

Date of Hearing: April 21, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

AB 1180 (Valencia) – As Amended April 10, 2025

SUBJECT: Department of Financial Protection and Innovation: state payments

SUMMARY: Requires the Department of Financial Protection and Innovation (DFPI) to adopt regulations permitting payments required under the Digital Financial Assets Law (DFAL) to be made using digital financial assets (cryptocurrency).

Specifically, **this bill:**

- 1) Requires the Department of Financial Protection and Innovation (DFPI) to adopt regulations allowing payments required under the Digital Financial Assets Law (DFAL) to be made with digital financial assets.
- 2) Requires DFPI to submit a report to the Legislature on or before January 1, 2028 containing all of the following:
 - a) The number and value of cryptocurrency transactions processed.
 - b) Technical and regulatory challenges encountered.
 - c) Recommendations for payments under other laws and to other state government agencies to be made using digital financial assets.
- 3) The bill sunset on July 1, 2031.

EXISTING LAW:

- 1) Establishes the Digital Financial Assets Law (DFAL), a licensing and regulatory framework, administered by the Department of Financial Protection and Innovation (DFPI), for digital financial asset business activity. (Financial Code Section 3101 et seq.)
- 2) Prohibits, on or after July 1, 2025, a person from engaging in digital financial asset business activity without a license from DFPI, as specified. (Financial Code Section 3201)
- 3) Requires a licensee to maintain specified records related to digital financial asset business activity with a California resident for five years after the date of activity. (Financial Code Section 3303)
- 4) Prohibits a covered person from exchanging, transferring, or storing a stablecoin or engaging in digital financial asset administration unless (a) the issuer of the stablecoin is a licensee, a person that applies for a license, a bank, or a California or federal trust, and (b) the issuer of the stablecoin at all times owns eligible securities that fully back the stablecoin, as specified. Provides a process whereby a stablecoin that does not meet specified requirements may be issued and made available for exchange, transfer, or storing, subject to approval by the commissioner. (Financial Code Sections 3601 and 3603)

- 5) Provides that specified sections of the DFAL related to disclosures, consumer protections, and stablecoin requirements shall be operative on July 1, 2025. (Financial Code Sections 3509 and 3605)

FISCAL EFFECT: Unknown. This bill is keyed Fiscal by Legislative Counsel.

COMMENTS:

- 1) Purpose. 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.

- 1) Overview of Digital Financial Assets. A digital financial asset (also referred to as "cryptocurrency," "crypto asset," or "virtual currency," terms used interchangeably in this analysis) is 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 it to facilitate an economic exchange. 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.

Proponents of cryptocurrency believe that these products and systems offer viable alternatives to traditional financial systems. They argue that cryptocurrency is beneficial because it is decentralized, allowing for peer-to-peer transactions, easy and fast transactions, portfolio diversification, acts as an inflation hedge, encourages cross-border payments, promotes financial inclusion, and provides transactional freedom.

However, these assets pose significant consumer risks due to the lack of regulatory clarity and established rules for companies operating in this space. In recent years, market turmoil has exposed a host of consumer and investor risks in the crypto market. These risks include fraud, hacks, scam products, extreme volatility, insider trading, information asymmetry, and a lack of clear federal and state legal protections. Such risks expose everyday investors and consumers to financial losses beyond their control. In late 2022, the well-known company FTX collapsed, and its CEO, Sam Bankman-Fried, was arrested.

- 2) DFAL Implementation. In response to the widespread consumer harm occurring in the under-regulated crypto market, the Legislature passed AB 39, Chapter 792, Statutes of 2023. This legislation created the DFAL and established a licensing program for digital asset companies serving California customers. Under the DFAL, crypto companies must obtain or have applied for a license by July 1, 2026, and adhere to new regulations covering policies and procedures, customer service standards, and financial stability.

DFPI sent out two invitations for comments ahead of the formal rulemaking process.

- In December 2023, DFPI sent out an Invitation for Comments to seek public comment on topics related to the DEFAL application, licensure requirements, and stablecoin approval. Those comments were published in March 2024.
- On October 2, 2024 the DFPI invited public comments related to the DFAL license application, application fees, and other topics. Those comments were published on November 18, 2024 ¹

On April 4, 2025, DFPI began the formal rulemaking process and released regulations to implement the provisions of the Digital Financial Assets Law. Comments must be submitted by May 19, 2025. DFPI has not scheduled a public hearing on this proposed action. DFPI will then decide if they should change the proposed regulations, which may trigger additional public comment periods. ²

- 3) Cryptocurrency and States. The California Blockchain Advocacy Coalition notes in support, “Despite being home to numerous cryptocurrency companies and serving as a global financial and technology leader, California does not accept cryptocurrency for government payments.” If California begins accepting payments, it will join Colorado, Florida, Louisiana, and Utah. All states accepting cryptocurrency convert it into dollars using a payment processor. The use of a payment processor adds additional charges. PayPal payment processing is used in Colorado and Utah.³

Colorado requires that the cryptocurrency amount cover taxes, obligations, and fees. Services fees to convert into dollars are \$1.00 plus 1.83% of the payment amount and require the use of PayPal Currency Hub.⁴

The State of California is not set up to accept cryptocurrency payments. There is also no mechanism to convert cryptocurrency payments to dollars, which is the basis of the state budget.

- 4) Prior and Related Legislation. P Previous legislation allowing the use of cryptocurrency for state payments failed. Those bills include:

AB 953 (Ting/McCarty, 2019) authorizes a city or county and requires the California Department of Tax and Fee Administration to accept stablecoins for tax payments from licensed cannabis businesses. This bill was referred to Assembly Banking and Finance and Revenue and Taxation. The bill was gut and amended related to land use.

AB 3090 (Ting, 2020) requires the California Department of Tax and Fee Administration to issue and deliver to the Legislature a report on how the state, cities, and counties could receive any cannabis tax amounts due by payment using stablecoins. This bill died.

SB 1275 (Kamlager, 2022) authorizes a state agency to accept cryptocurrency as a payment method to provide government services. This bill failed passage out of the Senate

¹ <https://dfpi.ca.gov/regulated-industries/digital-financial-assets/>

² <https://dfpi.ca.gov/wp-content/uploads/2025/04/NOPA-March-27-Rev.pdf>

³ <https://www.paypal.com/us/cshelp/article/crypto-on-paypal-fees-and-exchange-rates-help572>

⁴ <https://tax.colorado.gov/cryptocurrency>

Governmental Organization.

AB 1180 differs in that this pilot project uses a smaller group of payees whose primary business activity is cryptocurrency and is regulated by DFPI, whose mission is overseeing financial service providers and protecting consumers. This gives the state an opportunity to see if any concerns may arise with deploying this payment option.

5) Amendment.

The author has agreed to add amendments to align the implementation date of this bill with the licensing of digital financial asset business activity, which begins on July 1, 2026.

REGISTERED SUPPORT / OPPOSITION:

Support

California Blockchain Advocacy Coalition

Opposition

None on file

Analysis Prepared by: Darci Sears / B. & F. / (916) 319-3081