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DEPARTMENT OF JUSTICE



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Mark Paxson
General Counsel, State Treasurer's Office
915 Capitol Mall
Sacramento, California 95814

Dear Mark:

This letter summarizes the preliminary legal analysis conducted for the California Treasurer to assist in the preparation of a feasibility study for a state-run or state-backed financial institution designed to provide financial services to cannabis-related businesses. The proposal presents a high level of legal risk.

Such an institution would violate several federal criminal statutes, including the Controlled Substances Act, anti-money laundering laws, and the Racketeer Influenced & Corrupt Organizations Act (RICO). These statutes carry severe potential penalties. The state is not immune under federal law.

In addition, any public cannabis financial institution would have to demonstrate a strong risk profile to obtain a Federal Reserve master account, which would be difficult given that deposits would necessarily have a high degree of concentration in an industry federal regulators consider risky. Without a master account, the institution could not perform interbank transfers and other fundamental banking functions.

In sum, a public cannabis financial institution would unavoidably incur a high risk of criminal penalties and face other legal impediments that cannot be eliminated.

Sincerely,

MICHAEL SAPOZNIKOW
Deputy Attorney General

For XAVIER BECERRA
Attorney General