



Written Statement of
Len Higashi
Executive Director
Hawaii Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, March 29, 2023
3:00 p.m.
Conference Room 308 and Videoconference

In consideration of
SB945, SD2, HD1
RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE.

Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee.

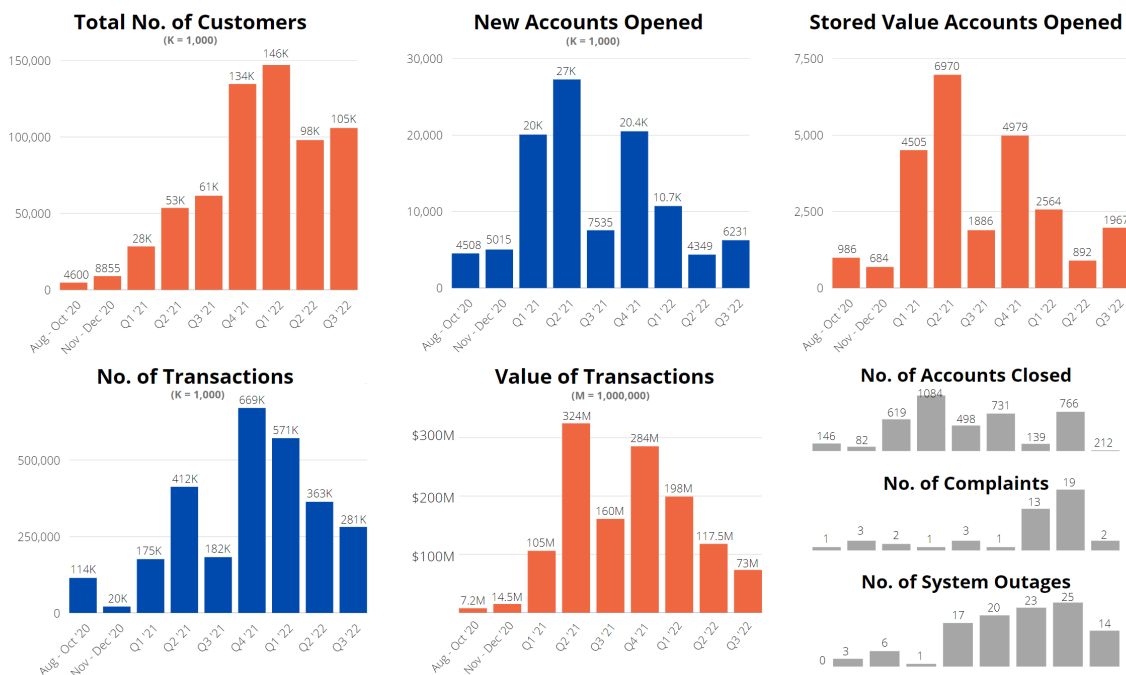
The Hawai'i Technology Development Corporation (HTDC) **supports** SB945, SD2, HD1 that establishes a program for the licensure, regulation, and oversight of digital currency companies.

HTDC supports initiatives aimed at accelerating the adoption of new technologies. HTDC has partnered with the Department of Commerce and Consumer Affairs (DCCA) Division of Financial Institutions on a pilot project for digital currency which initiated in 2020 and has been extended to June 30, 2024. 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 currently 11 digital currency companies in the program. Data shows over 105,000 Hawai'i based customers currently participating with hundreds of millions of dollars transacted each quarter. HTDC has hosted 13 educational webinars on various topics, two 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 45 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/>

DIGITAL CURRENCY INNOVATION LAB


In 2022, the crypto currency market experienced major volatility due to the collapse of FTX Trading, Ltd., the 2nd largest crypto exchange in the world. The collapse underscored the need for government regulation for consumer protection. While the federal government works on creating uniform laws for the country, the bill offers Hawai'i residents some consumer protection through disclosures and some business safeguards. HTDC's interest and advocacy in crypto revolve around new, novel uses that leverage crypto such as Non-Fungible Tokens (NFT). HTDC supports this bill and defers to the Division of Financial Institutions on the technical aspects of the bill.

HTDC supports this bill provided it does not supplant the priorities in the Administration's budget and respectfully requests correction of the defective date. Thank you for the opportunity to offer these comments.



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
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
Wednesday March 29, 2023
3:00 p.m.
Conference Room 308

On the following measure:
S.B. 945 S.D.2, H.D.1, SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE

Chair Yamashita and Members of the Committee:

My name is Iris Ikeda and I am the Commissioner for Financial Institutions, Department of Commerce and Consumer Affairs (“Department”). The Department supports this bill with amendments.

The purpose of this bill is to establish a program for the licensure, regulation, and oversight of digital currency companies.

Digital currency has grown in popularity and acceptance in this state, nationwide, and globally. There is, however, little regulation of the industry. The regulation that is available to states is through their money transmission laws, which do not adequately supervise companies and do not provide consumer protection.

Through the research conducted by the DFI and the Hawaii Technology Development Corporation (HTDC) in the Digital Currency Innovation Lab (DCIL), DFI learned that the current regulatory scheme of the money transmitter laws do not comport with the activities conducted by digital currency companies. The research

provided the catalyst for DFI to establish a new licensing scheme for the digital currency industry. This bill provides a new regulatory framework for digital currency companies.

If enacted, it will be the first license of its kind. Other states are taking different licensing approaches with this industry. Hawaii is the only state to specifically research activities on digital currency companies and can craft a law for the industry. DFI realizes that this industry is still evolving and the provisions of the bill are somewhat generalized in an attempt to be nimble with its supervision as the companies innovate.

The recent failures of digital currency companies like BlockFi, Three Arrows Capital, Voyager Digital, Celsius Network, and FTX to name a few, have illustrated the volatility of the units, how quickly a company can fail, and how consumers were left with nothing at the failure. Some of the companies in the DCIL were affected by the failures of those companies, but because of the structure of our oversight in the DCIL, few customers were hurt.

The three strongest aspects of the licensure law:

- (1) Provides licensing requirements consistent with our other industries,
- (2) Provides minimum regulatory policies like Anti-Money Laundering policy to identify illicit behavior, cybersecurity as activity is only over the internet, and privacy policies to protect consumers; and
- (3) Requires companies to maintain a strong financial standing, including holding permissible investments (liquid investments to cover units held).

The digital currency companies continue to innovate and DFI continues to meet with various stakeholders (Digital Currency Innovation Lab participants, industry association, consumers, state and federal regulators, and companies who transact in digital currency).

The Department believes this bill contains the necessary provisions to license, supervise, regulate, and examine this industry. The licensure provisions are similar to the requirements to participate in the DCIL. The quarterly reporting is similar to the reports submitted by the participants in the DCIL. The fees assessed comport to the complex nature and multi-faceted company structure and operations.

The Department proposes these amendments to bring all the appropriate licensing components from all the drafts being discussed. The Department requests that this bill continue to move through the process we remain committed to providing a licensure scheme that will provide appropriate consumer protection while allowing companies to flourish.

Thank you for the opportunity to testify on this bill and propose amendments.

SB945 HD1 – Proposed Amendments

Page/line	Amendment suggested	Explanation
Pg. 9, line 8:	add before the reference to the SEC “the Electronic Fund Transfer Act (15 U.S.C. sections 1693 through 1693r),”	The EFT Act does not apply to digital currency transactions.
Pg. 20, line 4:	delete “special purpose”	Prefer to keep the term generic, as other states may call the digital currency license something other than “special purpose digital currency license”
Pg. 25, lines 3-4	delete “Specially Designated Nationals and Blocked Persons List”	Prefer to keep the name of the list generic as the Office of Foreign Assets Control may rename this list
Pg. 29, line 5	replace “not over \$10,000” with “under \$10,000.01”	Clarity of dollar threshold
Pg. 29, line 9	replace “over \$10,000 but not over \$15,000” with “between \$10,000.01 and \$15,000.00, inclusive”	Clarify of the dollar thresholds
Pg. 29, line 13	replace “over \$15,000 but not over \$25,000” with “between \$15,000.01 and \$25,000.00, inclusive”	Clarify of dollar thresholds
Pg. 29, line 17:	replace “over \$25,000 but not over \$35,000” with “between \$25,000.01 and \$35,000.00, inclusive”	Clarify dollar thresholds
Pg. 30, line 1	replace “over \$35,000” with “over \$35,000.01”	Clarify dollar threshold
Pg. 39, line 1-2	delete “unless clearly presented and stated to the client that doing so is the intent of the product”	Not sure what this means in the context of directing change in custody of digital currency.
Pg. 45, line 18	change “five” to “two”	DFI agrees to change the retention period to two years as suggested by the industry
Pg. 51, line 1	replace “certified mail to the last known address: with “certified mail or email to the last know address or electronic mail address”	Additional delivery methods to provide service of process to licensee



March 29, 2023

3 p.m.

Conference Room 308 and Videoconference

To: House Committee on Finance

Rep. Kyle T. Yamashita, Chair

Rep. Lisa Kitagawa, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: SB945 SD2 HD1 — RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB945 SD2 HD1](#), an 80-page tome that would establish a program for the licensure, regulation and oversight of digital currency companies.

In general, this bill is a response to the proliferation of cryptocurrencies worldwide, and seeks to impose a wide array of regulations on cryptocurrency businesses operating in Hawaii.

One of the main problems with the bill is the vast and nearly unlimited powers over the cryptocurrency market it gives to the commissioner of the Division of Financial Institutions.

Nearly every regulation in the bill has a caveat that would allow the commissioner to rewrite the law according to his or her will, which could centralize too much power in the hands of the commissioner and burden cryptocurrency companies with a high level of regulatory uncertainty.

Crypto companies would not be the only ones facing regulatory uncertainty, should this bill become law. Federal law and regulations governing cryptocurrencies are unclear and constantly

in flux. For example, the Board of Governors of the Federal Reserve issued new rules on Feb. 6 that directed how cryptocurrencies could be used in the U.S. banking system.¹

Ironically, this bill could itself create significant uncertainty for the commissioner too, as he or she attempts to implement it without contradicting federal rules. Meanwhile, the combination of state and federal uncertainty would serve to chill the cryptocurrency market in Hawaii, harming both operators and consumers.

The division's regulatory sandbox, on the other hand, provides crypto businesses with some degree of certainty. Extending the sandbox while waiting on clearer federal guidance might be the best bet.

However, should this bill move forward, Part I, Section 2, Subsection 9 should be retained. It provides that the proposed regulation would not apply to:

(9) Non-custodial digital currency business activity by a person using a digital currency:

(A) Acknowledged as legal tender by the United States or a government recognized by the United States; or

(B) That has been determined to not be a security by a United States regulatory agency;

This language would give cryptocurrencies an avenue to become recognized at the federal level and give the DFI commissioner a standard for determining which cryptocurrencies should be exempt from this licensure regime.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

¹ Alexandra Kelley, "[Federal Reserve Issues New Restrictions on Crypto Banking](#)," Nextgov, Feb. 7, 2023.

SB-945-HD-1

Submitted on: 3/28/2023 4:07:18 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Louis Galdeira	The Cryptokenikeneni Project	Comments	Written Testimony Only

Comments:

Aloha,

Mahalo for you hard work.

I am in SUPPORT of a bill, but in OPPOSITION in what this bill has become.

So I am here to leave COMMENTS for your consideration in ammendments.

- I get that 20 other states created a similar bill, but Hawaii's version is way different and has amended into a centralized government controlled and license owned crypto State run by a commissioner and three examiners.

- The medical marijuana followed the same path and what happened? Politicians now own them and it requires \$1m in assets to even have a conversation about ownership. People were left in the dust. Banks cashed in and the state got their taxes and the people (current owners) who worked the bill through the system got paid.

The original bill was gutted for the banks and opositon to new technology.

👉 My opinion.

SB-945-HD-1

Submitted on: 3/27/2023 11:16:53 AM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ryan Kawailani Ozawa	Individual	Support	Written Testimony Only

Comments:

It is a tribute to the creativity and perseverance of Hawaii's innovation ecosystem that there are still businesses and startups working in the blockchain space, despite Hawaii's nationally-noted regulatory deficiencies in the regulation of cryptocurrency and other digital assets.

Because this bill continues the important and tireless work of Commissioner Iris Ikeda of the DFI to carefully and safely introduce cryptocurrency exchange activities in Hawaii—legislation that inexplicably died in conference committee last session—I support SB945. While not perfect, it's a start, which is the very least Hawaii can do for a financial and technological sector that continues to move forward without us.

Cryptocurrency will not go away, and while it is not a guaranteed investment vehicle (few things are), Hawaii residents should have the freedom to explore this emerging tech. With the requirements established by this bill, the people of Hawaii can have greater confidence in the soundness of licensed entities and adopt the level of risk they're willing to accept.

SB-945-HD-1

Submitted on: 3/27/2023 12:38:54 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Corinne Solomon	Individual	Oppose	Written Testimony Only

Comments:

Aloha Committee Chair Yamashita, Vice Chair Kitagawa, and Committee Members,

I oppose SB945. We should be turning away from digital currency, not embracing it.

You may be familiar with this example of how digital currency benefits banks and not the every day citizen, but as this is an articulate example, I will post it here so that others may benefit:

"WHY BOTHER USING CASH...?"

Let's imagine you have a \$50 banknote in your pocket. You go to a restaurant and pay for dinner with it.

The restaurant owner then uses the same bill to pay for laundry.

The laundry owner then uses the same bill to pay the barber.

The barber will then use that same bill at the grocery store.

After an UNLIMITED number of payments, the banknote remains a \$50 bill.

However if you pay for your meal digitally at the restaurant, the bank fees for your payment might be 3%, around \$1.50. The laundry owner, barber and grocery store will also pay the same \$1.50 fee.....

Therefore, after 30 transactions, the initial \$50 will be only \$5!

The remaining \$45 is profit for the banks!

Let's keep cash amongst our communities instead of into the grubby pockets of banks".

Please take into consideration how digital currency favors banks and not our Hawai'i citizens, many of whom are financially struggling to stay afloat.

Mahalo,

Corinne Solomon

SB-945-HD-1

Submitted on: 3/27/2023 7:41:38 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Gerard Silva	Individual	Oppose	Written Testimony Only

Comments:

No Digital Currency Licensure in Hawaii we do not want this Craap!!!!

SB-945-HD-1

Submitted on: 3/27/2023 11:05:28 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Jennifer Cabjuan	Individual	Oppose	Written Testimony Only

Comments:

Oppose this bill. Please vote NO

SB-945-HD-1

Submitted on: 3/28/2023 11:00:03 AM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
julie schaus	Individual	Oppose	Written Testimony Only

Comments:

I oppose SB945

leave our cash Alone. We do not want government controlling our money.
No digital!

SB-945-HD-1

Submitted on: 3/28/2023 11:06:08 AM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Greg schaus	Individual	Oppose	Written Testimony Only

Comments:

I oppose SB945

this is a step too far. Government should not be controlling our cash money and that's exactly what will happen with this corrupt government.

we do NOT want digital money!

SB-945-HD-1

Submitted on: 3/28/2023 11:15:42 AM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Sam schaus	Individual	Oppose	Written Testimony Only

Comments:

I oppose SB 945

when you digitize cash you open the door to corruption. This "technology" will be used against us. The corrupt governments will track and trace our purchases and use their control to oppress those who don't follow their orders. This is the evil way of China!

ABSOLUTELY NO DIGITAL!

SB-945-HD-1

Submitted on: 3/28/2023 2:01:28 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Scott Shedko	Individual	Comments	Written Testimony Only

Comments:

I oppose this bill.

This bill would allow for too much centralized control over businesses and individuals, as well as permission to gather any private information that may arbitrarily be "deemed relevant" by the commissioner for investigations.

SB-945-HD-1

Submitted on: 3/28/2023 3:00:35 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Owana Kaohelelani Salazar	Individual	Support	Written Testimony Only

Comments:

Aloha Honorable Legislators of the Finance Committee,

I am writing in full support of SB945. Hawaii needs to move ahead with the works involved and having to do with digital currency. I appreciate that the DCCA recognizes the need for oversight and regulation, therefore I also support the creation of three dedicated full time positions for same. My understanding is that the DCCA will be the Commissioner, however, that specific is not clear in the Bill, however my support is still hereby given. I would also ask the Finance Committee to impress upon the DCCA to expedite the creation of those three full time positions in order to enable citizens of Hawaii to participate in specified licensed digital platforms and exchanges.

Most of all, I am grateful to know that as a citizen I will have a place to bring my concerns and complaints, should there be any.

With much aloha,

Owana Ka'ōhelelani Salazar

(808) 383-7727

SB-945-HD-1

Submitted on: 3/28/2023 10:56:26 PM

Testimony for FIN on 3/29/2023 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
L. J.	Individual	Oppose	Written Testimony Only

Comments:

The impacts of this measure merit further consideration. Please defer this measure. Thank you.