

Tavarus (Blackmonster ❤️) Blackmon
<https://tavarusblackmonart.com>
Crypto Stakeholder, DFPI, the Treasury
January 12, 2024

Dear DFPI
The State of California
Crypto Unit and Crypto Policy Board, RE: DFAL

We wish to respond to the following questions as such. In lieu of the required regulatory knowledge to sufficiently and adequately answer the questions related to DFAL and the proposed crypto license, we have utilized Artificial Intelligence (AI) to aid in responding to the DFPI's questions so that we may better represent our interests in this matter.

1. ****Additional Information for License Application****: Beyond the basic legal requirements, the application could include:
 - Details of past financial transactions and audits.
 - Proof of compliance with international crypto regulations.
 - Risk assessment reports regarding digital asset management.
 - Evidence of cybersecurity measures and data protection policies. (INSURANCE, etc.)
2. ****Clarification of Costs and Fees****:
 - a. ****Clarification Needs****: The exact nature of the costs (e.g., breakdown of administrative, investigative fees) should be clarified.
 - b. ****Determining Costs and Fees****: Factors might include:
 - The complexity and risk profile of the applicant's business model.
 - Comparative analysis of fees in similar regulatory environments.
 - A tiered fee structure based on company size or transaction volume.
3. ****Factors for Surety Bond or Trust Account****:
 - Financial stability and credit history of the company.
 - Previous regulatory compliance record.
 - The projected volume of transactions and associated risks.
4. ****Minimum Surety Bond/Trust Account Requirement****: It might be prudent to set a minimum to ensure baseline financial security, adjusted based on the risk profile of the licensed activities.
5. ****Variation in Surety Amount by Activity Type****: Yes, as different activities carry different levels of risk (e.g., trading vs. custody services).
6. ****Impact of Specific Activity Requirements on Surety Amounts****: Custody and reserve requirements should directly influence the surety bond amount, reflecting the increased risk and responsibility.

7. **Capital Requirements**:

- **Sufficiency of Current Factors**: The existing factors are a good start but might need updates to address evolving market dynamics.
- **Potential Additional Factors**: These could include market liquidity, diversity of assets, and technological infrastructure.

8. **Variation in Capital Minimums**: Yes, varying minimums based on activity type can account for differing risk levels and operational scales.

9. **Stablecoin Approval Process**:

- a. **Evaluating Quality of Assets**: Consideration of the issuer's overall financial health, market reputation, and past performance.
- b. **Amount and Nature of Assets**: Transparency in asset holdings, and adherence to standard accounting practices should be key considerations.

10. **Risks in Asset Ownership for Stablecoin**: Focus on the legal status of assets, custodial arrangements, and potential conflicts of interest.

11. **Factors for Stablecoin Approval**:

- a. **Issuer's Liabilities**: Analysis of the issuer's debt structure and other financial commitments.
- b. **Other Considerations**: Market demand, technological robustness, and legal compliance in different jurisdictions.
- c. **Greenlist Consideration**: This could be a factor, as it indicates a level of regulatory compliance and market acceptance.

12. **Conditions for Stablecoin Issuers**:

- a. **General Restrictions**: Standardized reporting requirements, transparency in operations.
- b. **Certification Requirement**: Aligning with standards for covered exchanges could enhance trust and stability.

13. **Additional Considerations for DFAL License Application**: Consider the rapidly evolving nature of digital assets and integrate flexible, forward-looking policies.

14. **Future Rulemaking Actions**:

- Focus on emerging technologies and their integration with digital assets.
- Regular review and adaptation of regulations to align with global standards.

This proposal aims to ensure a balanced approach, addressing both the innovative potential of cryptocurrencies and the need for robust consumer and market protections.

In addition to these questions that have been answered with the assistance of (AI), we want to address the DFPI from our unique organizational perspective.

Whether or not KYC and the required regulatory framework in question are necessary. We have been defrauded, hacked, wallet drained on our way to becoming a crypto stakeholder.

Also, because my organization has deployed custom contracts containing all unique tokens, there is no protocol to aggregate our data. (NFT BANK, John Kim)

This has made reconciling our taxes very complicated:

<https://www.coindesk.com/policy/2023/11/13/crypto-tax-proposal-open-for-revision-irs-officials-questions-suggest/>

Finally, we are a micro small organization. We have conducted several formal Business onboarding processes with Coinbase Prime and Kraken. We are currently accessing the Kraken OTC Trade Desk. However, we are seeking to trade NON-Fungible Tokens, and there is currently no serving market for NFT Options Trading.

We are a deployer and Holder of a Gnosis Safe Account, have deployed close to 40 Smart Contracts on Ethereum and Solana, have access to USDC to USD Off-ramp for client and trade management and are a MetaMask Institutional Account holder. We custody Bitcoin and Ether Futures and Bitcoin Spot ETFs in addition to cryptocurrencies and NFTs.

We have completed regulatory forms to resell Crypto to our Owned Organization through Kraken. Each Organization is also registered as a Sole-Prop with a HOP connected to each entity in the City of Sacramento. Further, each entity files separate Capital Gains Taxes. This will ensure our Brand and ecosystem are represented on the blockchain. And our Crypto Taxes are completed by a third-party CPA, who also assisted us in 2020, 2021 and 2022, in addition to helping us file S-Corp paperwork with the IRS, which has been retroactively approved January 1, 2023.

We do not have access to Surety Bonds and have never dealt with Surety Bonds in our Organization. However, all proceeds from our organization fund the Blackmon Family Trust, with which Elizabeth (Wife and Business Partner) and me have named our three children as beneficiaries and beneficial owners.

Last, we hope to see future development and integration between the State of California, the DFPI, DFAL and the mDL. Our hope is that integration includes more credentials and the ability to self-custody StableCoins and NFTs.

Thank you for your time and consideration requesting public feedback, insight, and discussion. I look to continued discussions and talks regarding Crypto, AI and the regulatory landscape of these technologies in the State of California.

Tavarus Blackmon
Tavarus Blackmon Art