Date of Hearing: July 8, 2025
Fiscal: Yes

ASSEMBLY COMMITTEE ON PRIVACY AND CONSUMER PROTECTION
Rebecca Bauer-Kahan, Chair
SB 97 (Grayson) – As Amended May 29, 2025

SENATE VOTE: 38-0

SUBJECT: Digital financial assets: stablecoins

SYNOPSIS

In 2023, the Legislature enacted SB 39 (Grayson, Ch. 792, Stats. 2023) and SB 401 (Limón, Ch. 871, Stats. 2023), which together established the Digital Financial Assets Law (DFAL). These bills created a comprehensive regulatory and licensing framework for cryptocurrency and other digital assets. Under DFAL, any person engaging in digital financial asset business activity with California residents must obtain a license from the Department of Financial Protection and Innovation (DFPI).

This author-sponsored bill seeks to amend DFAL to address implementation challenges and industry concerns that have emerged during the DFPI's rulemaking process, which is expected to be finalized in July 2026. Specifically, the bill revises the definition of "digital financial asset" to exclude rewards points and digital assets that are usable solely within a game or gaming platform. It also exempts individuals whose sole role is to ensure that blockchain transactions are not fraudulent.

In addition, the bill makes several technical and procedural updates. These include clarifying timelines related to grandfathered conditional licensees, the completion of license applications, and requiring covered exchanges to provide up-to-date disclosures of their order execution practices.

The most substantive changes concern the standards the DFPI Commissioner must consider when evaluating whether to approve a stablecoin for use in California. These include:

- *Whether the issuer is subject to legally enforceable collateralization requirements;*

- *Whether the collateral is sufficient in both quality and quantity;*

- *Whether there are programmable mechanisms for liquidation, redemption, or settlement; and*

- *Whether the code base is subject to security requirements for major new releases and ongoing compliance through transparent code disclosures.*

The California Blockchain Advocacy Coalition has taken a support if amended position on this bill.

This bill will be heard by this Committee pending passage in the Banking and Finance Committee on 7/7/2025.

THIS BILL:

1) Clarifies exemptions to the definition of "digital financial asset" related to affinity or rewards programs and digital assets used within a game or game platform.

2) Exempts from DFAL a person who merely retains the ability to terminate, suspend, or interrupt a digital financial transaction solely to prevent unauthorized or fraudulent activity and who is not compensated for that service.

3) Deletes the paragraph related to exchanging a digital representation of value within an online game from the definition of "digital financial asset business activity."

4) Clarifies that, on or after July 1, 2026, a person may engage in digital financial asset business activity if the person has submitted a completed application by that date.

5) Updates the grandfathered date that applies to conditional licensure for persons maintaining a license from the State of New York to January 1, 2025.

6) Updates the grandfathered date that applies to certification requirements for a digital financial asset approved for listing by the State of New York on or before January 1, 2025.

7) Requires a covered exchange to provide and make available an up-to-date description of the order execution practices and clarifies that the Department of Financial Protection and Innovation is not authorized to impose, by rule, specific trade routing rules.

8) Provides that a licensee is not required to publicly disclose specified policies that are sensitive to potential security risks.

9) Adds the following factors that the commissioner must consider when determining whether to approve a stablecoin pursuant to the discretionary approval process provided by the DFAL:

   a. Whether the issuer of the stablecoin is subject to any legally enforceable collateralization requirements; the details of any collateralization requirements, including the required collateralization level and the type and quality of assets being held as collateral; whether any assets held as collateral by the issuer are digital financial assets, and, if so, the amount, nature, and quality of those assets; and any other issues relevant to algorithmic stablecoins and how the issuer addresses or mitigates those risks.

   b. Whether there are programmable liquidation, redemption, or settlement mechanism requirements.

   c. Whether there are code security audit requirements for major new initial releases and ongoing satisfaction of audit requirements through transparent code.

EXISTING LAW:

1) Establishes the DFAL, which establishes regulations for persons engaging in digital financial business activity in the state, as defined. (Fin. Code, div. 1.25, §§ 3101 et seq.)

2) Defines "digital financial asset" as a digital representation of value that is used as a medium of exchange, unit of account, or store of value, and that is not legal tender, whether or not denominated in legal tender; but "digital financial asset" does not include any of the following:

   a) A transaction in which a merchant grants, as part of an affinity or rewards program, value that cannot be taken from or exchanged with the merchant for legal tender, bank or credit union credit, or a digital financial asset.

   b) A digital representation of value issued on or behalf of a publisher and used solely within an online game, game platform, or family of games sold by the same publisher or offered on the same game platform.

   c) A security registered with or exempt from registration with the United States Securities and Exchange Commission or a security qualified with or exempt from qualifications with the DFPI. (Fin. Code, § 3102(g).)

3) Defines "digital financial asset business activity" to mean any of the following:

   a) Exchanging, transferring, or storing a digital financial asset or engaging in digital financial asset administration, whether directly or through an agreement with a digital financial asset control services vendor.

   b) Holding electronic precious metals or electronic certificates representing interests in precious metals on behalf of another person or issuing shares or electronic certificates representing interests in precious metals.

   c) Exchanging one or more digital representations of value used within one or more online games, game platforms, or family of games for either (1) a digital financial asset offered by or on behalf of the same publisher from which the original digital representation of value was received, or (2) legal tender or bank or credit union credit outside the online game, game platform, or family offered by or on behalf of the same publisher from which the original digital representation of value was received. (Fin. Code, § 3102(i).)

4) Provides that, beginning July 1, 2026, a person shall not engage in digital financial asset business activity, or hold itself out as being able to engage in digital financial asset business activity, with or on behalf of a resident of the state unless any of the following is true:

   a) The person is licensed in this state by the DFPI.

   b) The person has submitted a timely application for a license and is awaiting a decision.

   c) The person is exempt from licensure, as provided. (Fin. Code, § 3201; *see id.*, §§ 3202-3225 (setting forth requirements for licensure and enforcement).)

5) Defines a "covered person" as a person required to obtain a license pursuant to 4). (Fin. Code, § 3102(d).)

6) Requires a covered person, when engaging in digital financial asset business activity with a resident of the state, to make specified disclosures to the resident and to the DFPI relating to

matters including potential fees and charges, any insurance protection provided, and the covered person's liability for unauthorized or mistaken transfers or exchanges. (Fin. Code, §§ 3501-3508.)

7) Provides that the disclosure requirements set forth in 6) become operative on July 1, 2026. (Fin. Code, § 3509.)

8) Defines "stablecoin" as a digital financial asset that is pegged to the United States dollar or another national currency and is marketed in a manner that intends to establish a reasonable expectation or belief among the general public that the instrument will retain a nominal value that is so stable as to render the nominal value effectively fixed. (Fin. Code, § 3601(b).)

9) Imposes additional regulatory requirements for persons engaging in the exchange, transfer, storage, or administration of digital financial assets that are stablecoins, including restricting who may engage in stablecoin activity as follows:

   a) If the issuer of the stablecoin is a licensee, applicant for a license, or financial entity authorized to do business under federal law, and the issuer at all times owns eligible securities having an aggregate market value computed in accordance with United States generally accepted accounting principles of not less than the aggregate amount of all of its outstanding stablecoins issued or sold, the issuer need not obtain additional approval.

   b) If the issuer does not satisfy the criteria in 9)(a), the issuer must obtain approval from the Commissioner of the DFPI. (Fin. Code, §§ 3601, 3603.)

10) Establishes a two-tiered regime for the licensure and exchange of a stablecoin within the state, as follows:

   a) If the issuer of the stablecoin is (1) licensed under the DFAL or a financial institution under specified state or federal law, and (2) the issuer at all times owns eligible securities having an aggregate market value of not less than the aggregate amount of all of its outstanding stablecoins issued, the stablecoin may be issued and transferred under the DFAL without additional steps to obtain approval.

   b) If the stablecoin does not satisfy the requirements in 10)(a), DFPI may grant approval of the stablecoin if DFPI determines that the stablecoin does not compromise the interests of residents who may use the stablecoin as a payment for goods and services or as a store of value. The DFPI may, as part of its approval under this provision, require the stablecoin issuer to obtain a license and may impose additional requirements, restrictions, or prohibitions on the activities of the issuer or persons exchanging, transferring, or storing the stablecoin in order to protect the interests of residents. (Fin. Code, §§ 3601, 3603.)

11) Sets forth the factors that the DFPI must consider when determining whether to approve the exchange, transfer, or store of a stablecoin under 10)(b), as follows:

   a) Any legally enforceable rights provided by the issuer of the stablecoin, including, but not limited to, rights to redeem the stablecoin for legal tender or bank or credit union credit.

b) The amount, nature, and quality of assets owned or held by the issuer of the stablecoin that may be used to fund any redemption requests from residents.

c) Any risks related to how the assets in 11)(b) are owned or held by the issuer that may impair the ability of the issuer of the stablecoin to meet any redemption requests from residents.

d) Any representations made by the issuer of the stablecoin related to the potential uses of the stablecoin.

e) Any representations made by the issuer of the stablecoin related to the risks of using the stablecoin as payment for goods or services or as a store of value.

f) Any other factors the Commissioner of the DFPI deems material to making their determination. (Fin. Code, § 3603(b).)

COMMENTS:

1) **Author's statement**. According to the author:

In 2023 I authored AB 39 which established the Digital Financial Assets Law (DFAL) with the purpose of protecting consumers and retail investors in the crypto industry. DFAL is a licensing law administered by the Department of Financial Protection and Innovation (DFPI), and the department is well underway with implementing the program with the goal of issuing licenses by July 2026. Businesses that will be subject to the licensure requirements of DFAL are poring over the statute and have requested amendments to the law ranging from clarifying changes to substantive and complex policy decisions. I have worked with industry participants, consumer advocates, and DFPI to identify as many areas of mutual agreement in making DFAL an even better law than currently exists in statute.

2) **Cryptocurrency and DFAL.** Cryptocurrency is a digital financial asset that operates without a centralized authority backing its value. While it is not considered legal tender, private parties may agree to use it for various transactions. These assets have no physical form and exist solely in the digital realm. The most well-known cryptocurrency is Bitcoin, which launched in 2008. Bitcoin transactions are recorded on the blockchain, a public ledger that enables the tracking of individual coins and uses cryptographic techniques to validate transfers and prevent fraud. Although Bitcoin and other cryptocurrencies were originally conceived as part of a libertarian economic system, where currency's value is determined by free-market forces, they have increasingly come to be viewed as speculative investment assets.

In the previous legislative session, the Legislature enacted SB 39 (Grayson, Ch. 792, Stats. 2023) and SB 401 (Limón, Ch. 871, Stats. 2023), which together comprise the Digital Financial Assets Law (DFAL). These bills established a comprehensive regulatory and licensing framework for cryptocurrency and other digital assets. Under DFAL, any person engaging in digital financial asset business activity with residents of California must obtain a license from the Department of Financial Protection and Innovation (DFPI) by July 1, 2026. The law also outlines the criteria for obtaining a license and grants the DFPI enforcement authority over its provisions. Additionally, DFAL includes specific regulations for digital financial asset transaction kiosks, machines similar to ATMs that allow users to convert fiat currency into digital assets or vice versa.

The DFPI is currently engaged in rulemaking in preparation for the July 1, 2026, licensing deadline. However, the kiosk-specific requirements under DFAL are already in effect.

3) **Stablecoins.** While Bitcoin and other cryptocurrencies fluctuate in value over time, similar to other speculative assets like stocks, stablecoins are designed to maintain a fixed value by being pegged to a fiat currency. For example, many stablecoins are tied to the U.S. dollar, meaning one stablecoin is intended to equal one dollar. The stablecoin market is currently estimated to be worth around $240 billion.[1]

Stablecoins were initially conceived as a way for consumers to store value in a digital form that could be exchanged for more volatile cryptocurrencies. However, because of their consistent valuation, they have become increasingly useful in cross-border transactions, which can be completed much faster using stablecoins than through traditional banking systems. This use case has gained mainstream legitimacy, most notably when Visa partnered with a stablecoin company to facilitate financial transfers throughout Latin America.[2]

Stablecoins typically maintain their value through one of two mechanisms: algorithmic models or reserve backing. Algorithm-based stablecoins came under intense scrutiny following the 2022 collapse of TerraUSD. TerraUSD was tied to another cryptocurrency, Luna, and used an algorithm to maintain its dollar peg. However, the algorithm was not equipped to handle sudden surges in trading volume. When Luna's value began to plummet in May 2022, TerraUSD followed, entering a "death spiral" due to its lack of reserve backing.[3] Within two days, the ecosystem lost approximately $40 billion, triggering a broader crypto market crash that wiped out around $300 billion in value industry-wide.

Reserve-backed stablecoins, such as Tether, claim to be more secure by holding real assets—such as U.S. Treasury notes, to support their value. Tether, which currently has more than $156 billion in circulation, has faced regulatory scrutiny. In 2021, the New York Attorney General found that Tether misrepresented its reserves and required the company to pay an $18.5 million settlement and publish quarterly reserve reports. However, these reports are self-attested, and questions remain about whether Tether's reserves are sufficient to fully back its coins.[4]

To address these concerns, Congress has introduced the GENIUS Act, which has passed both chambers with bipartisan support and is currently pending concurrence. The bill would require stablecoin issuers to register with regulatory authorities and undergo regular third-party audits to verify they have adequate collateral to protect consumers from market volatility. Additionally,

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[1] John Towfighi, "What are stablecoins? Everything to know about the crypto being debated in Congress", *CNN* (June 5, 2025), https://www.cnn.com/2025/06/05/business/stablecoins-crypto-genius-act
[2] *Ibid.*
[3] David Yaffe-Bellany and Erin Griffith, "How a Trash-Talking Crypto Founder Caused a $40 Billion Crash", *The New York Times* (May 18, 2022), https://www.nytimes.com/2022/05/18/technology/terra-luna-cryptocurrency-do-kwon.html
[4] Paul Vigna, "Cryptocurrency Firms Bitfinex, Tether Settle New York Attorney General's Probe" *The Wall Street Journal* (Feb. 23, 2021), https://www.wsj.com/finance/currencies/cryptocurrency-firms-bitfinex-tether-settle-new-york-attorney-generals-probe-11614093709?mod=article_inline

the bill defines stablecoins as a means of payment rather than as securities, clarifying their regulatory classification.[5]

However, critics argue that the GENIUS Act risks legitimizing a system that could lead to excessive fragmentation in digital currency. By allowing many entities to issue their own stablecoins, the Act could create a marketplace with multiple digital currencies all claiming to be equivalent in value. This scenario evokes comparisons to the pre-Civil War era of "wildcat banking," when private banks issued their own currencies, forcing businesses to assess their relative worth. The lack of standardization during that period led to widespread volatility, bank runs, and financial instability. These problems ultimately prompted the passage of the National Banking Acts of 1863 and 1864, which imposed reserve requirements and led to the establishment of a unified national currency.[6]

4) **What this bill would do.** Digital Financial Assets Law (DFAL) is a fairly extensive law containing provisions that focus on the administrative authorities provided to DFPI to implement the licensing program, as well as provisions that address substantive policy issues. This bill would address issues that have arisen during the rulemaking process to implement DFAL by the DFPI as well as address concerns raised by industry to clarify the law without undermining the consumer protective aspects of the law.

This bill clarifies exemptions to the definition of "digital financial asset" related to affinity or rewards programs and digital assets used within a game or game platform. This means that points or rewards earned through membership or loyalty programs that cannot be redeemed for legal tender are not considered a digital asset. Similarly, digital assets that are within games, such a skins, swords, and other purchasable upgrades would also be exempt from the digit financial asset definition. Furthermore, the bill deletes the paragraph related to exchanging a digital representation of value within an online game from the definition of "digital financial asset business activity."

This bill also exempts a person who merely retains the ability to terminate, suspend, or interrupt a digital financial transaction solely to prevent unauthorized or fraudulent activity and who is not compensated for being considered a digital financial asset business activity. This should have the effect of protecting developers of blockchain protocols who retain an emergency "pause" button for their protocols in order to stop transactions if an exploit is being executed.

Furthermore this bill makes various changes about who can engage in digital financial business activity before the implementation of rules by the DFPI. This includes that a person may engage in digital financial asset business activity if the person has submitted a completed application by July 1, 2026. Similarly, this bill updates the grandfathered date that applies to conditional licensure and certification enabling those who have been approved to be licensed or approved as a digital financial asset in New York before January 1, 2025 to be able to do business in California. This change would provide greater flexibility to limited purpose trust companies that have been chartered in New York to do business while awaiting licensing in California.

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[5] Sam Goldfarb, "Stablecoin Legislation Will Juice Demand for Treasurys—to a Point", *The Wall Street Journal* (June 18, 2025), https://www.wsj.com/finance/stablecoin-legislation-will-juice-demand-for-treasurysto-a-point-3724fad7.

[6] John Cassidy, "Why Passing the Stablecoin GENIUS Act Might Not Be So Smart" *The New Yorker* (June 23, 2025), https://www.newyorker.com/news/the-financial-page/why-passing-the-stablecoin-genius-act-might-not-be-so-smart?_sp=e0c0effa-64d7-4b36-aac3-2a1f7ff04411.1751235190531

This bill also will require that covered exchanges make available an up-to-date description of the order execution practices and clarifies that the DFPI is not authorized to impose, by rule, specific trade routing rules. Moreover, this bill will also require that a licensee is not required to publicly disclose specified policies that are sensitive to potential security risks, as specified.

The most substantive part of this bill addresses concerns with regard to stablecoins as described above. Specifically, this bill would require the commissioner of the DFPI to consider three criteria when determining whether to approve a stablecoin. These factors look at:

(1) Whether the issuer of the stablecoin is subject to any legally enforceable collateralization requirements; the details of any collateralization requirements, including the required collateralization level and the type and quality of assets being held as collateral; whether any assets held as collateral by the issuer are digital financial assets, and, if so, the amount, nature, and quality of those assets; and any other issues relevant to algorithmic stablecoins and how the issuer addresses or mitigates those risks.

(2) Whether there are programmable liquidation, redemption, or settlement mechanism requirements; and

(3) Whether there are code security audit requirements for major new initial releases and ongoing satisfaction of audit requirements through transparent code.

Together, these added factors are intended to more clearly guide the DFPI's approval process for stable coins that are uncollateralized and/or are not offered by a licensee or financial institution.

ARGUMENTS IN SUPPORT: In a support if amended position, The California Blockchain Advocacy Coalition write:

Throughout the 2023 legislative session, CBAC engaged constructively with the author of AB 39 to address concerns and ensure that the resulting licensure framework would be appropriately tailored—not overly prescriptive—and would not inadvertently inhibit the growth of California's digital asset sector. While we commend the author for addressing many of the issues raised by stakeholders, we also recognize that the development of an entirely new regulatory regime for such a fast-evolving industry will necessarily require ongoing refinement and input. For this reason, we'd suggest the following additional refinements and stand ready to collaborate on reasonable and focused language:

- Additional refinements to the definition of "digital financial asset" to reflect the diverse utilization of digital represented products - many of which do not have financial implications or representations. Web3 in-game tokens, NFTs, and other tokenized assets each present unique considerations, and we look forward to continued dialogue to ensure they remain outside the scope of a financial asset licensure law.

- Additional refinements to the definition of "control" to ensure proper compliance

We sincerely appreciate the author's leadership in bringing forward SB 97 to address remaining gaps and ensure that DFAL is implemented in a way that protects consumers while fostering innovation.

For these reasons, CBAC is proud to support SB 97 if amended and we look forward to continuing the dialogue to ensure the successful implementation of the Digital Financial Assets Law.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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