Dear Chair Nakashima and members of the Committee:

Chamber of Progress, a tech industry coalition promoting technology’s progressive future, writes to provide comments on HB 1261, which establishes a program for the licensure, regulation, and oversight of digital currency companies.

Chamber of Progress supports public policies at the federal and state level that seek to build a fairer, more inclusive country in which all Americans benefit from technological leaps. We support the establishment of clear and transparent markets for consumers, so that companies can make decisions on product choice to the best of their abilities.

**Consumers Deserve Transparency in the Digital Asset Marketplace**

The past year was a turning point for the digital asset industry, as bad actors like FTX, Terra/Luna and a handful of others exited the marketplace due to fraud, bankruptcy and improper business models. It is clear after these major collapses this industry needs thoughtful regulation that gives companies clear rules of the road and gives consumers more confidence.
The licensure program that HB 1261 establishes will create the appropriate recordkeeping, risk mitigation and anti-money laundering (AML) standards for consumers to feel protected when transacting on the blockchain. This bill also includes important provisions that address current challenges in the industry around disclosures, customer deposits, and adequate reserves in the case of a bank run. With the majority of consumers storing their digital assets on exchanges\(^1\), sections §14(c),(e) are imperative to safeguard digital assets from misappropriation or theft.

**Hawai‘i’s Digital Asset Sandbox Allows For Responsible Innovation**

We commend Hawai‘i for establishing a regulatory sandbox in partnership with the Hawai‘i Tech Development Corporation (HTDC)\(^2\) to work with digital asset companies on establishing the best practices for full licensure in the state. HB 1261 would allow on-ramping of sandbox participants into full licensure, which is an innovative model that should be the standard for all states.

While we support the extension of the sandbox to 2024\(^3\), we suggest it remain indefinitely. Due to the emergence of new products and services in the digital assets space, it would be in Hawai‘i’s best interest to explore this new technology in a collaborative space with an on-ramp to licensure. Additionally, the sandbox could be structured to become an incubator for up-and-coming digital asset companies that have a net worth of less than $500,000. The continued existence of the sandbox will ensure responsible innovation and keep digital asset companies stateside.

In addition to our recommendation above, we propose the following:

**Clarify the definition of material change in §11(e)(2)**

To provide certainty for companies creating new products and services, the “material change to information” should define a materiality threshold to include a product or service that would significantly alter the business model of the original license application. The material change should exclude product upgrades or innovative features of existing products and services approved in the license.

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\(^2\)https://www.htdc.org/digital-currency-innovation-lab/

We thank the authors for their leadership in establishing regulatory rules of the road and setting a precedent for thoughtful crypto policy. Cryptocurrency and other digital assets will benefit from regulatory clarity seeking to stimulate innovation and increase workforce development in blockchain technology.

Respectfully,

Janay Eyo
Director of Financial Policy
Chamber of Progress