



MARYLAND STATE TREASURER  
Dereck E. Davis

**Informational Testimony of the Maryland State Treasurer's Office**

**House Bill 1389: Strategic Bitcoin Reserve Act of Maryland**

**House Judiciary Committee**

**March 11, 2025**

Given the State's budget challenges, the General Assembly may wish to explore creative solutions to potentially bring in additional revenue from the State Investment Portfolio. House Bill 1389, as introduced, requires the State Treasurer to invest specified "seized money" into a new special fund, the Maryland Bitcoin Reserve Fund (Fund). The legislation further specifies that the State Treasurer may only invest money deposited in the Fund in "Bitcoin," as defined in the bill. The State Treasurer's Office (STO) appreciates the opportunity to provide information regarding House Bill 1389 for the Committee's consideration.

**Amendment to Make the Bill Enabling Legislation**

The bill's sponsor has met with STO and indicated his intention to offer an amendment that would enable, rather than require, the State Treasurer to invest in "Bitcoin." Currently, STO invests in significantly lower-risk assets authorized under the State Investment Policy and corollary regulations. In addition, at present, the banks that STO does business with do not accept digital currency. An amendment to House Bill 1389 is necessary to ensure that STO has the discretion, flexibility, and time to establish new policies, procedures, and systems that support potential future investment in cryptocurrency.

## Background on Bitcoin

Digital assets and electronic currency are part of a relatively new and rapidly evolving industry. There are many types of digital assets, though Bitcoin has emerged as one of the most recognized and traded forms of cryptocurrency. While Bitcoin has become somewhat mainstream, it remains a volatile and illiquid digital asset. Managing institutional cryptocurrency portfolios comes with unique challenges, including security risks and regulatory complexities. Therefore, to properly administer and invest such assets, institutions must adopt robust strategies and best practices tailored to the digital asset market.

## Federal Regulatory Changes

Federal regulations governing digital asset investments continue to change. A January 23, 2025, [Executive Order](#) (Order) expressed the policy of the Trump Administration to support the responsible growth of the digital asset industry. Among other provisions, the Order establishes the Working Group on Digital Asset Markets, which is tasked with proposing a federal regulatory framework governing the issuance and operation of digital assets. STO's administration and investment of the Fund may be impacted by such future changes to the federal regulatory landscape.

## “Wait and See” Approach

Given the uncertainty and inherent risks of investing in cryptocurrency, STO has made the decision to wait and see how the market conditions surrounding the asset class continue to develop and evolve. A range of practical considerations have informed the decision to wait. If the Committee passes House Bill 1389 with the amendment to *enable* investment in cryptocurrency, STO will review strategies and best practices that institutional investors have developed, such as those listed in Exhibit 1.

### Exhibit 1

- **Risk Management:** Implementing robust risk management protocols, including position sizing, portfolio allocation limits, systematic risk assessment, and regular stress testing.
- **Custody Solutions:** Partnering with reputable third-party custodians specializing in secure storage of digital assets. These custodians offer multi-signature wallets, geographically distributed storage, and advanced encryption techniques.

- **Compliance and Regulatory Adherence:** Prioritizing compliance with regulatory frameworks and engaging proactively with regulatory bodies to ensure adherence to legal requirements.
- **Portfolio Rebalancing Strategies:** Rebalancing portfolios to maintain optimal asset allocation. Strategies include fixed internal reviews, dynamic adjustments based on market conditions, and threshold-based rebalancing.
- **Liquidity Management:** Establishing relationships with multiple exchanges, partnering with over-the-counter (OTC) trading desks, and developing emergency liquidity protocols to ensure smooth operations.
- **Advanced Analytics and Data Management:** Using specialized portfolio management systems to integrate disparate data points, providing real-time valuation and customizable reporting features.
- **Automated Trading Systems:** Enhancing trading systems, risk management, and market analysis with AI-driven algorithms and allowing institutions to optimize their operations in the 24/7 cryptocurrency market.

Treasurer Davis and STO hope that this information is useful as the Committee considers House Bill 1389. Please contact Laura Atas, Deputy Treasurer for Public Policy ([latas@treasurer.state.md.us](mailto:latas@treasurer.state.md.us)), with any questions.