



Written Statement of  
**Len Higashi**  
Executive Director  
Hawaii Technology Development Corporation  
before the  
**SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION**

Thursday, February 9, 2023  
9:31 a.m.  
Conference Room 229 and Videoconference

In consideration of  
**SB945**  
**RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE.**

Chair Keohokalole, Vice Chair Fukunaga and Members of the Committee.

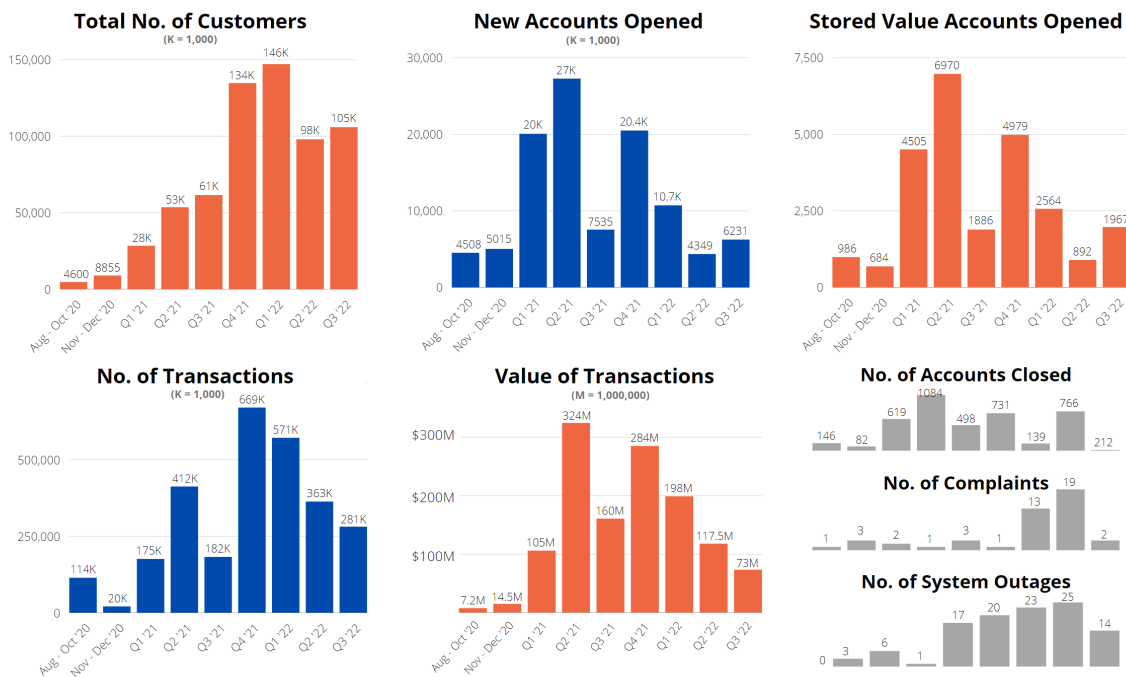
The Hawai'i Technology Development Corporation (HTDC) **supports** SB945 that establishes a program for the licensure, regulation, and oversight of digital currency companies.

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 2<sup>nd</sup> 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.

Thank you for the opportunity to offer these comments.



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DIRECTOR | KA LUNA HO'OKELE

DEAN I HAZAMA  
DEPUTY DIRECTOR | KA HOPE LUNA HO'OKELE

**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
Senate Committee on Commerce and Consumer Protection  
Thursday, February 9, 2023  
1:00 p.m.  
Conference Room 229**

**On the following measure:  
S.B. 945, SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE**

Chair Keohokalole and Members of the Committee:

My name is Iris Ikeda and I am the Commissioner of 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 approaches with this industry, chartering as a bank with 100% back of fiat currency, chartering as a trust company, or licensing as a money transmitter. Hawaii is the only state to specifically research activities on digital currency companies to enable it to craft a law for the industry. DFI realizes that this industry is still evolving and the provisions of the bill are somewhat generalized to 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 their failure. Some of the companies in the DCIL were affected by the failed 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).

DFI requests amendments to the bill to provide a more nimble supervision of the companies as the industry evolves. In addition, DFI requests three permanent examiner positions to establish and implement the special purpose digital currency license. Attached is Appendix A, with the Department's proposed amendments.

Testimony of DCCA

S.B. 945

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The Department requests that this bill continue to move through the process as the Department is 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.

Appendix A

Add definition of "**Control**" means ownership of, or the power to vote, twenty—five per cent or more of the outstanding voting securities of a licensee or controlling person. For purposes of determining the percentage of a licensee controlled by any person, there shall be aggregated with the controlling person's interest the interest of any other person controlled by the person, or by any spouse, parent, or child of the person.

Add definition of "**Custodial services**" means the safekeeping, servicing, and management of customer digital currency and digital assets.

Page 42, line 10 – delete the words "hard copy"

Explanation – all advertising is conducted through the internet. DFI's examinations are also conducted through the internet.

Page 42, line 12 – change "script" to "transcript"

Explanation – typo

Page 79, line 8 – delete "implement the licensing program established by this Act."

Add "establish and hire three full—time equivalent (3.0 FTE) permanent examiners, without regard to chapter 76, Hawaii Revised Statutes, to carry out the purposes of the special purpose digital currency license program established by section 2 of this Act; provided that the positions may be added to the position count for the division of financial institutions of the department of commerce and consumer affairs.

The sums appropriated shall be expended by the department of commerce and consumer affairs for the purposes of this part.

Explanation – to allow DFI to hire three FTEs to implement the licensing program.



Feb. 9, 2023

9:30 a.m.

Conference Room 219 and Videoconference

**To: Senate Committee on Commerce and Consumer Protection**

**Sen. Jarrett Keohokalole, Chair**

**Sen. Carol Fukunaga, Vice Chair**

**From: Grassroot Institute of Hawaii**

**Ted Kefalas, Director of Strategic Campaigns**

RE: SB945 — 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](#), 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 SB945 is the vast and nearly unlimited powers over the cryptocurrency market it would give to the commissioner of the state 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.<sup>1</sup>

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, it should adopt wording from [HB1261](#).

Part II, Section 2, Subsection 9 of that bill 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 recognized at the federal level an avenue to more easily operate in Hawaii, and give the DFI commissioner a reasonable 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

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



**SB-945**

Submitted on: 2/7/2023 1:52:19 PM

Testimony for CPN on 2/9/2023 9:31:00 AM

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

Comments:

As 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**. 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.

**LATE**

Statement of  
Alika K. Kane  
Advisor, Co-contributor/Coordinator  
Howtocryptohawaii.com  
before the  
**Senate Committee on Commerce and Consumer Protection**

Day, February 9, 2023  
9:31 AM  
State Capitol, Conference Room 229 & Videoconference

In consideration of  
**SB945**  
**RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE**

Chair Keohokalole, Vice Chair Fukunaga and Members of the Committee.

Aloha Senators! I would like to testify in support of SB945.

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 presented 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 inconsequential, but from my perspective the rewards 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. Adopting virtual currencies would help to revitalize our economy through participation in a space with a current market cap of \$1 trillion while giving locals the ability to grow and preserve their wealth in contrast to the recent rise in inflation coupled with the increasing cost of living and housing that have now come to eat away at our island communities.

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 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.

More importantly, cryptocurrencies 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 are based on their communities and it is through them that they derive their value. Local projects have sprung up utilizing this framework and have even developed NFTs that perpetually give back to their communities or causes; and we've only scratched the surface of what is possible 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 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. Mahalo for the opportunity to offer these comments and for all that you do for our island home.

Respectfully,

Alika K. Kane  
Howtocryptohawaii.com