

GENIUS Act (P.L. 119-27): Creating a Regulatory Framework for Stablecoins

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The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) was signed into law as P.L. 119-27 on July 18, 2025. The act creates a regulatory structure for *payment stablecoins*. Stablecoins are cryptocurrencies that aim to maintain a fixed value against some other asset, such as the U.S. dollar. Currently, they are used primarily to facilitate the trading of other cryptocurrencies, but proponents of the act believe that a regulatory framework could spur their adoption for retail payments and other non-crypto applications. However, depending on future rulemaking, various exemptions in the act combined with current market practices could limit how much of the existing market becomes subject to the act.

The GENIUS Act mainly regulates issuers. Under the act, anyone can issue a stablecoin in the United States if they are approved and regulated by a federal regulator or a certified state regulator. Issuers can be divided into three groups—depository institutions, nonbank financial firms, and commercial firms.

During the congressional debate before passage of the bill, its most contentious aspects involved its approach to certain policy issues, including the following:

- **Preventing illicit finance.** The act subjects issuers to anti-money-laundering laws, such as those mandating the monitoring and reporting of suspicious activity, and requires stablecoins issuers to be capable of complying with lawful orders. Given the pseudonymous nature of crypto, it is unclear how illicit activity can be effectively prevented in the secondary market to which issuers are not party.
- **Foreign stablecoins.** Foreign issuers are not required to be regulated under the U.S. regime. If they wish to be available to U.S. persons through intermediaries, they must be regulated in a country with a regulatory regime that the Treasury Secretary has certified as comparable to the U.S. regime, register with the Office of the Comptroller of the Currency, and be capable of complying with lawful orders.
- **Eligibility of commercial firms.** Congress debated whether commercial firms, such as big tech companies, should be permitted to issue stablecoins. The Stablecoin Certification Review Committee (SCRC), led by the Treasury Secretary, may approve commercial firms that meet various criteria.
- **Federal versus state regulation.** The act requires issuers that are subsidiaries of insured depositories (banks and credit unions that accept deposits) to be federally regulated. The act allows non-depository issuers with under \$10 billion in stablecoins outstanding to choose between state and federal regulation. Once such issuers exceed \$10 billion, they would transition to joint state-federal supervision, unless the federal supervisor waives its right to supervise. States' regulatory regimes must be approved by the SCRC.
- **Conflicts of interest.** Controversy over a stablecoin issued by a company sponsored by President Trump led to debate about whether companies with ties to government officials and Members of Congress should be permitted to issue stablecoins. The act references, but does not change, existing government ethics laws.
- **Banning yield.** Banks fear that if stablecoins pay yield to customers, this will drain deposits from the banking system. The act prohibits issuers from paying yield directly to customers but does not explicitly prohibit exchanges—where many users purchase and hold their stablecoins—from paying yield to their customers.

The current stablecoin market is dominated by two companies—Circle, a U.S. company, and Tether, licensed in El Salvador. Thus, the act's near-term impact will largely be based on how these two issuers are treated under its provisions. This depends, first, on whether rulemaking considers stablecoins that are primarily used for crypto trading, but not retail payments, to be payment stablecoins and thus subjects the companies to the act's licensure requirements (unless they voluntarily choose to seek a license). Second, if Tether is considered to be a payment stablecoin and wishes to continue to be available to U.S. persons on exchanges, its availability depends on whether the Treasury Secretary finds El Salvador to have a regulatory regime comparable to the U.S. regime.

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Introduction

Stablecoins—cryptocurrencies that aim to maintain a fixed value against some other asset, such as the U.S. dollar—have grown rapidly from a small base in recent years. Prior to the 119th Congress, there was no overarching regulatory framework specific to stablecoins, cryptocurrencies, digital assets, or the platforms where they are traded (collectively, “the crypto industry”). One of the major goals of the chairs of the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs in the 119th Congress has been to enact such legislation in order to promote the growth of the crypto industry.¹ Likewise, the Trump Administration released an executive order in January 2025 entitled “Strengthening American Leadership in Digital Financial Technology,” which called for policies “to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy.”²

The committees have taken a two-pronged approach to creating a regulatory framework for crypto—the first was legislation narrowly regulating stablecoins, and the second is broader legislation providing a regulatory structure for the overall crypto market. Congressional efforts for the market structure legislation are ongoing.³ Legislative efforts for the former culminated in the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act; P.L. 119-27), signed into law on July 18, 2025. The GENIUS Act focuses primarily on regulating stablecoin *issuers* and is thus inherently limited in what it can accomplish because the stablecoin market heavily relies on crypto exchanges and other parts of the crypto industry. (Exchanges are companies that allow retail investors to exchange cash for cryptocurrencies and to exchange one type of cryptocurrency for another.) These other parts have been covered in drafts of the market structure bill and may fall under a future market structure law, if one is ever enacted.

Whereas stablecoins and stablecoin issuers were largely unregulated at the federal level and lightly regulated at the state level prior to the GENIUS Act, they are now regulated at the federal or state level under the act’s new framework. The act may provide regulatory clarity that encourages mainstream adoption and could be viewed as regulation intended to foster growth in the industry, not restrain it.⁴ Such growth could have benefits, and greater adoption could make payments more efficient, for example. Notably, the act was supported by an industry that was at

¹ House Committee on Financial Services, “ICYMI: Chairman Hill Outlines Importance of Passing Digital Asset Market Structure Legislation in New Op-Ed,” September 16, 2025, <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=410872>; Senate Committee on Banking, Housing, and Urban Affairs, “Scott Announces Banking Committee Priorities for the 119th Congress,” press release, January 15, 2025, <https://www.banking.senate.gov/newsroom/majority/scott-announces-banking-committee-priorities-for-the-119th-congress>.

² Executive Order 14178 of January 23, 2025, “Strengthening American Leadership in Digital Financial Technology,” 90 *Federal Register* 8647, January 31, 2025, <https://www.federalregister.gov/documents/2025/01/31/2025-02123/strengthening-american-leadership-in-digital-financial-technology>.

³ In the 119th Congress, the House passed H.R. 3633, for example. See the “Legislation in the 119th Congress” section in CRS Report R48963, *Cryptocurrency: Regulatory and Legislative Policy Issues*, by Paul Tierno.

⁴ House Committee Financial Services, “Chairman Hill: A Properly Regulated Stablecoin Market Can Strengthen the U.S. Dollar’s Dominance,” press release, March 11, 2025, <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409499>; Senate Committee on Banking, Housing, and Urban Affairs, “Scott, Hagerty, Lummis, Gillibrand Introduce Legislation to Establish a Stablecoin Regulatory Framework,” press release, February 4, 2025, <https://www.banking.senate.gov/newsroom/majority/scott-hagerty-lummis-gillibrand-introduce-legislation-to-establish-a-stablecoin-regulatory-framework>.

one time hostile to government regulation.⁵ Yet, like any novel financial activity, stablecoins pose uncertain risks to consumers, financial firms (including incumbents in traditional payments), payment markets, and overall financial stability. Rapid growth without proper regulatory guardrails could result in these risks becoming acute. Since the act has not been implemented yet, it will take time for evidence to accumulate as to whether it effectively achieves its goals.

This report begins with an overview of the stablecoin market.⁶ It then provides a comprehensive summary and analysis of the GENIUS Act. Agency rulemakings implementing the GENIUS Act are beyond the scope of this report. For a brief summary of the act, see CRS Insight IN12553, *Stablecoin Legislation: An Overview of the GENIUS Act of 2025 (P.L. 119-27)*, by Paul Tierno.

The Stablecoin Market

How Stablecoins Work

Stablecoins are built on and may be traded across programmable cryptocurrency blockchains, such as Ethereum, which has emerged as a key blockchain for hosting crypto businesses and services.⁷ Stablecoins are operated or controlled by companies that issue (or mint) new stablecoins into circulation in exchange for fiat (or government-backed) currency, such as dollars. Companies remove (or burn) stablecoins when they are redeemed and return dollars to customers. Generally, as shown in **Figure 1**, stablecoin issuers do not issue stablecoins to retail users but, rather, limit issuance and redemption to large investors such as exchanges or institutional investors (including arbitrageurs). Retail users can obtain stablecoins by buying or trading for them on exchanges, activity that does not occur on the blockchain (which is considered “off-chain”). Individuals may also hold and transfer stablecoins across blockchains (by transferring or off-ramping holdings from exchanges) to blockchain addresses via un-hosted or self-custody wallets.⁸ (Because that activity occurs on a blockchain, it is sometimes referred to as “on-chain.”⁹) Stablecoins may also be traded on decentralized finance (defi) exchanges, which occurs on-chain. Stablecoins held directly by customers operate across the same public blockchains as decentralized cryptocurrency.

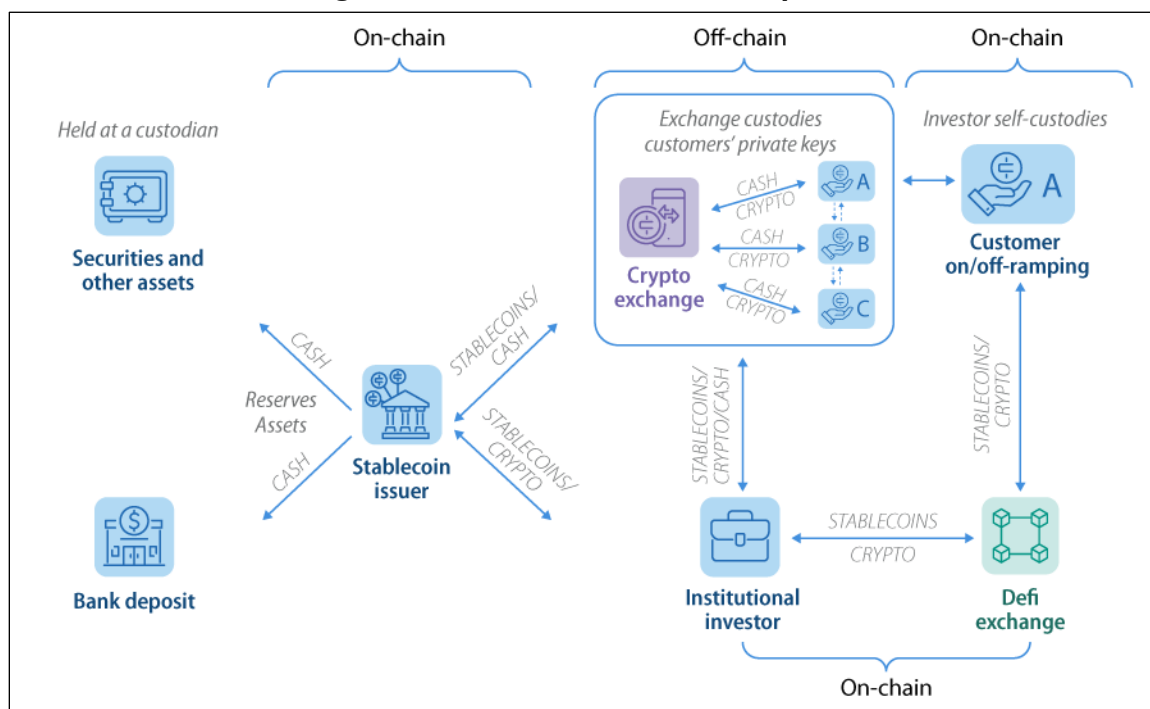
⁵ See, for example, the following social media post by the CEO of Coinbase, a major cryptocurrency exchange. Brian Armstrong (@brian_armstrong), “A huge win for crypto and the future of onchain innovation in America! Thank you to all senators who voted for it,” X post, May 19, 2025, https://x.com/brian_armstrong/status/1924670213146214408.

⁶ It does not cover reports and studies required by the act.

⁷ The ERC-20 is a program on the Ethereum blockchain consisting of various technical specifications that, if met, allow developers (including stablecoin issuers) to create their own cryptocurrency that can operate on the Ethereum network. Other blockchains permit similar functionality.

⁸ Self-custody and un-hosted possession refer to instances wherein customers hold stablecoins or other crypto assets directly, without using a third party, such as an exchange.

⁹ For more on interacting with crypto, see CRS Report R47425, *Cryptocurrency: Selected Policy Issues*, by Paul Tierno.

Figure 1. Stablecoin Market Participants


Source: CRS.

Notes: Defi = decentralized finance. See text for details.

Decentralized cryptocurrencies, by contrast, are not under the control of an individual or a group of individuals. They are not backed by other assets and are generally created only when some blockchain operation (validating or mining blocks of transactions) is performed as part of a rules-based protocol. The quantity of such cryptocurrencies in circulation is a function of the code that established the cryptocurrency and, to some extent, the level of activity. The price of a cryptocurrency fluctuates according to market supply and demand. For a primer on how cryptocurrencies work, see CRS Report R47425, *Cryptocurrency: Selected Policy Issues*, by Paul Tierno.

Each stablecoin aims to maintain a stable value (the “peg”) to some reference asset, such as \$1. Before the GENIUS Act, a stablecoin issuer may have chosen to invest fiat currency received from investors in reserve assets (which might be safeguarded by a custodian) or hold currency in bank deposits to build investor confidence that it would maintain the peg (see **Figure 1**). The value of stablecoins is determined by private supply and demand with a goal of maintaining the stable value. As long as issuers are able and willing to issue and redeem on demand at par, they will maintain their peg.

Arbitrageurs, firms that are authorized to buy and redeem stablecoins directly from issuers (“in the primary market”), play a key structural role in maintaining the peg.¹⁰ Should on-exchange demand for stablecoins put pressure on the price of a stablecoin to rise above the \$1 peg (say to \$1.01), arbitrageurs can buy additional stablecoins directly from the issuer for \$1, sell them into the secondary market on exchanges at the elevated price and retain the difference as profit. The additional supply provided by arbitrageurs should ease the pressure of prices on secondary

¹⁰ Yiming Ma et al., “Stablecoin Runs and the Centralization of Arbitrage,” National Bureau of Economic Research (NBER) Working Paper No. 33882, May 2025, pp. 1, 12, <https://www.nber.org/papers/w33882>.

markets. Alternatively, if a lack of demand were to push the price of a stablecoin below \$1 on exchanges, those same arbitrageurs could purchase the stablecoins (say at \$0.99) from exchange customers and redeem them for \$1 at the issuer (again profiting from the difference). The removal of supply via redemptions should push the price back to \$1.

Although stablecoins are always supposed to be redeemable for the underlying asset at par (e.g., \$1), there have been times when they have traded below a dollar because holders have doubted whether issuers would be able to redeem them at par. For example, the stablecoin USDC broke its peg and traded below \$0.90 in February 2023. In that case, Circle, the company that issues USDC, announced that it had halted redemptions because a significant amount of its reserves was held as uninsured deposits at Silicon Valley Bank, which had collapsed, and Circle could not access its funds to pay back customers seeking redemptions over a weekend.¹¹ In such situations, some holders may sell their stablecoins below \$1 hoping to cash out as high as possible in case of a run. Tether (USDT), the stablecoin issued by Tether, reportedly fell to \$0.95 in 2022 on some exchanges, when an algorithmic stablecoin, Terra’s UST—a cryptocurrency that maintains its dollar peg through code—dropped precipitously, and the market feared contagion.¹² Even in more normal conditions not marked by turmoil, it is not uncommon for stablecoins to briefly deviate from their peg.¹³

History of Stablecoins and Future Trends

BitUSD is widely considered the first stablecoin.¹⁴ It was collateralized by cryptocurrency to maintain a \$1 peg and introduced to the market in July 2014. A few months later, in October 2014, Realcoin, which was later renamed Tether, began operating.¹⁵ Unlike BitUSD, which reportedly lost its peg in 2018 and is no longer operational,¹⁶ Tether remains in existence. Tether issues the USDT stablecoin and, in fact, has the most stablecoins outstanding among any issuer as of the date of this report. (Tether is the name of the company that issues USDT; “tether” is also sometimes used to refer to the USDT stablecoin.)¹⁷ USDC, the stablecoin with the second highest circulation, was started in 2018 by a consortium of Coinbase, a popular exchange, and Circle, a stablecoin issuer.¹⁸

¹¹ Circle, “An Update on USDC & Silicon Valley Bank,” press release, March 11, 2023, <https://web.archive.org/web/20230325022844/https://www.circle.com/blog/an-update-on-usdc-and-silicon-valley-bank>.

¹² Ryan Browne, “The World’s Biggest Stablecoin Has Dropped Below Its \$1 Peg,” *CNBC*, March 13, 2022, <https://www.cnn.com/2022/05/12/tether-usdt-stablecoin-drops-below-1-peg.html>.

¹³ Noelle Acheson, “What Last Week’s Crypto Crash Can Teach Us About Stablecoins’ Value,” *American Banker*, February 12, 2026, <https://www.americanbanker.com/payments/news/what-last-weeks-crypto-crash-can-teach-us-about-stablecoins-value>.

¹⁴ Lambis Dionysopoulos and Andrew Urquhart, “10 Years of Stablecoins: Their Impact, What We Know, and Future Research Directions,” *Economics Letters*, vol. 244 (November 2024), <https://www.sciencedirect.com/science/article/pii/S0165176524004233>.

¹⁵ Noelle Acheson, “The Origin Story of Stablecoins Offers a Hint to Their Future Uses,” *American Banker*, March 5, 2026, <https://www.americanbanker.com/payments/news/the-origin-story-of-stablecoins-offers-a-hint-to-their-future-uses>.

¹⁶ Larry Cermak, “BitUSD Hasn’t Had Its \$1 Peg for More Than Two Months,” *The Block*, February 15, 2019, <https://www.theblock.co/news/markets/2019-02-15-bitusd-hasnt-had-its-1-peg-for-more-than-two-months-11876>.

¹⁷ See DeFiLlama, “Stablecoin Market Cap Chart, Supply & Peg Data,” May 29, 2026, <https://defillama.com/stablecoins?pegtype=PEGGEDUSD&backing=FIATSTABLES>.

¹⁸ Coinbase, “Coinbase and Circle Announce the Launch of USDC—a Digital Dollar,” October 23, 2018, <https://www.coinbase.com/blog/coinbase-and-circle-announce-the-launch-of-usdc-a-digital-dollar>.

There are roughly \$293.4 billion worth of fiat-currency-backed stablecoins in circulation.¹⁹ U.S.-dollar-backed stablecoins represent more than \$291.66 billion, or more than 99% of them.²⁰ Combined, USDT (\$189.1 billion) and USDC (\$76.4 billion) make up more than 90% of all stablecoins in circulation.²¹ Introduced in March 2025, USD1—a stablecoin issued by World Liberty Financial—has become the third largest stablecoin with more than \$4.5 billion in circulation. World Liberty Financial lists President Trump as a “promoter” in its Securities and Exchange Commission (SEC) filings.²²

Various other stablecoins have operated over the past decade, and some of them involved large players in the crypto industry. For example, Paxos, a stablecoin developer, and Binance, the largest international cryptocurrency exchange, partnered to issue the BUSD stablecoin in 2019.²³ BUSD’s circulation peaked in November 2022 with more than \$23 billion in circulation.²⁴ Shortly thereafter, Paxos was ordered by the New York State Department of Financial Services, with which it held a limited purpose trust company charter, to stop issuing new BUSD due to “unresolved issues related to [Paxos’s] oversight of its relationship with Binance.”²⁵ As a result, the amount in circulation dropped precipitously as the companies facilitated redemptions.

There are also other types of stablecoins, such as algorithmic stablecoins, which use algorithms and an additional cryptocurrency, called a balancer token, to try to maintain a stable value peg. One example is Terra, which operated UST, an algorithmic stablecoin that reached a high of more than \$18 billion in circulation in May 2022, just before it imploded.²⁶ The stablecoin was issued with a balancer token, LUNA, and the price relationship between the two was intended to help maintain the peg.²⁷ The peg broke in early May 2022. Prior to the collapse, LUNA had a market capitalization of more than \$27 billion, and UST was the third largest stablecoin, with more than

¹⁹ DeFiLlama, “Stablecoin Market Cap Chart, Supply & Peg Data,” May 29, 2026, <https://defillama.com/stablecoins?pegtype=PEGGEDUSD&backing=FIATSTABLES.S>. An addition \$29 billion in issuance either crypto-backed or algorithmic.

²⁰ DeFiLlama, “Stablecoin Market Cap Chart, Supply & Peg Data,” May 29, 2026, <https://defillama.com/stablecoins?backing=FIATSTABLES&pegtype=PEGGEDUSD>.

²¹ DeFiLlama, “Stablecoin Market Cap Chart, Supply & Peg Data,” May 29, 2026, <https://defillama.com/stablecoins?backing=FIATSTABLES&pegtype=PEGGEDUSD>.

²² The filings are available at <https://www.sec.gov/Archives/edgar/data/2043140/000204314024000002/0002043140-24-000002-index.htm>. The Securities and Exchange Commission (SEC) defines promoter as “(i) Any person who, acting alone or in conjunction with one or more other persons, directly or indirectly takes initiative in founding and organizing the business or enterprise of an issuer; or (ii) Any person who, in connection with the founding and organizing of the business or enterprise of an issuer, directly or indirectly receives in consideration of services or property, or both services and property, 10 percent or more of any class of securities of the issuer or 10 percent or more of the proceeds from the sale of any class of such securities. However, a person who receives such securities or proceeds either solely as underwriting commissions or solely in consideration of property shall not be deemed a promoter within the meaning of this paragraph if such person does not otherwise take part in founding and organizing the enterprise.” Securities Act of 1933, Rule 405, 17 C.F.R. §230.405.

²³ Paxos, “Binance Partners with Paxos to Launch USD-Backed Stablecoin ‘BUSD,’” September 4, 2019, <https://www.paxos.com/newsroom/binance-partners-with-paxos-to-launch-usd-backed-stablecoin-busd>.

²⁴ See CoinGecko, “BUSD Price,” https://www.coingecko.com/en/coins/busd?chart=type%3Dmarket_cap%26mode%3Dline%26timeframe%3Dmax.

²⁵ Consent Order, New York State Department of Financial Services, In the Matter of Paxos Trust Company LLC, August 7, 2025, p. 10, <https://www.dfs.ny.gov/system/files/documents/2025/08/ea20250807-co-paxos-trust-co.pdf#page=10>.

²⁶ See CoinGecko, “TerraClassicUSD Price: USTC/USD Live Price Chart, Market Cap & News Today,” https://www.coingecko.com/en/coins/terraclassicusd?chart=type%3Dmarket_cap%26mode%3Dline%26timeframe%3Dmax.

²⁷ For more on UST, LUNA, and algorithmic stablecoins, see CRS Insight IN11928, *Algorithmic Stablecoins and the TerraUSD Crash*, by Paul Tierno, Andrew P. Scott, and Eva Su.

\$18 billion in circulation.²⁸ The collapse of this algorithmic stablecoin is said to have triggered failures at various other crypto-related firms, including Three Arrows Capital and Celsius.²⁹

The value of stablecoins in circulation has grown rapidly in recent years. For the first two years of their existence, the value of stablecoins in circulation was relatively low—below \$5 billion as late as 2020. However, stablecoins grew rapidly between 2020 and early 2022, when the value in circulation peaked at more than \$150 billion. The value fell somewhat and then remained mostly flat through much of 2022 and 2023, a period that coincided with various crises affecting the crypto industry, including the failure of UST, the collapse of the crypto exchange FTX, and the failure of banks providing services to the crypto industry, including Silicon Valley Bank. Around 2024, U.S. dollar stablecoin issuance picked up again and reached a high of nearly \$290 billion in April 2026. One firm estimates that stablecoins outstanding could reach between \$500 billion and \$3.7 trillion by 2030, a wide range that is dependent on future trends in adoption and growth.³⁰

The stablecoin market is currently small compared to traditional financial product markets. Current use of stablecoins for payments (about \$390 billion³¹ per year globally) is a small fraction of other payment types, such as card payments, which combined reach more than \$388 billion daily.³² Even rapid future growth would leave the market for stablecoins smaller than the markets for traditional products. For example, the high estimate for stablecoins in 2030 (\$3.7 trillion) would be half of transaction deposits at banks.

Although the stablecoin market has been dominated to date by crypto-native firms, banks and payment financial technology (fintech) firms have shown interest in entering the market, particularly in developing use cases in payments as opposed to crypto trading. If a large bank or fintech firm were to issue a stablecoin within its payment system, it might be able to achieve scale rapidly, potentially either displacing the current market dominance of Tether and Circle in the crypto industry, opening up the use of stablecoins as a payment option in the real economy, or both.

Pre-GENIUS Act Regulation

Prior to the enactment of the GENIUS Act, stablecoin issuers, crypto exchanges, and other digital asset service providers (DASPs) were subject to a patchwork of federal and state laws and regulations for various purposes. At the federal level, they were required to register with the Financial Crimes Enforcement Network (FinCEN) and were treated as money transmitters—a type of financial institution—for the purposes of the Bank Secrecy Act (BSA; 31 U.S.C. §§5311 et seq.), the set of laws that establishes the federal framework for anti-money laundering (AML)

²⁸ See CoinMarketCap, “Cryptocurrency Prices, Charts, and Market Capitalization,” archived at <https://web.archive.org/web/20220501001002/https://coinmarketcap.com/>. Both LUNA and UST were among the top 10 cryptocurrencies by market capitalization.

²⁹ MacKenzie Sigalos, “From \$10 Billion to Zero: How a Crypto Hedge Fund Collapsed and Dragged Many Investors Down with It,” *CNBC*, July 12, 2022, <https://www.cnbc.com/2022/07/11/how-the-fall-of-three-arrows-or-3ac-dragged-down-crypto-investors.html>; and MacKenzie Sigalos, “From \$25 Billion to \$167 Million: How a Major Crypto Lender Collapsed and Dragged Many Investors Down with It,” *CNBC*, July 18, 2022, <https://www.cnbc.com/2022/07/17/how-the-fall-of-celsius-dragged-down-crypto-investors.html>.

³⁰ Ronit Ghose et al., “Digital Dollars: Banks and Public Sector Drive Blockchain Adoption,” *Citi Institute*, April 2025, p. 22, https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Blockchain_Digital_Dollar.pdf.

³¹ This is an annualized figure based on December 2025 payment activity. See Matt Higginson et al., “Stablecoins in Payments: What the Raw Transaction Numbers Miss,” *McKinsey & Company*, February 18, 2026, <https://www.mckinsey.com/industries/financial-services/our-insights/stablecoins-in-payments-what-the-raw-transaction-numbers-miss>.

³² BIS data for 2024, available at https://data.bis.org/topics/CPMI_CT/data?q=united+states.

and countering the financing of terrorism (CFT).³³ FinCEN issued guidance in 2013 applying this framework “to persons creating, obtaining, distributing, exchanging, accepting, or transmitting virtual currencies.”³⁴ Specifically, the guidance noted that “an administrator or exchanger is an MSB [money services business] under FinCEN’s regulations, specifically, a money transmitter, unless a limitation to or exemption from the definition applies to the person.”³⁵ Firms may have also been subject to state laws, with some states establishing their own digital asset frameworks.³⁶ For example, a state may have required issuers to register as MSBs and comply with state MSB regulations.³⁷

The SEC and Commodity Futures Trading Commission (CFTC) have attempted at various times to assert jurisdiction under securities and commodities law, respectively, over various types of cryptocurrencies, including stablecoins. The CFTC and federal courts held that certain cryptocurrencies, including stablecoins, met the Commodity Exchange Act’s definition of *commodity*.³⁸ Accordingly, stablecoins were subject to the CFTC’s antimanipulation and anti-fraud authority on spot transactions. In one such case, the CFTC used this authority when it found that Tether had misrepresented its status as being fully reserved.³⁹ (See the “Disclosure” section below.) Pre-GENIUS Act regulatory guidance for banks on stablecoin-related activities is discussed in the “Regulating Banks’ Crypto Activities” section below.

Under leadership nominated by President Trump, regulators have rescinded various regulations applying requirements applicable to traditional finance to the crypto industry, issued new regulations to enable growth in crypto activity, and terminated various enforcement and legal actions against crypto companies. These actions stand in contrast to the approach taken under leadership nominated by President Biden, which struck a different balance that placed greater emphasis on risk mitigation over promoting industry growth and innovation.⁴⁰

³³ For more information, see CRS Report R47255, *The Financial Crimes Enforcement Network (FinCEN): Anti-Money Laundering Act of 2020 Implementation and Beyond*, by Liana W. Rosen and Rena S. Miller; Federal Deposit Insurance Corporation (FDIC), “Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT),” March 16, 2026, <https://www.fdic.gov/banker-resource-center/anti-money-laundering-countering-financing-terrorism-amlcft>.

³⁴ FinCEN, *FIN-2013-G001: Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, March 18, 2013, p. 1, <https://www.fincen.gov/system/files/shared/FIN-2013-G001.pdf>.

³⁵ FinCEN, *FIN-2013-G001: Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, p. 1. According to the guidance, “an *exchanger* is a person engaged as a business in the exchange of virtual currency for real currency, funds, or other virtual currency. An *administrator* is a person engaged as a business in issuing (putting into circulation) a virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency.” This 2013 FinCEN guidance predated the rise of stablecoins. FinCEN guidance from 2019 elaborated on the earlier guidance from 2013 but did not specifically mention stablecoins.

³⁶ The State of New York, for example, created a licensing requirement for crypto firms that included some regulatory requirements for stablecoin issuers that were similar to parts of the GENIUS Act. See letter from Adrienne A. Harris, Superintendent of Financial Services, to entities licensed under 23 NYCRR Part 200 or chartered as limited purpose trust companies under the New York banking law that issue U.S. dollar-backed stablecoins under the supervision of the New York State Department of Financial Services, June 8, 2022, https://www.dfs.ny.gov/industry_guidance/industry_letters/il20220608_issuance_stablecoins.

³⁷ For more information, see CRS Report R46486, *Telegraphs, Steamships, and Virtual Currency: An Analysis of Money Transmitter Regulation*, by Andrew P. Scott.

³⁸ The CFTC found that pursuant to 7 U.S.C. §1a(9), “commodities, with limited exceptions, includes all manner of ‘other goods and articles ... and all services, rights and interests ... in which contracts for future delivery are presently or in the future dealt in.’” Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions, CFTC, In the Matter of Tether Holdings Limited et al., October 15, 2021, <https://www.cftc.gov/media/6646/enftetherholdingsorder101521/download> (direct download).

³⁹ CFTC, In the Matter of Tether Holdings Limited et al.

⁴⁰ CRS Report R48963, *Cryptocurrency: Regulatory and Legislative Policy Issues*, by Paul Tierno.

Function

The creation of stablecoins was closely entwined with the rise of cryptocurrency ownership and trading. Prior to the emergence of stablecoins, once a trade was executed, an investor could hold a cryptocurrency or exchange the value of the cryptocurrency back into fiat currency, such as dollars. Holding market-based cryptocurrencies would leave investors open to volatility. Prior to the creation of stablecoins, there were reportedly various frictions involved in purchasing cryptocurrencies, including concerns of fraud and charge-backs.⁴¹ As exchanges became more established, users who wanted to exchange crypto to fiat currency had to deal with limited banking hours and slow transaction times, which posed a constraint to the otherwise continuous nature of crypto availability.⁴² There was presumably a customer stickiness challenge for exchanges as well. Once in fiat currency, a consumer might be more likely either to not trade again or to use another exchange than if they held stablecoins in their account with the original exchange. Stablecoins made it easier for investors to limit volatility—protecting profits by moving them into a dollar-pegged crypto native asset—and allowed them to move in and out of trades more easily, which allowed them to remain active on exchanges that provided access to the stablecoins. This is likely why early stablecoins were often issued by exchanges. For example, iFinex, which operates Bitfinex, an exchange that offered USDT, and Tether were majority owned by the same parent company.⁴³

Currently, the primary use for stablecoins remains crypto centric. According to an industry data source, more than 80% of trading on all crypto platforms is between stablecoins and other tokens.⁴⁴ However, there are other potential use cases and benefits to stablecoins. Perhaps the most obvious use is for traditional retail payments. Purchasers might be able to settle payments more quickly with stablecoins than with traditional payments,⁴⁵ although it remains to be seen whether stablecoins' other advantages and disadvantages outweigh those of traditional payments.⁴⁶ From a consumer perspective, making U.S. retail payments is arguably inexpensive, convenient, and fast at present. Currently, adoption for stablecoin use in retail payments is relatively low—the \$390 billion annually cited earlier is less than 1% of traditional payments. Whether stablecoins will be adopted more broadly for retail payments, as sponsors of the GENIUS Act envision, will depend in part on consumers shifting their preference and businesses

⁴¹ Noelle Acheson, "The Origin Story of Stablecoins Offers a Hint to Their Future Uses," *American Banker*, March 5, 2026, <https://www.americanbanker.com/payments/news/the-origin-story-of-stablecoins-offers-a-hint-to-their-future-uses>.

⁴² Noelle Acheson, "The Origin Story of Stablecoins Offers a Hint to Their Future Uses."

⁴³ According to a legal document, a separate company, DigFinex Inc., is a majority owner of iFinex (which owns Bitfinex) and Tether. See *James v. iFinex, Inc.*, No. 185 AD3d 22 (N.Y. App. Div. July 9, 2020), https://www.nycourts.gov/reporter/3dseries/2020/2020_03880.htm. See also Settlement Agreement, Attorney General of the State of New York, Investor Protection Bureau, In the Matter of iFinex Inc. et al., February 17, 2021, https://ag.ny.gov/sites/default/files/2021.02.17_-_settlement_agreement_-_execution_version.b-t_signed-c2_oag_signed.pdf.

⁴⁴ See "Share of Trade Volume by Pair Denomination," *The Block*, updated February 18, 2025, last accessed February 18, 2025, <https://www.theblock.co/data/crypto-markets/spot/share-of-trade-volume-by-pair-denomination>.

⁴⁵ In the last few years, real-time settlement has also become available for traditional payments.

⁴⁶ The Bank for International Settlements argues that stablecoins are not well suited for payments because they do not have the properties of singleness, elasticity, and integrity that government money has. Bank for International Settlements, "The Next-Generation Monetary and Financial System," in *Annual Report*, 2025, <https://www.bis.org/publ/arpdf/ar2025e3.htm>. See also Christopher K. Odinet et al., "The Moneyness of Stablecoins," *Yale Law Journal* (forthcoming), <http://dx.doi.org/10.2139/ssrn.6438962>.

making the necessary infrastructure investment.⁴⁷ Another frequently cited potential use is cross-border payments, which are notorious for being both costly and slow.⁴⁸ Exchanges in foreign jurisdictions that allow trade of U.S. dollar stablecoins and un-hosted wallets eliminate the need for multiple intermediaries, such as correspondent banks. Somewhat relatedly, individuals in foreign countries can also buy and store value in stablecoins. For example, non-Americans can store wealth in an asset that is pegged to the U.S. dollar if they are able to buy U.S.-dollar-denominated stablecoins in their countries.⁴⁹ This may be particularly advantageous for citizens in countries with high inflation.

The GENIUS Act

The remainder of this report provides a comprehensive description and analysis of the GENIUS Act, excluding provisions requiring reports and studies.

Legislative History

The GENIUS Act (P.L. 119-27) was passed on a final vote of 68-30 by the Senate on June 17, 2025, and then passed by the House 308-122 without amendment on July 17, 2025. It was signed into law by the President on July 18, 2025.⁵⁰ The bill was introduced in the Senate on May 1, 2025, as S. 1582 and was not referred to a committee before going to the floor. S. 1582 had two predecessors in the 119th Congress, however. S. 394 was introduced on February 4, 2025, but did not see any action. S. 919 was introduced on March 10, 2025. S. 919 was ordered to be reported with an amendment in the nature of a substitute by the Senate Committee on Banking, Housing, and Urban Affairs on March 13, 2025, and reported by Chairman Tim Scott without a written report on March 18, 2025. Senator Bill Hagerty, who sponsored each of these bills, had also published a discussion draft in October 2024, during the 118th Congress, but it was never formally introduced.⁵¹

A House version of stablecoin legislation saw committee action in the 119th Congress, but the Senate bill ultimately became law. The House Committee on Financial Services ordered to be reported an amendment in the nature of a substitute to the Stablecoin Transparency and Accountability for a Better Ledger Economy Act (STABLE Act) of 2025 (H.R. 2392) on April 2, 2025, and issued the report (H.Rept. 119-94) on May 6, 2025.

What Is a Payment Stablecoin?

Section 2 of the GENIUS Act provides definitions for most relevant terms in the bill, including *payment stablecoin*. The act defines a payment stablecoin as a digital asset “that is, or is designed to be, used as a means of payment or settlement” that the issuer of which

⁴⁷ Christopher J. Waller, “Reflections on a Maturing Stablecoin Market,” Federal Reserve, February 12, 2025, <https://www.federalreserve.gov/newsevents/speech/waller20250212a.htm>.

⁴⁸ Kyungmin Kim et al., “Payment Stablecoins and Cross Border Payments: Benefits and Implications for Monetary Policy Implementation,” *FEDS Notes*, March 30, 2026, <https://www.federalreserve.gov/econres/notes/feds-notes/payment-stablecoins-and-cross-border-payments-benefits-and-implications-for-monetary-policy-20260330.html>.

⁴⁹ Waller, “Reflections on a Maturing Stablecoin Market.”

⁵⁰ See the “Actions” tab for S. 1582.

⁵¹ Sen. Bill Hagerty, “Hagerty Releases Discussion Draft of Comprehensive Stablecoin Legislation,” October 10, 2024, <https://www.hagerty.senate.gov/press-releases/2024/10/10/hagerty-releases-discussion-draft-of-comprehensive-stablecoin-legislation/>.

- “is obligated to convert, redeem, or repurchase for a fixed amount of monetary value;⁵² and
- “represents that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value.”⁵³

The act does not limit the definition of payment stablecoins to dollar-denominated stablecoins, so may include, for example, stablecoins tied to any national currency.⁵⁴

The act defines a *digital asset* as “any digital representation of value that is recorded on a cryptographically secured distributed ledger.” Further, the act defines a *distributed ledger* as “technology in which data is shared across a network that creates a public digital ledger of verified transactions or information among network participants.” It is unclear whether the requirement that the digital ledger be “public” is strict, whether the law would permit it to be paired with a permissioned blockchain (e.g., a blockchain that only approved participants could modify), and whether such requirements would create any issues for banks, whose traditional business model is based on exclusive control of private ledgers.⁵⁵

Prior to the enactment of the GENIUS Act, no statutory definition for the term *payment stablecoins* existed, and it was not a commonly used term in the marketplace. Rather, dollar-pegged cryptocurrencies were referred to simply as *stablecoins* and were identified in the market by certain features, not by how they were used. They could be fiat-backed, crypto-backed, or algorithmic. The establishment of the legal definition for *payment stablecoins* and the framework raises certain philosophical questions that may have broader practical market implications. As discussed in the “Function” section above, stablecoins are primarily used in trading, when they are exchanged for or received in exchange for some other cryptocurrency. According to one consulting firm, while transaction volumes in stablecoins are reportedly as high as \$35 trillion, they do not represent “true end-user payments” but consist “mainly of trading, internal shuffling of funds, and automated blockchain activity.”⁵⁶ Traditional payments by consumers and businesses using stablecoins are estimated to be \$390 billion, or 0.02% of global payments.⁵⁷

This raises the question of how the term *payment* should be applied in the context of stablecoin regulation because the act requires all U.S. payment stablecoin issuers to be licensed and regulated. Should these activities that make up the great majority of stablecoin transactions be considered payments or settlement for the purposes of the GENIUS Act and its definition? Since

⁵² One law review article reviews the terms and conditions of major stablecoin issuers and finds that they currently include language at odds with a legal obligation to redeem at par. See Odinet et al., “The Moneyiness of Stablecoins.”

⁵³ Although the act defines a payment stablecoin in terms of stable value and redemption at par, the section of the act that addresses regulation does not explicitly authorize regulators to impose requirements surrounding maintaining a stable value and redemption at par. A stablecoin regulator could reject the initial application of a payment stablecoin issuer if its stablecoin did not meet these characteristics, but once approved, it is unclear whether regulators could take actions to prevent issuers from deviating from these characteristics or from acting in a way that made deviation likely. However, many of the regulatory requirements imposed by the act (see the “Prudential Requirements” section) would support redemption at par, and holders would arguably have a contractual claim against any issuer that failed to redeem at par and maintain a stable value.

⁵⁴ Stablecoins denominated in a currency other than the U.S. dollar would create exchange rate risk. The act allows reserves to be held only in U.S. assets and does not mention hedging or whether it is permitted.

⁵⁵ For a review of financial applications with a mix of public and permissioned capabilities, see Cy Watsky et al., “Tokenized Assets on Public Blockchains: How Transparent Is the Blockchain?,” *FEDS Notes*, April 3, 2024, <https://www.federalreserve.gov/econres/notes/feds-notes/tokenized-assets-on-public-blockchains-how-transparent-is-the-blockchain-20240403.html>; and Basel Committee on Bank Supervision, “Novel Risks, Mitigants and Uncertainties with Permissionless Distributed Ledger Technologies,” August 28, 2024, <https://www.bis.org/bcbs/publ/wp44.pdf>.

⁵⁶ Higginson et al., “Stablecoins in Payments: What the Raw Transaction Numbers Miss.”

⁵⁷ Higginson et al., “Stablecoins in Payments: What the Raw Transaction Numbers Miss.”

the act does not define these terms, regulators might decide to define *payment stablecoin* for purposes of the act broadly, to capture most of the existing market, or narrowly (focused on retail payments use), to allow a regulated and unregulated sector to coexist. If regulators were to decide that crypto-related activities do not constitute payments, there still may be an issue of what level of retail payments satisfies the component of the definition that a payment stablecoin “is ... used as a means of payment or settlement.” If rulemaking does not clarify the definition, an issuer whose stablecoin is mainly used in crypto trading could argue that because it is not used for payment or settlement it is not a *payment stablecoin* and is not subject to the GENIUS Act’s requirements. It might do so to avoid the costs of complying with the act, including the act’s regulatory requirements. For example, an issuer not subject to the act’s restrictions on reserves (see the “Prudential Requirements” section below) could invest in riskier, higher yielding assets to increase its profits. Consumers might prefer stablecoins not covered by the act if, for example, they received yield from issuers that is prohibited for stablecoins subject to the act.

On the other hand, there may also be certain advantages to registering as a payment stablecoin issuer under the GENIUS Act. Consumers may prefer licensed stablecoins to unlicensed ones, thereby increasing demand for the former if they view them as safer or government approved. In addition, Section 3(g) of the act prohibits payment stablecoins that are not issued by permitted payment stablecoin issuers from being treated as cash or cash equivalents for accounting purposes; being eligible as cash or cash equivalent margin and collateral for certain derivatives’ intermediaries; and facilitating wholesale payments between banks.⁵⁸ If subsequent regulation permits payment stablecoins to be used for these purposes, it will increase the demand for payment stablecoins, particularly if growing “tokenization” (trading on-chain) of traditional financial assets encourages traditional investment firms to settle transactions with stablecoins.

Thus, depending on how regulations define payment stablecoins (especially with regard to facilitating crypto trading) and whether market participants want to be considered payment stablecoins, there are scenarios where the two stablecoins that currently dominate the market could remain outside of the regulatory system created by the GENIUS Act.⁵⁹ The GENIUS Act does not address how regulators should treat stablecoins that are not deemed payment stablecoins. In the absence of such explicit direction or a law clarifying the overall regulation of the crypto market, existing regulations and guidance applying to other cryptocurrencies will presumably continue to apply to stablecoins not subject to the GENIUS Act. For example, USDT, issued by Tether, currently does not comply with all components of the GENIUS Act. Barring some change, it is unclear whether it would be banned from being offered to U.S. persons or whether it could just continue to trade as a *nonpayment* stablecoin or just plain crypto. And it is unclear whether not being a licensed permitted payment stablecoin would deter users.

Hereinafter, references to stablecoins mean payment stablecoins subject to the act unless otherwise noted.

Who Can Issue a Stablecoin?

Under Section 3 of the act, anyone can issue a payment stablecoin if they are approved and regulated by a federal regulator (in which case they are federal issuers)⁶⁰ or a certified state regulator (in which case they are state issuers).⁶¹ If issuers do not seek a license, they face

⁵⁸ P.L. 119-27, §3(g).

⁵⁹ For Tether, which is based abroad, there is the additional question of whether it opts to be offered in the United States. See the “Foreign Stablecoins” section.

⁶⁰ The GENIUS Act calls them “permitted ... Federal qualified payment stablecoin issuers.”

⁶¹ The GENIUS Act calls them “permitted ... State qualified payment stablecoin issuer.”

monetary penalties and referral to the Attorney General, as do DASPs (see **text box** entitled “What Is a Digital Asset Service Provider?” below) that offer or sell unlicensed stablecoins beginning three years after enactment. Exceptions to the ban in Section 3 on trading unregistered stablecoins apply to qualifying foreign issuers (see the “Restrictions on Foreign Issuers” section below), stablecoins that are directly transferred without an intermediary between individuals acting on their own behalf for lawful purposes, stablecoins that are transferred between an individual’s domestic and foreign accounts at the same company,⁶² and stablecoins used to facilitate self-custody by means of a software or hardware wallet. These exclusions are relatively broad and appear to permit self-custody transactions in all stablecoins, including those that are noncompliant or foreign, as well as other digital assets, provided transactions are for lawful purposes.⁶³ One researcher estimated that 75% of USDC and 70% of USDT outstanding were held in self-custody wallets and most trading volume occurred outside of exchanges.⁶⁴ In addition, interactions with defi protocols are excluded from the definition of DASP, so it would appear that direct trading of unregistered or unapproved foreign stablecoins between individuals facilitated by a defi protocol is permitted. The U.S. Treasury Secretary may, at their discretion, also provide limited safe harbors from registration requirements that apply to de minimis transactions under unusual and exigent circumstances.

What Is a Digital Asset Service Provider?

The GENIUS Act defines a digital asset service provider (DASPs) as “a person that, for compensation or profit, engages in ... (i) exchanging digital assets for monetary value; (ii) exchanging digital assets for other digital assets; (iii) transferring digital assets to a third party; (iv) acting as a digital asset custodian; or (v) participating in financial services relating to digital asset issuance.” This would include crypto exchanges and payments firms, such as Venmo, that allow users to purchase and hold crypto, as well as other types of crypto firms that provide custody services, for example. The term does not include distributed ledger protocols, self-custodial software, or actions involved in “developing, operating, or engaging in the business of developing distributed ledger protocols or self-custodial software interfaces.” The exclusion of distributed ledger protocols in the definition of a DASP seemingly applies to decentralized finance (defi) applications, such as lending and borrowing protocols and decentralized exchanges.⁶⁵ The definition of DASP also excludes “developing, operating, or engaging in the business of validating transactions” or participating in liquidity pools.

Eligible issuers can be divided into three groups—depository institutions, nonbank financial firms, and approved commercial firms.⁶⁶ Depository institutions must issue stablecoins through a legal subsidiary. Whether a financial firm is a depository institution or a nonbank financial firm depends on whether it has a bank charter from the Office of the Comptroller of the Currency (OCC) or a state. All three groups can issue stablecoins if approved but will be under the jurisdiction of different regulators (discussed in the “Who Regulates Stablecoin Issuers?” section). States that issue stablecoins are not subject to the act.⁶⁷

⁶² U.S.-based users have used virtual private networks to access foreign DASPs. Some DASPs operate U.S. and foreign platforms. In those cases, this exemption could allow users to transfer digital assets (including stablecoins) to U.S. accounts that may not otherwise be permitted by law.

⁶³ These exemptions apply to sections that limit issuance of U.S. stablecoins and transactions involving foreign stablecoins. However, the exemptions use the term *digital asset* and appear to apply the exemptions to all digital assets.

⁶⁴ Gita Gopinath, “Stablecoins and Anonymous Money,” speech given at Bank of International Settlements, Basel, Switzerland, June 28, 2026, https://www.bis.org/events/agma2026/sp260628_lecture.htm.

⁶⁵ For more on defi, see CRS Report R48883, *An Overview of Decentralized Finance (Defi)*, by Paul Tierno.

⁶⁶ As will be discussed in the “Activities Limitations” section, there are restrictions on the activities of issuers that, if interpreted narrowly, would limit an issuer and the company that owns it to only stablecoin-related activities.

⁶⁷ For example, Wyoming has issued a stablecoin. See David Voreacos, “The Real Cowboys of Crypto: Wyoming Ropes a \$1 Stablecoin,” *Bloomberg Government*, June 16, 2026, <https://www.bgov.com/news/TGPX2HKIJHCS>.

Commercial Issuers

Whether a firm is considered financial or commercial depends on whether it is predominantly engaged in financial activities.⁶⁸ Under Section 4(a)(12), if a publicly reporting U.S. or foreign firm is commercial, it cannot issue a stablecoin unless the Stablecoin Certification Review Committee (SCRC; see **text box** entitled “What Is the Stablecoin Certification Review Committee?” below) unanimously finds that the issuer would (1) not pose a safety and soundness threat to the banking system, financial system, or Federal Deposit Insurance Corporation’s (FDIC’s) deposit insurance fund; (2) comply with data use limitations; and (3) comply with tying prohibitions (see the “Tying Limitations” section below).⁶⁹ Nonpublic commercial firms do not need an SCRC waiver and may issue stablecoins if they are approved by the OCC or a state regulator. Many large firms, especially tech firms, are not public.

What Is the Stablecoin Certification Review Committee?

Some decisions in the GENIUS Act are made by the Stablecoin Certification Review Committee (SCRC). The SCRC is headed by the Treasury Secretary and also includes the Federal Reserve (Fed) chair and Federal Deposit Insurance Corporation chair. The Fed chair has the option of delegating his position on the SCRC to the Fed’s vice chair for supervision. The SCRC approves commercial issuers and certifies state regimes as substantially similar to the federal one.

The restriction on commercial firms issuing stablecoins unless they are granted an SCRC waiver is unusual: U.S. law does not generally prohibit the mixture of commercial and nonbank financial activities within a firm. The commercial restriction in existing financial law applies to the activities of banks (and bank holding companies). Notably, bank limitations on commercial activities were historically motivated partly by concerns about anticompetitive behavior, but competition is not one of the criteria for commercial stablecoin approval, outside of compliance with the tying prohibition.

The potential for the SCRC to grant waivers to public commercial firms to operate as stablecoin issuers raises concerns around whether large technology providers would issue stablecoins. There may be some advantages to larger tech firms operating as stablecoin issuers. These firms have established networks from the provision of other services, including digital (non-crypto) payments, which could be useful in promoting broader adoption of stablecoins. They possess economies of scale and knowledge of the consumer base that could make it more cost effective for them to provide the services than other providers. However, there may also be drawbacks. One downside is the potential for concentration of market share among one or a few large firms, which could also compound certain firms’ dominance and concentration in other integral industries, such as provision of cloud computing for financial services and artificial intelligence. The network effect—useful for adoption purposes—could accelerate a stablecoin run,⁷⁰ and the firms’ size could increase the systemic risk posed by a run. There is also a risk of cross-industry contagion, where a risk in one industry (e.g., cloud services) spills over into stablecoins. Economies of scale, which are useful for containing costs, could also lead to market concentration and anticompetitive behavior if big tech firms were to hinder usage of other stablecoins and stop passing potential cost savings to consumers. In the past, some Members of Congress expressed similar concerns when Facebook (later Meta) announced that it was going to participate in a

⁶⁸ The act does not define *predominantly engaged* but uses existing definitions of financial activities.

⁶⁹ *Publicly reporting* refers to whether a firm makes certain SEC filings.

⁷⁰ See the **text box** entitled “Analysis: Addressing Run Risk.”

stablecoin consortium called Libra (later called Diem) in 2019.⁷¹ According to some reports, Meta claims to no longer be interested in operating a stablecoin, but some Members of Congress are skeptical.⁷² Moreover, not all big tech firms are publicly traded so would not be required to seek SCRC approval to issue a stablecoin. For example, TikTok, the social media app, is privately held.

Who Regulates Stablecoin Issuers?

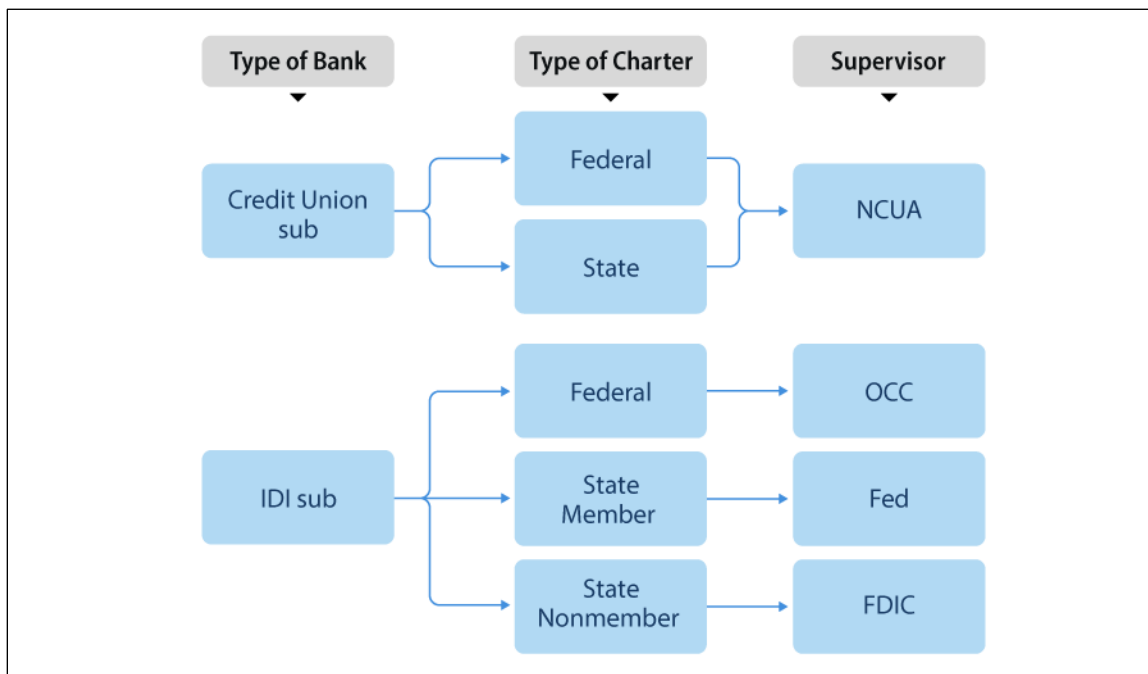
The act creates a dual federal-state regulatory regime. Who regulates an issuer depends on what type of firm the issuer is, the value of total outstanding stablecoins the firm has issued, and whether the firm opts for state (if eligible) or federal licensing. At the federal level, stablecoin issuers are regulated by one of the depository regulators: the OCC, the Federal Reserve (Fed), the FDIC, or the National Credit Union Administration (NCUA). (Hereinafter, these four regulators are referred to as the “federal stablecoin regulators.”) Under Section 17 of the GENIUS Act, stablecoins are explicitly defined as not being securities or commodities, and the SEC and CFTC do not have jurisdiction. Unless subsequently addressed in the companion market structure legislation, this removes the CFTC’s ability to take enforcement actions against stablecoins based on its anti-manipulation authority, which it has used in the past.

Commercial banks, credit unions, and other institutions are insured depository institutions (IDIs) if they accept federally insured customer deposits. Other banks, such as trust banks or U.S. branches of foreign banks, are typically noninsured banks that do not accept deposits. All types of banks are chartered, either nationally by the OCC or by a state. As illustrated in **Figure 2**, stablecoin issuers that are subsidiaries of IDIs are regulated by their parent’s primary federal regulator under the act—national banks are regulated by the OCC, state-chartered banks that are members of the Federal Reserve are regulated by the Fed, and state-chartered banks that are not members are regulated by the FDIC. Insured credit union issuers are regulated by the NCUA.

⁷¹ Letter from Sen. Brian Schatz, et al., to Mark Zuckerberg, chairman and CEO of Facebook, October 19, 2021, https://www.schatz.senate.gov/imo/media/doc/schatz_et_al_letter_to_facebook_on_diem.pdf.

⁷² Sarah Jarvis, “Warren Asks Meta About Reported Stablecoin Payment Plans,” *Law 360*, May 7, 2026, <https://www.law360.com/fintech/articles/2475148>; and letter from Sen. Elizabeth Warren to Mark Zuckerberg, chairman and CEO of Facebook, May 6, 2026, https://www.banking.senate.gov/imo/media/doc/warren_letter_to_meta_re_stablecoin.pdf.

Figure 2. Regulator for Insured Depository Issuers



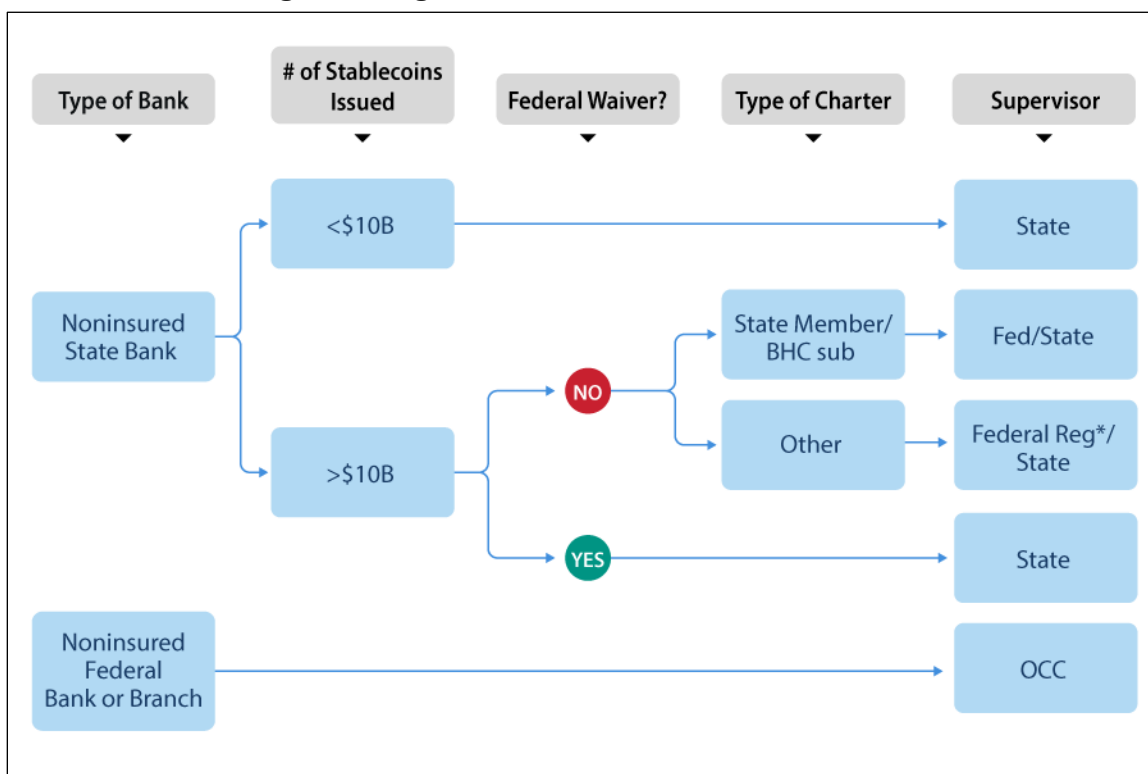
Source: CRS.

Notes: FDIC = Federal Deposit Insurance Corporation; Fed = Federal Reserve; IDI = insured depository institution; NCUA = National Credit Union Administration; OCC = Office of the Comptroller of the Currency; sub = subsidiary. See text for details.

Many firms offering crypto-related services, including stablecoin issuers, have recently sought or acquired state or national trust bank charters that do not involve federally insured deposit-taking services.⁷³ Under the act, stablecoins issued by noninsured national banks and branches are regulated by the OCC, as shown in **Figure 3**. Stablecoins issued by noninsured state banks are regulated by the state regulators where they are chartered, subject to the size threshold described in the “Navigating the Dual Federal-State System” section below; the Fed and FDIC are not given any explicit authority over noninsured state banks under the act.

⁷³ See, for example, OCC, “OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications,” press release, December 12, 2025, <https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html>. For background on chartering, see CRS Report R47014, *An Analysis of Bank Charters and Selected Policy Issues*, by Andrew P. Scott.

Figure 3. Regulator for Noninsured Bank Issuers



Source: CRS.

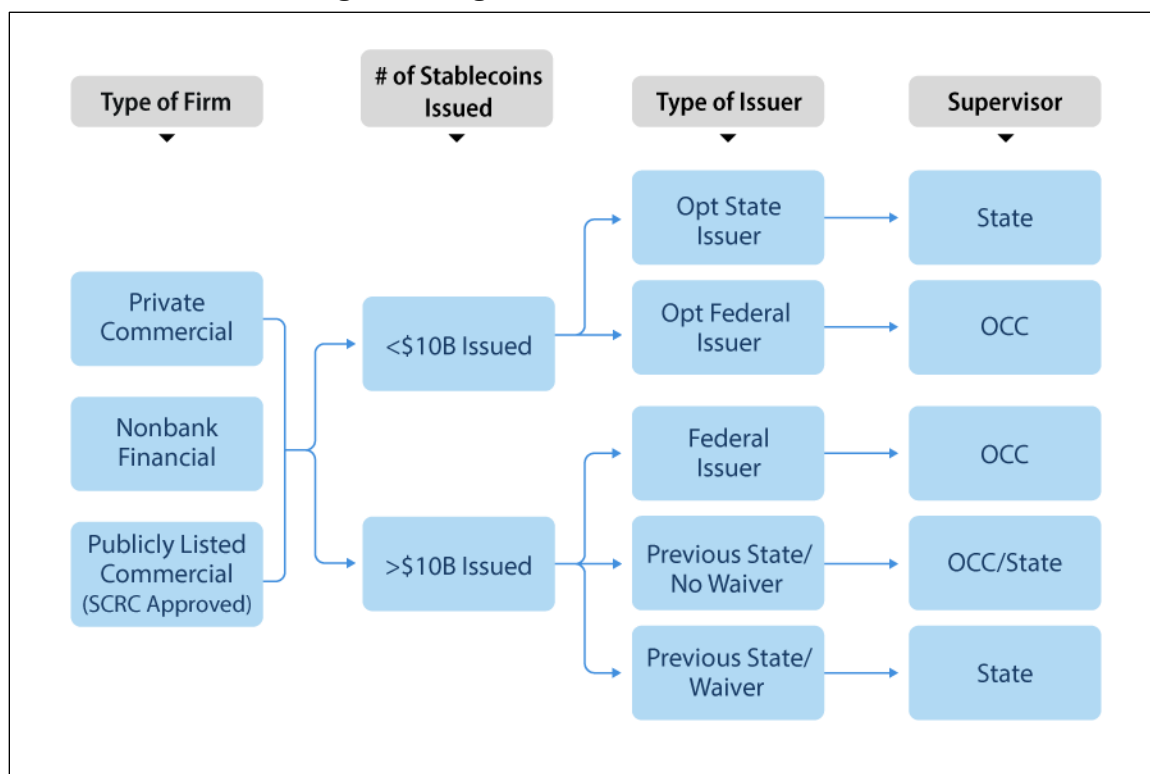
Notes: BHC = bank holding company; OCC = Office of the Comptroller of the Currency; sub = subsidiary.

* = The GENIUS Act assigns the “primary Federal payment stablecoin regulator” to be the regulator of a noninsured state bank issuer after the transition to joint state-federal supervision, but a noninsured state bank may not necessarily have a primary federal regulator. See text for details.

Nonbank financial firms and approved commercial firms (i.e., issuers that are not IDI subsidiaries) may opt to be federal issuers or state issuers, subject to the size threshold described in the “Size Threshold for State Regulation” section below. As shown in **Figure 4**, federal issuers are regulated by the OCC. State issuers are regulated by the state they are approved in. The act limits the regulator’s authority to the firm’s stablecoin activities.⁷⁴

⁷⁴ This limited authority means the regulator would arguably not have the authority to act if a nonbank firm’s non-stablecoin activities placed its stablecoin operations at risk. For example, there is nothing comparable to the “source of strength” requirement for bank holding companies. This risk could be limited (although not eliminated) by placing the stablecoin operations in a separate legal subsidiary, but the act does not require this.

Figure 4. Regulator for Nonbank Issuers



Source: CRS.

Notes: OCC = Office of the Comptroller of the Currency; SCRC = Stablecoin Certification Review Committee. See text for details.

Navigating the Dual Federal-State System

In any dual federal-state regulatory system, Congress faces a choice over whether to give federal or state rules precedence (called “preemption”) when the two are in conflict. Under Section 5(h) of the GENIUS Act, federal licensing supersedes state licensing requirements for federal issuers, but states may still supervise state IDIs and their stablecoin subsidiaries. Conversely, the act gives states dominant control over how state issuers are regulated and supervised, but only if they have been approved by the SCRC to maintain consistency with the act. Under Section 4(c), a state may approve issuers only if the SCRC certifies that the state’s regulatory regime meets or exceeds the regulatory requirements in Section 4(a) (see the “Prudential Requirements” section below).⁷⁵ The Treasury Secretary is responsible for promulgating principles through notice and comment rulemaking, according to which the SCRC will judge whether states have a framework substantially similar to the federal one. States were allowed one year from enactment of the GENIUS Act to make their regulatory regimes substantially similar.⁷⁶

One argument for state regulation is that it would allow a diversity of regulatory approaches that could reveal through experience which approach is superior in practice and potentially foster

⁷⁵ Although Section 4(c) requires the SCRC to consider only the requirements in Section 4(a), the act also includes legal requirements outside of Section 4(a) that are administered by the states for state issuers.

⁷⁶ The act does not provide the Treasury Secretary with a deadline for issuing guidelines to states on substantial similarity, which states would presumably need in order to bring their regimes into conformity before the one-year grace period expires.

innovation. An argument against state regulation is that there is an incentive for states to engage in a race to the bottom in terms of crafting lax regulatory standards in the hope of attracting issuers. Requiring SCRC approval of state regimes might ensure that a race to the bottom is avoided. Whether this occurs will depend on how strict the SCRC is in ensuring that state regimes adhere to the minimum requirements of the federal regime and have the supervisory capacity to enforce high standards.⁷⁷ If a state is denied certification, the SCRC must provide a written reason within 30 days and give the state repeated opportunities to cure their application. If it is denied again, it may appeal to the U.S. Court of Appeals for the D.C. Circuit. The state's regime must be annually recertified, but the recertification may be denied only if the regime has materially changed in a way that affects safety and soundness. This may limit future Treasury Secretaries from using the recertification process to impose new or more stringent regulatory requirements on states, even if requirements have changed in the federal regime.⁷⁸

Under Section 4(a)(14), states can impose additional requirements on issuers beyond those required by Section 4. As will be discussed below (see the "Supervision and Enforcement" section below), states may elect to involve federal regulators in the supervision of state issuers if they wish.

For state issuers, there is also the question of whether an issuer based in one state can be regulated by other states it is operating in. Under Section 7(f), qualified state issuers cannot be blocked from operating across state lines by another state or required to obtain licenses in multiple states, but out-of-state issuers are subject to that host state's laws to the same extent as federal issuers are.⁷⁹ The act also specifies that it does not preempt state consumer protection laws. Since a host state cannot require an out-of-state issuer to be licensed in the state and does not have authority to supervise it, the state may be limited in its ability to identify when its regulations are not being followed. Section 16 also allows stablecoin issuers that are subsidiaries of a state-chartered bank to engage in money transmission services and custodial services in any state as long as that bank is subject to "adequate" capital and liquidity requirements in its home state. Some commentators have taken issue with these provisions, which they say will allow state noninsured depository stablecoin issuers to engage in money transmission and custodial activities without being subject to a host state's laws. Claiming that uninsured depositories "present distinct risks," these commentators note that the provisions would override pre-GENIUS Act state requirements.⁸⁰

A dual federal-state regulatory system is common in financial regulation, but in other cases, federal regulators are more directly involved. For example, state-chartered banks are still regulated by federal regulators (the Fed or the FDIC) if they have deposit insurance. For state-chartered banks, federal regulators write regulations implementing federal requirements, supervise them (jointly with states), and enforce compliance. Securities markets participants must comply with both state and federal regulations. By contrast, the GENIUS Act defers to states to

⁷⁷ Treasury can ensure high standards by requiring state and federal standards to be uniform. However, this would eliminate the potential benefits of regulatory diversity. Standards can be high and not uniform, but that involves more subjective judgment on Treasury's part that risks undermining the act.

⁷⁸ The SCRC could argue that a change in federal standards constituted a "significant change in circumstances," but the state might challenge that finding in an appeal, as provided for in the act.

⁷⁹ Except for licensing requirements, the act does not specify what regulatory requirements states may impose on federal issuers.

⁸⁰ American Bankers Association, "Joint Trades Letter to the Senate Banking Committee Urging the Repeal of Section 16(d) of the GENIUS Act," August 13, 2025, <https://www.aba.com/advocacy/policy-analysis/joint-letter-urging-the-repeal-of-section-16d-genius-act>.

implement, supervise, and enforce compliance with federal requirements for state issuers.⁸¹ A dual system sometimes arose historically because financial activities were originally conducted only within a state but later spread across state lines. In this case, there is little expectation that a state stablecoin issuer, operating purely digitally, will limit its activity to one state.

Size Threshold for State Regulation

Under Section 4(d) of the GENIUS Act, non-IDI stablecoin issuers with less than \$10 billion in stablecoins outstanding may choose between federal and state regulation. This size limit applies only to stablecoin issuance, not the overall size of the firm.⁸² For example, some of the largest U.S. nonbank payments firms or tech firms (if approved by the SCRC) with market capitalizations over \$1 trillion could initially register and ramp up operations as state issuers. A rationale for a size limit on eligibility for state regulation could be that small issuers have a limited impact on policy issues that affect the overall financial system, such as systemic risk—issues that may be of limited concern to a state regulator. In that case, the overall size of the firm may be a better indicator of its systemic importance than its stablecoins outstanding.

The GENIUS Act is sometimes described as requiring a federal regime for issuers over \$10 billion, but that is not strictly the case. The act does not require an issuer over \$10 billion to seek a federal license and come under the exclusive jurisdiction of a federal regulator. Rather, when outstanding stablecoin issuance by a previously approved state issuer subsequently exceeds \$10 billion, it has 360 days to transition to the federal regulatory framework *jointly* administered by the state and federal regulators. The act assigns the OCC as the primary federal regulator for nonbanks and the “primary Federal payment stablecoin regulator” to be the regulator for state noninsured banks.⁸³ However, the federal regulator may waive its right to supervise the issuer, based on a consideration of the issuer’s capital and operations and the state’s regulatory regime, as shown in **Figure 3** and **Figure 4**. (The act does not specify whether the waiver process is initiated by the issuer, state regulator, or federal regulator.) The federal regulator shall “presumptively approve” a waiver unless there is “clear and convincing evidence” that these criteria “are not substantially met.”⁸⁴ So if a very large firm starts as a state issuer with stablecoin issuance under \$10 billion and meets the criteria for a waiver, it would remain a state issuer when it exceeded \$10 billion unless the primary federal regulator can make the case that it should not receive one.

⁸¹ As discussed in the “Supervision and Enforcement” section, states may elect to involve federal regulators, and the federal government has limited override authority.

⁸² The act does not impose requirements surrounding company control and is silent on whether the \$10 billion size limit applies to a single issuer or all issuers controlled by a single company. If the \$10 billion limit is not based on company control, a company might establish multiple issuers to skirt it.

⁸³ The act assigns the “primary Federal payment stablecoin regulator” to be the regulator of a noninsured state bank issuer after the transition. Section 1813 of Title 12 in the *U.S. Code* assigns primary federal regulators to different types of banks. However, a noninsured state bank may not necessarily have a primary federal regulator. The Fed is the primary regulator of noninsured banks that are members of the Federal Reserve system and regulates the subsidiaries of bank holding companies that do not have a primary regulator. It is unclear whether the FDIC is intended to be the federal regulator for other noninsured state banks.

The act would presumably limit the transition to federal oversight for noninsured state banks to their stablecoin operations, so the state regulator would remain the regulator of its non-stablecoin operations, although some of these operations may be related to stablecoin activities. State noninsured banks may engage in activities that are not legally permitted at the federal level, so if the entire bank were now regulated by a federal regulator, it raises the question of what would happen to the bank’s noncompliant activities.

⁸⁴ If a waiver is issued, the act is unclear whether the state would supervise the issuer under the state or federal framework. If the latter, it is unclear how the state would have the expertise to do so effectively.

Currently Circle is the only U.S. issuer above \$10 billion stablecoins outstanding. Tether, a foreign issuer, also has over \$10 billion in stablecoins outstanding.⁸⁵

Licensing Requirements and Timing

For a firm to become a federal stablecoin issuer, the act requires that they apply to the relevant federal regulator for a license (or charter or registration). Regulators are required to create a standard licensing process through rulemaking. Under Section 5, regulators are given limited timelines and criteria (related only to the applicant's ability to meet the requirements of the act and the issuer's fitness) for reaching a decision on an application. The applicant has the right to a timely appeal to the regulator if denied. Under Section 5(d)(3), if the regulator does not make a decision on a "substantially complete" application before the deadline, the application would be automatically approved.

Presumably, preexisting stablecoin issuers do not already meet all of the novel requirements of the act. The act, including the licensing requirement, comes into effect the earlier of 18 months after the date of enactment, which was July 18, 2025, or 120 days after final rules are issued. Since the act introduces a novel licensing requirement on an existing market, under Section 5(f), regulators may wait up to 12 months from the effective date before imposing the regulatory requirements on existing federal applicants. Another restriction comes into effect three years after enactment—DASPs can no longer offer or sell unlicensed stablecoins after that date.

Because the comparable process for state approval occurs under state law, the act does not specify parameters for how the state approval process would work.

Supervision and Enforcement

The GENIUS Act grants supervision and enforcement authority to state and federal regulators (as shown in **Figure 2**, **Figure 3**, and **Figure 4**) to ensure that issuers follow the regulatory requirements of the act (described in the "Regulatory Requirements" section below).

The federal bank regulators are experienced supervisors with large staffs of examiners and significant resources (they are self-funded and set their own budgets). By contrast, state regulators have smaller budgets and staff, generally proportionate to the size of the state. The states' ability to regulate stablecoins under the act is untested and may involve expertise and experience that states currently lack. But stablecoin regulation is relatively simple and limited compared to bank regulation, and federal regulators have the option to jointly regulate issuers with over \$10 billion in stablecoins outstanding that would presumably involve greater regulatory scrutiny. On the other hand, some states already have several years of experience regulating crypto firms (including at least one stablecoin issuer), and all states have experience with regulating state-chartered banks (jointly with federal regulators when IDIs) and MSBs (which stablecoin issuers may have previously registered as). In the process, they may have developed some expertise that the federal government lacks. However, the regulatory and supervisory requirements under existing state regulation are typically very different from those of the GENIUS Act.

⁸⁵ See DeFiLlama, "USD Coin (USDC) Market Cap, Supply and Peg Chart," <https://defillama.com/stablecoin/usd-coin>.

Federal

Under Section 6 of the GENIUS Act, the federal stablecoin regulators may supervise IDI subsidiaries and other federal issuers for compliance with the act.⁸⁶ States may also supervise state IDI subsidiaries under Section 5(h), similar to how state-chartered banks are supervised by their state and federal regulators. They may request reports from federal issuers when existing reports are inadequate and examine them for safety and soundness.

Section 6 also grants enforcement authority to the federal stablecoin regulators. If an IDI subsidiary or federal issuer is “willfully or recklessly violating” the act or a written condition from the regulator, the regulators may prohibit the company from issuing additional stablecoins, issue cease and desist orders, require issuers to take corrective actions,⁸⁷ and impose civil monetary penalties for violations. The regulators may also remove an affiliate of the issuer if the affiliate has violated the act. Issuers may appeal enforcement actions to the courts.

State

Under Section 7 of the GENIUS Act, state regulators have supervisory, examination, and enforcement authority over state-qualified issuers.⁸⁸ But a state regulator, if it desires, may enter into a memorandum of understanding with the Fed that allows the Fed to participate with the state in supervision, examination, and enforcement and allows for information sharing between the two.⁸⁹ State regulators are permitted to take the same enforcement actions (described in the previous paragraph) as federal regulators.

If state regulators are ineffective, actions by state issuers could have negative nationwide implications for consumer protection, illicit finance, or financial stability. The act provides a limited ability for federal regulators to override state regulators. Under Section 7(e), the Fed or OCC may take an enforcement action against a state issuer for violations of the act only when those agencies find there to be “unusual and exigent circumstances” and an activity of the issuer poses “serious risk to the financial safety, soundness, or stability” of the issuer.⁹⁰ In such cases where the Fed or OCC restricts a state issuer, the issuer may object to the agency.⁹¹ Since federal stablecoin regulators do not monitor state issuers (unless invited to by the state or because they chose to jointly supervise a large issuer), it is unclear how they would be positioned to identify these risks that merited federal intervention. Federal regulators are limited to placing restrictions on state issuers over prudential issues—“financial safety, soundness, or stability”—raising the

⁸⁶ In addition, under Section 4(a), the OCC has authority to license, regulate, and supervise (examine) federal issuers and banks.

⁸⁷ Types of permitted corrective actions are found in 12 U.S.C. §1818(b) and (e) and 12 U.S.C. §1786(e) and (g).

⁸⁸ The act does not grant state regulators the ability to request reports from issuers, as is the case for federal regulators. States might choose—but are not required by the act—to provide their regulators with similar authority through state law.

⁸⁹ This role is assigned to the Fed for uninsured bank and nonbank state issuers, although the Fed does not regulate nonbank federal issuers.

⁹⁰ The legislative text is ambiguous about when the Fed versus the OCC may take an enforcement action against a state issuer. Section 7(e)(1) says that the Fed may take action against a “State qualified payment stablecoin issuer or an institution-affiliated party,” and Section 7(e)(2) says that the OCC may take action against a “State qualified payment stablecoin issuer that is a nonbank entity.” The phrase “unusual and exigent circumstances” is undefined in the act; it is also used in the Fed’s authority (12 U.S.C. §343) to provide emergency assistance to the financial sector and has been invoked in periods of financial turmoil.

⁹¹ If the agency does not respond in 10 days, the action would automatically lapse. If the agency maintains the action, the issuer may appeal the decision in court. The issuer can skip administrative review and move directly to judicial review “upon a showing of extraordinary cause.” See §7(e)(1)(D)(ii)(II) and §7(e)(2)(D)(ii)(II).

question of whether other violations, such as of the act's illicit finance provisions, would qualify for the federal emergency enforcement authority.

Regulatory Requirements

Regulating stablecoin markets could help achieve a number of standard policy objectives found in financial regulation—protect consumers (stablecoin holders), ensure the efficiency and integrity of payment markets, foster payment innovation, mitigate systemic risk (so as to maintain financial stability or avoid government bailouts), and prevent illicit activity.⁹² But these regulations reduce an issuer's profitability by increasing their administrative costs and reducing their potential interest income. If the regulatory burden on issuers became too high, stablecoin issuance could become suboptimally low. As is typical, financial regulations face trade-offs between the benefits of achieving those objectives and the costs of compliance and potentially less economically efficient outcomes.⁹³

Although regulated by bank regulators, stablecoin regulation under the GENIUS Act does not closely resemble bank regulation, which entails a different and broader set of more detailed rules and more intensive supervision. Stablecoin regulation under the GENIUS Act is bespoke, and its prudential requirements are arguably most similar to money market fund regulation by the SEC, with a similar emphasis on maintaining a fixed value and redemptions on demand through requirements for liquid and low-risk reserves.⁹⁴

Federal and state regulators are responsible for ensuring that federal and state issuers, respectively, comply with the regulatory requirements.⁹⁵ The following sections discuss these requirements, categorizing them as prudential requirements, disclosure requirements, and limitations.

Prudential Requirements

Ensuring that a stablecoin is able to maintain its peg is one of the primary goals of the GENIUS Act. This supports consumer protection, the efficiency and integrity of stablecoin markets, and financial stability. Up to a point, regulation is also in the issuer's interest—if users have confidence that stablecoins will maintain their peg, there will be more demand for stablecoins. Section 4 of the act attempts to ensure that a stablecoin is able to maintain its peg through a number of new prudential (safety and soundness) regulatory requirements, as shown in **Figure 5**.⁹⁶ (At the same time, regulation reduces market discipline by reducing the incentives of holders to know or care about the riskiness of specific stablecoins—removing a curb on issuers taking excessive risks.) These prudential requirements are as follows:

⁹² See CRS Report R44918, *Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework*, by Marc Labonte.

⁹³ See CRS In Focus IF10162, *Introduction to Financial Services: "Regulatory Relief,"* by Marc Labonte.

⁹⁴ See CRS Report R47309, *Money Market Mutual Funds: Policy Concerns and Reform Options*, by Eva Su.

⁹⁵ The SCRC evaluates whether states are applying these requirements through the "substantially similar" certification process, which explicitly references requirements found in Section 4(a). General requirements for federal stablecoin regulators, state stablecoin regulators, and Treasury to issue timely rules, coordinate as appropriate on rulemaking, and report on rulemaking to the congressional committees of jurisdiction are found in Sections 4(h), 5(g), 7(d), and 13. Under Section 5(g), the federal regulators may not impose additional requirements on issuers that are not specified in Section 4.

⁹⁶ Some of these requirements are similar to New York State's requirements for stablecoin issuers licensed there. See letter from Harris, Superintendent of Financial Services, to certain entities.

- **1 to 1 backing.** Section 4(a) requires issuers to hold assets (called reserves) on a 1 to 1 basis equal in value to all of the stablecoins it has issued.⁹⁷
- **Permissible reserves.** Section 4(a) limits the types of assets that reserves can be invested in. Deciding which assets are permissible involves a trade-off between safety and soundness, on the one hand, and profitability for the issuer, on the other. A stablecoin backed entirely by cash balances would face no risk of losing its peg but would earn the issuer no interest income. Alternatively, the issuer could maximize profits by investing reserves in illiquid, risky assets that have a high expected rate of return. But an issuer employing that strategy might be unable to meet redemption requests on demand, and losses on the reserves could cause the market value of reserves to fall below the par value of outstanding stablecoins.⁹⁸ Under Section 4(a), stablecoins must be backed by a narrow range of permitted assets (or similar assets approved by the regulator) that are relatively liquid and face limited default risk.⁹⁹ Tokenized versions of eligible assets are allowed, which, because of their novelty, may pose additional risks, such as operational risks. The act allows issuers to hold both repurchase agreements (repos) and reverse repos,¹⁰⁰ meaning that issuers may borrow and lend in the repo market—both of which pose risks.¹⁰¹ Rehypothecation of reserves (use of reserves as collateral in other transactions) is prohibited, with exceptions for repo market activities and others.
- **Capital requirements.** Section 4(a)(4) requires regulators to implement tailored capital requirements, which the act does not define. Generally, capital requirements require issuers to hold a minimum amount of capital, which might take the form of owner's equity, to be available to absorb losses, potentially preventing insolvency or the value of the stablecoins from falling below its peg.¹⁰² Although regulators are mandated to implement capital requirements, those requirements are not to exceed what is sufficient and must be tailored, so regulators might decide that capital requirements set at zero are sufficient for

⁹⁷ The 1 to 1 requirement raises the issue of what values should be assigned to reserves and stablecoins to calculate the ratio—current market values or book values. If the market value of reserves falls below the book value, the proceeds from liquidating all assets would be insufficient to redeem all outstanding stablecoins.

⁹⁸ Eligible assets for stablecoin issuers are more expansive than for government money market funds, which may invest only in cash, government securities, and repurchase agreements that are fully collateralized. See 17 C.F.R. §270.2a-7.

⁹⁹ Issuers can hold reserves in uninsured deposits at banks, and these deposits can lose value in the event of a bank failure. In fact, reserves held as uninsured deposits at Silicon Valley Bank (SVB) caused USDC to briefly break its peg when SVB failed in 2023. The peg was restored when the FDIC announced that it would guarantee SVB's uninsured deposits under its systemic risk exception.

¹⁰⁰ For background, see CRS In Focus IF11383, *Repurchase Agreements (Repos): A Primer*, by Marc Labonte.

¹⁰¹ Repo borrowing can create leverage that multiplies potential profits and losses, while repo lending risks a repo “fail” (where the borrower does not repay), which is not uncommon but is problematic only if the collateral has lost value. The benefit of allowing borrowing in the repo market would be to provide a source of liquidity to quickly meet unexpected redemption requests. The benefit of allowing lending in the repo market would be to allow the issuer to earn interest on otherwise unused cash holdings.

¹⁰² Section 4(a)(4)(C) exempts a bank's stablecoin subsidiary from the “Collins amendment,” which requires the assets of all subsidiaries to count toward the organization's overall capital requirements, which must be no lower than the bank subsidiaries' capital requirements. If the Collins amendment applied, stablecoin assets would count toward the calculation of a bank's or bank holding company's overall required capital-to-asset ratio, so the exclusion effectively reduces its capital requirements and undermines the general purpose of the Collins amendment (i.e., that capital across the consolidated holding company should not be lower than within the bank subsidiary). Section 4(g) exempts stablecoin reserves from the thrift lender test for stablecoins issued by savings associations.

some or all issuers.¹⁰³ However, since only reserve assets must be limited to relatively safe assets, it might be desirable to mandate capital requirements to reduce the risk that the issuer becomes insolvent because of losses on its non-reserve assets, which face no limitations on the types of assets and what credit or liquidity risk they entail.¹⁰⁴ Alternatively, regulators might require capital be held to safeguard against operational risk (e.g., the risk of losses due to hacking).

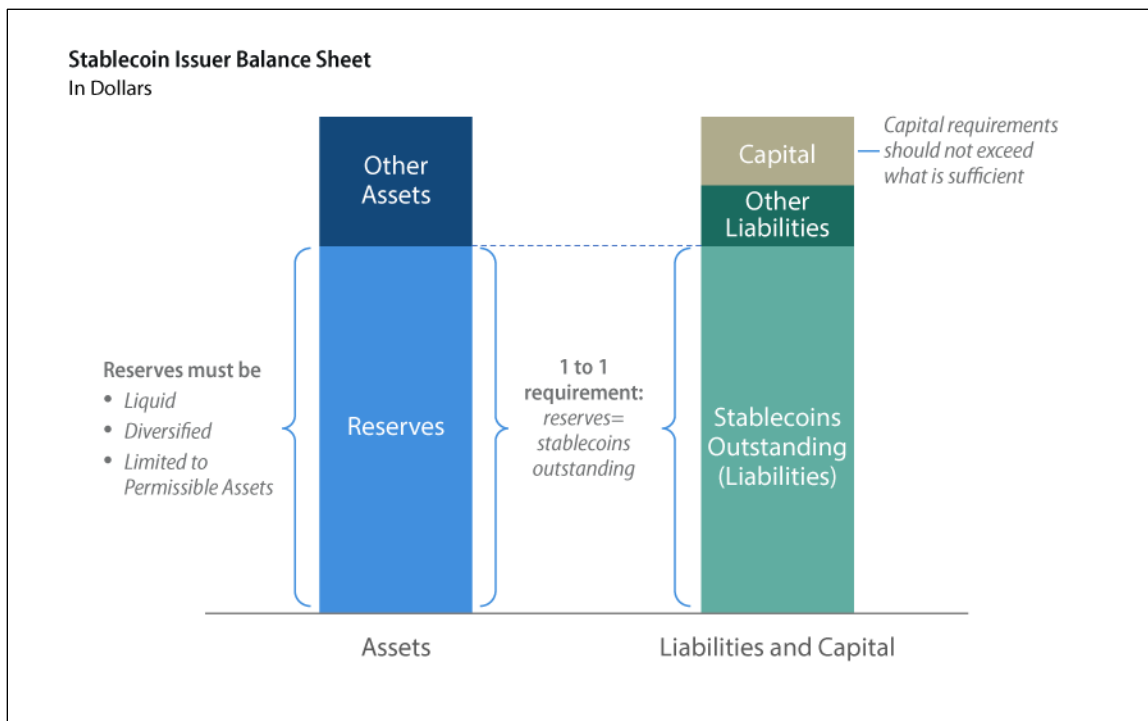
- **Liquidity requirements.** Section 4(a)(4)(A)(ii) calls for the regulators to implement the liquidity standard in Section 4(a)(1)(A). There is no explicit liquidity standard in that section. Generally, liquidity requirements mandate that issuers keep a minimum level of cash or liquid assets that can be readily converted to cash to meet customer redemption requests.
- **Diversification requirements.** Section 4(a) requires regulators to implement tailored diversification requirements, which are to include deposit concentration limits and interest rate risk management. Diversification requirements reduce the risk that reserves are concentrated in one particular asset in case that asset loses value or becomes illiquid.¹⁰⁵
- **Risk management requirements.** Section 4(a) requires regulators to subject issuers to “appropriate,” “principles-based,” and “tailored” risk management requirements, addressing operational, compliance, information technology, BSA, and sanctions compliance risks.

¹⁰³ Of note, money market funds, which have a similar asset/liability structure, do not have capital requirements. See CRS Report R47309, *Money Market Mutual Funds: Policy Concerns and Reform Options*, by Eva Su.

¹⁰⁴ Regulators could limit the non-reserve assets of an issuer if they found that those assets were not incidental to permitted stablecoin activities (as discussed in the “Limitations” section). If the issuer holds inadequate capital, losses on other assets could result in the issuer’s insolvency, even if the outstanding stablecoins remain fully backed by reserve assets. Under Section 11, in a bankruptcy proceeding, stablecoin holders receive priority to reserves that should reduce their risk of losses, but timely redemption for holders might be suspended during bankruptcy.

¹⁰⁵ Since there are no affiliate restrictions in the GENIUS Act, robust diversification requirements might address the risk that reserve assets are controlled by an affiliate whose failure could put the issuer at risk. For example, if an issuer affiliated with a bank kept uninsured deposits at that bank, those reserves would be both an asset and a liability of the shared parent company.

Figure 5. GENIUS Act Prudential Requirements and the Issuer Balance Sheet



Source: CRS.

Notes: See text for details.

Avoiding Government Guarantees

Arguably, prudential regulation of stablecoins is primarily to address *run risk* (see **text box** entitled “Analysis: Addressing Run Risk” below)—a scenario where issuers face sudden, simultaneous, and overwhelming redemption demands by holders. For other products that face run risk, such as bank deposits and money market funds, policymakers have found that temporary or permanent government guarantees have been necessary to end and avoid runs. Section 4(e)(1) of the GENIUS Act states that stablecoins are not backed or guaranteed by the federal government or eligible for federal deposit insurance, so there is no prearranged or prefunded federal mechanism to prevent a run. However, policymakers might be tempted to provide ad hoc government bailouts—as they did to prevent money market fund runs in 2008 and 2020¹⁰⁶—to end a stablecoin run if they thought financial stability was threatened. Whereas a prearranged insurance mechanism could be funded by the issuer (similar to how federal deposit insurance is funded by premiums paid by banks), historically, ad hoc financial bailouts have imposed at least some of the risk of losses directly on taxpayers. A belief that stablecoins will be bailed out would pose moral hazard—if issuers and holders believe that ad hoc bailouts would be provided, they would have incentives to take greater risks in pursuit of higher profits.

The act includes restrictions that prohibit issuers from falsely marketing stablecoins as issued, backed, guaranteed, or insured by the government or the FDIC under penalty of law. To limit the possibility that consumers would incorrectly believe that to be the case, the act also prohibits

¹⁰⁶ Money market funds received temporary federal guarantees and emergency Federal Reserve programs to help funds meet redemption requirements. For more information, see CRS Report R43413, *Costs of Government Interventions in Response to the Financial Crisis: A Retrospective*, by Baird Webel and Marc Labonte.

stablecoins from including “United States,” “United States Government,” or “USG” in their names. However, the act explicitly permits use of “USD” in the name of a stablecoin, which might be construed as signifying that the stablecoin is a digital representation of a U.S. dollar. USD is used in the name of the stablecoins USDT, issued by Tether; USDC, issued by Circle; USDS, issued by Sky Dollar; and USD1, issued by World Liberty Financial, among others.

Analysis: Addressing Run Risk

In many parts of finance, financial regulation is relatively indifferent to whether a service provider fails—based on the belief that the market is more effective than the government at weeding out poorly run firms—and so prudential regulations are limited. For example, stablecoin issuers could previously seek to be state licensed as money services businesses (MSBs), which faced limited prudential requirements and supervision.¹⁰⁷ When prudential requirements are applied, it is often to prevent losses to the government or financial instability. For example, banks face prudential requirements for both reasons. Prudential requirements can also be rationalized when the costs of monitoring the health of the provider are unrealistically high for the individual customer, such as a bank depositor or an insurance policy holder.

Stablecoins are inherently prone to run risk because of the fixed value of their liability relative to the value of their reserves—if holders believe that they will receive less than parity on redemption because stablecoin reserves fall in value or become illiquid, they have an incentive to redeem them as quickly as possible (before reserves are depleted). When many holders do this simultaneously, a run results. Given the first-mover advantage in a run, in a panic, runs could undermine even stablecoins whose reserves have not lost value.

Runs could cause financial instability in a scenario where stablecoins have become critical for completing payments and a loss of confidence disrupted the functioning of the payment system—if the peg were broken or at risk of being broken, stablecoins would likely become unacceptable to businesses and consumers to make payments or to hold as a cash equivalent. The amount of systemic risk that stablecoins pose would presumably increase as their adoption rate for payments increases. A run could also cause financial instability if the issuer were too big to fail.¹⁰⁸ Financial instability could also result from the liquidation of reserves destabilizing banks where reserves are held through a sudden withdrawal in deposits or destabilizing the Treasury or repurchase agreement (repo) markets when redemptions cause a fire sale of those reserves.¹⁰⁹ Conversely, a run could be caused by instability in the products that their reserves are held in. For example, revelations that Circle held \$3.3 billion of stablecoin reserves as uninsured deposits at Silicon Valley Bank at the time of its failure caused USDC to temporarily de-peg from the U.S. dollar and drop to less than \$0.88 before regaining the peg when it became clear that all Silicon Valley Bank deposits would be guaranteed by the Federal Deposit Insurance Corporation (FDIC).¹¹⁰

Prudential requirements reduce the risk of a run but do not eliminate it. Although the reserves backing stablecoins are limited to relatively safe assets, these assets can nevertheless decline in value because of movements in interest rates or a liquidity crunch, for example. A few other provisions of the GENIUS Act are also relevant to run risk. The requirement that the issuer must have procedures ensuring timely redemptions, which can be limited only by the issuer’s regulator, provides a way for regulators to block redemptions in a run until calm is restored (although it creates incentives for holders to withdraw before a pause has been implemented). Similarly, once initiated, the bankruptcy provisions (discussed in the “Stablecoin Issuer Insolvency Proceedings” section below) create an orderly process that could neutralize a run.

¹⁰⁷ See CRS Report R46486, *Telegraphs, Steamships, and Virtual Currency: An Analysis of Money Transmitter Regulation*, by Andrew P. Scott.

¹⁰⁸ Financial firms are said to be too big to fail when their failure would trigger financial instability because they are the key participants in a certain market or because their failure would cause counterparties to fail. See CRS In Focus IF12755, “Too Big to Fail” *Financial Institutions: Policy Issues*, by Marc Labonte.

¹⁰⁹ A repo fire sale would involve a sudden unwillingness for lenders to extend repo financing, reducing the amount of financing available or requiring stricter terms (e.g., larger haircuts) that would effectively reduce the amount of financing available. For research on how stablecoin demand shocks affect the markets of reserve assets, see Eugenio Cerutti et al., *Stablecoin Shocks*, International Monetary Fund, March 2026, <https://www.imf.org/-/media/files/publications/wp/2026/english/wpica2026044-source-pdf.pdf>.

¹¹⁰ Jeremy Allaire (@jerallaire), “Sharing an Update on USDC and Silicon Valley Bank,” X post, March 11, 2023, <https://x.com/jerallaire/status/1634650306234515460?s=20>. Jeremy Allaire is CEO of Circle.

Disclosure

Public disclosure and reporting requirements promote consumer protection by allowing consumers to make informed choices about whether to hold a specific stablecoin. Greater public confidence through disclosures might increase demand for stablecoins and make them less prone to runs. However, the compliance costs that disclosure imposes give issuers a reason to prefer that disclosures be limited.

Redemption

Section 4 of the GENIUS Act requires issuers to publicly disclose their redemption policies and fees. It requires those policies to establish “clear and conspicuous procedures for timely redemption,” potentially protecting consumers and reducing run risk. However, under current market practice, issuers do not redeem stablecoins for retail investors—they redeem them only for exchanges and institutional investors.¹¹¹ Retail investors redeem through DASPs, and the act does not place any redemption requirements on DASPs, nor does it offer a definition of *holders* to clarify whether requirements protecting holders apply to retail investors or primary market institutional investors.¹¹²

Periodic Reporting Requirements

Section 4 of the GENIUS Act also requires monthly disclosure of an issuer’s reserves, which must be examined by a public accounting firm and certified by the issuer’s chief executive officer and chief financial officer on criminal penalty for knowingly false disclosures.¹¹³ Disclosure requirements in the act are tailored. Issuers with over \$50 billion in stablecoins outstanding must also produce publicly available annual reports under generally accepted accounting principles (GAAP) that are audited by a registered public accounting firm under Public Company Accounting Oversight Board standards. Currently, the only stablecoin issued by a U.S.-based company with greater than \$50 billion in circulation is USDC, issued by Circle. An official audit is a higher, more intensive, and costlier standard to confirm the accuracy and reliability of an issuer’s financial statements than the requirement for smaller issuers that an accounting firm examine its monthly reserve disclosures. Outside of stablecoins, official annual audits of financial reports are required for publicly traded companies.¹¹⁴ While businesses use examinations instead of official audits in certain contexts for business purposes, an official audit is a more common requirement in financial regulation.¹¹⁵

¹¹¹ One law review article argues that current market practice (where only institutional customers can redeem payments with issuers) and the terms and conditions that major stablecoin issuers impose on holders are at odds with timely redemption requirements for retail investors. See Odinet et al., “The Moneyness of Stablecoins.”

¹¹² See Bank Policy Institute, “Built on Fault Lines: Four Sources of Instability in Stablecoins,” June 11, 2026, <https://bpi.com/built-on-fault-lines-four-sources-of-instability-in-stablecoins/>.

¹¹³ The monthly reserve disclosure is found in Section 4(a)(1)(C). The examination and certification requirements reference the report found in Section 4(a)(1)(D), a section that does not exist. This is presumably a drafting error, and those requirements are intended to reference Section 4(a)(1)(C).

¹¹⁴ Public Company Accounting Oversight Board, “Investor Bulletin: Why Audits Matter,” March 26, 2025, <https://pcaobus.org/resources/information-for-investors/investor-advisories/investor-bulletin-why-audits-matter>.

¹¹⁵ The act defines “auditing” in reference to the Securities and Exchange Act of 1934 as amended but does not define “examinations.” The Public Company Accounting Oversight Board has standards for “examinations” that stablecoin regulators might choose to follow when implementing this requirement. See Public Company Accounting Oversight Board, “Section 301: Financial Forecasts and Projections,” in *Attestation Standards*, <https://pcaobus.org/oversight/standards/attestation-standards/details/AT301>.

Disclosure issues surrounding stablecoins have arisen in the past. Tether was previously fined by the CFTC “for making untrue or misleading statements and omissions of material fact.”¹¹⁶ While Tether had claimed that its stablecoin was always “100% backed by corresponding fiat assets,” the CFTC found that Tether “misrepresented to customers and the market” that the company maintained sufficient dollar reserves between June 1, 2016, and February 25, 2019.¹¹⁷

Limitations on Issuers

This section discusses the various limitations that the GENIUS Act puts on issuers.¹¹⁸

Activities Limitations

Under Section 4(a)(7), issuers are limited to activities related to stablecoins—issuing and redeeming stablecoins; managing reserves; providing custody and safekeeping for stablecoins, reserves, and keys; conducting any other activities that directly support these activities or are specified by the act; and providing incidental activities approved by regulators. The concept of incidental activities comes from banking law, where the same regulators have approved a fairly broad range of activities as being incidental to banking. Depending on how regulators define incidental activities, DASPs, for example, could be eligible to issue stablecoins and be in compliance with these restrictions.

On its face, the narrow limitation on permissible activities would seem at odds with the fact that the act allows any type of company to issue stablecoins (if approved by the SCRC, in the case of a commercial company), regardless of its business lines. This seeming conflict between provisions might be resolved by a company issuing stablecoins through a legal subsidiary, which would be limited to those activities, although the act does not explicitly require it unless the issuer is owned by a bank IDI. The act also does not include requirements surrounding company control, as are found in banking law. So the limitations-on-activities requirement might also be met by a company that does not comply with the activities limitations if that company has a controlling stake in an issuer that does.

Tying Limitations

To prevent anticompetitive behavior, Section 4(a)(8) of the act prohibits “tying,” which is when issuers make the sale of stablecoins contingent on the purchase of other services or prevent holders from purchasing a competitor’s services. Anti-tying requirements are also found in banking regulation.

Felony Limitations

Section 4(f) prevents issuers from hiring high-level executives (officers or directors) who were convicted of a felony involving offenses such as insider trading, embezzlement, money laundering, or financial fraud.¹¹⁹ President Trump has pardoned several crypto executives convicted of crimes like these, such as Changpeng Zhao, the founder of Binance, the largest

¹¹⁶ CFTC, “CFTC Orders Tether and Bitfinex to Pay Fines Totaling \$42.5 Million,” press release, October 15, 2021, <https://www.cftc.gov/PressRoom/PressReleases/8450-21>.

¹¹⁷ CFTC, “CFTC Orders Tether and Bitfinex to Pay Fines Totaling \$42.5 Million.”

¹¹⁸ The act’s prohibition on interest is covered in the “Yield Restrictions” section. Limitations related to foreign issuers are addressed in the “Foreign Stablecoins” section.

¹¹⁹ The act does not address how regulators would know who an issuer’s executives were on an ongoing basis to enforce this requirement, but the act provides the regulators the authority to require reporting from issuers.

cryptocurrency exchange.¹²⁰ Zhao pleaded guilty in November 2023 for, among other things, failing to implement an effective money-laundering program and violating the BSA and sanctions programs.¹²¹ For a legal analysis of whether this type of prohibition would apply to a pardoned individual, see CRS Report R46179, *Presidential Pardons: Overview and Selected Legal Issues*, by Michael A. Foster.

Yield Restrictions

Section 4(a)(11) of the GENIUS Act states that

no permitted payment stablecoin issuer or foreign payment stablecoin issuer shall pay the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.

While this provision appears to create a blanket prohibition on interest, the restriction may not apply to the current market practice for issuing and holding stablecoins involving exchanges (the “three-party model” shown in **Figure 6**), where much retail use of stablecoins currently occurs. The exchange holds the stablecoin in custody—on the blockchain—on behalf of the retail investor; the issuer passes interest on reserves to the exchange, which it uses to pay the investor yield. The GENIUS Act does not explicitly prevent exchanges from paying rewards on stablecoins held on their exchange (which can be structured to be effectively equivalent to yield)—and many do pay such rewards.¹²² Also, some issuers reportedly pay exchanges a marketing budget to use at their discretion, which can presumably be passed on to holders of specific stablecoins.¹²³ Therefore, while the issuer may not be paying the holder (the investor) directly, they are supplying the funding that is simply passed through the exchange.

The GENIUS Act did not define the term *holder*, so it remains to be seen whether the yield ban will be applied to the intermediary that bought and custodies the coin (e.g., the exchange) or the investor that owns the coin in the three-party model. Should rulemaking or a future court case define the term *holder* to include an exchange (as some have argued)¹²⁴ or find the status quo otherwise in violation of the yield ban, this could limit issuers’ ability to pay yield. If the prohibition is deemed not to apply to the three-party model, Congress could consider a blanket ban on yield to close this perceived loophole. However, exchanges also pay investors yield to lend out their holdings, for example. This type of yield could be caught up in a blanket ban.

¹²⁰ President Donald J. Trump, “Executive Grant of Clemency,” October 21, 2025, <https://www.justice.gov/pardon/media/1416576/dl?inline>.

¹²¹ Plea Agreement, *United States v. Zhao*, No. CR23-179RAJ (D. Wash. November 21, 2023), <https://www.justice.gov/criminal/media/1327936/dl?inline>.

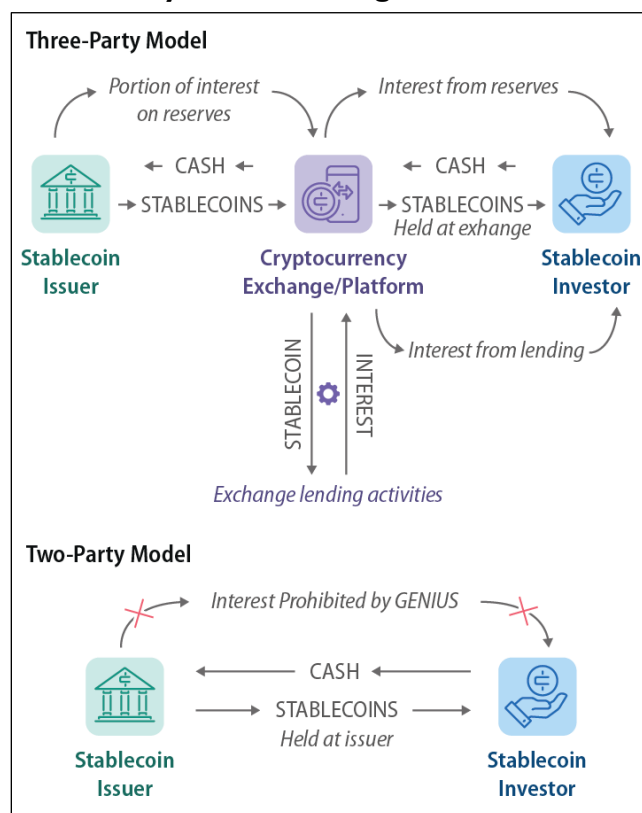
¹²² See <https://www.coinbase.com/usdc>. According to a regulatory filing, Circle pays a portion of the interest it earns on its reserves to Coinbase, the largest U.S.-based crypto exchange, proportionate to the stablecoins held on that platform. See Circle Internet Group, *United States Securities and Exchange Commission, Form S-1: Registration Statement*, August 12, 2025, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001876042/8795da7d-acd8-401c-ba94-f063c1249110.pdf>.

¹²³ David Yaffe-Bellany, “Binance Gives Trump Family’s Crypto Firm a Leg Up,” *New York Times*, February 7, 2026, <https://www.nytimes.com/2026/02/07/business/binance-trump-crypto.html>.

¹²⁴ Lee Reiners, “Coinbase, and the Prohibition on Interest Under the GENIUS Act,” Columbia Law School Blue Sky Blog, December 11, 2025, <https://clsbluesky.law.columbia.edu/2025/12/11/circle-coinbase-and-the-prohibition-on-interest-under-the-genius-act/>.

Although this arrangement also raises policy issues surrounding consumer protection and conflicts of interest, it has not been the focus of legislative proposals.¹²⁵

Figure 6. Two- and Three-Party Models Through Which Stablecoin Yield Can Be Paid



Source: CRS.

An issuer could also provide stablecoins directly to retail customers, who would be the “holders” in the “two-party model.”¹²⁶ This two-party model, shown in **Figure 6**, may be more likely in situations where issuers, such as banks, already have an infrastructure for retail users. In this situation, the issuer is prohibited from paying interest, placing them at a competitive disadvantage, as discussed in the next section, if yield is allowed under the three-party model.¹²⁷

¹²⁵ Denise Garcia Ocampo, *Stablecoin-Related Yields: Some Regulatory Approaches*, Financial Stability Institute, October 2025, <https://www.bis.org/fsi/fsibriefs27.pdf>.

¹²⁶ The restriction on yield would presumably apply whether the issuer custodies the stablecoin or the customer self-custodies the stablecoin.

¹²⁷ If a DASP (or a subsidiary of a DASP) issued its own stablecoin, that might also be considered a two-party model. In addition, banks might decide to create a consortium, such as a clearinghouse, to manage settlement that reproduces a three-party model eligible to pay interest.

Analysis: Stablecoins and Deposits

Restrictions on yield were omitted, added, and then weakened as the GENIUS Act moved through the legislative process.¹²⁸ Following bank opposition to the perceived loophole in the version of the GENIUS Act that became law,¹²⁹ there was reportedly significant disagreement between the banking industry and crypto industry about whether changes to that provision should be included in the Senate Committee on Banking, Housing, and Urban Affairs' crypto market structure draft. On January 14, 2026, Coinbase pulled support for an earlier draft of the market structure bill.¹³⁰ The bill, with a new yield provision, was ordered to be reported in May 2026. The provision would prohibit digital asset service providers (DASPs) from paying yield on a user's holdings in a way that is "economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit."¹³¹ This amended provision received support from Coinbase but was opposed by banking groups.¹³²

Payment stablecoins are intended to facilitate retail payments, but they can also be held as relatively liquid and nonvolatile assets to store wealth. That makes them a potential substitute for bank deposits that could reduce banks' deposit base as the stablecoin market grows. According to one model, demand for stablecoins would rise significantly with yield, increasing their appeal as a store of value.¹³³ Since overall deposit rates are lower than short-term Treasury or repurchase agreement (repo) rates, prevailing interest rates will affect the relevance of yield and the growth of the stablecoin market as a substitute to bank deposits.

The banking industry claims that the ability to pay interest on stablecoins could result in a significant drain of bank deposits, as customers substitute deposits for stablecoins to earn higher interest. Currently, stablecoins are small compared to bank deposits—a Treasury Department advisory council identified U.S. transactional deposits (a \$6.6 trillion market) as potentially substitutable with stablecoins. At current market size—the value of stablecoins outstanding was around \$293 billion in May 2026—stablecoins are too small to displace a significant share of deposits, but the former are growing quickly and face no functional upper bounds.¹³⁴ Therefore, banks favor the strict prohibition on paying interest on stablecoins and have argued to close the third-party loophole in the GENIUS Act.¹³⁵ The crypto industry views bank opposition to yield as anticompetitive behavior by an entrenched incumbent—bank deposits could pay depositors higher interest to discourage substitution¹³⁶—to thwart entry by a potential competitor.¹³⁷ Banks argue that stablecoins do not compete on a level playing field and could benefit from regulatory arbitrage, since issuers are subject to less complex, costly, and far-reaching regulatory requirements than banks. However, issuers are permitted to engage in far more limited activities than banks and play a more circumscribed role in the financial system.

Deposits and stablecoins are not perfect substitutes, however.¹³⁸ Some uses of stablecoins, such as crypto trading, illicit activity, foreign remittances, and a store of wealth for foreigners, are less likely to cause substitution with U.S. deposits. To the extent that digital assets supplant traditional bank deposits, tokenized deposits and tokenized money market funds may serve as better blockchain substitutes than stablecoins.¹³⁹ For example, the Federal Deposit Insurance Corporation (FDIC) chair has suggested that tokenized deposits would receive federal deposit insurance.¹⁴⁰

From a macroeconomics perspective, were consumers to substitute stablecoins for deposits on a large scale, it might have negative implications for the cost and supply of credit to U.S. businesses and consumers since banks rely on deposits as a stable and inexpensive way to fund their loans and other activities. Banks could raise the interest rates that they pay to depositors to make substitution less attractive or replace lost deposits with more expensive forms of funding, with negative implications for the cost of bank credit.¹⁴¹ By contrast, GENIUS Act limitations on permissible reserves prohibit stablecoin issuers from financing private credit to businesses and households.¹⁴² Various studies have estimated a wide range of outcomes for the effects of stablecoins on bank deposits and lending, depending on factors such as what assumptions are made about the growth in stablecoins, their substitutability for deposits, what share of stablecoin reserves are held as deposits, the relative rate of interest paid on deposits and stablecoins, and how lending responds to a decline in deposits.¹⁴³

The effect of stablecoin adoption on bank funding (and therefore the provision of bank credit) is not clear cut, however. Even if stablecoins do not directly provide credit, funds are fungible across financial markets. For example, stablecoin issuers are allowed to hold reserves in the form of bank deposits. If issuers held 100% of their reserves in deposits, there would be no decrease in the overall deposit base when consumers shifted from deposits to stablecoins, just a shift in who held deposits—although the share that is insured and the distribution of deposits across banks would likely change.¹⁴⁴ Even some other permissible types of stablecoin reserves, such as repo funding, can be a substitute source of funding for banks (although it would be a less attractive source of funding than deposits).

Overall, there are costs and benefits to prohibiting stablecoin yield. In a static comparison, it would make stablecoin investors worse off, as the money that would be paid out to them is instead retained (likely as profit) by the issuer. However, if depositors shift to stablecoins, their savings are no longer federally insured up to the insurance limit—a risk exposure that some consumers may not be aware they are bearing. Instead of competing

¹²⁸ S. 394 omitted a yield ban. S. 919 defined a payment stablecoin as “not offer[ing] a payment of yield or interest.”

¹²⁹ American Bankers Association, “Joint Trades CEO Letter Urges Congress to Close Stablecoin Loophole,” January 12, 2026, <https://www.aba.com/advocacy/policy-analysis/joint-trade-association-letter-on-stablecoin-loophole>.

¹³⁰ See Brian Armstrong (@brian_armstrong), “After reviewing the Senate Banking draft text over the last 48hrs, Coinbase unfortunately can’t support the bill as written,” X post, January 14, 2026, https://x.com/brian_armstrong/status/2011545247105355865. Letter from American Bankers Association et al. to Sen. Tim Scott, chairman, and Sen. Elizabeth Warren, ranking member, Senate Committee on Banking, Housing, and Urban Affairs, May 8, 2026, <https://bpi.com/wp-content/uploads/2026/05/Joint-Trades-Letter-Section-404-of-the-CLARITY-Act-05.08.26.pdf>.

¹³¹ Amendment in the Nature of a Substitute to H.R. 3633, introduced by Sen. Tim Scott, Senate Committee on Banking, Housing, and Urban Affairs, May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/ehf26374.pdf>. The House-passed version of H.R. 3633 does not have a stablecoin yield provision.

¹³² See Brian Armstrong (@brian_armstrong), “Mark it up,” X post, May 1, 2026, https://x.com/brian_armstrong/status/2050325975226081308?s=20.

¹³³ Bank Policy Institute, “The Risks from Allowing Stablecoins to Pay Interest,” September 25, 2025, <https://bpi.com/the-risks-from-allowing-stablecoins-to-pay-interest/>.

¹³⁴ Treasury Borrowing Advisory Committee, “Digital Money,” April 30, 2025, <https://home.treasury.gov/system/files/221/TBACCharge2Q2025.pdf>. Value of stablecoins from DeFiLlama, “Stablecoin Market Cap Chart, Supply & Peg Data,” <https://defillama.com/stablecoins?backing=FIATSTABLES&pegtype=PEGGEDUSD>.

¹³⁵ American Bankers Association, “Joint Trades CEO Letter Urges Congress to Close Stablecoin Loophole.”

¹³⁶ The regulatory prohibition on banks paying interest on demand deposits was repealed in 2011.

¹³⁷ Alec Gutierrez, “The Anticompetitive Effects of Closing the GENIUS Act’s Rewards ‘Loophole,’” *University of Miami Business Law Review*, 2025, <https://business-law-review.law.miami.edu/the-anticompetitive-effects-of-closing-the-genius-acts-rewards-loophole/>.

¹³⁸ Deposits and stablecoins are not perfect substitutes for several reasons. First, bank demand deposits must be redeemable on demand, whereas stablecoins are subject to “timely” redemption requirements (regulations defining “timely” have not yet been promulgated). Second, bank deposits are federally insured up to a limit, whereas stablecoins have no federal backing. Third, stablecoins sometimes trade for less than par, whereas deposits can always be withdrawn at par. Fourth, banks can pay interest on demand deposits, whereas stablecoin issuers face the yield prohibition. Fifth, demand deposits are interchangeable with physical currency, unlike stablecoins. Sixth, unlike insured deposits, stablecoins do not have “singleness”—a holder must consider the issuer and cannot treat all stablecoins as perfect substitutes.

¹³⁹ For background, see CRS In Focus IF12670, *Tokenized Assets*, by Paul Tierno.

¹⁴⁰ Katanga Johnson, “FDIC Considers Guidance Over Tokenized Deposit Insurance,” *Bloomberg*, November 13, 2025, <https://www.bloomberg.com/news/articles/2025-11-13/fdic-considers-guidance-over-tokenized-deposit-insurance>.

¹⁴¹ Jeff Huther and Yikai Wang, “How Stablecoins Could Affect Borrowing Costs for the Government, Businesses and Households,” *ABA Banking Journal*, July 14, 2025, <https://bankingjournal.aba.com/2025/07/how-stablecoins-could-affect-borrowing-costs-for-the-government-businesses-and-households/>.

¹⁴² The effect on credit would occur even if customers shifted to bank-issued stablecoins, as the lending prohibition would still apply.

¹⁴³ White House, “Effects of Stablecoin Yield Prohibition on Bank Lending,” April 8, 2026, <https://www.whitehouse.gov/research/2026/04/effects-of-stablecoin-yield-prohibition-on-bank-lending>; Jessie Jiaxu Wang, “Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation,” *FEDS Notes*, December 17, 2025, <https://doi.org/10.17016/2380-7172.3970>; Michael Junho Lee and Donny Tou, *Stablecoin Disintermediation*, Federal Reserve Bank of New York, February 2026, <https://doi.org/10.59576/sr.1185>; Carlo Altavilla et al., *Stablecoins and Monetary Policy Transmission*, European Central Bank (March 2026), <https://www.ecb.europa.eu/pub/pdf/scpwp/escb.wp3199~ad552b59ec.en.pdf>; Viktor Tsyrennikov, *Stablecoins’ Impact on Community Bank Deposits*, Charles River Associates, July 2025, <https://media.crai.com/wp-content/uploads/2025/07/22152125/Stablecoins-impact-on-community-bank-deposits-July2025.pdf>; Andrew Nigrinis, “Big Assumptions, Bigger Impacts: Rethinking Stablecoin Policy Findings: Who Lends to Main Street When the Deposits Leave?” (April 20, 2026), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6582639; and Citi Institute, “Digital Dollars: Banks and Public Sector Drive Blockchain Adoption,” April 2025, https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Blockchain_Digital_Dollar.pdf.

¹⁴⁴ The share of reserves held as bank deposits currently vary significantly by issuer, from less than 2% to 100%, but may increase because of GENIUS Act limitations on permissible reserves. See Wang, “Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation.”

on how much yield a customer is offered, issuers would compete on other grounds, with uncertain implications for the market.

In addition, because of their run risk, stablecoins also potentially pose systemic risk (see the **text box** entitled “Analysis: Addressing Run Risk” above), which would presumably increase as their use in payments increases. If holders believe that stablecoins will be bailed out by the government to end a run because of their systemic importance, this would create more demand for stablecoins, which may lead to a greater migration from bank deposits to stablecoins. By banning yield, the stablecoin market will grow more slowly, and bank funding will be more stable, potentially limiting improvements to retail payments as well as reducing systemic risk.

The disagreement over yield may prove to be a bellwether for the ongoing policy debate about the relationship between traditional finance and crypto. Disagreements between new and emerging industries are a timeless theme in financial regulation—for example, the yield debate has parallels to bank opposition to the emergence of money market funds as a substitute for deposits in the 1970s.¹⁴⁵

Summary of Regulatory Requirements

Table 1 summarizes the GENIUS Act’s regulatory requirements, excluding requirements related to illicit activity, which are discussed in the “Illicit Finance” section below.

Table 1. GENIUS Act Regulatory Requirements on U.S. Stablecoin Issuers
Excluding Illicit Finance Provisions

Section	Requirement	Description
4(a)(1)(A)	Reserves	1 to 1 eligible reserves backing stablecoins.
4(a)(1)(A)	Eligible reserves	Cash, deposits at Federal Reserve, demand deposits or insured shares at insured depositories, Treasuries with remaining maturity < 93 days, repurchase agreements (repos) collateralized by Treasuries, tri-party or centrally cleared reverse repos collateralized by Treasuries, government money market fund balances, other “similarly liquid” federal-issued assets approved by federal regulators.
4(a)(1)(B)	Redemption/fees	Public disclosure of redemption policy and fees, including timely redemptions.
4(a)(1)(C)	Disclosure	Monthly public disclosure of reserves.
4(a)(2)	Rehypothecation	Prohibition on rehypothecating reserves, with exceptions.
4(a)(3)	Certification	Monthly examination by registered public accounting firm of reserves disclosure, CEO and CFO certification of report, criminal penalty for knowingly false certification.
4(a)(4)(A) and (C)	Capital requirements	Capital requirements should be tailored and should not exceed sufficient levels; federal regulator may include a capital buffer (not defined); bank issuer reserves exempt from “Collins amendment” requirements.
4(a)(4)(A)	Liquidity requirements	Implement liquidity standard (undefined).
4(a)(4)(A)	Reserve diversification	Diversification requirements, including deposit concentration limits and interest rate risk management. Must be tailored and not exceed what is sufficient.
4(a)(4)(A)	Risk management	Appropriate and tailored operational, compliance, and IT risk management principles.

¹⁴⁵ Federal Reserve History, “Money Market Mutual Funds,” December 12, 2025, <https://www.federalreservehistory.org/essays/money-market-mutual-funds>.

Section	Requirement	Description
4(a)(7)	Limitation on activities	Issuers are limited to issuing and redeeming stablecoins, managing reserves, providing custody and safekeeping for stablecoins, reserves, and keys; any other activities that directly support these activities or are specified by the act; incidental activities approved by regulators.
4(a)(8)	Tying prohibition	Issuers may not provide services contingent on customer obtaining additional paid service or agreeing not to obtain a competitor's service.
4(a)(9), 4(e)	Deceptive naming/marketing	Issuers may not use "United States," "United States Government," or "USG" in the name; issuer may use "USD" if stablecoin pegged to U.S. dollar; issuers may not market stablecoin as legal tender or as issued, guaranteed, or approved by U.S. government or backed by U.S. government or FDIC insurance. Issuers may not market stablecoins as payment stablecoins in the United States unless they are in compliance with the act.
4(a)(10)	Reporting	If > \$50 billion stablecoins outstanding, issuers should prepare audited annual financial statement according to GAAP and PCAOB requirements.
4(a)(11)	Prohibition on interest	Issuers shall not pay holder interest or yield solely in connection with holding stablecoin. No prohibition on third-party yield.
4(a)(12)	Limitation on commercial issuers	Commercial firms must be approved by SCRC on the basis of statutory criteria.
4(f)	Limitation on executives	Individuals convicted of various white-collar felonies may not serve as officers or directors.
6(a)(2)	Reporting	On request, federal issuers shall provide their regulator reports on their financial condition, risk management systems, regulatory compliance, and BSA compliance.

Source: CRS analysis of P.L. 119-27.

Notes: BSA = Bank Secrecy Act; CEO = chief executive officer; CFO = chief financial officer; FDIC = Federal Deposit Insurance Corporation; GAAP = generally accepted accounting principles; IT = information technology; PCAOB = Public Company Accounting Oversight Board; SCRC = Stablecoin Certification Review Committee. See text for more details. The table does not include illicit finance or foreign issuer requirements, which are discussed in the "Illicit Finance" section below.

Foreign Stablecoins

Stablecoins are solely digital—they have no physical location when issued or held and can be traded anywhere by anyone with an internet connection. From a technical perspective, transactions with foreigners and foreign stablecoins are as seamless as transactions with people in the United States or U.S. stablecoins, regardless of where the transaction takes place. This complicates effective regulation, supervision, and enforcement, even given that Section 3(e) of the GENIUS Act states that it is "intended to have extraterritorial effect" for transactions involving U.S. persons. The four possible relationships between issuers and holders are shown in **Table 2**.

Table 2. Four Possible Relationships Between Issuers and Holders

Holder	Issuer	
	U.S.	Foreign
U.S.	A	C
Foreign	B	D

Source: CRS.

Notes: See text for discussion.

Of the four relationships shown in **Table 2**, A is easiest to regulate because both participants are under U.S. jurisdiction. Relationship D, in general, may not involve U.S. regulators and may be beyond U.S. jurisdiction (with possible exceptions for certain illicit finance, such as sanctions evasion and terrorism financing).¹⁴⁶ But Relationships B and C pose challenges because of the effective reach of regulators. The most draconian solution to ensuring policy goals are achieved would be to ban U.S. citizens from holding foreign-issued stablecoins and ban U.S. issuers from selling stablecoins to foreigners. But even this may be difficult to enforce because stablecoins are purely digital.

The GENIUS Act focuses primarily on U.S. issuers and holders. The GENIUS Act addresses Relationships A and B by requiring a U.S. issuer of payment stablecoins to register as a state or federal permitted issuer and comply with the act's requirements, with monetary penalties and referrals to the Department of Justice to ensure compliance. The act does not address Relationship D, but other U.S. laws may. The GENIUS Act addresses Relationship C through a number of restrictions discussed below.

In attempting to address Relationship C, the act is largely silent on the two-party model, referenced in **Figure 6**, focusing mainly on the three-party model, where an intermediary is between the two parties. Although the GENIUS Act largely does not involve intermediaries (i.e., DASPs) for domestically issued stablecoins, it does for foreign-issued stablecoins. Some of these restrictions apply to foreign issuers that wish to have their coins offered on DASPs with U.S. customers, and some apply to DASPs that wish to transact with U.S. customers outside or in the United States.

Restrictions on Foreign Issuers

Under Section 18 of the GENIUS Act, foreign issuers (including issuers located in U.S. territories) face the following restrictions if they do not register in the United States and want their stablecoins made available by DASPs to persons in the United States (see **Figure 7**):¹⁴⁷

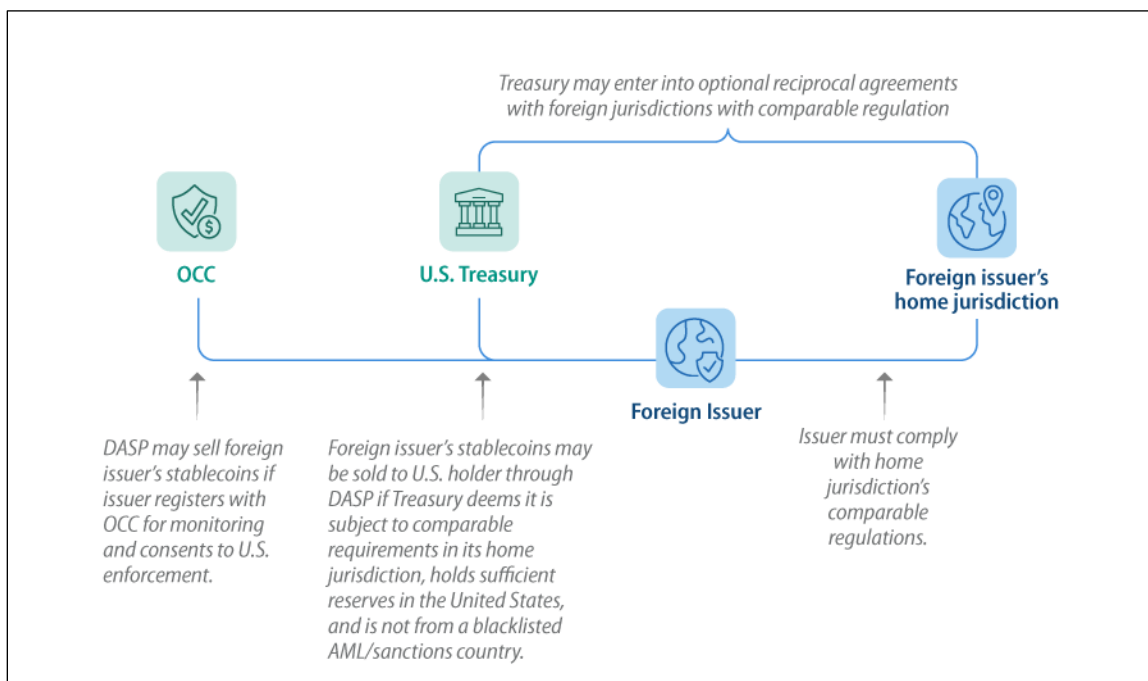
- the Treasury Secretary (on the recommendation of the other SCRC members) must determine that issuers are subject to regulation and supervision in their home country that is comparable to GENIUS Act requirements;

¹⁴⁶ This may result in the development of a large offshore U.S. dollar stablecoin market that is not regulated by the United States, similar to the large offshore dollar funding markets that are not regulated by the United States, such as the eurodollar market.

¹⁴⁷ The act defines a *person* as “an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.”

- issuers must register with the OCC¹⁴⁸ and be subject to OCC reporting requirements, supervision, and examination (issuers are not subject to the OCC regulatory requirements applied to U.S. issuers) and consent to U.S. enforcement of the act;
- issuers must hold sufficient reserves in a U.S. financial institution to meet U.S. holders' liquidity needs¹⁴⁹ (this requirement may be superseded by a reciprocal agreement, discussed in the "Reciprocal Agreements" section below); and
- issuers may not be domiciled in a jurisdiction subject to comprehensive U.S. economic sanctions or determined by the Treasury Secretary to be a primary money-laundering concern.¹⁵⁰

Figure 7. Foreign Issuer Requirements in the GENIUS Act



Source: CRS.

Notes: AML = anti-money laundering; DASP = digital asset service provider; OCC = Office of the Comptroller of the Currency. See text for details.

¹⁴⁸ The OCC may reject a foreign issuer's application if Treasury has not approved its home country's regulatory regime, if it lacks adequate financial and managerial resources, if it will provide adequate information to the OCC, or if it presents a risk to U.S. financial stability. It may rescind approval if the issuer is not in compliance with the requirements of the GENIUS Act, and the Treasury Secretary may revoke its license if the issuer presents illicit finance risks.

¹⁴⁹ Currently, the pseudonymous nature of stablecoins could make complying with this requirement difficult. Although for the portion of stablecoins held by DASPs, the DASP should be able to provide the issuer with the liquidity requirements of U.S. customers.

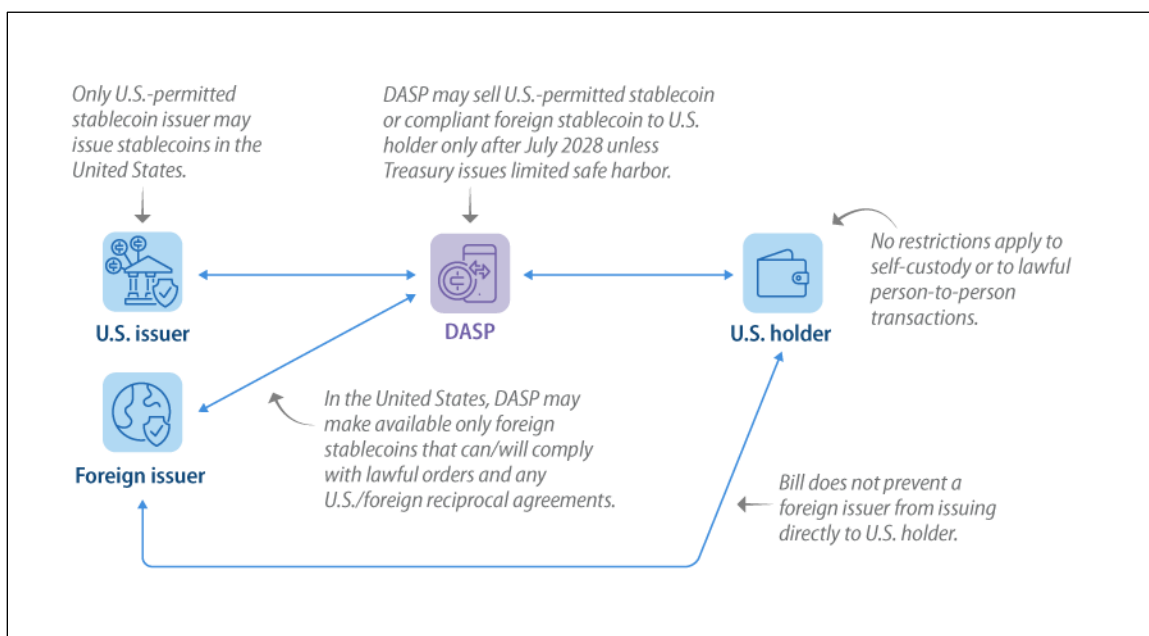
¹⁵⁰ The act does not set parameters surrounding how the Treasury Secretary should make a determination that a country is a primary money laundering concern. However, 31 U.S.C. §5318A(c), one of the statutes of the BSA, establishes various considerations and factors to be used when designating a jurisdiction as a primary money laundering concern.

Restrictions on DASPs

DASPs with U.S. customers or operations face the following restrictions (see **Figure 8**):

- After July 2028, DASPs may not offer or sell to a person in the United States a stablecoin issued by an issuer unlicensed in the United States¹⁵¹ unless it is issued by a foreign issuer complying with the restrictions listed in the preceding section; and
- DASPs may not offer, sell, or make available in the United States a stablecoin issued by a foreign issuer unless the issuer has the technological capability to comply and will comply with lawful orders and any reciprocal arrangements between the U.S. Treasury and its home country government.¹⁵²

Figure 8. Digital Asset Service Provider (DASP) Requirements Included in the GENIUS Act



Source: CRS.

Notes: See text for details.

Exclusions

The act does not include a prohibition on foreign issuers offering or selling stablecoins directly to U.S. persons,¹⁵³ which could render the intended restrictions unenforceable in such a case. All restrictions regarding foreign issuers involve their sale by a DASP and do not explicitly apply to foreign transactions not administered through a DASP. However, the prohibitions could be

¹⁵¹ Treasury can provide a limited safe harbor for de minimis transactions involving an unregistered issuer in unusual or exigent circumstances.

¹⁵² Enforcement and compliance of this requirement is described in the “Illicit Finance” section.

¹⁵³ The one exception is given in Section 8(b)(4)(B), which allows the Treasury Secretary to impose monetary penalties and seek an injunction on foreign issuers that have been banned by the Secretary but continue to offer stablecoins to or engage in financial transactions in the United States or with U.S. persons.

maintained if regulators conclude that issuers meet the definition of a DASP.¹⁵⁴ None of these restrictions apply in the case of (1) direct transfers between two individuals acting on their own behalf (e.g., not involving a DASP) for their own lawful purposes, (2) transactions between the same individual's U.S. and foreign account when the accounts are offered by the same company, or (3) transactions using software or hardware that facilitates self-custody.¹⁵⁵ Since defi protocols (such as liquidity pools) are explicitly exempted from the act's definition of DASP, unapproved foreign stablecoins could continue to be purchased and traded on defi protocols by U.S. persons acting on their own behalf using self-custody wallets. According to one estimate, most stablecoins are held and traded outside of exchanges.¹⁵⁶ In addition, these restrictions apply only to stablecoins that meet the act's definition of *payment stablecoin*, so they do not include stablecoins that are not used for payments (as determined by regulation, discussed in the "What Is a Payment Stablecoin?" section above).

The act does not impose enforceable restrictions on U.S. stablecoin holders, however, which will make it more difficult to prevent U.S. holders transacting in foreign stablecoins (Relationship C in **Table 2**) from evading restrictions. The act states that these restrictions are intended to have an extraterritorial effect when a U.S. holder is involved. However, it may be difficult for the U.S. government to prevent a foreign DASP or issuer with no U.S. presence from offering unapproved foreign stablecoins to U.S. citizens who evade the prohibition (e.g., by obscuring their destination of origin using a VPN). For example, a Department of Justice investigation found that the cryptocurrency exchange Binance, which had claimed that it did not operate in the United States, nevertheless allowed U.S. customers to access and make transactions on its platform, including through the use of virtual private networks.¹⁵⁷ U.S. customers can access foreign-issued stablecoins from foreign DASPs in a similar manner or may hold them in self-custody wallets. U.S. authorities can attempt to enforce legal requirements against unapproved foreign issuers or DASPs through any U.S. subsidiaries they may have or through international financial sanctions (which prevent sanctioned individuals from accessing international payment networks that use U.S. dollars).¹⁵⁸

Reciprocal Agreements

One common approach to cross-border financial regulation is to recognize foreign regulatory regimes as similar enough to the U.S. regime to allow firms located in a particular territory, or activity taking place in that territory, to be regulated by the foreign regulator instead of the United States. Often, this will take the form of mutual recognition, where Country A and Country B extend the same deference to each other's regulatory regimes.¹⁵⁹ The GENIUS Act envisions this and allows the Treasury Secretary to enter into reciprocal or bilateral agreements with foreign

¹⁵⁴ The law does not directly address whether DASPs can also be issuers. Section 18(c)(1) states, "a foreign payment stablecoin issuer may offer or sell payment stablecoins using a digital asset service provider," suggesting that Congress viewed the two as separate.

¹⁵⁵ It is unclear whether the exceptions apply solely to transactions involving foreign stablecoins or also apply to the requirement that U.S. issuers must be registered and approved by U.S. regulators.

¹⁵⁶ Gopinath, "Stablecoins and Anonymous Money."

¹⁵⁷ Settlement agreement between the Department of the Treasury and Binance, November 21, 2023, p. 5, https://ofac.treasury.gov/system/files/2023-11/20231121_binance_settlement.pdf#page=5.

¹⁵⁸ For example, FinCEN, "Imposition of Special Measure Prohibiting the Transmittal of Funds Involving Bitzlato," 88 *Federal Register* 3919, January 23, 2023.

¹⁵⁹ For example, foreign banks that wish to establish branches or agencies in the United States must seek approval from the Fed. The Fed's approval is based on whether the foreign bank "is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country," among other factors. See 12 U.S.C. §3105.

jurisdictions with stablecoin regulatory regimes comparable to those of the United States. Although not a prerequisite, entering into such agreements could facilitate Treasury approval of foreign-issued stablecoins to be made available in the United States, giving foreign governments one incentive to model their stablecoin regulations on those of the GENIUS Act. The identities of countries with reciprocity agreements or regulatory regimes approved by the Treasury Secretary as comparable to the U.S. regime and foreign issuers approved by the OCC are to be publicly disclosed.

Tether, one of the two largest stablecoins at present, is licensed in El Salvador. Assuming it met the GENIUS Act's definition of *payment stablecoin issuer*, whether the Treasury Secretary recognizes El Salvador's regime as comparable to the U.S. regime will have significant implications for the future of the stablecoin market. Tether's current business model is not compliant with all requirements found in Section 4(a) of the act, which is highlighted in Section 18's comparability requirement. For example, some portion of Tether's USDT coin's reserves are in assets that are not permitted by Section 4(a).¹⁶⁰ If the Secretary does not find El Salvador's regulatory regime to be comparable to the U.S. regime (or that Tether does not meet the other requirements for foreign issuers), then Tether would no longer be eligible to U.S. persons. Alternatively, Tether has reportedly issued a new stablecoin for the U.S. market (called USAT) and may focus on getting that stablecoin approved under the GENIUS Act.¹⁶¹ To date, the amount of USAT in circulation is about \$144 million, compared to the \$189 billion in USDT in circulation.

Illicit Finance

The government is concerned with preventing the use of the financial system to facilitate illicit financial activity, including money laundering and terrorism financing. Crypto is an inherently appealing medium for facilitating illegal activity because it is relatively difficult to identify the identities of parties to transactions that are digital, borderless, pseudonymous, and encrypted. As with legal users, stablecoins are also appealing to criminals who do not want to bear the volatility risk inherent in other cryptocurrencies. Firms that follow trends among such users have previously identified a shift among certain terrorist organizations from cryptocurrencies that can fluctuate in value, such as bitcoin, to stablecoins.¹⁶² According to one private estimate, stablecoins now account for 84% of illicit activity using crypto.¹⁶³

The Bank Secrecy Act (BSA; 31 U.S.C. §§5311 et seq.) refers to the set of laws that establishes the federal framework for AML/CFT.¹⁶⁴ These laws and rules require financial institutions to

¹⁶⁰ Letter from American Bankers Association et al. to Sen. Tim Scott, chair, and Sen. Elizabeth Warren, ranking member, Senate Committee on Banking, Housing, and Urban Affairs, May 8, 2026, <https://bpi.com/wp-content/uploads/2026/05/Joint-Trades-Letter-Section-404-of-the-CLARITY-Act-05.08.26.pdf>; and Tether, *Assurance Report According to ISAE 3000R on the Financials Figures and Reserves Report*, https://assets.ctfassets.net/vyse88cgwfb/6cm1tXbl6AtWZBWucZnfg/c4ff472d70c1b48c2f689f27b54c84f5/ISAE_3000R_-_Opinion_Tether_International_Financial_Figure_31-03-2026.pdf#page=9.

¹⁶¹ Emily Nicolle, "Tether Returns to US Market with Launch of USAT Stablecoin," *Bloomberg*, January 27, 2026, <https://www.bloomberg.com/news/articles/2026-01-27/tether-anchorage-digital-launch-us-focused-stablecoin-usat>.

¹⁶² TRM, "Terrorist Financing: Six Crypto-Related Trends to Watch in 2023," February 15, 2023, <https://www.trmlabs.com/resources/blog/terrorist-financing-six-crypto-related-trends-to-watch-in-2023>; and TRM, "Category Deep-Dive: Use of Crypto in Terrorist Financing Expanded in 2024," March 5, 2025, <https://www.trmlabs.com/resources/blog/category-deep-dive-use-of-crypto-in-terrorist-financing-expanded-in-2024>.

¹⁶³ Chainalysis, "Crypto Crime Reaches Record High in 2025 as Nation-State Sanctions Evasion Moves On-Chain at Scale," January 8, 2026, <https://www.chainalysis.com/blog/2026-crypto-crime-report-introduction/>.

¹⁶⁴ For more information, see CRS Report R47255, *The Financial Crimes Enforcement Network (FinCEN): Anti-* (continued...)

establish “know your customer” (KYC) identification programs, flag suspicious activities, and comply with certain reporting and recordkeeping requirements. These statutes have not been updated to explicitly address the treatment of crypto issuers or exchanges, but the U.S. Treasury’s FinCEN has applied this framework to stablecoin issuers through various guidance since 2013.¹⁶⁵

Since criminals and terrorists do not typically self-identify, government officials are reliant on financial firms to help them identify suspicious activity. This is a resource-intensive process and requires the financial institution to act in good faith to prevent or uncover suspicious activity and the federal government to have an effective system for identifying and remediating institutions that are not acting in good faith. Indeed, cryptocurrency firms have on occasion been found to be deficient regarding some of these requirements. As mentioned in the “History of Stablecoins and Future Trends” section above, the New York State Department of Financial Services required that Paxos stop minting BUSD, a Binance-branded stablecoin after an investigation found that “Paxos did not have appropriate controls in place to effectively monitor for significant illicit activity occurring at or through Binance.”¹⁶⁶ In addition, media reports have documented the use of USDT in illicit activity.¹⁶⁷

Requirements for U.S. Issuers

The GENIUS Act has two main requirements for preventing illicit activity—(1) treating issuers as financial institutions subject to the BSA and other relevant laws and (2) requiring issuers to comply with lawful orders issued by the government or the courts.

- **Issuers subject to the BSA.** Section 4(a)(5) establishes that issuers are treated as financial institutions for the purposes of the BSA, effectively codifying FinCEN guidance that had applied since 2013. As a result, issuers are subject to all federal laws related to the enforcement of sanctions, the prevention of money laundering, and due diligence. However, issuers (previously registered as money transmitters) were not required to have a customer identification program but were required to verify an individual’s identity for certain activities.¹⁶⁸ Under the act, they are now required to have a customer identification program. The provision applies to both federal and state issuers. The provision also enumerates various BSA requirements, including maintenance of effective AML, customer identification, and sanctions compliance programs; retention of records; and monitoring and reporting of suspicious activities. The act requires that the

Money Laundering Act of 2020 Implementation and Beyond, by Liana W. Rosen and Rena S. Miller; and FDIC, “Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT).”

¹⁶⁵ FinCEN, *FIN-2013-G001: Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*; and FinCEN, *FIN-2019-G001: Application of FinCEN’s Regulations to Certain Business Models Involving Convertible Virtual Currencies*, May 9, 2019, <https://www.fincen.gov/sites/default/files/2019-05/FinCEN%20Guidance%20CVC%20FINAL%20508.pdf>. The BSA was established before the advent of cryptocurrencies.

¹⁶⁶ New York State Department of Financial Services, “Superintendent Adrienne A. Harris Secures \$48.5 Million Settlement with Paxos Trust Company for Anti-Money Laundering Deficiencies and Diligence Failures with Relation to Binance Partnership,” press release, August 7, 2025, https://www.dfs.ny.gov/reports_and_publications/press_releases/pr20250806.

¹⁶⁷ See, for example, Angus Berwick and Ben Foldy, “The Shadow Dollar That’s Fueling the Financial Underworld,” *Wall Street Journal*, September 10, 2024, <https://www.wsj.com/finance/currencies/tether-crypto-us-dollar-sanctions-52f85459>.

¹⁶⁸ FinCEN et al., “Permitted Payment Stablecoin Issuer Customer Identification Program,” 91 *Federal Register* 37234, June 22, 2026, <https://www.federalregister.gov/documents/2026/06/22/2026-12460/permitted-payment-stablecoin-issuer-customer-identification-program#footnote-18-p37236>.

Treasury Secretary adopt rules implementing this requirement that are tailored to the size and complexity of the issuer.¹⁶⁹ Prior to the GENIUS Act, issuers were registered with FinCEN and were state licensed, and states oversaw BSA/AML issuer compliance. The new regime established under the GENIUS Act shifts jurisdiction to federal regulators for federal qualified payment stablecoin issuers—who presumably will no longer be regulated for BSA/AML compliance at the state level.

- **Issuers must comply with lawful orders.** Section 4(a)(5) also requires that issuers have the “technical capabilities, policies, and procedures to block, freeze, and reject specific or impermissible transactions that violate Federal or State laws, rules, or regulations.” The act does not specify whether issuers are expected to block, freeze, and reject impermissible transactions on their own volition or only subject to a lawful order.¹⁷⁰ Relatedly, Section 4(a)(6)(B) also requires that issuers have the “technological capability to comply, and will comply, with the terms of any lawful order” issued by a federal agency or court. Stablecoins thus must be designed with the appropriate technical functionalities so that if the federal government or courts were to issue lawful orders to freeze funds and stop transactions, issuers would be able to comply with them.

The first requirement is reinforced by reporting requirements, and the second requirement is tempered by a requirement that Treasury must coordinate with issuers on lawful orders.

- **Reporting requirements/certification.** Section 6(a), which describes the federal regulatory regime that applies to federally qualified payment stablecoin issuers, establishes certain reporting requirements. With regard to the BSA, it requires that federal nonbank issuers submit reports regarding compliance with BSA and U.S. sanctions laws to the OCC on request. In addition, Section 5(i) requires issuers to certify to the federal or state regulator that they have implemented AML and economic sanctions compliance programs within 180 days of an application’s approval and annually thereafter. Section 7, which details the state regime, does not include this reporting requirement, including with respect to BSA compliance.
- **Coordination.** Section 4(a)(6)(A)(ii) requires that the Treasury Secretary “shall, to the best of the Secretary’s ability, coordinate with a permitted payment stablecoin issuer before taking any action to block and prohibit transactions ... of a foreign person to ensure that the permitted payment stablecoin issuer is able to effectively block a payment.” This provision does not mention U.S.-based

¹⁶⁹ Tailoring is consistent with current AML practices. See, for example, OCC, “Bank Secrecy Act/Anti-Money Laundering: Community Bank Minimum Bank Secrecy Act/Anti-Money Laundering Examination Procedures,” November 24, 2025, <https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-37.html>.

¹⁷⁰ A recent event poses a timely case study of this issue. After North Korean hackers hacked a defi protocol, they processed stablecoins through Circle/USDC’s network. Although it has the capability to freeze assets, Circle did not freeze any of the funds that were being moved after the heist. It noted in a blog post, “our ability to freeze funds is a compliance obligation—exercised only when we are legally compelled by an appropriate authority, through lawful process.” The blog does not address whether the company filed a suspicious activity report that might have triggered a lawful order, although it noted that “Circle stands ready to support recovery and accountability efforts with ecosystem participants, and with law enforcement, to the fullest extent the law permits.” Conversely, Tether reportedly froze \$344 million in two wallets in this hack. See Carter Pape, “Circle Won’t Freeze Stolen Crypto. Tether Will. Now What?” *American Banker*, April 27, 2026, <https://www.americanbanker.com/news/circle-wont-freeze-stolen-crypto-tether-will-now-what>; and Circle, “When Open Systems Are Tested: Accountability, Rule of Law, and the Work Ahead,” April 10, 2026, <https://www.circle.com/blog/when-open-systems-are-tested-accountability-rule-of-law-and-the-work-ahead>.

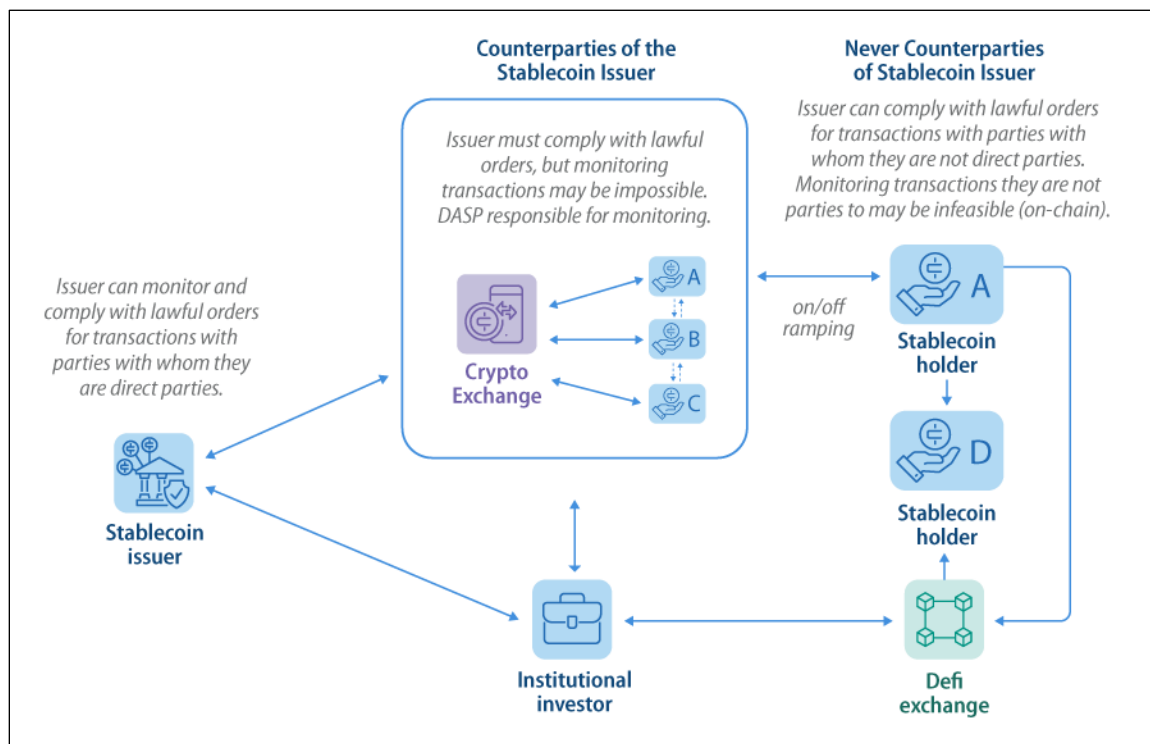
customers. It is also unclear why Treasury would need to “ensure” that an issuer is able to block a payment since having the technical capacity to do this is a stand-alone requirement of issuers. The act also stipulates that the Treasury Secretary “is not required to notify any permitted payment stablecoin issuer” of its intentions prior to taking action. These two requirements—both to coordinate with an issuer but not be required to notify an issuer before taking actions—creates some ambiguity about Treasury’s competing requirements.

Who Is Responsible for Secondary Market Transactions?

Application of BSA/AML laws and regulations in the context of stablecoins, or crypto more broadly, includes certain complexities that may not arise with other financial institutions, raising questions that the GENIUS Act does not explicitly answer about where issuers’ AML monitoring and reporting responsibilities end and others’ begin. This can be illustrated through the relationships portrayed in **Figure 9**, which captures the way in which the current stablecoin market interacts with the crypto industry.¹⁷¹ Under current market practice, issuers issue stablecoins directly to large institutional investors and exchanges only—they do not issue stablecoins to retail customers (a much larger group), and retail customers do not redeem stablecoins with issuers. The large institutions and exchanges are the issuer’s direct customers and are not the ones that are likely to pose direct illicit finance concerns. There are no technical challenges associated with the issuers gathering relevant personal information to screen for suspicious activity from a relatively limited number of identified centralized platforms and institutional investors during the initial sale. However, they have no way to collect KYC information from the individuals who the stablecoins are subsequently sold to on the secondary market because they never have a business relationship with retail users. (An exchange could do this for sales on its exchange, but this would not cover on-chain sales/transactions.)

¹⁷¹ New business relationships not captured in this discussion may arise in the future if stablecoins are used for different applications, such as retail payments, and are issued by different types of firms, such as bank subsidiaries.

Figure 9. Anti-Money-Laundering (AML) Requirements and Participants in the Crypto Industry



Source: CRS.

Notes: DASP = digital asset service provider; defi = decentralized finance. See text for details.

Centralized cryptocurrency platforms, such as exchanges, function as the dealers and act as the primary retail operation for these stablecoins, distributing them to their customers, who may then exchange them with other customers on the exchange off-chain. At that point, the stablecoin could exchange hands several subsequent times on the blockchain. Issuers do not have the technical capacity to monitor an exchange's customers off-chain. The act does not address DASPs' BSA requirements except for their sales of foreign coins (discussed in the "Foreign Issuers and DASPs" section below). However, DASPs are already required to comply with BSA/AML laws and regulations applicable to money transmitters under current FinCEN guidance.¹⁷² Practices of certain foreign-based DASPs may create particular challenges. Recently, various media outlets have reported on accounts at internationally headquartered DASPs being used to send funds to Iran, for example.¹⁷³

Alternatively, institutional investors may exchange stablecoins with retail investors on-chain, without involving a centralized exchange, through a defi protocol, for example. Under current FinCEN guidance, defi exchanges are subject to AML requirements, but a report issued by Treasury in 2023 found that many defi services do not comply with AML obligations.¹⁷⁴

¹⁷² In the absence of a market structure bill, aforementioned guidance applies to exchanges.

¹⁷³ David Yaffe-Bellany and Michael Forsythe, "The Trail of Clues Leading to Iran That Binance Missed," *New York Times*, March 26, 2026, <https://www.nytimes.com/2026/03/26/technology/binance-iran-us-sanctions.html>.

¹⁷⁴ Department of the Treasury, *Illicit Finance Risk Assessment of Decentralized Finance*, April 6, 2023, p. 2, <https://home.treasury.gov/system/files/136/DeFi-Risk-Full-Review.pdf#page=4>.

These systems and interrelationships among the market participants raise a number of questions about where AML responsibilities begin and end. Does the stablecoin holder cease to be the issuer's customer when the stablecoin is sold to a customer by a DASP or through a defi exchange, and do the issuer's AML responsibilities therefore end? Or when an end user (the customer of a DASP) transfers their stablecoin from a DASP to self-custody in a noncustodial wallet, held on the blockchain, does the DASP still have AML monitoring responsibilities, or does it become the direct customer of the issuer, with AML responsibilities shifting back to the issuer? Or do neither have AML responsibilities?

The GENIUS Act is not explicit about whether the issuers' BSA responsibilities end after the initial sale to institutional investors or exchanges or whether they continue through each additional "hop," or transaction. But if issuers do not have AML responsibilities for these subsequent on-chain transactions, the act does not task anyone else with them. In other words, effectively monitoring and selectively preventing suspicious transactions on the blockchain would essentially require issuers to monitor all blockchain-based transactions of their stablecoins. An issuer has the technical capacity to track transactions, but their ability to effectively identify suspicious activity would be hindered by the fact that traditional KYC regimes are impossible when users are known solely by pseudonyms (and have not been and perhaps cannot be identified), have the ability to create multiple wallets, and have access to obfuscating blockchain-based applications such as mixers.¹⁷⁵

Unlike the challenges with identifying suspicious activity, an issuer would always have the ability to freeze or burn specific stablecoins that have been identified in a lawful order, even when they are being held by an exchange or in an un-hosted wallet. That is because the issuer must already demonstrate it has the technical capability to freeze or burn any stablecoin it issues, and the stablecoin is always visible on the blockchain (even if its owner is pseudonymous).

The combination of statutory requirements, what some firms see as their limited legal obligations (to block funds only when required to by regulators or law enforcement officials), and the limited information available in certain transactions creates coordination, timing, and workload challenges for issuers and regulators. While an issuer may be able to track suspicious activity, waiting to seize funds until it receives a lawful order may be too late to be effective if FinCEN or the regulators do not respond immediately. Moreover, it is unclear whether FinCEN or other regulatory agencies—notably, all of the state regulators—have the resources to appropriately review the number of suspicious activity reports (SARs) and the type of information generated by monitoring all blockchain-based stablecoin transactions.

Foreign Issuers and DASPs

The GENIUS Act is primarily a law to regulate issuers.¹⁷⁶ However, it also acknowledges the relationship between issuers and stablecoin distributions through DASPs and establishes responsibilities for DASPs for foreign stablecoins only.¹⁷⁷

¹⁷⁵ Mixers are applications that allow cryptocurrency and stablecoin holders to further obfuscate their identity. Users deposit their funds—usually in the same denomination—with those of many other users. Each user is provided with a receipt that allows them to withdraw the funds into a new blockchain address. This breaks the link between depositors and those withdrawing. More users make it harder to trace funds.

¹⁷⁶ The 119th Congress is pursuing separate legislation to regulate DASPs and other crypto market participants.

¹⁷⁷ Earlier versions of the GENIUS Act did not include DASPs, possibly because they were covered by existing FinCEN guidance and the market structure bill. As the GENIUS Act made its way through the legislative process, the provisions covering DASPs were added.

- Eligibility for trading on DASPs.** As referenced in the “Foreign Stablecoins” section above, Sections 3 and 8 of the act require that a stablecoin issued by a foreign issuer “not be publicly offered, sold, or otherwise made available for trading in the United States by a digital asset service provider” unless the foreign issuer has the technical capacity to comply with and will comply with a lawful order (similar to the requirement for domestic issuers, described in the “Requirements for U.S. Issuers” section above).¹⁷⁸ The act allows Treasury to coordinate with federal agencies to designate any foreign issuer that does not comply with a lawful order as noncompliant, subject to judicial review.¹⁷⁹ In addition, Treasury must notify DASPs—also through publication in the *Federal Register*—that they are prohibited from permitting the secondary trade of the foreign stablecoin, subject to certain exceptions. The act does not grant Treasury a similar authority to prohibit DASPs from facilitating trading of U.S. stablecoins that do not comply with a lawful order.¹⁸⁰ Defi protocols are excluded from the definition of DASP under the act, so DASPs do not have these responsibilities for stablecoin transactions involving U.S. persons.
- OCC registration.** As referenced in the “Foreign Stablecoins” section above, Section 18 requires foreign issuers to register with the OCC if they wish to offer or sell their stablecoin through a DASP in the United States, subject to certain requirements. Section 18(c)(1)(C) provides various “Standards for Rejection,” one of which is if “the foreign payment stablecoin issuer presents illicit finance risks to the United States.” The GENIUS Act also includes provisions that permit the OCC and the Secretary of the Treasury to revoke or rescind registration if they determine that the foreign issuer poses illicit finance risks.¹⁸¹ The act also permits Treasury to impose civil monetary penalties.¹⁸²
- Waivers.** The act includes certain waivers from the prohibition against secondary trading of foreign stablecoins that are not approved by the Treasury Secretary. Treasury would be permitted to offer to a DASP a “waiver, general license, or

¹⁷⁸ §8(a)(1). The lawful order mentioned in this provision is interpreted as being related to a foreign issuer’s compliance with AML protections based on the title of Section 8. However, because the term does not appear in the provision itself, it could be related to any lawful order.

¹⁷⁹ Treasury must notify the foreign issuer in writing that it is deemed noncompliant. If a foreign issuer failed to come into compliance with a lawful order within 30 days of the written notice, Treasury would be required to issue a public notice of such noncompliance in the *Federal Register*.

¹⁸⁰ Federal issuers that do not comply with lawful orders can be addressed directly through the act’s enforcement authorities, such as the authority for the primary regulator to issue a cease-and-desist order. (Enforcement authority for state issuers is granted solely to state regulators, with federal emergency enforcement authority limited to safety and soundness.) However, enforcement actions that placed restrictions on an issuer’s ongoing operations would not affect the trading of already existing coins on secondary markets. So regulators could not seemingly effectuate something equivalent to the foreign trading ban for U.S. issuers without liquidating the issuer, unless this is already possible under preexisting law.

¹⁸¹ These authorities are provided to the OCC and Treasury Secretary separately (but require they consult each other), in Sections 18(c)(3)(A) and (B), respectively. The relevant provision that applies to the OCC references “illicit finance risk,” while that which applies to the Treasury Secretary references “economic sanctions evasion, money laundering, or other illicit finance risks.” It is unclear whether the more detailed description for the Treasury Secretary is a meaningful distinction.

¹⁸² DASPs that knowingly violate the prohibition on secondary trading of noncompliant foreign stablecoins may be subject to a civil monetary penalty of \$100,000 per violation per day. Foreign issuers that continue to offer their stablecoin in the United States after the publication of noncompliance can be subject to a civil monetary penalty of \$1,000,000 per violation per day, and Treasury may seek an injunction barring them from financial transactions in the United States or with U.S. persons.

specific license ... on a case-by-case basis” if it were to determine that such a prohibition would “adversely affect” the U.S. financial system, if the issuer were “taking tangible steps to remedy” noncompliance with the lawful order.¹⁸³ The act also permits Treasury to waive the requirements if doing so is in the national security interests of the United States or permits other agencies to issue a waiver if necessary to carry out intelligence or law enforcement activities.¹⁸⁴ The GENIUS Act requires that Treasury provide a report and briefing to committees of jurisdiction regarding any waiver and the facts and circumstances justifying such waivers.

Summary of Illicit Finance Requirements

Table 3 summarizes the illicit finance provisions of the act.

Table 3. Illicit Finance Provisions in the GENIUS Act

Section	Requirement	Description
<i>U.S. Issuers</i>		
4(a)(4)(iv)	Risk management	Appropriate and tailored BSA risk management principles.
4(a)(5)	Anti-money laundering (AML)	Issuer is considered a financial institution for purpose of BSA and economic sanctions. Issuer must maintain effective AML, customer ID, and sanctions programs; have record retention policy; monitor and report suspicious activity; and possess technical capabilities to block, freeze, and reject transactions.
4(a)(6)(B)	Compliance with lawful orders	Issuer must have the ability to comply with and must comply with all lawful orders.
5(i)	Certifications	Issuer must certify it has implemented AML and economic sanctions compliance programs under criminal penalty for knowingly false certifications; regulator may revoke issuer’s license if certification is not submitted.
6(a)(2)(D)	Submission of reports	Nonbank federal issuer shall, on request, submit to the OCC a report on its compliance with BSA requirements and sanctions laws.
<i>Digital Asset Service Providers (DASPs)</i>		
3(b)(2), 8(a)(1)	Prohibition on offers or sales	It shall be unlawful for any DASP to offer, sell, or otherwise make available in the United States a stablecoin issued by a foreign issuer unless the issuer has the technological capability to comply, and will comply, with the terms of any lawful order and any reciprocal arrangement pursuant to Section 18.
8(b)(2)	Prohibition on secondary trading	DASPs are prohibited from facilitating secondary trading of stablecoins issued by the foreign issuer in the United States that fail to comply with a lawful order (after written notice and 30 days).
8(b)(4)(A)	Civil monetary penalty	Any DASP that knowingly violates a prohibition against permitting the secondary trading of foreign stablecoins (whose issuers have been found to be noncompliant) shall be subject to a civil monetary penalty of not more than \$100,000 per violation per day.

¹⁸³ §8(c)(1)(A) and (B).

¹⁸⁴ §8(c)(3)(A) and (B). The intelligence waiver specifically permits the “the head of a department or agency” to waive the prohibition with respect to activities that are subject to the reporting requirements of Title V of the National Security Act of 1947 (50 U.S.C. §§3091 et seq.).

Section	Requirement	Description
18(a)(4)	Prohibition	DASPs may not offer or sell stablecoins from issuers that are domiciled in countries that are a primary money-laundering concern.
<i>Foreign issuers</i>		
3(b)(2)	Compliance with lawful orders	Deduced from various provisions above, foreign issuers must have the ability to comply with and must comply with all lawful orders to be offered, sold, or otherwise made available by DASPs (including secondary trading) and comply with reciprocal agreements that are comparable to the act's requirements.
8(b)(4)(B)	Civil monetary penalty	Any foreign payment stablecoin issuer that knowingly continues to publicly offer a payment stablecoin in the United States after publication of the determination of noncompliance with a lawful order shall be subject to a civil monetary penalty of not more than \$1,000,000 per violation per day, and the Treasury Secretary may seek an injunction to bar the foreign issuer from engaging in financial transactions in the United States or with United States persons.
18(c)(1), 18(c)(3)	OCC registration	In order for their stablecoins to be sold by a DASP, a foreign issuer must register with the OCC. The OCC may reject its application on five grounds, including illicit finance risks. Registration can be rescinded if the issuer is not in compliance with the requirements of the act, including if it poses illicit finance risk.

Source: CRS analysis of P.L. 119-27.

Notes: BSA = Bank Secrecy Act; OCC = Office of the Comptroller of the Currency. Sections 3(b)(2) and 8(a)(1) are substantially similar.

AML Innovation

The technological features of blockchains on which stablecoins are built pose novel advantages and disadvantages for identifying illicit activity. Disadvantages stem from the fact that the infrastructure is permissionless and pseudonymous—meaning there are not any restrictions against who can participate and users are not known by names or other government ID but by a unique alphanumeric string. However, unlike transactions at financial institutions or in cash, blockchain transaction details are public, which makes tracing transactions and recording details feasible. In an April 2023 report on illicit finance, Treasury addressed certain risks associated with aspects of the crypto industry. According to the report, while new technological solutions—such as blockchain analytics and zero-knowledge proofs—could mitigate such risks, such tools may still require “further technical development and adjustments to meet” requirements.¹⁸⁵ Treasury also addressed the need to “assess necessary changes in regulation or guidance to support these developments.”¹⁸⁶ In short, it is not just a matter of industry proposing solutions but also of adapting the regulatory framework to permit these solutions.

Section 9 of the GENIUS Act requires that Treasury take various steps to consider and promote “innovation” in AML strategies and frameworks. The act requires (1) Treasury to seek public comment and publish research and risk assessments, (2) a rulemaking and guidance from

¹⁸⁵ Department of the Treasury, *Illicit Finance Risk Assessment of Decentralized Finance*, p. 35, <https://home.treasury.gov/system/files/136/DeFi-Risk-Full-Review.pdf>.

¹⁸⁶ Department of the Treasury, *Illicit Finance Risk Assessment of Decentralized Finance*, p. 37.

FinCEN, and (3) a report and recommendation to Congress.¹⁸⁷ Treasury subsequently published its report to Congress in March 2026.¹⁸⁸

Section 9’s requirements highlight the intersection of seemingly irreconcilable realities: the focus of the crypto industry, and defi in particular, on privacy and the BSA/AML requirements that prioritize transparency, identification, and reporting. This contrast manifests in various ways, including the BSA/AML requirement that financial institutions, including stablecoin issuers, maintain customer identification (i.e., KYC) programs and record sender and recipient details for certain transactions, which contrasts with the fact that owners of pseudonymous wallets or blockchain addresses may never be identifiable. It also acknowledges that industry has introduced certain solutions, such as blockchain analytics, that while aiming to provide greater transparency or certainty around transactions, may not fully comply with existing requirements. Section 9 attempts to mitigate these challenges; however, success will rest in part on the industry’s willingness to accept any proposed revised terms.

Potential Conflicts of Interest

A major point of contention in the legislative debate about the GENIUS Act surrounded ownership in crypto businesses and conflicts of interest for public officials.¹⁸⁹ Arguments for addressing conflicts of interest in the bill intensified after World Liberty Financial, which lists President Trump as a “promoter” in its SEC filings, issued a stablecoin called USD1.¹⁹⁰ Some Members of Congress argued that such provisions were not necessary because they were already covered by existing ethics law.¹⁹¹ Rather than include new statutory restrictions, the act included a “Rule of Construction” in Section 4(i)(2) stating that nothing shall be construed

¹⁸⁷ A summary of some of the requirements of Section 9 follows:

- (1) Public comment: Within 30 days of the law’s enactment, Treasury is required to seek public comment for a period of 60 days to identify what the law refers to as “innovative or novel methods, techniques, or strategies that regulated financial institutions use, or have the potential to use, to detect illicit activity, such as money laundering, involving digital assets.”
- (2) Treasury research: On completion of the public comment period, Treasury is required to publish research regarding such innovative or novel methods that regulated financial institutions may use or have the potential to use to detect illicit finance using digital assets as identified in the public comments.
- (3) Risk assessment: The act requires that Treasury add various digital-asset-related topics to its “national strategy for combating terrorist and other illicit financing,” which it must publish annually pursuant to Countering America’s Adversaries Through Sanctions Act (P.L. 115-44).
- (4) FinCEN guidance and rulemaking: Within three years of the law’s enactment, FinCEN must issue guidance and issue a notice and comment rulemaking to implement “innovative or novel methods, techniques, or strategies by regulated financial institutions” to monitor, identify, and report illicit activity.

¹⁸⁸ Department of the Treasury, *Report to Congress from the Secretary of the Treasury on Innovative Technologies to Counter Illicit Finance Involving Digital Assets*, March 2026, <https://home.treasury.gov/system/files/246/GENIUS-Act-Illicit-Finance-Innovation-Congressional-Report-March-2026.pdf>.

¹⁸⁹ Brady Dale, “House Dems Pound on Trump Stablecoin During Bill Markup,” *Axios*, April 2, 2025, <https://www.axios.com/2025/04/02/trump-bitcoin-democrats-stable-act>; and Jasper Goodman, “Senate Banking Republicans Make ‘Closing Offer’ to Dems on Crypto Bill,” *Politico*, January 6, 2026, <https://www.politico.com/live-updates/2026/01/06/congress/senate-banking-crypto-bill-00712864>.

¹⁹⁰ David Yaffe-Bellany, “Trump’s Crypto Venture Introduces New Digital Currency,” *New York Times*, March 25, 2025, <https://www.nytimes.com/2025/03/25/technology/trump-crypto-stablecoin.html>. The SEC filings are available at <https://www.sec.gov/Archives/edgar/data/2043140/000204314024000002/0002043140-24-000002-index.htm>.

¹⁹¹ U.S. Senate Committee on Banking, Housing, and Urban Affairs, “Myth vs. Fact: The GENIUS Act,” May 8, 2025, https://www.banking.senate.gov/imo/media/doc/myths_v_facts_-_genius_act_5_8_25pdf.pdf.

to limit or prevent the continued application of applicable ethics statutes and regulations administered by the Office of Government Ethics, or the ethics rules of the Senate and the House of Representatives, including section 208 of title 18, United States Code, and sections 2635.702 and 2635.802 of title 5, Code of Federal Regulations. For the avoidance of doubt, existing Office of Government Ethics laws and the ethics rules of the Senate and the House of Representatives prohibit any member of Congress or senior executive branch official from issuing a payment stablecoin during their time in public service. For the purposes of this paragraph, an employee described in section 202 of title 18, United States Code, shall be deemed an executive branch employee for purposes of complying with section 208 of that title.

Federal ethics policy utilizes public disclosure to identify real and perceived conflicts of interest.¹⁹² The act references only issuance of a stablecoin, whereas current ethics policy requires the disclosure of any financial relationship that poses conflicts of interest and typically revolves around ownership of assets, such as stablecoins, by government officials.¹⁹³ Common interpretations of the applicable ethics statutes referenced in the GENIUS Act do not include blanket limitations on ownership of any asset or activity, including an implicit ban on issuing a stablecoin, particularly if no conflict of interest is present.¹⁹⁴ Under the criminal conflict-of-interest law (18 U.S.C. §208), referenced in the GENIUS Act, most government employees and officers may not participate personally and substantially in government activities if they involve an entity in which they have a financial interest. In contrast to a ban, examples of remedies for a conflict of interest include recusal, divestiture, or blind trust.¹⁹⁵ Current ethics laws do not generally prevent federal employees from obtaining or retaining a substantial interest in any entity.¹⁹⁶

Because the criminal conflict-of-interest law and the GENIUS Act do not explicitly ban such activities, it is not clear whether the act's specific language—"for the avoidance of doubt"—creates any new binding restrictions. Nor is it clear how courts might rule if the language were to be challenged. Statutory conflict-of-interest requirements apply to virtually all federal

¹⁹² CRS Report R47320, *Financial Disclosure in the U.S. Government: Frequently Asked Questions*, by Jacob R. Straus.

¹⁹³ The GENIUS Act's attempt to fit the issuance of stablecoins into existing ethics policy could be based on an assumption that an official issuing stablecoins would have an ownership stake in a stablecoin issuer.

¹⁹⁴ See CRS Report R48641, *Proposals to Limit Member of Congress Financial Activities: Analysis of Introduced Legislation in the 119th Congress*, by Jacob R. Straus; and CRS In Focus IF11904, *Financial Disclosure: Identifying and Remediating Conflicts of Interest in the Executive Branch*, by Jacob R. Straus.

¹⁹⁵ In some cases, the supervising ethics office may authorize the creation of a "qualified blind trust" (QBT) to remediate a financial conflict of interest. For more information on blind trusts, see the section entitled "Blind or Diversified Trusts" in CRS Report R47320, *Financial Disclosure in the U.S. Government: Frequently Asked Questions*, by Jacob R. Straus; or U.S. Office of Government Ethics, "Qualified Trusts," <https://www.oge.gov/web/oge.nsf/Resources/Qualified+Trusts>. For more information on the Office of Government Ethics and the identification and remediation of conflicts of interest, see CRS In Focus IF10634, *Office of Government Ethics: A Primer*, by Jacob R. Straus; and CRS In Focus IF11904, *Financial Disclosure: Identifying and Remediating Conflicts of Interest in the Executive Branch*, by Jacob R. Straus.

¹⁹⁶ Some federal agencies have issued supplemental ethics regulations to prohibit the ownership of specified financial assets. For a list of supplemental regulations for executive branch agencies, see 5 C.F.R. Parts 3100-10400.

employees,¹⁹⁷ including Members of Congress, but not to the President.¹⁹⁸ Therefore, even if Section 208 could be interpreted as precluding issuance of a stablecoin, the statute does not apply to the President.

Since the provision did not change existing law, it did not contain any implementation process, such as deadlines for compliance. CRS has been unable to locate any guidance or opinions from the relevant ethics officials implementing a ban on issuance since the GENIUS Act became law (although guidance is not required). Nor has there been any reported change in the President's relationship to World Liberty Financial since the GENIUS Act became law.

In addition to the rule of construction in Section 4, Section 19 also requires that the President, Vice President, Members of Congress, and other federal employees report stablecoin holdings larger than \$5,000 in existing mandatory reports.

Custody

In financial markets, *custodying* (i.e., safekeeping of) assets is a distinct task that is often performed by a specialty institution, such as a custody bank. Before computers, custodying assets meant safekeeping physical documents that proved ownership and, when assets were sold, facilitating the physical transfer of those documents from seller to buyer. Now that financial markets are digital, *custody* refers to maintaining electronic book-entry securities accounts with central securities depositories and facilitating transfers through those accounts.¹⁹⁹ In the case of crypto, assets such as stablecoins exist only as an entry on a public decentralized blockchain, so custody involves safeguarding private keys that provide a holder access to their coins.²⁰⁰

Self-Custody and Third-Party Custody Permitted

The GENIUS Act covers custody services surrounding private keys associated with stablecoins, reserve assets backing stablecoins (see **Figure 1**), and the stablecoins themselves when they are used as collateral. These custody services may be provided by an issuer (under §4(a)(7))²⁰¹ or a third party (under §10). By contrast, in traditional securities markets, firms generally do not self-

¹⁹⁷ One example involving stablecoins is Steve Witkoff, a special government employee and a public filer with the U.S. Office of Government Ethics, who is also involved in the issuance of the USD1 stablecoin. However, since Witkoff does not work on financial policy, it is unclear what conflict of interest would be posed by his issuance of stablecoins. Alternatively, potential conflicts of interest may surround stablecoins that do not involve the issuance of a stablecoin. See, for example, Senate Banking Committee, "Warren, Wyden Probe National Security Risks Surrounding Reported Lutnick-Tether Loan," press release, April 30, 2026, <https://www.banking.senate.gov/newsroom/minority/warren-wyden-probe-national-security-risks-surrounding-reported-lutnick-tether-loan>.

¹⁹⁸ P.L. 119-27, §4(i)(2). See Jack Maskell, "Conflict of Interest and 'Ethics' Provisions That May Apply to the President," CRS memorandum, November 16, 2016, archived at https://web.archive.org/web/20250417080845/https://democrats-judiciary.house.gov/sites/democrats-judiciary.house.gov/files/wysiwyg_uploaded/crs%20memo.president%20conflict%20provisions.pdf; and U.S. Congress, House Committee on the Judiciary, "'Alternative Facts' v. Reality: Ethics, Conflicts of Interest, and the Emoluments Clause," March 1, 2017, https://democrats-judiciary.house.gov/sites/evo-subsites/democrats-judiciary.house.gov/files/migrated/UploadedFiles/export_files/documents/House_Judiciary_Committee_Alternative_Facts_v_Reality_Fact_Sheet_3.1.17.pdf.

¹⁹⁹ James Steven Rogers, "Policy Perspectives on Revised U.C.C. Article 8," *UCLA Law Review*, vol. 43 (1996), p. 1431, https://lira.bc.edu/en/downloads/7ff9b-1dr18/policy_perspectives.pdf (direct download).

²⁰⁰ Brian Rehling and Mason Mendez, "Custody of Digital Assets—What Investors Need to Know," Wells Fargo Advisors, April 1, 2026, <https://www.wellsfargoadvisors.com/research-analysis/reports/digital-assets/custody-digital-assets.htm>.

²⁰¹ The act does not limit an issuer from offering custody services related only to its own stablecoins.

custody their assets; custody services are provided by third-party qualified custodians to increase the likelihood that assets will not be lost or destroyed.²⁰²

Eligible Custodians

Under Section 10 of the GENIUS Act, custody services are limited to firms under the jurisdiction of the federal depository regulators, the SEC, the CFTC, or a state bank or credit union regulator, and custodians must provide information to their primary regulator. Prior to enactment of the GENIUS Act, the views of federal bank regulators on whether and under what circumstances regulated banks were permitted to custody digital assets has repeatedly changed across recent Administrations.²⁰³ For example, the OCC issued guidance in 2025 confirming that national banks may custody digital assets, taking a more permissive position than had previously been in place. Currently, crypto exchanges sometimes provide custody services for stablecoin keys and collateral, and they could be eligible to act as custodians under the act if they had a trust bank charter or were regulated as a securities or futures exchange,²⁰⁴ but they would otherwise be ineligible. Many firms that have specialized in custodying crypto assets have sought (and some have recently received) federal or state trust bank charters. That might change if the companion market structure bill became law.

Custody Requirements

Similar to custody rules surrounding traditional assets, firms custodying stablecoins on behalf of customers are required to treat stablecoins, keys, and cash as the property of the customer under Section 10. Custodians are not allowed to commingle the stablecoins, stablecoin reserves, cash, or other property being custodied with their own assets.²⁰⁵ However, specific reserves do not belong to specific stablecoin holders (which is why run risk exists), so all reserves of an issuer can be held jointly in an omnibus account controlled by the issuer.²⁰⁶ Further, the act allows a custodian who is a bank or trust to keep more than one issuers' assets in a single omnibus account.²⁰⁷ Regardless of whether the stablecoins or reserves backing it are segregated, Section 10 gives the holder priority, unless waived, over other claimants of the custodian. Providers of self-custody hardware and software are excluded from the custody requirements. In recent history, certain crypto firms, including the failed firms FTX (an exchange) and BlockFi (an investment firm) have been found to have commingled their customers' funds.²⁰⁸

²⁰² Sarah Helena Brennan and Jay Stolkin, *Custody Rule Modernization: A Model Framework for Crypto Asset Safeguarding*, discussion draft, December 19, 2025, <https://www.sec.gov/files/custody-rule-modernization-model-framework-121925.pdf>.

²⁰³ Rodney E. Hood, "OCC Letter Addressing Certain Crypto-Asset Activities," OCC Interpretive Letter 1183, March 2025, <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-decisions/2025/int1183.pdf>.

²⁰⁴ For example, a crypto exchange that offered crypto futures would be required to register with the CFTC as a futures exchange.

²⁰⁵ The act does not allow issuers to rehypothecate reserves but does not address whether custodians may rehypothecate custodied assets.

²⁰⁶ Exceptions to the commingling prohibition include banks, trusts, and other insured depository institutions (IDIs), which are allowed to commingle these assets when needed to pay commissions and taxes and when stablecoin reserves take the form of deposits at an IDI.

²⁰⁷ One law professor argues that this will give stablecoin holders priority over other bank depositors in a receivership, increasing the cost of the receivership to the FDIC. See Adam Levitin, "Forcing Bank Deposits to Subsidize Stablecoins: The GENIUS Act," *Credit Slips* (blog), May 7, 2025, <https://creditslips.org/2025/05/07/the-genius-acts-insolvency-provisions-crypto-investors-come-ahead-of-bank-depositors/>.

²⁰⁸ CFTC, "CFTC Obtains \$12.7 Billion Judgment Against FTX and Alameda," press release, August 8, 2024, (continued...)

Stablecoin Issuer Insolvency Proceedings

Insolvency proceedings, such as bankruptcy proceedings, provide an orderly process for creditors to receive (typically partial) compensation from the proceeds of the assets of the failed entity. Section 11 of the GENIUS Act deals with stablecoin holders' claims when issuers are in insolvency proceedings. An insolvent issuer (with the exception of depository institutions) would go through the standard bankruptcy process, with some special rules added by the GENIUS Act. Bankruptcy is a judicial process that moves slowly compared to the bank receivership process, where depositors typically regain access to some or all of their funds quickly.²⁰⁹

Priority for Holders

Under standard bankruptcy law prior to enactment of the GENIUS Act, stablecoin holders might have been considered unsecured creditors, which would have placed them behind secured creditors and others in the line of priority for recovering the value of their stablecoins.²¹⁰ Instead, Section 11 of the GENIUS Act generally establishes that stablecoin holders²¹¹ must "have priority, on a ratable basis with the claims of other persons holding such payment stablecoins," over the claims of the issuer and anyone else that holds claims against the issuer "with respect to required payment stablecoin reserves."²¹² The act adds other provisions that specifically address whether a failed stablecoin issuer had not been in compliance with the GENIUS Act's reserves requirement.²¹³ Section 11(d) stipulates that the amount owed to stablecoin holders that cannot be paid out from an issuer's reserves becomes a claim "against the estate" that has "first priority over any other claim," including expenses and claims laid out in Section 507(a), "to the extent compliance with section 4 of the GENIUS Act would have required additional reserves to be maintained by the permitted payment stablecoin issuer for payment stablecoin holders." The distinction between these two provisions implies that, in cases when a stablecoin issuer is in compliance with GENIUS Act reserve requirements but enters insolvency, stablecoin holders have priority over reserves but do not have priority over the estate (the issuer's assets excluding reserves and other property). When a stablecoin issuer is not in compliance with the act's reserve requirements, the law provides holders priority over the remaining estate to the extent reserves were insufficient. Section 11(e)(3) amends statute to explicitly state that the estate does not include the stablecoin reserves.²¹⁴

<https://www.cftc.gov/PressRoom/PressReleases/8938-24>; and Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order, SEC, In the Matter of BlockFi Lending LLC, February 14, 2022, p. 6, <https://www.sec.gov/files/litigation/admin/2022/33-11029.pdf#page=6>.

²⁰⁹ For a description of bank receivership, see CRS In Focus IF10055, *Bank Failures and the FDIC*, by Raj Gnanarajah.

²¹⁰ Circle Internet Group, *United States Securities and Exchange Commission, Form S-1: Registration Statement*, April 1, 2025, p. 159, <https://www.sec.gov/Archives/edgar/data/1876042/000119312525070481/d737521ds1.htm>.

²¹¹ Issuers sell stablecoins to exchanges, which then sell those coins to customers off-chain while the coins remain in the exchange's account on the blockchain, which is a standard part of their business model. When this occurs, the act does not specify whether the exchange or the customer is considered the holder for purposes of the bankruptcy process (or more generally).

²¹² §11(1). Ratable in this instance presumably means that holders will have claims to reserves based on the size of their holdings as a proportion of stablecoins in circulation, and all holders will have equal priority with distribution based on holdings. According to Section 11(a)(2), any stablecoin holder is considered as holding a claim, regardless of other provisions of law or definitions.

²¹³ To that end, the law makes certain technical changes that make existing priorities enumerated in 11 U.S.C. §507 subject to a new subsection (e) of the act.

²¹⁴ For the purposes of 11 U.S.C. §362, the automatic stay applies to the stablecoin reserves even though they are not considered part of the estate.

Collectively, these provisions should boost stablecoin holders' confidence in stablecoins maintaining their value, making them more likely to be accepted as a means of payment. However, by reducing the expected recovery of secured creditors in bankruptcy, secured creditors may be somewhat more reluctant to lend to issuers. Similarly, it might dissuade creditors from initiating involuntary proceedings.

Automatic Stay

Once a bankruptcy proceeding triggers an *automatic stay*, which prohibits individual creditors from depleting assets outside of the bankruptcy process, Section 11 of the GENIUS Act prevents the issuer from redeeming stablecoins from its reserves. This would reduce run risk (see the **text box** entitled “Analysis: Addressing Run Risk” above) after an issuer failed by removing the incentive for individual holders to redeem their stablecoins before other holders, thereby depleting reserves.²¹⁵ If a court finds—based on an issuer’s “motion and attestation”—that there are reserves available for distribution “on a ratable basis to similarly situated payment stablecoin holders,” the court may lift the stay by entering a final order for the issuer to distribute those reserves on a ratable basis to stablecoin holders.²¹⁶

Role of Bank Regulators

The GENIUS Act provides a role for the OCC and state stablecoin regulators in insolvencies. Section 11(f) requires that the OCC or state regulator “raise, and shall appear and be heard on, any issue, including the protection of customers,” in any bankruptcy cases when the debtor is a stablecoin issuer. Section 11(g) establishes that, according to “otherwise applicable law,” the FDIC, NCUA, or a state banking regulator is responsible for resolving insolvencies of depository institutions, as applicable,²¹⁷ while permitted payment stablecoin issuer subsidiaries of such depository institutions are subject to Title 11 of the *U.S. Code*. This clarifies that the specific resolution procedures that depository institutions are subject to do not apply to the failure of a stablecoin issuer that is a subsidiary of a bank.

The GENIUS Act also requires that the primary federal payment stablecoin regulators conduct a study of potential insolvency proceedings among stablecoin issuers.²¹⁸

²¹⁵ On the other hand, the automatic stay gives holders an additional incentive to redeem their stablecoins if they suspect a failure is imminent and they are concerned that their funds would be tied up in the bankruptcy proceedings by a stay.

²¹⁶ P.L. 119-27 §11(c). One law firm note argued that an automatic stay on reserves is redundant because the act keeps the reserves out of the bankruptcy estate. See Edwin E. Smith et al., “The Proposed GENIUS Act Raises Concerns Over Insolvency Provisions,” Morgan Lewis, July 2, 2025, <https://www.morganlewis.com/pubs/2025/07/the-proposed-genius-act-raises-concerns-over-insolvency-provisions>.

²¹⁷ IDIs may issue stablecoins only through subsidiaries under Section 2(23), but non-depository banks, which are included in the Section 11 definition of depository institution may issue stablecoins directly. Generally, state bank regulators close a failing state bank and appoint a receiver. The FDIC and NCUA are the receivers who resolve the failing bank.

²¹⁸ The law requires federal regulators to submit a report of their findings and any legislative recommendation to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services within three years of the GENIUS Act’s enactment. The report would be required to focus on (1) any gaps in existing bankruptcy laws and rules that apply to stablecoin issuers, (2) the ability for stablecoin holders to be paid out in case of stablecoin issuer insolvencies, and (3) the “utility of orderly insolvency administration regimes” and whether any additional authorities are required.

Analysis: Questions Raised About Insolvency

Some commentators have suggested that the insolvency section of the GENIUS Act is not quite as clear as it appears. One argument is that while Section 11 of the act requires stablecoin holders to have “priority” in insolvency hearings by amending Title 11, Section 507, of the *U.S. Code*, the “internal structure” of the code puts secured claims ahead of unsecured claims, such as those of stablecoin holders.²¹⁹ The argument also suggests that by carving out stablecoin reserves from the definition of estate, “priority”—which is defined as relative to the estate—is moot. Commentators also suggest that by putting stablecoin holders at the front of the line of claimants (in some scenarios), the act risks leaving the issuer’s employees and administrators of its bankruptcy case unpaid, reducing the issuer’s incentive to file for bankruptcy or to ensure that bankruptcy proceedings go smoothly. Since Section 11 will not be implemented through the rulemaking process, some of these disagreements will be definitively settled only through future court cases.²²⁰

Unlike with most other sections of the act, there will not be future rulemakings that elaborate on the bankruptcy provisions. Therefore, absent future legislation, some questions will remain unresolved until case law is established in future bankruptcy filings.

Regulating Banks’ Crypto Activities

Banks, their subsidiaries, and their parent holding companies may engage only in activities that regulators have deemed permissible according to banking law. In the past few years, as leadership has changed, bank regulators have altered their views on which crypto-related activities are legally permissible and safe for banks to engage in. From 2020 to 2021, the OCC issued guidance allowing banks to accept deposits from stablecoin issuers²²¹ and participate in stablecoin-related payment activities.²²² In 2023, regulators warned of the liquidity risks associated with crypto-related deposits, such as stablecoin reserves, and called for banks to actively monitor those risks.²²³ Guidance issued under leadership appointed by President Biden required banks to seek supervisory non-objection before undertaking crypto-related activities.²²⁴ This guidance was rescinded in 2025.²²⁵

Bank Permissible Activities

Section 16 states that nothing in the GENIUS Act shall be construed to limit the ability of banks, trust banks, and credit unions to issue tokenized deposits, use a distributed ledger for

²¹⁹ Odinet et al., “The Moneyiness of Stablecoins”; Adam Levitin, “Sorry to Break It to You Geniuses: Under the GENIUS Act the Holders of Stablecoins Actually Have FIFTH Priority in an Issuer Bankruptcy,” *Credit Slips* (blog), December 2, 2025, <https://creditslips.org/2025/12/02/sorry-to-break-it-to-you-geniuses-under-the-genius-act-the-holders-of-stablecoins-actually-have-fifth-priority-in-an-issuer-bankruptcy/>. Also see comments to Levitin’s blog post.

²²⁰ Levitin, “Sorry to Break It to You Geniuses: Under the GENIUS Act the Holders of Stablecoins Actually Have FIFTH Priority in an Issuer Bankruptcy.”

²²¹ Jonathan V. Gould, “OCC Chief Counsel’s Interpretation on National Bank and Federal Savings Association Authority to Hold Stablecoin Reserves,” OCC Interpretive Letter 1172, October 2020, <https://www.occ.treas.gov/topics/charters-and-licensing/interpretations-and-decisions/2020/int1172.pdf>.

²²² Jonathan V. Gould, “OCC Chief Counsel’s Interpretation on National Bank and Federal Savings Association Authority to Use Independent Node Verification Networks and Stablecoins for Payment Activities,” OCC Interpretive Letter 1174, January 4, 2021, <https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-2a.pdf>.

²²³ Board of Governors of the Federal Reserve System et al., “Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities [withdrawn],” February 23, 2023.

²²⁴ Benjamin W. McDonough, “Chief Counsel’s Interpretation Clarifying: (1) Authority of a Bank to Engage in Certain Cryptocurrency Activities; and (2) Authority of the OCC to Charter a National Trust Bank [rescinded],” OCC Interpretive Letter 1179, November 18, 2021, <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-decisions/2021/int1179.pdf>.

²²⁵ Rodney E. Hood, “OCC Letter Addressing Certain Crypto-Asset Activities,” OCC Interpretive Letter 1183, March 7, 2025, <https://www.occ.treas.gov/topics/charters-and-licensing/interpretations-and-decisions/2025/int1183.pdf>.

bookkeeping and transfers, or provide custodial services for stablecoins. As discussed in the “Who Can Issue a Stablecoin?” section above, banks, trust banks, and credit unions are also permitted to issue stablecoins through subsidiaries under the act. Section 16 affirms that banks are allowed to engage in all of the activities that issuers are allowed to engage in (see the “Limitations on Issuers” section above).

Balance Sheet Treatment

Section 16 of the GENIUS Act also prevents depository regulators and the SEC from requiring banks to recognize all digital assets (not limited to stablecoins) that they are holding in custody on behalf of customers as assets on their balance sheets. Custody assets in general are not recognized on the custody bank’s balance sheet, so this requirement is consistent with how non-crypto assets are treated. However, in 2022, the SEC released Staff Accounting Bulletin (SAB) No. 121, which stated that, “as long as [the firm] is responsible for safeguarding the crypto-assets held for its platform users, including maintaining the cryptographic key information necessary to access the crypto-assets, the staff believes that [the firm] should present a liability on its balance sheet to reflect its obligation to safeguard the crypto-assets held for its platform users” and that “it would be appropriate for [the firm] to recognize an asset at the same time that it recognizes the safeguarding liability, measured at initial recognition and each reporting date at the fair value of the crypto-assets held for its platform users.”²²⁶ SAB 121 applied to publicly listed firms, not banks specifically. SAB 121 had particular regulatory implications for banks, however: When banks recognize assets on the balance sheet, it triggers capital and other regulatory requirements. The SEC issued SAB 122, rescinding SAB 121, on January 30, 2025.²²⁷ Nevertheless, this provision of the GENIUS Act prevents any return to SAB 121 or a similar policy initiated by regulators in the future.

Interoperability

Interoperability generally refers to the ability of systems, technologies, and/or their components to work seamlessly with different technologies. Interoperability of technology is essential in payments because it allows firms/retailers to maximize methods of payment and settlement while minimizing the financial and operational costs associated with them. Interoperability is particularly relevant in the stablecoin discussion because adoption of and interoperability between stablecoins and blockchains has been limited, and minimizing friction could spur greater adoption. This is true for integration of stablecoins with traditional payment systems and potential integration between blockchains and stablecoins.

Section 12 of the GENIUS Act addresses interoperability. It requires federal payment stablecoin regulators to consult with the National Institute of Standards and Technology, other standard-setting bodies, and state bank and credit regulators to determine whether they should promote interoperability and compatibility among payment stablecoin issuers and broader digital finance, such as communications protocols and other blockchains.

While there may be benefits to interoperability, Section 12 does not include a description of Congress’s intentions or goals, and interoperability could mean different things. Nor does it

²²⁶ SEC, “Staff Accounting Bulletin No. 121,” 87 *Federal Register* 21015, April 11, 2022, <https://www.federalregister.gov/documents/2022/04/11/2022-07196/staff-accounting-bulletin-no-121>. For more information, see CRS Insight IN12358, *Potential Disapproval of SEC Staff Accounting Bulletin No. 121 Under the Congressional Review Act*, by Maeve P. Carey, Andrew P. Scott, and Paul Tierno.

²²⁷ SEC, “Staff Accounting Bulletin No. 122,” 90 *Federal Register* 8492, January 30, 2025, <https://www.federalregister.gov/documents/2025/01/30/2025-01864/staff-accounting-bulletin-no-122>.

consider whether there may be unintended consequences. It seems reasonable to assume, however, that one of Congress's intentions is to encourage the integration of stablecoins with traditional payment systems to make payment options seamless from merchant and customer perspectives. The following paragraphs address just a few of the assumptions and issues that regulators might consider when making recommendations to promote interoperability.

Generally, recommendations will need to consider the level of interoperability to be expected between older and newer infrastructures and/or among stablecoin issuers. The potential integration of old and new raises the question of whether stablecoins can be interchangeable with bank reserves that are the form of settlement in traditional models. Also, are stablecoin operators expected to replace existing intermediaries or technologies, or can their addition to the payment system matrix still reflect simpler or cheaper processes?

While stablecoins operated by various companies are issued across multiple blockchains, such as Ethereum and Solana, stablecoins operating on one of those blockchains are not inherently interoperable with the same or a different company's stablecoins on a different blockchain. Bridges, applications that permit transactions across different blockchains, can exhibit price discrepancies and are prone to hacks.²²⁸ Similarly, stablecoins can be redeemed only with the company that issues them (e.g., USDT can be redeemed only with Tether, and USDC can be redeemed only with Circle). It is unclear whether interoperability would aim to change this and whether competitors (who vary significantly in market size and other business practices) would be willing to redeem each other's coins.

Interoperability recommendations will also need to satisfy the issue of "gas," a blockchain fee settled in a blockchain's native currency. Currently, on-chain transactions require users to hold both the stablecoin and some quantity of a blockchain's native currency to pay for the fees. The involvement of two cryptocurrencies for any payment arguably complicates retail payments.

In addition, while it is possible for standard-setting bodies to make interoperability recommendations, it is unclear how competing stablecoin issuers would respond to any proposed shared standards. Also, it is even less certain that regulators could influence behavior of public blockchains—as opposed to issuers, which may be required to implement interoperability.²²⁹

Federal Reserve Authority

Section 4 of the GENIUS Act specifies that it does not change the Fed's authority in two areas: master accounts and services to the public.²³⁰

Master Accounts

Section 4(a)(13) states that the act does not expand or contract legal eligibility to "make deposits with a Federal Reserve bank" or to access Fed services.²³¹ The ability to make deposits refers to firms' eligibility to hold master accounts at the Fed. Master accounts provide banks with direct

²²⁸ Jon Durfee et al., "Interoperability of Blockchain Systems and the Future of Payments," Federal Reserve Bank of New York, *Liberty Street Economics* (blog), March 27, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/03/interoperability-of-blockchain-systems-and-the-future-of-payments/>.

²²⁹ Pablo Hernández de Cos, "Stablecoins: Framing the Debate," speech given at Bank of Japan seminar, Tokyo, Japan, April 20, 2026, <https://www.bis.org/speeches/sp260420.htm>.

²³⁰ The act also provides the Fed new authority to regulate stablecoin issuers of state member banks, as discussed in the "Who Regulates Stablecoin Issuers?" section.

²³¹ Section 11A(b) of the Federal Reserve Act (12 U.S.C. §248a) provides a list of business services that the Fed may offer to depository institutions.

access to the U.S. wholesale payment system and are potentially desirable to nonbank stablecoin issuers for that reason. The Fed has recently shown openness to granting master accounts to more nontraditional firms, but eligibility is limited by statute.²³² Issuers (or their parent companies) with federal or state bank charters—regardless of whether they are IDIs—may be legally eligible for a master account under current law, but the Fed has discretion to grant or deny one.²³³

Services to the Public

Section 4(i)(1) states that the act does not expand the Fed’s authority to provide services directly to the public. Generally, the Fed cannot and does not provide services to the public. This provision may allude to proposals for the Fed to issue central bank digital currencies (CBDCs) for retail use, which has been a controversial topic in the 119th Congress.²³⁴ CBDCs could compete directly with private payment stablecoins. Although the Fed has stated that it has no current plans to issue a CBDC, there is debate about whether the Fed currently has the authority to unilaterally do so if it wished or whether it would need to receive new statutory authority. The Fed is an independent agency operating under authority granted by Congress.

Role of Treasury Secretary

As is common in financial regulation, the GENIUS Act sets the basic statutory parameters of regulatory policy and grants regulators authority to subsequently fill in the details through rulemaking, supervision, and enforcement. But the act is somewhat unusual in also granting the Treasury Secretary discretionary authority over several key decisions. Financial regulators operate with varying degrees of independence from the President, unlike the Treasury Secretary. As discussed in the “History of Stablecoins and Future Trends” section above, President Trump has a direct financial interest in a company that issues stablecoins that will presumably be subject to the act. When given discretion, the Treasury Secretary may weigh the Administration’s other policy priorities against the act’s objectives. As a hypothetical example, instead of basing decisions in the foreign regulatory approval process strictly on comparability of regulatory regimes, the Secretary might weigh the benefits of rewarding the Administration’s foreign allies and punishing foreign rivals.

The GENIUS Act assigns the powers covered in this section to the Treasury Secretary or to the SCRC (led by the Secretary). The Secretary’s (and SCRC’s) authority falls within four main areas, summarized in **Table 4**—state regulation, illicit finance, foreign issuers, and nonfinancial issuers.

Approving State Regulatory Regimes

The GENIUS Act requires states to have regulatory regimes for state issuers that are substantially similar to the federal regime and requires the SCRC to certify that each state has regulations in place that comply with the requirements in Section 4(a) of the GENIUS Act. The Treasury Secretary is responsible for establishing broad-based principles for determining whether state-level regimes are substantially similar. Thus, whether states will be able to offer laxer regulatory

²³² For more information, see the section entitled “Access to Master Accounts” in CRS Report R48390, *Federal Reserve: Policy Issues in the 119th Congress*, by Marc Labonte.

²³³ Existing IDIs that choose to issue a stablecoin would typically already have a master account or a corresponding relationship with another bank that has one.

²³⁴ See CRS In Focus IF11471, *Central Bank Digital Currencies*, by Marc Labonte and Rebecca M. Nelson.

standards and supervision than the federal government or other states in order to attract issuers will depend on the Treasury Secretary and the SCRC.

Approving Foreign Issuers

To prevent illicit finance, the GENIUS Act makes the Treasury Secretary responsible for ensuring that foreign stablecoin issuers are compliant and capable of complying with lawful orders (see the “Illicit Finance” section above). To ensure compliance, the Secretary may issue enforcement actions and ban DASPs from offering coins issued by noncompliant foreign issuers. The Secretary may also grant waivers to allow trading of stablecoins of noncompliant issuers on various grounds. The act also assigns the Secretary responsibility for fostering AML innovation. The act’s AML provisions arguably parallel existing AML statute, which assigns many responsibilities and decisions to the Treasury Secretary.²³⁵

The Treasury Secretary is also responsible for issuing rules surrounding requirements that domestic issuers are in compliance with the act’s registration requirements and that DASPs are selling only stablecoins that are in compliance with those requirements. Stablecoins issued by foreign issuers may be sold in the United States or to U.S. persons only if the Secretary determines that the issuer meets certain criteria. For example, the Secretary must determine that the issuer is subject to foreign regulations in its home country that are comparable to the requirements in the act. To that end, the act also allows the Secretary to create reciprocal agreements on regulatory equivalence with foreign countries.²³⁶ Given that foreign regulatory regimes are likely to differ from those in the act in significant ways, this grants the Secretary significant discretion to keep out or let in foreign stablecoins. The Secretary may also issue limited safe harbors on broad grounds to issuers that are not in compliance with the domestic or foreign issuer requirements.

Approving Commercial Issuers

The SCRC is also responsible for determining whether nonfinancial businesses may issue stablecoins. It makes that determination on the basis of inherently subjective criteria, such as whether the issuer poses a material risk to the safety and soundness of the banking system or financial stability.

Table 4. Role of Treasury Secretary and Stablecoin Certification Review Committee (SCRC) as Set Forth in the GENIUS Act

Section	Requirement	Description
<i>Treasury Secretary</i>		
3(c)	Safe harbor	Secretary may issue limited safe harbors from requirement that issuers are registered in unusual and exigent circumstances.
3(d)	Prohibition	Secretary shall issue regulations implementing Section 3 limitations on issuance and prohibitions on offers and sales.
3(h)(2), 8(d)	Rules of construction	The act does not alter Secretary’s existing authority to block, restrict, or limit transactions in U.S. stablecoins.

²³⁵ See, for example, 31 U.S.C. §§5313 and 5314.

²³⁶ Although the Treasury Department has expertise in international financial negotiations, it is not a regulator. Therefore, it may lack expertise in evaluating foreign regulatory regimes and negotiating reciprocal agreements on regulation.

Section	Requirement	Description
4(a)(5)(B-C)	Bank Secrecy Act	Secretary shall adopt tailored rules to subject issuers to the Bank Secrecy Act; act does not restrict Secretary's existing authority to administer the Bank Secrecy Act.
4(a)(6)	Coordination on lawful orders	Secretary may block or prohibit transactions and shall coordinate with issuers before taking actions.
4(c)(2)	Substantially similar state regimes	Secretary shall issue rules establishing broad-based principles for determining whether state-level regimes are substantially similar.
4(e)(3)	Misleading marketing	Treasury shall fine individuals who misrepresent that stablecoins are insured or guaranteed by the government; federal regulators shall refer violations to the Secretary.
5(i)(2)	Anti-money-laundering (AML) certifications	Secretary may request federal and state regulators provide it with issuer certifications that it is in compliance with AML requirements.
8(a)(2)	Noncompliant foreign issuers	Secretary may designate a foreign issuer as noncompliant if the issuer does not comply with lawful orders or does not have the technological capability to comply with them.
8(b)(1)	Noncompliance notification	If an issuer does not become compliant, Secretary shall issue a notification prohibiting digital asset service providers from facilitating secondary trading of its stablecoins.
8(b)(3)	Expiration of prohibition	Secretary shall lift prohibition when issuer is no longer noncompliant.
8(b)(4)	Civil monetary penalties	Secretary may impose penalties and seek injunctions on digital asset service providers and foreign issuers that violate the prohibition.
8(c)	Waivers for noncompliant stablecoins	On a case-by-case basis, Secretary may issue a waiver or license permitting noncompliant stablecoins to be traded if a prohibition would adversely affect the U.S. financial system, the issuer is taking steps to remedy the failure to comply with the lawful order, a waiver is in the United States' national security interest, or any agency head (including Treasury) issues a waiver for intelligence or law enforcement activities.
9(a-c)	AML innovation	Secretary shall seek public comment and conduct research to identify innovative techniques to detect illicit activity and consider various factors involving illicit activity and digital assets as part of the national strategy for combatting terrorism and illicit financing.
9(f)	Rules of construction	The act does not limit Secretary's existing authority to encourage novel methods to detect illicit activity through exemptions, rules, and no-action letters.
18(a)	Foreign issuers	Foreign payment stablecoin issuer is not required to be registered in United States based on four factors, including that the Secretary has made a comparability determination under Section 18(b) and the issuer is not domiciled in a jurisdiction of primary money-laundering concern.
18(b)	Treasury determination for foreign regimes	Secretary (on recommendation of each member of the SCRC) may determine that a foreign country has a regulatory regime comparable to the requirements in the act; Secretary may subsequently rescind such a determination; Secretary shall issue rules to carry out requirements of this section and make publicly available a list of comparable countries.
18(c)(3)	Revocation of registration	Secretary may revoke a foreign issuer's registration if the issuer presents illicit finance risks.

18(d)	Reciprocity agreements	Secretary may enter into reciprocal or bilateral agreements with other jurisdictions with comparable regulatory regimes.
SCRC		
4(a)(12)(B)	Approval of commercial issuers	A U.S. public company or foreign company that is not predominantly engaged in financial activities may not issue stablecoins unless the SCRC finds that it will not pose certain risks and the company will comply with personal data requirements and tying prohibitions.
4(c)(4)	State regime certification	A state regulatory regime must be certified by the SCRC as meeting the criteria in Section 4(a) in order for state issuers to operate. State regimes must be annually recertified by the SCRC, with limited grounds for denial.

Source: CRS analysis of P.L. 119-27.

Notes: Table does not include reporting and publishing requirements. SCRC decisions are made unanimously unless otherwise noted.

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