



DAVID Y. IGE
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**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

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Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Finance
Monday, April 4, 2022
2:30 p.m.**

**On the following measure:
S.B. 2695 S.D. 2, H.D. 1, RELATING TO CRYPTOCURRENCY**

Chair Luke and Members of the Committee:

My name is Iris Ikeda, and I am the Commissioner of the Department of Commerce and Consumer Affairs' (Department), Division of Financial Institutions (DFI). The Department offers comments on this bill.

The purpose of this bill is to establish a blockchain and cryptocurrency task force.

The Department supports a task force to create a master plan for the state to explore the use of blockchain and cryptocurrency. The Department notes that because one of the objectives of the Department is consumer protection and because blockchain technology and cryptocurrency transactions potentially touches many aspects of consumers' lives, one of the main focuses of the Department's review will be on consumer protection.

One way to think of blockchain is working on a document in Google Docs or Microsoft SharePoint, where everyone who has access to the document can edit the document at the same time, in real time, and a history of the changes are retained by the software. The data is stored on each participants computer with no central repository.

The blockchain core concept is similar, it is a public ledger with copies spread out among multiple locations called nodes, which usually referred to individual computers with copies of the ledger. Consequently, no one person or entity has control of the information kept in the record. Instead, it's distributed among the many nodes that make up the network.

The Department notes that it does not believe it has the resources to pay for any travel expenses that may be incurred by the task force members to attend meetings.

Thank you for the opportunity to testify on this bill.

DEPARTMENT OF THE PROSECUTING ATTORNEY
CITY AND COUNTY OF HONOLULU

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THOMAS J. BRADY
FIRST DEPUTY
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THE HONORABLE SYLVIA LUKE, CHAIR
HOUSE COMMITTEE ON FINANCE
Thirty-first State Legislature
Regular Session of 2022
State of Hawai`i

April 4, 2022

RE: S.B. 2695, S.D. 2, H.D. 1; RELATING TO CRYPTOCURRENCY.

Chair Luke, Vice-Chair Yamashita, and members of the House Committee on Finance, the Department of the Prosecuting Attorney of the City and County of Honolulu ("Department") submits the following testimony in **support** of S.B. 2695, S.D. 2, H.D. 1, with a **suggested amendment**.

The purpose of S.B. 2695, S.D. 2, H.D. 1, is to establish a task force that would review data and other aspects of the blockchain and cryptocurrency industry nationwide, with a potential plan to expand blockchain adoption in both the private and public sectors in Hawaii.

The Department supports this initiative, which would further Hawaii's preparedness for the anticipated increase in the use of cryptocurrency worldwide. If there is potential for the discussion—and any legislative proposals or compilation¹—to touch upon criminal matters, **we respectfully ask that a representative from our Department be added to the task force.** To date, the Department has already seen multiple cases dealing with cryptocurrency, including a current case involving the alleged loss of over \$400,000 in cryptocurrency.

For all of the foregoing reasons, the Department of the Prosecuting Attorney of the City and County of Honolulu **supports** passage of S.B. 2695, S.D. 2, H.D. 1, with the **suggested amendment**. Thank for you the opportunity to testify on this matter.

¹ See requirements for the task force to "compile an overview of potential legislation" (page 3, line 18) and report on any proposed legislation (page 4, lines 1-2).



April 4, 2022

2:30 p.m.

Conference Room 308 and Videoconference

To: House Committee on Finance

Rep. Sylvia Luke, Chair

Rep. Kyle T. Yamashita, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: SB2695 SD2 HD1 — RELATING TO CRYPTOCURRENCY

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB2695 SD2 HD1](#), which would establish a Blockchain and Cryptocurrency Task Force to study cryptocurrency in Hawaii, then make recommendations to the Legislature about the issue in time for the 2024 legislative session.

We applaud this effort to engage the Legislature concerning the legal status of cryptocurrency, but we are concerned that this bill will further delay a resolution to an issue that has already been studied at length.

As I am sure you all know, Hawaii's Money Transmitters Act¹ requires digital currency companies to hold cash assets equal to the amount of their virtual assets. Thus, a company that holds \$1 billion in bitcoin and etherium also must have a \$1 billion in cash reserves.

This requirement has made it nearly impossible for cryptocurrency companies to do business in Hawaii. Coinbase and Binance — the two largest cryptocurrency exchanges — do not operate in Hawaii. Nor do RobinHood Crypto, KuCoin, PayPal's "Cryptocurrency Hub," eToro, Bitstamp or

¹ ["Money Transmitters Act."](#) Hawaii Revised Statutes 489D.

any number of other popular and successful crypto companies. As a result, Hawaii has been largely left out of the cryptocurrency revolution.

In 2019, Gov. David Ige authorized a temporary “Digital Currency Innovation Lab,” a regulatory “sandbox” that allowed certain cryptocurrency companies to do business in Hawaii without being subject to the money-transmitter law’s double-reserve requirement. Since the lab’s inception, 61,000 Hawaii customers have been able to access digital currency and complete more than \$611 million in transactions.

Unfortunately, the sandbox experiment will end at the close of 2022. Without further action, cryptocurrency will once again become inaccessible for Hawaii residents. Moreover, the state will lose access to the economic benefits of this rapidly expanding industry.

In 2017, Hawaii lawmakers in both chambers approved an exemption for cryptocurrency from the state’s Money Transmitters Act,² but the exemption was deleted in conference committee before the bill was enacted. Iris Ikeda, commissioner of the state Division of Financial Institutions, stated at the time that lawmakers should first study the issue via a “Decentralized Virtual Currency Working Group.”

“DFI believes that the most prudent approach would be to allow the DVC Working Group the opportunity to perform its review and to provide the Legislature with findings and recommendations prior to the creation of an exemption for decentralized virtual currency,” she said.³

Now that the issue has been studied via the Digital Currency Innovation Lab, lawmakers can feel confident about following the example of 20 other states by exempting cryptocurrency from the state’s Money Transmitters Act.⁴ With this one change, Hawaii would go from one of the most burdensome states for cryptocurrency to one of the best.

After Wyoming exempted cryptocurrency companies from its double-reserve requirement in 2018, it was dubbed one of the country’s “most crypto-friendly” jurisdictions.⁵

² [SB949](#) of 2017.

³ Iris Ikeda, Division of Financial Institutions commissioner, “[Testimony on SB949, SD1 HD1](#),” Hawaii State Legislature, March 31, 2017. See also, “[Conference Committee Rep. No. 78](#),” Hawaii State Legislature, April 27, 2017.

⁴ States that do not require a money-transmitter license for virtual currency transactions include Arizona, Arkansas, California, Colorado, Idaho, Illinois, Kansas, Maryland, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, North Dakota, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia and Wisconsin. See “[Cryptocurrency laws by state](#),” Shipkevich Attorneys at Law, 2020.

⁵ Chris Matthews, “[How Wyoming became the promised land for bitcoin investors](#),” MarketWatch, April 24, 2021; “[What do Wyoming’s 13 new blockchain laws mean?](#)” Forbes.com, March 4, 2019; [HB0019](#) of 2018

Cryptocurrency is a developing industry that moves as quickly as the technology involved. Waiting more than two years before taking action would ensure that Hawaii falls further behind.

Recent amendments to the bill have addressed many of our concerns relating to the independence and possible politicization of the task force. However, there remains a risk that the task force as currently envisioned will be too heavily influenced by limited commercial interests. Given that five of the six members meant to represent commercial parties with an interest in cryptocurrency or blockchain are specifically from Hawaii-based institutions, there may be a bias toward the use of state regulation to discourage competition in the market.

Considering the global scope of the industry, it seems appropriate to seek input from economic experts in cryptocurrency, as well as from industry representatives who do not have a financial interest in keeping Hawaii closed to other cryptocurrency companies.

The best approach would be to move forward with legislation that would simply exempt cryptocurrency companies from the state Money Transmitters Act.

However, since that appears to be no longer possible during the current legislative session, the second-best approach would be to support efforts to extend the life of the Digital Currency Innovation Lab for at least another year. This would give the Legislature time to settle on more ideal legislation.

If you go ahead with the idea for a task force, we hope any group created to study the issue will do so with a focus on helping Hawaii become one of the best states in the country for cryptocurrency business and investment.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

Wyoming Legislature; and Erik Kuebler, "[Wyoming House unanimously approves two pro-blockchain bills.](#)" Bitcoin Magazine, Feb. 20, 2018.

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April 1, 2022

Aloha, Rep. Sylvia Luke, Chair Rep. Kyle T. Yamashita, Vice Chair; and members of the Committee on Finance:

I am writing to express my **support** of SB2695 Relating to Cryptocurrency.

I currently serve as a Community Engagement Consultant with the state's Digital Currency Innovation Lab (DCIL), but this testimony represents solely my opinion as a Hawaii resident and technologist.

As promising as crypto is, I believe the real opportunity lies in the broad applications of blockchain technology beyond mere financial interests. Industries as diverse as real estate, health care, and especially non-profits and cause-based organizations are already exploring the space.

Thank you very much for the opportunity to testify on this matter.



Ryan Kawailani Ozawa

SB-2695-HD-1

Submitted on: 4/2/2022 10:34:27 AM

Testimony for FIN on 4/4/2022 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Carrie Blocher	Individual	Support	Written Testimony Only

Comments:

I can't understand why we don't have the rights that every other state does to buy and sell crypto. Please keep the sandbox going and allow access on all the other blocked exchanges. There is big tax revenue here, I can't understand taking us back to the dark ages.

Statement of
Katie Jackson
Hawaii State Blockchain Advocate
before the
House Committee on Finance

Monday, April 4, 2022
2:30 PM
State Capitol, Conference Room 415 & Videoconference

In consideration of

SB2695 - SD 2 HD1
RELATING TO CRYPTOCURRENCY

Chair Luke, Vice Chair Yamashita, and Members of the
Committee on Finance.

I support SB2695 - SD 2 HD 1 and propose a suggested Amendment that calls for the extension of the Digital Currency Innovation Lab alongside the establishment of a blockchain and cryptocurrency task force.

Hawaii is currently one of the first in the nation to lead on crypto innovation with the establishment of the Digital Currency Innovation Lab two years ago. Unfortunately, that sandbox expires this coming June. Without an extension of that lab or legislative action, crypto companies will be forced to leave the state and the assets in the 61,000 local accounts opened in the past two years under the sandbox environment will likely be frozen. It is imperative to pass good laws such as this Task Force bill to look at future regulation and keep the progress we have made to date.

Below is a visual representation of the proposed task force and amendments to 1.) Extend the Digital Currency Innovation Lab by 2 years and 2.) include two additional task

force members that represent the crypto legal community and security community.

Including these two members would help ensure that anything coming out of the Task Force was legally consistent with other state and federal laws and addressed the security requirements to make future regulations protect consumers.

Suggested Amendment: On page 3, line 6 insert the following two lines.

“(13) A representative of a blockchain or cryptocurrency security community (such as “miners”) who shall be appointed by the governor; and

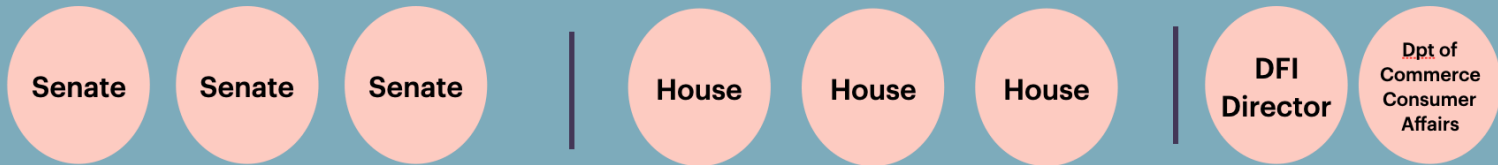
(14) A representative of a blockchain or cryptocurrency legal community who shall be appointed by the governor;”

(15) Extend the Digital Currency Innovation Lab and its authorities and exemptions until June 2024.”

PROPOSED HAWAII CRYPTO TASK FORCE - SB2695 - SD 2

STATE GOVERNMENT TASK FORCE MEMBERS

3 Members appointed by President of Senate and Speaker of House who then nominate one member to be co-chairs of Task Force. Not more than 4 of same party



FINANCE ACADEMIA LEGAL Or CPA Crypto Security Expert (Ex: “Miner”) BLOCKCHAIN BUSINESS AND CRYPTO COMMUNITY



(All members in this box appointed by Governor - appointee/member must be Hawaii-based)

TASK FORCE RESPONSIBILITIES

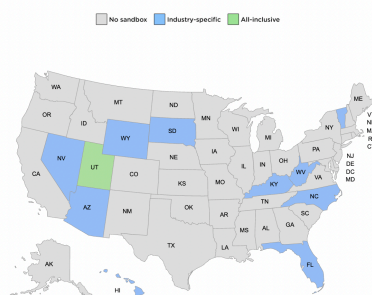
- 1.) Meet as often as Chairperson deems necessary
- 2.) Review data and other aspects of blockchain/crypto industry throughout country
 - a.) Develop plan to expand blockchain adoption to both private and public sector
 - 3.) Compile overview of potential legislation
- 4.) Solicit ideas from industry experts on additional legislation
- 5.) Submit report and by regular session 2024 and disband

Additionally, to give the Committee context on how important it is to maintain Hawaii's leading edge on crypto below is a map¹ tracking all active sandboxes across the country, many of which looked at Hawaii's sandbox for inspiration.

Here is a [map](#) tracking all of the active sandboxes across the country, as well as a list below:

- Arizona: [Fintech](#), [PropTech](#)
- Wyoming: [Fintech](#), [Medical Products](#)
- Nevada: [Fintech](#)
- Hawaii: [Crypto](#)
- South Dakota: [Insurance](#)
- Vermont: [Insurance](#)
- West Virginia: [Fintech](#), [Insurance](#)
- Kentucky: [Insurance](#)
- Florida: [Fintech](#)
- North Carolina: [Fintech and Insurance](#)

Impact Map



¹ <https://libertas.org/outreach/sandbox/>, January 28, 2022

If the State of Hawaii were to pass this Task Force bill, it would give us time and space to study the regulatory environment and other state efforts that are also trying to answer the difficult but exciting questions on regulating an entirely new digital asset ecosystem.

Thank you for the opportunity to offer these comments.