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Senator Bailey and Representative Gramlich, and distinguished members of the Joint Committee on Health Care, Insurance and Financial Services, my name is Michael Devine, I am an Assistant Attorney General in the Consumer Protection Division of the Office of the Maine Attorney General. I am here today to present testimony in opposition to L.D. 1197, *An Act to Update the Maine Money Transmission Modernization Act by Removing Provisions of Law Regarding Unhosted Wallets*. This bill would eliminate important statutory provisions designed to protect Maine consumers from cryptocurrency scams and financial exploitation.

In enacting the Maine Money Transmission Modernization Act in 2023, the Legislature found that one of its purposes was to “[p]rotect the public from financial crime.” 32 M.R.S.A. § 6068(2). Accordingly, the Act established licensing for those engaged in the business of virtual currency (such as cryptocurrency exchange operators) and specific requirements for unhosted wallets. Unhosted wallets, also referred to as non-custodial or “self-hosted” wallets, allow users complete control over the cryptocurrency within them without any oversight by a third party, such as an exchange or a regulated financial institution. Unhosted wallets are thus attractive to scammers and criminals because they provide complete anonymity beyond the reach of law enforcement.

The use of unhosted wallets to perpetrate scams and crimes is not a theoretical problem. My office regularly receives complaints from victims of cryptocurrency scams. Scammers, often pretending to be government agents or even friends or relatives, convince their victims that their financial assets are at risk and they need to convert them to cryptocurrency to keep them safe. Although most victims have little if any familiarity with cryptocurrency, scammers direct them to the ATM-like kiosks at local convenience stores where they can convert their cash into cryptocurrency and transfer it to an unhosted wallet controlled by the scammer, from which the cryptocurrency is quickly removed and rendered virtually untraceable. In mere hours, a scammer can transform a victim’s life savings into untraceable virtual currency under their complete control.

Despite their widespread use by scammers and criminals, the Act does not prohibit unhosted wallets. Instead, it requires cryptocurrency exchanges to identify the recipient of cryptocurrency at an unhosted wallet. It also provides that an attestation by the person sending the cryptocurrency that they are also the intended recipient of the cryptocurrency, by itself, does not comply with the identification requirement. This additional measure is necessary because scammers will often instruct their victims to falsely self-attest that they are sending cryptocurrency to themselves. With these provisions, the Act both preemptively deters

individuals who would use unhosted wallets for illegal purposes and provides a tool for law enforcement to identify scammers and track their transactions.

L.D. 1197 would eliminate these important safeguards. It totally repeals the regulation of unhosted wallets, including the identification requirement and self-attestation rule. It therefore increases the likelihood and severity of financial harm to scam victims and limits law enforcement's tools to track stolen funds.

I urge you to maintain the Act's existing protections relating to unhosted wallets and vote "ought not to pass" on L.D. 1197.

Thank you for your consideration.