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Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Commerce and Consumer Protection and
Energy, Economic Development, and Tourism
Tuesday, March 22, 2022
10:15 a.m.**

**On the following measure:
S.C.R. 30, REQUESTING THE DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS'S DIVISION OF FINANCIAL INSTITUTIONS AND THE HAWAII
TECHNOLOGY DEVELOPMENT CORPORATION TO EXTEND THE DIGITAL
CURRENCY INNOVATION LAB PILOT PROJECT.**

Chairs Baker and 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 of this resolution and offers comments. The purpose of this resolution is to request the Department and the Hawaii Technology Development Corporation (HTDC) to extend the Digital Currency Innovation Pilot Project.

The pilot program was initiated by the Department and HTDC to study the type of transactions, study the business models of the companies, and determine whether consumer protection was needed. The pilot program had a two year implementation date which would provide sufficient time for the Department and HTDC to determine what steps were needed to move forward. All participating companies and consumers were informed that the pilot program will end June 30, 2022 for transactions and all

customers must close or divest their holdings by December 31, 2022. The data gathered through the DCIL program confirmed that digital currency transactions are not optimally regulated through existing money transmitter laws and that a new regulatory framework is appropriate. Because of the temporary nature of the pilot program, the Department believes not all digital currency companies opted to participate in the pilot program.

The Department prefers the regulatory program found in either H.B. 2108, H.D. 1 or S.B. 3025, S.D.2. This is because under the pilot program, Department has little regulation or supervision over the participating companies as the Department did not require a license to participate in the program. Instead, all participating companies agreed to follow existing laws and provide reports and feedback throughout the pilot program period. Should the pilot program continue, the Department recommends that it have regulatory powers to enforce state and federal laws on the participating companies. Without these enforcement powers, the Department and the State has little authority to maintain the level of consumer protection. The Department would also need additional resources to maintain such a full regulatory program.

Thank you for the opportunity to testify on this resolution.



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

Tuesday, March 22, 2022
10:15 a.m.
Conference Room 229 & Videoconference

In consideration of
SCR30 / SR25
REQUESTING THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS' DIVISION OF FINANCIAL INSTITUTIONS AND THE HAWAII TECHNOLOGY DEVELOPMENT CORPORATION TO EXTEND THE DIGITAL CURRENCY INNOVATION LAB PILOT PROJECT.

Chairs Baker and Wakai, Vice Chairs Chang and Misulacha and Members of the Committees.

The Hawai'i Technology Development Corporation (HTDC) **supports the intent** of SCR30 / SR25 which requests DCCA Division of Financial Institutions and HTDC to extend the Digital Currency Innovation Lab (DCIL) pilot program which ends June 30, 2022.

HTDC believes the DCIL pilot program has been successful in providing the state more insight into the increasing relevance of digital currency. HTDC has received positive feedback from the community on the program and the information posted on our website.

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

HTDC **prefers** that enabling legislation be passed through HB2108, HD1 or SB3025, SD2. It would provide a more stable path forward for digital currency in Hawai'i. One reason that companies may choose NOT to participate in the DCIL is because of its temporary status as a pilot program. HTDC is supportive of continuing our role in the pilot, but defers to Division of Financial Institution on the feasibility of continuing beyond June 30, 2022.

Thank you for the opportunity to offer these comments.



March 22, 2022

10:15 a.m.

Conference Room 229 and Videoconference

To: Senate Committee on Commerce and Consumer Protection

Sen. Rosalyn H. Baker, Chair

Sen. Stanley Chang, Vice Chair

Senate Committee on Energy, Economic Development, and Tourism

Sen. Glenn Wakai, Chair

Sen. Bennette E. Misalucha, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: SCR30/SR25 — REQUESTING THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS' DIVISION OF FINANCIAL INSTITUTIONS AND THE HAWAII TECHNOLOGY DEVELOPMENT CORPORATION TO EXTEND THE DIGITAL CURRENCY INNOVATION LAB PILOT PROJECT

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SCR30 and SR25, which urges the Department of Commerce and Consumer Affairs to extend the digital currency innovation lab pilot project for two more years.

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,¹ 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.²

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.³ 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.⁴

Cryptocurrency is a developing industry that moves as quickly as the technology involved. The delay caused by the Legislature's inaction may cause Hawaii to fall further behind.

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 extend the life of the Digital Currency Innovation Lab, perhaps even encouraging the Department of Commerce to broaden the scope of the lab and

¹ [SB949](#) of 2017.

² 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.

³ 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.

⁴ 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.

allow greater participation. This would allow the Legislature to further observe the effect of the Lab in action while settling on more ideal legislation.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

SCR-30

Submitted on: 3/17/2022 7:40:33 PM

Testimony for CPN on 3/22/2022 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Carrie Blocher	Individual	Support	Written Testimony Only

Comments:

As someone who holds lots of crypto, closing my account and moving everything to wallets to going to be hard to calculate my taxes. The tax revenue us huge on this sector, please don't shut us down.

Statement of
Dagan Bernstein
before the
**COMMITTEE ON COMMERCE AND CONSUMER PROTECTION and
COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT, AND TOURISM**

Tuesday, March 22, 2022

In consideration of
HB2108 HD1
RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE

Dagan Bernstein **supports** HB2108 HD1 which establishes a program for the licensure, regulation, and oversight of special purpose digital currency companies. Extends operations of companies in the digital currency innovation lab pilot program under certain circumstances. Appropriates funds out of the compliance resolution fund to implements the program.

As an individual citizen of the state of Hawaii with an interest in accessing cryptocurrencies for financial growth, I appreciate the committee's role in ensuring proper regulation of the industry here in Hawaii.

The best way to ensure effective growth and implementation of these financial tools, government involvement in the licensure, regulation, and oversight is key. I do not envision a fully decentralized future in which citizens will be acting outside a relationship with our state. This bill is an important step towards continuing this relationship.

In addition there is an entire ecosystem of professionals that need to be part of this relationship. This includes accountants, attorneys, investigators, and others. This bill and other related regulations will help ensure that these professionals can support citizens of Hawaii safely and within the oversight of the appropriate government agencies.

Cryptocurrency has a reputation as being a shadowy network with the goal of creating financial instruments that will outside the purview of our government. I couldn't disagree more. Like our bank accounts, investment accounts, and other financial tools we use as citizens to grow our financial freedom, we need to partner with our government agencies to effectively ensure proper access to these tools.

Thank you again for considering my testimony, I mahalo all your work to support these important bills for the citizens of Hawaii.

SCR-30

Submitted on: 3/19/2022 7:31:14 AM

Testimony for CPN on 3/22/2022 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Paul Klink	Individual	Support	Written Testimony Only

Comments:

I support.

Paul L Klink

Statement of
Dagan Bernstein
before the

The Department of Commerce and Consumer Affairs

Tuesday, March 22, 2022

In consideration of
SCR31

**THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS TO CREATE A
TASK FORCE TO STUDY THE APPROVAL OF BLOCKCHAIN TECHNOLOGY AND
CRYPTOCURRENCY IN THE STATE.**

Dagan Bernstein **supports** SCR31 in which the Department of Commerce and Consumer Affairs is requested to create a task force to study the approval of blockchain technology and cryptocurrency in the State. This task force would review data on the scope of blockchain and cryptocurrency use throughout the country, review other aspects of the blockchain and cryptocurrency industry, including but not limited to the development of a plan to expand blockchain adoption in both the private and public sector, and compile an overview of potential legislation.

In looking at the broader legislation around cryptocurrencies in front of the various committee for this year, a task force plays an important role. There is a number of bills, rules, regulations, and things to consider to ensure that we are all paddling this canoe around cryptocurrencies forward together.

“Ho'okahi ka 'ilau like ana.” This proverb is appropriate as we look at establishing a task force in the state. Rather than a series of unrelated crypto bills that do not create a cohesive vision for the future of Hawaii, we need to be working together with the appropriate organizations in both the public and private sectors.

As a citizen of Hawaii I want the cryptocurrency industry to move forward with support from the government as well as the industries that will be impacted. This task force is a crucial step in moving forward with this vision. As the industry grows across the country there is an opportunity to learn from and partner with other agencies across the country to design a plan that will best fit the unique culture and economy of Hawaii.

Similar to other bills in front of the legislature this year, the government plays an important role in supporting the growth of cryptocurrency in Hawaii. As I have stated before I prefer a transparent future of crypto in Hawaii. I favor partnering with the government rather than operating outside of it. This task force is an important part of this future.

Thank you for considering my testimony.

LATE

SCR-30

Submitted on: 3/21/2022 10:19:25 AM

Testimony for CPN on 3/22/2022 10:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Katie Jackson	Individual	Support	Written Testimony Only

Comments:

I strongly support this Resolution - 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 and the assets in the 61,000 local accounts opened in the past two years under the sandbox environment will likely be frozen.

It is imperative to pass good laws and I strong urge the Senate to adopt the Task Force bill (SB2695) and amend it to include a 2 year extension of the Sandboc. We need to look at future regulation and keep the progress we have made to date and stay within the bounds that President Biden has outlined in his 9 March Executive Order asking federal regulators to come up with a new approach to Crypto regulation.