STAND. COM. REP. NO. **125** 

Honolulu, Hawaii MAR 24 , 2021

RE: H.C.R. No. 118 H.D. 1

Honorable Scott K. Saiki Speaker, House of Representatives Thirty-First State Legislature Regular Session of 2021 State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.C.R. No. 118 entitled:

"HOUSE CONCURRENT RESOLUTION REQUESTING THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS TO RECONSIDER ITS 2016 RULING ON ASSET RESERVE REQUIREMENTS FOR VIRTUAL CURRENCY COMPANIES AND CRYPTOCURRENCY COMPANIES TO CONDUCT BUSINESS IN HAWAII AND TO ALIGN THE STATE'S ASSET RESERVE REQUIREMENTS FOR THESE COMPANIES WITH THE ASSET RESERVE REQUIREMENTS IN OTHER STATES,"

begs leave to report as follows:

The purpose of this measure is to request that the Department of Commerce and Consumer Affairs reconsider its 2016 interpretation that the Money Transmitters Act applies to virtual currency companies and cryptocurrency companies, including the requirements for asset reserves and licensure.

Your Committee received testimony in support of this measure from three individuals. Your Committee received comments on this measure from the Department of Commerce and Consumer Affairs and Hawaii Technology Development Corporation.

Your Committee finds that the digital currency, virtual currency, and cryptocurrency industry have undergone significant change since 2016. In 2016, the industries were still in their

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infancy, and regulators were still learning about the business models and uses of digital currency, virtual currency, and cryptocurrency. Today, the industry activity involves investment and speculation due to extreme price fluctuations. Licensing the digital currency, virtual currency, and cryptocurrency industry companies as money transmitters is just one of many regulator models that may be appropriate for this industry.

Your Committee further finds that the Division of Financial Institutions of the Department of Commerce and Consumer Affairs and the Hawaii Technology Development Corporation have jointly created a sandbox, called the Digital Currency Innovation Lab, to allow for some digital currency, virtual currency, and cryptocurrency industry activity to better understand the industry and determine the best method of oversight to this industry. The information gathered from the Digital Currency Innovation Lab has highlighted the wide range of business models and activities that result from the industry companies and the Division and Corporation are evaluating the complexities and diversity of the industry platforms. Preliminary information from the Digital Currency Innovation Lab is set to be analyzed this summer. Your Committee finds that the Division and Corporation should be afforded the opportunity to continue the Digital Currency Innovation Lab to gather the information necessary to make an informed policy decision as to determining the best regulatory model for the digital currency, virtual currency, and cryptocurrency industry.

Accordingly, your Committee has amended this measure by:

- Specifying that reconsideration of the 2016 ruling be done after the completion of the Division of Financial Institutions' and the Hawaii Technology Development Corporation's joint study of the information gathered from the Digital Currency Innovation Lab;
- (2) Amending the title to read, "REQUESTING THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, FOLLOWING THE COMPLETION OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS' DIVISION OF FINANCIAL INSTITUTIONS' AND HAWAII TECHNOLOGY DEVELOPMENT CORPORATION'S STUDY, TO RECONSIDER ITS 2016 RULING ON ASSET RESERVE REQUIREMENTS FOR DIGITAL CURRENCY COMPANIES, VIRTUAL CURRENCY COMPANIES, AND CRYPTOCURRENCY COMPANIES TO CONDUCT

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BUSINESS IN HAWAII AND TO ALIGN THE STATE'S ASSET RESERVE REQUIREMENTS FOR THESE COMPANIES WITH THE ASSET RESERVE REQUIREMENTS IN OTHER STATES."; and

(3) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee concurs with the intent and purpose of H.C.R. No. 118, as amended herein, and recommends that it be referred to your Committee on Finance in the form attached hereto as H.C.R. No. 118, H.D. 1.

> Respectfully submitted on behalf of the members of the Committee on Consumer Protection & Commerce,

AARON LING JOHANSON, Chair

State of Hawaii House of Representatives The Thirty-first Legislature

**Record of Votes of the Committee on Consumer Protection & Commerce** 

	8 Committee Referral: Date: 3/19/21			-1
□ The committee is reconsidering its previous decision on the measure.				
The recommendation is to: □ Pass, unamended (as is) ▼ Pass, with amendments (HD) □ Hold   □ Pass short form bill with HD to recommit for future public hearing (recommit)				
CPC Members	Ayes	Ayes (WR)	Nays	Excused
1. JOHANSON, Aaron Ling (C)				
2. KITAGAWA, Lisa (VC)				
3. AQUINO, Henry J.C.				
4 HAD Shorop E		e sector e a sector Altre e a l'interne		
4. HAR, Sharon E.				
5. HASHEM, Mark J.				
6. KONG, Sam Satoru				
7. MIZUNO, John M.		<u></u>		
8. MORIKAWA, Dee				
9. ONISHI, Richard H.K.				
10. TARNAS, David A.		i		
11. MATSUMOTO, Lauren				
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TOTAL (11)	10	0	0	1
The recommendation is: Image: Adopted life on the support recommendation is a committee acronym(s) Image: Adopted life on the support recommendation is a committee acronym(s)				
Vice Chair's or designee's signature:				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office Duplicate (Pink) – HMSO				