

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2018-19		FY 2019-20	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS	501,402 (See below)	(See below)	478,602 (See below)	See below
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	501,402 (See below)	(See below)	478,602 (See below)	See below

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB987 would enact the Uniform Regulation of Virtual-Currency Businesses Act. The bill would assign the Department of Banking and Finance with various responsibilities with respect to licensure, registration, examination, and investigation of entities engaged in virtual currency business as defined by the act in addition to other regulatory, administrative and legal functions. The Department estimates these new responsibilities would represent a significant fiscal impact to the agency. This impact would primarily relate to new agency workload requiring additional personnel to include 1 FTE legal staff, 4 FTE virtual-currency business examiners, and 1 FTE position to provide administrative support. In summary, the Department estimates the following costs if LB987 were to be enacted:

	<u>2018-19</u>	<u>2019-20</u>
Personnel expenses (6 FTE)	448,154	448,154
Non-personnel expenses	<u>53,248</u>	<u>30,448</u>
	<u>501,402</u>	<u>478,602</u>

The Department provides estimates of expenditures noted above as Cash Fund expenditures; however, no estimates of related Cash Fund revenue are identified. LB987 provides for fees for initial and renewal license applications as well as initial and renewal registration applications; however, the rates for the related fees are identified as \$XXX in the bill. As such, estimates of related Cash Fund revenue that may accrue to the Department from associated fee assessments is indeterminate. No estimates of revenue to be derived from charges associated with examinations of virtual-currency business licensees and registrants are available. Given uncertainty with respect to Cash Fund revenue that may accrue to the Department under provisions of the Uniform Regulation of Virtual-Currency Businesses Act, the extent to which Cash Fund revenue would be sufficient to meet estimated department expenses under the act is also uncertain.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 987	AM:	AGENCY/POLT. SUB: Department of Banking & Finance
REVIEWED BY: Lee Will	DATE: 01/25/2018	PHONE: (402) 471-4175
COMMENTS: No basis to disagree with the Department of Banking & Finance's assessment of fiscal impact based on the assumptions used.		

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2018

LB⁽¹⁾ 987

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Department of Banking & Finance

Prepared by: ⁽³⁾ Margo Sawyer Date Prepared: ⁽⁴⁾ 1/22/18 Phone: ⁽⁵⁾ 471-4954

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2018-19</u>		<u>FY 2019-20</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	<u>501,402</u>	_____	<u>478,602</u>	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>501,402</u>	_____	<u>478,602</u>	_____

Explanation of Estimate:

LB 987 would adopt the Uniform Regulation of Virtual Currency Businesses Act to provide for licensing and registration of Virtual Currency Businesses. The bill is based on a draft of the National Conference of Commissioners on Uniform State Laws and recommended by the Conference for adoption in all states. Nebraska is one of the first states to have legislation introduced.

The bill defines a virtual currency business (VCB) as exchanging, transferring, storing or engaging in virtual currency administration either directly or through an agreement with a virtual currency control-services vendor. Exemptions are proposed for personal virtual currency activity and virtual currency business activity when the annual volume of activity with Nebraska residents is \$5,000 or less in U.S. dollars.

LB 987 would require the Department to:

- Establish licensing standards, registration standards, renewal procedures, change of control, and merger procedures, and related forms, and adopt rules and regulations.
- Determine the character and fitness of control persons and executive officers of the entities, which will require background reviews, finger prints and development of a process for change in management.
- Develop policy and related processes to design, educate, collect and review periodic call reports reflective of financial and transaction performance, breach reporting and regulatory compliance.
- Develop examination procedures and conduct examinations of sufficient depth and frequency to measure adequacy of reserves, ability for the company to unwind, safety and soundness, transactional sampling for money service business, related federal anti-money laundering compliance, and compliance with mandated policies.
- Establish and maintain processes for pledged securities, minimum net worth, various types of insurance and bonds, and addressing consumer complaints regarding transfers of virtual currency.
- Establish or participate with other states to establish a central depository for license and registration filings; develop and implement uniform forms for applications and renewal reports; formulate joint rules and regulations, policies, and interpretations; and develop common systems and procedures.
- Develop and implement procedures to authorize existing money transmitter licensees to engage in virtual currency activities, as LB 987 identifies exchange in such a way to enhance money transmission. Currently Nebraska has 101 Money Transmitters licensed under the Nebraska Money Transmitters Act, also under the Department's jurisdiction.
- Develop and implement reciprocity procedures with other states related to trust companies which provide digital limited asset trust services. Currently Nebraska has 4 Trust Companies chartered by the Department under the

Trust Company Act. LB 987 identifies “Store” as an agent or fiduciary which is similar to a digital limited asset trust service. More applications for a trust charter would be expected.

- Investigate unlicensed and unregistered activity; investigate violations of the Act by licensees and registrants; take administrative action, including cease and desist orders and orders of suspension or revocation, issue civil money penalties.

LB 987 would require a fee for initial and renewal license applications and for initial and renewal registration applications, but the amount for each of those fees is not specified. LB 987 would also authorize the Department to collect costs of examinations, and costs related to its investigation of applications, registrations, and violations of the Act. LB 987 does not provide fees for any of the other duties assigned to the Department, including, but not limited to, change of control applications, merger applications, authorizing money transmitters to engage in virtual currency activities, and establishing a registry.

It is estimated that there are approximately 1400 virtual currencies in circulation at this time. If LB 987 were to go into effect in 2018, it is estimated that there will be 20 license applications before the end of the current fiscal year. No registration applications are expected in the current fiscal year because registrations are tied to licensing or registration in other states and no states have adopted the Uniform Act as of today. The Department estimates 30 new license applications and 40 new registration applications, along with renewals of existing licenses, for each of the two succeeding fiscal years (assuming other states have adopted the Act and a registry is established). NDBF will be unable to absorb the projected increase in licensing, registration, investigation, examination, and legal duties with current resources.

NDBF will require an additional Attorney III, .5 Review Examiner, Examiner Specialist, 2.5 Senior Examiners, and a full-time Staff Assistant II if LB 987 is adopted, and will incur additional training and education expenses for new and existing staff because virtual currency is a new, evolving, and complex area.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2018-19 EXPENDITURES</u>	<u>2019-20 EXPENDITURES</u>
	<u>18-19</u>	<u>19-20</u>		
Attorney III	1	1	70,354	70,354
Review Examiner	.5	.5	36,980	36,980
Examiner Specialist	1	1	61,216	61,216
Senior Examiner	2.5	2.5	139,131	139,131
Staff Assistant II	1	1	37,053	37,053
Benefits.....			103,420	103,420
Operating.....			24,948	24,948
Travel.....			9,750	5,500
Capital outlay.....			18,550	
Aid.....				
Capital improvements.....				
TOTAL.....			501,402	478,602