

Written Testimony OPPOSED (UNF) to HB0859/SB0759, “Digital Assets and Digital Asset Staking”

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Introduction

The Maryland Financial Innovation Act, HB0859/SB0759 violates sound regulatory principles by focusing on a specific technology choice while ignoring risk to Maryland residents.

While presented as routine housekeeping, the bill's practical effect is to strip Maryland residents of meaningful consumer protections, constrain the state's regulatory flexibility, and grant a single industry preferential treatment unavailable to any other financial sector. The Committee should reject it. Specific objections are as follows:

- The bill removes securities law protections from retail investors using crypto staking products.
- It undermines Maryland's ability to regulate digital asset payment providers, leaving consumers exposed when those providers fail.
- It grants a technology-specific carve-out that no other financial sector receives, distorting competition and rewarding regulatory arbitrage.
- It locks in a hands-off regulatory posture based on a federal enforcement position that may not endure.

What the Bill Does:

The bill does two things. First, it bars Maryland agencies and local governments from regulating digital asset activities — removing the state's flexibility to respond to emerging harms. Second, it exempts crypto staking services from the Maryland Securities Act, meaning companies offering these products to Maryland residents will no longer be required to register, disclose risks, or meet the standards that apply to every other investment product sold in this state.

It Removes Meaningful Consumer Protections

Securities registration requirements exist to compel companies to disclose their financial condition, the risks of their products, and any conflicts of interest. By carving staking services out of that framework, Maryland would be telling residents: you are on your own.

The history of crypto is not reassuring on this point. Celsius, FTX, and BlockFi collapsed and wiped out billions in retail investor savings — often money that ordinary people had placed in yield-generating crypto products that function much like the staking services this bill would deregulate. The argument that these protections are unnecessary friction ignores who bears the cost when platforms fail.

It Also Undermines Payment Consumer Protections

The preemption clause is not limited to investment products. By barring regulation of digital asset activities broadly, the bill constrains Maryland's ability to apply money transmission and payment consumer protection laws to digital asset payment providers. Maryland's money transmission licensing requirements ensure that providers maintain adequate reserves and meet basic solvency standards — so that when a payment intermediary fails, the people who entrusted it with wages, rent payments, or business receipts are made whole. Crypto payment fraud is already one of the fastest-growing categories of consumer financial crime, concentrated among elderly residents and lower-income communities. Weakening Maryland's authority here sends precisely the wrong signal.

It Singles Out One Technology for Special Treatment

The most significant flaw of this bill is that it abandons the foundational concept of technology-neutral, activity-based regulation. Sound financial regulation asks what a product does and what risks it creates — not what technology it runs on. A staking service or product that promises yield to retail customers functions economically like an interest-bearing account. The underlying blockchain architecture should not determine whether consumers are protected.

Every other payment provider and investment product in Maryland must meet the same standards. Exempting digital assets creates an unlevel playing field against regulated competitors and, more perversely, incentivizes companies to route otherwise-regulated activities through digital asset wrappers specifically to escape oversight. The legislature should not be in the business of picking technological winners — and it certainly should not do so by weakening consumer protections for the residents who can least afford to absorb the losses.

The Federal Rationale Is Fragile

The bill's logic depends on the current federal administration's posture toward cryptocurrency. That posture has already shifted dramatically between administrations and may shift again. Maryland's Blue Sky law is not a redundancy — it is a backstop against inconsistent federal enforcement. This bill weakens that backstop at exactly the moment when the federal safety net is most uncertain, with no sunset provision and no limiting principle.

Conclusion

HB0859/SB0759 offers no identifiable benefit to Maryland residents. It reduces consumer protections for both investors and payment users, hands one industry an exemption

unavailable to any other, and does so on the basis of federal signals that may not endure. The Committee should oppose this legislation.

Thank you for the opportunity to submit this testimony. I will also submit a 2022 letter to the US Congress from 1500 technologists warning of the risks of favoring blockchain over alternative technologies.

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My Background and Expertise

- PhD in Computational Chemistry, Chartered Financial Analyst
- 25 years leading computational risk and investment modeling teams at four financial firms.
- 4 years leading an anti-fraud modeling team at a large financial technology firm.