TESTIMONY SUBMITED TO THE MARYLAND
SENATE FINANCE COMMITTEE
Larry Lipka, General Counsel
February 6, 2025

Chair Beidle, Vice-Chair Hayes, and honorable members of the Senate Finance Committee, thank you for the opportunity to provide testimony today regarding SB 305.

CoinFlip would support amendments to SB 305 relating to the proposed regulation of virtual currency kiosks. CoinFlip is in favor additional regulatory measures that would further consumer protection including but not limited to licensure, mandatory disclosures, compliance program requirements, and technology requirements. We appreciate the opportunity to offer additional consumer protection-focused recommendations that we know to be highly effective in preventing fraudulent transactions at virtual currency kiosks and look forward to continuing to work with the State of Maryland to protect consumers.

Company Background

CoinFlip is a Chicago-based, global digital currency platform, focused on providing consumers a simple and secure way to buy and sell virtual currency. Founded in 2015, CoinFlip is one of the world's largest operators of virtual currency kiosks, with more than 5,000 locations across the United States and in nine countries around the world, employing more than 200 people.

CoinFlip's kiosks make buying and selling major cryptocurrencies accessible and secure for consumers who wish to purchase their virtual currency using cash. CoinFlip has operated in the State of Maryland since 2020 and applied for a money transmitter license in May 2024 which is still under review. Additionally, CoinFlip is a money service business ("MSB") registered with the Financial Crimes Enforcement Network. As an MSB, CoinFlip is subject to the Bank Secrecy Act ("BSA"), the United States PATRIOT Act, and their implementing rules and regulations.

CoinFlip embraces licensing regimes as an effective means to create baseline requirements for operations, as well as effective oversight. CoinFlip holds approximately 26 money transmitter licenses with numerous additional applications currently pending. CoinFlip has moved to obtain these licenses, even in states where there is no current licensing requirement.

SB 305

Unfortunately, SB 305 relies on policy recommendations that create a false sense of consumer protection. The proposed transaction limits in the bill do not adequately consider federal reporting requirements. Under federal law, CoinFlip is required to file a Suspicious Activity Report ("SAR") for any suspected suspicious transactions above $2,000 and a Currency Transaction Report

("CTR") for transactions above $10,000. This information is placed in a repository for law enforcement to quickly and accurately conduct investigations. Maryland's proposed $1,000 transaction limit encourages stacking transactions across multiple kiosk operators, and limits companies' Anti-Money Laundering efforts. Further, the limit will result in less information available to law enforcement as kiosk operators will no longer file any SAR or CTR.

The addition of transaction fee caps does not prevent customer fraud and in combination with transaction limits, inadvertently creates incentives for less transparency and less use of expensive compliance tools which keep consumers safe. Unlike online exchanges, virtual currency kiosk operators have additional operational costs such as device hardware and maintenance, rent payments to local small business hosts, armored car service costs, customer service, and blockchain analytics. We do support fee disclosures to keep customers fully informed of the entire transaction.

Proposed Consumer Protection Policies

CoinFlip believes smart regulation is good for business. We believe that a regulatory framework is necessary to protect consumers and encourage innovation in the industry; however, transaction limits as currently proposed in SB 305 are detrimental to operating in the State of Maryland and do not take into consideration federal reporting requirements. Instead, we developed the following best practices that would further enhance consumer protections and support their inclusion in any legislation:

- **Require licensure with the state**. CoinFlip believes a money transmitter license should be required for all virtual currency kiosk operators, allowing for state oversight and periodic audits to determine the adequacy of compliance, finance, and cybersecurity programs.
- **Require robust compliance programs**. Kiosk operators should be required to directly employ a qualified, in-house, Chief Compliance Officer and compliance team, that does not have a large ownership interest in the company. At CoinFlip, we take compliance seriously: our Chief Compliance Officer is a former federal prosecutor, and our general counsel is a former Illinois Assistant Attorney General.
- **Require clear, highly visible warnings and fee disclosures**. We agree with the proposed legislation regarding the requirement of clear disclosures regarding all fees and terms of service. We also believe highly visible fraud warnings should be required to be displayed and acknowledged by the customer prior to the initiation and completion of any transaction.
- **Require blockchain analytics**. The use of blockchain analytics technology should be required to fight fraud by automatically blocking customer transactions to high-risk digital wallets.
- **Require live customer service**. Customer service is the first line of defense for consumer protection. We believe every virtual currency kiosk operator should be required to provide trained, live customer service at minimum during business hours.

CoinFlip shares your goals of consumer protection. Although blockchain technology and virtual currency kiosks are new, the fraud we see reported is all too familiar. Whether it's phone, email, text or an online pop-up, scammers repackage the same old tactics and utilize whatever methods

they have at hand – Venmo, PayPal, Zelle, Gift Cards, MoneyGram or virtual currency kiosks – to dupe people out of their money.

The best defense for consumers is to be well-informed and well-alerted at the point of transaction. The best defense for companies is to have the right tools in place to help identify and fight fraud and help law enforcement catch the bad actors.

Conclusion

In conclusion, we believe that a regulatory framework is necessary to protect consumers and encourage innovation and we look forward to working with the Maryland Legislature to improve SB 305 to achieve the right balance to protect Maryland consumers and ensure continued access for lawful virtual currency transactions.

Thank you for your time and consideration.

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Sincerely,

/s/ Larry Lipka

Larry Lipka
General Counsel

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