BILL ANALYSIS

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Virtual currency kiosks, commonly known as cryptocurrency ATMs, have become an increasingly popular means for individuals to buy and sell digital assets such as Bitcoin. These kiosks provide a convenient and accessible way to exchange virtual currency for cash or other forms of value. However, the rapid expansion of these machines has also created significant regulatory challenges and vulnerabilities that are being exploited by criminals for illicit activities, including fraud, money laundering, and the purchase of contraband.

Reports from law enforcement agencies indicate that virtual currency kiosks have been frequently used in financial crimes. Fraud schemes, such as scams targeting the elderly and vulnerable populations, often direct victims to cryptocurrency ATMs to send money to scammers impersonating government officials, law enforcement officers, or tech support representatives. Additionally, criminal organizations use these kiosks to facilitate money laundering by converting illicit cash into untraceable digital assets. The anonymous nature of many virtual currency transactions has also made these kiosks a preferred tool for drug traffickers and those engaged in the sale of illegal goods.

S.B. 1705 seeks to establish clear regulatory measures to mitigate these risks while ensuring consumer protection and financial transparency. By requiring licensing, transaction reporting, fraud prevention mechanisms, and enhanced consumer disclosures, this bill aims to deter criminal misuse of virtual currency kiosks and provide law enforcement with necessary tools to investigate and prevent illicit activity. Furthermore, it imposes reasonable limits on transaction amounts and fees to prevent exploitation and ensures that operators maintain compliance with state and federal financial regulations.
By enacting these provisions, Texas will enhance the security of virtual currency transactions, protect consumers from fraud, and prevent digital financial infrastructure from being abused for illegal purposes.

As proposed, S.B. 1705 amends current law relating to the regulation of virtual currency kiosks.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Texas Department of Licensing and Regulation in SECTION 1 (Section 161.016, Finance Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subtitle E, Title 3, Finance Code, by adding Chapter 161, as follows:

CHAPTER 161. VIRTUAL CURRENCY KIOSKS

Sec. 161.001. DEFINITIONS. Defines "blockchain analytics," "blockchain analytics software," "department," "transaction hash," "virtual currency," "virtual currency address," "virtual currency kiosk," "virtual currency kiosk operator," "virtual currency kiosk transaction," and "virtual currency wallet."

Sec. 161.002. LICENSING AND REGISTRATION REQUIRED. (a) Prohibits a virtual currency kiosk operator from conducting virtual currency business activity in this state

unless the operator holds a money transmission license under Subchapter C (Money Services Required), Chapter 152 (Regulation of Money Services Businesses).

(b) Prohibits a virtual currency kiosk operator from locating, or allowing a third party to locate, a virtual currency kiosk in this state unless the virtual currency kiosk operator registers the kiosk with the Texas Department of Licensing and Regulation (TDLR) and obtains the prior approval of TDLR for the activation of the kiosk.

Sec. 161.003. REPORT REQUIRED. Requires a virtual currency kiosk operator, not later than the 45th day following the date of the end of a calendar quarter, to file with TDLR a report of the location of each virtual currency kiosk of the operator in this state. Requires that the report required under this section include for each virtual currency kiosk certain information.

Sec. 161.004. REQUESTS FOR KNOW YOUR CUSTOMER INFORMATION. (a) Requires a virtual currency kiosk operator, not later than 24 hours after receiving a written request from a law enforcement agency, to provide to the agency the information required as "Know Your Customer" information under Financial Industry Regulatory Authority Rule 2090 as it existed on September 1, 2025.

(b) Provides that a release of information under Subsection (a) does not require a subpoena or court order.

Sec. 161.005. DISCLOSURES ON MATERIAL RISK. (a) Requires a virtual currency kiosk operator in this state to disclose in a clear, conspicuous, and easily readable manner all material risks generally associated with virtual currency, including that:

(1) virtual currency is not legal tender and is not backed or insured by the government;

(2) accounts and value balances of virtual currency are not subject to Federal Deposit Insurance Corporation, National Credit Union Administration, or Securities Investor Protection Corporation protections;

(3) some virtual currency kiosk transactions are deemed to be made when recorded on a public ledger that may not be the date or time when the person initiates the transaction;

(4) virtual currency's value may be derived from the continued willingness of market participants to exchange fiat currency for virtual currency, which may result in the permanent and total loss of a particular virtual currency's value if the market for virtual currency disappears;

(5) a person who accepts a virtual currency as payment is not required to accept the currency as payment and may decline to accept the currency in a future transaction;

(6) the volatility and unpredictability of the price of virtual currency relative to fiat currency may result in a significant loss in value over a short period;

(7) the nature of virtual currency means that any technological difficulties experienced by a virtual currency kiosk operator may prevent access to or use of the operator's customer's virtual currency; and

(8) any bond maintained by the virtual currency kiosk operator for the benefit of customers may not cover all losses incurred by customers.

(b) Requires a virtual currency kiosk operator, in addition to the disclosures required under Subsection (a), to provide a written disclosure that meets certain requirements. Sets forth the required language of the disclosure.

(c) Requires that the disclosures required under Subsection (a) be displayed on the screen of the virtual currency kiosk with the ability for a customer to acknowledge the receipt of the disclosure.

Sec. 161.006. TRANSACTION-RELATED DISCLOSURES. (a) Requires a virtual currency kiosk operator to disclose all relevant terms generally associated with virtual currency and with the products, services, and activities of the virtual currency kiosk operator, including the virtual currency kiosk operator's liability for unauthorized virtual currency kiosk transactions, the customer's liability for unauthorized virtual currency kiosk transactions, the customer's right to receive prior notice of a change in the virtual currency kiosk operator's rules or policies, and under what circumstances the virtual currency kiosk operator, without a court or government order, is authorized to disclose a customer's account information to third parties.

(b) Requires a virtual currency kiosk operator, before a virtual currency kiosk transaction is entered into for, on behalf of, or with a customer, to disclose certain terms of the transaction in a clear, conspicuous, and easily readable manner.

Sec. 161.007. ACKNOWLEDGMENT OF DISCLOSURES. Requires a virtual currency kiosk operator, before completing a transaction, to ensure that each customer who engages in a virtual currency kiosk transaction using the operator's kiosk acknowledges receipt of all disclosures required under this chapter by confirmation of consent.

Sec. 161.008. RECEIPT REQUIRED. Requires the virtual currency kiosk operator, after a transaction is completed, to provide the customer with a physical receipt in the customer's preferred language that contains certain information.

Sec. 161.009. PREVENTION OF FRAUDULENT ACTIVITY. Requires a virtual currency kiosk operator to use blockchain analytics software to assist in the prevention of sending purchased virtual currency from a virtual currency kiosk operator to a virtual currency wallet known to be affiliated with fraudulent activity at the time of a transaction. Authorizes TDLR to request evidence from any virtual currency kiosk operator of current use of blockchain analytics.

Sec. 161.010. FRAUD POLICY. Requires a virtual currency kiosk operator to take reasonable steps to detect and prevent fraud, including establishing and maintaining a written antifraud policy. Requires that the policy required by this section, at a minimum, include the identification and assessment of fraud-related risk areas, procedures and controls to protect against identified risks, allocation of responsibility for monitoring risks, and procedures for the periodic evaluation and revision of the antifraud procedures, controls, and monitoring mechanisms.

(b) Requires that any compliance responsibilities required under federal or state laws, rules, and regulations be completed by the full-time employees of the virtual currency kiosk operator.

Sec. 161.011. MEASURES TO ENSURE COMPLIANCE WITH LAWS. (a) Requires a virtual currency kiosk operator to designate and employ a compliance officer who is qualified to coordinate and monitor compliance with the requirements of this chapter and as otherwise provided by federal and state laws, rules, and regulations, is employed full-time by the virtual currency kiosk operator, and does not own more than 20 percent of the virtual currency kiosk operator.

(b) Requires that any compliance responsibilities required under federal or state laws, rules, and regulations be completed by the full-time employees of the virtual currency kiosk operator.

Sec. 161.012. DAILY TRANSACTION LIMIT. Prohibits a virtual currency kiosk operator from entering into a transaction or series of transactions with a customer for a total amount having a value of greater than $1,000 in a 24-hour period.

Sec. 161.013. PERMITTED FEES. Prohibits the aggregate fees and charges, directly or indirectly, charged to a customer related to a single transaction or series of related transactions involving virtual currency effected through a virtual currency kiosk in this state, including any difference between the price charged to a customer to buy, sell, exchange, or convert virtual currency and the prevailing market value of the virtual currency at the time of the transaction from exceeding the greater of $5 or three percent of the United States dollar equivalent of virtual currency involved in the transaction or transactions.

Sec. 161.014. CUSTOMER SERVICE. Requires a virtual currency kiosk operator that conducts business in this state to:

> (1) provide live customer service between the hours of 8 a.m. and 10 p.m. Monday through Friday; and

> (2) display on the virtual currency kiosk or screen of the kiosk the customer service toll-free telephone number; the name, address, and telephone number of the operator; and the days on, time on, and method by which a customer can contact the operator for assistance.

Sec. 161.015. SEIZURE. Authorizes any virtual currency kiosk of a virtual currency kiosk operator to be seized if the operator fails to comply with the requirements of this chapter.

Sec. 161.016. RULES. Authorizes TDLR to adopt rules necessary to implement, administer, and enforce this chapter.

SECTION 2. Effective date: September 1, 2025.