
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1208 (Grayson) - Money laundering: digital financial assets

Version: April 6, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: PUB. S. 6 - 0

Mandate: Yes

Consultant: Bob Franzoia

Bill Summary: SB 1208 would expand the crime of money laundering to include transactions involving digital financial assets and establish a process for the forfeiture of digital financial assets that contain the proceeds of crime or that have been used to facilitate a crime.

Fiscal Impact: Unknown court cost pressures to adjudicate money laundering offenses involving digital financial assets (Trial Court Trust Fund, General Fund).

Unknown incarceration costs to the Department of Corrections and Rehabilitation as money laundering is punishable as a felony. There may be few, if any, physical arrests due to the nature of digital financial fraud (General Fund).

Background: Since 2023, the Legislature passed a series of bills comprise California's Digital Financial Asset Law (DFAL), which creates a licensing and enforcement framework for certain cryptocurrency activities. A "digital financial asset" is a digital representation of value that is not issued or backed by a government or central bank, and of which cryptocurrencies are a primary subset.

Beginning July 2026, the DFAL requires companies to be licensed by the Department of Financial Protection and Innovation (DFPI) or have applied for a license in order to engage in digital financial asset business activity, which refers to providing services that involve the exchange, transfer, storage or issuance of digital financial assets on behalf of others. Entities not licensed by the DFPI are prohibited from engaging in digital financial asset business activity, and DFAL authorizes the DFPI to conduct on-site or remote examinations of licensees, suspend licenses or impose stiff civil penalties on non-compliant licensees, and conduct specified enforcement actions against non-licensees who engage in digital financial asset business activity. The DFAL imposes extensive obligations on licensees regarding consumer disclosures, cybersecurity and data protection requirements, and minimum capital and liquidity requirements to mitigate financial risk. The law also contains specific consumer protection provisions for cryptocurrency kiosk operators, including transaction limits designed to deter money laundering.

Proposed Law: Existing seizure laws require a criminal conviction for the forfeiture of fraud proceeds. Prosecutors are limited in their ability to identify individual perpetrators, extradite them and obtain a criminal conviction because scammers are often part of criminal organizations located overseas or protected by government corruption, or both. In such cases where the perpetrators are effectively beyond the reach of state and local

law enforcement, it is much more difficult to effectuate the legal seizure and return of stolen funds back to the victims of the fraud if a criminal conviction is a precondition.

This bill will provide statutory authority to prosecutors to initiate a special proceeding to seize cryptocurrency wallets and exchange accounts being used to launder fraud proceedings. This provides prosecutors with a tool to seize and return digital financial assets to victims of cryptocurrency fraud that does not require a criminal conviction.

Staff Comments: Money laundering may refer to the process by which criminals try to disguise illegally-gained financial assets in a manner such that the assets appear to come from a legal source. However, California's anti-money laundering laws prohibit more than just trying to conceal the nature of ill-begotten assets. State laws prohibit certain transactions simply if a person knew the assets were derived from criminal activity or if they conducted the transaction with the intent to facilitate a criminal activity. Currently, state law specifies that US and foreign currency, checks, money orders, gold, emeralds, stocks, investment security, and other types of financial assets are "monetary instruments" and prohibits a person from laundering those items. This bill would include digital assets, as defined, into California's anti-money laundering statutes.

The DFPI operates an online searchable Crypto Scam Tracker. Out of 579 crypto related scam complaints, 26 referenced money laundering. According to DFPI it is important to note that the vast majority of scammers use the threat or fear of fraudulent activity on consumers accounts, including mentioning fraudulent money laundering activity, as a way to instill fear into consumers, to facilitate a crypto-related scams. These complaints, therefore, are not predictive of an increase in actual money laundering cases, as proposed by this bill.