS ACTION COMPLAINT**

2 Plaintiffs, LARRY PEARL and ERIC VLADIMIRSKY (“**Plaintiffs**”), on behalf of  
3 themselves and all others similarly situated, bring this class action against Defendants Coinbase  
4 Global, Inc. and Coinbase Inc. (collectively “**Coinbase**” or “**Defendants**”), and allege on  
5 personal knowledge, investigation of their counsel, and on information and belief as follows:

6 **INTRODUCTION**

7 1. Since Bitcoin launched in 2008, the cryptocurrency market has grown to include  
8 over 6,000 digital currencies and other financial instruments that are used by millions of  
9 Americans.<sup>1</sup>

10 2. Defendants promoted and categorized the TerraUSD (also referred to as “UST”)  
11 as a “stablecoin”—a distinct type of cryptocurrency that is generally less volatile than its  
12 counterparts—despite the fact that TerraUSD lacks the qualities and characteristics which  
13 distinguish stablecoins from other types of cryptocurrencies.

14 3. When the value of TerraUSD plummeted in May of 2022, investors lost an  
15 estimated \$18 billion in a matter of days.

16 4. Stablecoins differ from other cryptocurrencies, such as Bitcoin, because they are  
17 backed by an underlying tangible asset. TerraUSD claims to be “pegged” to the United States  
18 dollar (“USD”) at a rate of one-to-one. That is, TerraUSD is designed to maintain a value of  
19 \$1.00 per coin. Because it is purportedly “pegged” to a government-issued currency, and  
20 specifically the world’s reserve currency, it is marketed as a type of investment that can “virtually  
21 eliminate volatility.”

22 5. In reality, TerraUSD is not backed by actual US dollars or any other tangible  
23 assets held in reserve. Nonetheless, Defendants referred to it, and continue to refer to it, as a  
24 “decentralized stablecoin” in their representations and marketing materials.<sup>2</sup> This was misleading

25 \_\_\_\_\_  
26 <sup>1</sup> Total market capitalization for the 11,000 digital asset tokens in existence is over \$1.5 trillion.

27 <sup>2</sup> TerraUSD was designed to maintain its peg to the US dollar through Bitcoin reserves and  
28 programmatic mechanisms for maintaining the currency.

1 to Plaintiffs and Class Members who reasonably believed that TerraUSD was properly  
2 categorized as a stablecoin and posed less risks as compared to alternative digital assets available  
3 to them. Moreover, Defendants omitted material facts about TerraUSD, including the fact that  
4 Terraform Labs did not hold *any* tangible assets—such as another fiat currency or commodity—  
5 in reserve. Accordingly, the digital currency was never truly pegged to the US dollar.

6 6. Coinbase holds itself out as a centralized marketplace for cryptocurrency traders.  
7 It is also a significant venture capital investor in early-phase cryptocurrency companies and one  
8 of the largest financial backers of Terraform Labs. In 2021, Terraform Labs used exchanges,  
9 including Coinbase, to create markets where TerraUSD could be traded. Terraform Labs’  
10 partnership with Coinbase allowed it to issue TerraUSD tokens to more investors and generated  
11 commissions and other profits for Defendants.

12 7. To promote TerraUSD, Coinbase joined Terraform Labs in broadcasting claims  
13 that TerraUSD was pegged one-to-one in value to the US dollar. Coinbase knew, however, that  
14 TerraUSD was not actually backed by the US dollar and that a break from its peg was likely, if  
15 not certain. Yet Coinbase withheld this information from investors.

16 8. TerraUSD would purportedly maintain its value at \$1 through an arbitrage trading  
17 strategy involving its sister cryptocurrency, Luna:

18  
19 The way UST was intended to work was that whenever UST dropped below \$1,  
20 traders could remove UST from circulation by exchanging it for a Luna stablecoin,  
21 which would reduce the supply of UST stablecoins, thereby raising the price. When  
22 the price of UST exceeded \$1, traders were incentivized to remove Luna from  
23 circulation by exchanging Luna for UST, increasing the supply of UST and  
24 lowering the price.<sup>3</sup>

25 9. On May 8, 2022, TerraUSD started losing value, and the mechanisms described  
26 above failed. Within weeks, TerraUSD and Luna became practically worthless.

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27 <sup>3</sup> Expert Analysis: Stablecoin Legal Risks to Consider in Light of Terra Collapse. Perrie Weiner  
28 and David Sverdlo, June 8, 2022. Online article:  
<https://www.law360.com/articles/1498216/stablecoin-legal-risks-to-consider-in-light-of-terra-collapse?copied=1> (last accessed June 9, 2022).



1 entities jointly as the “Company” in its SEC filings. Coinbase created and operates a website  
2 from which customers can buy and sell digital assets – the Coinbase platform, on which  
3 TerraUSD was traded.

4 19. Plaintiffs reserve the right to amend this Complaint to add different or additional  
5 defendants, including without limitation any officer, director, employee, supplier, or distributor  
6 of Defendants who has knowingly and willfully aided, abetted, or conspired in the false and  
7 deceptive conduct alleged herein.

8 **JURISDICTION AND VENUE**

9 20. This Court has general jurisdiction over Defendants because Coinbase is  
10 headquartered in California. Further, this Court has specific jurisdiction for the claims set forth  
11 herein because it has, at all times relevant to this matter, individually or through its agents,  
12 subsidiaries, officers or representatives, operated, conducted, engaged in and carried on a  
13 business venture in this state and maintained an office or agency in this state, and marketed,  
14 advertised, distributed and sold products in this state, committed a statutory violation within this  
15 state related to the allegations made herein, directed at consumers in this state, and caused  
16 injuries to Plaintiffs and proposed Class Members, which arose out of the acts and omissions that  
17 occurred in the state of California, during the relevant time period, at which time Defendants  
18 were engaged in business activities in the state of California.

19 16. This Court has subject matter jurisdiction over this matter pursuant to 28 U.S.C. §  
20 1332 of the Class Action Fairness Act of 2005 because: (i) there are 100 or more proposed Class  
21 Members, (ii) the aggregate amount in controversy exceeds \$5,000,000, exclusive of interest and  
22 costs, and (iii) there is minimal diversity because a substantial number of proposed Class  
23 Members are citizens of states different from Defendants. This Court has supplemental  
24 jurisdiction over Plaintiffs’ state law claims pursuant to 28 U.S.C. § 1367.

25 17. Pursuant to 28 U.S.C. § 1391(b)(1), venue is proper because Coinbase is  
26 headquartered in this District. Venue is also proper pursuant to 28 U.S.C. § 1391(b)(2) because a  
27

1 substantial part of the events giving rise to the claims asserted occurred in this District. Venue is  
2 also proper pursuant to 28 U.S.C. § 1391(c) because Defendants conduct substantial business in  
3 this District, have sufficient minimum contacts with this District, and otherwise purposely avail  
4 themselves of the markets in this District, through the promotion, sale, and marketing of digital  
5 assets in this District.

6 **FACTS COMMON TO ALL CLASS MEMBERS**

7 **A. Stablecoins Are a Distinct Type of Cryptocurrency**

8 18. Cryptocurrency is a type of digital asset originally intended to serve as a medium  
9 of exchange designed to work like fiat currency but without the control or oversight of a  
10 centralized government authority.

11 19. The inception of cryptocurrency was lauded as an end to banks and centralized  
12 currency because it offers the same anonymity as physical cash. Despite its potential,  
13 cryptocurrency has yet to deliver on its promise to end traditional banking. Moreover, as  
14 compared to fiat currency, such as the US dollar or euro, the value of cryptocurrency is highly  
15 volatile, with many of the top-traded cryptocurrencies fluctuating more than 100 percent in value  
16 in a single year.

17 20. In 2014, several companies started issuing “stablecoins” which, as the name  
18 suggests, are intended to add stability to an otherwise volatile cryptocurrency market.

19 21. Stablecoins differ from other cryptocurrencies because their value is “pegged, or  
20 tied, to that of another currency, commodity or financial instrument.”<sup>4</sup> For each coin issued, the  
21 issuer maintains a pegged value by holding an equal amount of underlying hard assets in reserve  
22 as collateral. Stated differently, stablecoins are “collateralized” because they are backed by an  
23 underlying tangible asset. Traditional cryptocurrencies are generally “uncollateralized,” and their  
24 value is based on the market for the asset itself, contributing to their highly volatility.

25  
26  
27 <sup>4</sup> <https://www.investopedia.com/terms/s/stablecoin.asp> (last accessed May 23, 2022).

1           22.       Like many digital assets, stablecoins seemingly evade any comprehensive legal  
2 framework or government oversight. In recent years, legislators have proposed new laws,  
3 administrative guidelines, and proposals for regulating these assets, but it is presently unclear  
4 whether cryptocurrencies generally, and stablecoin assets specifically, are legally regarded as  
5 commodities, currencies, or some other type of financial instrument. Instead of lumping digital  
6 assets into one general category, each subset or type of cryptocurrency must be assessed  
7 individually to determine which regulatory framework is the best fit.

8           23.       While the legal framework within which stablecoins best fit is yet unclear, both  
9 legislators and regulators have expressed grave concerns over these digital assets. In November  
10 2021, The President’s Working Group on Financial Markets issued a report titled “Report on  
11 Stablecoins,” identifying specific concerns relating to “misleading disclosures to the market” and  
12 risks associated with trading platforms.<sup>5</sup> More recently, US Treasury secretary Janet Yellen  
13 cautioned in a hearing that stablecoins are a “growing product and there are rapidly growing  
14 risks.”

15           24.       As of the filing of this complaint, a proposed legislation would grant the  
16 Commodities Future Trading Commission full jurisdiction over cryptocurrency, including full  
17 regulation of stablecoins.<sup>6</sup>

18           25.       Based on information and belief, no agency or court of law has issued an opinion  
19 regarding the status of TerraUSD.

20 **B. Terraform Labs**

21           26.       Terraform Labs<sup>7</sup> created the system within which TerraUSD operates, which  
22 includes TerraUSD, Luna (its sister token), the Terra blockchain (the programmatic technology  
23

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24 <sup>5</sup> [https://home.treasury.gov/system/files/136/StableCoinReport\\_Nov1\\_508.pdf](https://home.treasury.gov/system/files/136/StableCoinReport_Nov1_508.pdf) (last accessed  
25 June 14, 2022).

26 <sup>6</sup> <https://apnews.com/article/cryptocurrency-technology-congress-government-and-politics-7d2e5c6ba2bfc66cc7b77954074d6c57> (last accessed June 14, 2022).

27 <sup>7</sup> Terraform Labs was founded by Do Kwon and Daniel Shin in 2018 and is a Seoul, South  
28 Korea-based internet services industry company.

1 underlying both cryptocurrencies), and the Anchor Protocol (one of the mechanisms Terraform  
2 Labs purported would bring about a stable 1:1 US dollar conversion rate).

3 27. The Terraform whitepaper Coinbase published on its website makes several  
4 affirmative representations about the TerraUSD, including statements that TerraUSD is: (1)  
5 “price-stable and growth-driven,” (2) “achieves price-stability via an elastic money supply,  
6 enabled by stable mining incentives,” and (3) “the Terra Protocol solves” problems common  
7 amongst other digital currencies.

8 28. But several statements within the whitepaper also appear to contradict one  
9 another. Terraform Labs describes its digital assets as a solution to market instability, which it  
10 describes as follows: “Intuitively, nobody wants to pay with a currency that has the potential to  
11 double in value in a few days, or wants to be paid in a currency if its value can significantly  
12 decline before the transaction is settled.” Terraform purported that TerraUSD would solve this,  
13 but later states, that “[t]he existential objection of a stable-coin is to retain its purchasing power.”

14 29. The white paper also describes the relationship between Luna and TerraUSD,  
15 and the mechanisms for maintaining stability:

16 The system uses Luna to make the price for Terra by agreeing to be counter-party  
17 to anyone looking to swap Terra and Luna at Terra’s target exchange rate. ... The  
18 system’s willingness to respect the target exchange rate irrespective of market  
19 conditions keeps the market exchange rate of Terra at a tight band around the target  
20 exchange rate.

21 Stable demand for mining is a core requirement for the security and stability of  
22 Terra. Unite mining rewards are the primary consideration and the biggest source  
23 of risk for miners. They are by default highly cyclical, hence highly uncertain.  
24 Reducing that uncertainty in the face of volatile conditions is the key to stable  
25 mining demand. We have outlined a simple mechanism that uses transaction fees  
26 and Luna burn as levers to achieve this, and demonstrated its effectiveness in the  
27 most severe economic conditions.

28 30. Stated differently, when the prices of TerraUSD rises above \$1 due to increasing  
demand, Luna holders can “mint” additional TerraUSD—and increase the total supply of  
TerraUSD—by exchanging \$1 of Luna. Luna holders are incentivized to engage in these  
exchanges because the newly-minted TerraUSD can be sold for more than \$1. Conversely, if the

1 demand for TerraUSD decreases and its price dips below \$1, TerraUSD holders can create \$1 of  
2 Luna by exchanging their TerraUSD for Luna (which in turn decreases that supply of TerraUSD  
3 and increases the supply of Luna).

4 **C. Coinbase Categorized TerraUSD as a “Stablecoin,” Promoted the Asset, and Offered**  
5 **TerraUSD for Sale on Its Trading Platforms**

6 31. Coinbase is an online marketplace that operates two digital asset exchanges,  
7 “Coinbase” and “Coinbase Pro,” and describes itself as “building the cryptoeconomy—a more  
8 fair, accessible, efficient, and transparent financial system enabled by crypto.” For Plaintiffs and  
9 Class members, that promise has proved illusory.

10 32. Customers place orders to buy and sell cryptocurrencies through Coinbase’s  
11 platforms, and Coinbase acts as a custodian of users’ digital assets, holding asset encryption keys  
12 on behalf of its users. As an alternative, the company offers “Coinbase Wallet” which  
13 purportedly gives customers control and custody over their cryptocurrencies and corresponding  
14 encryption keys.

15 33. Coinbase offers its US customers the power to trade over 150 cryptocurrencies  
16 and was at all relevant times the largest cryptocurrency exchange in the US by volume.

17 34. Coinbase is not registered with FINRA or the SEC as a securities exchange or  
18 broker-dealer. It is, however, the holder of a “Virtual Currency & Money Transmitter” license  
19 under the New York Department of Financial Services’ Virtual Currency Law.

20 35. When Coinbase offers trading of a cryptocurrency, it publicly posts information  
21 regarding the asset, including a description of the asset and which Coinbase products support it  
22 (i.e. Coinbase, Coinbase Pro, or Coinbase Wallet). In a separate branch of the Coinbase website  
23 referred to as “Price charts,” Coinbase provides historical data regarding the asset, including the  
24 asset’s historical pricing, trading activity, market cap, and the number of times the asset has been  
25 mentioned on social media in recent days. It also links to the asset’s white paper and website,  
26 where applicable.



1           40.       Robinhood, another exchange where cryptocurrencies are traded, has since 2021  
2 offered customers the following definition of stablecoins:

3  
4           What are stablecoins?

5           Stablecoins attempt to peg their price to a specific value, such as the US dollar. This  
6 is sought in two ways: 1) by tying the coins to a pool of reserve assets or 2) by  
7 algorithmically controlling the stablecoin's supply. At various points though, some  
8 stablecoins have deviated from their intended values, in some cases resulting in  
9 losses for holders. [...]

10           Algorithmic stablecoins have sometimes raised regulatory concerns, and in at least  
11 one instance, millions of dollars in seed money was returned to investors, among  
12 them GV and Bain Capital, when the project was cancelled.<sup>9</sup>

13           41.       Also since 2021, cryptocurrency exchange Kraken has explained to its users the  
14 fundamental difference between collateralized stablecoins and uncollateralized algorithmic assets  
15 as follows:

16           What are Stablecoins?

17           The Beginner's Guide

18           Stablecoins are a type of cryptocurrency programmed to track the value of another  
19 asset like government monies or gold. Many investors are drawn to stablecoins  
20 because they offer the efficiency and transparency of cryptocurrencies, while  
21 providing relief from the sometimes extreme volatility of these assets. However,  
22 traders and investors should note that not all stablecoins are created equal.

23           [...]

24           How Do Stablecoins Work?

25           All stablecoins seek to mimic the price of another asset, but they don't all  
26 accomplish this in the same way. This means that some stablecoins may be riskier  
27 than others and more prone to the price fluctuations they claim to provide safety  
28 from.

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<sup>9</sup>  
<https://web.archive.org/web/20211229183210/https://learn.robinhood.com/articles/1thUPqVffWfMYJvxthNrHn/w-hat-is-a-cryptocurrency/> (last accessed June 13, 2022).

1 [...] 2

3 Algorithmic stablecoins are digital assets that rely on smart contracts to regulate  
4 their stability. Rather than using deposits of cryptocurrencies or issuing and  
5 redeeming debt, the software behind algorithmic stablecoins programmatically  
6 adjusts the supply of the cryptocurrency as the demand for it fluctuates. If demand  
7 is high, the price of each stablecoin will exceed the intended peg, and the software  
8 will increase the supply. Alternatively, if demand is low, the supply will decrease.<sup>10</sup>

9 42. Gemini, another cryptocurrency exchange, offers its customers a “cryptopedia,”  
10 where various digital asset concepts are defined and explained. The section of the cryptopedia  
11 titled “What Are Stablecoins?” provides the following information:  
12

13 There are four primary stablecoin types, identifiable by their underlying collateral  
14 structure: fiat-backed, crypto-backed, commodity-backed, and algorithmic.

15 [...] 16

17 Algorithmic stablecoins do not use fiat or cryptocurrency as collateral. Instead, their  
18 price stability results from the use of specialized algorithms and smart contracts  
19 that manage the supply of tokens in circulation.<sup>11</sup>

20 43. Rather than disclose the nature of TerraUSD as uncollateralized, controlled by  
21 an algorithm, and highly risky, Coinbase passed it off as just another stablecoin. Its advertising,  
22 marketing, promotions, sold and facilitated the sale of TerraUSD on its website and platforms,  
23 and categorized it as a stablecoin, which Coinbase itself defined as “pegged to a ‘stable’ reserve  
24 asset,” despite the fact that TerraUSD was not backed by US dollars or any other tangible asset.  
25 The terms “uncollateralized” and “algorithmic” appear nowhere in Coinbase’s materials  
26 describing TerraUSD. Absent these disclosures, Coinbase never should have described TerraUSD  
27 as a stablecoin because it lacked the sole defining characteristic common across stable coins—  
28 tangible assets held in reserve. Nonetheless, Coinbase continued to categorize TerraUSD as “a  
decentralized stablecoin running on Ethereum that attempts to maintain a value of US \$1.00.”

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25 <sup>10</sup> <https://web.archive.org/web/20210304131434/https://www.kraken.com/learn/what-are-stablecoins/> (last accessed June 13, 2022).

26 <sup>11</sup> <https://web.archive.org/web/20211109121807/https://www.gemini.com/cryptopedia/what-are-stablecoins-how-do-they-work> (last accessed June 13, 2022).





1 value by over 90 percent. In addition to financial devastation, the loss of his investment resulted  
2 in stress, anxiety, and outrage.

3 57. Plaintiff VLADIMIRSKY has been a customer of Coinbase since 2015.

4 58. In April 2022, Plaintiff VLADIMIRSKY made purchases of TerraUSD on the  
5 Coinbase exchange.

6 59. At the time of the collapse, Plaintiff VLADIMIRSKY'S total TerraUSD holdings  
7 were approximately \$1,462,065.

8 60. When TerraUSD collapsed, the value of Plaintiff VLADIMIRSKY'S investment  
9 fell in value by over 90 percent. In addition to financial devastation, the loss of his investment  
10 resulted in stress, anxiety, and outrage.

11 **CLASS ACTION ALLEGATIONS**

12 61. Plaintiffs bring this action on behalf of themselves and the following Classes  
13 pursuant to Federal Rule of Civil Procedure 23(a), (b)(2) and (b)(3). Specifically, the Classes are  
14 defined as:

15 **National Class:** During the fullest period allowed by law, all  
16 persons in the United States who purchased or acquired  
17 TerraUSD in the United States or its territories and whose  
18 transactions of TerraUSD were conducted through Coinbase.

19 **California Subclass:** During the fullest period allowed by law,  
20 all persons in the State of California who purchased or acquired  
21 TerraUSD in California and whose transactions of TerraUSD  
22 were conducted through Coinbase.

23 62. Excluded from the Classes are (a) any person who signed a release of any  
24 Defendant in exchange for consideration, (b) any officers, directors or employees, or immediate  
25 family members of the officers, directors or employees, of any Defendant or any entity in which  
26 a Defendant has a controlling interest, (c) any legal counsel or employee of legal counsel for any  
27 Defendant, and (d) the presiding Judge in this lawsuit, as well as the Judge's staff and their  
28 immediate family members.

63. Plaintiffs reserve the right to amend the definition of the Classes if discovery or  
further investigation reveals that the Classes should be expanded or otherwise modified.

1           64.       **Numerosity – Federal Rule of Civil Procedure 23(a)(1).** Class Members are  
2 so numerous and geographically dispersed that joinder of all Class Members is impracticable.  
3 While the exact number of Class Members remains unknown at this time, upon information and  
4 belief, there are thousands, if not hundreds of thousands, of proposed Class Members. Moreover,  
5 the number of members of the Classes may be ascertained from Defendants’ books and records.  
6 Class Members may be notified of the pendency of this action by mail or electronic mail, which  
7 can be supplemented if deemed necessary or appropriate by the Court with published notice.

8           65.       **Predominance of Common Questions of Law and Fact – Federal Rule of**  
9 **Civil Procedure 23(a)(2) and 23(b)(3).** Common questions of law and fact exist as to all Class  
10 Members and predominate over any questions affecting only individual Class Members. These  
11 common legal and factual questions include, but are limited to, the following:

- 12           a. Whether Coinbase owed duties to Plaintiffs and the proposed Class;
- 13           b. Whether Coinbase breached those duties;
- 14           c. Whether Coinbase negligently misrepresented TerraUSD to Plaintiffs and the  
15           proposed Class;
- 16           d. Whether Coinbase engaged in unlawful, unfair, or fraudulent business practices  
17           in connection with TerraUSD trading on the Coinbase exchange;
- 18           e. Whether Coinbase’s actions and omissions violate California law;
- 19           f. Whether Coinbase’s conduct violates public policy;
- 20           g. Whether TerraUSD constitutes a security under the federal securities laws;
- 21           h. Whether Coinbase sold or facilitated the sale or delivery of TerraUSD by  
22           interstate means;
- 23           i. Whether Coinbase made misstatements and omissions in offering documents and  
24           communications in connection with the offer or sale of TerraUSD;
- 25           j. Whether Plaintiffs and members of the proposed Class are entitled to monetary  
26           damages and, if so, the nature of such relief; and

1 k. Whether Plaintiffs and members of the proposed Class are entitled to equitable,  
2 declaratory or injunctive relief and, if so, the nature of such relief.

3 66. Pursuant to Rule 23(b)(2), Defendants have acted or refused to act on grounds  
4 generally applicable to the proposed Class, thereby making final injunctive or corresponding  
5 declaratory relief appropriate with respect to the proposed Class as a whole. In particular,  
6 Defendants have marketed, advertised, distributed, and facilitated the sale of TerraUSD on the  
7 Coinbase platform and such marketing and advertising was materially misleading.

8 67. **Typicality – Federal Rule of Civil Procedure 23(a)(3).** Plaintiffs’ claims are  
9 typical of those of the absent Class Members in that Plaintiffs and the Class Members each  
10 purchased TerraUSD on the Coinbase platform and each sustained damages arising from  
11 Defendants’ wrongful conduct, as alleged more fully herein. Plaintiffs share the aforementioned  
12 facts and legal claims or questions with proposed members of the Class, and Plaintiffs and all  
13 members of the proposed Class have been similarly affected by Defendants’ common course of  
14 conduct alleged herein. Plaintiffs and all members of the proposed Class sustained monetary and  
15 economic injuries including, but not limited to, ascertainable loss arising out of Defendants’  
16 conduct and the subsequent fall in value of TerraUSD.

17 68. **Adequacy – Federal Rule of Civil Procedure 23(a)(4).** Plaintiffs will fairly and  
18 adequately represent and protect the interests of the members of the proposed Class. Plaintiffs  
19 have retained counsel with substantial experience in handling complex class action litigation,  
20 including complex questions that arise in this type of consumer protection litigation. Further,  
21 Plaintiffs and their counsel are committed to the vigorous prosecution of this action. Plaintiffs do  
22 not have any conflicts of interest or interests adverse to those of proposed Class.

23 69. **Insufficiency of Separate Actions – Federal Rule of Civil Procedure**  
24 **23(b)(1).** Absent a class action, Plaintiffs and members of the Classes will continue to suffer the  
25 harm described herein, for which they would have no remedy. Even if separate actions could be  
26 brought by individual consumers, the resulting multiplicity of lawsuits would cause undue burden  
27

1 and expense for both the Court and the litigants, as well as create a risk of inconsistent rulings  
2 and adjudications that might be dispositive of the interests of similarly situated consumers,  
3 substantially impeding their ability to protect their interests, while establishing incompatible  
4 standards of conduct for Defendants. Accordingly, the proposed Classes satisfy the requirements  
5 of Fed. R. Civ. P. 23(b)(1).

6       70.     **Declaratory and Injunctive Relief – Federal Rule of Civil Procedure**  
7 **23(b)(2).** Defendants have acted or refused to act on grounds generally applicable to Plaintiffs  
8 and all proposed Class Members, thereby making appropriate final injunctive relief and  
9 declaratory relief, as described below, with respect to the members of the Classes as a whole.

10       71.     **Superiority – Federal Rule of Civil Procedure 23(b)(3).** A class action is  
11 superior to any other available methods for the fair and efficient adjudication of the present  
12 controversy for at least the following reasons:

- 13           a. The damages suffered by each individual members of the proposed Class do not  
14           justify the burden and expense of individual prosecution of the complex and  
15           extensive litigation necessitated by Defendants’ conduct;
- 16           b. Even if individual members of the Class had the resources to pursue individual  
17           litigation, it would be unduly burdensome to the courts in which the individual  
18           litigation would proceed;
- 19           c. The claims presented in this case predominate over any questions of law or fact  
20           affecting individual members of the Class;
- 21           d. Individual joinder of all members of the Class is impracticable;
- 22           e. Absent a Class, Plaintiffs and members of the proposed Class will continue to  
23           suffer harm as a result of Defendants’ unlawful conduct; and
- 24           f. This action presents no difficulty that would impede its management by the Court  
25           as a class action, which is the best available means by which Plaintiffs and  
26

1 members of the proposed Class can seek redress for the harm caused by  
2 Defendants.

3 72. In the alternative, the Classes may be certified for the following reasons:

- 4 a. The prosecution of separate actions by individual members of the Class would  
5 create a risk of inconsistent or varying adjudication with respect to individual  
6 members of the Class, which would establish incompatible standards of conduct  
7 for Defendants;
- 8 b. Adjudications of claims of the individual members of the Class against Defendants  
9 would, as a practical matter, be dispositive of the interests of other members of the  
10 proposed Class who are not parties to the adjudication and may substantially  
11 impair or impede the ability of other proposed Class Members to protect their  
12 interests; and
- 13 c. Defendants have acted or refused to act on grounds generally applicable to the  
14 members of the proposed Class, thereby making appropriate final and injunctive  
15 relief with respect to the proposed Class as a whole.

16 **CLAIMS FOR RELIEF**

17 **COUNT 1**

18 **Negligence**

19 **(against Coinbase on behalf of the National Class)**

20 73. Plaintiffs re-allege and incorporate by reference the allegations contained in the  
21 previous paragraphs as though set forth fully herein.

22 74. Coinbase owed a duty to Plaintiffs and Class members to exercise reasonable care  
23 in investigating and monitoring TerraForm Labs and the TerraUSD and in truthfully and accurately  
24 describing, defining, marketing, advertising, and selling TerraUSD to its customers. More  
25 specifically, this duty included, among other things: (a) conducting due diligence on TerraForm  
26 Labs as an issuer and TerraUSD as a stablecoin before listing it on the Coinbase exchange; (b)

1 testing the TerraUSD token prior to introducing it on the Coinbase exchange to ensure its value  
2 would remain stable and pegged to the US dollar; (c) implementing processes that would detect if  
3 the TerraUSD became unpegged from US dollar; (d) timely acting upon warnings and alerts  
4 regarding the TerraUSD becoming unpegged; and (f) ensuring the truthfulness of its statements  
5 made to its users and potential users.

6 75. Coinbase’s duty to use reasonable care arose from several sources, including but  
7 not limited to those described below.

8 76. Coinbase had a common law duty to prevent foreseeable harm to others. A duty  
9 existed here because it was foreseeable that TerraUSD would become unpegged from the US dollar  
10 and that Plaintiffs and Class members would be harmed thereby. Coinbase was aware of the  
11 likelihood that the TerraUSD would become unpegged as evidenced by the historical volatility of  
12 algorithmic stablecoins, including the Basis Cash, Empty Set, and Iron Finance algorithmic  
13 stablecoin, all of which collapsed in 2021. Several other stablecoins have destabilized and  
14 ultimately failed, including the SafeCoin, BitUSD, DigitalDollar, NuBits, and CK USD  
15 stablecoins. As such, Coinbase had a duty to exercise reasonable care to prevent these foreseeable  
16 harms.

17 77. Coinbase’s duty also arose under the statutory requirements of California Civil  
18 Code § 1714, requiring all “persons,” including Coinbase, to act in a reasonable manner toward  
19 others.

20 78. Coinbase’s duty also arose under custom and practice in the cryptocurrency  
21 exchange industry, where exchanges consistently disclose the critical distinctions between  
22 collateralized stablecoins and uncollateralized algorithmic digital assets like TerraUSD.

23 79. Coinbase’s duty of care arose under Section 5 of the Federal Trade Commission  
24 Act (“FTC Act”), 15 U.S.C. § 45, which prohibits “unfair or deceptive acts or practices in or  
25 affecting commerce.” This includes acts or practices that are likely to cause substantial injury to  
26 consumers, which cannot be reasonably avoided by consumers, and which are not outweighed by  
27

1 countervailing benefits to consumers or competition. It also includes material representations,  
2 omissions, or practices that are likely to mislead a reasonable consumer. In addition, individual  
3 states have enacted statutes based upon the FTC Act that also created a duty.

4 80. Coinbase's duty also arose under Section 200.18(d) of the State of New York  
5 Department of Financial Services' Virtual Currency law, under which Coinbase is licensed, and  
6 which prohibits "false, misleading, or deceptive representations or omissions" in advertising and  
7 marketing materials. 23 CRR-NY § 200.18(d). As an entity engaged in a virtual currency business  
8 activity, Coinbase is subject to this duty, along with all other duties imposed by the Virtual  
9 Currency Law. See 23 CRR-NY §§ 200.2(q), 200.3(a).

10 81. Coinbase's duty also arose from Coinbase's relationship with Plaintiffs and Class  
11 members. Coinbase held the unique position as the largest third-party exchange to offer TerraUSD.  
12 Because of its critical role within the cryptocurrency exchange market, Coinbase was in a superior  
13 position to protect against the harm suffered by Plaintiffs and Class members.

14 82. Coinbase breached the duties it owed Plaintiffs and Class members by, among  
15 other things, failing to conduct due diligence on Terraform Labs as the issuer and TerraUSD as a  
16 stablecoin before listing it on the Coinbase exchange, and failing to test the TerraUSD token prior  
17 to introducing it on the Coinbase exchange to ensure the asset would perform consistent with  
18 representation made by Terraform Labs and Coinbase, characterizing TerraUSD as a stablecoin  
19 backed by reserves, omitting from its materials that TerraUSD was uncollateralized and  
20 differentiating it from other collateralized stablecoins, failing to disclose that TerraUSD was an  
21 algorithmic stablecoin and therefore more volatile than collateralized stablecoins, and making  
22 representations as to TerraUSD's stability and 1-to-1 peg to the US dollar despite a reasonably  
23 foreseeable risk that the TerraUSD would become unpegged and cause harms and losses to  
24 Plaintiffs and Class members. Coinbase also breached its duties by failing to reasonably act upon  
25 warnings and alerts regarding the TerraUSD becoming unpegged.



1 listing it on the Coinbase exchange, and failing to test the TerraUSD or token prior to introducing  
2 it on the Coinbase exchange to ensure the asset would perform consistent with representations  
3 made by Terraform Labs and Coinbase, and by listing Terraform on the Coinbase exchange and  
4 making representations as to its stability and 1-to-1 peg to the US dollar despite a reasonably  
5 foreseeable risk that the TerraUSD would become unpegged and cause harms and losses to  
6 Plaintiffs and Class members.

7 89. Section 200.18(d) of the New York Virtual Currency Law states that “[i]n all  
8 advertising and marketing materials, each licensee and any person or entity acting on its behalf,  
9 shall not, directly or by implication, make any false, misleading, or deceptive representations or  
10 omissions.” 23 CRR-NY § 200.18(d).

11 90. Defendants violated Section 200.18(d) of the New York Virtual Currency Law by  
12 (i) falsely representing that TerraUSD was a stablecoin backed by “reserve” assets such as fiat  
13 currency or commodities and used this reserve to maintain a peg to the US dollar at a 1-to-1 ratio,  
14 and therefore constituted a safe investment with virtually no volatility; and (ii) omitting that  
15 TerraUSD was in fact an uncollateralized algorithmic digital asset with no reserves of any tangible  
16 asset with the propensity to become unpegged from the US dollar, thereby failing to disclose fully  
17 and truthfully all material facts regarding the TerraUSD’s nature, purpose, value, volatility, and  
18 risk.

19 91. Defendants’ violations of the above cited laws constitute negligence *per se*.

20 92. Plaintiffs and Class members are consumers within the class of persons the laws  
21 cited above are intended to protect.

22 93. Moreover, the harm that has occurred is the type of harm the laws cited above are  
23 intended to guard against.

24 94. As a direct and proximate result of Defendants’ negligence, Plaintiffs and the  
25 Class members have been damaged in an amount to be determined at trial.

**COUNT III**

**Negligent Misrepresentation**

**(on Behalf of the National Class)**

1  
2  
3  
4 95. Plaintiffs re-allege and incorporate by reference the allegations contained in the  
5 previous paragraphs as though set forth fully herein.

6 96. Coinbase represented to Plaintiffs and the Class, through its statements and  
7 categorizations, that TerraUSD was a “reserve” backed stablecoin that was less volatile than other  
8 cryptocurrencies on the market.

9 97. Coinbase also represented that the value of TerraUSD would remain pegged to the  
10 US dollar at a 1-to-1 ratio, and TerraUSD constituted a safe investment with virtually no volatility.  
11 These statements were false.

12 98. Defendants also omitted the fact that TerraUSD, as an uncollateralized  
13 algorithmic digital assets, had the propensity to become unpegged from the US dollar and, as a  
14 result, could become worthless. In doing so, Defendants misrepresented material facts regarding  
15 TerraUSD stablecoin’s nature, purpose, value, volatility, and risk. These omissions rendered  
16 Defendants’ affirmative representations deceptive and likely to mislead potential purchasers.

17 99. Defendants failed to conduct reasonable and diligent investigation of the  
18 representations they made to Plaintiffs and the Class to ensure that those statements were true and  
19 that there was no omission of material facts required to make the representations not misleading.  
20 Defendants, in the exercise of reasonable care, should have known its statements and omissions  
21 were misleading. For example, Defendants knew that it was improper to categorize TerraUSD as  
22 a stablecoin when, in all reality, it was not collateralized with tangible assets.

23 100. Defendants owed a duty to Plaintiffs and Class members to speak with care and  
24 explain fully and truthfully all material facts regarding the TerraUSD. This duty arose from several  
25 bases, including Section 5 of the FTC Act, which prohibits “deceptive acts or practices in or  
26  
27  
28

1 affecting commerce.” This provision encompasses material representations, omissions, or  
2 practices that are likely to mislead a reasonable consumer.

3 101. Defendants’ duty to speak truthfully and with care also arose under Section  
4 200.18(d) of the State of New York Department of Financial Services’ Virtual Currency law,  
5 which prohibits “false, misleading, or deceptive representations or omissions” in advertising and  
6 marketing materials. 23 CRR-NY § 200.18(d). As entities engaged in virtual currency business  
7 activities, Defendants are subject to this duty, along with all other duties imposed by the Virtual  
8 Currency Law. *See* 23 CRR-NY §§ 200.2(q), 200.3(a).

9 102. Coinbase’s duty to speak with care arose from their special relationship with  
10 Plaintiffs and Class members and its unique position as a broker-dealer. Because of its critical role  
11 within the cryptocurrency exchange market, Coinbase was in a superior position to protect against  
12 the harm suffered by Plaintiffs and Class members. Additionally, Coinbase’s duty to disclose arose  
13 from its privity relationship with Plaintiffs and Class members.

14 103. The above-described relationship between Defendants and Plaintiffs is such that,  
15 in morals and good conscience, Plaintiffs and the Class had the right to rely upon Defendants for  
16 information. Defendants were in a special position of confidence and trust with Plaintiffs and the  
17 Class such that their reliance on Defendants’ negligent misrepresentations was justified.

18 104. Defendants knew, or reasonably should have known, that Plaintiffs and the Class  
19 would rely on its misrepresentations and omissions in purchasing TerraUSD.

20 105. Defendants’ negligent misrepresentations and omissions, upon which Plaintiffs  
21 and Class members reasonably and justifiably relied, were intended to induce, and actually  
22 induced, Plaintiffs and Class members to purchase TerraUSD.

23 106. As a direct and proximate cause of their reliance on Defendants’ representations,  
24 Plaintiffs and Class members have been injured as described herein and are entitled to damages  
25 available by law, in an amount to be proven at trial.

**COUNT IV**

**California's Unfair Competition Law  
Cal. Bus. & Prof. Code § 17200 et seq. ("UCL")  
(on Behalf of the California Subclass)**

1  
2  
3 107. Plaintiffs re-allege and incorporate by reference the allegations contained in the  
4 previous paragraphs as though set forth fully herein.

5 108. The UCL prohibits any "unlawful, unfair or fraudulent business act or practice."  
6 Cal. Bus. & Prof. Code § 17200, et seq.

7 109. The acts, omissions, misrepresentations, practices, and non-disclosures of  
8 Defendants as alleged herein constitute business acts and practices.

9 110. **Unlawful:** The acts alleged herein are "unlawful" under the UCL in that they  
10 violate at least the following laws:

- 11
- 12 • Section 1714 of the California Civil Code;
  - 13 • Section 5 of the FTC Act;
  - 14 • Section 200.18(d) of the State of New York Department of Financial Services' Virtual  
15 Currency law

16 111. **Unfair:** Defendants' conduct with respect to the labeling, advertising, and sale  
17 of TerraUSD was "unfair" because Defendants' conduct was immoral, unethical, unscrupulous,  
18 or substantially injurious to consumers and the utility of their conduct, if any, does not outweigh  
19 the gravity of the harm to their victims.

20 112. Defendants' conduct with respect to the labeling, advertising, and sale of  
21 TerraUSD was and is also unfair because it violates public policy as declared by specific  
22 constitutional, statutory or regulatory provisions, including but not limited to the applicable  
23 sections of the federal Securities Act.

24 113. Defendants' conduct with respect to the labeling, advertising, and sale of  
25 TerraUSD was and is unfair because the consumer injury was substantial, not outweighed by  
26 benefits to consumers or competition, and not one consumer themselves could reasonably have  
27 avoided.



1           121.     The conduct described herein took place within the state of California and  
2 constitutes deceptive or false advertising in violation of California Business and Professions Code  
3 §§ 17500, et seq.

4           122.     California Business and Professions Code §§ 17500, et seq. prohibits deceptive  
5 or misleading practices in connection with advertising or representations made for the purpose of  
6 inducing, or which are likely to induce, consumers to purchase products.

7           123.     It is also unlawful under the FAL to disseminate statements concerning property  
8 or services that are “untrue or misleading, and which is known, or which by the exercise of  
9 reasonable care should be known, to be untrue or misleading.” *Id.*

10          124.     Defendants violated the FAL when they marketed, advertised, and promoted  
11 exchange services in connection with TerraUSD by: (1) misleading Plaintiffs and Class members  
12 about the benefits of TerraUSD, (2) omitting material facts about the volatility and risks of  
13 TerraUSD, and (3) mischaracterizing TerraUSD as a stablecoin when it lacks the qualities and  
14 benefits of a stablecoin.

15          125.     At the time of their misrepresentations and omissions, Defendants were either  
16 aware of the risks of mischaracterizing TerraUSD as a stablecoin or they were aware that they  
17 lacked the information and knowledge required to truthfully make this representation.

18          126.     Plaintiffs have standing to pursue claims under the FAL because they reasonably  
19 reviewed and relied on Coinbase’s statements when purchasing or exchanging TerraUSD on  
20 Coinbase.

21          127.     In reliance on the statements made in Coinbase’s advertising and marketing  
22 materials, and Coinbase’s omissions and concealment of material facts regarding the quality and  
23 characteristics of TerraUSD, Plaintiffs and members of the California Subclass purchased or  
24 exchanged TerraUSD on Coinbase.

25          128.     Had Coinbase disclosed the true nature and characteristics of TerraUSD,  
26 Plaintiffs and members of the California Subclass would not have purchased TerraUSD.



1           138.     The CLRA prohibits deceptive practices in connection with the conduct of a  
2 business that provides goods, property, or services primarily for personal, family, or household  
3 purposes.

4           139.     Defendants’ false and misleading policies, acts, and practices were designed to,  
5 and did, induce the Plaintiffs and Class members to purchase and exchange TerraUSD, and  
6 violated the following sections of the CLRA:

- 7                   a. § 1770(a)(5): representing that goods, property, and services have  
8                   sponsorship, approval, characteristics, uses, or benefits which they do not  
9                   have;
- 10                   b. § 1770(a)(7): representing that goods, property, and services are of a  
11                   particular standard, quality, or grade, or that goods are of a particular style or  
12                   model, if they are of another;
- 13                   c. § 1770(a)(9): advertising goods, property, and services with intent not to sell  
14                   them as advertised; and
- 15                   d. § 1770(a)(16): representing the subject of a transaction has been supplied in  
16                   accordance with a previous representation when it has not.

17           140.     Defendants engaged in unfair competition or unfair or deceptive acts or practices  
18 in violation of Civil Code §§ 1770(a)(5)-(16) by: (1) characterizing TerraUSD as a stablecoin  
19 although it lacks the hallmarks of a stablecoin, and Coinbase is aware of this fact; (2) representing  
20 that TerraUSD had benefits or characteristics that it did not actually have; and (3) omitting  
21 material facts about TerraUSD.

22           141.     Defendants profited by selling TerraUSD to unwary consumers through the use  
23 of false, deceptive, misleading, and unlawful advertising.

24           142.     Defendants’ wrongful business practices constituted, and constitute, a continuing  
25 course of conduct in violation of the CLRA.



- 1 C. Declaring that Defendants must disgorge, for the benefit of the Class, all or part of the ill-  
2 gotten profits they received from the exchange of TerraUSD, or order Defendants to make  
3 full restitution to Plaintiffs and the members of the Class;
- 4 D. Awarding restitution and other appropriate equitable relief;
- 5 E. Granting an injunction against Defendants to enjoin them from conducting their business  
6 through the unlawful, unfair, and fraudulent acts or practices set forth herein;
- 7 F. Ordering a jury trial and damages according to proof;
- 8 G. Awarding Plaintiffs and members of the Class actual and statutory damages, as provided  
9 by the applicable state consumer protection statutes invoked above;
- 10 H. Awarding attorneys' fees and litigation costs to Plaintiffs and members of the Class;
- 11 I. Awarding civil penalties, prejudgment interest and punitive damages as permitted by law;  
12 and
- 13 J. Ordering such other and further relief as the Court deems just and proper.

14 **JURY DEMAND**

15 Plaintiffs demand a trial by jury of all claims in this Complaint so triable.

16  
17 Dated: September 9, 2022

Respectfully submitted,

18 /s/ Trenton R. Kashima

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