July 27, 2022

Senator Anthony Portantino  
Chair, Senate Appropriations  
California Capitol Building  
Sacramento, CA 95814

RE: SUPPORT IF AMENDED: AB 2269 (Grayson): Digital Asset Licenses

Dear Senator Portantino:

On behalf of Chamber of Progress, a tech industry association working to ensure that all Americans benefit from technological leaps, I write to express our support for AB 2269 (Grayson) if the bill is amended.

Like you, we know the importance of promoting responsible crypto innovation and supporting good actors in the industry. All Californians will benefit from thoughtful regulation that establishes clear rules of the road for crypto companies.

We appreciate the provisions in AB 2269 (Grayson) that address the need for all stablecoin providers to have adequate reserves on hand; anti-money laundering (AML) protections; fraud detection; and insider trading bans to weed out bad actors in the crypto space and protect consumers. However, we are concerned that aspects of the proposed legislation will hinder opportunities for Californians.

New York’s Permission-Based Regime Has Hurt Consumers and Startups

New York’s permission-based crypto regulatory model – as this legislation would create in California – is currently denying New York residents the opportunity to participate in the growing decentralized and digital currency economy. This bill’s regulatory model and compliance costs could also lock in existing crypto incumbents at the expense of upstart challengers.

For crypto startups with limited funding, the costs associated with applying and maintaining licensure may be a huge barrier to entry for operating in only one state. BitLicense, New York’s business license for virtual currency activities, was implemented in 2015.¹ Seven years later, only 31 companies have received a BitLicense, most of whom are large companies or multi-billion dollar firms like Square (now Block) or Coinbase.² As a result of BitLicense, some companies reported spending $100,000 on costs related to the application filing,³ and at least ten crypto companies

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² [https://www.dfs.ny.gov/virtual_currency_businesses](https://www.dfs.ny.gov/virtual_currency_businesses)
ceased operations in New York. California should learn from New York’s challenges to enact reasonable and feasible regulation that promotes innovation.

Consumers also felt the effects of BitLicense, as they have been shut out from gaining access to many crypto products and trading platforms widely available in other states. The effects of BitLicense are felt today: New Yorkers are unable to purchase tokens on exchanges that do not list them, including a token created for usage in New York City.

For crypto companies applying for BitLicense, the timeliness and process for receiving one is up in the air. At one time, New York’s Department of Financial Services had approved only five applications over a three year period. In previous years, the agency had a significant backlog of applications, forcing newer companies with innovative products to join the back of the line or leave the market. New York recently reviewed all pending BitLicense applications, but the reputation of its licensing process potentially affected companies interested in entering their market.

Strict regulatory licensing requirements – as this bill imposes – have the potential to hinder future innovation and competition. Companies that can afford licensing application and compliance costs are not incentivized to compete against newer companies or products without a license. For smaller crypto startups without access to venture capital funds, excessive licensing requirements and delayed approvals could prevent innovation in the digital asset space. Most of all, the consumer would be critically impacted, as they become the ones without access to more efficient crypto products and services in an extremely nascent industry.

Regulating With Intention Protects California Consumers and Crypto Companies from Bad Actors
We encourage California leaders to avoid implementing harsh licensing and compliance regulations that stymie responsible innovation. We believe AB 2269 (Grayson) has an opportunity to protect consumers and bolster innovation through its licensing process, if amended to address major concerns. We propose the following amendments to the bill to ensure Californians don’t miss out on crypto-related opportunities:

- **Establish a Provisional License Status for Applicants**
  All companies who apply for the license should be granted a provisional license until a final decision is made by the department reviewing the application. Any company proactively seeking regulatory clarity from the department should receive appropriate guidance from the department based on early-stage reviews of products. This would avoid disrupting California customers of crypto services.

- **Establish Crypto License Reciprocity with Other States**
  There are over 1,600 U.S.-based crypto companies servicing Californians and providing options for different products and services. Many of these companies applied for or obtained similar approval to California’s proposed licensure model. California should create a universal licensing approval to give companies portability for conducting business in the

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7 https://www.crunchbase.com/hub/united-states-cryptocurrency-companies
state by applying their license from other jurisdictions with similar compliance requirements to California.

- **Create a California Digital Asset Sandbox**
  Crypto companies, especially small or start-up companies, could benefit from participating in a ‘sandbox’ with supportive regulatory oversight. The sandbox could also provide an on-ramp for full licensing in California. There are a handful of states establishing innovative spaces for crypto companies to test new products on a small set of consumers without fear of enforcement from regulators and lawmakers. States like Wyoming, Utah, Arizona\(^8\) and countries like Colombia and Argentina\(^9\) are using these sandboxes to develop a collaborative approach with companies, regulators and in some cases, consumers.

- **Collaborate with Other State and Federal Agencies**
  The DFPI should approach regulation for digital assets by collaborating with Federal regulatory authorities and collaborating with the Governor’s Office of Business and Economic Development (GO-Biz) and the Business, Consumer Services and Housing Agency (BCSH).

- **Clarify the definition of material change in Section 3305 (a)(1) and (a)(2)**
  To provide more certainty for companies creating new products and services, the “material change in information” should define ‘material’ to mean a product or service that would significantly alter the business model of the original license application. The material change should exclude product upgrades or innovative features of existing products and services approved in the license.

We support the establishment of a clear and transparent market for consumers, so that they can make decisions on product choice to the best of their abilities.

Thank you for your leadership in establishing regulatory rules of the road and setting a precedent for thoughtful crypto policy in the California state legislature. For the reasons stated above, Chamber of Progress supports AB 2269 (Grayson) if amended.

Sincerely,

Janay Eyo
Director, Financial Policy
Chamber of Progress

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