

September 22, 2023

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

Governor Newsom,

Thank you for the opportunity to provide input on Assembly Bill 39. The Crypto Council for Innovation (CCI) is grateful for the progress that has been made on this important legislation over the course of this session. However, we have a number of ongoing concerns that must be addressed, including through subsequent clean-up legislation, in order to ensure California can remain a hub of digital asset innovation.

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 inclusive regulation of this innovative technology.

Over the course of this session, the Legislature has taken steps to increase clarity for future licensees and narrow the bill's overly burdensome compliance requirements. These include broadened exemptions, extended compliance timelines, tapered disclosure requirements, additional limitations on regulatory discretion, a streamlined renewal process, and mechanisms to harmonize standards across states.

Despite these significant improvements, several outstanding issues with AB 39 remain. We have a number of ongoing concerns that we urge your Administration to review and ultimately monitor in subsequent clean-up legislation. We urge you to press the Legislature to introduce clean-up legislation that focuses on the following items:

- Several definitions in the bill continue to be problematic, including “digital financial asset business activity,” “control,” and “executive officer.” These overly broad and imprecise definitions could unintentionally pigeonhole a wide range of unrelated activity, technology, and individuals into the bill's purview, creating operational challenges for both licensees and regulators. These include smart contract protocols, storage providers, and web3 gaming, a burgeoning, \$10 billion industry estimated to host almost a million daily users.¹ Boxing this activity into a bank-like, financial licensing regime would likely result in job losses, businesses leaving the state, and an inability for California consumers to participate in cutting edge technology.
- Forgoing statutory application and review timelines, written notice before all examinations, and reciprocity with similar state regulatory frameworks also misaligns expectations and fails to

¹ Footprint Analytics:

https://www.footprint.network/research/gamefi/game-overview/game-market?series_date-79421=past90days

position California licensees to compete in a crowded marketplace. Exemptions for smaller digital financial asset businesses, including early stage digital asset startups, are also insufficient to preserve the state's competitive edge.

- In addition, CCI is grateful for the work that's been done to roll back the legislation's blanket ban on algorithmic stablecoins, which would have severely disrupted financial markets and caused significant user losses. However, the expansive authority granted to the Department of Financial Protection and Innovation (DFPI) in this regard, and throughout the bill, will require guardrails to protect against regulatory overreach.

CCI appreciates the opportunity to provide this input for your Administration. We stand ready to continue working with the Legislature and the Administration to address these urgent issues, especially in clean-up legislation. California must balance robust consumer protections with responsible digital asset innovation in order to remain not only competitive, but a leader, in the future of the global financial and technological systems.

Sincerely,



Sheila Warren
Chief Executive Officer
Crypto Council for Innovation



Ji Hun Kim
General Counsel & Head of Global Policy, Digital Assets
Crypto Council for Innovation