

April 1, 2025

Senator Bailey, Representative Mathieson, and honorable members of the Committee on Health Coverage, Insurance, and Financial Services:

Thank you for the opportunity to testify in support of LD 1197. I am especially grateful to Senator Baldacci for his leadership on this important issue. My name is Rashan Colbert, and I am pleased today to represent the Crypto Council for Innovation (CCI), a global alliance of industry leaders in the digital assets space. We use an evidence-based approach to support governments as they shape responsible regulation for the digital asset industry. We believe that partnership between government and business stakeholders is key to crafting inclusive policy that benefits consumers, investors, and industry. We are proud to have many members who are licensed to conduct virtual currency business activity on behalf of thousands of Maine residents building the future of financial services.

CCI is grateful for Maine's efforts during last year's legislative session to standardize requirements for money service businesses through adoption of the Maine Money Transmission Modernization Act (MTMA), a model bill authored by the Conference of State Bank Supervisors (CSBS). Implementing nationwide standards that streamline the supervision of money transmission activities is important, as many states utilize money transmitter laws to regulate certain digital asset activities.¹

However, Maine's version of this legislation, LD 2112, also contained provisions on "unhosted wallets" that are not included in the model law. These provisions would subject digital asset businesses to impractical requirements that have not been advanced anywhere in the country or by federal financial service regulators. The provisions go against the MTMA's stated goal of standardizing money transmitter regulations for businesses operating in the state and instead will jeopardize the stability of the state's digital asset marketplace.

Unhosted wallets, or self-hosted wallets, are technological solutions, more akin to physical wallets, where consumers self-direct transactions with digital assets. They enable users to interact directly and conveniently with retailers and other users through blockchain networks. Self-hosted wallets can be software or hardware and are secured through private keys, or passwords, held by the users.

They are a type of digital wallet that is hosted directly by the user, rather than hosted wallets, which are facilitated by digital asset custodians. As free and open source software, SHWs can be acquired without an identity verification process. The software does not have the technical means to confirm the identities of users.

Despite this reality, the MTMA would require virtual currency businesses licensed in the state to identify and verify the identities of each and every recipient of a value transfer to a self-hosted

¹ CSBS, the leading national organization supporting state financial services regulators, has advanced this legislation in at least twenty five other states. See <https://www.csbs.org/csbs-money-transmission-modernization-act-mtma>.

wallet. For example, cryptocurrency exchanges facilitate thousands of transactions everyday, including value transfers to self-hosted wallets. Accordingly, identifying the thousands of recipients associated with unhosted wallets on a daily basis would require technical infrastructure and processes which are not prevalent with blockchain software. It will prove incredibly difficult—if not impossible—for virtual currency businesses to comply with this requirement, and it is much more likely that businesses will cease serving consumers in the state rather than comply.

Every virtual currency business operating as a money transmitter in Maine must be registered as a money service business at the federal level by the Financial Crimes Enforcement Network (FinCEN). This subjects them to a host of anti-money laundering (AML) and Bank Secrecy Act (BSA) requirements to prevent illicit activity. For example, regulated cryptocurrency exchanges are already required to flag and prevent transactions from all wallets (hosted and self-hosted) that have been sanctioned by the Department of the Treasury's Office of Foreign Assets Control.

If the justification for this provision is to prevent scams and illicit financial transactions, there are risk mitigation efforts that virtual currency businesses can take, including those outlined by the Financial Action Task Force's (FATF) 2021 Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers. For example, blockchain analysis has proved to be an especially useful tool for law enforcement and the private sector to track illicit funds, using the public availability of blockchain data to identify transactions and wallets connected to financial crime.

FinCEN, which enforces AML and counter-financial terrorism regulations, published guidance back in 2019 that clearly states that self-hosted wallets owned by the user and not by a host or intermediary are not under the regulatory definition of money transmitter and do not need to provide information about the wallet user. This means that FinCEN's travel rule does not apply to SHWs under current federal guidance. Maine's requirements put the state outside the norms of what is required under federal AML/CFT rules.

Despite raising our concerns with the Bureau of Consumer Credit Protection (BCCP), which regulates all money transmitters in the state and is charged with implementing these new requirements, the Bureau has yet to provide industry with any guidance on how they can comply with these new rules.

Maine should not stifle and constrain positive innovation occurring around SHWs that supports and even enhances anti-money laundering (AML) compliance goals. Privacy and compliance do not have to be mutually exclusive. It is important to note that the digital asset industry is building various technical solutions and services relating to SHWs in order to mitigate money laundering risks and support AML and sanctions compliance goals. For example, there is significant innovation occurring around digital identity and credentials that will be integrated with SHW transactions. These technologies are in development and could improve how financial institutions verify customer identification and source of funds in the future.

We urge Maine not to preemptively hinder the development of new, innovative private sector AML and sanctions compliance solutions around self-hosted wallets by implementing these

provisions in a manner that undermines such innovation. The prohibitive nature of this provision and the relatively small size of Maine's market are more likely to lead digital asset businesses to leave the state rather than risk compliance challenges, cutting off Maine consumers from innovative Web3 technology and services.

Rather than implement these impractical requirements for self-hosted wallets, Maine should bolster resources for law enforcement, increase consumer education, and provide clarity for crypto kiosk operators in the state.

- **Ensure Law Enforcement is Properly Equipped** - Blockchain analytics is the process of analyzing data stored on a blockchain. It allows businesses and law enforcement professionals to identify potentially illicit activity without compromising the privacy of all users. Every transaction that takes place on a publicly accessible blockchain is stored and viewable over the internet. Blockchain analytics providers go through this data and scan for certain signifiers that may suggest illicit activity, such as a digital wallet previously associated with illegal transactions like drug importing or terrorist financing. Analytics companies can also coordinate with law enforcement on Suspicious Activity Reports (SAR). The collection and analysis of these identifiers is an ongoing process, and we encourage the State Legislature to ensure that law enforcement professionals in Maine are adequately equipped with the tools and training necessary to stay ahead of bad actors in this space.
- **Consumer Education and Awareness** - The State Legislature should direct the Bureau of Consumer Credit Protection to work with industry on developing consumer education initiatives. Empowering consumers to identify and thwart scams early is a critical step to preventing illicit activity. We encourage Maine to look to other states where this approach has been effective, including the California Department of Financial Protection and Innovation's (DFPI) [Crypto Scam Tracker](#).
- **Provide Clarity for Crypto Kiosk Operators** - We applaud the State Legislature for considering legislation to license crypto kiosk operators in Maine (LD 1205). Crypto kiosk operators are already required to register with FinCEN, and at least fifteen other states are considering legislation this year to ensure state-level requirements are clear for kiosk operators. CCI believes this legislation would improve supervision of this specific type of money service business and help crack down on [street level money laundering](#) around scams, fentanyl dealing and human trafficking.²

² <https://www.governing.com/finance/lawmakers-seek-crypto-atm-regulations-to-fight-fraud>