

California's Digital Asset Regulation Gets Closer to Final

Client Alerts

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By: Laurel Loomis Rimon, Gina Shabana, Julianna St. Onge

Under California's new Digital Financial Assets Law, or DFAL, all entities engaging in "digital financial asset business activity" in the state must be licensed—or have a pending application—by July 1, 2026. On September 29, 2025, the California Department of Financial Protection and Innovation (DFPI) issued a **Notice of Modification to Text of Proposed Regulation** (Modification Notice) amending the previously issued April 4, 2025 Notice of Proposed Rulemaking.

The April regulations were designed to implement the DFAL, passed in 2023, and outlined DFPI's licensing expectations, application procedures, and surety bond requirements, among other things. The regulations also addressed expectations of licensees to notify and/or disclose to DFPI certain material changes to information a licensee has reported in its licensing application and/or locations where licensees may operate crypto kiosks.

The comment period of the April 4th Notice ended on May 19, 2025 and resulted in over a dozen comments with diverse views and recommendations including suggested oversight efficiencies, some of which were incorporated into the revisions proposed in the Modification Notice.

The comment period for the Modification Notice closes on **October 15, 2025**.

What has changed with the new proposed rules?

While most of the modifications were technical, a proposed expansion and clarification of exemptions to California's Money Transmission Act, or MTA, stands out.

1. Exemption to Avoid Duplicative Licenses

The revised regulation expanded the preexisting exemptions in California's MTA. These exemptions excluded specific entities, including, for instance, public benefit nonprofits, certain nonprofit community service organizations, and certain escrow agents, from being regulated under the MTA as money transmitters.

The **modified regulations clarify and expand** these exemptions, specifying that DFAL licensees are not required to obtain a separate money transmission license for the following

activities:

- **Transmitting payments** for the purchase or exchange of virtual currency or transmitting the **proceeds** from such transactions.
- **Selling or issuing stored value** in California, provided it is used exclusively for the purchase or sale of virtual currency.
- **Engaging in money transmission** in California, provided the licensee maintains an **average daily transmission liability of \$50,000 or less** per month and complies with the applicable provisions in **Chapter 5 of the MTA** concerning outstanding liabilities.

These expanded exemptions offer greater efficiency to California businesses who may be used to other states where this type of activity involves two different licensing and oversight regimes across the board.

2. Technical Amendments

The revised regulations include several **technical clarifications**, such as:

- Guidance on **organizational chart disclosures**, including, clarifying that executive officers, as defined in the California Financial Code (as opposed to the more general term “managers”), must be listed in a license application.
- Requirements for **personal financial statements** to accompany initial license filings.
- A refined definition of **“control”**, aligning it more closely with the definition used in the **California Financial Code**.

These updates aim to increase transparency and consistency in the licensing process.

3. Regulatory Renumbering

Originally, the DFAL regulations were to be added to **Title 10, Chapter 3, Subchapter 16, Article 3** of the California Code of Regulations, and the Money Transmission Act’s licensing provisions. The modified proposal renumbers these sections to **Title 10, Chapter 3, Subchapter 5, and Article 3**, reflecting the DFAL’s overlap with provisions on securities regulation.

Why Do the Changes Matter?

Persons interested in pursuing digital financial asset licenses under DFAL should take note of the modified regulations and incorporate them into their preparations for licensing ahead of the July 1, 2026 licensing deadline. In the short term, California DFPI is accepting comments on the recent changes through October 15, 2025.

Related Attorneys



Laurel Loomis Rimón

Partner

lrimon@jenner.com

+1 202 639 6868



Gina Shabana

Associate

gshabana@jenner.com

+1 202 639 6076



Julianna St. Onge

Associate

jstonge@jenner.com

+1 312 840 7368

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