

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 1180 (Valencia)
Version: July 7, 2025
Hearing Date: July 15, 2025
Fiscal: Yes
Urgency: No
AWM

SUBJECT

Department of Financial Protection and Innovation: state payments

DIGEST

This bill, beginning July 1, 2026, requires the Department of Financial Protection and Innovation (DFPI), in consultation with the Controller and the Treasurer, to adopt regulations to allow a license fee or other fee under the DFAL to be paid with a stablecoin, as defined.

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 DFPI beginning July 1, 2026. The DFAL includes regulations for the licensure of the issuer of a stablecoin, which is a type of digital financial asset intended to maintain a specific value relative to a specified fiat currency.

This bill requires the DFPI, in consultation with the Controller and the Treasurer, to adopt regulations to allow a license fee or other fee under the DFAL to be paid with a stablecoin, as defined. The bill provides that the requirement takes effect on July 1, 2027, and will be repealed on January 1, 2032, and that it shall not become operative if the Controller, Treasurer, or DFPI determines that it is contrary to their duties or to provisions relating to State Funds. The bill also requires the DPFI to provide reports to the Legislature regarding any stablecoin payments made and any technical and regulatory challenges encountered, as well as regarding recommendations for payments under other laws and to other state agencies to be made using stablecoins.

This bill is sponsored by the author. The Committee has not received timely opposition to this bill. The Senate Banking and Financial Institutions Committee passed this bill with a vote of 5-2.

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, 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, on or after 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 under the DFAL.
 - b) The person submits an application on or before July 1, 2026, and is awaiting approval or denial of that application.

- c) The person is exempt from licensure under the DFAL, as provided. (Fin. Code, § 3201.)
- 5) Establishes the procedures and requirements for licensure under the DFAL and enforcement for licensure violations and unlicensed digital financial asset activity business. (Fin. Code, div. 1.25, chs. 3 & 4, §§ 3301 et seq.)
- 6) 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).)
- 7) 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.)
- 8) 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.)

- 9) 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) Requires the DFPI, in consultation with the Controller and the Treasurer, to adopt regulations to allow a payment required under the DFAL to be made with a stablecoin that is issued by a licensee under the DFAL and that may be redeemed directly from the issuer.
- 2) Requires the regulations required under 1) to include only payments made by an applicant or licensee to the DFPI and shall not include payments related to any enforcement measure, as defined.
- 3) Requires the DFPI, on or before January 1, 2028, to submit a report to the Legislature containing all of the following:
 - a) The number and value of stablecoin transactions processed.
 - b) Technical and regulatory challenges encountered.
- 4) Requires the Treasurer and the Controller, on or before January 1, 2028, in consultation with the DFPI, to submit a report to the Legislature containing recommendations for payments under other laws and to other state government agencies to be made using stablecoins.
- 5) Provides that the cost to the DFPI of implementing 1)-4) shall be recovered on a pro rata basis from the licensees and applicants operating without a license, as specified, as estimated by the DFPI, as specified.

- 6) Provides that 1)-5) shall not be operative if the Controller, Treasurer, or DFPI determines that allowing a payment to be made with a stablecoin interferes or conflicts with any of the following:
 - a) The duties of the Controller, as defined.
 - b) The duties of the Treasurer, as defined.
 - c) Specified provisions relating to State Funds.
- 7) Provides that 1)-6) shall become operative on July 1, 2027, and shall sunset on January 1, 2032.

COMMENTS

1. Author's comment

According to the author:

AB 1180 puts California at the forefront of digital asset innovation. This pilot program will ensure that the process and challenges of paying state fees with cryptocurrency can be studied, and improved upon. Colorado, Utah, and Louisiana already accept crypto payments, and this measure would allow California to keep pace with evolving consumer preferences. AB 1180 will serve as a blueprint for a potential statewide integration of cryptocurrency payments, opening up opportunities to work with digital asset innovators, and putting the state on a path toward the future.

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

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

DFPI.² The DFAL also establishes criteria for obtaining a license and grants the DFPI 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 requires the DFPI to adopt regulations to enable a payment under the DFAL to be paid with a stablecoin, as specified

This bill requires the DFPI, in consultation with the Controller and the Treasurer, to adopt regulations that would allow the DFPI to accept a DFAL license fee or other payment – not including a penalty or other enforcement charge – to be made with a stablecoin, provided that the stablecoin is licensed under the DFAL and that may be redeemed directly from the issuer. This requirement shall not take effect if the Controller, Treasurer, or DFPI determine that it is contrary to their statutory duties or provisions relating to the State Funds.

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 receive extra scrutiny under the DFAL because they promise more stability, yet that stability can be difficult to maintain, as demonstrated by Terra's crash and burn in May 2022.⁷ Under the DFAL, a stablecoin is entitled to licensure only if it is fully backed by high-quality reserves, as defined.⁸ Stablecoins that do not meet the statutory security requirements may be approved for issuance or exchange at the discretion of the DFPI, based on the DFPI's determination of whether the stablecoin does not compromise the interests of

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).)

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 July 11, 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>.

⁸ Fin. Code, § 3601.

California residents who may use the stablecoin.⁹ Because this bill requires the DFAL to adopt regulations to allow payments only for licensed stablecoins, the bill protects the DFAL from having to accept payments in more volatile forms of digital financial assets.

To ensure that the Legislature is informed about this endeavor, the bill requires two reports to be submitted the Legislature on or before January 1, 2028:

- A report issued by the DFPI detailing the number and value of stablecoin transactions processed, and technical and regulatory challenges encountered; and
- A report issued by the Controller and the Treasurer, developed in consultation with the DFPI, making recommendations for payments under other laws and to other state government agencies to be made using stablecoins.

The bill's provisions for the acceptance of a stablecoin in connection with DFAL fees will sunset on January 1, 2032.

SUPPORT

None received

OPPOSITION

None received

RELATED LEGISLATION

Pending legislation:

SB 97 (Grayson, 2025) makes changes to the DFAL, in anticipation of the July 1, 2026, date at which point digital financial asset companies must apply for licensure, including the provisions related to stablecoins. SB 97 is pending before the Assembly Appropriations Committee.

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

⁹ *Id.*, § 3603.

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 5, Noes 2)

Assembly Floor (Ayes 78, Noes 0)

Assembly Appropriations Committee (Ayes 14, Noes 0)

Assembly Banking and Finance Committee (Ayes 9, Noes 0)
