STATE OF MAINE
DEPARTMENT OF PROFESSIONAL &
FINANCIAL REGULATION
BUREAU OF CONSUMER CREDIT
PROTECTION

Janet T. Mills
Governor

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Superintendent

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Testimony of Linda Conti
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Bureau of Consumer Credit Protection
Department of Professional and Financial Regulations
In Opposition to LD 1197

"An Act to Update the Maine Money Transmission Modernization Act by Removing Provisions of Law Regarding Unhosted Wallets"

Before the Committee on Health Coverage, Insurance and Financial Services

Tuesday, April 1, 2025; 1:00 P.M.

Senator Bailey, Representative Gramlich and Members of the Committee on Health Coverage, Insurance and Financial Services, I am Linda Conti and I serve as the Superintendent of the Bureau of Consumer Credit Protection (BCCP).

No term generates more debate in crypto compliance than "unhosted wallets." Unhosted wallets are efficient and private, which are essential selling points for crypto. However, on the flip side, this speed and secrecy enables and facilitates consumer fraud and money laundering. Unhosted wallets give users exclusive control over their private keys. A hosted wallet, also called a custodial wallet, on the other hand features a third-party that manages the private keys. Unlike with unhosted wallets, hosted wallets often involve some level of transaction tracking or surveillance by third parties. The autonomy provided by

unhosted wallets, necessitates a higher degree of responsibility and technical understanding from the users. In the wrong hands, where we see them, exploitation of people with limited technical knowledge is rampant.

Maine consumers are being tricked into depositing cash into a crypto currency kiosk and converting it to crypto. Consumers are then told by the scammer to deposit the crypto into a wallet. The consumer is told to tell the kiosk operator that the wallet is controlled by the consumer although it is, in fact, controlled by the scammer. The process of requiring the consumer to declare their control over the wallet is called self- attestation. Self- attestation was the only requirement needed to establish that the consumer controlled the wallet, prior to the adoption of the Money Transmission Modernization Act ("MMTMA") last session. The unhosted wallet provisions of the MMTMA were designed to ameliorate this problem posed by self-attestation as the sole evidence of wallet control.

Because we determined that Maine consumers were unknowingly sending funds to scammer's wallets instead of their own wallets, the MMTMA included a provision that a sender's self-attestation of wallet control was not sufficient, the money transmitter needed to show something else that corroborates who the true recipient is. The industry has claimed that this verification process is confusing, unclear and impossible. In fact, accurately identifying recipients is already required by federal law and international law where these money transmitters regularly operate. The identification of money transmission recipients is vital to ensure that money transmitters are in compliance with anti-money laundering laws. Current federal law requires money transmitters to identify certain recipients of value when the transaction value exceeds $3,000.

This is a new and evolving industry. At this point lack of experience and loopholes in regulation are allowing consumers to be harmed. Once consumer money disappears into a scammer's unhosted wallet, it is gone forever. The Bureau needs tools to regulate the transmission of cryptocurrency to unhosted wallets in order to protect Mainers from fraud and scams until more comprehensive solutions are found.

It may seem unbelievable that consumers withdraw cash from bank accounts and feed it into a crypto kiosk as directed by a stranger. This example of a common scam involving a kiosk and a self -attested, unhosted wallet taken from a report from the Portland Police Department that recounted the following. A Portland Maine resident (female DOB 1958) was contacted by a person who stated that he was "Brian Smith" a D.A. from Miami on February 26, 2025. Brian told her that the government was investigating her and that she needed to transfer as much money as possible to Bitcoin in order to keep it safe. She did as Brain instructed and went to her credit union and withdrew $30,000. She then went to the closest bitcoin machine at 801 Washington, Ave. in Portland. Brian walked her through the process of uploading her cash into the machine. She stated that she followed Brian's instructions. After a few days of not hearing anything further from Brian, she became suspicious and called the Portland Police Department.

Thank you for your time and I would be happy to answer any questions now or at the work session.