

Cryptocurrency Industry Advocates Seek Regulatory Flexibility in California



Cryptocurrency advocacy groups have submitted their initial comments to the California Department of Financial Protection and Innovation, expressing the need for more flexible licensing procedures. The department recently announced its intention to initiate rulemaking for the \$1 billion cryptocurrency sector following a listening session on January 8. With the new California law scheduled to enforce licensing starting July 2025, stakeholders in the cryptocurrency space are eager for clarity and flexibility in regulations.

Regulatory Anticipation Amidst Industry Turmoil

The Department of Financial Protection and Innovation has indicated that it expects to commence rulemaking shortly to regulate the cryptocurrency sector, which has recently witnessed significant fraud cases. The California law, set to take effect in July 2025, aims to bring greater accountability to the industry after a series of national headlines highlighting turmoil and criminal charges.

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Stakeholder Concerns and Advocacy

During the listening session, numerous companies and industry groups based in California urged the department to provide clarity and flexibility in the impending regulatory framework. The stakeholders emphasized the importance of a smooth and prompt rollout of the licensing process, expressing concerns about potential delays similar to those experienced in New York's application approval process in 2015.

Consumer advocates, however, cautioned the department to prioritize consumer protection, citing losses exceeding \$1 billion due to scams in the sector since 2001. Robert Herrell, the executive director of the Consumer Federation of California, emphasized the impact on real people who have suffered substantial financial losses.

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Timely Rollout and Staffing Challenges

Stakeholders stressed the need for a timely rollout of the licensing process, given that nearly a quarter of 800 North American blockchain companies are based in California. Industry groups emphasized the significant staffing requirements and urged the department to prepare for a surge in applications. Joshua Preston, a member of the Bitcoin Today Coalition, underscored the importance of understanding and addressing these staffing challenges promptly.

Seeking Clarity and Transparency

Representatives from industry groups, such as Jaimie Minor of the Blockchain Advocacy Coalition, urged the department to provide a clear roadmap for the application process, drawing inspiration from existing licensing frameworks in California. The need for transparency and certainty in complying with the final rules was highlighted, emphasizing the importance of a well-defined application process.

Balancing Flexibility and Consumer Protection

While industry groups sought clarity on securing exemptions from overall compliance, consumer advocates, including Herrell, urged the department to exercise this power judiciously. Advocates emphasized the exemption process as crucial for avoiding hindrances to the industry's growth, especially for startups and smaller companies seeking a competitive edge.

Tailoring Regulations to Industry Diversity

Several industry groups argued for differentiated regulations based on the risk level of products or activities, urging the department to consider the diverse characteristics and types of companies within the cryptocurrency space. Stakeholders emphasized that a one-size-fits-all approach may not be suitable, given the industry's rapidly changing business models and innovations.

Pete Herzog, a lobbyist for the Crypto Council for Innovation, stressed the importance of tailoring regulations to address the unique characteristics of digital assets and

considering the nuances within the cryptocurrency space. The coalition includes prominent entities like Gemini and Coinbase.

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