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**The State Legislature
House Committee on Consumer Protection and Commerce
Tuesday, February 4, 2025
Conference Room 329, 2:00 p.m.**

TO: The Honorable Scot Matayoshi, Chair
FROM: Keali'i S. López, State Director
RE: Support for H.B. 1277 Relating to Digital Financial Asset

Aloha Chair Matayoshi and Members of the Committee:

My name is Keali'i Lopez and I am the State Director for AARP Hawai'i. AARP is a nonpartisan, social impact organization that advocates for individuals aged 50 and older. We have a membership of nearly 38 million nationwide and nearly 135,000 in Hawaii. We advocate at the state and federal level for the issues that matter most to older adults and their families.

AARP is in support of H.B. 1277 which Imposes a daily maximum of \$2,000 on transactions through a digital financial asset transaction kiosk. This bill is an important step in protecting consumers, particularly older adults, from the risks associated with large cryptocurrency transactions.

Fraudulent activity involving cryptocurrency kiosks is on the rise. Cryptocurrency ATMs, also known as "crypto kiosks" or "virtual currency kiosks," can be found in supermarkets, convenience stores, gas stations, bars, and restaurants. Crypto ATMs look like bank ATMs and allow people to conduct legitimate cryptocurrency transactions, such as sending money to digital wallets. However, because crypto ATMs are largely unregulated at the state level compared to traditional financial institutions and money service businesses, they lack sufficient consumer fraud protections. As a result, criminals are using crypto ATMs to steal hundreds of millions of dollars from Americans each year through fraudulent purchase schemes.

Cryptocurrency transactions are often irreversible, making them a prime target for fraud and scams. By capping transactions at \$2,000, we can reduce the financial impact on individuals who may fall victim to such schemes. Older adults are particularly vulnerable to financial exploitation. Limiting transaction amounts can help safeguard their financial security.



Implementing a transaction cap provides a clear regulatory framework that can help authorities monitor and address suspicious activities more effectively. We encourage consumers to approach cryptocurrency investments with caution and due diligence. This bill supports the broader goal of fostering a safe and secure financial environment for all residents of Hawaii.

Thank you for the opportunity to testify in support of this legislation.



LATE

**TESTIMONY SUBMITTED TO THE HAWAII
HOUSE CONSUMER PROTECTION & COMMERCE COMMITTEE
Kevin Lolli, Assistant General Counsel and Consumer Protection Officer
February 4, 2025**

Chair Matayoshi, Vice-Chair Chun, and honorable members of the House Consumer Protection & Commerce Committee, thank you for the opportunity to provide testimony today regarding HB 1277.

CoinFlip opposes certain language in HB 1277 relating to the proposed regulation of virtual currency kiosks. However, CoinFlip does support certain proposed regulatory measures that would further consumer protection including but not limited to licensure, mandatory disclosures, compliance program requirements, and technology requirements. We appreciate the opportunity to offer additional consumer protection-focused recommendations that we know to be highly effective in preventing fraudulent transactions at virtual currency kiosks and look forward to continuing to work with the State of Hawaii to protect consumers.

Company Background

CoinFlip is a Chicago-based, global digital currency platform, focused on providing consumers a simple and secure way to buy and sell virtual currency. Founded in 2015, CoinFlip is one of the world's largest operators of virtual currency kiosks, with more than 5,000 locations across the United States and in nine countries around the world, employing more than 200 people.

CoinFlip's kiosks make buying and selling major cryptocurrencies accessible and secure for consumers who wish to purchase their virtual currency using cash. CoinFlip has operated in the State of Hawaii since 2020. Additionally, CoinFlip is a money service business ("MSB") registered with the Financial Crimes Enforcement Network. As an MSB, CoinFlip is subject to the Bank Secrecy Act ("BSA"), the United States PATRIOT Act, and their implementing rules and regulations.

CoinFlip embraces licensing regimes as an effective means to create baseline requirements for operations, as well as effective oversight. CoinFlip holds approximately 26 money transmitter licenses with numerous additional applications currently pending. CoinFlip has moved to obtain these licenses even in states where there is no current licensing requirement, including Hawaii.

Advancing Consumer Protection

As a company, one of CoinFlip's key business priorities is consumer protection. We won't succeed unless our customers believe we provide them with a safe and secure platform from which to transact virtual currency. CoinFlip's compliance and consumer protection efforts are currently

overseen by its Chief Legal Officer, General Counsel, BSA Officer, and Consumer Protection Officer. To effectively manage the risks associated with its operations, CoinFlip implements both traditional consumer protection efforts such as clear disclosures and warnings, as well as state-of-the-art technology to detect and fight fraudulent transactions.

When transacting with a CoinFlip kiosk, customers are warned numerous times regarding scam-related activity prior to initiating every transaction. The customer must attest that they were not sent to the kiosk by a third-party to make a payment; that they are transacting with a digital wallet they own and control; and that they understand all transactions are final and irreversible. This screen is customizable and is updated regularly with warnings about common scams to alert customers and help fight fraud. We also provide clear disclosures on fees and provide customers with a receipt of their transaction via email or text.

Additionally, CoinFlip has 24/7 live customer service and lists its number both on the physical kiosk as well as its transaction screens. Customers are instructed to call CoinFlip in the event a third-party sent them to transact at the kiosk. CoinFlip customer service representatives receive training at least twice annually on AML/BSA requirements and how to be the first line of defense in compliance efforts. As a result of these efforts, CoinFlip's customer support team halted more than 300 potential scams in a four-month period by speaking with the customer who phoned our support team after reading the customer warnings at our kiosk.

CoinFlip also implements state-of-the-art blockchain analytics and compliance tools to block fraudulent transactions and investigate suspicious activity. CoinFlip has automatically blocked more than 1,000 transactions using blockchain analytics in a year's period. In addition to blocking transactions, CoinFlip permanently blacklists digital wallet addresses to prevent those high-risk digital wallets from ever being used at a CoinFlip kiosk again.

HB 1277

Unfortunately, HB 1277 relies on a policy recommendation that creates a false sense of consumer protection. The proposed transaction limit in the bill does not adequately consider federal reporting requirements. Under federal law, CoinFlip is required to file a Suspicious Activity Report ("SAR") for any suspected suspicious transactions above \$2,000, comply with the "Travel Rule" for transactions above \$3,000, and is required to file a Currency Transaction Report ("CTR") for transactions above \$10,000. This information is placed in a repository for law enforcement to quickly and accurately conduct investigations.

Hawaii's proposed \$2,000 transaction limit encourages stacking transactions across multiple kiosk operators, and limits companies' Anti-Money Laundering efforts. Further, the limit will result in less information available to law enforcement.

We know that new users are the most vulnerable to fraud, while those who have used our machines for years know what to watch out for. Should there be transaction limits, we would suggest that they apply to new users within the first 72 hours of becoming a customer.

Proposed Consumer Protection Policies

CoinFlip believes smart regulation is good for business. We believe that a regulatory framework is necessary to protect consumers and encourage innovation in the industry; however, the transaction limit currently proposed in HB 1277 does not take into consideration federal reporting requirements. Instead, we developed the following best practices that would further enhance consumer protections and support their inclusion in any legislation:

- **Require licensure with the state.** CoinFlip believes a money transmitter license should be required for all virtual currency kiosk operators, allowing for state oversight and periodic audits to determine the adequacy of compliance, finance, and cybersecurity programs.
- **Require robust compliance programs.** Kiosk operators should be required to directly employ a qualified, in-house, Chief Compliance Officer and compliance team, that does not have a large ownership interest in the company. At CoinFlip, we take compliance seriously: our Chief Compliance Officer is a former federal prosecutor, and our general counsel is a former Illinois Assistant Attorney General.
- **Require clear, highly visible warnings and fee disclosures.** Operators should display clear disclosures regarding all fees and terms of service. We also believe highly visible fraud warnings should be required to be displayed and acknowledged by the customer prior to the initiation and completion of any transaction.
- **Require blockchain analytics.** The use of blockchain analytics technology should be required to fight fraud by automatically blocking customer transactions to high-risk digital wallets.
- **Require live customer service.** Customer service is the first line of defense for consumer protection. We believe every virtual currency kiosk operator should be required to provide trained, live customer service at minimum during business hours.

CoinFlip shares your goals of consumer protection. Although blockchain technology and virtual currency kiosks are new, the fraud we see reported is all too familiar. Whether it's phone, email, text or an online pop-up, scammers repackage the same old tactics and utilize whatever methods they have at hand – Venmo, PayPal, Zelle, Gift Cards, MoneyGram or virtual currency kiosks – to dupe people out of their money.

The best defense for consumers is to be well-informed and well-alerted at the point of transaction. The best defense for companies is to have the right tools in place to help identify and fight fraud and help law enforcement catch the bad actors.

Conclusion

In conclusion, we believe that a regulatory framework is necessary to protect consumers and encourage innovation and we look forward to working with the Hawaii House to improve HB 1277 to achieve the right balance to protect Hawaii consumers and ensure continued access for lawful virtual currency transactions.

Thank you for your time and consideration.

Sincerely,

/s/ Kevin P. Lolli

Kevin Lolli

Assistant General Counsel



BITCOIN DEPOT

Chair Scot Matayoshi
House Committee on Consumer Protection and Commerce
Hawai'i State House of Representatives

LATE

February 4, 2025

Members of Committee on Consumer Protection and Commerce, I am Ethan McClelland, the Director of Government Relations at Bitcoin Depot, the largest operator of cryptocurrency kiosks in the United States. Thank you for your time and affording me the opportunity to speak about our perspective on HB 1277.

Bitcoin Depot recognizes the intent of HB 1277 and supports effective measures to protect customers of Digital Asset Kiosks from scams and illicit activity. Unfortunately, the effects of the other provisions in HB 1277 would mean that Bitcoin Depot (and other licensed operators with robust licensing and compliance programs) would be unable to operate in Hawai'i because of the daily transaction limits. In essence, HB 1277 in its current form presents itself as a ban on the Bitcoin ATM industry in Hawai'i.

Imposing transaction limits have unintended consequences including leading criminals to circumvent federal reporting requirements. Placing a transaction limit at an arbitrary level like \$2,000 will cause criminals to structure transactions to avoid further scrutiny of their identity and prevent operators and law enforcement from obtaining valuable information needed to combat illicit activity. Transaction limits encourage bad actors to spread transactions across multiple kiosk operators making it nearly impossible for operators and law enforcement to identify scammers and illicit activity.

As an alternative to transaction limits that curtail consumer choice and stifle innovation, we encourage the Committee to amend HB 1277 and replace it with language that forces kiosk operators to build a mature compliance program to include the use of blockchain analytics, clear fraud and scam warnings on kiosks, to maintain live customer service access to users, and strengthen the licensing regime in Hawai'i to include kiosk operators.

We respectfully request to partner with the committee to amend HB 1277 into legislation that not only fosters innovation, but also protects consumers and allows Bitcoin ATM businesses and the industry to thrive. Unfortunately, in its current form, we feel that HB 1277 falls short of that goal. In order to allow that conversation to continue, we would ask that the committee vote to not send it to the full chamber at this time.

February 4, 2025

House Committee on Consumer Protection & Commerce
State Capitol
415 South Beretania Street
Honolulu, HI 96813

TESTIMONY IN SUPPORT OF HB1277

Chair Scot Z. Matayoshi, Vice Chair Cory M. Chun, and Committee Members:

I write to express my strong support of HB1277 and ask the Committee to pass it.

HB1277 concerns cryptocurrency kiosks, also known as cryptocurrency ATMs, which the Bill calls “digital financial asset transaction kiosks.”¹ These kiosks enable people to purchase cryptocurrency, like Bitcoin and others, using cash. Cash is fed into the machine to complete the purchase of cryptocurrency. The user of the kiosk can then send the cryptocurrency to themselves or others.

This Bill would create a daily transaction limit for users of cryptocurrency kiosks in Hawai‘i. Why is this important? Because cryptocurrency kiosks are frequently used by scammers to take money from victims.

The story of the scam can take many forms—you owe the IRS; you need to pay off a bench warrant; your bank account is compromised, and you have to protect your money by changing it to crypto; etc.—but the end goal for the scammer is the same: get the victim to a kiosk with cash, and tell them how to send it. This video shows what that looks like as it’s happening: <https://youtu.be/lfHuSkQnBLk>

Scams involving cryptocurrency have been increasing year after year. The 2023 Cryptocurrency Fraud Report from the FBI’s Internet Crime Complaint Center (“IC3”), the most recent available,² shows large, steady increases in both the number of complaints involving cryptocurrency and in the dollar losses in complaints involving cryptocurrency beginning in 2020.³

In 2023, the report notes that Hawai‘i had 276 such complaints and a total reported loss of \$31,800,598.⁴ That equates to about a \$115,219-loss *per complaint*, money that is very, very rarely recovered for the victim.

Besides a general under-resourcing of law enforcement to combat cyber and financial crimes, cryptocurrency-involved crimes pose additional challenges to investigate.

¹ The Bill is modeled on California law. Cal. Fin. Code § 3902 (daily transaction limit); §§ 3102, 3901 (definitions).

² IC3 reports are available here: <https://www.ic3.gov/AnnualReport/Reports>

³ FBI, Cryptocurrency Fraud Report 2023, at 5.

⁴ FBI, Cryptocurrency Fraud Report 2023, at 8-9.

Transactions involving cryptocurrency can move quickly and are very difficult to trace, leaving the final destination of funds unknown. Even if the destination can be determined, scammers are frequently overseas, in countries where US-based law enforcement has little influence.⁵

If a victim's money, once put into a cryptocurrency kiosk and used to buy Bitcoin or any other cryptocurrency, swiftly disappears down a path of untraceable transactions or goes to a country or region where law enforcement cannot follow, how can we help protect Hawai'i citizens? *We can pass this Bill.*

If, instead of putting \$20,000, \$30,000, \$50,000 into a cryptocurrency kiosk during one visit, victims could only put in \$2,000 total per day, that hard limit would severely restrict how lucrative Hawai'i victims would be for scammers.

Kiosks are not the only way for scammers to get victims to buy and then send them cryptocurrency. Cryptocurrency can be bought online, but that comes with more required customer information and a source of money like a victim's bank account or credit card, which may have protections. Victims can be made to place an order for cryptocurrency and then wire money to complete the purchase, but that comes with a bank teller who may talk the victim out of it or raise the alarm.

In 2023, citizens of Hawai'i lost over \$31 million in cryptocurrency-involved incidents, and that is only the amount reported to IC3. The shame and embarrassment that victims frequently feel because they're afraid that others will react with "How did you fall for that?" silences people. The true losses are undoubtedly much higher.

I therefore urge the Committee to pass HB1277 and to ask their colleagues to do the same.

Thank you for the opportunity to be heard on this important Bill.

Thomas J. Michener, Esq.

⁵ For example, a large scam compound called KK Park is located in Myanmar. See Lewis Sanders IV et al. How Chinese Mafia Are Running a Scam Factory in Myanmar, DW (Jan. 30, 2024), <https://www.dw.com/en/how-chinese-mafia-are-running-a-scam-factory-in-myanmar/a-68113480>; Koh Ewe, How a Viral Post Saved a Chinese Actor From Myanmar's Scam Centres, BBC (Jan. 9, 2024), <https://www.bbc.com/news/articles/cd606l1407no>.