



November 15, 2024

Clothilde V. Hewlett  
Commissioner  
California Department of Financial Protection & Innovation  
2101 Arena Blvd.  
Sacramento, CA 95834

**RE: Invitation for Comments on Proposed Application-Related Rulemaking Under the Money Transmitter Law and Digital Financial Assets Law (PRO 02-23)**

Dear Commissioner Hewlett,

Circle Internet Financial, LLC (Circle) appreciates the opportunity to respond to California's Department of Financial Protection and Innovation (DFPI) proposed rules for the Digital Financial Assets Law. Circle has prioritized constructive dialogue with regulators, and we welcome this opportunity to provide feedback on proposed rules involving the application phase of licensing for digital asset business activity. Central to Circle's vision for the financial sector is the belief that reducing friction and expanding access to critical financial infrastructure promotes competitive services, benefits California consumers, and ultimately builds a more resilient economy.

Circle is a global financial technology company that provides internet-native payments and treasury infrastructure on open distributed ledger technology. Circle's foundational technology allows for the frictionless exchange of value on the internet.

Circle is the sole issuer of USDC, a dollar-backed digital currency. USDC is one of the largest fiat-backed stablecoins measured by market capitalization globally with approximately \$36 billion in circulation as of November 15, 2024, and it is currently issued on sixteen blockchains. USDC has been integrated as a settlement option in leading merchant and credit card networks, deployed as a payment option by e-commerce platforms, and currently supports cross-border remittances and humanitarian assistance. Since 2018, USDC has been used to settle more than \$17 trillion in transactions. USDC is the leading U.S.-regulated stablecoin and a critical component of the growing global market for dollar digital currencies and blockchains to support always-on financial needs.

USDC is always redeemable on a 1:1 basis for U.S. dollars for USDC holders, and it is fully reserved by high quality liquid assets that are held in a bankruptcy remote manner for the benefit of USDC holders. Circle's tokenized cash innovations allow for payments that are faster, immutable, and more cost effective than existing means of payment like wire transfers, and are also programmable into smart contracts that allow for the composability of money.



## Regulation of Fiat-Backed Stablecoins

Circle is fully supportive of establishing financial regulatory supervision for fiat-backed stablecoin issuers, in accordance with Section 3601 of the Digital Financial Assets Law. Fiat-backed stablecoins are virtual currencies pegged to the value of real-world currencies, such as the U.S. dollar. Properly constituted dollar-denominated payment stablecoins must be backed by high quality liquid asset reserves. We believe that payment stablecoins backed by conservative, high quality liquid assets, built on digital currency technology, can lead to not just a radically more efficient, but also a safer, more resilient financial system. Establishing regulatory standards for digital financial businesses, like Circle, is crucial to enabling the potential of digital currencies in the real economy, including standards for reserve management and composition.

It is important that digital financial businesses are licensed, regulated, operate with supervision by governmental authorities, and provide the public with appropriate levels of information regarding their ownership structure, management team, corporate practices, cybersecurity and regulatory compliance. Not all virtual currencies are created equal, so there is a need for well-designed supervision of this highly strategic financial market infrastructure.

Circle looks forward to continued engagement with DFPI throughout the rule-writing and implementation process and beyond.

### § 2048(a)(1)(B)

*(B) Unless otherwise specified in the Digital Financial Assets Law, the applicant shall not engage in digital financial asset business activity using a fictitious business name until the Commissioner approves the use of the name.*

**Response:** We recommend that applicants for licensing with pending applications be permitted to engage in business activities under their fictitious or “doing business as” names. For instance, Circle operates as Circle Internet Financial Group, Inc., yet engages in marketing and promotional activities under the "Circle" brand. Numerous applicants, including Circle, have established themselves as recognized brands utilizing fictitious names prior to the implementation of the Digital Financial Assets Law. Furthermore, allowing continued business operations under recognized fictitious names would serve the best interests of consumers by facilitating the identification of established entities such as Circle.



## § 2048(a)(3)

### Department of Financial Protection and Innovation Covered Exchange Certification Document

*Name of Applicant/Licensee:*

*Digital financial asset(s) that the covered exchange plans to list or offer as specified by Financial Code section 3505, subdivision (a)(1). List each digital financial asset, the full name of the digital financial asset, and the ticker or other trading symbols used with each digital financial asset.*

*The undersigned hereby certifies that the applicant/licensee named above has done the following with respect to each and every digital financial asset listed above:*

- 1. Identified the likelihood that the digital financial asset would be deemed a security by federal or California regulators.*
- 2. Provided, in writing, full and fair disclosure of all material facts relating to conflicts of interest that are associated with the covered exchange and the digital financial asset.*
- 3. Conducted a comprehensive risk assessment designed to ensure consumers are adequately protected from cybersecurity risk, risk of malfeasance, including theft, risks related to code or protocol defects, or market-related risks, including price manipulation and fraud.*
- 4. Established policies and procedures to reevaluate the appropriateness of the continued listing or offering of the digital financial asset, including an evaluation of whether material changes have occurred.*
- 5. Established policies and procedures to cease listing or offering the digital financial asset, including notification to affected consumers and counterparties.*

**Response:** We further recommend that the certification document explicitly mandate exchanges to conduct due diligence to confirm that any entity responsible for minting and issuing a given token possesses the appropriate licenses in other relevant jurisdictions. Exchanges should check that the entity has a history of good standing with the regulatory bodies in other jurisdictions and whether it is under any enforcement action or investigation concerning non-compliance with anti-money laundering regulations.

## § 2048(b)-(c)

*(b) An application fee of \$20,000 shall be paid through NMLS for transmission to the Commissioner.*

*(c) The application fee required in subdivision (b) of this section does not include the reasonable costs of the Department's investigation authorized by Financial Code section 3203, subdivision (e).*

**Response:** We propose that the Department conduct a comprehensive study to determine whether the \$20,000 application fee aligns with the resources expended by the state in reviewing applications. For context, the application fee for a New York Bitlicense is \$5,000, and applicants seeking a money transmission license under DFPI are also required to pay a \$5,000 application fee. Furthermore, the Department retains the authority to impose a fee for an



extensive review of an applicant. We encourage the Department to consider adjusting the fee for the DFAL license to a rate that is consistent with that of New York's Bitlicense and the Department's money transmission license.

#### § 2048(e)

*(e) Nothing contained in this section shall prohibit the Commissioner from requiring an applicant to provide additional information to supplement an application. The Commissioner may consider an application abandoned if the Commissioner does not receive the information requested within sixty (60) calendar days of a written notification requesting such information.*

**Response:** We recommend that the scope of information permissible for request by the Department should be confined to business activities that directly impact consumer protection for California residents. The Department should not seek information regarding business activities that extend beyond the parameters and the jurisdictional scope of the license. For instance, while Circle must submit an application for its stablecoin issuance activities under the DFAL, it should not be mandated to provide information regarding its technological services or other activities that are conducted outside of California that are not within the scope of Circle's licensed activities under DFAL.

#### § 2052

##### Information Regarding Individuals who are not Residents of the United States.

*(a) In addition to other background information required in the application, applicants must engage a search firm to perform an investigative background report of each individual required to be fingerprinted under the Digital Financial Assets Law and Sections 2048 and 2052 of these rules who does not currently reside in the United States or has not resided in the United States at any time in the last ten years. This investigative background report shall be required in addition to fingerprinting.*

*(1) A copy of the investigative background report shall be filed through NMLS for transmission to the Commissioner.*

*(2) The search firm must be able to demonstrate that it has sufficient resources and is properly licensed to conduct the background search.*

*(3) The search firm shall not be affiliated with or related to the applicant or the individual who is the subject of the search.*

*(4) The report must be in English or if the report is in another language, the report must be translated to English and include a translator's certificate as provided in Section 2047 of these rules.*

*(5) The cost of the report shall be paid by the applicant or individual.*

*(b) The report shall contain the following, at a minimum:*

*(1) A comprehensive credit report and/or history, including the actual credit report if available, as well as a summary;*



- (2) Civil court and bankruptcy court records concerning the individual for the past ten (10) years. The search for these records shall include a search of the court data in the country(s), state(s), and town(s) where the individual resided or worked;*
  - (3) Criminal records of the individual, including felonies, misdemeanors, and violations (excluding traffic violations). The search for these records shall include a search of court data in the country(s), state(s), and town(s) where the individual resided or worked;*
  - (4) Residential history during the last ten (10) years;*
  - (5) Employment history during the last ten (10) years;*
  - (6) Media records during the last ten (10) years referencing the individual. Media records include national and local publications, wire services, and business publications; and*
  - (7) Regulatory history, particularly in connection with digital financial asset business activities.*
- (c) The report shall be accompanied by a search summary letter, which:*
- (1) Identifies the scope of the search;*
  - (2) Indicates the independence of the search firm from the applicant and the individual who is the subject of the search; and*
  - (3) Identifies an individual from the search firm and the individual's contact information for the Commissioner to contact with questions regarding the report.*
- (d) If an individual has had a report containing at least the information listed in subdivision (b) of this section prepared for another licensing agency within 12 months of the filing of the application, the applicant or individual may request permission from that licensing agency or the search firm to file a copy of that report with the Commissioner through NMLS. If the applicant or individual elects to file a prior report as authorized in this subsection, the applicant or individual shall also attach to the report a statement of no material change to the information in the report with the Commissioner through NMLS. The statement shall include the name of the individual and the license applicant and be dated and signed by the individual or applicant.*

**Response:** We propose that the report also be required to disclose any active investigations, enforcement actions, or compliance infractions that non-resident applicants have faced in all global jurisdictions.