

Building a Compliance Program with California's Digital Financial Assets Law

Redefining Digital Finance In California

Beginning July 1, 2026, Digital Financial Assets Law (DFAL) will require licensing for certain digital asset companies engaging with California residents. The proposed rules are designed to establish a comprehensive framework for oversight, consumer protection, and financial integrity in the digital asset sector. Covered entities include digital asset exchanges, wallet providers, custodians, payment service providers, and other businesses offering digital financial asset services. The Department of Financial Protection and Innovation released proposed regulations to implement the state's DFAL regulations.

Guide to Understanding the Regulation:



Jurisdiction:

California, United States



Regulation Name:

Digital Financial Assets Law



Effective Date:

Proposed regulations released April 4, 2025.
Licensing requirement effective July 1, 2026.



Enforcement Body:

California Department of Financial Protection and Innovation (DFPI)



Industry:

Digital asset companies such as exchanges, wallet providers, custodians, and payment service providers.

Key Provisions:

- All covered digital asset businesses must obtain a DFPI license by **July 1, 2026** which expands to firms offering digital financial asset services to California residents.
- Require disclosures to customers regarding risks, fees, and terms of service.
 - These are standards for consumer protection, operational safeguards, and market integrity.
- **Risk Management**
 - Firms must implement anti-money laundering and counter-terrorist financing controls consistent with federal and state statutory expectations.
 - Risk assessments must adopt a risk-based approach, integrating digital asset-specific vulnerabilities.
- **Oversight and Customer Due Diligence**
 - Mandatory reporting of suspicious activities to relevant authorities. DFPI empowered to request records, conduct examinations, and enforce compliance.
 - Screening procedures must account for fraud risks, shell companies, and cross-border exposures. Enhanced identity and beneficial ownership verification, especially for complex or high-risk financial structures.



Actions Required:

1. Prepare licensing applications and check whether your business activities fall under DFAL's scope. Compile necessary documentation before July 1, 2026.
2. Ensure governance structures, transaction monitoring, and reporting processes align with DFPI expectations. Conduct risk assessments tailored to digital asset vulnerabilities.
3. Review onboarding procedures for identity and beneficial ownership verification and implement additional screening for fraud, shell companies, and cross-border exposures.

Market and Operational Impact to FinTechs

DFAL is a strategic framework that established to encourage tech and digital asset firms manage risk, innovate responsibly while making sure consumers are protected. While compliance systems will change, firms that meet the DFAL standards will benefit from improved consumer trust and credibility. Here are some of the elements that companies must consider when complying with the said regulation.

1. **Market Impact.** California will now have a dedicated licensing and supervisory framework for digital financial assets businesses with explicit consumer protection and cybersecurity expectations.
2. **Operational Impact.** DFAL requires implementation of strengthened cybersecurity controls such as incident response planning, penetration testing, and secure key management.
3. **Cybersecurity Trends.** DFAL embeds cybersecurity into compliance expectations, making resilience a licensing condition. Zero-trust architectures are becoming standard for digital asset platforms, ensuring strict access controls and continuous verification of customers.