



DAVID Y. IGE  
GOVERNOR

JOSH GREEN  
LT. GOVERNOR

**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  
Senate Committee on Energy, Economic Development, and Tourism  
Monday, February 7, 2022  
3:10 p.m.  
Via Videoconference**

**On the following measure:  
S.B. 2697, RELATING TO VIRTUAL CURRENCY**

Chair Wakai 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 appreciates the intent and offers comments on this bill.

The purpose of this bill is to exclude the electronic transfer of virtual currency through virtual currency companies and cryptocurrency companies from the Money Transmitters Act.

The Department recognizes that the inclusion of virtual currency transactions within the scope of the Money Transmitters Act has posed a financial barrier for those companies that lack the financial ability to meet the requirements of the law. As a result, the Department has proposed legislation (see Senate Bill 3076) that among other things exempts companies licensed under the new law from the Money Transmitters Act. As such, the Department supports an exclusion from the Money Transmitters Act but only for those companies separately licensed as special purpose digital currency

companies. If this bill is adopted without another form of licensure in place, there will be no consumer protection, regulation or oversight for virtual currency transactions.

Thank you for the opportunity to testify on this bill.



Written Statement of  
**Len Higashi**  
Acting Executive Director  
Hawaii Technology Development Corporation  
before the  
**SENATE COMMITTEE ON ENERGY, ECONOMIC  
DEVELOPMENT, AND TOURISM**

Monday, February 7, 2022  
3:10 p.m.  
Videoconference

In consideration of  
**SB2697**  
**RELATING TO VIRTUAL CURRENCY**

Chair Wakai, Vice Chair Misalucha and Members of the Committee.

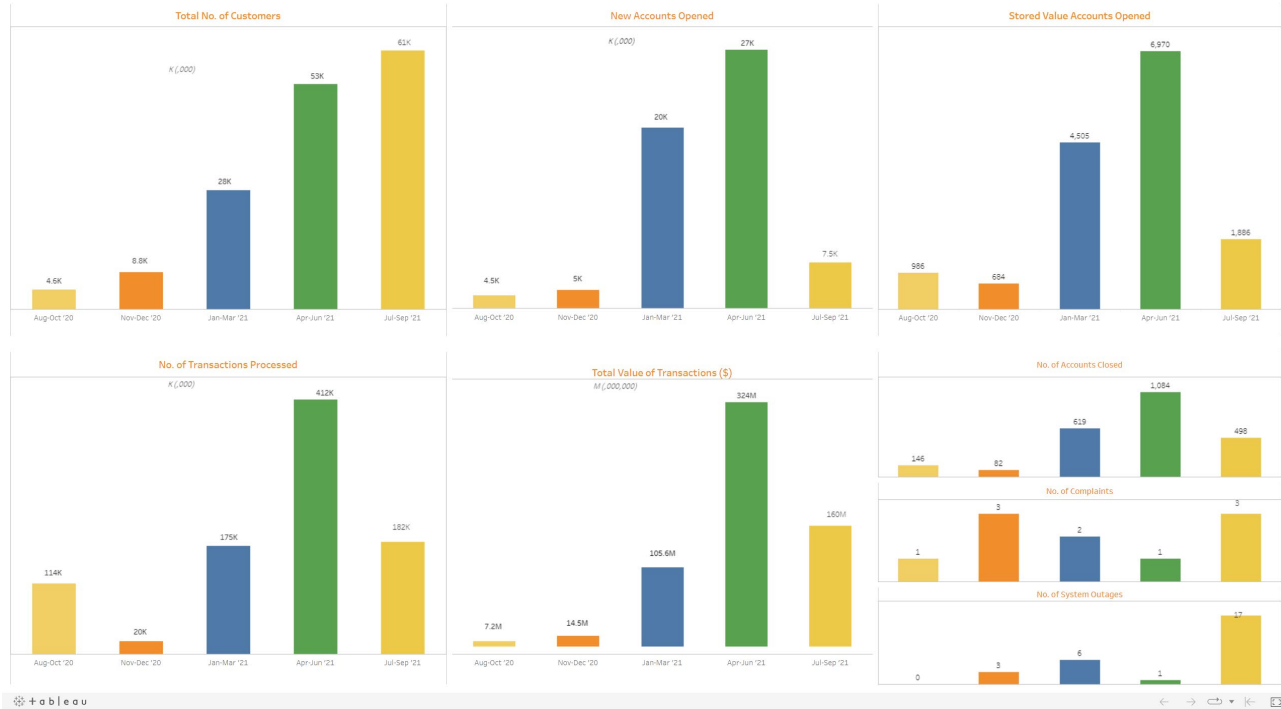
The Hawai'i Technology Development Corporation (HTDC) **offers comments on SB2697** that excludes the electronic transfer of virtual currency through virtual currency companies and cryptocurrency companies from the Money Transmitters Act.

HTDC supports initiatives aimed at accelerating the adoption of new technologies. HTDC has partnered with the DCCA Division of Financial Institutions on a 2-year pilot project for digital currency which ends June 30, 2022. The goals of the program are to:

- \* Create economic opportunities for Hawaii through early adoption of digital currency
- \* Offer consumer protection by providing guidance to issuers of digital currency
- \* Provide data to shape legislation supporting digital currency activities

There are 15 digital currency companies in the program and data collected shows over 61,000 Hawai'i based customers currently participating with hundreds of millions of dollars transacted each quarter. HTDC has hosted 13 educational webinars on various topics, 2 roundtables with local financial institutions and crypto investors, formed an advisory group of local domain experts in crypto, and facilitated two pilot projects exploring the economic benefits of crypto for fundraising and Non-Fungible Tokens (NFT) for selling art. HTDC received 10 complaints from general Hawai'i based consumers during the span of the program. A summary chart of the data collected is provided below and can also be found on our website at

<https://www.htdc.org/digital-currency-innovation-lab/>



While the pilot program has not concluded, the results of the program clearly indicate strong interest from Hawai'i residents. The ability for Hawai'i's residents to continue engaging in digital currency transactions will not be possible without enabling legislation. The 15 companies participating in the program have also expressed unanimous support for regulation and alignment with industry standards applied to existing traditional financial institutions. For example, program participants believe that fulfilling the requirements of a robust IT cybersecurity policy is necessary before crypto-based companies are allowed to do business. They have also expressed the need for clear and consistent regulatory guidelines for companies to conduct business in Hawaii following the end of the pilot program. Since the state of digital currency continues to evolve, it is imperative that the state designate an entity in charge to guide and inform Hawaii's position and response towards digital currency activities.

HTDC agrees that virtual currency is a poor fit for the Money Transmitter Act and supports the intent of this bill to allow virtual currency activity to continue in the State. HTDC comments that we **prefer SB3025** as it not only provides some safeguards, it affords the opportunity to claim fees that can be used for consumer education and economic development pilot projects that demonstrate the potential benefits of virtual currencies to our community. SB3025 also provides Hawai'i the opportunity to take a leadership role at the national level as one of the first states to offer such a program. Thank you for the opportunity to offer these comments.



February 7, 2022

3:10 p.m.

Conference Room 224 and Videoconference

**To: Committee on Energy, Economic Development, and Tourism**

**Senator Glenn Wakai, Chair**

**Senator Bennette E. Misalucha, Vice Chair**

**From: Grassroot Institute of Hawaii**

**Joe Kent, Executive Vice President**

RE: SB2697 — RELATING TO VIRTUAL CURRENCY

***Comments Only***

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB2697](#), which would exclude the electronic transfer of virtual currency through virtual cryptocurrency companies from the Money Transmitters Act.

This bill provides the best, simplest and most comprehensive policy option to a problem that has stymied the growth of cryptocurrency in Hawaii: the “double reserve” requirement in the state Money Transmitters Act, which has been applied to companies that deal in digital currency.

Currently, the Money Transmitters Act 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 Ethereum also must have an additional \$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 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 Innovation Lab will end at the close of 2022. Without further action from the Legislature, cryptocurrency will once again become inaccessible for Hawaii residents. Moreover, the state will lose access to the economic benefits of this rapidly expanding industry.

SB2687 provides the best and most efficient pathway for the future of cryptocurrency in Hawaii. Currently, 20 states do not require a money-transmitter license for digital currency transactions.<sup>1</sup> By excluding digital currency companies from the state’s Money Transmitters Act,<sup>2</sup> 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.<sup>3</sup>

Cryptocurrency is a developing industry that moves as quickly as the technology involved. While federal and state governments may eventually promulgate rules regarding cryptocurrency, now is not the time to handicap the industry with heavy state regulations.

This bill would avoid the problem of enacting restrictions on cryptocurrency that could quickly become outdated or overly burdensome. Instead, it focuses on the main barrier that has prevented Hawaii residents and businesses from profiting from the cryptocurrency boom: the state’s Money Transmitters Act.

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<sup>1</sup> Those states are: Arizona, Arkansas, California, Colorado, Idaho, Illinois, Kansas, Maryland, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, North Dakota, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia and Wisconsin

<sup>2</sup> “[Money Transmitters Act](#),” HRS 489D.

<sup>3</sup> 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 Wyoming Legislature; and Erik Kuebler, “[Wyoming House unanimously approves two pro-blockchain bills](#).” Bitcoin Magazine, Feb. 20, 2018.

It is clear that exempting digital currency companies from Hawaii's Money Transmitters Act is the best way to allow cryptocurrency to grow and thrive in our state. For that reason, SB2697 deserves your support.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent  
Executive Vice President  
Grassroot Institute of Hawaii

# RYAN KAWAILANI OZAWA

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February 6, 2022

Aloha, Senator Glenn Wakai, Chair; Senator Bennette E. Misalucha, Vice Chair; and members of the Committee on Energy, Economic Development, And Tourism:

I am writing to express my **support** of SB2697 Relating to Virtual Currency.

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

I believe the crypto, digital currency, and blockchain space is as transformative to communities and technologies as the advent of the Internet nearly 30 years ago. Hawaii's current regulatory regime is needlessly restrictive, and a major barrier preventing Hawaii residents and businesses from taking advantage of opportunities that are widely available in every other state.

There are a number of related proposals before the legislature this session, which is a critical juncture for our state given the June expiration of the DCIL. We need at least one of these forward-looking bills to become law in order to prevent Hawaii from sliding once more to the end of the line.

SB2697 aims directly at the Hawaii law that currently restricts crypto exchanges from serving Hawaii customers without onerous requirements — restrictions that drive Hawaii residents to less legitimate channels to participate in this space. While opening the floodgates may seem to be a drastic move, it would certainly catapult Hawaii to the forefront of supporting cryptocurrency and digital currency freedoms.

Mahalo for your consideration.



Ryan Kawailani Ozawa



**SB-2697**

Submitted on: 2/5/2022 1:08:49 AM

Testimony for EET on 2/7/2022 3:10:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Barry Sato	Individual	Support	No

Comments:

I would like to see our state move progressively in favor of enabling private and public use of blockchain technology, specifically including decentralized crypto currency and the possibilities they can enable. I support this bill as a tax paying crypto investor. Thank you for your consideration.

**SB-2697**

Submitted on: 2/6/2022 8:34:06 AM

Testimony for EET on 2/7/2022 3:10:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Sean Cover	Individual	Support	No

Comments:

Aloha,

I support passing SB2697 as a measure to allow crypto companies to continue to operate in the State of Hawaii. SB2697 is the bill that is most consistent with how other states operate and, importantly, leaves the door open for future legislation and regulation. By passing SB2697, the State can continue to explore future legislative options regarding crypto while allowing companies to continue operations in the meantime.

Thank you for the consideration,

Sean Cover

Statement of  
**Katie Jackson**  
**Hawaii State Blockchain Advocate**  
before the  
**Senate Committee on Energy, Economic Development, and Tourism**

Monday, February 7, 2022  
3:10 PM  
State Capitol, Conference Room 224 & Videoconference

In consideration of  
**SB2697**  
**RELATING TO VIRTUAL CURRENCY**

Chair Wakai, Vice Chair Misalucha, and Members of the Committee on Energy, Economic Development, and Tourism.

I **support** SB2697 that excludes the electronic transfer of virtual currency through virtual currency companies and cryptocurrency companies from the Money Transmitters Act.

**Excluding cryptocurrency from the Money Transmitter Act is actually in line with growing banking industry sentiment** that crypto and Blockchain technology is part of something much bigger than just currency transmission and requires collaboration from multiple stakeholders in order to regulate well.

**1.) In a letter to Senator Pat Toomey of the U.S. Senate Banking Committee, the Conference of State Banking Supervisors (CSBS) stated in a 27 September 2021 Letter<sup>1</sup> that**

“Cryptocurrency transmission is just one activity that can be performed using distributed ledger technologies (blockchain). As business models have matured, many licensed money transmitters that transmit cryptocurrency have focused their business plans on other business cases for crypto. **These aspects of their business models are outside the purview of money transmission.** The use cases are too numerous to list, but as they relate to financial services, the **activities include trading securities and commodities, future contracts, custody, lending, and deposit taking.....**An activities-based approach must be performed with **collaboration from all stakeholders or risk one regulatory view overextending into areas where it would hurt innovation and consumers.**

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<sup>1</sup> 27 September 2021, Conference of State Banking Supervisors Letter to Sen Toomey, <https://www.csbs.org/policy/statements-comments/csbs-letter-cryptocurrencies>

## 2.) The emerging decentralized digital ecosystem of Blockchain and Distributed Ledger Technology **DESERVES A FRESH AND CAREFUL APPROACH TO REGULATION.**

- **Applying old centralized Banking money transmitter laws to the emerging Blockchain digital economy is like applying horse and buggy regulations to the new automobile.** We need to take the same approach bipartisan lawmakers took in 1996 when the economy was shifting from landline telephones to the internet. The Telecommunications Act of 1996 wisely allowed the internet to grow, breathe and emerge without forcing old regulatory frameworks on it.

## 3.) Let Crypto Exchanges and Blockchain **COMPANIES REMAIN IN HAWAII** after the **June 2022 expiration** of the innovation sandbox by removing Crypto from the Money Transmitter Laws.

- **The White House and Federal agencies are even now determining new regulatory approaches to digital assets.** A Presidential Executive Order is expected in the next month tasking regulators to come up with a unified federal crypto strategy. <sup>2</sup>
- **Let the Feds lead, remove the onerous Hawaii money transmitter laws from the crypto space and Hawaii can then include the proper agencies next legislative session after forming a local Task Force to study this space.** This digital asset ecosystem encompasses more than just virtual currency (ie. Commodities, personal property, data ownership) so having the right regulators at the table is essential for good regulation.
- **SOLUTION: Let the Digital Assets space grow and breathe** and remove the cumbersome restriction of money transmitter laws. Once federal regulators figure out how to treat this new digital economy and ecosystem, Hawaii can enact laws that go the distance and don't have to keep regulating every legislative session as the eco-system changes.

Thank you for the opportunity to offer these comments.

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<sup>2</sup> Bloomberg News, 21 January 2022,

**LATE**

Statement of  
Alika K. Kane  
Advisor, Co-contributor/Coordinator  
Howtocrypthawaii.com  
before the  
**Senate Committee on Energy, Economic Development, and Tourism**

Monday, February 27, 2022  
3:10 PM  
State Capitol, Conference Room 224 & Videoconference

In consideration of  
**SB2697**  
**RELATING TO VIRTUAL CURRENCY**

Chair Wakai, Vice Chair Misalucha, and Members of the Committee on Energy, Economic Development, and Tourism.

Aloha Senators! I would like to testify in support of SB2697 that excludes the electronic transfer of virtual currency through virtual currency companies and cryptocurrency companies from the Money Transmitters Act.

My name is Alika K. Kane. I was born and raised on Oahu. I am a resident of Kaneohe, a military veteran, and a Native Hawaiian. I'm sure that all of you are very much aware of the matter surrounding virtual currency companies here in Hawaii and how the current money transmitter requirements have made it impractical for some if not most to operate here. I am very grateful to the state for recognizing that there was a need to further explore cryptocurrencies through the Digital Currency Innovation Lab (DCIL); however, that program now hangs in the balance with no further legislation to extend it.

I have been involved in the cryptospace since 2017, and while that may seem like a short period of time, it has been enough to recognize the overwhelming pace with which it has grown, the ever evolving technology it has created, and, more specifically, the massive opportunity it has created to those who have embraced it. Granted, venturing out into a new frontier does come with its own risks. It would be very remiss of me to say that those risks are non-existent or inconsequential with regards to this nascent space, but from my perspective the rewards we will reap far outweigh those liabilities. The greater tragedy that we do risk is to not advance this bill and allow a once in a generation opportunity to pass for a state that is desperately in need of it. Providing legislation that is more favorable towards virtual currencies would help to revitalize our economy through open participation in a space with a current market cap of \$2.6 trillion. Locals engaged in commerce and investment would be better positioned to grow and preserve their wealth in contrast to the increasing inflation nationally and the high cost of living that have now come to eat away at our island communities.

I would also argue that fostering this would aid in some of the more recent initiatives (SB 3337) that the state is attempting to undertake. These bills would work in concert with each other to “[establish] state goals for economic disaster mitigation, economic diversification, import substitution, and community development.” Having virtual currencies here in the state would allow for more economic diversification and less of a traditional reliance on tourism and the federal government. It would also uniquely position Hawaii to capitalize on its location globally. The largest communities of non-fungible token (NFT) holders (35% of a \$22 billion market) are located in the Philippines, Thailand, and Malaysia. Allowing our state to participate in these exchanges would facilitate engagement in global trade in completely borderless new markets.

This would also offer greater flexibility for families that live here but support others in these countries as fees placed on remittances would be greatly reduced through cryptocurrency transfers. More importantly, virtual currencies capitalize on something all too familiar to us here in Hawaii: community. It goes without saying that many of the more popular and mainstay coins, digital art, and/or exchanges have derived their value from the communities that support them. Locally, projects have sprung up utilizing this framework and have even developed NFTs that now can perpetually give back to their communities or causes no matter how many times that asset is exchanged; and we’ve only scratched the surface of what is possible for Hawaii with this technology. But we need to be able to open the door to those possibilities. This is the first step.

In closing, I implore this committee to pass this measure. By excluding companies from operating under the Money Transmitters Act and welcoming virtual currency into the state, we have a unique opportunity to rewrite our future, revitalize our economy, and to embolden locals here to not only prosper but to thrive for generations to come. Mahalo for the opportunity to offer these comments and for all that you do for our island home.

Respectfully,

Alika K. Kane

**LATE**

**SB-2697**

Submitted on: 2/6/2022 7:48:41 PM

Testimony for EET on 2/7/2022 3:10:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Glenn Pablo	Individual	Support	No

Comments:

Dear Chair and Committee Members,

I support this bill and the exclusion of electronic transfer of virtual currency through virtual currency companies and cryptocurrency companies from the Money Transmitters Act. Dealing with a novel financial instrument, I believe these companies should fall under a different type of licensing.

The Crypto Market is similar to any other equity market, that trades Stocks, Bonds, Commodities, FOREX, etc. Hawaii residents were restricted from participating/investing in the Crypto market from 2017 - 2020. During a period where the market cap was still considered low, compared to the 2021 all time highs. It really was a missed opportunity for Hawaii Residents who could have invested and made Capital Gains profits in 2021.

To quote IRS Notice 2014-21: *“For federal tax purposes, virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency.”* As a tradeable financial instrument it can be used in Self-directed IRA’s, Mutual funds, Trusts, a store of value in a company’s balance sheet and so much more.

With the exclusion of virtual currency/ cryptocurrency companies from the Money Transmitters Act, it will allow companies/exchanges some leeway to operate in Hawaii. Which in turn will allow Hawaii residents to invest with these various businesses.

Thank you for your time,

Glenn Pablo  
Oahu Resident

Feb 6 2022

**LATE**

Aloha Kākou,

I'm writing with the intent to support Senator Wakai and Senator Misalucha's bills regarding regulation of the rapidly burgeoning Cryptocurrency industry: SB2695 SB2696 SB2697 SB2698

Due to some issues with the [capitol.hawaii.gov](http://capitol.hawaii.gov) registration, I was unable to submit my testimony through your regular channels so I hope you'll consider this letter as part of your testimony.

Cryptocurrency technologies are bringing financial products and services and capabilities that will vastly improve the lives of Hawaii citizens. Just as the internet paved the way for an entirely new way of delivering information, replacing paper letters, and all kinds of media, the Cryptocurrency technologies can allow value to be transacted over the existing connected infrastructure of the internet.

It's important for Hawaii to become a place that welcomes innovation and evolution both as a way to bring value to Hawaii residents in the way of cheaper financial products and services, while also fostering a thriving local economy by creating a favorable regulatory environment for businesses providing these products and services.

I look forward to the exciting developments this new world of technologies is bringing to humanity. I do hope Hawaii does not get left behind.

IMUA!

Signed with aloha,

A handwritten signature in blue ink, appearing to be 'Liam Ball', written in a cursive style.

Liam Ball  
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Wailuku HI 96793