Date of Hearing: April 20, 2026

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Avelino Valencia, Chair
AB 2285 (Valencia) – As Amended May 22, 2026

SUBJECT: Digital Financial Asset Banking Act

SUMMARY:

This bill would generally regulate a bank or a credit union under the examination authority of the Department of Financial Protection and Innovation (DFPI) with respect to its provision of digital asset custody services, staking services, and digital asset transaction services, as those terms are defined, including by requiring certain disclosures to consumers and requiring certain financial safety measures.

Floor amendments amend the Corporations Code to specify that 1) rewards from staking, including by a staking service provider are not a security within the definition of "security", and 2) the distribution staking rewards is not subject to registration for the sale of securities.

Specifically, **this bill**:

1) Provides definitions for "active staking", "passive staking", "slashing", "pooled custody", "segregated custody", "fiduciary capacity", and "non-fiduciary capacity".

2) Provides requirements, as specified, for fiduciary and non-fiduciary custody of DFA.

3) Provides requirements, as specified, for custodial services including the use of third-party services.

4) Provides requirements for annual auditing of custodial services by way of independent audit or review and signed attestation of the DI's Board of Directors.

5) Provides minimum requirements for consumer disclosures.

6) Provides a framework for the payment of fees or commissions for staking services.

7) Provides anti-money laundering and cybersecurity compliance requirements.

8) ***Specifies that rewards from staking, including through a staking service provider, are not a security.***

9) ***Provides that distribution staking rewards is not subject to registration for the sale of securities.***

EXISTING LAW:

California DFAL:

1) Defines "digital financial asset administration" to mean issuing a digital financial asset with the authority to redeem the digital financial asset for legal tender, bank or credit union credit, or another digital financial asset. Financial Code (Fin.Code) section 3201(h).
2) Defines "digital financial asset business activity" to mean any of the following:
   a) Exchanging, transferring, or storing a digital financial asset or engaging in digital financial asset administration, whether directly or through an agreement with a digital financial asset control services vendor.
   b) Holding electronic precious metals or electronic certificates representing interests in precious metals on behalf of another person or issuing shares or electronic certificates representing interests in precious metals.
   c) Exchanging one or more digital representations of value used within one or more online games, game platforms, or family of games for either of the following:
      i) A digital financial asset offered by or on behalf of the same publisher from which the original digital representation of value was received.
      ii) Legal tender or bank or credit union credit outside the online game, game platform, or family of games offered by or on behalf of the same publisher from which the original digital representation of value was received. Fin.Code section 3102 (i).
3) Requires persons conducting digital financial business activity to obtain a license as a covered person. Fin.Code section 3102.

4) Before engaging in digital financial asset business activity with a resident, a covered person shall disclose, to the extent applicable to the digital financial asset business activity the covered person will undertake with the resident, all of the following:

   a) A schedule of fees and charges the covered person may assess, the manner by which fees and charges will be calculated if they are not set in advance and disclosed, and the timing of the fees and charges.

   b) Whether the product or service provided by the covered person is covered by either of the following:

      i) A form of insurance or other guarantee against loss by an agency of the United States as follows:

         (1) Up to the full United States dollar equivalent of digital financial assets placed under the control of, or purchased from, the covered person as of the date of the placement or purchase, including the maximum amount provided by insurance under the Federal Deposit Insurance Corporation, National Credit Union Share Insurance Fund, or otherwise available from the Securities Investor Protection Corporation.

         (2) If not provided at the full United States dollar equivalent of the digital financial asset placed under the control of or purchased from the covered person, the maximum amount of coverage for each resident expressed in the United States dollar equivalent of the digital financial asset.

      ii) Private insurance against theft or loss, including cybertheft or theft by other means.

c) Upon request of a resident with whom a covered person engages in digital financial asset business activity, a covered person shall disclose the terms of the insurance policy to the resident in a manner that allows the resident to understand the specific insured risks that may result in partial coverage of the resident's assets.

d) The irrevocability of a transfer or exchange and any exception to irrevocability.

e) A description of all of the following:

   i) The covered person's liability for an unauthorized, mistaken, or accidental transfer or exchange.

   ii) The resident's responsibility to provide notice to the covered person of an unauthorized, mistaken, or accidental transfer or exchange.

   iii) The basis for any recovery by the resident from the covered person in case of an unauthorized, mistaken, or accidental transfer or exchange.

   iv) General error resolution rights applicable to an unauthorized, mistaken, or accidental transfer or exchange.

   v) The method for the resident to update the resident's contact information with the covered person.

f) That the date or time when the transfer or exchange is made and the resident's account is debited may differ from the date or time when the resident initiates the instruction to make the transfer or exchange.

g) Whether the resident has a right to stop a preauthorized payment or revoke authorization for a transfer and the procedure to initiate a stop-payment order or revoke authorization for a subsequent transfer.

h) The resident's right to receive a receipt, trade ticket, or other evidence of the transfer or exchange.

i) The resident's right to at least 14 days' prior notice of a change in the covered person's fee schedule, other terms and conditions that have a material impact on digital financial asset business activity with the resident, or the policies applicable to the resident's account.

j) That no digital financial asset is currently recognized as legal tender by California or the United States.

k) A list of instances in the past 12 months when the covered person's service was unavailable to 10,000 or more customers seeking to engage in digital financial asset business activity due to a service outage on the part of the covered person and the causes of each identified service outage.

i) As part of the disclosure required by this paragraph, the covered person may list any steps the covered person has taken to resolve underlying causes for those outages. Fin.Code section 3501.

2) California Banking and Credit Union

1) California Law regulates, through examination, state chartered banks and credit unions under the authority of the Department of Financial Protection and Innovation (DFPI). Fin.Code section 1000-1901 and Fin.Code section 14000-16906.

FISCAL EFFECT:

The following comment is from the analysis of the Assembly Appropriations Committee provided prior to the floor amendment.

DFPI anticipates minor and absorbable costs to update informational materials to reflect a financial institution's requirements regarding DFAs, provide additional training for staff, and undergo mandatory rulemaking to create the notice form specified in this bill. DFPI notes that it already has authority under existing law to broadly examine a financial institution. However, it is possible for this bill to result in costs to DFPI in excess of $150,000, to the extent a financial institution's current DFA practices (or future practices, pursuant to pending federal legislation) do not align with this bill, leading to more complex examinations and enforcement proceedings regarding an evolving technological asset (Financial Protection Fund).

COMMENTS:

1) Background

In May, 2025, the Office of the Comptroller of the Currency (OCC) which oversees nearly 4,000 federal institutions across the country, issued guidance to clarify that national banks and federal savings associations can buy and sell digital financial assets held in custody at its customer's direction if they follow the practices they use for traditional assets. This clarification also included the permissibility of the use of third-party sub-custodians. Since this guideline was issued, five applications to either newly charter or convert existing institutions into national trust banks that will engage in digital financial asset activity have been conditionally approved.

State chartered banks and credit unions are regulated by the Department of Financial Protection and Innovation, not the OCC. Despite progress on the Digital Financial Asset Law (DFAL), there is no pathway for banks and credit unions to participate in an emerging and global market.

2) What this bill does

a. *Custody Service and Accuracy*

This bill requires a DI to enter a written contract with its customer[1] with clear disclosures regarding whether or not the relationship is fiduciary or non-fiduciary, If the relationship is non-fiduciary, the agreement must make clear that the DI will only act on the customer's explicit instructions. In either a fiduciary or non-fiduciary relationship the agreement must clearly disclose whether or not the DFA held in custody by the DI are insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any other federal or state deposit insurance or share insurance program, and Whether or not a DFA held in custody by the DI is a deposit, obligation, or other liability of the DI. This bill requires disclosure of any thresholds or triggering mechanisms that may cause a DI to take action on a customer's behalf in a fiduciary relationship. And the bill requires any changes to the agreement to be provided to the customer 45 days before its effective date.

As to the funds itself, this bill requires at least a one-to-one reserve of each type of digital asset held in passive staking. This is to ensure demand withdrawals can be executed. The bill prohibits the pooling of DFA unless the DI maintains accurate records to identify each customer's specific interests in the DFA. To ensure compliance, annual independent auditing or review and certification by the entire board of directors is required.

b. *Third party activity and engagement*

A DI may use a third party contractor to conduct digital asset custody services, however, use of the subcustodian must be prominently disclosed on the first page of the agreement. The bill puts the onus on the DI to ensure compliance with the requirements of this bill, which include: 1) insurance to protect against breaches or theft, and 2) licensure under DFAL, money transmitters law. The agreement between the DI and the subcustodian must be structured to maintain the DI as the custodial recordholder of the DFA, and that the DFA remains the property of the DI's customers.

c. *Staking Services and Fiduciary DFA transaction authority*

This bill requires disclosures of the following information regarding staking services:

1. The fact that the DI may automatically stake an eligible DFA in the customer's account unless the customer affirmatively opts out of participation.

2. The key risks associated with staking, including the potential for loss of staked assets or staking rewards due to slashing or other network events, and cybersecurity or operational risks inherent in the staking process.

3. Any applicable lockup, unbonding, or notice period before a staked DFA can be withdrawn or transferred and the implications of that period for the customer's access to the customer's digital financial assets.

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[1] Customers of credit unions are normally referred to as "members". For purposes of this analysis, the term "customer" will be used to mean both bank customers and credit union members.

4. The customer's rights and obligations related to the staking service, including the right to discontinue participation in staking at any time and the entitlement to receive staking rewards earned on the customer's digital financial assets.

5. The amount or rate of any fee or commission that the DI will deduct from a staking reward as compensation for providing staking services.

AB 2285 requires the DI to identify policies and procedures to protect from, effectively identify, monitor, and manage risks associated with staking, including operational risks, cybersecurity threats, and slashing.

This bill adds specifications to the management of DFA trading activity, whether automated or not. The required specifications speak to transparency and accountability of money, returns, and losses.

3) Ongoing Considerations

Non-DI digital asset exchanges have raised concerns that these higher standards and practices may become a precedent for their industry, whether in whole or in part. Some potential DI's have raised concerns with some terms of the bill, specifically regarding: auditing, fee cap rigidity, slashing insurance requirement, 45-day contract amendment notice, and cybersecurity incidents. Stakeholders have also requested to put the state law in parity with the federal law.

*4) **Floor Amendments***

The following floor amendments have been made to the Corporations Code:

i) Specification that rewards from staking, including by any staking service provider is not a "security" as defined;

ii) An exemption from state securities registration laws for the act of distributing of staking rewards, and

iii) Elimination of the reference to "customer" in the definition of staking rewards in the reference language pertaining to the financial institutions proposed bill language.

a) Basic Technical Background

Staking is the act of locking away a portion of currency, like a good-will security deposit, to gain and maintain eligibility to participate in the selection process for securing a proof of stake (PoS) based blockchain network and creating more blocks in exchange for payment. The more currency a validator stakes, the higher their chances of being selected and thus to earn payment. Since the value of the payments fluctuate, and PoS is based on a behavioral incentivization, these payments for services are characterized as "rewards". This "skin-in-the-game" model encourages participants to perform accurately–good behavior results in payment, malicious or undesirable behavior results in penalization against the participants personal stake or slashing of the entire amount. Slashing results in prevention from participation and forcible exit.

In broad terms, an overview of the **process and requirements for staking** are: 1) no less than the minimum amount of currency to stake (the more that is staked the more likely to be selected), 2) the blockchain protocol will select multiple validators as needed, and 3) validators must use specialized hardware and software, as well as stay online 24 hours to perform the validation services for a global market. Going offline for a number of days with regularity results in penalization against the validator's stake. Validators are rewarded for correctly validating transactions. However, if a validator acts against the network's interests, a portion or all their staked currency may be forfeited — a process known as *slashing*.

According to Ethereum, a leading PoS blockchain, slashing has two purposes: (1) to make it prohibitively expensive to attack the network, and (2) to stop validators from being "lazy" by checking that they actually perform their duties. Those who are slashed have acted in a provably destructive manner, and portion of their stake will be destroyed. Slashing also results in validators being prevented from participating in the protocol further and forcibly exited.

Staking is an activity that can be participated in by individuals with resources, both economically and mechanically, or on a pooled basis through a third party. The barrier to entry for staking can be relatively high for two reasons. The first reason can be economical, for example, the minimum amount of ETH required to stake Ethereum is currently 32 ETH or $72,987 USD at the time of this writing. Note, this is only the minimum, the higher the amount staked, the more likely the validator is to be selected and thus to earn more rewards. Third party exchanges offer customers pooled staking using fractional contributions to participate in certain network protocols that would normally be economically out of reach. The second, albeit slighter, barrier to entry, is mechanical; specifical software, hardware and reliably high-speed internet are required.

b) *CLARITY ACT language from the U.S. Senate Banking Committee*[2]

The following definitions and terms are provided in the most recently released draft of the Congressional Senate Banking Committee:

"**Self-custodial Staking with a Third Party**" is "the distribution of a unit of a network token, as a programmatic result of validating or staking activity for a distributed ledger system's consensus mechanism, including the staking of a network token, and the operation of a node, validator, or substantially similar software for such activity in which—''(I) the owner of the staked network token, and operator of the node, validator, or substantially similar software for such activity are different persons or entities; **and** ''(II) the operator of the node, validator, or substantially similar software does not maintain custody or control of the staked network token.

Essentially, the owner of the staked currency is not the same person as the entity operating the software and providing the hardware required to perform the validation, and the entity does not maintain control of the currency.

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[2] Digital Asset Market Clarity Act, H.R. 3633, 119 Cong. (2025). https://www.congress.gov/bill/119th-congress/house-bill/3633/text

"**Custodial and Ancillary Staking Services**" in general and subject to rulemaking, "the provision of custodial or ancillary staking services enabling the owner of a network token to participate in validating or staking activity for a distributed ledger system's consensus mechanism that results in the programmatic distribution of a unit of a network token, provided that such custodial or ancillary services are *exclusively administrative or ministerial in nature*."

The Act further states that the Commission shall issue rules defining the custodial and ancillary staking services that are exclusively administrative or ministerial in nature, consistent with what is necessary or appropriate for the public interest or for the protection of investors.

*5) **Litigation History***

a) Agency Actions in 2023

In 2023, the SEC charged Coinbase, Inc. and Coinbase Global, Inc. (hereinafter "Coinbase") for violating securities law when it offered its customers staking services. The SEC's complaint alleged that Coinbase:

> "has operated as: an unregistered broker, including by soliciting potential investors, handling customer funds and assets, and charging transaction-based fees; an unregistered exchange, including by providing a market place that, among other things, brings together orders of multiple buyers and sellers of crypto assets and matches and executes those orders; and an unregistered clearing agency, including by holding its customers' assets in Coinbase-controlled wallets and settling its customers' transactions by debiting and crediting the relevant accounts."

California, New Jersey, South Carolina, and Wisconsin took similar steps to halt unregistered third-party staking services against the company. These state regulators looked to the company's framework wherein users delegate their assets to the platform to act on the user's behalf in exchange for a share of the reward, which could fall under their securities law.

The California Department of Financial Protection and Innovation initiated an administrative law action by filing a desist and refrain order halting all unregistered staking activities conducted by Coinbase in the state.

In its order[3], the DFPI examined claims made on the company's website, specifically "Earn up to 6.00 APY% on your crypto. Put your crypto to work and earn rewards." "We'll help you put your assets to work in the cryptoeconomy so you can grow your crypto holdings with little effort." And "we take measures to mitigate risks and allow you to opt-out anytime."

The order also includes statements of risk mitigation from Coinbase's public website, specifically,

> "'the possible slashing of staked assets or rewards. Although it's unlikely, there is a possibility you could lose your staked assets or rewards in case of a network or validator

[3] https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/06/Admin.-Action-Coinbase-Global-Inc.-Notice-of-Intent.pdf

> failure. We've taken measures to reduce these risks, but some events are outside our control.' In the event that crypto assets invested by Coinbase Staking Offerings investors are lost or reduced as the result of "slashing," Coinbase may, in some circumstances, replace investors' slashed assets staked in the Coinbase Staking Offering at no additional cost."

The order notes that Coinbase has no contractual obligation to retain a like amount of investors' crypto assets or comparable ones to cover investors' losses in the event of slashing. The order also lists eight (8) functions and operations conducted by Coinbase in its "sole and absolute discretion" to facilitate the staking of assets for its users.[4]

The DFPI reasons that among other things, qualifying an offer and sale of securities is essential for market safety. Compliance with registration ensures that users receive all necessary material information required to assess the risk of an investment. One such disclosure is that Coinbase is not protected by investor- and consumer- protection organizations, such as the Securities Investor Protection Corporation and the Federal Deposit Insurance Corporation. It notes, Coinbase would be permitted to provide staking to its users under its current framework if it registers as a security with the DFPI.

Coinbase's position is that it offers staking as a service to its customers as a convenience. On its publicly available website, it states:

> "staking is a way to earn rewards by putting your crypto to work on a blockchain network. In return for helping the network run smoothly and securely, you receive more of the cryptocurrency you're staking. The rewards come from the network itself—your crypto isn't being lent out. It's a safe, simple and popular way to grow your crypto while holding."

It claims that since 2023, California users have lost $89 million in potential rewards. Coinbase also claims that it has never been slashed. This is not surprising given that slashing is a disincentivizer that is used for malicious or dishonest behavior. When staking, to a large extent, penalties, or losses, are in the mechanical control of the staker.

b) Agency Actions in 2025

In early 2025, the SEC announced the dismissal of its civil enforcement action against Coinbase. In the press release, the SEC stated:

> "For the last several years, the Commission's views on crypto have been largely expressed through enforcement actions without engaging the general public," said Acting Chairman Mark T. Uyeda. "It's time for the Commission to rectify its approach and develop crypto policy in a more transparent manner. The Crypto Task Force is designed to do just that."
>
> The Commission's decision to exercise its discretion and dismiss this pending enforcement action rests on its judgment that the dismissal will facilitate the Commission's ongoing

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[4] These arguments are likely provided to prove the "efforts of others" prong of the *Howey* test. The "efforts of others" requirement is satisfied when "the efforts made by those other than the investor are the undeniably significant ones, those essential managerial efforts which affect the failure or success of the enterprise." *SEC v. Glenn W. Turner Enterprises, Inc.*, 474 F.2d 476, 482 (9th Cir. 1973).

> efforts to reform and renew its regulatory approach to the crypto industry, not on any assessment of the merits of the claims alleged in the action. Furthermore, as stated in the joint stipulation, 'the Commission's decision to seek dismissal of this litigation does not reflect the Commission's position on any other case.'"[5]

Since this release, the other states' cases against Coinbase, except for California, have been dismissed or resolved by codifying staking as a service. Notably, other exchanges are currently providing staking services in California having filed pursuant to state securities laws, though it is unclear if the filing is for the purposes of staking services.

Most recently, the Administrative Law Judge granted a request by Coinbase to continue the matter until November 2026 for reasons on imminent federal legislation.

*6) **Likely Impact of the Amendments***

The amendments, if codified before the resumption of the action, will likely provide a complete defense to the DFPI action. The amendments will allow cryptocurrency exchanges in California to provide staking service without being required to register under state securities laws.

7) *Statement from the Author*
"As federal regulations continue to evolve, California banks need the tools to responsibly integrate this technology into their existing systems, while ensuring consumers are protected from potential mismanagement of digital assets.

Blockchain technology is increasingly shaping the future, with new applications emerging across everyday use cases. By providing our state-chartered banks and credit unions, the go-to choice for many residents, a responsible framework for offering this technology, we give our state financial institutions a reputational advantage from the start."

AB 2285 provides an innovative and modern framework for California banks seeking to offer digital asset services, positioning California to lead in balancing strong consumer protections with continued innovation in the digital asset space."

Argument in Opposition (Oppose Unless Amended)

"Stablecoin rewards are the core issue that Congress has yet to resolve in the pending CLARITY Act. Allowing yield to be paid on stablecoins would pull funds out of insured deposits and that loss of deposits would translate into a reduction in local lending. U.S. Treasury has estimated that up to $6.6 trillion in deposits could be at risk if stablecoin inducements scale. If stablecoin rewards are permitted, some depositors will pull their money out of banks and credit unions and put it on deposits with crypto exchanges. These exchanges do not have a Community Reinvestment Act obligation and do not use deposits to make mortgage, farm, auto and small business loans in communities across California. The second issue is consumer confusion. Stablecoin balances are not FDIC-insured deposits, and firms offering stablecoin rewards are not

[5] https://www.sec.gov/newsroom/press-releases/2025-47 Last visit 6/4/2026.

subject to prudential supervision. Interest-like rewards make stablecoin balances resemble a savings account, which may blur key distinctions for consumers.

Eliminating Section 1 or clarifying language that stablecoin rewards are prohibited (while native staking rewards on actual cryptocurrencies are allowed), would resolve concerns."- *California Bankers Association*

REGISTERED SUPPORT / OPPOSITION:

Support

None received. Last certified 6/4/2026.

Opposition

None received. Last certified 6/4/2026.

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