Forest Lake
AS GOOD AS IT SOUNDS

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Members of the Commerce Finance and Policy Committee,

Thank you for your willingness to revisit our state's virtual currency kiosk statute. I appreciate the hard work and would like to provide my experience and information for your consideration.

Communities across the country have been impacted by scam efforts by criminals who use the crypto kiosks as a vehicle to facilitate theft of a significant amount of money, typically from our elderly and most vulnerable community members; Forest Lake was also severely impacted. Between the years of 2023 and 2024, we had a reported loss by our residents of nearly $300,000 into the cryptocurrency kiosks we had within our city. The heartbreaking stories of the victims in our city were not new or unique to stories that you have already heard, which consist of threats, panic, and/or the feeling of being in a relationship with someone they trust. Any of these factors can completely remove someone's ability to think rationally and logically. The cost of these crimes is life-altering.

Minnesota was one of the first states to enact a law that restricts and regulates virtual currency kiosks. At face value, it appeared this would provide the protection that was needed to make victim's whole again by refunding their money. This is still law enforcement's goal, as confidently tracing and tracking down a suspect to file charges against is extremely unlikely. Unfortunately, the kiosk companies have taken a legal stance on what a "New Customer" is, even if an argument has been made by law enforcement that the person who transacted on the machine has no idea what cryptocurrency is and has never stood in front of a kiosk before in their life. This is the reason this is back on the table and continues to be a topic of elderly fraud abuse. Legal counsel representing one of the kiosk companies stated that it is as simple as calling and asking for a full refund. In my experience, that was far from the reality after the law was passed in August of 2024.

Criminals were able to find out that if they created a digital wallet and then sent the QR code to the victim to scan into the kiosk, it completely circumvented all of the "New Customer" protections that were put into place with the legislation that was put into law. This also greatly expedited the time it took for a victim to start a transaction to feed money into the kiosk. The process looks like this:

- The victim is deeply rooted in the scam.
- They are convinced to take as much cash from their bank account as possible.
- They are advised to go to the nearest kiosk; convenience is key to the criminals.
- A QR code is sent to them via a masked and/or fake phone number.
- The victim then simply scans the QR code and starts putting the cash into the machine.
- That cash is immediately sent to the criminal's digital wallet.

Because the wallet that was created would be considered an "established" or "existing" wallet, the companies refuse to acknowledge the crime from a new customer standpoint. This also

impacts two other areas. First, it allows the criminals to bypass the daily new customer limit. Digital wallets are free to make; criminals can generate thousands of unique wallet addresses instantly for free. They provide a different QR code to the victim for each transaction, making it look like the money is going to different people or accounts. Secondly, when a digital wallet is provided to the kiosk, the “Know Your Customer” information is not available, keeping the criminal’s identity completely anonymous and in line with why this digital asset was created in the first place.

Forest Lake realized this was becoming a losing battle, and this was after the state law was put into place on virtual currency kiosks. With a supportive police administration and city council, we decided to add additional regulations against the kiosks within our city. This is not unlike numerous other products and services that are not only regulated by the state but also by their local government. Our ordinance went into effect in April of 2025, and with the option of continuing to do business through the new regulations, all of the businesses or property owners declined and removed their kiosks, or the functionality to conduct virtual currency transactions on machines that carry that dual role.

Legal counsel also stated that analytics (tracing software) and a “strict regulatory regime” need to be in place to investigate cases and companies that are acting in bad faith. That is an expensive ask, and one of the committee members pointed that out. Tracing software is not only very expensive to purchase, but also finding and training staff who are able to understand how to confidently follow funds when the criminals continually obfuscate the path of the funds and begin co-mingling funds with transactions that are not a part of the investigation, is not a simple task. Forest Lake does not have tracing software, and it would be a very large expenditure for a department of our size.

There are many other states that have followed suit after Minnesota enacted 53B.75. Illinois does have a statute regulating virtual currency kiosks; unfortunately, it reads similarly to our state with the “New Customer” provisions and would be subject to the same scrutiny by the kiosk operators. A state that was not brought up, and needs to be looked at closely, is our neighbors to the south. Iowa has taken a really aggressive stance on fraud/theft occurring through these machines. My apologies if this has already been vetted, but I have attached a copy of their statute, which includes a cover-all for fraud victims with a “New Consumer” and “Existing Consumer.” If the conclusion is that the overwhelming risk outweighs the relative benefit of continuing to let virtual currency kiosks operate in Minnesota, this is a statute that should be referenced.

On a final note, a committee member asked where is this money going? This, also needs to be taken into account. Financial fraud against our elderly is insidious; however, another component of complete anonymity and cash is money laundering. The articles and research are there, funds are sent to countries without oversight, and no anti-money laundering protocols.

Thank you again for all your hard work,

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