

Date of Hearing: July 7, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

SB 97 (Grayson) – As Amended May 29, 2025

SENATE VOTE: 38-0

SUBJECT: Digital financial assets: stablecoins

SUMMARY: This bill refines the definition of “digital financial asset” to exclude certain representations of value issued by or on behalf of a publisher and used primarily within online games or game platforms and that is not otherwise a digital financial asset. This bill adds factors that the commissioner must consider to approve a stablecoin for various purposes. This bill further refines requirements of covered persons, broadens or clarifies exemptions, and updates language to the current year.

EXISTING LAW:

California

1. Establishes the Digital Financial Assets Law (DFAL) Fin. Code Section 3100 et seq.
2. Defines “digital financial asset” to mean 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. Section 3102(g)(1).
3. Provides that the following are not “digital financial assets”:
 - 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 by or on 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 department. Section 3102(g)(2)(A)-(C).
4. Defines “digital financial asset business activity” as 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 of the following:
 - 1. A digital financial asset offered by or on behalf of the same publisher from which the original digital representation of value was received.
 - 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.Section 3102 (i)
- 5. Exempts certain categories of persons who are, for example, but not limited to:
 - a. Licensed under another established framework such as state and federal brokers licensing,
 - b. Insured persons such as banks which are FDIC insured, and
 - c. Persons whose work is very limited or tangential with financial digital assets such as data storage or annually capped income limits. Section 3103.
- 6. Requires licensure or pending application to engage in, or hold itself out as able to engage in digital financial asset business activity. The commissioner has discretion to issue a conditional license to an applicant who holds or maintains a license to conduct virtual currency business activity in New York. Section 3204, 3205
- 7. Requires a licensee to maintain a surety bond or trust account in United States dollars in a form and amount as determined by the Department of Financial Protection and Innovation (DFPI) for the protection of residents that engage in digital financial asset business activity with the licensee. Section 3207
- 8. Requires certain disclosures and forms to be provided to residents when engaging in digital financial business activity. Section 3501
- 9. Prescribes requirements for covered persons who are a security intermediary and for exchanges Section 3503 and 3505
- 10. Prohibits a covered person from exchanging, transferring, or storing a stablecoin or engage in digital financial asset administration, whether directly or through an agreement with a digital financial asset control services vendor if the digital financial asset is stablecoin unless:
 - a. The issuer of the stablecoin is an applicant, is licensed pursuant to this division, or is a bank, a trust company licensed pursuant to Section 1042, or a national association authorized under federal law to engage in a trust banking business.
 - b. The issuer of the stablecoin 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. Section 3601

New York

1. Established Virtual Currencies in Part 200 of Title 23 of the New York Code of Rules and Regulations which requires licensure to conduct any Virtual Currency Business Activity. Adopted and effective June 24, 2015.
2. Defines “virtual currency” to mean: any type of digital unit that is used as a medium of exchange or a form of digitally stored value. Virtual Currency shall be broadly construed to include digital units of exchange that (i) have a centralized repository or administrator; (ii) are decentralized and have no centralized repository or administrator; or (iii) may be created or obtained by computing or manufacturing effort. Virtual Currency shall not be construed to include any of the following:
 - a. digital units that (i) are used solely within online gaming platforms, (ii) have no market or application outside of those gaming platforms, (iii) cannot be converted into, or redeemed for, Fiat Currency or Virtual Currency, and (iv) may or may not be redeemable for real-world goods, services, discounts, or purchases.
 - b. digital units that can be redeemed for goods, services, discounts, or purchases as part of a customer affinity or rewards program with the issuer and/or other designated merchants or can be redeemed for digital units in another customer affinity or rewards program, but cannot be converted into, or redeemed for, Fiat Currency or Virtual Currency; or
 - c. digital units used as part of Prepaid Cards. Part 200.2(p)
3. Defines “virtual currency business activity” to mean: the conduct of any one of the following types of activities involving New York or a New York Resident:
 - a. receiving Virtual Currency for Transmission or Transmitting Virtual Currency, except where the transaction is undertaken for non-financial purposes and does not involve the transfer of more than a nominal amount of Virtual Currency;
 - b. storing, holding, or maintaining custody or control of Virtual Currency on behalf of others;
 - c. buying and selling Virtual Currency as a customer business;
 - d. performing Exchange Services as a customer business; or
 - e. controlling, administering, or issuing a Virtual Currency. The development and dissemination of software in and of itself does not constitute Virtual Currency Business Activity. Part 200.2 (q)
4. Requires licensees to maintain at all time such capital in an amount and form as the superintendent determines is sufficient to ensure financial integrity and ongoing operations based on an assessment of the specific risk to each licensee. Part 200.8
5. Requires examination of licensees. Part 200.13

Federal

Bank Secrecy Act- 31 U.S.C. Sec. 5311 et seq: Anti-money laundering law providing the framework for financial institutions to play a crucial role in detecting and preventing financial crimes which outlines specific requirements for reporting various types of transactions, including domestic and foreign currency transactions.

THIS BILL:

1. Narrows the definition of “digital financial asset” to exclude, in relation to merchant granted affinity or rewards programs, digital representations of value related to that program which cannot be taken from or exchanged with the merchant for legal tender, or credit union credit, or digital financial asset.
2. Broadens the exemption to “digital financial asset” to include the primary use (opposed to sole use) of a digital representation of value issued by or on behalf of a publisher within online games or game platforms and that is not otherwise a digital financial asset.
3. Specifies an example of exempt person from:

(13) A person that does not receive compensation, either directly or indirectly, for providing digital financial asset products or services or for conducting digital financial asset business activity or that is engaged in testing products or services with the person’s own funds.

to

(13) A person that does not receive compensation, either directly or indirectly, for providing digital financial asset products or services or for conducting digital financial asset business ~~activity~~ **[activity, including 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,]** or that is engaged in testing products or services with the person’s own funds.
4. Makes a correction to the licensure requirement specifying that the submitted application must be complete.
5. Updates the licensure date from 2023 to 2025 for the conditional license requirement for New York State license holders.
6. Refines licensee annual reporting requirement to include material data security breach or cyber security event.
7. Refines licensee reporting requirements for change in the licensee’s business if the proposed change might raise material safety and soundness or operational concerns.
8. Exempts from the requirement to provide a minimum of 14 days notice to a resident of a change in a covered person’s fee schedule or other material information that has a material impact on digital financial asset business activity, changes that are reasonably necessary to address risk of loss to the resident or the covered person, to the extent that the change does not relate to the covered person’s fee schedule.

9. Provides that a covered exchange shall provide and make available to a resident an up-to-date description of the order execution practices of the covered exchange, which shall include a description of how the covered exchange receives and achieves the order preferences of a resident.
 - a. Nothing in this subdivision shall be construed to authorize the department to impose, by rule, specific trade routing rules.
10. Clarifies which programs and the exemptions to the disclosure of policy and procedures related to programs with information that is sensitive to potential security risks.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

COMMENTS:

Background

In recent years, market volatility has exposed consumer investor risks in the crypto market. In 2022, things came to a boil with a chain of large scale cryptocurrency collapses. Preceding the now infamous FTX collapse, there was Celsius, a crypto lender that froze withdrawals and filed for bankruptcy. Three Arrows Capital, a crypto hedge fund, and Voyage, another crypto lender quickly followed suit. And before that, the stablecoin TerraUSD was unable to maintain its 1:1 valuation with the US dollar leading to a \$60 billion crash that was felt across the crypto universe.

In response to this, and increasing consumer frustrations with scams, theft, and fraud in the crypto space, AB 39, the Digital Financial Assets Law (DFAL) was passed in 2024. According to the author

"AB 39 will promote a healthy and sustainable crypto asset market by licensing and regulating businesses that help Californians buy and sell these new digital financial products. While crypto assets have the potential to empower consumers and disrupt the financial sector in unexpected ways, their high volatility and the prevalence of fraud, illicit behavior, and technical and security vulnerabilities expose California consumers to significant financial harm. AB 39 strikes a balance between protecting consumers from harm and fostering a responsible innovation environment by establishing clear rules of the road."

After passage of that bill, the author has continued the conversation with industry stakeholders to further refine and adapt DFAL where feasible, while protecting the interests of consumers and retail investors who transact in crypto markets in the form of this bill, SB 97.

DFPI Oversight

The Digital Financial Assets Law specifically and prescriptively provides its covered persons requirements for licensure, examination, and reporting to the Department of Financial Protection and Innovation (DFPI). The definitions and exemptions in DFAL are descriptive and almost categorical leaving open room for DFPI interpretation to determine whether or not an actor is a

covered person, a digital asset is a digital financial asset, or business activity is digital financial asset business activity.

Industry actors affected by DFAL seek clarity on certain provisions. Ultimately, stakeholders are seeking definitive answers ruling out specific activity on the blockchain, as not all activity on the blockchain is financial and thus not subject to DFPI regulation. However the descriptive language approach balances the need to maintain space for innovation and market problem solving against efficiency for regulatory safeguards. Still, SB 97 is responsive to industry concerns without sacrificing public safety.

Federal Oversight

At the time of publishing, a federal bill, Guiding and Establishing National Innovation of U.S. Stablecoin of 2025, GENIUS Act of 2025, is being considered in the second house of congress. This bill will provide a federal framework for stablecoin, including, but not limited to, definitions, requirements for issuing payment stablecoin, requirement for monthly certification (which consists of examination of reports by a registered public account firm), limitations on stablecoin activities, rulemaking, state regulation option requirements, other safeguards, and details on enforcement authority.

The federal bill is robust with consideration for the regulation of stablecoin but silent to other areas of digital financial business activity, unlike DFAL. In the event that the GENIUS Act does become law, DFAL will continue to remain important for consumer safety in California along the same lines of the author's original intention in SB 39. Thus, conversations with all stakeholders in this constantly evolving landscape will be important to keep up with innovation in the field, and the foreseeably related adaptation of consumer harms.

Statement from 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.”

REGISTERED SUPPORT / OPPOSITION:

Support (Verified 7/2/25)

None received.

Opposition (Verified 7/2/25)

None received.

Analysis Prepared by: Desiree Nguyen Orth / B. & F. / (916) 319-3081