

How Should Entities Prepare for California's New DFAL Licensing Requirement?

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On March 18, 2026, the Nationwide Multistate Licensing System (NMLS) began accepting applications for a brand new license created by California's Digital Financial Assets Law (DFAL), which was signed into law in 2023. Unless exempt, entities wishing to continue engaging in digital financial asset business activity in California **must submit an application by July 1, 2026.**

The Department of Financial Protection and Innovation has not yet issued final regulations but has published [FAQs](#) and a high-level overview on [how to prepare for a DFAL license application](#). Additionally, the Conference of State Bank Supervisors is offering DFAL license applicants a [virtual training](#) session on March 23, 2026, to learn more about navigating the NMLS.

Who is Required to be Licensed?

The trigger for a DFAL license is “engag[ing] in digital financial asset business activity, or hold[ing oneself] out as being able to engage in digital financial asset business activity, with or on behalf of a [California] resident.”

Digital financial asset business activity is broadly defined by the DFAL as any of the following:

1. 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.
2. 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.
3. 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:

- a. A digital financial asset offered by or on behalf of the same publisher from which the original digital representation of value was received.
- b. 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.

The DFAL specifies that a “digital financial asset” does not include:

- legal tender;
- securities registered (or exempt from registration) with the SEC;
- the value of certain affinity or rewards programs; or
- video game currencies when limited to a single game, game platform, or family of games sold by the same publisher or offered on the same game platform.

Who is Exempt from Licensing?

The legislature included 17 exemptions from DFAL licensing and also empowered the DFPI to add additional exemptions and to remove or modify the exemptions listed in the statute.

In addition to typical exemptions for state and federal governments and most banks, credit unions, and trust companies, the statute contains exemptions that are more specifically related to engaging in digital financial asset business:

- A person who processes, clears, and/or performs settlement services solely for transactions between or among exempt entities (i.e., both sides of the transaction must be exempt);
- A person organized under foreign law (other than a branch or office in the United States) that is a dealer in foreign exchange;
- A person who provides only connectivity software, computing power, data storage, or security and does not otherwise engage in digital financial asset business activity;
- A person who, for personal, family, or household purposes or for academic purposes, invests, buys or sells, or obtains a digital financial asset as a payment for a purchase;
- A person whose digital financial asset business activity with California residents is reasonably expected to be \$50,000 or less annually;
- An attorney providing escrow services to a California resident;
- A secured creditor or creditor with a lien that includes a digital financial asset whose digital financial asset business activity is limited to enforcing that security interest;
- A person who does not receive direct or indirect compensation for engaging in digital financial asset business activity;
- A person who is regulated by the Commodity Futures Trading Commission and whose activities are conducted under the federal Commodity Exchange Act;

- A registered broker-dealer acting in its capacity as a broker-dealer;
- A person who provides clearance or settlement services pursuant to registration as a clearing agency or an exemption from registration; and
- A merchant who accepts digital financial assets as payment for the purchase or sale of goods or services (other than digital financial assets).

What Should Entities Do to Prepare?

While the DFPI has not yet issued final regulations, the DFAL itself, supplemented with the other resources discussed above, provides sufficient information for entities that engage in digital financial business activity in California to begin preparing for licensing.

Entities should take the following recommended next steps to prepare:

- Evaluate whether or not a license is required.
- Determine whether the assets involved in their business meet the definition of a “digital financial asset” and then determine whether their activities in California meet the definition of “digital financial asset business activity.”
- If an entity determines that it is engaging in digital financial asset business activity, the next step is a careful review of the applicable exemptions. If a license is required, begin preparing application materials in accordance with the NMLS checklist. This includes providing information about the business itself as well as information about company control persons.

The DFPI’s licensing team is very detail-oriented and often requires applications to be resubmitted with corrections or supplements. While the deadline for submitting an application is July 1, 2026, entities should reserve adequate time to resolve any potential issues that may arise with an application.

Hinshaw is Here to Help

The Hinshaw licensing team has provided comprehensive licensing support for more than 20 years. We help clients obtain and maintain state licenses through our proprietary and interactive licensing platform.

Features of the Hinshaw licensing platform include:

- Dashboards that organize license application tracking, reminders, and notifications;
- Collaboration and messaging; and
- Document management functionality to organize and maintain licensing documentation.

Because of our deep knowledge of the California Financial Code, significant experience working with the DFPI, and comprehensive licensing platform, the team here at Hinshaw is uniquely situated to assist in every step of this process.

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