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| BILL ANALYSIS |

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| C.S.S.B. 21 |
| By: Schwertner |
| Delivery of Government Efficiency |
| Committee Report (Substituted) |

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| **BACKGROUND AND PURPOSE**  The bill sponsor has informed the committee that establishing a strategic bitcoin reserve may help protect the Texas economy by providing a hedge against inflation and economic instability. The bill sponsor has further informed the committee that by diversifying state-held assets with bitcoin and certain other cryptocurrencies, Texas could strengthen its financial resilience and reduce reliance on a single currency, better positioning the state to withstand national economic volatility and maintain economic sovereignty. C.S.S.B. 21, the Texas Strategic Bitcoin Reserve and Investment Act, establishes a formal mechanism for the state to invest in bitcoin and other qualified cryptocurrencies as a strategic hedge against inflation and economic volatility and provides for the comptroller of public accounts to manage these digital assets through prudent investment practices and secure custody methods. |
| **CRIMINAL JUSTICE IMPACT**  It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision. |
| **RULEMAKING AUTHORITY**  It is the committee's opinion that rulemaking authority is expressly granted to the comptroller of public accounts in SECTION 2 of this bill. |
| **ANALYSIS**  C.S.S.B. 21 amends the Government Code to establish the Texas Strategic Bitcoin Reserve as a special fund outside the state treasury in the custody of and administered and managed by the comptroller of public accounts consisting of the following components:   * money transferred or deposited to the credit of the reserve by legislative appropriation; * revenue that the legislature by general law dedicates for deposit to the credit of the reserve; * subject to the bill's market capitalization requirement, bitcoin and other cryptocurrency purchased using money in or received by the reserve, including any cryptocurrency derived from the fork of a distributed ledger or distributed pursuant to an airdrop to the state's cryptocurrency addresses; * investment earnings and interest or rewards earned on assets in the reserve; and * gifts, grants, and other donations to the reserve.   The bill authorizes the comptroller, in its administration and management of the reserve, to acquire, exchange, sell, supervise, manage, or retain any kind of investment that a prudent investor exercising reasonable care, skill, and caution would acquire, exchange, sell, supervise, manage, or retain in light of the purposes, terms, distribution requirements, and other circumstances then prevailing for the reserve, taking into consideration the investment of all the assets of the reserve rather than a single investment.  C.S.S.B. 21 authorizes the legislature to appropriate funds for deposit to the credit of the reserve for the purposes of investing in bitcoin or other cryptocurrency and administering and managing the reserve. The bill authorizes the comptroller to spend bitcoin or other cryptocurrency in the reserve or use the net proceeds from the sale of bitcoin or other cryptocurrency in the reserve to pay the reasonable costs associated with administering and managing the reserve. The bill authorizes money in the reserve to be invested with the state treasury pool and prohibits the comptroller from transferring money in the reserve to the state treasury unless authorized by the legislature in the General Appropriations Act or another law.  C.S.S.B. 21 requires bitcoin or other cryptocurrency purchased using money in the reserve to have an average market capitalization of at least $500 billion over the most recent 12-month period.  C.S.S.B. 21 authorizes the comptroller to contract with one or more third-party entities for the administration or management of the reserve, including contracting with the following:   * a qualified custodian who employs secure custodial technologies, including cold storage; and * a qualified liquidity provider to facilitate the purchase and management of assets in the reserve.   C.S.S.B. 21 authorizes the comptroller, if the comptroller determines that it is in the best interest of the reserve, to do the following:   * use derivatives; * engage in the staking of qualifying digital assets in the reserve, only if the state treasury retains legal ownership of the digital asset and the staking is conducted using a third-party solution; and * loan digital assets in the reserve acquired as an investment.   The bill authorizes the comptroller to contract with a certified public accountant to perform an independent audit of the reserve.  C.S.S.B. 21 authorizes the comptroller, subject to applicable law, to accept a gift, grant, or other donation of bitcoin or other cryptocurrency to the reserve only from a person domiciled in Texas. The bill prohibits a donor from limiting or directing the investment or use of bitcoin or other cryptocurrency donated to the reserve. The bill authorizes the comptroller to require information from a person who donates or offers to make a donation to the reserve and to reject or return a donation made to the reserve for any reason. The bill requires the comptroller, subject to applicable law, to return a donation rejected after it is deposited to the reserve, net of any costs related to the donation incurred by the comptroller during the period the donation was in the reserve. The bill authorizes the comptroller to issue a certificate of acknowledgment to a donor that donates bitcoin or other cryptocurrency to the reserve if the donor requests the certificate and to establish a recognition program to publicly honor a donor who makes significant contributions of bitcoin or other cryptocurrency to the reserve.  C.S.S.B. 21 authorizes the comptroller to liquidate the reserve's assets and temporarily transfer money from the reserve to the state treasury if necessary to allow efficient management of the cash flow of the general revenue fund and to avoid a temporary cash deficiency in that fund. The bill requires the comptroller, as soon as practicable after the date of a transfer, to return the transferred money to the reserve along with the interest, if any, earned on the money while held in the state treasury.  C.S.S.B. 21 establishes the composition of the five-member Texas Strategic Bitcoin Reserve advisory committee as follows:   * the comptroller; * one member of the comptroller's investment advisory board appointed by the comptroller; and * three members with expertise in cryptocurrency investments appointed by the comptroller.   The bill requires the comptroller to appoint members to the committee as soon as possible after the bill's effective date.  C.S.S.B. 21 requires the committee to advise the comptroller regarding the administration and management of the reserve, including recommendations for valuing assets in the reserve and the establishment of prudent investment policies relating to the investment objectives of and asset allocation in the reserve. A member of the committee is not entitled to receive compensation for service on the committee or reimbursement for expenses incurred in the performance of official duties as a member of the committee. Members of the committee appointed by the comptroller serve at the will of the comptroller. The bill establishes that statutory provisions governing state agency advisory committees do not apply to the committee.  C.S.S.B. 21 requires the comptroller, not later than December 31 of each even-numbered year, to publish on the comptroller's website and submit to the legislature a report that includes the following information:   * the amount of bitcoin and other cryptocurrency held in the reserve on the last day of the preceding state fiscal biennium; * an estimate of the monetary value of the bitcoin and other cryptocurrency held in the reserve on the last day of the preceding state fiscal biennium; * the changes, if any, in the amount and estimated monetary value of bitcoin and other cryptocurrency in the reserve during the period the cryptocurrency has been held in the reserve, disaggregated by cryptocurrency type; and * a description of the actions taken by the comptroller to administer and manage the reserve during the preceding state fiscal biennium.   The bill authorizes the comptroller to adopt rules as necessary to administer the Texas Strategic Bitcoin Reserve and requires the comptroller to adopt rules as necessary to implement the bill's provisions as soon as possible after the bill's effective date.  C.S.S.B. 21 includes legislative findings establishing that bitcoin and other cryptocurrencies are assets with strategic potential for enhancing the state's financial resilience by serving as a potential hedge against inflation and economic volatility and that the establishment of a strategic bitcoin reserve serves the public purpose of providing enhanced financial security to Texas residents.  C.S.S.B. 21 broadens the funds exempt from applicability of the Public Funds Investment Act to include all state funds invested by the comptroller, instead of state funds authorized under provisions relating to authorized investments of state depositories and applicable funds, as under current law.  C.S.S.B. 21 defines the following terms:   * "airdrop" as a gratuitous distribution of cryptocurrency to persons who hold cryptocurrency, generally made in a broad, equitable, and nondiscretionary manner; * "bitcoin" as a type of decentralized cryptocurrency created by a peer-to-peer network that operates independently of any central authority or bank; * "cold storage" as a method of storing private keys required to engage in transactions involving cryptocurrency that has a nexus to a secure physical location, is protected from unauthorized access, and is isolated from any Internet network connections; * "cryptocurrency" as a type of virtual currency that utilizes cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain; * "fork" as a change to the consensus mechanism of a distributed ledger that creates a separate ledger, which may result in a new cryptocurrency that shares a common transaction history with the previous cryptocurrency up to the point of the change; * "qualified custodian" as a state or federally chartered financial institution or other entity regulated by the state that has custody of a virtual currency; * "qualified liquidity provider" as an entity that is covered as follows:   + is licensed or regulated under applicable federal or state law;   + maintains audited financial statements prepared by a regulated auditor;   + has at least five years of experience trading in the digital assets industry;   + maintains an office and has a registered principal in Texas; and   + has certified in a method prescribed by the comptroller that the provider meets those requirements; and * "virtual currency" by reference to applicable Business & Commerce Code provisions. |
| **EFFECTIVE DATE**  On passage, or, if the bill does not receive the necessary vote, September 1, 2025. |
| **COMPARISON OF SENATE ENGROSSED AND SUBSTITUTE**  While C.S.S.B. 21 may differ from the engrossed in minor or nonsubstantive ways, the following summarizes the substantial differences between the engrossed and committee substitute versions of the bill.  While both the engrossed and the substitute establish the Texas Strategic Bitcoin Reserve as a special fund outside the state treasury in the custody of and administered and managed by the comptroller consisting of certain components, the substitute includes gifts, grants, and other donations to the reserve in those components, whereas the engrossed did not.  While both the engrossed and the substitute authorize the comptroller to contract with one or more third-party entities for the administration or management of the reserve, including contracting with a qualified custodian who employs secure custodial technologies, the substitute also includes a qualified liquidity provider to facilitate the purchase and management of assets in the reserve, whereas the engrossed did not. Accordingly, the substitute includes a provision that did not appear in the engrossed defining "qualified liquidity provider" for such purposes.  The substitute includes the following provisions that did not appear in the engrossed:   * the authorization for the comptroller, if the comptroller determines that it is in the best interest of the reserve, to use derivatives, engage in the staking of qualifying digital assets in the reserve under certain conditions, and loan digital assets in the reserve acquired as an investment; * the authorization for the comptroller to accept a gift, grant, or other donation of bitcoin or other cryptocurrency to the reserve only from a person domiciled in Texas; * the prohibition against a donor limiting or directing the investment or use of bitcoin or other cryptocurrency donated to the reserve; * the authorization for the comptroller to require information from a person who donates or offers to make a donation to the reserve; * the authorization for the comptroller to reject or return a donation made to the reserve for any reason; * the requirement for the comptroller, subject to applicable law, to return a donation rejected after it is deposited to the reserve, net of any costs related to the donation incurred by the comptroller during the period the donation was in the reserve; * the authorization for the comptroller to issue a certificate of acknowledgment to a donor that donates bitcoin or other cryptocurrency to the reserve if the donor requests the certificate; and * the authorization for the comptroller to establish a recognition program to publicly honor a donor who makes significant contributions of bitcoin or other cryptocurrency to the reserve. |