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March 14, 2023

The Honorable Senator Monique Limon

Chair, Senate Banking & Finance Committee

1021 O Street, Suite 6510

Sacramento, CA 95814

**RE: SB 401 (Limon): Cryptocurrency Kiosks— OPPOSE**

Dear Chair Limon,

On behalf of XXXX we respectfully write in opposition to SB 401, which, as written, would eliminate the cryptocurrency kiosk industry in California or drive it underground.

Cryptocurrency kiosks, oftentimes referred to as crypto ATMs, operate as a convenient, fast, and familiar currency ***exchange***, offering everyday people the opportunity to purchase or sell cryptocurrency at their local convenience stores, grocery stores, or bodegas.

SB 401 sets up a licensing regime for the industry, which will allow the CA Department of Financial Innovation & Protection to approve, audit, and collect information about all crypto kiosk operators in the state. This regime is welcomed by the industry and the consumers that use them. However, SB 401 also sets up an arbitrary fee cap and transaction limit amount, which given the capital costs of owning, installing, maintaining, and operating a crypto kiosk, would drive these machines out of our communities and out of the state. It will also take the small business retailer income, tax revenue, and financial inclusion consumer benefits along with them.

**Why do people use Crypto Kiosks?**

Crypto kiosks are accessible and convenient, offering one of the fastest modes available to purchase cryptocurrency—allowing those looking for an on-ramp to diversify their investment portfolios to do so in a familiar and expeditious way. Additionally, cryptocurrency is becoming increasingly popular to remit funds cross-borders—an appeal to many that do not have access to a bank account or need to send funds quickly to family and friends overseas. 25% of users that remit funds internationally have used cryptocurrency (CITE), and many are increasingly finding that crypto kiosks are the faster and even more affordable way to do so versus traditional money remittance services.

**How do crypto kiosk machines work?**

(1) A customer creates an account and agrees to the terms of service and privacy policy; (2) the customer selects the type and amount of cryptocurrency to purchase; (3) the customer completes account registration at the kiosk and undergoes the corresponding Know Your Customer (KYC) process; (4) the customer scans their digital wallet, and the operator performs OFAC/sanctions screening on the digital wallet; (5) the customer inserts cash into the kiosk for the purchased amount; (6) Immediately after the cash is received, the operator sends the purchased cryptocurrency from its digital wallet to the customer’s digital wallet.

**Crypto Kiosks Are Safe.**

SB 401 unfairly targets the crypto kiosk industry, suggesting they are contributing to consumers being defrauded or scammed but this does not solve the root of the issue, which is a lack of understanding generally by the population about scams. Scam and fraud activity are enormous problems across the entire financial services industry. However, the volume of funds people get scammed at a crypto kiosk is *de minimis*[[1]](#footnote-1) compared to central exchanges, money remittance companies, Zelle, and bank accounts[[2]](#footnote-2).

Unlike many other financial services, cryptocurrency has unparalleled transparency, which allows law enforcement and kiosk operator companies to coordinate together to freeze assets and return money to victims that come forward. Unlike cash, the blockchain is an open ledger; therefore, all transactions can be traced. Kiosk operators and law enforcement use blockchain analytic tools that can trace the movement of cryptocurrency across the blockchain. Many can identify and blacklist digital wallet addresses affiliated with fraud and do so when needed.

**Crypto Kiosks Contribute to our Communities.**

The most considerable capital expense of owning and operating a crypto kiosk is the rent an operator pays to house the machine at a local retail business. This can be anywhere between $300-700 per month, which in addition to increased foot traffic and purchases while the customer is visiting the location, is significant income to many small, frequently minority-owned retail businesses across California. California has over 3,646[[3]](#footnote-3) crypto kiosks in California, which equates to over $21 million in rent payments to small business retailers alone. This amount does not include the additional supply chain operation costs, including armored vehicle services, security, maintenance/repair, manufacturing, and banking. These costs are not incurred by online exchanges, which send profits overseas or out of state versus redirected back into our state and communities.

Cryptocurrency is a relatively new financial service technology and has no doubt had challenges as it involves and gains more mainstream users in an uncertain economic time--making headlines and increasing the response of lawmakers to create regulations to protect consumers. However, SB 401 will do nothing to solve fraud/scams in the industry, and if anything, will allow scammers to use less traceable services or tools not captured on a public blockchain. Additionally, the arbitrary fee cap will not allow operators to compete and maintain a consumer-friendly market, nor will these machines be able to operate in the state— as the bill does not account for the extremely capital-intensive cost of converting a currency to cash and vice versa instantaneously. **For these reasons, we must oppose SB 401.**

Thank you for your consideration.

Sincerely,

XXXX {NAME}

XXXXXXX {ORGANIZATION}

1. Chainalysis. 2023. “The Chainalysis 2023 Crypto Crime Report.” Chainalysis.com. https://go.chainalysis.com/rs/503-FAP-074/images/Crypto\_Crime\_Report\_2023.pdf. [↑](#footnote-ref-1)
2. The Digital Currency Shift: The Cross-Border Remittances Report. September 2021. Stellar Development Foundation [↑](#footnote-ref-2)
3. https://coinatmradar.com/state/6/bitcoin-atm-california/ [↑](#footnote-ref-3)