



Rep. Tom Young **Rep. Mark Frazier**
42nd Ohio House District 72nd Ohio House District

Chairman Wilkin, Vice-Chair Swearingen, Ranking member Brown and members of the Ohio House Government Oversight Committee thank you for the opportunity to give sponsor testimony on House Bill 585. Our legislation is forward thinking and preemptive. We live in an ever changing world with an ever evolving banking industry.

In recent years we have seen a higher reliance on online banking, crypto currency such as bitcoin which is a medium of exchange that is created and stored electronically using encryption techniques. It has no intrinsic value meaning it is not redeemable for something such as gold or similar commodities. You cannot hold it in your hand and it is not determined by a central bank. With this increased use of cryptocurrency and online transaction a mode of securing this data and logging it is of

the highest importance, thus bringing about the creation of blockchain. Blockchain enables the use and existence of cryptocurrencies such as bitcoin.

An “open blockchain” serves as a database or digital ledger that is chronological, consensus-based, decentralized, and mathematically verified in nature and that is publicly accessible and its ledger of transactions is transparent. Let’s take for example a simple transaction between a business and a customer. This transaction is sent to a P2P network consisting of computers aka nodes. This network validates the transaction as well as the users. Upon the verification of this transaction it is added to a new block of data for the ledger this is added to the block chain and becomes permanent and unalterable thus ending the transaction. Using this technology has many benefits such as increased transparency, accurate tracking, cost reduction and a permanent ledger of transactions and data. These benefits allow for the cost of transactions between companies to be faster, and cheaper while being more

transparent than they are today while allowing for information to be shared without the risk of privacy breaches.

Our legislation seeks to create a new type of bank charter called a “special purpose depository institution” or (SPDI) which may engage in nonlending banking business with depositors, and conduct activity incidental to the business of banking, and provide custodial services for digital assets. This SPDI must pay the state’s financial institutions tax, comply with the federal Bank Secrecy Act, as well as have a surplus fund that includes at least three years of estimated operating expenses prior to receiving the charter among other requirements. This legislation also classifies virtual currency such as bitcoin as intangible personal property and considers it money under the secured transactions of the Uniform Commercial Code (UCC). Additionally, it further amends the UCC and enacts new provisions to specify how digital assets should be handled. The final main portion of this bill allows for LLCs to form as or convert to a Decentralized Autonomous Organization (DAO). A DAO is algorithmically run or managed by smart contract. A smart contract is

essentially a computer program that governs the DAO's use of assets, administration of membership interest votes, and other similar aspects of the DAO based on the occurrence or nonoccurrence of specified conditions. A smart contract might automatically invest a certain portion of the DAO's assets in a particular project once a majority of members have voted to do so. That smart contract may then allow investment returns to flow back to the members' accounts and other subsequent actions to occur automatically depending on the state of the project at any given time. These DAOs have no central leadership. The decisions get made from the bottom-up governed by a community organized around a specific set of rules enforced on a blockchain.

As the world and the banking systems it uses evolve so must Ohio. By introducing this legislation we intend to modernize banking in Ohio and take into account new forms of transaction and banking. We cannot sit by and be stuck in the past. I appreciate the time and would be happy to answer any question you may have.