DATE: April 5, 2025

TO: Honorable Mayor Ted Kozlowski

FROM: Kori Land, City Attorney

SUBJECT: Crypto/Virtual Currency Kiosks Prohibition Summary

In the past few years, the Police Department has seen a significant rise in the number of reports of scams from cryptocurrency kiosks located in the City and recently approached the City Attorney's Office to discuss what options the City has to regulate these kiosks to protect the community.

Crypto currency kiosks or Virtual Currency Kiosks ("Kiosks"), as referred to in Minnesota state law, look like an ATM, and are found in convenience stores, pharmacies, tobacco shops, liquor stores and grocery stores, but instead of dispensing cash, their purpose is to allow customers to sell and purchase cryptocurrency. The Kiosks accept cash from customers and then credit it to the account of another person, move it from one account to another account for the same person, or relinquish control of the currency to another person. This photo is an example of a Kiosk.

There are multiple brands of Kiosks that sell different types of cryptocurrency. While some legitimate transactions may take place through these Kiosks, the machines have quickly become a preferred payment method for scammers.

1. **Current regulations for the crypto currency operators:**

- Federal: Kiosk operators must *register* with the U.S. Treasury Department Financial Crimes Enforcement Network ("FinCEN") as a "money service business" and meet the recordkeeping requirements from the Bank Secrecy Act and anti-money laundering statutes
- State: A license is required in MN to operate a virtual currency business. (Minn. Stat. §§ 53B.69-75) And regardless of the method of the transaction (app, computer, Kiosk) MN law requires the operators to disclose:
  - Whether the transaction is covered by insurance,
  - The revocability of the transaction,
  - Liability for mistaken, unauthorized or accidental transfers,
  - The basis for any recovery from the licensee,
  - Whether the person has the right to stop payment or revoke the transaction.

  If a Kiosk is used, then additional requirements include:
  - A disclaimer that explains that this is not a bank transaction and that it is not subject to any federal oversight or protections,
  - Daily transaction limits ($2,000)
  - Refunds (for new customers only, and if within 72 hours of the transaction),
  - The following statement which must be acknowledged by the customer:

  "WARNING: LOSSES DUE TO FRAUDULENT OR ACCIDENTAL TRANSACTIONS ARE NOT RECOVERABLE AND TRANSACTIONS IN VIRTUAL CURRENCY ARE IRREVERSIBLE. VIRTUAL CURRENCY TRANSACTIONS MAY BE USED BY SCAMMERS IMPERSONATING LOVED ONES, THREATENING JAIL TIME, AND INSISTING YOU WITHDRAW MONEY FROM YOUR BANK ACCOUNT TO PURCHASE VIRTUAL CURRENCY."

2. **The Crimes/Issues at Kiosks**

- All transactions conducted at Kiosks are accompanied by high percentage-based fees (20-30%). (On Feb. 26, 2025, the Iowa Attorney General announced that it is suing both BitCoin and CoinFlip for imposing excessive and often hidden transaction fees, ranging from 21%-23% of the transaction.) *It is important to remember that customers who wish to purchase cryptocurrency are not prevented from doing so using a computer or an app, where the fees are lower (often a flat rate of $.10 to $1.00 per transaction) and cash is not required.*
- The host business (where the Kiosk is located) also receives a percentage of the markup.

- Based on the investigation by the Iowa Attorney General, the majority of scam victims are over the age of 60.
    - *The high volume of scam transactions being performed at Kiosks, coupled with the excessive fees that are being charged at the Kiosks, means that both the operator and the host are profiting from the victims.*
- Criminals have already found their way around the MN daily transaction limits by telling victims to use different Kiosks to complete a large transaction.
- Criminals manipulate, intimidate, and threaten their victims into using the Kiosks to send cash, including schemes such as:
    - the victim has committed a crime and needs to pay money to avoid jail,
    - that the victim is due a payment or owes a payment on PayPal,
    - investment schemes,
    - the scammer falsely represents themselves as government officials or law enforcement officers and requests personal or financial information for an alleged refund
- *In 2023, the FBI reports that there were approximately 69,468 total complaints in the U.S. with a cryptocurrency nexus for a total loss of $5.6 billion dollars, an increase of 45% since 2022.*

3. Local Impact

According to local reports regarding fraud incidents at Kiosks:

- Forest Lake had losses totaling over $300,000 in the last two years,
- White Bear Lake reported about $125,000 from 2023,
- Woodbury had $6.6 million in reported cryptocurrency losses since 2021,
- Stillwater had nearly $75,000 in losses since 2023 and provided this recent example:

  "On October 22, 2024, a victim was contacted by a suspect via telephone and told to retrieve $20,000 from her savings due to an "overpayment" to her PayPal account. The victim was directed to drive to the gas station in downtown Stillwater and deposit this $20,000 into the Athena Bitcoin ATM at the Amoco Gas Station. The gas station employee called police. The Stillwater Police responded and stopped the female after she had deposited $5,820 and explained to her that she was being scammed."

Most cities, including Stillwater, do not have sufficient public safety resources to monitor or regulate the Kiosks or the crimes that result therefrom and the City has a duty to protect the public health, safety and welfare of the citizens, particularly the elderly, from these types of financial crimes. The duty to protect the citizens outweighs the benefit of these Kiosks and therefore, justifies a prohibition on Virtual Currency Kiosks.