

State of California
Department of Cannabis Control
California Code of Regulations, Title 4, Division 19
Initial Statement of Reasons:
Modifications to A and M Designation

INTRODUCTION

The Department of Cannabis Control (“Department” or “DCC”) is responsible for administering and enforcing the provisions of the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA, Bus. & Prof. Code § 26000 et seq.), including the licensing of medicinal and adult-use cannabis retailers.

BACKGROUND

On April 28, 2026, the United States Department of Justice, Drug Enforcement Administration (DEA) issued AG Order No. 6754-2026 (Order). The Order reschedules state-licensed medical marijuana, moving it from Schedule I to Schedule III of the Controlled Substances Act (CSA) and also adds medicinal cannabis and cannabis products to the list of substances that may only be imported or exported pursuant to a federal permit issued by the DEA, which would open international medical cannabis markets to California medicinal commercial cannabis operators, and provide them with an enormous financial opportunity. California medicinal cannabis licensees were given only sixty (60) days to apply for registration with the DEA under its expedited process.

The benefits of the Order to medicinal cannabis operators are potentially many, although they are difficult to quantify. In addition to the above, the Order also clarifies that holders of state medical cannabis licenses will no longer be subject to the deduction disallowance imposed by Section 280E of the Internal Revenue Code, which applies only to businesses engaged in “trafficking in controlled substance...in a schedule I or II.” The Order also encourages the Secretary of the Treasury to consider providing retrospective relief from Section 280E liability for taxable years in which a state licensee operated under a state medical cannabis license. Federal legitimacy would provide greater access to traditional banking and credit markets, federal bankruptcy protections, and intellectual property rights, lowering financial risks. Additionally, early DEA registration may provide licensees in California with a stronger competitive position relative to out-of-state operators, particularly those who do not meet the expedited registration process.

Supporting licensees who wish to register federally will support the growth and fiscal viability of the California regulated medical cannabis market, which could eventually result in additional revenue to the State, and to the programs identified for support under Proposition 64. California has the largest regulated cannabis market in the world,

and risks losing competitive ground if California businesses are unable to secure DEA registration while businesses in other states quickly secure DEA registration.

On June 4, 2026 the Department adopted emergency regulations in an environment of uncertainty caused by ambiguities in the Order, a lack of procedural or other guidance from the DEA and exacerbated by the six-month expedited registration process that increased the stakes of early action by licensees. The Department's goal was to provide California licensed commercial cannabis businesses with flexibility to enable them to best position their businesses to successfully submit a DEA application within the expedited application period. The Department's aim was to provide licensees with as much flexibility as possible to position themselves to respond to the recent changes in Federal law, while also maintaining the integrity of the existing California cannabis industry. Current law authorizes Department licensees to remove existing designations from their license. To provide additional flexibility, the Department adopted emergency regulations that would allow licensees to maintain a medicinal license that is separate from any existing adult-use license. Additionally, the Department allowed the separate medicinal license to be held by a separate legal entity from the entity that holds any existing licenses.

Given the short 60-day period for expedited applications imposed by the Order, the standard rulemaking process would not have provided the Department with enough time to both make amendments to the Department's regulations and for licensees to submit their DEA registration before the end of the 60-day period. Therefore, the emergency rulemaking process was necessary to make any regulatory changes that would take effect before the end of the 60-day expedited application period. Following adoption of the emergency regulations, 95 licensed businesses have obtained separate adult-use and medicinal licenses for their existing premises. The Department is now proposing to formally adopt the emergency regulations to maintain separation of licensure for the licensees that have separated their licenses.

PROBLEM STATEMENT

The application and registration will provide substantial business advantages to licensees but they may first need to adjust their license status and corporate structure, which the adoption of these proposed emergency regulations will allow. Following the expedited process, DEA registration may take years for approval, leaving our licensees without a certain path to the benefits of registration.

Under California's current commercial cannabis licensing system, all non-laboratory licenses issued by the Department must bear a clear designation indicating whether the license is for adult-use ("A") activity or medicinal ("M") activity. (Bus. & Prof. Code Section 26050, subd. (b).) Licenses are permitted to bear both designations on a single license. Many licensed commercial cannabis operators in California hold Department issued licenses that bear both a Medicinal and Adult-Use designation. Licensees may do business with each other irrespective of their designation. The only distinction is at

retail where an A-designated licensee may only serve adult-use customers, and an M-designated licensee may only serve medicinal customers. There is currently no provision that would allow a licensee who holds a single license with both designations to instead be issued separate licenses each bearing a different designation, without requiring withdrawal of the original license, submitting two new applications, and investing a substantial amount of time. Presently, there is very little guidance provided by the DEA regarding the specific requirements for DEA registration for state licensed medical cannabis businesses existing in a regulatory system such as California's that allows for both medicinal and adult-use commercial cannabis activity. Additionally, the Order did not reschedule adult-use cannabis or cannabis products from Schedule I to Schedule III. Therefore, adult-use commercial cannabis activity and businesses engaging in adult-use commercial cannabis activity are still illegal under federal law. A DEA administrative law judge (ALJ) held a hearing on a proposed rulemaking from the Biden Administration to reschedule all cannabis – medicinal and adult-use – from Schedule I to Schedule III which ended on July 15, 2026. The ALJ has yet to issue a decision on the proposed rule, however, and the DEA process for registration remains opaque.

In the absence of registration, California cannabis licensees, and adult use cannabis and cannabis products would be denied the benefits of rescheduling. The Order provides no information regarding how applications will be handled after the expedited period, or how long the application process might take. We are informed that the DEA registration process typically takes years from application to approval.

Under current regulations, cannabis licensees are concerned that they face an impossible choice: either convert their operations to medicinal only to allow registration and forgo existing adult use sales that are needed for their business survival; or decline to register and forgo the advantages of federal legal status. Regulatory action is necessary to allow cannabis licensees to hold separate medicinal and adult use licenses under separate but closely aligned corporate entities. This rulemaking action would implement minor changes to the Department's licensing process to allow for existing licensees who hold a license with both a medicinal and Adult-Use designation to be issued separate Medicinal and Adult-Use licenses. The proposed regulations would develop a process that would facilitate the issuance of these licenses in an expedited manner. The proposed regulations would also allow existing licensees to have the separate licenses issued to a different legal entity from the entity holding the existing license, so long as certain requirements are met. To maintain the integrity of the existing licensing system, certain conditions will be placed on any new licenses issued under this process to ensure that the resulting medical cannabis businesses continue to comply with all existing requirements.

The proposed changes would allow the medicinal entity to register, while preserving the related adult use business's operations. The Department aims to provide licensees who plan to apply for DEA registration with flexibility in their licensing options that may allow the licensees to select the option that they feel may be the most optimal for their specific

situation. The proposed regulations provide licensees who may be interested in exploring licensing options that are not currently available if these licensees determine that the newly provided licensing configuration may benefit them.

ANTICIPATED BENEFITS

The April 28, 2026, DEA Order reschedules cannabis to Schedule III of the CSA, thereby opening the possibility that commercial cannabis products created in California may comply with the Controlled Substances Act by registering with the DEA.

It is in the best interest of California cannabis licensees and the State's regulated cannabis market to allow for medical cannabis businesses to apply for and receive DEA registration. California medical cannabis businesses that obtain a DEA registration will be able to lawfully manufacture, distribute, or dispense cannabis under federal law. Applicants who receive DEA registration authorization will be more clearly exempted from the deduction disallowance imposed by Section 280E of the Internal Revenue Code, in addition to potentially being eligible for other benefits which at this time cannot be fully quantified.

The proposed changes will further the stated intent of MAUCRSA by providing Department licensees flexibility in their operations so that they may pursue DEA registration, which would expand their opportunities in the regulated commercial cannabis industry. Added flexibility for retail operators will also aid the state in its goal of reducing the illicit cannabis market by limiting opportunities for diversion to the unlicensed market, while bringing more people into the regulated marketplace.

SPECIFIC PURPOSE OF, AND RATIONALE FOR, EACH PROPOSED AMENDMENT

Chapter 1. All Licensees

Amend § 15000.1. General Requirements.

Existing subsection (e) is amended to remove the provision that licenses are not transferrable or assignable to another person or premises, and clarify that for the purposes of this division, a separate A-license and M-license may be issued on the same premises if they have the same ownership and that for the purposes of Department licensure, holding separate A and M licenses in this manner is considered a single licensee. The proposed subsection is intended to provide retail licensees options for pursuing DEA registration without causing significant disruption to the licensed businesses and maintaining the integrity of California's commercial cannabis regulatory system. If a retail licensee chooses to avail themselves of this option, they would have the option of obtaining two separate licenses authorized for adult-use and medicinal activity, instead of a single license that bears both designations.

Subsection (e) also includes non-substantive edits for improved grammar and readability.

Amend § 15000.2. A- and M- Designations and Licenses.

New subsection (b) is added to clarify circumstances during which licensees engaging in retail activities may hold separate A and M licenses under separate business entities at the same premises. While the Department aims to provide licensees options for licensure as they prepare to apply for DEA registration, the Department determined that some restrictions are necessary to ensure that the Department's ability to apply and enforce the provisions of MAUCRSA is not obstructed.

New subsection (b)(1) clarifies that in order to hold separate A and M retail licenses under separate business entities at the same premises, the businesses must share the same individual owners and designated responsible party. This requirement is necessary to ensure that, in the event a retail business decides to pursue two separate licenses for two separate business entities at the premises, each license has substantially the same rights and authorizations as a single license issued at the premises. This requirement not only ensures continuity in operations, but it ensures that the Department has up-to-date and accurate contacts for official Department communications.

New subsection (b)(2) further clarifies that in order to hold separate A and M retail licenses under separate business entities at the same premises, the cannabis goods must be physically separated according to the A-license or M-license they belong to and distinguished in inventory or tracking records. The Department routinely conducts regulatory inspections of its licensee's premises, to educate licensees and ensure compliance with MAUCRSA and its implementing regulations. The Department determined that requiring licenses to maintain distinct inventory or tracking records is necessary for maximum efficiency during inspections. It also ensures that inventory is tracked in an accurate manner and recognizes that A retail licenses and M retail licenses are subject to different customer sales requirements. Maintaining distinct records for such licenses ensures that the Department is able to accurately audit activities under each license.

New subsection (b)(3) specifies that the third parameter that would allow separate A and M retail licenses under separate business entities at the same premises, is that all business records are maintained separately for each license and clearly indicate whether they are applicable to the A or M license. As noted above, the Department routinely conducts regulatory inspections of its licensee's premises, to educate licensees and ensure compliance with MAUCRSA and its implementing regulations. The Department determined that requiring licensees to maintain distinct records for their A and M operations is necessary for maximum efficiency during inspections. It also encourages licensees to maintain records in an accurate manner.

New subsection (b)(4) further provides that in order to hold separate A and M retail licenses under separate business entities at the same premises, the separate business entities shall be jointly and severally liable for all obligations, debts, and violations incurred under either license. This condition is necessary in order to ensure that the

business that requests the modification has substantially the same responsibilities under the two separate licenses as it did under the single dual designated license.

All subsequent subsections have been renumbered accordingly.

Existing subsection (b) has been renumbered and includes minor edits for clarity, grammar and readability, recognizing that existing subsection (b) is an exception to the general rule in subsection (a) that licensees may conduct business with other licensees irrespective of their license designation.

Add Section 15023.1. Modification to Separate A and M Licenses for Licensees Authorized to Engage in Retail

The Department proposes adopting section 15023.1 to provide licensees with additional options for licensees who hold a license authorized to engage in retail sale with both an Adult-Use and Medicinal designation. The proposed regulation provides additional flexibility for retail licensees by allowing these licensees to receive two separate licenses authorized for adult-use and medicinal activity instead of a single dual designated license. The proposed section aims to provide this option to retail licensees without causing significant disruption to the licensed businesses and maintaining the integrity of California's commercial cannabis regulatory system, by ensuring that the rights and responsibilities of the licensee remain substantially the same. The option for modification is only provided to licensees authorized to engage in retail sales because the designation of Adult-Use or Medicinal has the largest impact on licensees engaging in retail sales. Retailers designated for Adult-Use may sell to customers who are 21 years old or older, while retailers designated for Medicinal, may sell to any customer with a valid physician's recommendation for cannabis. Therefore, allowing licenses authorized for retail to have the option of receiving two separate licenses in place of a single dual designation license would provide them with flexibility that may not necessarily be required for other license types.

Proposed subsection (a) specifies that only licenses that authorize retail sales with dual designation may modify their license to an A-license and a new M-license. Proposed subsection (a), in subsection (a)(1) through (a)(3) also contains the requirements that must be met in order for a licensee to apply for and be approved for this modification. This is necessary to clarify for licensees which licenses are eligible for the modification while also clarifying the specific requirements for requesting the modification.

Proposed subsection (a)(1) requires that the licensee requesting the modification comply with the requirements of 4 CCR 15000.2. The proposed subsection is necessary to clarify that licensees requesting the modification will be required to comply with the specific requirements applicable to licensees with those particular designations. This clarification is necessary as the requested modification will result in two separate licenses, one Adult-Use and one Medicinal. This configuration may result in operational differences compared to operating under a single dual designated license.

Proposed subsection (a)(2) requires that the licensee requesting the modification agree to hold all inventory and conduct all sales only through the existing Adult-Use license. Additionally, the proposed subsection requires that any commercial activity taking place involving existing inventory occurs under the existing A-License. This clarifies that the business requesting the modification is to maintain their existing inventory under the track and trace account of the existing license. This is necessary to ensure that businesses requesting the modification conduct all business under the existing license and do not attempt to conduct business under the newly issued M-License to ensure effective tracking. Once established, the newly issued M-License will be required to properly obtain inventory under that license instead of simply transferring existing inventory from the existing A-License.

Proposed subsection (a)(3) requires the licensee requesting the modification pay the applicable annual license fee for the newly issued M-License prior to transferring inventory to the M-License. Under BPC section 26051.5(a)(9) and 4 CCR 15014, the payment of an annual license fee is required for any license issued by the Department. This proposed subsection is necessary to clarify for licensees seeking the modification that the issuance of a separate M-License is subject to the annual license fees typically required for the issuance of a license. Additionally, the proposed subsection clarifies the timeframe for the payment of the annual license fee. The proposed section indicates that the licensee pay the annual license fee prior to transferring inventory to the new M-license, rather than requiring payment of the annual license fee at the time the modification is requested.

Proposed subsection (b) prohibits a licensee from conducting any activity under the newly issued M-License, unless the activity is in compliance with all local rules. This restriction is necessary in order to ensure that licensees who are requesting the modification continue to operate in compliance with all applicable local rules.

Proposed subsection (c) clarifies that failure to comply with the section is grounds for discipline for both licenses. This is necessary to ensure that licensees who request the modification comply with the associated requirements which aim to ensure that the rights and responsibilities of a licensee originally holding a single dual designated license who is requesting a modification, remain substantially the same following the issuance of the two separate licenses.

Proposed subsection (d) provides the process for requesting the modification under this section. The proposed subsection provides the specific email address within the Department where the requests must be submitted. Additionally, subsections (d)(1) through (d)(5) provide the specific information that must be submitted with the request for modification.

Proposed subsection (d)(1) requires the identification of the specific dual designation that will be modified. This is necessary to properly ensure that the correct license is modified.

Proposed subsection (d)(2) requires the submission of the name the newly issued M-License will be listed and the name of the DRP submitting the request. This information is necessary to ensure that the newly issued M-License is issued to the correct person or entity. The modification process is intended to provide retail licensees with added flexibility when it comes to the configuration of licenses held. As part of that flexibility, licensees who are requesting the modification may choose to have the separate M-License issued to a person or entity that differs from the one holding the original dual designated license. The name of the entity that will be issued the M-License may differ from the entity that held the dual designated license subject to the modification. Therefore, it is important to collect this information at the time of the request.

Proposed subsection (d)(3) requires that documentation that substantiates that the person or entity that will be issued the M-License will be located at the same premises, same ownership, and same DRP as the existing dual designated license. This information is necessary to ensure that the licensee requesting the modification is properly complying with the requirements of this section.

Proposed subsection (d)(4) requires the licensee submit the federal employer identification number (FEIN). This information is required as part of the modification to ensure that the newly issued M-License is issued to the correct entity. The modification process is intended to provide retail licensees with added flexibility when it comes to the configuration of licenses held. As part of that flexibility, licensees who are requesting the modification may choose to have the separate M-License issued to a person or entity that differs from the one holding the original dual designated license. If issued to a different entity, the FEIN of the entity that will be issued the M-License will differ from the FEIN of the entity that held the dual designated license subject to the modification. Therefore, it is important to collect this information at the time of the request.

Proposed subsection (d)(5) requires that the licensee requesting the modification submit the seller's permit number for the entity that will hold the newly issued M-License. The modification process is intended to provide retail licensees with added flexibility when it comes to the configuration of licenses held. As part of that flexibility, licensees who are requesting the modification may choose to have the separate M-License issued to a person or entity that differs from the one holding the original dual designated license. As a separate entity, the seller's permit held by the entity holding the existing A-License cannot be applied, necessitating a separate seller's permit be held by the entity that will receive the M-License. Therefore, it is important to collect this information at the time of the request.

Proposed subsection (e) indicates that licensees requesting the modification will not be required to pay a new annual license fee for the remainder of the existing license period. However, the proposed subsection clarifies that at the time of renewal, a licensee fee for each license will be required. This subsection is necessary to ensure that the Department is able to collect license fees as required by statute to fund the Department's regulatory activities. The proposed subsection clarifies for licensees that

following the modification, they will receive two separate licenses, with each of them subject to their own license fees. The decision to waive an additional license fee for the remainder of the first license period where the modification was requested was based on the concept that the license fee paid for the existing dual designated license would support the Department's regulatory costs for both licenses following the modification for the remainder of that license period. Additionally, waiving additional license fees for the current period simplifies the modification process which reduces the risk of mistakes or errors for both the Department and licensees who are requesting the modification.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS

1. US Department of Justice, Drug Enforcement Administration. Schedules of Controlled Substances: Rescheduling of Food and Drug Administration Approved Products Containing Marijuana from Schedule I to Schedule III; Corresponding Change to Permit Requirements [AG Order No. 6754-2026]. 91 Fed. Reg. 22714, April 28, 2026 (to be codified at 21 CFR pts. 1300, 1301, 1308, and 1312).
2. United Nations. Single Convention on Narcotic Drugs, 1961, as Amended by the Protocol Amending the Single Convention on Narcotic Drugs, 1961. United Nations Treaty Series, vol. 976, no. 14151, 1975.

ECONOMIC IMPACT ASSESSMENT (EIA)

Creation or Elimination of Jobs in California: Unknown. Since the Department's adoption of the emergency regulations, 95 licensed businesses have obtained separate adult-use and medicinal licenses for their existing premises. However, it is unclear how many more eligible businesses will submit requests to modify or change their licenses as the choice to modify a single dual-designated license to two separate A and M licenses is voluntary.

Based on currently available information, the Department believes that there are approximately 1,600 licensees that could be eligible to make changes under the proposed regulations. The businesses impacted by the regulations are licensed retailers and microbusinesses who hold both medicinal and adult-use designations. Additionally, the ambiguities in the Order coupled with the lack of procedural or other guidance from the DEA has caused uncertainty and apprehension amongst some licensees, who are waiting for clearer indication from the federal government regarding the DEA permit requirements before they request or make modifications to their licenses.

Creation of New Businesses or Elimination of Existing Businesses in California: Unknown. Since the Department's adoption of the emergency regulations, 95 licensed businesses have obtained separate adult-use and medicinal licenses for their existing premises. However, it is unclear how many more eligible businesses will submit requests to modify or change their licenses as the choice to modify a single dual-designated license to two separate A and M licenses is voluntary.

Based on currently available information, the Department believes that there are approximately 1,600 licensees that could be eligible to make changes under the proposed regulations. The businesses impacted by the regulations are licensed retailers and microbusinesses who hold both medicinal and adult-use designations. Additionally, the ambiguities in the Order coupled with the lack of procedural or other guidance from the DEA has caused uncertainty and apprehension amongst some licensees, who are waiting for clearer indication from the federal government regarding the DEA permit requirements before they request or make modifications to their licenses.

Expansion of Businesses Currently Doing Business within California: None. The proposed regulations apply to existing licensed commercial cannabis businesses currently doing business in California under a single dual-designated license for adult-use and medicinal commercial cannabis business. The proposed regulations simply allow a licensee to split their single dual-designated license into two separate A and M licenses. While the business now holds two separate licenses, it is not operating any differently than it did under its single dual-designated license.

Benefits of the Regulation to the Health and Welfare of California Residents, Worker Safety, and the State's Environment: The proposed regulations create a flexible pathway for commercial cannabis licensees to modify their single dual-designated license into separate A and M licenses which better positions them to obtain DEA registration which may allow them to be more clearly exempt from the deduction disallowance imposed by Section 280E of the Internal Revenue Code, in addition to potentially being eligible for other benefits which at this time cannot be fully quantified due to a lack of further guidance and information from the federal government, as explained in previous sections.

Consideration of Alternatives

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

Option 1: Not adopt the regulations. This alternative was rejected because the Department believes it is in the State's best interest to create a flexible pathway for commercial cannabis licensees who wish to pursue DEA registration under an M-license. As it is unclear from the Order whether, or when, a second application period will open, doing nothing will limit options for licensees.

Option 2: Impose a fee for the modification. This alternative was rejected because the temporary increase in staff workload is absorbable and licensees have already paid the

full annual license fee for the license with both the adult-use and medicinal designations. Furthermore, licensees currently do not have to pay any fees to add or remove an A- or M- designation to their license.