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TO: Michael Marcotte, Chair, House Committee on Commerce & Economic
Development
FROM: Aaron Ferenc, Deputy Commissioner of Banking
SUBJECT: Cryptocurrency Kiosk provisions, within H. 659 involving the Money
Transmission Modernization Act
DATE: April 10, 2024

Thank you, Chair Marcotte and Committee members, for allowing DFR to present written testimony today in support of the most recent draft of House Bill #659. DFR feels very confident that the efforts to adopt the model Money Transmission Modernization Act (MTMA) will provide clear and meaningful improvements to the regulation of money transmission in Vermont, for the benefit of its people, the department's oversight abilities, as well as for the industry itself through the adoption of national standards.

As has been testified to previously, the money transmission market has changed dramatically over the last few decades as fintech and digital payment systems have evolved and grown in popularity. Money transmission activities are an area of commerce where complex business models are frequently employed by companies to structure activities in a way that avoids regulation. The goal of the Model Money Transmission Modernization Act is to establish a single, nationwide set of standards and requirements for regulating money transmitters, benefiting regulators, the public, and the regulated entities themselves. We appreciate the Committee's time and attention toward this outcome.

In addition to adopting the MTMA provisions we proposed, we are very happy that the Committee has taken appropriate time to contemplate how, and to what extent, to regulate Crypto Kiosks and their use here in VT. Crypto Kiosks have been a significant concern for the Department in recent years, as they have proliferated throughout Vermont. In our experience and through conversations with law enforcement, we have noted that these kiosks dramatically increased the speed and ease at which Vermonters have been victimized by financial scams.

Though the Department has not received a significant number of complaints regarding these machines directly, we are aware that many victims will contact the AGO's Consumer Assistance Program or various law enforcement agencies for assistance, and many do not report the fraud at all. The nature of cryptocurrency and these transactions makes them particularly attractive to scammers, as they provide very little recourse if consumers want to reverse a suspect transaction.

In addition to the prevalence of financial loss via scams through these machines, DFR also notes that the fees charged by many of these kiosk operators can be excessively high and unfair to consumers. In many instances, we note fees totaling well over 20% of the transaction value, making the kiosks a very high-cost way to access cryptocurrency. For these reasons, DFR

originally proposed limiting daily transactions to \$1,000 per consumer in order to limit potential losses, and limiting fees to the higher of \$5 or 15% of each transaction. DFR is grateful to the Committee for the thoughtful improvements to our suggested language. Keeping the daily transaction limits at \$1,000 and limiting fees to the greater of \$5, or 3% of the transaction are significant steps that DFR feels will promote safer usage of these kiosks with fees that are fairer to consumers.

In addition, the new section 2577(f) and (g) which include a two-year moratorium and a DFR report on suggested improvements to Crypto kiosk oversight in Vermont will provide DFR with sufficient time to develop and propose any additional protections and market improvements.

Thank you for taking the time to consider the MTMA and crypto-related provisions in H. 659, as well as all of the other DFR initiatives in the bill. We greatly appreciate the Committee's thoughtful, and thorough analysis and questions. We are happy to provide any additional insights should the Committee have further questions.