

May 19, 2025

Khalil Mohseni
Commissioner
California Department of Financial Protection & Innovation
2101 Arena Blvd.
Sacramento, CA 95834

RE: PRO 02-23 – Notice of Proposed Rulemaking - Money Transmission Act / Digital Financial Assets Law

Commissioner Mohseni:

Thank you for the opportunity to provide our thoughts in response to the invitation from the California Department of Financial Protection and Innovation (DFPI) on proposed rulemaking under the Digital Financial Assets Law and the Money Transmission Act (PRO 02-23).

The Crypto Council for Innovation (CCI) is a global alliance of industry leaders in the digital asset and Web3 sectors that serves to educate consumers and policymakers and advocate for policy that spurs responsible innovation. We use an evidence-based approach to support governments worldwide that are shaping and encouraging the responsible regulation of this innovative technology. We believe that constructive partnership between government and business stakeholders is critical to crafting sound policy and regulation that benefits consumers and innovators.

While DFPI works to finalize its rules and regulations for the licensing and supervision of digital financial asset business activity in the state, we continue to encourage the Department to consider how it can harmonize licensing standards with states utilizing similar licensing regimes, especially New York's regulations for virtual currency business activity. At this critical juncture in the implementation process, DFPI should focus on how it will facilitate joint examinations with other state regulators. We also continue to believe reciprocity and licensing passports in this regard would result in improved efficiency across state frameworks while protecting consumers and allowing for responsible innovation.

DFPI has an important opportunity to improve upon existing regulatory frameworks, including establishing clear and consistent application and review timelines, addressing the ambiguity of certain terms, and ensuring the DFPI is adequately resourced to effectively supervise regulated entities while approving new applications efficiently. As DFPI considers promulgating rules to

facilitate DFAL licensing and supervisory processes, CCI respectfully submits the following principles and recommendations on certain of the topics outlined in the request.

We commend the Department for affirming that a person incidentally conducting money transmission of legal tender in the normal course of digital financial asset activity is exempt from the requirements of the Money Transmission Act. Requiring duplicative licenses for businesses operating at the nexus of these two regimes would be costly and inefficient for both industry and the Department without commensurate benefits for consumers. We encourage the Department to provide further clarity on this point by defining the distinction between incidental and non-incidental uses.

In order to ensure regulated entities are best positioned to compete in a crowded marketplace, we continue to encourage DFPI to provide concrete application timelines. A clearer roadmap would mutually benefit DFPI and licensees, by ensuring better communication and a closer alignment of expectations. Timelines are included for virtual currency businesses licensed by Louisiana's Office of Financial Institutions.¹

As a general matter regarding the Department's work to improve transparency in the application process, CCI continues to encourage DFPI to limit the scope of information collected through the DFAL application process to information that is necessary and pertinent to the applicant's digital asset business activity and the stability of the applicant. Specifically, DFPI should consider tailoring information requirements to (1) the size of the applicant's organization and (2) any potential risks that the applicant's business activities actually pose. For example, DFPI could define risk categories depending on the applicant's particular set of business activities. DFPI should also limit when licensees are required to report application changes in NMLS to information that is necessary and pertinent. This would prevent confusion among licensees undergoing the application process and avoid inundating DFPI staff with information that is nonessential or redundant.

Additionally, DFPI should confirm that 25% is the relevant threshold that will be applied to determine if a person is in "control" of a company and, therefore, required to (i) submit fingerprints pursuant to 3219(a)(2) and (ii) provide the information specified in 3203 for "persons that have control of the applicant" for purposes of a new license application. As background, Section 3102(c)(2) defines control under the Digital Financial Assets Law as the power to vote 25% or more of a class of voting securities. However, Section 3309 establishes a different percentage threshold to be applied only for proposed changes in control (e.g., sale of the business, mergers), not initial licensing applications. The definition set forth in Section 2045(b) of the proposed regulation is inconsistent with the Digital Financial Assets Law and should be removed.

¹ [LA Rev Stat § 6:1385 \(2024\)](#)

CCI appreciates DFPI's efforts to align expectations for the license application and supervisory processes through the Nationwide Multistate Licensing System (NMLS) where appropriate. Many financial institutions have utilized this platform to maintain licenses from regulators across the country. Allowing licensees to use this commonly accepted industry standard for reporting and information delivery will reduce the regulatory burden for compliance teams and examiners. We recognize, however, that NMLS was first created over 15 years ago, and that there remain system inefficiencies throughout the platform.

We encourage DFPI to work with the Conference of State Bank Supervisors (CSBS) to pursue technical and operational improvements around NMLS infrastructure. Technical upgrades, such as improved automation features, faster processing times, and enhanced data integration, would streamline the licensing process and increase operational efficiency. Further, investing in operational improvements, such as establishing a dedicated support channel for digital asset-related inquiries within NMLS, could better address industry-specific concerns, making NMLS more user-friendly and reducing potential compliance bottlenecks.

Thank you again for the opportunity to provide these comments. We encourage the Department to explore how it can improve on the NMLS foundation, refine information collection processes, and continue clarifying certain definitions to ensure future licensees are adequately prepared to submit initial DFAL applications. We look forward to working with you on these and other issues as the DFAL implementation process continues to unfold.

Respectfully,

A handwritten signature in black ink, appearing to read 'JH Kim', with a stylized flourish at the end.

Ji Hun Kim
President & Acting Chief Executive Officer
Crypto Council for Innovation