

Transcript Prepared by Clerk of the Legislature Transcribers Office  
Banking, Commerce and Insurance Committee February 23, 2021

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**WILLIAMS:** Well, good morning, everyone, and welcome to the Banking, Commerce and Insurance Committee hearing. My name is Matt Williams. I'm from Gothenburg and represent Legislative District 36. I'm honored to serve as Chairman of this committee. The committee will take up the bills in the order posted. I hope you noticed that the order posted was slightly different than the published notice. We will be taking LB649 first this morning, followed by LB648, and then the, the Justin Wayne bill following that. This is your opportunity to express your opinion on bills and legislation that is before us today. Committee members may come and go during the hearing. We have bills to introduce in other committees and are sometimes called away. This is not an indication that we are not interested in the bills being heard today, it's just part of the process. To better facilitate today's proceeding, we ask that you abide by the following rules. Please silence or turn off your cell phones. Seating is limited, as you've noticed. Therefore, we ask that you only maintain a seat in the hearing room when you have an interest on the bill currently being heard. We will pause between bills to allow people to come and go. While exiting the hearing room, we ask that you use the doors on the east. We request that you wear a face mask while in the hearing room. Testifiers may remove their face mask during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chair between testifiers. Public hearings for which attendance reaches seating capacity will be monitored by the Sergeant at Arms who will allow people to enter based upon seating availability. People wanting to enter the hearing room are asked to observe social distancing and wear a face mask covering while even being in the hallway outside. The order of testimony will be the introducer, followed by proponents, opponents, neutral testimony, and then closing by the introducing senator. Testifiers, please sign in and fill out the pink sheet and turn it in at the box on the testifiers' table when you come up to testify. As you begin your testimony, we ask that you spell your first and last name for the record. It is our request to limit your testimony to five minutes. We use a light system. The light will be green for four minutes, then it will turn yellow for one minute, and then it will turn red, at which time we ask you to conclude your testimony. If you will not be testifying at the microphone, but want to go on record as having a position on a bill, we are-- that's being heard today, there are white tablets at the entrance where you may

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leave your name and other pertinent information. The sign-in sheets will become exhibits in the permanent record at the end of today's hearing. We ask that you limit or eliminate handouts. Written materials may be handed to the committee clerk only while testimony is being offered. To my immediate right is committee counsel Bill Marienau. To my left, at the end of the table, is committee clerk Natalie Schunk. We will ask the committee members to introduce themselves, beginning with Senator Pahls.

**PAHLS:** Thanks, Senator. Rich Pahls, District 31, southwest Omaha.

**McCOLLISTER:** John McCollister, District 20, central Omaha.

**SLAMA:** Julie Slama, District 1: Otoe, Johnson, Nemaha, Pawnee, and Richardson Counties.

**LINDSTROM:** Brett Lindstrom, District 18, northwest Omaha.

**AGUILAR:** Ray Aguilar, District 35, Grand Island.

**BOSTAR:** Eliot Bostar, District 29, south-central Lincoln.

**FLOOD:** Mike Flood, District 19: Norfolk, Madison County, and parts of Stanton.

**WILLIAMS:** And our pages today are Joe-- Jordon and Sophie. Thank you for being with us. And with that, we will begin and open the hearing on LB649 introduced by Senator Flood, who coincidentally is celebrating his birthday today on the Mike Flood day in the Legislature.

**FLOOD:** It's also Tom Osborne's birthday.

**WILLIAMS:** It's also my twin's birthday.

**FLOOD:** And Rotary International was founded on this day.

**WILLIAMS:** OK, continue.

**FLOOD:** Thank you, Mr. Chair and Senator Williams, members of the Banking Committee. My name is Mike Flood. I represent District 19 and I appreciate your order of the bills today. LB649 is the-- LB649 is the mainline bill to create the Nebraska Financial Innovation Act.

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Senators, Nebraska is facing multiple challenges. To be honest, our outflow of college graduates is more severe than other states, 80 percent of Nebraska jobs require no prior experience. Despite low unemployment, wages in our state are relatively low. We have a low level of entrepreneurship and productivity and we've had a stagnant farm economy for several years due to declining commodity prices, although prices are up at this time. I want to hand this out. This handout is something you can follow along with during my testimony. Not only does it have a general overall description of what we're talking about from a technical standpoint-- actually, could I get one of those? It also really walks through some of the stark facts about rural Nebraska and we'll see that in just a second. On page 2 of this handout, I describe what I believe is Nebraska's vicious cycle. These challenges threaten the livelihood of Nebraska's economy and our communities. As you can see, our state relies on agriculture, which we're very proud of, but it competes on economies of scale, meaning there's a pressure to cut costs to deliver the best product at the best price. Nebraska doesn't attract enough high-value creation companies and as a result, many industries in Nebraska provide or have low-wage industries and the mix is not changing significantly. What does this lead to? Less availability of high-paying, quality jobs and a surplus of post high school educated people who leave the state. It is a vicious cycle and we're not the only state to battle this. And so to grow Nebraska, we need to be innovative. We need to be attracting high-growth and high-value companies and we need to find ways to keep some of our brightest in the state in good-paying jobs. You're all familiar with Blueprint Nebraska. Blueprint Nebraska identified three key industries: agriculture, manufacturing, and insurance and finance. This bill today doubles down on the third. I decided to reenter public service after two years of read-- of leading a regional effort in my area called Growing Together. Its number one mission is to address depopulation and economic growth in rural Nebraska. If you look at page 3 of my handout, you'll see the ten-year net migration table of my own county. You'll see, by age at the bottom there in five-year increments, how we did from 2000 to 2010. Were we net positive or were we net negative? The reality is that we're losing 20 to 29-year-olds at an alarming rate. We're losing, in Madison County, 30 to 34-year-olds, but the good news is that I'm not as concerned about that statistic because you'll see the surrounding counties are seeing a nice influx, 30 to 34. But every year that we lose between 13 and 17 percent of 20-year-olds in Madison County, it's a 50-year problem.

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You'll see that we, as a county-- in Madison County, if we can keep them and they're married past age 30, most likely have kids, they're not likely to ever leave. And that's the story that's not told enough in committees like this, is that not all hope is lost in these rural counties. You should see Senator Slama's Nemaha County. It has an unbelievable net positive migration, 18 to-- or 15 to 19, thanks to Peru State College. But people after age 30, they stay in Nemaha County because it is the best place to raise a family. In this situation, you can see our net positive migration is later in life, people moving closer to healthcare services or potentially their children. But every year this happens, it's a 50-year problem. On the next page, I put Pierce County in there. Pierce County is the county just north of Norfolk and Madison County and unfortunately, this is happening in too many places, a 54 percent net negative outmigration in Pierce County, followed by a nice bump of 16.2 percent up 30 to 34. But here's the real story of rural Nebraska. If you look at this chart, you can see that we do have something to offer. People in Pierce County either get married at 25 before the rest of us or start having kids earlier because once you move to Pierce County and you're in your late 20s, chances are you're not moving. And there is a lot of hope for rural Nebraska, but if we don't look at that 54 percent net negative outmigration, 20 to 24, and do something different, this is not going to change. And so the effort that I've been leading with business leaders throughout northeast Nebraska and the reason that I ran to come back into service is to find a way to keep as many people in their 20s in my area as possible. Now some will tell you, why would anybody move to Norfolk to, to do something like this? And nobody in this room would say that, but I've heard it and the reality is that these smart kids that come off these farms, they want, more than anything, to have a job that they could get in a bigger city and have the luxury of living in a town as safe as Battle Creek or living in their hometown in Norfolk. This-- these people that come off these farms, that come out of these cities, that come out of Wayne and Bloomfield and Creighton, they are the gold that end up being the CEO in Atlanta. They end up becoming the top of their game in Chicago. And more than anything, what do you want when you start having kids? You want to be as close to your folks as possible, built-in babysitters, and, and a relationship that's important to you as the parent of children. I want to hand out this book and now's not the time to read it, but you're going to see firsthand that we have a plan to do this in northeast Nebraska and this bill takes us in the right direction.

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How did we get here? So I went to college with Paul Neuner. You're going to hear from him soon. In fact, we were college roommates. He's an exceptionally bright guy. He's started businesses, he's sold businesses, and I have a tremendous amount of respect for what he's done and I know he's credible. He called me last March and was asking me about Wyoming and told me he was thinking of moving his business to Wyoming, shocked me. I never thought Paul would be anywhere in the Midwest with his business and I asked him why Wyoming? He said Wyoming was the first state in the nation to adopt a bank charting-- charter act for cryptocurrency banks. I started looking into it. I took Paul to meet with state leaders, to meet with the Nebraska Bankers Association, to meet with others in our community and the more I learned about cryptocurrency and the more I learned about this industry, I quickly realized that this is happening, whether we like it or not. In fact, right now in Wyoming, if you're a Wyoming state-chartered bank, you could operate a branch in Nebraska under the management of the Department of Wyoming banking system. What I'm saying is if it's going to happen, and it's going to happen, the O-- the OCC has already chartered a cryptocurrency bank based in South Dakota with New York ties. The Federal Reserve is going to make the decision as to whether or not they're, they're allowed to participate in the federal payment system, not us, should we have this in Nebraska. Paul Neuner operates Telcoin and I basically said to him if Wyoming is good enough for your business, then why isn't Nebraska? If we change the laws here to allow this to happen, you will-- would you locate this bank in a town the size of Norfolk, in Norfolk? And he said yes. And suddenly when I'm out there talking to men and women whose kids are in college and they say, my son would love to move back, there just aren't the jobs for him. What's he interested in or what's she interested in? Well, cryptocurrency, fintech. You're going to hear from a college senior that wants to do this. You're going to hear from a guy today by the name of Gront-- Grant Roscoe who is doing this. He's got nine employees based in Lincoln. You're going to hear from a business based in Omaha that would benefit greatly from the opportunity to have these charters in the great state of Nebraska. The reality is that these are high-skill, high-wage jobs. They're going to be in Norfolk. They're going to be in your communities. People are going to be able to work remotely across rural Nebraska doing this as well and these are the jobs that we have to create as a state if we want to be in the game. And here's the deal: you can, you can kill this bill now and I guarantee within five years, we'll be running back

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to do this. We'll be coming back to do something on cryptocurrency because it's coming. Every banker in Nebraska that knows that this is coming and the question is do we want to be at the front end or do we want to be at the back? And that is really a question. You're going to hear from a former director of the Nebraska Department of Banking, who's been a bank president, he's been the Chair of this committee, and he has run the, the Nebraska Department of Banking. He has put a tremendous amount of time into this and he will tell you this is the right time. Now is the best time. There are other states that are trying to do this: North Dakota, South Dakota. In fact, there were 15 at the start of January that were looking in doing this. Where is Nebraska going to step in? A couple of quick notes and you'll find this interesting. Well, this is the rural depopulation chart in northeast Nebraska. If you look at this, you tell me, where are we going as a region? If not this, then what? What's your solution? We need more solutions than we need objections right now. That's why this is very personal to me. Did you know that in 2019 there were 13 million virtual currency transactions in Nebraska and in 2020 there was \$276 million transferred using virtual currency? Cryptocurrency is already here. That's a 20 times growth from '19 to '20 inside the state of Nebraska. In the fourth quarter of 2020, just that quarter alone, there were about 113 million virtual currency transfers. LB648, which you'll hear in a second, is a technical bill that amends the Uniform Commercial Code. We did work with Professor Harvey Perlman, the Uniform Law Commissioners, and I feel like we have submitted a bill, in the second one that you're going to hear, that does a good job of synching up the banking act with the Uniform Commercial Code and we've gone to a lot of work to get there. The bill that's for you-- before you creates a-- Nebraska Financial Innovation Act. A couple of notes: the headquarters and the CEO must be in Nebraska. I am very open to putting in further steps that ensure that we bene-- reap the benefit from as many of these jobs as possible. There's going to be a lot of compliance jobs. You're going to hear from the proponents of this bill about the steps we've taken to address security and enforce existing rules as it relates to Know Your Customer and the banking regulations that affect most banks. One of the things that you're going to also hear is that Paul's bank-- proposed bank will not need or want FDIC insurance because it's not allowed to make any loans under LB649. There is no-- there is a direct prohibition on loaning money in LB649. You're going to-- you know, right now to start a new bank charter in Nebraska under state law, it

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requires \$150,000. The capital requirement under LB649 is \$5 million in capital. This bill requires compliance with all federal and state laws: Know Your Customer, beneficial ownership, the Bank Secrecy Act, and an anti-money laundering act. You're going to find out that with blockchain, law enforcement can trace transactions so much better than they can even today with wire transfers. Think of Western Union as the Kodak of money transfers. Think of cryptocurrency as digital photography. This reminds me, in 2008, when I was running my media business and a couple of my customers started saying, you know what? We're going to use Facebook, just a couple hundred bucks, to see if we can get some more customers. And some of my radio sales reps would say, don't worry, they'll be fine. By 2015, it was a way different business and we had to recreate ourselves to be relevant. The nation and the world are turning the corner and cryptocurrency is going to be a major driver of how we do business and it already is starting to get there in the great state of Nebraska. As it relates to the technical aspects of the bill, Mark Quandahl is going to walk through that with you. I've also-- would ask the page to hand out a summary-- section-by-section summary of the changes here. I'll make sure that some members of the audience also have that so they can follow along. I ask you to consider moving this bill to the floor. And I will say this about the opposition you're going to hear from Nebraska bankers. I've long enjoyed a very good relationship with them. We may disagree the way the bill is drafted now. They have and will make some good points. This is the start of the continuation of an ongoing discussion to find a way forward on something that we know is very relevant and I look forward to hearing more about their objections-- oh, here you go-- and look forward to continuing a conversation with them beyond today's hearing. I think it will be good for all of us as committee members to hear what they have to say and I have no doubt it will be well presented and offered in the most professional manner. So thank you, Mr. Chairman. I look forward to hearing the testimony on the bill.

**WILLIAMS:** Thank you, Senator Flood. Are there any initial questions for the senator? Seeing none, we would invite the first proponent to come up. Welcome, Mr. Quandahl.

**MARK QUANDAHL:** Thank you. Chairman Williams, members of the Banking, Commerce and Insurance Committee, my name is Mark Quandahl, Q-u-a-n-d-a-h-l. I'm an attorney with Dvorak Law Group with offices in Hastings, Columbus, North Platte, Sutton, and Omaha, Nebraska. I've

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been retained by Telcoinc and its founder, Paul Neuner, to assist with drafting the Nebraska Financial Innovation Act, which was introduced by Senator Flood as LB648 and LB649. So we're here to talk about LB649. I think-- you know, most of you know what my background is. I was a state senator for many years and so I sat on that side of the desk. I was a community bank shareholder and director. Senator Flood kind of gave me a promotion to a bank president. That's not true. I was just a, a shareholder and a director, so I was directly involved in the, in the industry. And then most recently, I was director of the Nebraska Department of Banking and Finance. And so I'm a product of Nebraska public schools, University of Nebraska-Lincoln, lifelong Nebraskan, and lifelong Nebraska citizen and taxpayer too. And so here from that perspective, from an industry perspective, from a regulator perspective, from a Nebraska perspective, and, and also too from a public policy perspective, that's what I hope to, to bring to this discussion. The opportunity for Nebraska and Nebraska financial institutions is right now. Just from my perspective, the Nebraska Financial Innovation Act is good for Nebraska and very good for Nebraska community financial institutions. There were some guiding principles that, that we looked at in drafting LB649 and LB648. Number one is enabling innovation and economic development in the state, (2) providing legal certainty, and (3) enhancing consumer protections and compliance with federal and state law. I have a, a letter here that I'd like to distribute to the committee. It's from Mike Dunlap, Mike Dunlap with Nelnet, also Nelnet Bank. And just to kind of tell you a little story, it was four or five years ago, Mr. Dunlap and Nelnet came to the Department of Banking and Finance with an idea because they wanted to start a bank and they wanted to start it in Nebraska. However, the statutory regime in Nebraska did not allow for an industrial bank in the state of Nebraska and so as a result, Nelnet had to go to the state of Utah and so I think you'll-- you can read the letter. It will, it will, it will speak for itself, but Nelnet has about 6,500 employees and over half of them are in the state of Nebraska and Mr. Dunlap said that if-- it was his preference that Nelnet Bank be in Nebraska, but we didn't have a mechanism to make that happen for him. So let's talk about the bill. The bill as introduced will be replaced by AM227 to LB649 and this amendment was constructed to address many of the comments the stakeholders and-- received by Senator Flood and myself since the bills were introduced on January 20 of this year. Stakeholders consulted including individual state senators, including this committee, the Nebraska

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Department of Banking and Finance, the Uniform Law Commissioners, financial institution leaders, financial institution trade groups, including the Nebraska Bankers Association, Nebraska Independent Community Bankers, Nebraska Credit Union League, various chambers of commerce, higher education leaders, Nebraska business and economic development leaders, and others. And so we're very thankful for the dialog that has surrounded the Nebraska Financial Innovation Act and the opportunities that these bills will create for Nebraska. And as Senator Flood said, but we're going to continue to listen and consult with and incorporate the best ideas from those stakeholders going forward from this point. Now so, so let's talk to the amendment. I'm going to give you the high points right now. AM227 creates a new financial institution called a digital asset depository institution, the shorthand, a digital bank. It would be supervised by the Nebraska Department of Banking and Finance. The institution would be subject to all applicable federal laws: Know Your Customer, beneficial ownership, and then also Bank Secrecy Act and anti-money, money laundering statutes. This institution will make no loans. It will take no U.S. dollar deposits. As a result, there is no FDIC insurance requirement and then also too, at any locations and on any advertising and websites, there has to be a disclaimer that deposits are not FDIC insured. There's no leverage. There's a one-to-one dollar or cash equivalent to be back-- to back every deposit in the digital asset depository institution. It's begun with \$5 million in capital. As Senator Flood said, \$5 million is a minimum capital amount. The actual amount of capital required to start one of these would be determined by the Department of Banking and Finance to ensure a safe and sound institution. He also said that actually in, in Nebraska law, there's kind of a little bit of a quirk. There's really no statutory minimum to start a regular depository bank, but if you back into it through the fee system, that amount is \$150,000 in capital. Now we all know you can't pop up a bank in the state of Nebraska with \$150,000, but that's just the, the, the fact of the matter. And this digital asset depository institution will be required to have \$5 million in capital. The corporate-- it will be a corporation. It will be formed with at least one Nebraska resident. Headquarters and office of the CEO is required to be in Nebraska and existing banks are allowed to participate. A digital asset depository institution can be held by a bank holding company. And it, and it, it also allows for a permissible investment of 10 percent of the capital of existing banks in a digital asset depository institution. I guess I'm going to stop there, ask if

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there's any questions. I do have some common, I guess, objections or,  
or questions that came up that I would like to address, but anybody  
have any questions at this point?

**WILLIAMS:** Thank you, Mr. Quandahl. Senator Slama.

**SLAMA:** Mr. Quandahl, thank you so much for being here today and for  
your service. I, I trust your experience and your ability to explain  
things in ways that people can understand. So can you just, and on a  
very basic level as we kick things off here, explain how one of these  
depositories works?

**MARK QUANDAHL:** Here's, here's what I'm going to do is, is-- I don't  
want to pass the ball--

**SLAMA:** OK.

**MARK QUANDAHL:** --but I'm going to pass the ball on this too.

**SLAMA:** OK.

**MARK QUANDAHL:** Right behind me, Paul Neuner is, is-- he, he is the  
brains behind Telcoin--

**SLAMA:** Fantastic.

**MARK QUANDAHL:** --too and he would be a lot better, a lot more  
succinct, and a lot more technically proficient in explaining how it  
works.

**SLAMA:** Sounds great. Thank you so much.

**MARK QUANDAHL:** Certainly.

**WILLIAMS:** Additional questions? Senator Bostar.

**BOSTAR:** Thank you, Chair Williams. Thank you, sir. You said that the  
headquarters and office of the CEO have to be located in Nebraska.

**MARK QUANDAHL:** That's correct.

**BOSTAR:** Would the CEO have to be a resident of Nebraska?

**MARK QUANDAHL:** There's no requirement to that.

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**BOSTAR:** Thank you.

**WILLIAMS:** Senator Lindstrom.

**LINDSTROM:** Thank you, Chairman Williams. I know you only get one shot at this coming up because you can't come back as neutral, so I would actually like to hear your, your--

**MARK QUANDAHL:** OK.

**LINDSTROM:** --arguments or if you can answer some of the questions you think are coming up.

**MARK QUANDAHL:** Sure because I mean, I mean, you're going to hear them and, and, and it's something that we all kind of have wondered and, and one of them-- probably the biggest one right now, how about use of the word bank, right, right? It's a digital asset depository institution. So to make a long story short, that, that cat has already been let out of the bag. At the federal level, there's Anchorage Digital Bank that was chartered by the OCC just a couple of months ago too. In Wyoming, as we've been talking, there's Kraken Bank and Avanti Bank that, that have been chartered that are currently-- their applications sit with the Federal Reserve in Kansas City at the moment. And also in Nebraska, there's an Attorney General Opinion from 2007, basis of, of federal preemption that allows credit unions to use the word bank, notwithstanding any prohibition of Chapter 8, Section 113, so that's one. Access to the Federal Reserve payment system, you'll hear that. Well, how can we allow that? Well, quite frankly, that's not necessarily our job here or the job of banks, that's the job of the Federal Reserve Bank. And like I said, Avanti Bank and Kraken Bank in Wyoming currently have applications pending before the Federal Reserve Bank in Kansas City and we'll see what, what comes out with those. Also regulations, that's a question, is, is that will these banks be subject to the same regulations as a traditional depository bank? Short answer is yes. Know Your Customer, anti-money laundering, the Bank Secrecy Act, beneficial ownership, all the same. And I'd say too is that virtual currencies are currently regulated by no less than the, the Department of Treasury, the Financial Crime Enforcement Network, the IRS, the SEC, the FTC, the CFTC, and the OCC at the present, so it's not like these banks are not already subject to regulation. And then on a state level too, Wyoming, on their digital banks, also regulate digital banks and practically all states

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have laws that regulate money transmitters that deal with virtual currencies. So the capital requirements, I think we already talked about the \$5 million in capital for a digital asset depository. The Community Reinvestment Act, you know, that, that, that is one actually that-- you know, the bankers said well, shouldn't a new organization, a new financial institution be required to give back to the community? And the answer is absolutely. The Community Reinvestment Act is a little bit clunky. It doesn't exactly fit into this because it's tied to FDIC insurance requirement and also talks about providing credit, dollars, loans to underserved commit-- or communities and so it doesn't quite work, but I will say that we agree-- Telcoin agrees that, that financial literacy, community investment, or some kind of community engagement is a reasonable requirement for these. Illicit activities, let's talk about illicit activities, right? You know how we could get rid of most of the illicit activities? Is do away with cash because most illicit activities are conducted with cash. And how much? I have a couple of reports and if you care to see them, I can, I can send them out to you too, but in 2020, Chainalysis, which is a, a, a company that provides reports and analyzes blockchain transactions-- in 2020, criminal share of cryptocurrency activity was 0.34 percent, 0.34 percent. Now how does, how does that compare to the whole? According to the United Nations, it's estimated that between 2 to 5 percent of global GDP, which is \$1.6 trillion to \$4 trillion, is connected with money laundering. So the vast majority of illicit activity happens with cash and not with virtual currencies and so that's not a fair way to paint a, a proposal such as this. How many jobs in Nebraska? Well, we don't know. I mean, that's, that's, that's-- we don't know how many, but I would kind of hearken back to when I was in the Legislature, we passed a law that allowed for credit card banks in the state of Nebraska. And what happened from that was World's Foremost Bank, Cabela's credit card, they still-- with Capital One here in town, there are between 500 to 800 jobs in the city of Lincoln because of that change of law. Another thing you're going to hear is, hey, this is too new, right? It's-- these are untested waters, right? JPMorgan Chase, American Express, Bank of America, Fidelity, MassMutual, Morgan Stanley, PayPal, Square, Bank of New York Mellon, Visa, Mastercard, BlackRock, that list explains [SIC] daily. They all have positions and all have interests in, in virtual currencies. As a matter of fact, JP Chase is issuing their own stablecoin. Also, too, the Federal Reserve Bank is looking into Central Bank Digital Currencies at the moment. And also virtual

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currencies at the moment have a market cap of about \$2 million. Now about a month ago, that was about \$1 trillion and just to kind of show the maturation or what's going on is Canada actually authorized three new ETFs, exchange-traded funds, to deal just strictly with cryptocurrency. So, so with that, I kind of rambled on a little bit, but--

**LINDSTROM:** Well, you answered my question.

**MARK QUANDAHL:** OK, thanks for that question.

**WILLIAMS:** Senator Slama.

**SLAMA:** But unfortunately, you sparked a question for me, so sorry about that. Can you speak-- I, I know you brought up the use of cryptocurrency with organized crime and how it's a very small percentage of overall transactions. But we can't overlook the fact that a lot of the largest human trafficking rings that have been busted in the last few years have depended on cryptocurrency to hide a lot of their transactions. So could you speak towards the steps that law enforcement, cryptocurrency are taking to crack down on this? Because obviously human trafficking is something that's an issue that I've worked with pretty extensively.

**MARK QUANDAHL:** Right, right and that's, and that's a great question too. And, and there are going to be some folks that are going to be behind me that will, that will probably be able to answer this, but just the nature of blockchain and distributed ledger technologies makes it a lot easier, as a matter of fact, almost seamless, to track transactions other than cash. And so, so, so with a regulated entity and with a regulated industry like what we're talking about creating, that would do away with what you're talking about as far as being an anonymous transaction that can't be traced, so-- but I'll let the technical guys explain it to you.

**WILLIAMS:** Senator Bostar.

**BOSTAR:** Thank you, Chair Williams. All right, so you mentioned that the FDIC insurance was unnecessary because the deposits are backed by-- at a, at a one-to-one ratio of cash or cash equivalent. For the purposes of LB649, could you tell me what a cash or cash equivalent is?

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**MARK QUANDAHL:** Well, cash or U.S. treasuries would be, be probably the easiest way to, to explain those, but something that's pegged to the U.S. dollar that doesn't have a whole lot of fluctuation and volatility, so--

**BOSTAR:** So-- OK, so here's my-- if a-- we'll just call it a, a, a digital deposit institution.

**MARK QUANDAHL:** Um-hum.

**BOSTAR:** I can't remember the full name that this is going by. You know, let's say that a customer deposits 100 or let's say 1,000 bitcoin and so then the, the bank would have to have on hand the equivalent amount of cash or cash equivalency, correct?

**MARK QUANDAHL:** At the time, that's, that's correct.

**BOSTAR:** At the time and let's say then the next day, the value of that bitcoin goes up 1,000 percent. How quickly does the bank need to increase its reserves in order to accommodate the rising value of the asset they're holding?

**MARK QUANDAHL:** OK, at the, at the, at the risk of, of seeming like I'm deflecting that-- the, the answer to that question, Paul Neuner and I actually just talked about this last night. He's coming up next and as the-- kind of as the founder of Telcoin, if, if, if you could wait on that, but I'll ask him to answer that question. He's giving me the thumbs up. We'll get you an answer.

**BOSTAR:** Perfect. I, I, I have more maybe that, you know--

**MARK QUANDAHL:** Oh, sure. Yeah, go.

**BOSTAR:** Sorry. Senator Flood, in his opening, talked about or, or mentioned these kind of institutions branched into Nebraska from elsewhere. That-- I think, I think the, the point he was trying to make is that whether we like it or not, this is here. So I, I kind of want to under-- I want to understand that a little better.

**MARK QUANDAHL:** Basically, it's a federal preemption issue. I'll give you 12 USC 1831. It governs, governs interstate branching and so if a branch is in-- basically any, any bank, it can branch into another state, right? It can acquire customers of another state too. The

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primary regulator, for instance, if it was a Wyoming bank that was going to branch into Nebraska, would be the Wyoming Division of Banking and so-- I'll tell you too is, you know, Nebraska has 143 state-chartered banks and many of them have branches outside of the state of Nebraska: Colorado, Wyoming, Texas, Iowa. So the primary regulator of those Nebraska state-chartered banks still resides with the Nebraska Department of Banking and Finance and so the same sort of thing would happen with the digital banks.

**BOSTAR:** So tomorrow-- and I can't remember the names of the institutions you mentioned, but the, the banks that have been created in Wyoming that do essentially what we're thinking about today, they could-- and I don't know if they're a brick-and-mortar kind of operation, but, but hypothetically, if they were, they could open up a, a branch here in downtown Lincoln.

**MARK QUANDAHL:** Not quite yet because they've been issued a charter by the state of Wyoming and then they have to make application to the Federal Reserve Bank in Kansas City and that's where their applications stay right now.

**BOSTAR:** Could you tell me a little bit about that process?

**MARK QUANDAHL:** I'm not an expert on that process, but basically, you know, there's multiple applications that go out there. But in order to become a fed member, in order to have access to the fed payment rails, an application has to be made to the Federal Reserve Bank in the district and we happen to be in the 10th Federal Reserve Bank District, which is headquartered in Kansas City and as is Wyoming too, so, so, so it's the same thing. So they have to fill out an application and basically the folks in Kansas City go through almost the same sort of considerations that the state of Wyoming goes through to ensure that the institutions that are applying for fed membership are operating in a safe and sound manner to protect the customers and the integrity of the entire payment system too.

**BOSTAR:** So banks can be chartered in the state and they can also receive a federal charter?

**MARK QUANDAHL:** And that's, that's, that's something too. So you can either have a, a federally chartered bank from the OCC, so national banks, or state-chartered banks, but all the-- they're all-- there

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always has to be a secondary regulator. So instance, in-- for state-chartered banks in Nebraska, there has to be a secondary federal regulator, either the FDIC or the Federal Reserve, right? And the reason why is, is that basically they alternate doing exams and they go in and they check each other's math, so-- make sure that the institutions are operated in a safe and sound manner to, to, to make sure that the depositors' funds are always safe. You know, and every once in a while it, it, it doesn't happen.

**BOSTAR:** Could you create one of these banks through a federal charter?

**MARK QUANDAHL:** Yes. Right now, the OCC has granted at least one charter and I know there are other applications pending. So the, the name of the bank that has been issued a, a federal charter is Anchorage Digital Bank and so that's out there right now. And I assume, I guess I don't know, but I think it's application for fed membership is-- probably is pending also.

**BOSTAR:** Thank you very much.

**MARK QUANDAHL:** OK, thanks.

**WILLIAMS:** We're not done yet. I'm sorry, Mr. Quandahl--

**MARK QUANDAHL:** That's all right.

**WILLIAMS:** --I have a few questions and, and you just spurred one of them right there talking about secondary regulator. Who would be the secondary regulator for a digital asset depository institution in Nebraska?

**MARK QUANDAHL:** The secondary regulator, in this instance, I-- Federal Reserve.

**WILLIAMS:** If they were allowed membership.

**MARK QUANDAHL:** Correct.

**WILLIAMS:** If they were not allowed membership, there, there wouldn't be a secondary.

**MARK QUANDAHL:** Correct.

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**WILLIAMS:** OK. Every time I've read the bill, which has been numerous times since the new amendment came out last Friday, I've got a few questions going through. On page 3, Section 4-- and I, I assume you've got a copy there.

**MARK QUANDAHL:** I do.

**WILLIAMS:** Having not seen this before-- I know this was in the first draft also-- if a provision of Nebraska law conflicts with the Nebraska Financial Innovation Act, the provisions of this act control. Is, is, is this a normal provision and isn't it-- couldn't it be interpreted as being overly broad?

**MARK QUANDAHL:** I, I understand what you're saying. It's just kind of a conflicts of law and so it would be-- if there was a question of a conflict of law, this would resolve it because it would be clearly in the statute.

**WILLIAMS:** We would go here to resolve the conflict, not another place?

**MARK QUANDAHL:** Correct.

**WILLIAMS:** You also, in, in Senator Flood's opening and your testimony, talked about that there's-- lending is, is off the table in this. I have read on, on page 4, starting at line 24, subsection (3) there, I have read that numerous times and I'm still struggling to understand what it really means. And I would ask if you could help me with that. Starting in the middle, it says, "Notwithstanding this prohibition against direct lending by a digital asset depository institution, a digital asset depository institution may facilitate the provision of financial services resulting from the interaction of depositors with decentralized platforms including, but not limited to, controllable electronic record exchange, staking, controllable electronic record lending, and controllable electronic record borrowing."

**MARK QUANDAHL:** Right and here's, here's what kind of the, the shorthand version of that and I'll let--

**WILLIAMS:** Help me because I don't understand what I just read.

**MARK QUANDAHL:** Right and I, I may let some of the folks behind me describe the, the decentralized finance, but in-- just a shorthand is it-- the bill is written to prohibit any U.S. dollar lending, any U.S.

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dollar borrowing, right? And so this does allow for, when you're talking digital assets, an-- a somewhat similar thing in lending and staking, but it makes clear that there will be no-- basically no competition with existing banks in making U.S. dollar loans. It just strictly would be confined to the digital asset or controllable electronic record space.

**WILLIAMS:** So the lending prohibition only deals with U.S. currency loans?

**MARK QUANDAHL:** Fiat currency, that's correct.

**WILLIAMS:** OK, OK. Moving on, there seems to be-- you know, bank, banks deal with a depository limitation in Nebraska and that is taken out of this on page 5, line 19 and 20, the deposit limitations shall not apply to a digital asset depository institution. Can you help me understand why that's necessary?

**MARK QUANDAHL:** Yeah, the depository limitations-- and I'm not sure exactly of the history behind them in the state of Nebraska too, but that, again, deals with U.S. dollar currency or fiat currency. And so if we're talking about an institution where the deposits are strictly controllable electronic records or digital assets, that doesn't seem to fit in this particular institution.

**WILLIAMS:** OK. Senator Bostar asked the question about the 100 percent secured and the assets behind that and I understand that Mr. Neunen [SIC] is going to discuss that at some length, but I think that's of-- certainly of interest. Going a step beyond that, something that's created in this legislation that, that I have not seen before is what's called the contingency account for unexpected losses and expenses that is created at the-- not less than 2 percent and again, it's, it's structured so the director of banking would determine what that is. Is, is this basically a substitute for capital?

**MARK QUANDAHL:** Not necessarily. That was something that was borrowed from the Wyoming law and in talking with the folks that wrote the Wyoming law, there was a concern or there was some sort of a mechanism that was required to allow for-- well, and they called it a contingency fund, right-- to make sure that, you know, if, if, if the wheels did go off the track, if something did go wrong, that there was a buffer, right, kind of an-- I'm not going to call it insurance

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because it's a contingency account-- so that the institution can  
recover, maintain itself in a safe and sound manner, but that was  
borrowed from Wyoming.

**WILLIAMS:** OK and if, and if I'm understanding it correctly, that fund  
is created by taking customer-- depositors' money and creating that.

**MARK QUANDAHL:** That's correct.

**WILLIAMS:** I, I virtually can't imagine a situation that you could go  
to a depositor. Now again, I think traditionally as a banker, OK, so  
that if, if my bank struggles, I have to go to a depositor and say  
those deposits that you put into my bank, I'm going to take some of  
those as a contingency for my screwups. I'm-- am I, am I missing  
something there?

**MARK QUANDAHL:** It-- maybe just a little bit in that the accounts--  
there won't be a traditional account card, right, that's, that's  
signed at the beginning, but there will be a smart contract that's  
entered into at the beginning of the relationship. And so anybody that  
chooses to, right, to deposit their, their digital assets in a digital  
asset depository under this law would-- as a part of that would say,  
OK, I mean, we're also going to agree to contribute that 2 percent  
contingency fund, which also too there's provisions that if they were  
to close their account or if they ever, you know, be done with it,  
that they get that back.

**WILLIAMS:** Unless there's a failure?

**MARK QUANDAHL:** That's correct.

**WILLIAMS:** Yeah. We talked about the capital requirements. You, you  
brought up the name issue. There's, there's nothing in the legislation  
that would preclude a digital asset depository institution from simply  
having a bank in their name. Is that correct?

**MARK QUANDAHL:** Correct, yes.

**WILLIAMS:** OK. I think my last question-- if I go to page 8, line 15--  
whoops, no, excuse me, it's number 8-- page, page 15, line 6 talks  
about maintaining appropriate insurance--

**MARK QUANDAHL:** Right.

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**WILLIAMS:** --and bond coverage, covering the operational risks. Do we know if that's available?

**MARK QUANDAHL:** That's-- actually, I am not sure. I'm not sure if, if Mr. Neuner has looked into that too, but, you know, a lot of that would challenge you-- coverage for D&O liability, right, errors and omissions and information technology--

**WILLIAMS:** Those are big issues--

**MARK QUANDAHL:** Yeah.

**WILLIAMS:** --and, and fluctuating issues for, for the banking industry, depending on circumstances that banks find themselves in, the availability of, of buying bonds, surety bonds, those kind of things, as-- you and I have talked about--

**MARK QUANDAHL:** Yep.

**WILLIAMS:** --that over the years-- of companies in and out of that business.

**MARK QUANDAHL:** Yep.

**WILLIAMS:** I'm just asking the question, are they even available for a digital asset depository institution at this point?

**MARK QUANDAHL:** Here's, here's I guess what I'd, I'd, I'd say. Just kind of knowing the in-- the insurance industry too is, is that generally there's an insurance product that's available at a certain price, if you know what I mean, so--

**WILLIAMS:** Thank you for answering my list of questions.

**MARK QUANDAHL:** Certainly.

**WILLIAMS:** Any additional questions for-- Senator Bostar.

**BOSTAR:** Thank you, Chair Williams. Thank you again.

**MARK QUANDAHL:** Sure.

**BOSTAR:** Chairman Williams kind of prompted a question for me. You mentioned stablecoin. My understanding of stablecoin, and it is

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limited, is that it is a digital asset that is sort of pegged to the  
dollar. Am I understanding that correctly?

**MARK QUANDAHL:** That's, that's what I would call it, yes.

**BOSTAR:** OK, great. Well, learning new things every day. So there's a  
prohibition on lending dollars. Could you lend and make loans with  
stablecoin?

**MARK QUANDAHL:** Un-- under this-- and that was kind of the  
conversation--

**BOSTAR:** Right.

**MARK QUANDAHL:** --that we were having earlier. Short answer is yes, it  
does allow for that.

**BOSTAR:** So functionally, what would be the difference between lending  
in dollars and lending in stablecoin?

**MARK QUANDAHL:** Difference between something being fiat currency money,  
if you will, and a controllable electronic record or digital asset and  
so the definitions are different. You know, they have different  
nature, nature.

**BOSTAR:** OK, thank you very much.

**MARK QUANDAHL:** Yeah.

**WILLIAMS:** Any additional questions? Seeing none, thank you for your  
testimony.

**MARK QUANDAHL:** Thank you.

**WILLIAMS:** Invite the next proponent. Welcome, Mr. Neuner.

**PAUL NEUNER:** Thank you, sir. Good morning, Chairman Williams and  
members of the Banking, Commerce and Insurance Committee. My name is  
Paul Neuner, N-e-u-n-e-r, and I'm here to testify in support of LB649.  
As the CEO and cofounder of Telcoin, I want to thank Senator Flood for  
introducing this important proposal. Originally from St. Louis, I  
headed to D.C. after graduating from Notre Dame in 1997. Several years  
later, after stints abroad, I cofounded a mobile cybersecurity firm in

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northern Virginia. I was particularly involved in the management of subsidiary, dealing with fraud and security applications of our software for cell phone companies globally, helping telecom CFOs reduce fraud losses and improve security. I've also been involved in the tele-- telecom industry GSMA Fraud and Security Group for more than a decade, hosting their global conferences on multiple occasions. After a successful sale of the company four years ago, I started Telcoin and as a partner for telecom operators to partici-- participate in blockchain-based financial services. Our initial use case is international remittances. There are nearly, nearly four times as many mobile phones with act-- I'm sorry, there are nearly four times as many mobile phones in the world as active bank accounts with payment capability, yet the people around the world are still lining up to send money with-- through high-cost remittance agents. We seek to innovate in this space by putting U.S. based and hopefully Nebraska-based fintech in the middle of global remittances and also digital asset transactions. We launched our first corridor from Canada to the Philippines just last week and I have no doubt that very soon, we'll be the easiest and safest way for immigrants in Nebraska meatpacking facilities to send their money home to their loved ones. Last year, we began, we began preparations to operate in the United States and I told my old friend and college roommate, Senator Flood, that I was considering applying for the new digital asset charter in Wyoming. Senator Flood went to great effort to convince me to consider Nebraska. Even though it might take a longer time, it would pay off. And I made that commitment to Senator Flood that if Nebraska can pass legislation this year to enact a similar charter in Nebraska, Telcoin will move its headquarters to Norfolk, Nebraska. I assure you that I plan to keep this promise to my old and dear friend. In fact, we've already hired our first software engineer in Norfolk just last week. I've also assured Senator Flood that Telcoin is unique in our industry in our commitment to a compliance-first approach to seeking out regulation in the United States and a constructive partnership with a forward-thinking regulator like the Nebraska Department of Banking and Finance. Of course, all innovation involves a calculated balance of risk versus reward. I'm here to assure you that we are a partner who can help you capitalize on this opportunity in a safe manner. I also want to stress how great of an opportunity this bill is for Nebraska. The front page of The New York Times just yesterday talks about a V-shaped recovery-- economic recovery and recent signs of a coming economic boom. Not only, not only is there pent-up cash in demand from

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pandemic and stimulus, but the way corporations operate has fundamentally changed. People now can work from a major corporate-- for a major corporation from the comfort of their hometown in northeast Nebraska just as easily as they can in Omaha or lower Manhattan. I believe that we are indeed approaching a, a unique economic boom and that what we're discussing today, financial technology innovation, will prove to be a major factor in this boom. There are currently \$46 billion on deposit in Nebraska-chartered banks. If you pass this legislation today, I would be disappointed if that number doesn't at least double in the next five years. Whether that translates into 10 Telcoin jobs in Nebraska or 10,000 largely depends on how well we execute our plan as a company. But for Nebraska, the out-- outcome is far more certain, I believe, because there are plenty of other companies in this space, including some here in this room who will talk to you today, who are already in Nebraska. Most importantly, passing this legislation now would send a signal to fintech investors and entrepreneurs that Nebraska is open for business and serious about leading the way in creating the regulatory environment that is needed for this exciting new sector. Over the weekend, I helped my twin eight-year-old boy to write his how-to book about how to boogie board. I know there aren't a lot of waves in Nebraska, but as I think you all know and he rightly pointed out, it is critical to be bold and get out ahead of a wave. Thanks to the great efforts of Senator Flood and Mark Quandahl, Nebraska is in a position to get out in front of this historic wave. Just because you pass this legislation doesn't mean you can't have high standards in considering who you let in the door and I think you're lucky to have Kelly Lammers in the department that understands this technology and what is needed to make it safe for consumers. I know that Jamie Dimon wants Nebraska bankers to fall in line and resist this and slow this effort while he builds his own crypto army behind his back. But I encourage you all to think of this-- of the seed of innovation that you can plant here today. Think of your children and grandchildren and the sort of economic opportunities that you want for them here at home in Nebraska and consider for a moment to seize this very rare chance to do something bold for the future of the great state of Nebraska. Thank you.

**WILLIAMS:** Thank you for your testimony. Senator Slama.

**SLAMA:** Thank you, Mr. Chairman. And thank you, Mr. Neuner, for being here today and for considering investing in the state of Nebraska. Not

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pulling any secret punches here, going back to the question I first asked Mr. Quandahl, could you, on a very basic level, explain how one of these depositories works?

**PAUL NEUNER:** Well, first of all, I want to thank Mark again and, you know, I-- for taking all the arrows too and I think we definitely do need some amendments because there's clearly some misunderstandings just from this line of questioning. So first of all, there are no loans, digital or, or fiat, so the, the point is that everything is 100 percent backed, 100 percent, and it's really a technical custody vehicle, right, or institution. So in the case of decentralized finance, what ends up happening is that, sure, the customer-- what we're effectively talking about is a regulate-- there's already Nebraskans that are investing in this all over the place, right, buying crypto and staking it. If you buy USDC right now, you can stake it online for 8 percent. I mean why would you, you know, why would you, you know, put in a CD for 0.25 percent if you can do that? I think a lot of that is temporary because people are just learning the system. But the point is that, you know, there is, there is a need for a regulator that actually understands, you know, how to safely allow a gateway that's properly "KYCed" and, and, and prevents fraud to, you know, allow Nebraskans or just-- or citizens gen-- in general to access those sorts of products. So, so really, the, the role is-- reconsiders what it means to take custody. I think the, the, the old or the current definition of custody from a bank perspective effectively means that we're able to lose your money. And I don't mean that in a negative way. I mean that, you know, you do actually have to prove that you, in fact, are, are controlling that interest for the customer. I think that in the, the, the digital bank perspective, you can have multi-signature type arrangements where, you know, that's set up by the bank and that's really the role of the, the institution is to set up that sort of multi-signature type custody control for assets for the customer so they can safely hold them for them. But in, in that sense then, you know, there's-- the user could have, for example, one key to his money, the institution could have one, and a third party could have a third. And I don't know if that answers your question, but, you know, that's, that's important to understand that this isn't about just wrapping digital around it and then you can make loans. That's not the, the function of, of, of the institution.

**SLAMA:** Fantastic and I'll, I'll ask you another question that I asked Mr. Quandahl and I appreciate your experience on the cybersecurity

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front. I think that's very helpful in terms of this question. I--  
cryptocurrency as a whole accounts for a relatively small percentage  
of crime funding, but when it comes to human trafficking, which is an  
issue that I've worked on, it's been involved in most of the major  
human trafficking rings and funding them worldwide for several years  
now. Can you speak to, just moving forward, what cryptocurrency, what  
our regulators, what our institutions, should they come up, are doing  
to ensure that dark-- this isn't going the wrong way?

**PAUL NEUNER:** Yeah. Well, I think an interesting parallel is to look at  
the history of communications in developing the Internet. You know, if  
you judge the Internet on what was out there in 1996, there would be  
no Internet today, right? Ten years later, when things got much more  
serious in terms of communications moving onto smartphones and  
whatnot, you know, the FBI came out with a going dark program  
effectively saying, you know, wait a minute, we can no longer tap in  
the middle of a, of a, a sack-- a circuit switch communication. We  
need to put a back door into every Cisco router on the Internet. Well,  
you know, it didn't take them long to figure out that that was absurd.  
If you, if you offered that, you'd have to offer that to every  
government in the world and the Internet would no longer exist. So  
the, the point I'm trying to make is that, you know, after that, what  
they realized is, you know, the Internet is actually way more  
traceable. If you want to find a criminal, you just need to focus on  
the doorways to the system and that's what they did in communications.  
They focused it not on trying to get in the middle, but on, on the  
doorways and making sure that every Internet provider properly knows  
their customer. And it-- and those-- and that if you do that, you know  
how to trace it through. The same thing applies, I think, in finance  
with cryptocurrency. If you properly-- if you don't have a regulate--  
a proper charter and, and regulatory body that understands this and  
knows how to enforce it, you'll have people all out there just trying  
to access it kind of without, without any proper doorway. The point is  
that if you do have an institution that properly "KYCs"-- I'm sorry,  
knows their customer-- and it properly focuses on the security of the  
doorway into the system, the bottom line is, is it's way more  
traceable than the, the swift transaction or a, or a Swiss bank  
account or, you know, traditional banking transactions.

**SLAMA:** Sure and just a follow-up from that, and this is probably a  
very elementary-level question, but what role-- I think in the United  
States, we've made it a priority to get on the front end of this, like

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how we have altered investigations on the Internet. But when we're setting up corridors, I--when institutions in the United States are setting up corridors between foreign countries, like in your example, Canada to the Philippines-- we could be talking about a lot of different countries-- what role could U.S. investigators play in tracking and making sure that those corridors, the transfers operating between them, are going to legal--

**PAUL NEUNER:** Well, I think you--

**SLAMA:** --areas?

**PAUL NEUNER:** Yeah, I think you're-- yeah, I think you touched on a very important topic here. If you look at the, again, the communications case, what role did the U.S. or what access did U.S. authorities have into communications around the world? Well, you may be initially freaked out about the Internet, but at the end of the day, you realize that it actually was a national security asset to have the, the, you know, U.S. technological-- technology companies in the center of global communications and the same goes here. If you have the ability for, you know, that the-- putting the U.S. federal payment system in the center of-- and, and having, you know, fintechs be able to properly connect to it and use it, that create-- that's a major asset.

**SLAMA:** Um-hum.

**PAUL NEUNER:** --and I think we should grow that and make sure it's safe, not just try to restrict it. You shouldn't have people like, you know, there's a couple here-- young entrepreneurs here in Nebraska working in crypto. They didn't even try-- they don't even try to open a bank account, OK, so-- because they know they can't. It's-- right now, it's nuclear. You need to do-- denuclearize it so they can access, access the banks. And that's an opportunity for Nebraska banks if you-- in my opinion. Don't give that straight just to Silvergate in Silicon Valley or, or whoever in, in, in New York, you know. Let-- allow Nebraska banks to participate. I think I strayed from your question. I apologize, but--

**SLAMA:** No worries. Yeah and just to kind of pivot here, can you-- I, I understand the benefit of this bill as a potential economic development for Nebraska, which I think is outstanding, especially

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from your company's perspective. Can you quantify for us and talk about the different kinds of jobs that would be available should this get set up in Nebraska?

**PAUL NEUNER:** Well, one of the things that Senator Flood was quick to remind me when I arrived yesterday is that Nebraska actually has, I think, the lowest or one of the lowest unemployment rates in, like, what, 3 percent in the country right now? I think the, the, the point is not who's in the, the state of Nebraska right now, but, you know, who else could be in terms of keeping people from leaving and also what sorts of jobs there are, right? So from our perspective, you know, I think that banking compliance, just like, say-- again, I'll go back to my communications analogy. This is back in the-- you know, in the, in the old, old days, people communicating between two different countries abroad were exclusively lose-- using their local telecommunications operator, whereas today there's tons of jobs that were effectively created in the United States by tech giants that are facilitating the, the sort of upper layer of those communications. You know, the local companies really just give, you know, access through the Internet and from there-- I think that's the sort of jobs that we would bring here is basically banking operations, both from a comp-- compliance and legal and logistics standpoint, which, you know, are, are, I think-- honestly, if you look at Wyoming, I don't-- I can't imagine that they're-- you know, here you actually have, I think, a, a viable crop of, of smart people and, and of college graduates that actually fill that. So it's-- I'd say-- when I say banking compliance and operations, I don't just mean someone that is filling out a form and is doing a due diligence form for someone applying for a bank. In, in our case or in somewhat similar to what we're doing, it's a lot more technical-- actually interfacing not only how do you store the technical aspects around how you "custody" digital assets, but then how you connect those to other systems, so connecting to all of these different payment platforms around the world. That's really what they would be doing. So a lot of-- you know, not the absolutely, say, high-end product tech developer, but more-- the bulk of the jobs would really be a lot of that, integration engineers and whatnot.

**SLAMA:** Um-hum and I appreciated Senator Flood's point in the introduction that right now, a, a limited number of jobs associated with this would be required to be in Nebraska. I think the CEO would have to be here and that's just about it. What incentives from a

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business perspective are there to have these jobs be in Nebraska  
without some sort of government mandate? Are there benefits?

**PAUL NEUNER:** Yeah, I mean, I think that, like, right-- you know, right  
now I've-- we've been hiring people in Los Angeles. It makes sense for  
marketing a product to-- a remittance product, right,--

**SLAMA:** Um-hum.

**PAUL NEUNER:** --to people sending money abroad. But in terms of jobs  
that-- for banking compliance and operations, somewhere like Nebraska,  
I mean, you really want people who are smart, have integrity, and  
that-- it's really a trust business. To me, I think the Mid-- I'm from  
St. Louis, Missouri. I'm from the Midwest. I think that has a brand  
and, and, you know, I'm not saying that labor is necessarily cheaper  
here than in New York, but it is, you know, so I, I would say that the  
starting point is-- I think it's more economical, but also there is a,  
you know, a, a integrity brand in, in the Midwest.

**SLAMA:** Um-hum, no and I appreciate that. Is there any specific  
benefit? I-- rural economic development is another one of those things  
that I've-- Senator Flood and I share an interest on. Like, what's the  
direct benefit? And obviously, we've got a great crop of young people  
here in Nebraska that would be well qualified and great fits for the  
job, but what's keep-- what, what would keep them from just sitting at  
home and working in Omaha or in Lincoln? What, what's going to bring  
them out to Norfolk, to Auburn, to Ogallala to be--

**PAUL NEUNER:** Well, I mean-- yeah. I mean I can't imagine that we, we  
wouldn't also have an Omaha--

**SLAMA:** Um-hum.

**PAUL NEUNER:** --office, right? So, you know, the idea is that you can  
actually work from anywhere, right, so the-- it, it kind of works both  
ways--

**SLAMA:** Um-hum.

**PAUL NEUNER:** --right, in that you can work from Norfolk versus Lower  
Manhattan, but also you could work from anywhere else, from Peru or,  
or, or wherever. So, so, yeah, I mean obviously there would be jobs  
spread out.

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**SLAMA:** Um-hum.

**PAUL NEUNER:** I'm assuming that any job in Nebraska would count. Again, I don't, I don't really see this as something where-- that's the least of my concerns. I think we'll be able to hire people in Nebraska--

**SLAMA:** Um-hum.

**PAUL NEUNER:** --and they will be able to do the job. How many can we physically have in Norfolk? I, I guess that depends how good of a job Senator Flood does in attracting other, you know, attractions there, but yeah, no, definitely I'm not kind of naive on that point.

**SLAMA:** Sure. Thank you very much. I appreciate it.

**WILLIAMS:** Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Chairman Williams, and thank you for being here. From what I understand, the primary use of this cryptocurrency is going to be for remittances, is that correct?

**PAUL NEUNER:** That's our initial use case and, and, and-- for Telcoin, yes.

**McCOLLISTER:** What advantages does cryptocurrency have over more conventional ways of money transfer?

**PAUL NEUNER:** So if you look at today what happens in a remittance transaction, it's from fiat, USD, deposited into the money transmitter's account for up to, let's say seven days and then remitted abroad in bulk and, and then cashed out as fiat on the other side. From the, from-- the way that-- and that's-- by the way, we actually have two tracks. Right now, we do do plain vanilla fiat remittances alongside having a, a multi-signature wallet. But yeah, the idea in the future is though we could actually have crypto or digital equivalents of all the currencies, so anyone in the world would have equal ability or right and-- to, to hold any of them. You could hold Ghana shillings or Filipino pesos or, or U.S. dollar equally. And, you know, the idea is then a remittance is effectively any cross-border transfer of, of a digital asset, say, time-stamped to its USD equivalent at the time of the transaction. So it's really about breaking down that barrier of forcing a remittance to be something that is strictly fiat to fiat and, and having the ability

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to-- for the user to actually just convert that and hold digital assets. They could be a digital version of any currency in the world, if they-- if you have a lot of relatives in, in Mexico or wherever, you could-- you might want to hold a lot extra pesos just out of convenience of it. It might end up being a, a, an accounting convenience, if, if nothing else.

**McCOLLISTER:** So is it convertible into dollars now? Are there-- it-- does it have a value or cryptocurrency have a value in dollars?

**PAUL NEUNER:** Well, it depends. So, you know, there's the concept of crypto, which is effectively just distributed ledger, which, which means and that's the system it's running on, but what assets you create on top of that are, you know, are-- could be a stablecoin in that it is directly convertible to its underlying asset that it represents. So in the case of a USDC, which is Circle or Coinbase's USD, yes, that's, that's represented by a U.S. dollar. So at-- on-- at any given moment, the exact amount of USDC that's on the blockchain is represented by USD deposits in a, a bank in the United States and exchangeable at all times, one to one.

**McCOLLISTER:** Just so I understand, somebody-- a meat processor in Nebraska makes a remittance to Mexico and that's convertible into pesos?

**PAUL NEUNER:** So the-- right, so basically, if you-- what we're talking about here is that effectively, they would end up holding likely more USD abroad from this, right? So in the current state, you cash in USDs and you just send it to Mexico and they're cashed out immediately into Mexican pesos, into a Mexican bank. What will end up happening is that, yeah that-- because they have the legal right to hold it, you'll probably send U.S.-- the crypto USD to the person in Mexico and they'll hold it until they want to pull it out. And so during that whole time, those deposits stay in, you know, a deposit here in a Nebraska-chartered bank, if that's possible, and on-- in the security of the fed payment system, so that's-- of course, to the extent that you can create a foreign currency that's backed by USD is, is another topic, but that-- the intent, at a fundamental level, is a one-to-one relationship and you're essentially using fintech to extend that deposit abroad--

**McCOLLISTER:** Right.

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**PAUL NEUNER:** --so--

**McCOLLISTER:** So the person receiving the crypto would generally keep  
the cryptocurrency until they want to?

**PAUL NEUNER:** I think so. I think the net effect will be a huge amount  
of additional deposits here that represent digital assets abroad.

**McCOLLISTER:** You're only securing all of these transactions with \$5  
million?

**PAUL NEUNER:** No, no your-- there-- you're, you're securing it 100  
percent with-- you're not-- so that's, that's-- I think the, the  
misunderstanding is that there is-- a lot of the aspects that the  
current bank is expected to have in place in terms of safeguarding are  
not really relevant in this case because you are actually depositing  
100 percent. You're not taking that bitcoin in that example and  
backing it by U.S. dollars, you're backing it by the bitcoin. You're  
not "rehypothecating" it at all. So it's, it's not relevant, I don't  
think.

**McCOLLISTER:** Thank you.

**WILLIAMS:** Senator Bostar.

**BOSTAR:** Thank you, Chair Williams. Thank you, Mr. Neuner. All right,  
I'm going to try to work through these.

**PAUL NEUNER:** Can I get some water by chance?

**WILLIAMS:** Yes.

**BOSTAR:** The previous testifier talked about how the requirement for  
headquarters and office of the CEO to be located in Nebraska doesn't  
include the actual residency of the CEO. I guess-- so my question  
would be if LB649 passes, are you moving to Nebraska?

**PAUL NEUNER:** Well, yeah, I, I like Norfolk and I like Michael and so  
I'd, I'd consider it.

**BOSTAR:** OK. All right, so cash or cash equivalency.

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**PAUL NEUNER:** Oh yeah, so I apologize to Mark that I-- we didn't properly understand that provision, which obviously is going to, I think, require an amendment because there is-- we are not, again, trying to back anything with anything else. So if you deposit bitcoin with--- in, in Telcoin's case, that's not what we're going for. In say Avanti in Wyoming and, and the others, their initial use case is exactly that. They want-- for institutions and corporations, they want a way to legally "custody" Bitcoin or some other cryptocurrency. That's not our, that's not our business model, but of course, this charter talks about that and if somebody does want to do that, like if a Nebraska bank wants to "custody" Bitcoin, the expectation under this charter is that you do not convert that into anything else. You hold that Bitcoin. So there, there is no need to adjust or, or-- what, what that asset is backed by in U.S. or a U.S. dollar equivalent.

**BOSTAR:** So we could, we could theoretically try to clarify that.

**PAUL NEUNER:** Yeah, we needed to-- we would need to.

**BOSTAR:** I got you. Thank you very much. So and, and then-- I think through the questions with Senator Slama, just to clarify also, there wouldn't be-- the intent isn't to create an institution that can do lending of any kind, digital or otherwise.

**PAUL NEUNER:** That's correct.

**BOSTAR:** OK.

**PAUL NEUNER:** So the, the idea right now is that you're really decoupling the concept of "custodying" someone's assets from these sort of staking layer or risk layer or, or what have you. And the current situation right now is you deposit \$100,000 in bank. The bank loans \$90,000 of that to your neighbor to buy a house for, for, like, 3 or 4 percent, and that there's this FDI system that's subsidized by U.S. taxpayers that effectively guarantees the risks the banks are taking and the regulator is in place to make sure that they're managing that risk appropriately. In our case, 100 percent is held on reserve. The bank-- the, the institution itself is not engaging in "rehypothecating" or, or lending that-- those assets at all. What we're really effectively doing is decoupling that from that layer and empowering the consumer-- the individual to do that on their own. And that-- so I think that leads to the other role of the institution is

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to make sure that sort of exposure for the consumer too, more decentralized products like that, is, is done in a way that prevents fraud.

**BOSTAR:** So we can, we can clarify that also in an amendment.

**PAUL NEUNER:** Absolutely.

**BOSTAR:** So if you-- all right, so at the end of the day, the reserve is the digital asset that's been deposited.

**PAUL NEUNER:** Correct.

**BOSTAR:** Now the business itself can go out and get loans for operations, a line of credit, take on debts, I would imagine.

**PAUL NEUNER:** Well, yeah.

**BOSTAR:** So let's say that-- and obviously hopefully it never happens, but let's say Telcoin goes bankrupt and, and you're, and you're holding a lot of, a lot of debt.

**PAUL NEUNER:** Um-hum.

**BOSTAR:** How are the deposits protected from those leads?

**PAUL NEUNER:** That's-- I mean, that's the role of the charter. Those are not assets of the company. There-- those are not assets of the institution. If a traditional bank goes under, you, you don't know, right, because, OK, sure, the FDIC will bail out \$100,000 of it. In our case, that's not an issue because if the bank goes under, those assets are all still there and that's-- the, the point of the charter is to make sure that they're properly entrusted in the legal framework that would return those to the customers.

**BOSTAR:** So-- and this isn't necessarily specific to your business, but, but thinking more broadly about stablecoins. Trying to, trying to follow all of this, it, it seemed like if we were to broadly increase access to these kind of digital asset services, it would potentially increase demand for U.S. dollar-backed stablecoins from people, let's say, around the world because there would be-- there are, there are reasons I can imagine why someone would want access to reserve currency-affiliated asset.

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**PAUL NEUNER:** Um-hum.

**BOSTAR:** Is there any concern about, on a macro scale, if this really takes off, that we would see a consequence of some unwanted inflationary pressures on our economy?

**PAUL NEUNER:** You know, to me, that's, that's probably something that I should follow up on later. I did study economics at Notre Dame, but it's been a while. But, you know, I, I think that-- to me, that's an asset. I mean, that's a concern. For example-- and Japan is actually the, the inverse, right, where in times of uncertainty, people flee to the Japanese yen and they get deflation, right? So I, I am not sure that that actually-- if, if anything, it's maybe the opposite. It wouldn't be an inflationary, inflationary pressure, it would be deflationary. So I think that that actually strengthens the tools that the Fed has to, to control the economy and also play a part in the global economy.

**BOSTAR:** So let's say we, you know, we pass this bill and the next one we're going to hear and we create these charters and we create this new form of, of charter banking in Nebraska. And, and related to what Senator Slama's concerns were around security and ensuring that the appropriate regulations are in place to, to prevent fraud or bad actors from having an easier means of conducting some illicit activity-- and, and, and I don't know enough personally to know anything about that, but what I want to ask you is, let's say we, down the road, come across maybe human traffickers, maybe something else, of people utilizing these kinds of services. Would you be in favor of us coming back to ensure that we maybe make things more strict, maybe, maybe do what we have to from a regulatory perspective, from a statutory perspective, to directly address anything that we may find down the road?

**PAUL NEUNER:** Oh, absolutely. And, you know, I think this is a little bit too complex to try to, you know, define all up front. In, in terms of the security and, and whatnot and the possible use by-- for criminal activity, I mean, in our case at least, we-- obviously, we K-- "KYC" all of our users. We partner with a firm that uses kind of state-of-the-art AI technology to, to really-- to, to do that. And, and I think that what we also are able to do is we don't care about taking physical cash deposits. We don't care about a lot of the different doorways in and out of the system that a traditional bank is

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sort of forced to accommodate. And for that reason, we can rely on a sub-- a company like Plaid to make sure that, hey, the only doorway is through your fund where you've already authenticated in your, you know, Wells Fargo account on your, on your phone. We go a step further in also partnering with the mobile networks to leverage-- you know, I think-- telecom knows where you are at all time. They know who you talk to. They know a lot about you in a, in a, in a way that, you know, can be used at least for-- positively-- sometimes negatively, but it can be used positively to, to make something safer. The point being that from our perspective at least, we're "KYCing" from three different angles on this. So I, I don't think the-- I think it's easy to, to explain how, at least in our case, it can be done and, and make this a much more secure system and, and less easier to exploit by criminals than in traditional banking.

**BOSTAR:** Yeah, and, and-- absolutely and, and again, right, this isn't my area of expertise and, and that could absolutely all be well and true. I just-- really what I want is, you know--

**PAUL NEUNER:** Absolutely.

**BOSTAR:** --when we, when we establish a system and then we want to come back later, sometimes it's-- sometimes we get some resistance from the, the very industry that we're trying to then further regulate so it, it's useful to know at the front end that--

**PAUL NEUNER:** Um-hum.

**BOSTAR:** --at least, you know, from you and your business that that would be welcome if, if we were to, you know, establish these--

**PAUL NEUNER:** Sure.

**BOSTAR:** --these charters. Thank you very much.

**WILLIAMS:** Additional questions? I have one. As you now have explained it, the 100 percent backing is, is different than is drafted in the bill. How does that work in conjunction with the question I asked Mr. Quandahl about the contingency reserve, that portion that is in the bill?

**PAUL NEUNER:** Well, again, you know, absolutely, it, it should not be customer money for, for sure, so that needs to be amended. Again, it--

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this is way safer if I-- if you-- there's the FDIC potentially bailing  
you out, but the end-- at the end of the day, we're-- one-- you're  
"custodying" the asset and you're keeping 100 percent on reserves. So  
it's difficult, I think, to question the, the security there from a  
kind of balance sheet standpoint.

**WILLIAMS:** Thank you. Any, any final questions for Mr. Neuner? Seeing  
none, thank you for your testimony.

**PAUL NEUNER:** Thank you.

**WILLIAMS:** The committee is going to take a very short ten-minute break  
and we will be right back in ten minutes. And just so everybody knows  
it, we do have a drop dead today of 1:30. This conference room gets to  
be used by the Appropriations Committee at that, at that time, so  
we're going to keep going when we come back and, and hopefully speed  
the process up a little bit. Thank you.

[BREAK]

**WILLIAMS:** All righty, everyone, if we can get you to move back to your  
seats, we're going to continue the hearing. I'll invite our next  
proponent to come up and testify. Let's wait just a second here.

**MIKE CASSLING:** Nobody is paying attention.

**WILLIAMS:** We'll get their attention.

**MIKE CASSLING:** Don't you have a big gavel?

**WILLIAMS:** All righty, thank you and, and welcome and if you'd please  
introduce yourself?

**MIKE CASSLING:** Yep. Good morning, Chairman Williams and members of the  
Banking, Commerce and Industry-- and Insurance Committee. My name is  
Mike Cassling, C-a-s-s-l-i-n-g. I'm CEO of CQuence Health Group in  
Omaha, a Governor of Aksarben, and chairman of the, the Nebraska Tech  
Collaborative, which is an Aksarben workforce development initiative,  
and I'm here to support LB649. Nebraska Tech Collaborative, and I'll  
call it going forward NTC, is a business-led organization representing  
currently over 100 partners in business, education, nonprofit, and  
government. We have a sole mission is develop, retain, and attract  
tech talent and entrepreneurs in the state of Nebraska. Since our

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launching two years ago, our partners, all of us have identified four overreaching goals and have committed time, resources, and our companies to ensure that we do whatever we can to meet or, or exceed these goals, these objectives. And I think you'll agree passage of LB649 falls within this mission. First is to create 10,000 new tech jobs across the state in the next five years. Second, to increase diversity in the tech workforce. Third, 300 new tech companies by 2025. And finally, to increase Nebraska's tech profile across the country. Bringing new business and ideas to Nebraska is key for job growth and for companies. Senator Flood's digital asset chartering proposal creates an opportunity to open up new markets to entrepreneurs, as you've heard this morning, and also for the current brick-and-mortar banking industry. LB649 is more than growing jobs within this sector and a lot of it was talked about how many jobs will this create within the cryptocurrency silo? This is really about creating a tech ecosystem, which we drastically need here in this state. It puts Nebraska on the map as a state that welcomes innovation, it welcomes entrepreneurs, and it welcomes all kinds of investments. And keep in mind, when I talk tech, it's across the state. It's not just software companies like ours in Omaha. It's not just crypto, it's ag. Everything in ag is moving to tech. Manufacturing, a lot of you with manufacturing within your districts, as that moves to robotics. It's across the board and we need to create this ecosystem to get kids to stay here and come here. I have handed out information, some light reading for you. I'll hit a few of those highlights on there, but I didn't want to go through all that today, as I know you're running short on time, but a couple areas that has been brought up before. The oldest bank, M-- BNY Mellon plans to treat digital currency like other assets. Just this month, their chief executive, digital assets are become a part of mainstream. Mastercard is adding that. Salvation Army that I'm chair-- the national chair of, which is a very conservative organization, the largest social service organization in the country, actually did a trial with cryptocurrency this past Christmas on the West Coast and brought in \$50,000 in cryptocurrency. They plan to launch that nationally and so much more. The early adapter that we talked about is Wyoming. The biggest thing that Wyoming got out of this was they got an upgrade to be a tech innovator and that's what we drastically need here in the state of Nebraska. Moving forward, we need to demonstrate a state-- that we can innovate around cutting-edge technology. Now is not to [SIC] time to fall back on the same playbook. As somebody with a career in

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healthcare-- and that's all I do is healthcare-- have gone through massive changes over time and I want to give you a little perspective. In 1996, two-thirds of my business was in the consumable space: the film chemistry, everything to produce X-rays, CTs, MR, and, and cath images. I knew deep in my heart that the world was going to move to digital. A year later, at a huge risk of selling off two-thirds of our business, I sold that segment of the business. Within five years, over half that business was gone and with ten-- within ten years, everything was digital within healthcare. So I hope we don't take this and take a look back in five years-- I think somebody brought that up-- and say we missed a golden opportunity to be an innovator, to create a true tech ecosystem. As I said in the beginning, your decision here is much bigger than the jobs that this bill will produce. It's about reversing our long-standing brain drain. That was brought up a couple of times. We have a serious, serious issue in this state of brain drain. If we don't figure out how to fix that, we are in, in grave trouble moving forward. It's about creating exciting technical-- technology ecosystem: to draw entrepreneurs, to provide high-skill, high-wage employment, and to get young people to stay in the state and move to the state and you'll hear from a few of them here shortly, so-- as a state, we really need to start playing to win and avoiding, at all costs, the most common mistake, which is playing not to lose. So on behalf of Nebraska Tech Collaborative, I encourage you to advance LB649 and I would be happy to answer any questions as long as they're not technical around crypto and logic--

**WILLIAMS:** Thank you, Mr. Cassling.

**MIKE CASSLING:** --if you're wondering about healthcare.

**WILLIAMS:** Seeing none, thank you for your testimony. Invite the next proponent. Welcome.

**KYLE TAUTENHAN:** Hi there. Chairman Williams, members of the Banking Committee, for the record, my name is Kyle Tautenhan, K-y-l-e T-a-u-t-e-n-h-a-n. I'm the cofounder of Pinata, an Omaha startup that manages digital asset data for blockchain applications. I am here today in support of LB649. Thank you for allowing me to testify. To start, I would actually like to explain what it means to be a startup that manages digital asset data for blockchain applications. If you think of any asset out there, you know, it could be a commodity, it could be a U.S. dollar, it could be property, it could be anything. It

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could be digital, it can be physical. We manage that data and attach those to blockchains and asset-- tokens. So when I talk about what a digital asset means to me, it literally means anything. So I've been an entrepreneur in the blockchain space since 2017 because I believe in what blockchains enable. Blockchains are really good at managing the ownership and the rights of assets. Those assets can be cryptocurrencies like Bitcoin, but they can also be the U.S. dollar or commodities or anything else as I've already explained. By enacting LB649, we will be enabling trusted Nebraskan financial institutions the ability to properly secure and manage U.S. dollars as digital assets for businesses and consumers alike. First, LB649 positively impacts my business because it will reduce our third party risk. It does this by allowing us as a company to transact in U.S. dollars that are regulated right here in Nebraska. Oversight that guarantees a one-to-one-backed U.S. dollar on an open blockchain network is extremely valuable in risk reduction for my company. Second, LB649 positively impacts my business because it increases our operational efficiency. It does this by eliminating unnecessary barriers to accept U.S. dollars on an open blockchain. If I could do it with my bank today, I would, but that's currently not possible. Finally, LB649 will help grow the digital asset economy that we work in by providing safe and trusted on-ramps for businesses and consumers through these financial institutions. People want to be inter-- be able to interact with their digital assets in a safe and secure manner. LB649 would enable this to happen while providing the necessary customer identification and anti-money, money laundering requirements that financial institutions already to-- do today and they do a great job of it. From my perspective, LB649 makes the digital asset economy safer for everyone, while not limiting the ability, the ability to innovate into the future for companies like mine and those that we work with. Thank you for allowing me to testify today. I'd be happy, happy to answer you-- answer any questions you might have.

**WILLIAMS:** Thank you, Mr. Tautenhan. Any questions? Seeing none, thank you for your testimony. Invite the next proponent. Good morning and welcome.

**GRANT ROSCOE:** Good morning. Thank you, Chair Williams and everybody for having me. Thanks for the opportunity. For the record, my name is Grant Roscoe, R-o-s-c-o-e. I was born and raised here in Lincoln, Nebraska, and have been an entrepreneur since I was 13 years old. After building e-commerce stores, day trading foreign exchange markets

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among other successes and failures, I discovered and fell in love with the potential of cryptocurrency in 2017 when I was 17 years old. I've since been a founder and CEO of Crescent, a technology company building a mobile app to be the simplest way for beginners to invest in cryptocurrencies and earn high-yield savings. Today I'm here in support of LB649 so companies like Crescent, the employers of the future, have a reason to stay in Nebraska as opposed to being forced to leave due limited talent and resources. During the first year and a half of founding Crescent, I struggled to find support or traction in Nebraska. Overcoming these struggles, I'm grateful to have had the opportunity to be invited and speak in eight countries around the world at finance, technology, and cryptocurrency conferences, including most recently at Switzerland's World Economic Forum in January of 2020. We're now closing our \$3 million seed round and have plans to hire well over 20 people this year alone. These travel, these travels have allowed me to see firsthand how impactful a welcoming government was in attracting leading technology companies and talent and the impact it had on their local economies. COVID-19 is what initially kept my company in Nebraska instead of moving out of state thus far because unfortunately, Nebraska's existing talent pool and regulatory landscape are not currently sustainable to support our future growth. As it stands now, aspiring companies such as Crescent are at a distinct disadvantage to our competitors as a result of talent leaving this state in droves for better opportunities out of state. Currently, my goal is to keep Crescent in Nebraska, but if this trend continues, we will have no choice but to reconsider in order to put ourselves in the best position to succeed. Without forward-thinking regulation from our government to support companies and high-paying jobs, Nebraska will continue this losing cycle. You have the ability to change this by passing these bills that could attract young people to Nebraska for good. The families these people can raise and the futures they can build in Nebraska is essential for our state's growth. The vision of Senator Flood's cryptocurrency bill is part of a long-term solution to position Nebraska as a state committed to innovation and will send a powerful message to both our youth and future founders. This bill is not just about cryptocurrency or banking. It's about the benefits this first step can have for Nebraska, our economies, and the families that will choose to call this state home. It also supports companies like Crescent and encourages us to reinvest locally. The time is now for Nebraska to pass both bills this year and be bold, capitalize on this opportunity,

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and truly put us on the map. Thank you for listening. I'm happy to  
answer any questions.

**WILLIAMS:** Thank you, Mr. Roscoe. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Chairman Williams, and thank you for  
being here.

**GRANT ROSCOE:** Yes, sir.

**McCOLLISTER:** How many employees does Crescent have?

**GRANT ROSCOE:** We have four in Lincoln, one in North Carolina, one in  
California, and then four in Poland.

**McCOLLISTER:** And what's the scope of your business in terms of  
geography?

**GRANT ROSCOE:** We're going to be launching the application in spring of  
this year in only the United States.

**McCOLLISTER:** Just the U.S.?

**GRANT ROSCOE:** Just the U.S. for now.

**McCOLLISTER:** And the primary function of your business is, is transfer  
of funds?

**GRANT ROSCOE:** It is a mobile application you can download on your  
phone and easily invest into cryptocurrencies and earn 5 percent  
interest on your U.S. dollar savings. So we have various exchange  
partners, banking partners, lending partners, all distributed while  
outside of Nebraska at this point in time, but--

**McCOLLISTER:** Yeah, thanks for your testimony.

**GRANT ROSCOE:** Certainly.

**WILLIAMS:** Additional questions? Seeing none, thank you for your  
testimony.

**GRANT ROSCOE:** Thank you.

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**WILLIAMS:** Invite the next proponent. Good morning and welcome to  
Banking.

**JACOB GIDEON:** Thank you, Chair Williams and members of the Banking,  
Commerce and Insurance Committee. My name is Jacob Gideon, spelled  
G-i-d-e-o-n. I'm a student at the University of Nebraska-Lincoln  
Jeffrey S. Raikes School of Computer Science and Management. My  
background is in computer science and engineering, but my focus over  
the better path-- of the past two years has been in entrepreneurship  
and specifically finance technology, where I founded my own fintech  
startup here in Lincoln and in my final months of school here at the  
university, presently. I now work for a cryptocurrency consumer  
fintech startup here in Lincoln as well. I'm here today in support of  
LB649, representing a growing constituency of Nebraska college  
students and recent grads who have ambitious plans to build  
world-changing technology and tech companies, but who often see  
leaving Nebraska after graduation as the only way to actualize those  
goals. And I'm hoping this morning that I can bring some color from my  
own personal experiences to what Senator Flood shared this morning in  
addition to Mr. Cassling. Like most of my peers, Nebraska has been the  
cornerstone of my four years here in college and for me in particular,  
my entire life. I grew up in Senator Pahls' former city council  
district and now legislative district. But as much as I value what  
Nebraska has given me over these last 21 years, I just as strongly  
value the opportunity to live and work and dream in a community that  
provides opportunities and embraces the future of finance and, and  
more broadly, technology. The unfortunate reality is that there are  
hundreds of students just like me and at least 120 at the Raikes  
School in particular every year that make the conscious decision to  
leave Nebraska and go where they perceive the most exciting  
opportunities to be; in states like Washington, California, and New  
York, where the industry and supporting communities make an extremely  
compelling case to come and apply their talents there and not here in  
Nebraska. Current students like myself see it better than anyone else,  
that developing great entrepreneurs and business leaders and engineers  
here in Nebraska will ultimately be fruitless if we don't see  
opportunities that are on par with traditional tech hubs in other  
places. Regardless of your view on crypto, on everything really we've  
been talking about today, and as many people testifying have said,  
many of the high-paying jobs, value-creating jobs and those who will  
be seeking those jobs see cryptocurrencies, blockchain technology,

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etcetera as one of the preeminent opportunities in creating economic value and impacting the everyday consumer, everyday businesses and governments in ways that we can't even really begin to imagine. That anticipation alone has captivated the focus and the energy of many young technologists and entrepreneurs such as myself. As I near graduation in May, I wrestle with the decision of whether or not I'm best suited to leave Nebraska to pursue my ambitions. And candidly, that decision would be very easy for me had it not been the opportunity that I now have to work in crypto here in Lincoln. I would be searching for apartments in Seattle, New York, and San Francisco rather than speaking to you this morning. But I consider myself to be lucky to have found that opportunity that I keep referring to, to work with a, a cutting-edge crypto company. But I know that-- I and my peers know that that opportunity is not the norm here in Nebraska right now. Most of them have already decided to leave in a few months and will work for companies like Microsoft, Google, JPMorgan, coastal trading firms, you know, the, the whole gamut. And the same thing, same things that lure all of us away to these states and cities outside of Nebraska are strong themes of technology, entrepreneurship, and the prospect of working on truly exciting, world-changing problems. I believe this bill would lay a very compelling groundwork to make opportunities like this-- and the hopes of future students like myself-- an enduring reality and characteristic of Nebraska, rather than simply a chance opportunity. I've seen the entrepreneurial spirit of Lincoln first hand over the past four years, but I believe it will require a real effort by those shaping policy to convince those here and elsewhere to set up shop here in Lincoln and create more opportunities to create world-changing, cutting-edge technology. I haven't yet decided as to whether or not I'm going to stay here in Nebraska or go where the opportunities seem richer, but the passage of LB649 would give me pause on a decision to leave, quite frankly, because it's not only a direct benefit to what I and many young people believe to be the future of opportunity in technology, but it shows that our leaders understand the types of things that it takes to bring Nebraska closer in the opportunity-- closer in opportunity to places that will continue to siphon off much of the innovative future that Nebraska tech talent is ultimately looking for. So Senator Williams and committee, thank you for your time this morning to hear the perspective of students and new grads entering the technology ecosystem and I'm happy to answer any questions.

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**WILLIAMS:** Thank you, Mr. Gideon. Questions? Senator Pahls.

**PAHLS:** Thank you, Chair. I'm just curious, what school did you attend  
in Lincoln?

**JACOB GIDEON:** So I am from Omaha.

**PAHLS:** Yes.

**JACOB GIDEON:** And so I, I attend the University of Nebraska-Lincoln.

**PAHLS:** But the school within the university?

**JACOB GIDEON:** Yeah, the college of arts and sciences, but I would say  
more relevant is I'm a part of the Raikes School, which has created a  
very entrepreneurial and innovative ecosystem.

**PAHLS:** I was wondering if that's--

**JACOB GIDEON:** Yeah.

**PAHLS:** --the school that you were--

**JACOB GIDEON:** Yes, the Raikes School.

**PAHLS:** Thank you.

**WILLIAMS:** Senator Lindstrom.

**LINDSTROM:** I'm just curious now, what high school did you go to?

**JACOB GIDEON:** I went to Elkhorn South High School in Omaha.

**WILLIAMS:** Any additional questions? Thank you, Mr. Gideon--

**JACOB GIDEON:** Thank you.

**WILLIAMS:** --for being here and sharing your story. Invite the next  
proponent. Welcome.

**ANGIE STENGER:** Thank you. Good morning, Chairman Williams and  
committee members of the Banking, Commerce and Insurance Committee. My  
name is Angie Stenger, A-n-g-i-e S-t-e-n-g-e-r, and I'm the executive  
director of the Growing Together workforce initiative in northeast

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Nebraska, a plan outlining the transformation of northeast Nebraska's regional economy and population growth. I'm here this morning to testify in support of LB649. Created by local leaders, Growing Together is a multitiered approach to create an entrepreneurial ecosystem in downtown Norfolk, increase high-wage jobs, and inspire young people to remain in northeast Nebraska. We expect to pair entrepreneurs with investment capital and students to redesign a workforce that can compete in a knowledge-based economy. Over the last ten months, I have interviewed over 80 businesses-- business owners and human resource managers to complete a workforce needs, needs assessment. This survey was designed to create a better picture of exactly what type of workers we need in our region and what the future of our workforce might be. From the surveys, I learned that our businesses are committed to expanding the job market and the workforce. Specifically, some of the themes that emerged from my conversations were that businesses wanted to grow, but needed a larger job pool. They also told me that hiring graduates with a local connection is much easier than convincing someone from out of state or from a bigger community to move to northeast Nebraska. And most importantly, they told me that they would much rather educate students to their job needs so graduates do not need to leave the area to learn and find employment. One of the pieces of the Growing Together effort is the development of a career scholarship program at Wayne State College. The first cohort of students began last fall. They're studying I.T., communications, business at Wayne for the next three years and will move into downtown Norfolk their senior year while working at an internship in their field of study. We believe this is one way to reverse the brain drain. It plays directly to the importance of creating more jobs in northeast Nebraska that will entice the next generation to stay in the area. In fact, both Wayne State and Northeast Community College are in the planning stages of adding fintech to their curriculum. The interest is there from their business students on the future of the financial business, as well as the computer science students who want to work in this industry. This is the new workforce and I would hate to have them be educated in northeast Nebraska and force them to leave the state to be employed. We appreciate your time today and the opportunity to help us welcome future businesses and their employees to be a part of our community. Thank you for so-- your support of LB649. I'd be happy to try to answer any questions for you.

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**WILLIAMS:** Thank you, Ms. Stenger. Questions? Thank you for your work  
in increasing our population base in Nebraska.

**ANGIE STENGER:** Thank you.

**WILLIAMS:** Thank you for your testimony. Invite the next proponent.  
Welcome.

**DENISE WILKINSON:** Good morning, Chairman Williams and members of the  
Banking, Commerce and Insurance Committee. My name is Denise  
Wilkinson, D-e-n-i-s-e W-i-l-k-s-o-n [SIC]-- -i-n-s-o-n-- I can't  
spell my own name-- and I am president and CEO of the Norfolk Area  
Chamber of Commerce. I'm here to testify in support of LB649. It has  
been my pleasure to work with amazing leadership in Norfolk for  
several years, a city rich with entrepreneurial vision and passion for  
growth with opportunity. From Joe Ferguson, past Mayor Jim Miller,  
Paul Macintosh, Jim Bradford, Mayor Josh Moenning, Senator Mike Flood,  
and other community inspirations too numerous to mention, we have  
formed partnerships with those outside our geographic boundaries, with  
government, other communities, and the private business sector to keep  
Norfolk leading the way for innovative change. The Norfolk Area  
Chamber would like to commend Senator Flood for his public service to  
Norfolk and the entire state of Nebraska. He has not limited his  
support for small towns to small ideas. He brings dynamic ideas for  
any small town to think big and to grow. Change, examining old concept  
in new ways and new ideas are often a difficult but necessary part of  
moving forward, with goals for economic growth and prosperity in every  
community, regardless of size. If adopted, LB649 will create jobs and  
spur economic development. Creative entrepreneurs have a vision and  
with additional opportunity, may start a business by themselves that  
they turn into a future Fortune 500 company. One to two jobs in  
Norfolk could expand to hundreds across the state of Nebraska. Being a  
board member of the Nebraska Chamber of Commerce Executives and the  
Mid-America Chamber Executives, I can attest that Nebraska has an  
active network of chamber executives supporting business growth and  
opportunity. In conversations with my professional peers, it is every  
community's goal to provide high lifestyle-sustaining wages, highly  
skilled job opportunities, and recruit young people to their area. Any  
chamber in Nebraska would jump at the opportunity to be on the  
forefront of this initiative. With Senator Flood's leadership, Norfolk  
continues to be fortunate as a visionary in these regards and to set a  
high bar for success urging future growth. Our chamber's biggest

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challenge is to continue to promote and support economic development, not depending on the status quo or the way we always done things in the past. Our vision is simple: move forward with purpose and determination to pursue what we could be as a business community and not be satisfied with the status quo. Our mission then becomes simple as well, to help every person in our business community every day through innovation, technology, and courageous foresight to grow their business and economic footprint in Norfolk and across the state of Nebraska for decades to come. LB649 is an innovative concept that would provide yet another tool in the local business owner's toolbox for success. It will provide another means of generating commerce and vibrant economic strength with both fellow businesses and customers alike. The Norfolk Area Chamber of Commerce sees this bill as a way to boost local business opportunity and we will forward-- look forward to being part of its implementation, adoption, use, and success. Thank you for the work you do on behalf of all Nebraskans and for your consideration of our efforts here today and I would be happy to answer any questions.

**WILLIAMS:** Thank you, Ms. Wilkinson. Questions? Seeing none, has the chamber of commerce planned a special night, Flood birthday party or--

[LAUGHTER]

**DENISE WILKINSON:** You ruined surprise we had planned and now I have to change it, so-- but thank you for asking. You will receive your invitation in the mail.

**WILLIAMS:** Thank you for your testimony. Next proponent. Good morning and welcome.

**DAN SPRAY:** Good morning, Chairman Williams, members of Banking, Commerce and Insurance Committee. My name is Dan Spray, D-a-n S-p-r-a-y. I'm here to testify in support of LB649 as president of Precision Technology, a Norfolk-owned, full-service computer network support company, and as well as a board member of the Norfolk Area Chamber of Commerce. I fully understand the importance of creating more jobs in northeast Nebraska that will entice the next generation to stay in the area. I want to thank Senator Flood for introducing this proposal. As a technology business owner, I understand well the speed in which technology changes. LB649 addresses the new world of digital finance, but also is utilizing the latest technology in the

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tech world. These are the jobs of the future, the jobs we want to create in northeast Nebraska, where we can create opportunities for young talent to live and raise their families. The pandemic has changed how work is done. It has created a pathway for the global economy to be addressed in a shared workspace in downtown Norfolk. High-paying jobs no longer need to gravitate to the coasts. As an entrepreneur myself, I also know that Norfolk is doing everything it can to be welcoming to new businesses and that means being open to all types of businesses as well. Our community is committed to expanding the job market and the workforce throughout all of northeast Nebraska. We want to educate and employ qualified individuals for high-paying and high-skilled jobs. The leadership in our community has put place--has put a plan in place that will allow businesses to flourish, whether it be a dream today or the next technological innovation. Norfolk is open for business and believes that anything is possible in northeast Nebraska. We ask for your help in making these dreams come true for future fintech businesses that we want to make northeast Nebraska home with your support of LB649. Thank you for your service to this state and I'd be happy to try to answer any questions.

**WILLIAMS:** Thank you, Mr. Spray. Questions? Seeing none, thank you for your testimony.

**DAN SPRAY:** Thank you.

**WILLIAMS:** Invite the next proponent. Seeing no one jumping up, we will be switching now to opponents. Invite the first opponent to come up. Welcome, Mr. Hove.

**CHRIS HOVE:** Chairman Williams, thank you. Members of the committee, my name is Chris Hove, C-h-r-i-s H-o-v-e. I'm the president and CEO of Nebraska Bank of Commerce Community Bank here in Lincoln and I currently serve as the chairman of the Nebraska Bankers Association. Thank you for allowing me to speak to you today on LB649. This is a difficult debate for me as I deeply respect Senator Flood and his focus on economic development for Nebraska. I also recognize that interruption is happening due to new technology in nearly every industry and we must find ways to adapt to change, yet I disagree on this matter at this time, as I believe we already have a state law providing for Nebraska state bank charters, which would allow this type of business activity. Currently, banks can serve as custodians for digital assets and hold those assets for their customers. The

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interruption occurs with this new technology when you allow digital asset depository institutions to be part of the payment system without fully vetting the risks involved. As a banker, we take risks every day, but we fully vet and evaluate those risks in order to understand what risks we are taking on and we mitigate those risks that are not acceptable. In evaluating LB649, here are the risks that have been identified that I do not think are acceptable and I believe would need to be mitigated in order to support responsible innovation. Number one, capital levels. LB649 allows a digital asset depository institution to be created with \$5 million in capital, yet other states, as I understand, are requiring \$20 million. And the current framework to charter a state bank also requires about \$20 million in capital when you add it all up. A new and different endeavor like this should require more capital rather than less capital, as there is much more chance in making mistakes. Number two, regulations. It's hard for me to understand how a digital asset depository institution will be able to follow the Bank Secrecy Act and Know Your Customer rules when it appears many customers that use cryptocurrencies don't want you to know who they are or what they are purchasing or even who they are paying. Also, the Community Reinvestment Act requires banks to invest in their communities. How is a digital asset depository institution going to invest in its community if the customers and transactions occur all over the world? And further, what real economic impact will Nebraska experience if we simply set this framework up here, but all the jobs can be located virtually anywhere in the world? Number three, regulatory guidance. No one really knows all the risks, nor how to evaluate those risks to look for in this new industry. And although we have great state regulators, they are not experts at cryptocurrency, digital assets, or blockchain transactions. Who's going to pay to get these folks up to speed? It certainly should not be the state banks. And if a mistake is made, is there a governmental agency like the Federal Deposit Insurance Corporation prepared to bail out the digital asset depository institution and its customers? And four, finally, reputation risk. Why is it important to call this new entity a bank when digital asset depository institutions have not earned that right? Nebraska community banks have spent decades building their industry name of the term bank. Studies show that most people have a positive impression of the term bank and think of terms like strength, trust, pillars in the communities, following the rules, yet these are the very things that digital asset depository institutions have yet to prove. My hope is that this bill will be denied, but Senator Flood

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will introduce a bill in the future with the assistance of Nebraska bankers that addresses these issues. We've seen many industries that are up to this technology and we all know it will continue to occur in the financial sector, but is it worth, is it worth risking the nearly 175 community banks in Nebraska that have supported and helped to grow our state to allow this new venture? Thank you and thank you for your service to the state.

**WILLIAMS:** Thank you, Mr. Hove. Are there questions? Seeing none, thank you for your testimony. Invite the next opponent. Welcome, Mr. Sjulín.

**CARL SJULIN:** Thank you, Chairman Williams, members of the committee. My name is Carl Sjulín, S-j-u-l-i-n. I'm the president of West Gate Bank, a state-chartered bank with locations in Lincoln and Omaha. Prior to West Gate Bank, I worked for Nebraska Congressman Doug Bereuter on the House Banking Committee. I then returned to Nebraska and practiced law with a Lincoln law firm for 12 years where I represented financial institutions throughout the state. West Gate Bank is a member of both the Nebraska Bankers Association and the Nebraska Independent Community Bankers Association. While these two associations are aligned in their opposition to this bill, my testimony today is on behalf of the Nebraska Independent Community Bankers Association. The unique charter legislation in LB649 should be rejected as totally lacking in consumer protection. LB649 seeks all the privileges of being a bank, but none of the obligations and requirements that are at a very high level that banks throughout Nebraska have to comply with, including the following: (1) no deposit insurance, (2) no federal oversight or examination, (3) woefully inadequate capital requirements, and (4) no safeguards or protections given the inherently risky business model employed by digital asset depository institutions, which I'll refer to as DADIs today. This committee need note-- need look no further than the Commonwealth Savings failure in 1983 to see the severe damage a new financial institution charter can cause if rigorous consumer safeguards are not required. Commonwealth was a special state charter for industrial loan and investment companies. Just like DADIs, these institutions were not FDIC insured and they were not subject to federal examination. Predictably, Nebraska consumers did not understand these elevated risks and lost millions when Commonwealth failed. Senator Vard Johnson, sitting where you are today, stated the following and I quote, obviously, one of life's lessons for each of us is to make certain that institutions have deposit insurance backed by the full

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faith and credit of the United States, end quote. Attorney Dave Domina from Norfolk, at the time, led the investigation into the Commonwealth failure and stated the following on the 30th anniversary in 2013. And I quote, the lessons from Commonwealth need to be heeded today. The State Legislature must be reflective about the laws it passes. Political whim or the flavor of the month must be resisted, end quote. The Nebraska Department of Banking is not a realistic-- is not in a realistic position to regulate the worldwide scope of billions of dollars in anonymous cryptocurrency transfers. It's important for the committee to understand the inherently risky business model employed by DADIs. As drafted, when a consumer makes a cryptocurrency deposit in a DADI, the DADI is required to match the value of that deposit by posting treasuries or other bonds with a third party as collateral. Now Mr. Neuner, today in his testimony, changed that significantly when he said, well, our intent would be to post other cryptocurrencies to be held as collateral. But in any event, on day one, that might appear to be a safe model, but the values of both these assets and liabilities change over time. These are not constant value securities. For example, Bitcoin has doubled in value over the past two months and even so-called stablecoins have increased as well. And what about the changing value of bonds or other cryptocurrencies that are posted as collateral? The yield on treasuries has increased over 30 percent in the past two months, thereby driving down the value of those bonds. The value of cryptocurrencies and the value of other deposits that are, that are posted as assets, as these increase, the balance sheet of a DADI would have drawing liabilities and shrinking assets. That's simply a recipe for a failure of a financial institution. This could in fact-- creates a perfect storm where a run could occur on a DADI, where consumers seek to withdraw their crypto deposits in a rush to get out before failure. As been discussed previously, the \$5 million capital requirement is insufficient given this unstable business model and it's a fraction of what is needed to get FDIC insurance today. Now there has been a substantial amount of discussion today about economic development. I would submit to you the economic development rationale you have heard is simply irrelevant to this serious task of creating a new type of financial institution. This committee's obligation is to ensure there are substantial and effective guardrails that protect consumers. LB649 comes nowhere close to satisfying the high bar set by banks and should be rejected. Thank you.

**WILLIAMS:** Thank you, Mr. Sjulín. Questions? Senator Bostar.

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**BOSTAR:** Thank you, Chair Williams. Thank you, sir, for your testimony. So we've heard through the proponent phase of the testimony on this bill that based on what Wyoming is doing, based on what is available within federal charters now-- I understand that some of these, you know, applications and things are pending in places, but, you know, let's say that that all happens-- as well as hearing from people who talk favorably about, you know, this kind of business. I guess, I guess my question is twofold: one, what, what are your thoughts about the idea that we could, in short order, end up in a situation where a Wyoming-chartered digital bank could branch into Nebraska? And two, what are-- as, as a, as a Nebraska banker, what, what are, what are Nebraska banks doing to prepare for this upcoming sort of digital transition in the marketplace?

**CARL SJULIN:** I'll take the second part of your question first. Currently, Nebraska banks aren't allowed to be in this business that's being proposed to you today. We couldn't do it if we wanted to. It's not allowed under our charters, not allowed by our regulators. It is inherently unstable, as we've talked about, and would be wholly inconsistent with the deposit insurance that we are required to maintain, not to mention some of the other regulations, such as the anti-money laundering, Know Your Customer, Bank Secrecy Act, and others that have been detailed today. As to the first part of your question, I don't know what rights a Wyoming bank branching into Nebraska could conduct within the Nebraska branch. I haven't thought about that, but I don't think what Wyoming did was a good idea either and so that rush to be first, I think, is something that this committee should resist.

**BOSTAR:** And I, and I understand that perspective, I'm just-- you know, if, if they are allowed to operate under the regulations set forth in their state of charter, so Wyoming, whether we think what Wyoming did is good or bad or irresponsible or terrific, if they can then operate that with-- within Nebraska and, and have Nebraska customers as their, as their customer-- as part of their customer base, is there an advantage of having our state involved in the regulation that's going to affect Nebraskans?

**CARL SJULIN:** Well, perhaps the best way I, I can think of to answer that question would be they don't have to have a branch in Nebraska, a physical presence in Nebraska for a Nebraska resident to do business with a Wyoming DADI. That would be easily done. In fact, I think much

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of the testimony today seems to suggest this is a Nebraska thing and they'll be Nebraska customers when in fact, the vast majority of these customers wouldn't even reside in the United States and the transfers would be to recipients outside the United States as well. And so I don't think-- at least as it's currently structured, you know, physical presence or whether it's in a home office in Norfolk or other kinds of things simply are irrelevant to this, this business. In fact, Telcoin is currently based in Singapore.

**BOSTAR:** Thank you.

**WILLIAMS:** Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Chairman Williams, and thank you for being here. The proponents of LB649 indicate that the large national banks are starting to embrace cryptocurrency. They have reserves, adequate reserves to, to secure all of that. Is the business model that they're using different than we're seeing with LB649?

**CARL SJULIN:** I don't know, Senator, if I fully understand what the larger banks are doing in that space. To the extent that they're simply serving as a depository, right, that neutral third party that's holding a digital asset, that's different than engaging in the transfers, but I think it points out perhaps the most significant disconnect throughout this whole debate and that is simply that if Telcoin or any other DADI wants to do these activities, charter a bank, go through the banking process, and, and knock yourself out.

**WILLIAMS:** Additional questions? Seeing none, thank you--

**CARL SJULIN:** Thank you.

**WILLIAMS:** --for your testimony, Mr. Sjulín. We would invite the next opponent. Welcome, Ms. Andersen.

**LESLIE ANDERSEN:** Thank you, Mr. Chairman, members of the Banking, Commerce and Insurance Committee. My name is Leslie Andersen-- let me take that off-- L-e-s-l-i-e A-n-d-e-r-s-e-n, and I'm CEO of the Bank of Bennington. I appear before you today in opposition of LB649, but I'd also like to take this opportunity to thank Senator Flood for his forward thinking about Nebraskan economic development. He's done a fantastic job with what's going on in northeast Nebraska. And I also sit on the Nebraska Tech Collaborative that, that Mr. Cassling

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mentioned earlier. While I oppose LB649 as introduced and in its amended form, I'm very supportive of innovation. In fact, my little bank has a joint venture with an Omaha fintech company. However, I believe that any charter which would potentially have access to a master account at the Federal Reserve be subject to the same laws and regulations, including capital requirements, examinations and reporting requirements, and ongoing supervision, as other financial institutions. There's a time-tested intersection with the public trust and banks and Nebraska should be especially careful about what it tells the public and stakeholders about potential entities that look like banks. The Bank Policy Institute published on October 21, 2020, an article entitled "Beware of the Kraken." And while Mr. Neuner testified earlier that his company wouldn't have any interest in doing business this way, I think it's important because it, it relates back to the Wyoming legislation, which this is drafted on. This article suggests that if Kraken Financial had been in full operation, operation in March of 2020 as a special purpose depository institute-- institution, based on the capital requirements applicable to the Wyoming special purpose depository institution and based on a reasonable division of its, its assets between deposits with the Federal Reserve and investments in ten-year treasuries, Kraken would likely have been subject to a bank run and ren-- rendered insolvent by mid-March, simply due to volatility in interest rates and the effect on bond values. Nebraska needs to thoroughly consider the public trust, resolution, if there's a case of insolvency-- insolvency, and basing capital requirements around the risk profile of the entity, including any off balance sheet activities. While I'm very supportive of responsible innovation, the potential benefits of innovation cannot result at the expense of maintaining a safe and sound banking and payment system. The special purpose depository institution, institution charter and the proposed digital asset depository institution charter for nonbank firms have raised a number of serious regulatory concerns, both at the state and federal level. The Federal Reserve has traditionally restricted access to the payment system to financially-- to insured financial institutions. Granting of a special purpose charter will allow these nontraditional banks to leverage their statter-- status as state-chartered depository institutions to gain access to that payment system. The payment system has worked-- performed remarkably well in times of economic stress as a result of consistent application of stringent regulatory and supervisory standards for all of its participants, participants. The business

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models presented by these special purpose financial institutions differ significantly from those of traditional banks. Their principal business is to provide a banking gateway between digital assets and national currencies, raising heightened anti-money laundering, Bank Secrecy Act, and terrorist financing, financing concerns. Digital assets are here to stay. National banks have recently been authorized by the Office of the Comptroller of the Currency to hold custody of crypto assets and use stablecloins to settle cross-border payments. If we simply authorized state banks to perform the same activities, crypto businesses can provide custody management services for their customers within the framework of the existing system and no new charter would be needed. Thank you very much for your time and I would be happy to answer any questions.

**WILLIAMS:** Thank you, Ms. Andersen. Are there any questions? Seeing none, thank you for your testimony.

**LESLIE ANDERSEN:** Thank you.

**WILLIAMS:** Invite the next opponent. Welcome, Mr. Hallstrom.

**BOB HALLSTROM:** Chairman Williams, members of the Banking Committee, my name is Bob Hallstrom, B-o-b H-a-l-l-s-t-r-o-m, and I appear before you today as registered lobbyist for the Nebraska Bankers Association in opposition to LB649. The tenor of this hearing today reminds me a little bit of the movie Cool Hand Luke. Perhaps what we have here is a failure to communicate. The green copy of the bill, the amendment that's been proposed, AM227, and what Mr. Neuner described in his testimony appear to be significantly different. There may be some areas for compromise and discussion that can be undertaken in light of some of the things that Mr. Neuner has talked about and we certainly would pledge to work with Senator Flood in that regard. We have early on made our concerns aware to Senator Flood and to Mr. Quandahl, who drafted the legislation. We've been consistent in those concerns that have been raised and I'm going to depart from my testimony. The written testimony can be for the record and I'll just touch on some things that have come up during the course of the hearing today. I would note that part of what I've handed out is that beware-- that "Beware of the Kraken" article that Ms. Andersen, Ms. Andersen talked about and I would commit that to your-- to review and, and reading. One of the issues, capital stands between a bank and insolvency and it would be similar with regard to the banks that are to be created under

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LB649. You've heard other witnesses indicate that \$5 million in capital is insufficient. I understand that the director will have some authority to raise that. In fact, my understanding in the state of Wyoming, where cryptocurrency banks are authorized, is that their rules provide for the greater of \$10 million or 1.25 to 1.75 percent of the assets under custody management. The OCC, which has been referenced in terms of a national bank trust charter, has a requirement of \$7 million-- the greater of \$7 million for the amount that a well-capitalized national bank would be required to hold. Those are both significantly higher than \$5 million, as you might see. In response to Senator Bostar's question, I think two things in terms of if it can happen elsewhere, they can come into Nebraska, what's the big deal? The first one is the OCC has provided conditional approval for two banks at this time, Anchorage Bank in South Dakota is one of them, and the authority of the OCC to do so is, is under fire. It's being questioned legally, so there may be some issues and some reticence to go that particular route. Secondly is-- and perhaps Director Lammers will have more insight on this. I haven't had time to give a great deal of thought to it, but interstate branching is authorized. That was another contentious issue in the banking industry for years and years. Interstate branching is authorized for national banks and, and state banks. This is not a bank. I'm not sure without doing some research, but my, my initial gut reaction would be that if these are not banks, they may not be subject to the interstate branching requirements or allowances under federal law. One of the issues that hasn't been talked about is the fiscal note. There is a fiscal note. It's-- you know, as, as we are in this body, we sometimes criticize it if it's too low or too high, but in this case, I'm surprised it was only \$250,000. It provides for three employees within the banking department. I believe it's the state of North Dakota who had a regulatory sandbox initiative just this past session that was defeated, had the same three types of employees and an \$800,000 price tag associated with them. The other issue would be in Wyoming, it's been two and a half years and they've had two applications that have now been approved. The fiscal note submitted by the department suggests that they expect maybe two applications in the first two years. My question would be who's going to foot the bill during those first two years for the startup cost of three new employees estimated to be \$250,000 a year? It's a cash-funded agency. I'm-- hopefully it's not going to be the banking industry that would have to foot the bill for those expenses. When we look at the issue of the amendments, Mr.

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Quandahl suggested that I was going to be pleasantly surprised. I think he was close. I was unpleasantly disappointed with the amendments, but I think we've got some room to work from this point forward, some of the issues that, that went the wrong way in terms of not moving the needle or reducing the ownership for a DADI by a bank, if they were so inclined, from 20 percent to 10 percent and then the 22 percent deposit exception that was mentioned during the testimony. And I think Senator Aguilar, who's left the room, was here at the time when the 22 percent deposit cap was put in place. That was hotly contested, hard fought, and as you might imagine, there were some hurt feelings within the industry, but we finally worked our way through it. And for the new kid on the block to come in and suggest that they ought not to be subject to the 22 percent deposit cap is, is not in the best interest of, of our members. Volatility-- to speak briefly to the issue of volatility, most of you have probably read about the, the monumental swings in the price of Bitcoin and other cryptocurrencies. That issue alone has allowed people to accumulate uncommon wealth. And since I used the word commonwealth and some people have already testified to that, I think that's a real concern in terms of the state sanctioning a newly chartered bank that's not going to have FDIC insurance, may have insufficient capital requirements, and so forth and so on, so I would just draw that to the attention of the bank-- or the committee, excuse me. I know Senator Flood is anxious to move and thinks that we must move with all due speed. I would suggest there's no need to rush to judgment. We've seen Wyoming take two and a half years to get much of anything done. Other states-- I, I, I would not suggest that Nebraska should or shouldn't do something just because other states do or don't, but in this particular area, South Dakota, California, and North Dakota have had laws that aren't even as broad as this and have deferred action for the time being. With that, again, I guess we're willing to work. Senator Flood wants this bill to be on the fast track. We'd prefer that it be put on a slow boat to China, but we are willing to work with Senator Flood and see, particularly in light of Mr. Neuner's comments today, whether or not there's a different way to skin the cat and provide for those types of custodial services to accommodate the cryptocurrency market. I'd be happy to address any questions.

**WILLIAMS:** Thank you, Mr. Hallstrom. Questions? Senator Slama.

**SLAMA:** Thank you, Mr. Chairman, and thank you, Mr. Hallstrom, for being here today. Could you just outline-- obviously we've had a

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pretty thorough discussion about fintech and cryptocurrency and it seems to be the way of the future, but it-- obviously the discussion falls on whether LB649 is the right framework for us to move forward. What things would your industry need to see in a compromise to make this palatable?

**BOB HALLSTROM:** Well, I think if you look at the, the general topics that we've, we've outlined, you know, if I, if I had the wish list, we've outlined that we don't believe they should have access to the payment system. Now as Mr. Quandahl pointed out, that is going to ultimately be a decision that's out of our hands. I would suspect that the Federal Reserve may decline to allow these companies to have access or they may put conditions on that are different than what is accommodating the traditional FDIC-insured institutions. But by providing them with the clothing and authority of a chartered institution, we're giving them that gateway or that leg up to get in and try to leverage the fact that they are a recognized chartered institution, to go in and get that type of authority. Interestingly, a state-chartered institution-- state-chartered trust company, excuse me, a state-chartered trust company does not have FDIC insurance. I don't believe it is eligible for the payment system member, member of Fed Reserve. But Anchorage has converted from a state-chartered trust company to a national bank trust charter because the OCC believes that they then can make their application. And in fact, I think two have made application to get access to the payment system through Federal Reserve membership. If you go on beyond, beyond that, we've indicated that we don't prefer for them to use the word "bank." That's more of the reputational risk. We've talked enough about the issues that have happened in the state of Nebraska over the years, that if, in fact, these entities are operated by a bank with insufficient capital and so forth and one of them would happen to fail, we've seen, all too often-- go back to the 2008 financial difficulties that we encountered. Wall Street banks quickly became community banks in terms of the regulations that our Nebraska community banks were foisted upon. And so if one of these would fail, I think it would have a, a huge reputational risk for community banks. The issue of capital, obviously, I've already noted and so those are, those are the things. I think there are other ways that these entities can operate. There are other special purpose entities in other states. Georgia has a merchant processing special purpose bank that has restrictions on it that might be in line with what we could or should look at to kind of

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rein in the, the breadth of what these entities would be authorized to  
do.

**SLAMA:** Thank you.

**BOB HALLSTROM:** Thank you.

**WILLIAMS:** Any additional questions? Seeing none, thank you--

**BOB HALLSTROM:** Thank you.

**\*JIM OTTO:** Chairman Williams and Members of the Committee: On behalf  
of Nebraska Retail Federation members who are gold and silver bullion  
dealers, we object to Section 5, Paragraph C of the bill which grants  
the authority to "buy and sell gold and silver coins and bullion". We  
ask that the committee not advance the bill unless that language is  
removed. Thank you for your time and consideration.

**\*JULIA PLUCKER:** Chairman Williams and Members of the Banking,  
Commerce, and Insurance Committee my name is Julia Plucker, J-U-L-I-A  
P-L-U-C-K-E-R, registered lobbyist for the Nebraska Credit Union  
League. I am providing testimony on behalf of the Nebraska Credit  
Union League in opposition to LB648 and LB649. Our association is the  
state trade association for Nebraska's fifty-nine not-for-profit,  
member-owned, cooperative credit unions. I want to thank Senator Flood  
for introducing LB648 and LB649 because we believe that they elevate  
the importance of further study and discussions on the issue of  
fintech and cryptocurrency or digital assets. We also want to thank  
Senator Flood for his consideration of our association's viewpoints  
over the past several weeks on both bills. Our association's  
opposition to LB648 and LB649, as amended, is primarily focused on the  
safety and soundness issues that could be introduced by these newly  
created digital asset banks/depositories to the current financial  
system and the lack of knowledge or understanding of this complex  
technology by governments including regulators, the financial sector  
and the public at large. Additionally, we have strong concerns with  
digital asset depositories becoming members of the federal reserve  
system, issues surrounding federal insurance or lack thereof, the  
impact on the Nebraska Department of Banking and Finance which would  
be charged with regulating and examining these complex institutions,  
and the lack of parity for financial institutions. We do believe  
however that the issue that these bills introduce should be further

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studied by the Legislature and its stakeholders including credit unions. LB649, as originally introduced, adopts the Nebraska Financial Innovation Act to allow for the creation of a new banking charter called a digital asset bank. These new banks would be depositories for digital assets or cryptocurrencies and be approved and regulated by the Nebraska Department of Banking and Finance. These so-called banks would be able to carry federal insurance but not mandated to do so as credit unions and banks are required to carry. We have concerns about the issues that these new institutions could introduce to the banking system in Nebraska and especially to the Department of Banking and Finance which derives its funding from the institutions that it regulates including credit unions. The Department draws no funding from the state's general fund. As a new and complex technology, we are concerned about the high cost that the Department would incur to secure qualified persons to examine these digital asset depositories as well as the potential for the diversion of human resources from the oversight of the other financial institutions under the purview of the Department. LB648, as originally introduced, adopts the Transactions in Digital Assets Act whereby banks, as defined in section 8-101.03, would be allowed to provide custodial services for digital assets or cryptocurrencies. It also allows for the Director of the Department of Banking and Finance to adopt and promulgate rules and regulations to implement the Act. These provisions have now become part of LB649. Our opposition to the provisions now in LB649 being derived from the original LB648 is that it is narrow in scope by only allowing banks in Nebraska to serve as custodians rather than allowing "financial institutions" as defined in NE Revised Statute 8-101.03. Our primary concern being that cryptocurrency transactions takes money out of credit unions, possibly never to return if credit unions are not allowed to serve as custodians of digital assets. We know that credit union members are buying cryptocurrency today using U.S. dollars and those dollars, in many instances, are coming directly from their credit union accounts. Our objective is to ensure that credit unions remain relevant and can participate in the crypto age by doing what they do best, protecting their members' assets. As currently drafted these bills do not allow for that. As not-for-profit, member-owned, cooperative financial institutions, credit unions solely exist to serve their members with modern and cost-effective financial products and services. Credit unions welcome new technological advances in the financial sector that help them to better serve their member owners. Whether it was the credit / debit card, automatic teller machines,

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share drafts / checks, online banking or now digitization, credit unions seek advancements that better the lives of their members through utility and at the lowest cost possible. Cryptocurrency is in its infancy and we cannot know with certainty where this technology will ultimately lead to but what we do know is that change in this area is inevitable and that the digitizing of currency is happening. People in the United States and around the world are seeking ways to move money at faster speeds and with greater ease. We don't pretend today to fully grasp cryptocurrencies or digital assets but we do know that technology will not slow down to wait for any of us to catch up. Credit unions welcome advancements that have potential to improve the financial lives of their members. The old way of doing things is no more acceptable than the old ways of thinking. That is why we encourage and would support with our participation the Legislature to study this complex technology and what potential it may have for all financial institutions, including credit unions, and all Nebraskans. In conclusion, although we oppose LB648 and LB649, we do appreciate the elevation of this topic so that it can be discussed and we urge further study. Thank you!

**WILLIAMS:** --Mr. Hallstrom, for your testimony. Invite the next opponent. Seeing no one coming up, is there anyone here to testify in a neutral capacity? Welcome, Director Lammers.

**KELLY LAMMERS:** Thank you, Senator Willam-- Williams, excuse me. Chairman Williams, members of Banking, Commerce and Insurance Committee, I'm Kelly Lammers, K-e-l-l-y L-a-m-m-e-r-s, director of the Nebraska Department of Banking and Finance, appearing today in a neutral position regarding LB649 as amended by AM227. LB649 would adopt the Nebraska Financial Innovation Act, creating digital asset depository institutions and providing for the chartering, operation, and regulation of such institutions. The department is designated as the supervisor of these financial institutions. LB649 would also adopt corresponding amendments to the Nebraska Banking Act. Use of virtual currency and digital assets has grown exponentially in recent years. Reports filed with the Nebraska-- with the department by the Nebraska license money transmitters show that these entities handled more than 244,000 virtual currency transactions in fourth quarter of 2020, valued in excess of \$112 million. In contrast, fourth quarter of 2018 data showed that there were 3,300 transactions valued at \$824,000. The department has had discussions with supporters of the bill and expects those communications to continue. A number of the revisions in AM227

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relating to chartering and ongoing administration of the act reflect comments from the department and we appreciate Senator Flood's responsiveness to our observations. There are several matters, matters I'd like to bring up at this point. LB649 provides that the new digital asset financial institution will deem to be a bank and will be authorized to use the word "bank" as part of its name. LB649 also provides that customers of the institutions will be considered depositors and that the chartered entity will be a depository institution. The use of these terms cause us great concern, as each implies the safety of insured funds. These institutions, unlike all state-chartered banks, are not required to maintain federal deposit insurance. We would submit that replacing the word "bank" with "financial institution" and the word "depositor" with "customer" or "account holder" and the term "depository institution" with "financial institution" will provide needed clarity and safety. Section 36 of AM227 would allow for all state-chartered banks to provide custodial services for controllable electronic records after 60 days notice to the department. Custodial services include fiduciary and trust powers. Under the Nebraska Banking Act, a bank providing fiduciary custodial services for nondigital assets must be further chartered to conduct a trust company business in a trust department of the bank. A fiduciary is a person that acts on behalf of another, putting their client's interests ahead of their own, with a duty per-- to preserve good faith and trust. LB649 with AM227 does not currently contain such a requirement. For the protection of the Nebraskans placing digital assets on a custodial arrangement in banks, the department believes this should be added to the bill. Finally, as set out in the department's fiscal note, LB649 does not provide funding for mechanisms sufficient for the department to offset the regulatory costs of the new act and this remains true with AM227. The bill provides that in each application for a charter shall be accompanied by a fee established by the director pursuant to Section 8-602. However, Section 8-602 does not contain the authority for the director to establish fees and the bill does not set an application fee for this type of application. As such, the department does not estimate any revenue resulting from application fees. Expected revenue from charter fees once an application is approved is minimal. Section 35 of AM227 also states that a bank providing custodial services for control of electronic records shall pay the asset-- assessment provided in Section 8-605. This provision is new to the bill and thus not addressed in the fiscal note. However, the bill provides that

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controllable electronic records held in custody are not assets of the bank. As a result, the assessment authority provided under Section 8-605, allowing the department to assess financial institutions based on the institution's total assets to fund the department's operations, would not be a source of funds. The long-term fiscal impact is unsustainable within the current revenue stream and the slight increase in revenues generated from this bill. These are the department's primary concerns. The department remains committed to continuing discussion with all stakeholders of LB649. I'd be happy to answer any questions. Thank you.

**WILLIAMS:** Thank you, Director Lammers. Are there questions? I have a few. In Mr. Neuner's testimony, he, a few times, used a term, we want to be someplace where we have a regulator that fully understands what we're doing and can regulate us well. Does the Nebraska Department of Banking and Finance fully understand this type of business model and are you confident that we can regulate them?

**KELLY LAMMERS:** Incredibly good question in an evolving environment.

**WILLIAMS:** I should have asked that one last, but I asked it first.

**KELLY LAMMERS:** If you had led up to that, Senator, I-- to, to directly answer your question, the department participates in a number of ongoing discussions with other regulators and other states. We were aware of Wyoming's digital chartering authority. We were also aware of New York's digital chartering authority. We're aware of how New York's Gemini coin, in which that particular regulatory oversight has a monthly audit. So to answer your question, what I'm saying is that this, as I read it, is not a community bank and it should not be regulated as a community bank. This is something new. This is a part of a payment process and as a result of that, the department would take time to craft and share, in a transparent manner, the type of oversight that would be expected by the public as well as expected by the industry. The industry would not be before you today if they believed everything was status quo and OK. So at, at this point, apparently, they're asking for some type of change. To come to a regulator and ask for change is something I'm relatively un-- I have not experienced too often.

**WILLIAMS:** There are certainly portions of the bill-- in, in Section 17, I believe it is, that, that lays out the duties of the director

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and the department and the, and the application process. And again, I think this relates to your first answer. Part of that is determining the adequacy, the plausibility of a business plan and again, the question would be the ability of the department to determine the plausibility of a, a business plan such as this.

**KELLY LAMMERS:** The business plan, as proposed, would appear to build on the blockchain, basically a, a new bookkeeping or a new ledger system, a special purpose vehicle in which identifiable funds are being packaged. If there's more to that, I, I, I would appreciate it, but it-- at a very high level, that, that is in essence what is being created. So while it is not a community bank, it does not go into the, the larger depth to that, it is identifying a situation in which the money is packaged and handed off to a wallet holder. And for the first time, the, the Department of Banking would not be licensing, supervising, and chartering those parties that touch other people's money. It would only be part licensing and chartering the packager of the money. So to answer, to answer your question, we would need to obtain training. We would need to understand the evolving network of whatever protocols are being designed and exercised, but I believe it is within the reach of the department to, to obtain that if that is so directed by, by Nebraskans.

**WILLIAMS:** OK. And, and a kind of a follow-up to that, on page 13, line 10, section 20-- and you don't need to look this up-- it, it talks about analyzing the business model to determine the amount of the surety bond. And again, I, I think about a completely different business model, concerned-- just recently, there has been some issues with surety bonds and blanket bonds with Nebraska banks based on company getting in and out of that business. Do you have any idea about whether there is a bond available at the current time for these kind of institutions?

**KELLY LAMMERS:** I, I am unable to answer that.

**WILLIAMS:** Mr. Quandahl, in his testimony, talked about the secondary regulator that is there for all Nebraska banks and it appears to me that there is no secondary regulator for a DADI institution because there's-- lacking that federal connection and lacking that FDIC insurance. So the State Department of Banking and Finance would be the only sole regulator, is that your--

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**KELLY LAMMERS:** That is my understanding, yes.

**WILLIAMS:** OK. Last question from me. The contingency account that I've, I've-- has, has really caught me on this thing. It, it, it seems to me unusual and maybe even unprecedented that someone that labels themselves as a bank would take depositors' money to create a contingency account for unexpected losses. And again, under the bill, that is deemed to be 2 percent, but could be changed at the direction of the director of banking. What's your reaction to a contingency account and how that would affect the, the integrity and trust of our banking system?

**KELLY LAMMERS:** The representation of the contingency account was the original impetus for the department's objection to the use of depository. This-- in, in my personal definition of deposit, a 2 percent risk share seems to be outside of my expectation. The structure of the organization is to accumulate U.S. treasuries, to accumulate funds that offset the total amount of the-- what they're using as the word "deposit" and then that, that special purpose vehicle, that, that virtual currency goes out into the marketplace and it becomes negotiated, handed off from, from party to party. The 2 percent would be relative to clearing, relative to operational friction, if you will, between interchange, which is typically absorbed at a merchant level, typically absorbed at a bank or credit union level. So this would take-- be an issue of financial literacy. It, it would be an issue of, of explaining what this type of entity is, is doing with the money, if you will, as they package that.

**WILLIAMS:** Thank you. Any additional questions for the director? Senator Bostar.

**BOSTAR:** Thank you, Chair Williams, and thank you, Director Lammers. Can you talk to me for a, a minute about the-- how is the word "bank" regulated within the, the naming of an organization?

**KELLY LAMMERS:** In the state of Nebraska, a bank is a very restricted word defined in Nebraska law that reflects an institution that is chartered, examined, regulated, and in, in special exceptions, that are granted through Nebraska law by, by the Legislature. It may include nonprofits, a, a food bank, if you will, but with those very few exceptions, it is a financial institution, which is FDIC or NCUA insured if it is a credit union.

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**BOSTAR:** Who enforces that?

**KELLY LAMMERS:** The Department of Banking and Finance.

**BOSTAR:** Other than food bank-- I would imagine also a blood bank-- what, what other sort of exceptions are there?

**KELLY LAMMERS:** There is the naming of the Pinnacle Bank Arena. Again, very few exceptions, Senator.

**BOSTAR:** Is there-- I mean, I guess I'm trying to think-- I mean, there's been talk of reputational risk and I'm trying-- and, and that's hard to, to quantify as a risk, I think. I think that if a food bank were to suffer some calamitous fate, people wouldn't lose trust in their community financial banking institution. Is the idea that people will not understand what, say, a company like Telcoin is doing and that that association will bleed over from one to the other so that if there is a unfortunate situation with a digital asset depository organization, that people would associate that with their local financial community banking institution?

**KELLY LAMMERS:** I believe both sides of that conversation were presented today and I'm simply testifying neutral that that is the question relative to a, a payment processing institution. With the word "bank," is that the same as a community banking structure?

**BOSTAR:** Yes. Thank you, sir.

**WILLIAMS:** Director, in, in Nebraska and across the entire country, since the FDIC was formed in-- following the '30s, has there been any bank depositor that has lost one dime of FDIC-insured deposits?

**KELLY LAMMERS:** No, sir. There most certainly is not.

**WILLIAMS:** Thank you. Any final questions? Seeing none, thank you for your testimony.

**KELLY LAMMERS:** Thank you.

**WILLIAMS:** Is there anyone else here to testify in a neutral capacity? Seeing none, Senator Flood, while you're coming up, we have drop-off testimony from Jim Otto of the Nebraska Retail Federation in opposition to LB649 and Julia Plucker representing the Nebraska Credit

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Union League. And we have letters for the record in opposition from Mike Jacobson from NebraskaLand National Bank. You're welcome to come and close, Senator.

**FLOOD:** Thank you. Thank you, Mr. Chairman, members. I never thought I'd be part of a three-hour hearing and on behalf of myself and the proponents, thank you-- and the opponents, thank you for taking the time to listen to this. I do think that if this is adopted this year by the Legislature, it's going to be one of the things that you remember in your career as making a significant change and creating significant opportunities in Nebraska. And for that reason, I think it's great we had the discussion. I'm hopeful, based on Mr. Hallstrom's testimony, that we can find-- where-- a win-win wherever there may be one. I've had that experience with him before and I'm, I'm hopeful we'll have it again and with the Nebraska Bankers and the Independent Community Bankers. One of the things that I think is important to note here-- and I was on this committee for two years in '05 and '06 and I know what it's like to sit on the committee and I, I know that it can be kind of a closed class of people, but-- and sometimes with this bill, I feel like a trespasser in the backyard of a bank. And I'll tell you, sitting behind me are actually 1.9 million people. Less than one-half of 1 percent of them have much to do with banking, but they are moms and dads and sons and brothers and uncles and aunts and the people of Nebraska sit back here and it's up to them what a bank is. It's not up to anybody specifically in this room, but it is up to us as state legislators. We have to make the best decision for all the citizens in this state. We have to, we have to-- unlike a bank, we have to weigh economic development. We have to figure out a way to make Norfolk and Peru and Omaha grow. We have to figure out a way to recognize what the trends are and what's happening in digital currency and what's happening in these money transfers. And then we, as legislators, have to make the decisions that say yes or no to the future of our state in terms of whether this happens or not, whether we have these kind of businesses here or not. Mike Dunlap and I were talking-- he sent a letter in on behalf of Nelnet-- and one of the reasons I got very excited about this bill is that he said this is going to create a lot of commerce in Nebraska, not just Norfolk, but everywhere. And if I have any testifiers to make my case, those three young men over here, they are the future. And in 50 years, they're going to be making the kind of contributions to our state, if they're still here, that we will be very proud of. So I guess at the end of

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the day, Mr. Neuner's bank is not-- Mr. Neuner's business does not propose loaning money and that FDIC argument doesn't carry as much weight. As far as the federal payment system, despite our sovereignty as a state, that question is going to be answered by the Federal Reserve and we're not going to have much say in that. So I, I think that if that question is going to be answered by the Federal Reserve, then why not have it put out here? You know the reason it took two and a half years in Wyoming? Because they spent two years putting the regulations together to do it right and I think that is responsible and we can do the same thing. So with that, I say thank you. I look forward to working with my friends in banking and on behalf of all the citizens. Let's do something here.

**WILLIAMS:** Thank you, Senator Flood. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Chairman Williams. Did you use the Wyoming regulations when you fashioned this bill?

**FLOOD:** Yes, it's modeled after Wyoming with some change. This allows consumers to have deposits in a cryptocurrency bank where Wyoming is-- does, does not.

**McCOLLISTER:** South Dakota put together the same regulations?

**FLOOD:** I haven't looked at what is going on in South Dakota. I've looked-- I've, I've generally read about North Dakota. North Dakota wants to seize the high ground in terms of being home to fintech and cryptocurrency. And, and then in Nevada, they've got a large contingent of legislators that want to create a smart city with cryptocurrency and bank charters.

**McCOLLISTER:** Thank you.

**WILLIAMS:** Senator Pahls.

**PAHLS:** Thank you. I'm listening to both sides, I'm just curious, you're leaving me a little bit up in the air. Talk to me about timeline. In your, your point of view, what, what do you-- you say well, let's work together--

**FLOOD:** Well, I am-- and you know this and you are the same way-- we are-- I'm built to find-- if there's a win-win that exists, I'm going to, I'm going to cross every hill and every stream to get there. But

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there are some things that, that neuter the bill so much that it doesn't make any sense for what we're trying to accomplish here. My timeline would be obviously, give me some time to work with the banks and, and talk to them and explore what Mr. Hallstrom was saying to me at the break, at the recess there. And, you know, obviously, this is where I want to go with my priority bill and the deadline for that is March 11 and so we've got a little bit of time, I think, to kind of sort out what we can. I'd like to see this sent to the floor. I'd like to see it debated and passed and I, I say that because once it's passed, then the regulations and the, the rules and regs are going to take. You know, Wyoming, they took two years.

**PAHLS:** Yeah.

**FLOOD:** And I think we can all feel that this is coming on as a big issue in our country and around the world and this is our shot.

**PAHLS:** And this is your priority bill?

**FLOOD:** Yes.

**WILLIAMS:** Additional questions? Seeing none, that will close the hearing on LB649 and we're going to move right ahead and open the public hearing on LB648, again, Senator Flood's companion bill. We'll wait just a minute while people are moving. All righty, here we go. Senator Flood, you're welcome to open on LB648.

**FLOOD:** Thank you, Mr. Chairman and members of the Banking, Commerce and Insurance Committee. My name is Mike Flood, F-l-o-o-d. I represent District 19. I will be brief and I would ask if someone's reading this legislative history to, to incorporate, by reference, all the comments that were made in LB649. Briefly, this bill provides definitions of digital assets, virtual currency as "controllable electronic records" in Nebraska's Uniform Commercial Code. The bill incorporates the work product of the Uniform Law Commissioners' Committee on Uniform Commercial Code and Emerging Technologies to define controllable electronic records, also known as digital assets, and clarifies the applicability of UCC Article 9 to controllable electronic records, including attachment, perfection, priority, and enforcement in Nebraska's Uniform Commercial Code. Passage of LB648 will, will create a considerable and necessary advantage for Nebraska to lead in emerging industries using blockchain, digital leader tech-- digital

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ledger technology, virtual currencies, and other digital assets and would provide a sensible framework and legal certainty for transactions of controllable electronic records. I know Mr. Quandahl will be testifying briefly and will have more details.

**WILLIAMS:** Thank you, Senator Flood. Any questions initially? Seeing none--

**FLOOD:** Thank you.

**WILLIAMS:** --we will invite the first proponent.

**MARK QUANDAHL:** Thank you.

**WILLIAMS:** Welcome, Mr. Quandahl.

**MARK QUANDAHL:** Thank you. Chairman Williams, members of the Banking Commerce and Insurance Committee, Mark Quandahl, Q-u-a-n-d-a-h-l, appearing here in support of LB648. I'm an attorney with Dvorak Law Group with offices in Hastings, Columbus, North Platte, Sutton, and Omaha. I've been retained by Telcoin and its founder, Paul Neuner, to assist with drafting Nebraska Financial Innovation Act, which takes the place of LB-- or takes form as LB648 and what you heard in LB649. And so LB648 as introduced will be replaced by an amendment. That amendment should have been circulated, AM221 to LB648. More important than anything I'm going to say is the letter that's going around. I want to recognize and thank University of Nebraska law professor Harvey Perlman, who is one of the uniform law commissioners, for his support, perspective, and assistance with LB648 and the amendment. Professor Perlman's letter is being circulated and you can read that in your own time. But just in-- to be-- in the interest of brevity and time, I'm going to just speak to the amendment and go through it quickly. Amendment provides for the adoption of the Transactions in Digital Assets Act. The bill incorporates the work product of the Uniform Law Commissioners' Committee on the Uniform Commercial Code and Emerging Technologies to define controllable electronic records or digital assets and the applicability of UCC Article 9, secured transactions, to controllable electronic records, including attachment, perfection, priority, and enforcement in Nebraska's Uniform Commercial Code. In addition to providing definitions, it creates a new Article 12 to the Nebraska UCC that defines rights in controllable electronic records. It also addresses control of

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controllable electronic records and updates Article 9 to provide for perfection of a security interest in those controllable electronic records. And that's a mouthful, however, the, the, the term of art, controllable electronic record, is the one that the Uniform Law Commissioners fell upon for a description of digital assets. And that's-- I suspect that will-- not only would catch on in Nebraska, but it would be kind of the universal term of art coming out of this bill, but then also too, nationwide. The amendment language came directly from the work of the Uniform Law Commissioners' Committee on the Uniform Commercial Code and Emerging Technologies. As I said before, Professor Harvey Perlman from the University of Nebraska College of Law serves as a uniform law commissioner and on the emerging technologies committee. The intent language of Section 2, starting on page 7 of the amendment, was developed to recognize and respect the work of the Uniform Law Commission. Passage of LB648 will create a considerable and necessary advantage for Nebraska to lead in emerging industries, utilizing blockchain, digital ledger technology, virtual currencies, and other digital assets and would provide a sensible framework and legal certainty for all transactions of controllable electronic records. And so, just with that, I would submit myself to any questions that the committee may have at this time.

**WILLIAMS:** Questions for Mr. Quandahl? Do you know if anyone from the Uniform Law Commission is going to testify today?

**MARK QUANDAHL:** That would be the letter from Professor Perlman. As a matter of fact, he, he, he was authorized by the Uniform Law Commissioners to send that letter in support of LB648. As a-- and you know, I'd say as an aside too, is he invited us to participate as observers with the, with the process on the committee too and so I've had the opportunity to do that. And there's another committee hearing coming up on March 3 or 4. I expect to do that again too and kind of continue in on that too. It's a, it's a great opportunity.

**WILLIAMS:** If, if Mr. Perlman were here, I would be asking him directly if, if Nebraska has ever adopted anything from the Uniform Law Commission before it was approved by Uniform Law Commission.

**MARK QUANDAHL:** And, and I don't know the exact answer to that, but the, the usual course of dealing or the usual way that it's done is that the Uniform Law Commissioners would come here with a legislative

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proposal. In the interest of time and because the opportunity is here today, today is the reason why we have decided to go forward with this, but with the blessing of the Uniform Law Commissioners, they, they know what we're doing. They know that we're out here. And also, too, with the commitment that if there are any changes to the draft language before-- when it becomes finalized, we'll come back and ask for amendments to that to conform it with the final language that's adopted by the Uniform Law Commissioners.

**WILLIAMS:** Thank you. Any additional questions? Seeing none, thank you for your testimony, Mr. Quandahl. Any further proponents? Seeing none, is there anyone here to testify in opposition? Welcome back, Mr. Sjulín.

**CARL SJULIN:** Thank you, Chairman Williams, members of the committee. My name is Carl Sjulín, S-j-u-l-i-n. I serve as the president of West Gate Bank and my testimony today is on behalf of the Nebraska Independent Community Bankers Association. LB648 invites Nebraska to be the first state in the country to adopt a new Article 12 to the Uniform Commercial Code. Importantly, the provisions of this new Article 12 have not been finalized and adopted by the National Conference of Commissioners on Uniform State Laws. For over 125 years, this Uniform Law Commission has provided states with nonpartisan, well-conceived, well-drafted legislation that brings clarity and stability to critical areas of state statutory law. Nowhere is the Uniform Law Commission's work more important than in the standardized Uniform Commercial Code that has been adopted by 49 states. LB [RECORDER MALFUNCTION]-- such as cryptocurrencies, without the benefit of a model act or any other state or federal statutes from which to draw upon. This committee should decline this unprecedented invitation. Consumers, financial institutions, and regulators require a stable body of law to conduct their business. The likelihood of changes to Article 12 in the future make adoption of the draft Article 12 at this stage entirely premature. Passage of LB648 will create vested interests in contracts, loans, currencies, and transfer rights that will be messy and difficult to change once on the books. The UCC is a highly technical area of the law where a new article should not be enacted prior to being fully vetted by not only the Uniform Law Commission, but the American Law Institute and the respective UCC committees of the American and Nebraska State Bar Associations. We urge this committee to take a thoughtful and slow approach with regard LB648 and consider the substantial benefits of waiting until the model

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Article 12 is completed and the development of federal law catches up  
to this new and complex area of digital assets and cryptocurrencies.  
Thank you.

**WILLIAMS:** Thank you, Mr. Sjulín. Questions? Senator Pahls.

**PAHLS:** It's an interesting thing. The letter that was submitted to us,  
have you had a chance to read it yet?

**CARL SJULIN:** I have not.

**PAHLS:** I tell you, I think you ought to read it because I think it  
disputes a number of your statements that you have made. I mean,  
really, I do think that they should-- this should be given out because  
if I read through this, it's pretty positive. And I respect your  
position that you're in, but if Harvey Perlman has any respect by  
anybody in this room, he's really laying it out here pretty strong.  
That's all I have to say. So I would suggest people read this letter  
thoroughly on both sides. I sped-- I went through a-- called  
speed-reading. There are some things in here that support what Senator  
Flood is doing in LB648. That's my comment. Thank you.

**WILLIAMS:** Any additional questions? Seeing none, thank you--

**CARL SJULIN:** Thank you.

**WILLIAMS:** --for your testimony, Mr. Sjulín. Any additional opponents?  
Welcome, Mr. Hallstrom.

**BOB HALLSTROM:** Thank you. Chairman Williams, members of the Banking  
Committee, my name is Bob Hallstrom, B-o-b H-a-l-l-s-t-r-o-m, and I  
appear before you today as registered lobbyist for the Nebraska  
Bankers Association in opposition to LB648. My written testimony has  
been submitted for the record. I don't have too many things different  
to say from Mr. Sjulín. I will tell you, Senator Flood before the  
hearing suggested that I've been here a long time and that either  
means I'm really old or I have some institutional memory. And I do not  
recall that we have ever adopted a Uniform Law Commissioners' act in  
advance of its final submission for adoption throughout the states. We  
have deferred taking action on uniform acts. We have made Nebraska--  
appropriate Nebraska modifications, but the usual routine is that the  
deliberation that is gone through by the Uniform Law Commissioners is  
participated in on behalf of the bankers associations across the

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country by representatives of the American Bankers Association. They have taken part in those meetings that Mr. Quandahl referenced that he has been to. And the American Bankers Association, as recently as January 15, provided us with background regarding the current status of that draft. They have made good progress, but one of their lines in the letter said it's naturally a work in progress. As you might expect in this particular instance, they have 100 attorneys in a single room. Until they get down to the final efforts, there's certainly room for changes, substantive changes that could make a difference, as Mr. Sjulín pointed out, that once you have established contract rights, if you say-- change the substance, as could very well happen, that would bring uncertainty and confusion into the marketplace. Senator Pahls, I have not seen that letter. I would certainly, before I comment in, in any degree, would want to look at it. I, I do want to commend Senator Flood for making the changes from the green copy. Wyom-- Wyoming got it wrong. They jumped the gun even without looking at the Uniform Law Commissioners and the Uniform Law Commissioners' draft, in its current form, is a significant improvement over what was in the Wyoming law, what is the Wyoming law, and what's in the green copy. But I will also note when Senator-- when Harvey Perlman contacted me-- Professor Perlman, excuse me-- contacted me, he gave some encouraging remarks about being out front and, and addressing the emerging issues, but he also indicated that he was not speaking on behalf of the Uniform Law Commissioners, but was saying that in his personal capacity. If that's changed and the Uniform Law Commissioners themselves have indicated that states should jump the gun, that's, that's a different-- it would surprise me, but that's a different, different issue. So I would be happy to look at that and certainly can visit with you once I've had an opportunity to review it, so thank you.

**WILLIAMS:** Any questions for Mr. Hallstrom? Seeing none, thank you for your testimony.

**BOB HALLSTROM:** Thank you, Senator.

**\*JULIA PLUCKER:** Chairman Williams and Members of the Banking, Commerce, and Insurance Committee my name is Julia Plucker, J-U-L-I-A P-L-U-C-K-E-R, registered lobbyist for the Nebraska Credit Union League. I am providing testimony on behalf of the Nebraska Credit Union League in opposition to LB648 and LB649. Our association is the state trade association for Nebraska's fifty-nine not-for-profit, member-owned, cooperative credit unions. I want to thank Senator Flood

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for introducing LB648 and LB649 because we believe that they elevate the importance of further study and discussions on the issue of fintech and cryptocurrency or digital assets. We also want to thank Senator Flood for his consideration of our association's viewpoints over the past several weeks on both bills. Our association's opposition to LB648 and LB649, as amended, is primarily focused on the safety and soundness issues that could be introduced by these newly created digital asset banks/depositories to the current financial system and the lack of knowledge or understanding of this complex technology by governments including regulators, the financial sector and the public at large. Additionally, we have strong concerns with digital asset depositories becoming members of the federal reserve system, issues surrounding federal insurance or lack thereof, the impact on the Nebraska Department of Banking and Finance which would be charged with regulating and examining these complex institutions, and the lack of parity for financial institutions. We do believe however that the issue that these bills introduce should be further studied by the Legislature and its stakeholders including credit unions. LB649, as originally introduced, adopts the Nebraska Financial Innovation Act to allow for the creation of a new banking charter called a digital asset bank. These new banks would be depositories for digital assets or cryptocurrencies and be approved and regulated by the Nebraska Department of Banking and Finance. These so-called banks would be able to carry federal insurance but not mandated to do so as credit unions and banks are required to carry. We have concerns about the issues that these new institutions could introduce to the banking system in Nebraska and especially to the Department of Banking and Finance which derives its funding from the institutions that it regulates including credit unions. The Department draws no funding from the state's general fund. As a new and complex technology, we are concerned about the high cost that the Department would incur to secure qualified persons to examine these digital asset depositories as well as the potential for the diversion of human resources from the oversight of the other financial institutions under the purview of the Department. LB648, as originally introduced, adopts the Transactions in Digital Assets Act whereby banks, as defined in section 8-101.03, would be allowed to provide custodial services for digital assets or cryptocurrencies. It also allows for the Director of the Department of Banking and Finance to adopt and promulgate rules and regulations to implement the Act. These provisions have now become part of LB649. Our opposition to the provisions now in LB649 being derived from the

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original LB648 is that it is narrow in scope by only allowing banks in Nebraska to serve as custodians rather than allowing "financial institutions" as defined in NE Revised Statute 8-101.03. Our primary concern being that cryptocurrency transactions takes money out of credit unions, possibly never to return if credit unions are not allowed to serve as custodians of digital assets. We know that credit union members are buying cryptocurrency today using U.S. dollars and those dollars, in many instances, are coming directly from their credit union accounts. Our objective is to ensure that credit unions remain relevant and can participate in the crypto age by doing what they do best, protecting their members' assets. As currently drafted these bills do not allow for that. As not-for-profit, member-owned, cooperative financial institutions, credit unions solely exist to serve their members with modern and cost-effective financial products and services. Credit unions welcome new technological advances in the financial sector that help them to better serve their member owners. Whether it was the credit / debit card, automatic teller machines, share drafts / checks, online banking or now digitization, credit unions seek advancements that better the lives of their members through utility and at the lowest cost possible. Cryptocurrency is in its infancy and we cannot know with certainty where this technology will ultimately lead to but what we do know is that change in this area is inevitable and that the digitizing of currency is happening. People in the United States and around the world are seeking ways to move money at faster speeds and with greater ease. We don't pretend today to fully grasp cryptocurrencies or digital assets but we do know that technology will not slow down to wait for any of us to catch up. Credit unions welcome advancements that have potential to improve the financial lives of their members. The old way of doing things is no more acceptable than the old ways of thinking. That is why we encourage and would support with our participation the Legislature to study this complex technology and what potential it may have for all financial institutions, including credit unions, and all Nebraskans. In conclusion, although we oppose LB648 and LB649, we do appreciate the elevation of this topic so that it can be discussed and we urge further study. Thank you!

**WILLIAMS:** Any additional opponents? Seeing none, is there anyone here to testify in a neutral capacity? Seeing none, Senator Flood, while you're coming up, we have one drop-off testimony from Julia Plucker from the Nebraska Credit Union League in opposition to LB648.

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**FLOOD:** I'll waive.

**WILLIAMS:** Senator Flood waives closing. That will close the public hearing on LB648 and we do have one more bill that we will be hearing, so-- Senator-- we get Senator Wayne in here. Senator Wayne, we've had a full day in here. Sorry to keep you waiting.

**WAYNE:** That's all right. I don't need much, as you can see.

**WILLIAMS:** We'll wait just a second here. All right, we will be opening the public hearing on LB654, presented by Senator Wayne. Senator Wayne.

**WAYNE:** Chairman Williams and the members of the Banking, Commerce and Insurance Committee, my name is Justin Wayne, J-u-s-t-i-n W-a-y-n-e, and I represent Legislative District 13, which is north Omaha and northeast Douglas County. I'm here today to introduce LB654, which creates the Public Entities Investment Trust Act. There are currently two local government investment pools in Nebraska, both created under interlocal agreements or the Interlocal Cooperation Act. LB654 creates a similar investment opportunity through the trust administration by the Treasurer, State Treasurer's Office. These types of programs are not unusual, 30 states have established state-sponsored investment programs like the one created or proposed in LB654. A point worth noting, it is even-- is that even though we describe this program as a state-sponsored program, it's really not. It just doesn't require any state financial support. With the passage of this legislation, Nebraska would join the ranks of eight of those states that authorize both private and state-sponsored investment programs. Under LB654, entities that we think, commonly think of as government or public entities such as cities, counties, school districts and others would be eligible to make short or long-term investment trusts. One of the things as Chairman of Urban Affairs, I have always tried to provide more tools for cities and counties when I can do it within Urban Affairs. And this is one more tool for the toolbox of those political subdivisions. The trust is authorized to make investments through a number of instruments which have been drawn from the existing statutory authorities and the Nebraska Investment Council policies during the drafting process. After the initial information, the trusts will be membered manage [SIC]. After appointing an initial three founding trust, trustees, future trustees will be elected by the program participants. It will be, it will be a trust ran by the people

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and for the people. LB654 also lays out a number of requirements that, that must be established in order, in the declaration of the trust of the investment pool. Requirements include regular transaction earnings reports, annual auditing, and the authority to give third parties to aid in proper investment oversight of the trust. These requirements are typically in of statutes in other states and mirror similar provisions and declarations of the trust in Nebraska's existing investment pool. LB654 provides a number of advantages to local entities looking to make investments. Chief among them is competition in the marketplace and also cost savings. Furthermore, creating a program under the State Treasurer can provide additional layer of oversight transparency for pool participants and others considering utilizing this tool as their operations. You will hear from the Nebraska Bankers and also from NACO regarding some of their concerns. The proponents have been in discussion with the bankers regarding this bill, and we had a section, Section 5, subsection (10) to the bill prior to introduction as a starting point for those discussions. This subsection would require that the trust establish policies to encourage deposits of trust assets into Nebraska financial institutions, including small and medium size. I am committed to working with the bankers on this bill and will continue to get input from the committee. As far as NACO and others' concerns, they will say that there's already something like this, which I've already acknowledged. They do it through inter-- interlocal agreement, and I don't think competition is necessarily a bad thing. With that, I'll answer any questions.

**WILLIAMS:** Questions for Senator Wayne.

**WAYNE:** I did have a binder with a lot of detail, but after the last hearings, I thought you probably didn't want that so.

**WILLIAMS:** As normal, you made a wise choice, Senator Wayne. All righty, we will invite the first proponent to come and testify. Good afternoon and welcome to the Banking Committee. We would ask that you state and spell your name for the record as you begin your testimony.

**CHRIS DeBOW:** Yes, sir. Chairman Williams, members of the Banking, Commerce and Insurance Committee, my name is Chris DeBow, C-h-r-i-s, last name is DeBow, D as in dog-e as in Edward-B as in boy-o-w, and I'm here to testify in support of LB654. A little bit of background about who I am. I'm a managing partner at Public Trust Advisors and we

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help over 5,000 governments nationwide with their investment management needs and we oversee about a little over \$50 billion of these types of assets, so as my testimony will provide some insights into the legislative bill. There's really three short items that I wanted to cover in the next, say, three minutes. It's really around what is a local government investment pool? To elaborate on that a little bit more, how are they created? And then why does Nebraska need a new investment pool or another option? So, as Senator Wayne alluded to, there are two existing investment programs in, in the state. One is NPAIT and then the other one NLAF. And they are again, they were created under and interlocal governmental agreement. In order for a local government investment pool to be created, there's really two ways that you can do it. You can do it either through like a private fund. And again, that was basically two local governments sort of coming together and basically allowing common property together. Or secondly, you could have that state-sponsored program. And as as Senator Wayne alluded to, state sponsored does not mean any financial support by the state, it's really just a program that's either run out of the Treasurer's Office. It could be run out of the state comptroller's office. Again, depending across the country, it's sort of anchored in those sort of places. So what is a local government investment pool? You know, again, governments can come together to do a lot of different things. If one school district does an RFP for pencils and the other one wants to participate maybe in that RFP, they can join on that little RFP to buy pencils. So governments working together has been around for a long time. And what a local government investment pool does, it allows governments to put money into a pot and then to actually have it invested by professionals and with the hope of, A, keeping it safe, keeping it liquid, and then ultimately adding some additional yield. So the proposed legislation for this new investment vehicle, one item I want to point out is it's not a bank. These particular programs are not banking institutions. And the intent, and we've communicated this to the Nebraska Bankers Association, that we do not want to be able to do check writing capabilities, third-party bill payments, those sort of things. It really is, truly it's an investment option for a treasurer, for a CFO or for a finance professional of a local government. All money from a trust such as this should flow back to the local bank. And basically it always goes back to local bank. That's the common point of contact. I mentioned sort of how they're already created. Again, there's the private funds, there is the state-sponsored funds. And then the final

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item that I'd like to address is why does Nebraska need a new one? Well, a lot has changed in the industry. I know the previous sessions here we're talking about the evolution of technology. And even the local government investment pool space was created in the, in the 1980s, and so there were technologies and infrastructures that were built during that time. And you fast forward to today and you're trying to leverage technology to, to help deliver these services to, to local governments. So, for example, last year on our platform, on our online portal, our clients did 64,000 transactions on an online portal. You need technology to be able to do that. And some of these other legacy programs that have been built across the country may not-- were not built in, say, today's technology. So, Senator Wayne mentioned competition, and the biggest thing I would have to take away here is from a fee perspective. The existing programs in the state, the stated fees that are in the information statement, as well as their, their annual reports are about 40 basis points or 0.4 percent. So kind of the national average, if you look at it like where are other fees out across the country, they're kind of in that 15 or less basis point range, or one-five or less basis point range. The other distinct feature that when you look at like a 15 basis point fee structure, and that's typically how my company structures it, it's an all-inclusive fee. There's no other soft fees. And what I mean by that is if you have an independent auditor, if you have a local legal counsel, all those fees are paid out of the 15. Whereas in a lot of these old legacy programs, there's fees everywhere. So that's what I mean by the spirit of competition. It would certainly be good for Nebraska local governments because it would give them another option to invest and it would keep things safe. And in closing, I do want to thank the Nebraska Bankers. They've been, they've been very forthcoming. And again, I think what we've volleyed around some potentially ideas, and I hope we can continue some of those discussions. So I'm happy to answer any questions from the committee.

**WAYNE:** Thank you, Mr. DeBow. Questions? Senator Lindstrom.

**LINDSTROM:** Not necessarily a question, just to give context. Senator Wayne talked about the competition, which is obviously important. Sitting on Retirement Systems, you talked about the two funds, the internal costs are 40 basis points. I'd just point out the Nebraska Investment Council and what we do with regards to that is around 30 basis points, 32. Just to give context, if you're talking about 15 basis points, just to give you a range of what control costs are.

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**WILLIAMS:** Thank you. Additional questions? Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Chairman Williams. Who does the auditing? Is that done by somebody retained by the fund, or is it done by the state?

**CHRIS DeBOW:** Yes, sir, Senator, the, the auditing-- the, the board of trustees would have to select an auditing firm, and then the auditing firm would have to be a firm that has certain designations. And that audit would have to be delivered before the annual report to the participants within 60 days. That's an SEC guideline. So there would be an independent auditor, and the actual designation is, I think it's a PC-- PCAGF, I think is what it's-- again, you'll have to excuse me on the designation. But there is a specific designation to audit these specific funds.

**McCOLLISTER:** But the state Auditor wouldn't have any purview or any right to audit the fund.

**CHRIS DeBOW:** If the state Auditor-- they wouldn't necessarily have the-- I don't want to say they would be excluded from the right of having to do it. If they met that designation, then the board of trustees would like them to, the state Auditor to do that, I think that's certainly something in the scope of services that they could do. I don't think, I don't think there's any preclusion to that. But, you know, I would defer to the trustees. Typically what we've seen across the country is that there is a private firm that does the audit. But sometimes, again, in Indiana, it's the actual, the state auditor audits the state trust, Indiana's fund. And I can't speak for all the states, but it's probably a mix.

**McCOLLISTER:** Thank you.

**WILLIAMS:** We've spent our morning talking about economic development and growing communities, and most of the money that would go to your company to invest comes to those taxing entities from raising property taxes in those areas. Help me to understand how it would help that local economy to have your company involved with this.

**CHRIS DeBOW:** Yeah, so, so I think when a local government through, you know, through property taxes collects its dollars and they basically have, you know, call it five simple options. Or maybe we'll just break

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it down even simpler, they can, they can deposit money with the local bank, they could perhaps buy United States Treasury, or they could invest in an investment pool. So if you just keep those three sort of options available. So as a, as a local government, your first thing you're gonna do is keep things safe. Secondly, you got to, you want to have liquidity to make sure you can pay payroll. And lastly, you're worried about yield. So the way that this would add value to those local governments would be increased interest income. So ultimately in the investment world, if the sandboxes are the same and everything is equal, if your fees are 0.4 and your fees are 0.15, that disparity, particularly when interest rates go back up, is going to be that savings and/or increase interest income that's passed directly back to the local governments. So in that circumstance, a program like this would add extra interest income dollars back into the local community in terms of interest rates.

**WILLIAMS:** And I would expand my question a little bit, because you addressed it from what it would do to the local taxing authority.

**CHRIS DeBOW:** Yep.

**WILLIAMS:** What does it do to the local economy?

**CHRIS DeBOW:** Trying to think through, I mean, the-- I'm not sure I understand your question. I'm trying to walk through this.

**WILLIAMS:** As compared to putting those deposits in the local bank that are turned right back around and loaned back to the local--

**CHRIS DeBOW:** Yep.

**WILLIAMS:** --community compared to investments through your organization that go out of the local economy.

**CHRIS DeBOW:** Yeah, and so I think the way I would look at that is I would two comments, that obviously local public funds have to be collateralized. So if they go to the bank, they have to be collateralized under, you know, Nebraska statute. And what we've seen across the country is that there's been a decreasing willingness from local and small community banks to take certain amounts of those deposits because the cost of the collateral is high. And again, I do think that the public entity always has the option to keep the dollars local. And certainly if the bank is willing to take the deposits and

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the entity wanted to put them there, that's where they're going to end up. Under today's law, they have, they have the right to, again, kind of move things away. As it relates to sort of the economic development, development side of this, certainly, if, if a bank has money and there's projects going on and they will be able to lend, I think that's going to be good for the local economy. Part of what we want to do as good partners in this endeavor would be to recommend that a certain amount of those dollars in the trust automatically get repopulated across the state. So any bank that, that wants deposits would have the ability, and we're trying to work on some thresholds. Mr. Chairman, I hope I answered your question. I apologize for the confusion.

**WILLIAMS:** Yes, you have. In your opening comments, you used the term, I jotted it down here, the funds would "flow back to the local bank."

**CHRIS DeBOW:** Yeah.

**WILLIAMS:** I'm missing how that happens.

**CHRIS DeBOW:** Yes. So I think the point that I was trying to, to make there is that a local government investment pool, as I mentioned, it's a pot. And so let's just assume that all of us here were participants. We're all local governments, we all had ten dollars in the pot. What, what are some of the other local government investment pools in the country allow for is, is what I call check writing. They also allowed for third-party payment systems. And so, again, let's say a school district had a construction program where they were going to build a new school and they said, hey, I want to write checks out of my account. I would say, no, this particular program doesn't do that. That's your local bank that does that. I want to pay a third-party contractor, we owe the architects a million dollars for the development of it. No, everything goes to and from your local bank, and the local bank is sort of the hub. So, again, we don't allow for moneys to be sent, you know, you know, from this fund to anywhere else except back to the client's main designated bank. And they can't have more than one designated bank. But most of the time, most governments just have one designated bank on their, on the accounting system.

**WILLIAMS:** Thank you. Any additional questions? Seeing none, thank you for your testimony.

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**CHRIS DeBOW:** Thank you, committee members. Thank you, Mr. Chairman.

**WILLIAMS:** Invite the next proponent. Seeing none, is there anyone here  
to testify in opposition? Good afternoon, welcome.

**CANDACE MEREDITH:** Good afternoon. Good afternoon, members of the  
Banking, Commerce and Insurance Committee. My name is Candace  
Meredith, C-a-n-d-a-c-e M-e-r-e-d-i-t-h. And I am the deputy director  
of the Nebraska Association of County Officials, and I'm here today in  
opposition of LB654. Nebraska public entities currently have an  
investing program called the Nebraska Public Agency Investment Trust,  
otherwise known as NPAIT. Founded over 20 years ago, NPAIT is a  
cooperative investing program designed and governed by Nebraska public  
entities. Allowable under Nebraska statutes, NPAIT offers Nebraska  
public entities the opportunity to invest funds jointly, increasing  
efficiency and offering the financial benefits of joint investing. The  
program is governed by a board of Nebraska public officials and is  
designed specifically for Nebraska public entities. NPAIT provides  
daily liquid portfolio for portfolio and fixed rate investment options  
through the fixed-term service program. The liquid funds provide-- the  
liquid fund provides daily liquidity in a variety, a variable rate of  
interest. Investments are limited to the highest quality available and  
are allowed under Nebraska's public funds statutes. NPAIT's fixed-term  
services offer investments for a fixed term period. Under the service  
structure, NPAIT may only work with Nebraska banks to obtain rates.  
NACO believes that if a board in Nebraska public officials are  
governing an investment pool such as a pool is subject to local  
control and does not require additional oversight by the state. NPAIT  
has an established and successful investing program is currently  
serving over 200 entities in Nebraska, along with a variety of other  
investing options available under Nebraska statute. I did want to  
mention the competition piece a little bit. I believe, you know, they  
do-- counties do use the NPAIT. Not all of them, but some of them do.  
But a lot of them use the local banks in their communities, and I  
think what the single pool collateral that started taking place, I  
think we're starting to see a positive impact that where we're seeing  
more competition as well. So I just wanted to throw that factor in  
that I think our counties are, are getting more resources as well. But  
any-- if there's any other questions, I'd be happy to answer them if I  
can.

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our COVID-19 response protocol

**WILLIAMS:** Thank you, Ms. Meredith. Are there questions? Senator  
McCollister.

**McCOLLISTER:** Thank you, Chairman Williams. The proposed program would  
cost less. Do you see any value in an instrument that would be more  
competitive than what you're currently describing?

**CANDACE MEREDITH:** I'm not sure if it would be. I'm not-- I don't have  
the figures to know if it would be currently competitive or not. And  
the markets are so low right now, it's really hard to say, like, once  
start-- the interest rates start picking up and how that would factor  
between what we currently have and what the suggested investing pools.  
So I can't confirm that.

**McCOLLISTER:** What interest rate or number of basis points are you now  
paying?

**CANDACE MEREDITH:** I am not currently a part of NPAIT, so I wouldn't be  
able to answer that question.

**McCOLLISTER:** You are, you do work with banks, though, correct?

**CANDACE MEREDITH:** I work with the Nebraska Association of County  
Officials. I don't work with public funds.

**McCOLLISTER:** OK, thank you.

**WILLIAMS:** Additional questions? Seeing none, thank you for your  
testimony. Invite the next opponent. Welcome back again, Mr.  
Hallstrom.

**BOB HALLSTROM:** Chairman Williams, members of the Banking Committee, my  
name is Bob Hallstrom, B-o-b H-a-l-l-s-t-r-o-m, I appear before you  
today as registered lobbyist for the Nebraska Bankers Association to  
testify in opposition to LB654. I kind of feel like "Negative Nelly"  
coming up here three times in opposition, but we are opposed to the  
bill. The NBA has long advocated that the best and safest place for  
public deposits is in your local hometown bank. Public deposits placed  
with a Nebraska bank or savings and loan are insured up to \$250,000 by  
the Federal Deposit Insurance Corporation, with deposits in excess of  
that amount further collateralized or protected by securities equal to  
at least 102 percent of the amount of deposits in excess of the FDIC  
insured amount. Senator Williams, as noted in your question, those

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public deposits are put to good use and beneficial use in the form of loans and investments that go back out into the community when they are placed with the local bank. Just note for the committee's consideration, Section 3 of the bill provides a menu of eligible investments, including commercial paper, money market, mutual funds, fully collateralized repurchase agreements and any other allowable investments permitted by law. Our experience with local political sub, subdivision financial officers are they are conservative by nature, and these are investments that they perhaps would not do directly. Our concern, our main concern with LB654 is it provides statutory credibility to the proposed investment trust and would result or could result in the, in the investment of funds in assets that they would not directly invest in. In looking at other states, for example, some of the things that are not addressed in this bill, the state of Texas has one of these public investment trust, but they also require the local political subdivisions to establish a formal investment policy so that they've given consideration to whether or not they want to further limit where the funds are going to be placed. And then secondly, they also have a training requirement, so the financial officers have some understanding of risk and return and some of those types of things. We have met with Mr. DeBow and supporters of the bill, certainly appreciate some of the things that they've offered and suggested. One of the downsides of Zoom meetings is you don't have an opportunity to see how incredibly tall Mr. DeBow is, but that's a separate issue. We will continue to work with them. But at this time, we, we simply think that if they have a private option, that they should, should consider that private option. If they can provide lower cost through the NPAIT type of local intercooperation agreement, that's certainly something. But to provide a statutory stamp of approval by creating the public investment trust appears to be problematic to us. I'd be happy to address any questions that you might have.

**WILLIAMS:** Any questions for Mr. Hallstrom? Seeing none, thank you for your testimony. Any additional opponents?

**BOB HALLSTROM:** Thank you. Thank you for your patience.

**WILLIAMS:** Seeing none, is there anyone here to testify in a neutral capacity? Seeing none, Natalie, do we have any letters on this? We have no letters. Senator Wayne, you're invited to come and close.

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**WAYNE:** I will be extremely brief. And to answer your question directly about the local bank, that's what Section 10 that I referenced in my testimony, we were trying to create a way to make sure that local banks are getting deposits and a percentage. What's interesting about the NACO provision is this bill doesn't do anything to that provision. They can still do it if they wanted to do it. And so could the local political subdivisions still invest in the bank if they want to or do something else, such as put in a private pool. What caught me about this bill when I was thinking about introducing it was the savings that people could have. And when we talk about property taxes and taxes, if we can cut fees in half, and I was a part of a organization who invested multimillion dollars into improper investments in OSERS, Omaha Public Schools' retirement, and the amount of fees we were paying, any time that we can say fees as a public body, we should-- we should be able to at least look at that. And to not even have the option, I think is a problem. With that, I'll answer any questions.

**WILLIAMS:** Question for Senator Wayne? Seeing none, thank you. And that will close the public hearing on LB654 and close our hearing--