SB 97 (Grayson)
Version: March 24, 2025
Hearing Date: April 8, 2025
Fiscal: Yes
Urgency: No
AWM

SUBJECT

Digital financial assets: stablecoins

DIGEST

This bill makes changes to the Digital Financial Assets Law (DFAL), which regulates cryptocurrency and other financial assets offered and sold to Californians, in anticipation of the July 1, 2026, date at which point digital financial asset companies must apply for licensure.

EXECUTIVE SUMMARY

California's DFAL regulates digital financial assets—primarily cryptocurrency—that are offered to, traded by, or exchanged by Californians. Under the DFAL, digital financial asset businesses, as defined, will have to obtain a license to operate from the Department of Financial Protection and Innovation (DFPI) beginning July 1, 2026.

This bill makes two changes to the DFAL in anticipation of the impending licensure date. First, the bill deletes one category of activity currently included in the definition of "digital financial asset activity"; the author, in consultation with stakeholders, has determined that this category—for digital financial asset activity in online gaming—is already covered by the other, remaining categories. Second, the bill adds factors that DFPI must consider when determining whether to permit a stablecoin to be offered, exchanged, or held by Californians, when the stablecoin is not both (1) issued by a DFAL licensee or financial institution, as specified, and (2) fully backed by eligible securities. The author has agreed to a minor amendment to clarify one of the new stablecoin considerations.

This bill is sponsored by the author and is supported by the California Blockchain Advocacy Coalition. The Committee has not received timely opposition to this bill. The Senate Banking and Financial Institutions Committee passed this bill with a vote of 7-0.

PROPOSED CHANGES TO THE LAW

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, fame 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) shall be 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).)

This bill:

1) Modifies the definition of "digital financial asset activity" to delete the prong that categorizes as digital financial asset activity the exchange of 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 of games offered by or on behalf of the same publisher from which the original digital representation of value was received.

2) Adds, to the list of the factors the DFPI shall consider in determining whether to approve a stablecoin for exchange, transfer, or storage under the provision for the discretionary approval of stablecoins that are not fully collateralized or issued by approved entities, the following factors:
   a) Whether there are collateralization requirements that include digital assets as eligible collateral that address the type and amount of assets and recognize the unique nature of algorithmic stablecoins.
   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.

COMMENTS

1. Author's comment

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. SB 97 will serve as the legislative vehicle for changes to DFAL, and I expect to work 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, the DFAL, and the status of implementation

A digital financial asset is, broadly speaking, a digital representation of value that is not issued or backed by a government or central bank. Unlike the dollar, cryptocurrency is not considered legal tender, but private parties may agree to use it to facilitate an economic exchange. Also unlike the dollar, there is no physical manifestation of a digital financial asset that can be possessed in the physical realm; it exists only virtually. Bitcoin, the most well-known virtual currency, and many other virtual currencies are created and tracked via a decentralized protocol, rather than the centralized issuance model that prevails in the world of fiat money.

In 2023, the Legislature enacted AB 39 (Grayson, Ch. 792, Stats. 2023) and SB 401 (Limón, Ch. 871, Stats. 2023) which together comprise the DFAL, a comprehensive licensing and regulation regime for cryptocurrency and other digital financial assets.[1] The DFAL requires, beginning July 1, 2026, any person engaging in digital financial asset business activity with residents of this state must have a license obtained from the DFPI.[2] The DFAL also establishes criteria for obtaining a license and grants the DFPI

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[1] *See* Fin. Code, div. 1.25, §§ 3101 et seq.

[2] *Id.*, § 3201. The DFAL's licensing requirements were originally set to take effect on July 1, 2025, but they were extended by one year to give the DFPI more time to ramp up its digital-asset-related operations. (*See* AB 1934 (Grayson, Ch. 945, Stats. 2024).)

enforcement authority over the DFAL's provisions.[3] Additionally, the DFAL regulates digital financial asset transaction kiosks—kiosks that are kind of like an ATM, except instead of allowing a user to access fiat currency from a bank account, they let a user convert fiat currency into a digital asset or vice versa.[4]

The DFPI is currently in the rulemaking process in anticipation of the July 1, 2026, digital financial asset licensing date.[5] The kiosk-specific requirements are already in effect.[6]

3.   This bill makes minor changes to the DFAL in advance of the licensure deadline

SB 97 is intended to hone the DFAL as the July 1, 2026, licensure date approaches. The author has worked with the DFPI and other stakeholders on the language. As currently in print, the bill makes two changes.

First, the bill eliminates, from the definition of "digital financial asset business activity," the prong that addresses representations of value in online games, gaming platforms, or family of games. This deletion does not reflect a determination that online games can never be covered by the DFAL; rather, the DFPI determined that the other, more general "digital financial business activity" definitions are adequate to encompass online gaming activity that is intended to be covered by this bill.

Second, the bill adds to the list of factors that the DFPI must consider when determining whether to approve the exchange, transfer, or storage of a stablecoin that does not meet the issuer and collateralization requirements that allow a stablecoin to be traded as a matter of course. Stablecoins are a subcategory of cryptocurrency; unlike most cryptocurrencies, whose value is intended to go up over time, the value of a stablecoin is intended to remain fixed to the value of a fiat currency, usually the U.S. dollar.

Stablecoins are given extra scrutiny under the DFAL because of their increased financial precariousness. Maintaining a stablecoin's steady value is difficult, as demonstrated by Terra's crash and burn in May 2022.[7] The Terra stablecoin ostensibly maintained its dollar peg through an algorithm that connected the Terra and its companion coin,

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[3] *Id.*, §§ 3202, 3225.

[4] *See id*, div. 1.25, Ch. 9, §§ 3901 et seq.

[5] *See* DFPI, Digital Financial Assets, https://dfpi.ca.gov/regulated-industries/digital-financial-assets/. All links in this analysis are current as of April 4, 2025.

[6] *See* Fin. Code, §§ 3901-3907. To the extent any digital financial asset kiosk operator also engages in digital financial asset business activity, that operator will also be required to comply with the DFAL's broader licensing requirements. (*Id.*, § 3907.)

[7] Yaffe-Bellany & Griffith, *How a Trash-Talking Crypto Founder Caused a $40 Billion Crash* (May 18, 2022; updated May 20, 2022) N.Y. Times, *available at* https://web.archive.org/web/20220526125450/https://www.nytimes.com/2022/05/18/technology/terra-luna-cryptocurrency-do-kwon.html.

Luna.[8] Because Terra put all its faith in its algorithm and was not otherwise backed with adequate reserves, it was uniquely susceptible to trading spikes, and in May 2022, the algorithm was unable to keep up.[9] Terra broke its peg and lost about $40 billion in value in two days,[10] which led to a broader crypto sell-off that led to the loss of around $300 billion across the industry.[11]

Currently, the most prominent stablecoin is Tether, which claims to have over $144 billion worth of Tether tokens in net circulation.[12] Tether represents that its tokens are fully backed by reserves,[13] though the exact nature of these reserves is a mystery. At least some portion of Tether's holdings are U.S. Treasury bills—Tether's acquisitions in 2024 make it the seventh-largest holder of U.S. debt—but Tether's long-promised reserve audit has yet to occur.[14] Assuming Tether's collateral is in high-quality securities, however, Tether's full collateralization should protect against the kind of doom spiral that led to Terra's collapse.

The difference in risk profiles between fully collateralized stablecoins and stablecoins that are algorithmically pegged to the dollar, or are otherwise not fully backed, is addressed in the DFAL's two-tiered system for stablecoins. If a stablecoin is both (1) issued by a DFAL licensee or specified types of financial institutions, and (2) maintains sufficient collateral, in the form of specified reliable securities, to cover the full amount of all of its stablecoins (like Tether claims to be), the stablecoin can be exchanged, transferred, and stored under the existing requirements of the DFAL without any special DFPI approval.[15] If, however, the stablecoin does not satisfy those two requirements—e.g., if the stablecoin is algorithmically stabilized, like Terra was—the issuer or other DFAL licensee may apply to the DFPI for approval to offer or trade in the stablecoin, and the DFPI may grant approval if it determines that the stablecoin does not compromise the interests of California residents who may use the stablecoin.[16] The DFAL sets forth a list of factors the DFPI should consider in determining whether to grant its discretionary approval, including the amount and nature of assets the issuer holds that may be used to find redemption requests, and any representations made by

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[8] Federal Reserve Bank of Richmond, Wong, Why Stablecoins Fail: An Economist's Post-Mortem on Terra (Jul. 2022) Economic Brief No. 22-24, *available at* https://www.richmondfed.org/publications/research/economic_brief/2022/eb_22-24.
[9] *Ibid.*
[10] Wintermeyer, *From Hero to Zero: How Terra Was Toppled in Crypto's Darkest Hour* (May 25, 2022) Forbes, *available at* https://www.forbes.com/sites/lawrencewintermeyer/2022/05/25/from-hero-to-zero-how-terra-was-toppled-in-cryptos-darkest-hour/.
[11] Yaffe-Bellamy & Griffith, *supra.*
[12] Tether, Transparency, https://tether.to/en/transparency/?tab=usdt.
[13] *Ibid.*
[14] Lang & Howcraft, *Tether is in talks with 'Big Four' firm about reserve audit, CEO says* (Mar. 21, 2025) Reuters, https://www.reuters.com/technology/tether-is-talks-with-big-four-firm-about-reserve-audit-ceo-says-2025-03-21/.
[15] Fin. Code, § 3601.
[16] *Id.*, § 3603.

the issuer about the ability to redeem, potential uses of, or risks of, the stablecoin.[17] The DFPI is permitted to grant its approval with conditions, such as requiring the issuer to obtain a DFAL license or to impose other restrictions or prohibitions, as the DFPI deems necessary to protect California residents who may trade in the stablecoin.

This bill adds three new factors the DFPI must consider in determining whether to approve a non-fully-collateralized stablecoin that is not issued by a licensee or financial institution. These factors look at (1) whether the issuer is subject to any legally enforceable collateralization requirements, and if so, the details of those requirements and any other stablecoin-specific issues; (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. The author has agreed to amend (1) to clarify the factors the DFPI should consider. The amended language is set forth below in Part 4. Together, these added factors are intended to more clearly guide the DFPI's approval process for stablecoins that are uncollateralized and/or are not offered by a licensee or financial institution.

4. Amendments

As noted above, the author has agreed to amend one of the factors that the DFPI must consider when exercising its discretionary stablecoin approval authority. The amendment is as follows, subject to any nonsubstantive changes the Office of Legislative Counsel may make:

Amendment

Delete lines 38-39 on page 6 and lines 1-2 on page 7, and insert:

> (F) 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.

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[17] *Id.*, § 3603(b).

SUPPORT

California Blockchain Advocacy Coalition

OPPOSITION

None received

RELATED LEGISLATION

Pending legislation: AB 236 (Chen, 2025) caps the application fee the DFPI may charge for a DFAL licensing application at $5,000. AB 236 is pending before the Assembly Appropriations Committee.

Prior legislation:

AB 1934 (Grayson, Ch. 945, Stats. 2024) added and clarified requirements for issuers of stablecoins, as defined, under the DFAL, and delays the effective date of DFAL's licensing, disclosure, consumer protection, and stablecoin provisions, from July 1, 2025, to July 1, 2026

SB 401 (Limón, Ch. 871, Stats. 2023) authorized DFPI to regulate digital financial asset kiosks and imposed certain requirements on kiosk operators.

AB 39 (Grayson, Ch. 792, Stats. 2023) enacted the DFAL, discussed in greater detail in Part 2 of this analysis.

AB 2269 (Grayson, 2022) was similar to AB 39 and would have implemented a regulatory and licensing regime for specified digital financial asset business activities administered by the DFPI, to take effect January 1, 2024. AB 2269 was vetoed by the Governor, who stated in his veto message that it was premature to implement a licensing structure for digital financial asset activity in statute in light of work being conducted by the executive branch and by the federal government.

PRIOR VOTES:

Senate Banking and Financial Institutions Committee (Ayes 7, Noes 0)

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