WHEREAS California has the fifth largest economy in the world and is home to the leading technology companies across the country and around the globe; and

WHEREAS California is the global innovation hub for emerging technologies because of the State's unparalleled concentration of research and development, human and venture capital, and creativity and entrepreneurialism; and

WHEREAS past generations of innovation lacked proactive and early engagement by public institutions, leading to unintended social consequences and inequitable benefits across society, as well as governmental attempts to regulate only after business models and interests have solidified; and

WHEREAS over the past decade, blockchain technology has laid the foundation for a new generation of innovation, spurring a rise in entrepreneurialism in sectors including financial technology, supply chain management, and the arts; and

WHEREAS the impact of blockchain technology is both uncertain and profound, with the potential to reconfigure the logic and structure of the World Wide Web and its place in modern society; and

WHEREAS blockchain uses, risks, benefits, legal implications, and best practices were evaluated by the California Blockchain Working Group, which published its report on July 1, 2020; and

WHEREAS applications of blockchain technology to financial services, including crypto assets, present some of the most salient use cases, posing both unique opportunities and risks; and

WHEREAS the Department of Financial Protection and Innovation was established in 2020 to monitor and manage emerging risks and opportunities, with the twin goals of strengthening consumer financial protection and cultivating responsible innovation that provides value for consumers; and

WHEREAS the California Consumer Financial Protection Law, also enacted in 2020, strengthened the State's ability to protect consumers, respond more quickly to emerging trends, and productively engage with responsible businesses; and

WHEREAS notwithstanding these steps, responsible innovation has been encumbered by regulatory uncertainty, especially with regard to federal law, which has principal authority over financial instruments and transactions that are inherently interstate and international; and

WHEREAS on March 9, 2022, President Biden took an important step towards addressing regulatory uncertainty by signing an Executive Order on Ensuring Responsible Development of Digital Assets, which initiated a whole-of-federal-government assessment of key issues raised by crypto assets and related financial technologies; and
WHEREAS all of society, including consumers and responsible financial technology companies, are best served by a consistent regulatory approach harmonized between federal and state authorities; and

WHEREAS California must learn the lessons from past generations of innovation by engaging earlier with emerging sectors, in order to maximize public benefit, minimize regulatory uncertainty, and promote alignment across interests and institutions; and

WHEREAS state agencies should work with, and concurrently to, the federal government to make California the first state to establish a comprehensive, thoughtful, and harmonized regulatory and business environment for crypto assets; and

WHEREAS state agencies and leaders should proactively engage and partner with the broader blockchain ecosystem, not only crypto assets, to build pipelines of technical talent that draw equitably from California's diverse communities, mitigate unintended social consequences of new technologies, and ensure that public institutions are themselves leveraging new technologies as stewards of the public good; and

WHEREAS with a proactive approach, California will not only maintain – but bolster – its status as a global innovation hub by accelerating responsible innovation, maximizing a net-positive benefit to the public, and generating equitable and inclusive growth.

NOW, THEREFORE, I, GAVIN NEWSOM, Governor of the State of California, in accordance with the authority vested in me by the State Constitution and statutes, and in particular, Government Code sections 8567, 8571, and 8627, do hereby issue the following Order to become effective immediately:

IT IS HEREBY ORDERED THAT:

1. It shall be the goal of the State to create a transparent and consistent business environment for companies operating in blockchain, including crypto assets and related financial technologies, that harmonizes federal and California laws, balances the benefits and risks to consumers, and incorporates California values, such as equity, inclusivity, and environmental protection. For the purposes of this Order:

   a. The term "blockchain" refers to a domain of technology, including distributed ledger technologies, used to build decentralized systems that increase the verifiability of data shared among a group of participants that may not necessarily have a pre-existing trust relationship.

   b. The term "crypto assets" refers to a digital asset, which may be a medium of exchange, for which generation or ownership records are supported through a blockchain technology.

2. California state agencies shall engage in a process concurrent with the federal strategy articulated in President Biden’s Executive Order on Ensuring Responsible Development of Digital Assets, signed on March 9, 2022 ("Federal EO"), focusing on four workstreams:

   a. Collecting input from a broad range of stakeholders, led by the Governor’s Office of Business and Economic Development (GO-
Biz), in collaboration with the Business, Consumer Services and Housing Agency (BCSH) and the Department of Financial Protection and Innovation (DFPI); and

b. Creating a regulatory approach to crypto assets harmonized between federal and state authorities, led by DFPI, in consultation with GO-Biz; and

c. Exploring and establishing public-serving use cases, such as incorporating blockchain technologies into state operations, led by the Government Operations Agency (GovOps); and

d. Building research and workforce pipelines, led by the Governor's Council for Postsecondary Education.

Within 60 days of the publication of the federal "report on the future of money and payment systems" outlined in section 4 of the Federal EO, GO-Biz, DFPI, and GovOps shall provide a report to the Governor's Office summarizing the outputs of the workstreams detailed in this Order and recommending next steps. The report shall reflect consultation with relevant state agencies regarding the forthcoming federal reports on the relationship of crypto assets to priorities in energy, climate, and preventing criminal activity.

3. GO-Biz shall, in collaboration with BCSH and DFPI, collect input from a broad range of stakeholders for potential blockchain applications and ventures, with particular attention to crypto assets and related financial technologies. Engagement should include companies both based in and outside California; communities that have historically benefited less from technology-driven economic growth; technical experts and entrepreneurs at the cutting edge of building new protocols and networks; stakeholders interested in blockchain and crypto assets as a means to address systemic inequities; venture capital firms; and stakeholders concerned about potential negative externalities, including energy consumption and environmental impact.

4. DFPI shall engage in a public process to develop a comprehensive regulatory approach to crypto assets harmonized with the direction of federal regulations and guidance. DFPI shall:

a. Engage with federal agencies and participate in processes outlined in the Federal EO to both shape and track developments in real time, and work with other state financial regulators to promote a common approach that increases the reach of DFPI's consumer protection efforts and reduces unnecessary burdens, if any, on companies seeking to operate nationwide.

b. In anticipation of a harmonized state-federal crypto asset framework, DFPI shall exercise its authority under the California Consumer Financial Protection Law (CCFPL) to develop guidance and, as appropriate, regulatory clarity and supervision of private entities offering crypto asset-related financial products and services ("Companies") in California, in conjunction with input from California stakeholders. In doing so, DFPI shall prioritize the dual goals of California remaining the premiere global location for responsible crypto asset companies to start and grow and ensuring that California values of inclusive innovation and equity-focused
consumer protection are core components of the products and services that these Companies offer to the public. DFPI shall:

i. Within 30 days of this Order, solicit public comments regarding the regulation of crypto asset-related financial products and services under the CCFPL; and

ii. Commence a market-monitoring inquiry to solicit voluntary information from Companies and licensees about their crypto asset-related financial products and services to assist DFPI in carefully undertaking any future efforts, including formal rulemaking under the CCFPL.

c. Publish consumer protection principles that may include model disclosures, error resolution, and other criteria DFPI may deem appropriate, to provide guidance to companies offering crypto asset-related financial products and services.

d. To clarify DFPI's expectations of California's state-chartered banks and credit unions regarding crypto assets, DFPI shall seek input from stakeholders and licensees in order to publish guidance for California state-chartered banks and credit unions by March 31, 2023.

e. To further protect consumers, DFPI shall:

i. Initiate enforcement actions as appropriate to stop violations of the CCFPL and other relevant consumer financial laws; and

ii. Enhance its collection and review of consumer complaints relating to crypto asset-related financial products and services; and

iii. Work with companies providing crypto asset-related financial products and services to remedy complaints; and

iv. Consult with appropriate law enforcement agencies regarding criminal activity.

f. To increase Californians' awareness of the benefits and risks associated with crypto asset-related financial products and services, DFPI shall publish consumer education materials across multiple communications platforms, which shall include information about how to avoid scams and frauds.

5. The Washington D.C. Office of the California Governor shall, in coordination with GO-Biz, BCSH, DFPI, and relevant state agencies, engage in and encourage regulatory clarity via progress on the processes outlined in the Federal EO.

6. GovOps shall explore opportunities to deploy blockchain technologies to address public-serving and emerging needs. In doing so, GovOps shall:

a. Issue a Request for Innovative Ideas, established through Executive Order N-04-19, to the private sector, academia, and community, to present pilots for innovative policies, programs, and solutions that demonstrate and showcase the potential of adopting blockchain technologies to respond to specific challenges identified by state agencies to address the considerations for appropriate application identified by the
California Blockchain Working Group; and

b. Add blockchain to the list of technologies considered under applicable future solicitations made pursuant to the “Request for Innovative Ideas” process, and any successor or similar processes that enable the state to work with vendors to procure innovative technological solutions. When procuring work from blockchain vendors, all executive departments and agencies subject to my authority shall first assess the fitness of blockchain technology for the specific purpose and consider factors for appropriate applications as identified by the California Blockchain Working Group, including, but not limited to, sustainability, favoring procurement of technologies with low energy consumption when possible and appropriate.

7. Members of the Governor’s Council for Postsecondary Education are encouraged to identify opportunities to create a research and workforce environment to power innovation in blockchain technology, including crypto assets. The goals will be to expose students to emerging opportunities, power emerging industries, and help ensure economic benefits are experienced equitably. The members are encouraged to collaborate and identify opportunities to:

a. Build workforce pathways that ensure a pipeline of talent to the industry that is both equitable and robust; and

b. Generate basic and applied research to continue leading on future generations of blockchain technology.

IT IS FURTHER ORDERED that as soon as hereafter possible, this Order be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this Order.

This Order is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 4th day of May 2022.

GAVIN NEWSOM
Governor of California

ATTEST:

SHIRLEY N. WEBER, PH.D.
Secretary of State