



DAVID Y. IGE
GOVERNOR

JOSH GREEN
LT. GOVERNOR

**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310
P.O. BOX 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Consumer Protection and Commerce
Tuesday, March 22, 2022
2:00 p.m.**

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

Chair Johanson 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 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.

RYAN KAWAILANI OZAWA

P.O. Box 892727

Mililani, HI 96789-8332

Main: (808) 707-3027

Fax: (808) 427-9227



@hawaii A row of small, black icons for various social media platforms including Instagram, Twitter, YouTube, LinkedIn, Facebook, and others.

Email: hawaii@hey.com

March 19, 2022

Aloha, Rep. Aaron Ling Johanson, Chair; Rep. Lisa Kitagawa, Vice Chair;
and members of the Committee on Consumer Protection & Commerce:

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 here is 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.

Frankly, the best time to form such a task force was five years ago. The second-best time is now.

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



Ryan Kawailani Ozawa



March 22, 2022

2 p.m.

Conference Room 329 and Videoconference

To: House Committee on Consumer Protection & Commerce

Rep. Aaron Ling Johanson, Chair

Rep. Lisa Kitagawa, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: SB2695 SD2 — RELATING TO CRYPTOCURRENCY

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB2695 SD2](#), which would establish a Blockchain and Cryptocurrency Task Force of 17 members 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."](#) HRS 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.

In addition, the proposed make-up of the task force runs the risk of being heavily influenced by political or industry considerations. 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.

Also, 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.

Statement of
Dagan Bernstein
K-8 Independent School Educator
before the
COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Tuesday, March 22, 2022

In consideration of
SB2695
RELATING TO CRYPTOCURRENCY

I, as an educator involved in a number of educator organizations in the state of Hawai'i, **supports** SB2695 which calls for the establishment of a blockchain and cryptocurrency task force.

I mahalo the committee for moving forward with this very important bill that can support innovation in technology within our state. As an educator, I work to support student projects that involve digital media and technology. This is accomplished in both my job as a student project coordinator and digital media teacher. In this role, I have seen how learning can be supported through the application of emerging technologies, particularly most recently with blockchain technology. One example is how art and technology are able to work together to support student agency, creation, and ownership in students generated NFT projects. Cryptocurrencies and blockchain technology play a key role in advancing these emerging pedagogies in our schools.

I also serve as a board member of HSTE (Hawaii Society of Technology in Education). We recently welcomed artist Jasper Wong to a professional development session in which he shared about his FOMO MOFO NFT project. He was able to explain to the educators present how the merging of art and technology shaped his project and how he has been able to support his career as an artist in Hawaii through this project. It is important that we have examples like Jasper to show our keiki that you can succeed in art as a graduate of our public schools in Hawaii and be part of technological innovation.

This task force is important in that it will bring together the relevant parties to properly and effectively explore appropriate rules and regulations around these technologies in our state. Our keiki have been behind the curve when it comes to emerging technologies for too long. With the advances brought on through access to hardware, WIFI, and computer science curricula in our schools, our haumana are primed to experience the exponential growth necessary to re-engage with the technological advancements made in other parts of the United States.

I cannot understate the importance of this moment in time. There are two roads ahead: limit access to blockchain technology and put the ability for our keiki to engage in emerging industries at risk, or thoughtfully make these technologies available and speed up adoption putting our keiki in the position to compete alongside their peers across the country.

Thank you for considering my testimony. If you need further input from an experienced educator such as myself who is engaged with educational groups across the state I would be interested in sharing my experiences and knowledge. Thank you for the opportunity to offer these comments.

SB-2695-SD-2

Submitted on: 3/19/2022 5:41:20 PM

Testimony for CPC on 3/22/2022 2:00:00 PM

| Submitted By | Organization | Testifier Position | Testify |
|---------------------|---------------------|---------------------------|---------------------------|
| Brad Uchida | Individual | Support | Written Testimony Only |

Comments:

Support

SB-2695-SD-2

Submitted on: 3/21/2022 1:23:16 PM

Testimony for CPC on 3/22/2022 2:00:00 PM

| Submitted By | Organization | Testifier Position | Testify |
|---------------------|---------------------|---------------------------|----------------|
| Eric Purcell | Individual | Support | In Person |

Comments:

Aloha and good afternoon. I agree a Cyber crypto task force would benefit Hawaii with oversight and regulation, educating Hawaii and bring revenue to the island. Blockchain technology is secure and the future. With ISO 20022 coming on line for all bridged currencies replacing SWIFT, it behoves Hawaii to establish a presence to be a part of large revenues and Capital gains from sells, transactions, and fees. Hawaii needs to be a part of the future.

Statement of **Katie Jackson**

Hawaii State Blockchain Advocate before the

House Committee on Consumer Protection & Commerce

Tuesday, March 22, 2022 2:00 PM State Capitol, Conference Room 329
& Videoconference

In consideration of **SB2695 - SD 2 RELATING TO
CRYPTOCURRENCY – TASK FORCE**

Chair Johanson, Vice Chair Kitagawa, and Members of the Committee on
Consumer Protection and Commerce.

I support SB2695 - SD 2 with comments and suggest a few amendments to this
bill establishing 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 affecting 61,000 local accounts opened in the past two years under the sandbox environment. Without action, assets in these accounts 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.

Suggested Amendments: On page 3, line 6 insert the following three lines.

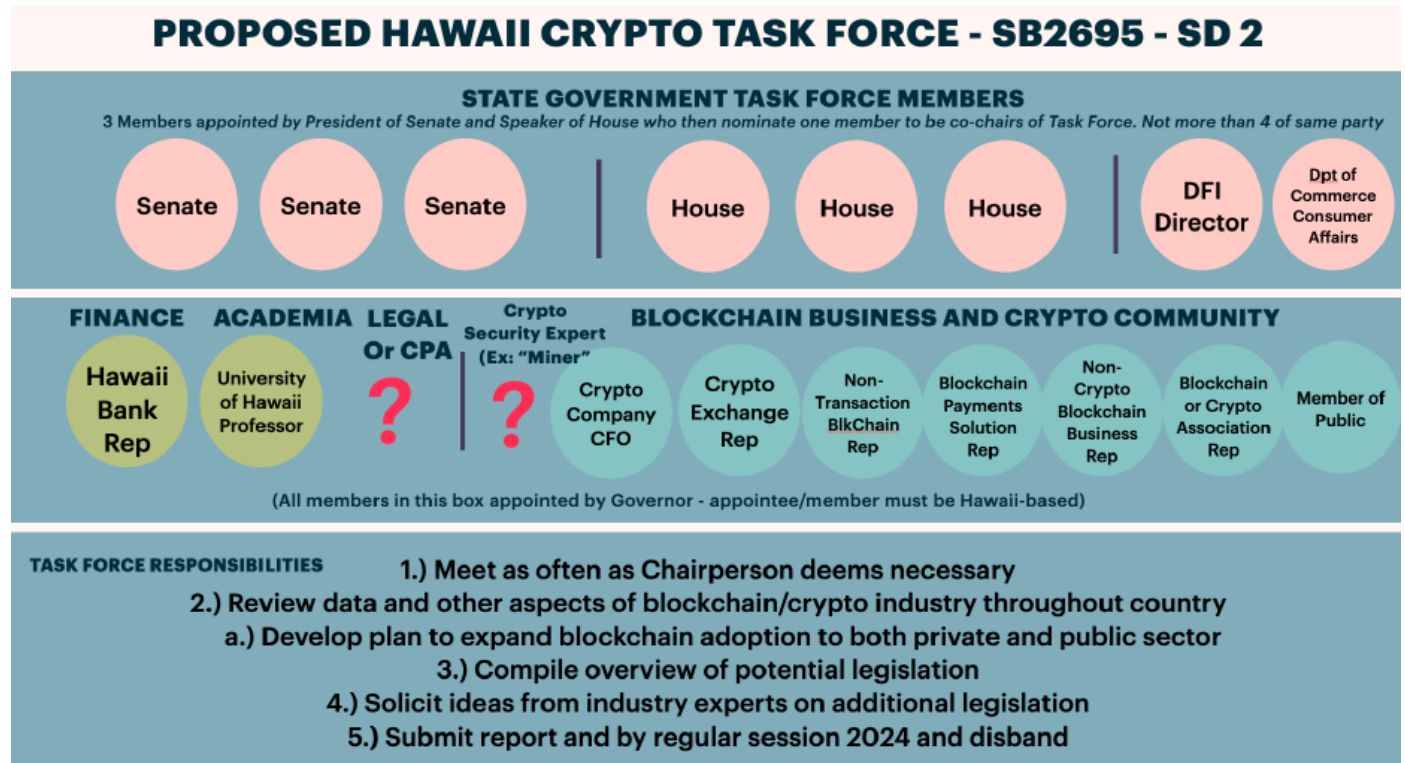
“(13) A representative of a blockchain or cryptocurrency security community (such as “miners”) who shall be appointed by the governor;

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

(15) Extend the Digital Currency Innovation Lab Pilot Project until June 2024 to allow the continued study of crypto currency in the State of Hawaii.”

Below is a visual representation of the proposed task force bill.

This bill and the three suggested amendments – to include additional task force members and an extension of the digital sandbox by two years – would keep Hawaii at the cutting edge of crypto innovation.



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

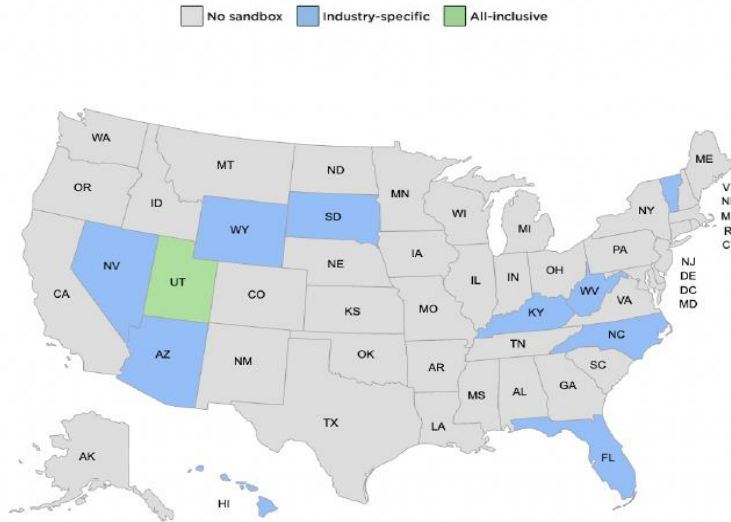
Here is a map¹ tracking all of the active sandboxes across the country, as well as a list below:

- **Arizona:** Fintech, PropTech
- **Wyoming:** Fintech, Medical Products
- **Nevada:** Fintech
- **Hawaii:** Crypto
- **South Dakota:** Insurance
- **Vermont:** Insurance

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

- **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. In a 9 March Executive Order, President Biden tasked the Executive Branch regulatory agencies to come up with a unified regulatory approach to crypto and blockchain technologies.

Creating a Task Force to study the upcoming regulations and extending the Sandbox would buy Hawaii the time to create laws that fit the State and nest within the upcoming Federal regulations. Better to wait and study and learn the new digital asset ecosystem and its federal guidelines than to quickly regulate crypto only to find that the new laws will need to be frequently amended in years to come.

Thank you for the opportunity to offer these comments.

Statement of
Liam Grist
President
CLOUD NALU, LLC
before the

LATE

COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Tuesday, March 22, 2022

In consideration of
SB 3025 SD2 RELATING TO DIGITAL CURRENCY LICENSING PROGRAM

Cloud Nalu **supports** SB2695 SD2 RELATING TO CRYPTOCURRENCY TASK FORCE

Cloud Nalu is a Bitcoin-as-a-service platform for Hawaii residents, businesses, and institutions who need help buying and selling bitcoin, and integrating with the Bitcoin network through our Software-as-a-Service products. We started as a tech outsourcing company in 2016 on Maui and since 2020 have been a part of the Digital Currency Innovation Lab (DCIL).

The bill for an act is a positive move towards continuing the state's interest and understanding of Bitcoin, blockchain, and cryptocurrency technology. The bill seems to attempt at ensuring the diversity of blockchain-related companies within the task force. However, finding a company locally that uses "blockchain" for non-digital currency related activity will surely be challenging, as it is proven to be much more efficient to simply use an in-house database for most centralized company needs. The proposed members 4,6,7,8, and 10 should be consolidated into 1 qualification which more broadly includes such proposed members in the evolving space of blockchain, digital currency, and bitcoin technology. We recommend using language such as "5 members of various local companies offering bitcoin, blockchain, digital currency services or integrating their business practices with such technologies."

Thank you for the opportunity to provide comments and for your consideration of this bill.