May 19, 2025

Hello DFPI staff and other interested parties,

Please find below my further comments (after prior comments in the last two rounds) regarding the proposed action to implement the Digital Financial Assets Law, and I thank the Department and other state officials as well as the Legislature for their continued interest in protecting California consumers while balancing the interests of continued innovation and the economic benefits inherent in the decentralized application of blockchain technologies with novel, yet vital, use cases.

Firstly, my comments are informed by my prior background in academia and in other (sometimes related) policy areas, and regarding the latter factor, I have been involved for the last 15 years with the development of our state's statutory and regulatory frameworks for industrial hemp, medical cannabis, and adult use cannabis, before pivoting back to some of my earlier roots in cryptography, systems administration, cooperative economics and cybersecurity best-practices, all of which are relevant to the responsible deployment of trustless, self-custodial digital asset activities (such as solo validator operations and proof of stake networks) that may or may not be exempt from licensure under the DAFL

I cite my prior experience with a dissimilar, nascent industry and the implementation of a new licensing/enforcement framework for that cannabis industry. While perhaps the connection (other than in the shared experience of banking persecution) may not be obvious, cannabis was once a thriving economy here in California that provided opportunities for small business owners in what was our state's primary (albeit illicit) agricultural crop in various regions – and I fear that our state's urban economic industries dependent upon software development may economically suffer from yet another ill-considered policy framework that disadvantages small businesses, fails to engage with reality for what it is, and has largely been written behind closed doors to advantage well-connected and better-lobbied interests without regard for true startups, the under-represented Californian end users of digital assets and without consideration nor harmonization with the policies enacted in the massive European Union marketplace or other governmental digital asset projects in places as diverse as Wyoming, Norway, Jamaica, or India.

To be clear, after witnessing first-hand and over the last ten years a failure of our state to adequately regulate a physical product (that at the local level it had substantial expertise with,) I am extremely

pessimistic as to the ability of our state to develop, implement and enforce an adequate licensing framework for a non-physical set of products or services used by twice as many users per capita – in short, pot users still largely buy from dealers (due to policy failures, mostly,) and crypto users will (likely) simply employ VPNs as our state's performative, under-enforced nanny state continues to swoll, preparing against the last (centralized exchange) crisis and forces (decentralized finance, regenerative finance and decentralized science) businesses offshore.

To focus upon the proposed amendments, for Sec 80.3002 (a) (5), regarding the definition of "legal tender" discussed therein, how does the Department envision treating Central Bank Digital Currencies or the Wyoming Stable Token, especially when those may be stored, transferred or otherwise utilized?

Regarding the requirement discussed on page 7 of the propossed regulations, under part (7) of the proposed covered exchange application, it is suggested that the language may be modified to allow for startups with less than 3 years of audited documents, further it is suggested that clarification might be added as to what level of "managers" in part (8) require disclosure.

Given pending legislation, on page 9 of the proposed regulations, it is suggested to add at the end of part (b) words after "$7,500" such as ", or the equivalent amount in permissible digital assets or other instruments of digital payment authorized under law."

On page 13, it is suggested that clarity of possible conflict between NMLS and Code of Federal Rules confidentiality regarding SARs be clarified.

Thank you for your continued service,

Sean Donahoe