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Memorandum

GENIUS Act Establishes Regulatory Framework for Stablecoins

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On July 18, 2025, President Trump signed into law the Guiding and Establishing National Innovation for U.S. Stablecoins Act, known as the GENIUS Act (the "Act").[1] The Act establishes a regulatory framework for the issuance of stablecoins backed by U.S. dollars, short-term U.S. Treasuries, and certain other enumerated assets. The Act had support from members of both political parties and is the first federal law focused on the regulation of cryptocurrency and digital assets. The Act:

- prohibits any party who is not a "permitted payment stablecoin issuer" ("PPSI") from issuing "payment stablecoins" in the United States;
- prohibits a "digital asset service provider" from offering, selling, or otherwise making available in the United States a payment stablecoin unless it is issued by a PPSI;[2]
- establishes the required characteristics of a payment stablecoin;
- creates a process for the approval of PPSIs; and
- establishes a framework for the ongoing regulation and supervision of PPSIs.

The Act borrows heavily from the existing regulatory regime governing banking organizations, including provisions related to the examination, regulation and supervision of capital, liquidity, risk management, "safety and soundness," and anti-money laundering. Most provisions of the Act will take effect on the earlier of (i) January 18, 2027, or (ii) 120 days after the primary regulators issue final regulations implementing the Act.

The Act is the first of three digital asset proposals that Congress is expected to send to the President this year. The other proposals include the CLARITY Act, which would establish a regulatory scheme for digital asset markets generally, and a separate proposal to prohibit the Federal Reserve from issuing a central bank digital currency.

This memorandum highlights some of the key provisions of the Act. It does not describe all of the provisions, conditions, or exceptions that may be applicable to a particular situation.

[1] Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119-27 (2025)

[2] This provision becomes effective three years after enactment of the Act. The Act defines a "digital asset service provider" to capture a range of business that, among other things, exchange or transfer digital assets. The Act includes an exception that allows a digital asset service provider to engage in activities with respect to foreign payment stablecoin issuers that meet a number of conditions.

Industry Reactions

The digital asset industry has generally welcomed the Act as a first step toward a comprehensive U.S. regulatory framework for cryptocurrency and similar digital assets. Prominent cryptocurrency firms praised the Act for advancing U.S. financial competitiveness by allowing dollar-based stablecoins to be issued in the United States and removing regulatory uncertainty that will promote consumer confidence and deeper adoption of stablecoins.

The banking industry's reaction has been mixed, emphasizing the need for stringent safeguards and raising questions about the effect rapid growth of payment stablecoins may have on their deposit funding and systemic risk. Banking groups generally supported the Act's imposition of a regulatory framework, including anti-money laundering compliance obligations, on stablecoin issuers, as well as the Act's lack of a federal backstop for stablecoins. However, they raised concerns that widespread use of payment stablecoins could disintermediate traditional banking functions and result in deposit outflow from FDIC-insured institutions.

Payment Stablecoins

The Act uses the term "payment stablecoin," which it generally defines to mean a digital asset where:

- the digital asset is, or is designed to be, used as a means of payment or settlement;
- the issuer is obligated to convert, redeem, or repurchase the payment stablecoin for a fixed amount of monetary value; and
- the issuer represents that it will maintain, or creates the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of monetary value.

The Act prohibits a PPSI from paying interest or yield to holders "solely in connection with the holding, use, or retention of such payment stablecoin." Notably, this prohibition does not apply to payments by affiliates or other intermediaries. It is also possible that reward or yield payments by a PPSI to stablecoin holders could be for purposes other than, or in addition to, "the holding, use, or retention of such payment stablecoin."

A PPSI may not issue payment stablecoins with a deceptive name that could create the appearance that the stablecoin is backed by the U.S. government or is FDIC insured, such as "United States," "United States Government," or "USG."

The Act amends federal securities laws (i) to exclude a payment stablecoin issued by a PPSI from the definitions of "security" in the Securities Act of 1933, Securities Exchange Act of 1934, Investment Company Act of 1940, Investment Advisers Act of 1940 and Securities Investor Protection Act of 1970 and (ii) to exclude a PPSI from the definition of "investment company" in the Investment Company Act of 1940. The Act also excludes a payment stablecoin issued by a PPSI from the definition of "commodity" in the Commodity Exchange Act.

Reserve and Custody Requirements for Payment Stablecoins

The Act requires that a payment stablecoin be backed on at least a 1:1 basis by identifiable reserves consisting entirely of low-risk and highly liquid assets enumerated in the Act:

- U.S. coins and currency or credit at a Federal Reserve Bank;
- Demand deposits at an FDIC-insured depository institution;
- Treasury bills, notes, or bonds with a remaining or issued maturity of 93 days or less;
- Money received under overnight repurchase agreements backed by short-term Treasury securities describe above;
- Overnight reverse repurchase agreements over-collateralized by U.S. government securities and meeting other criteria;
- Securities issued by an SEC-registered investment company or other registered government money market fund that are invested solely in otherwise enumerated underlying assets; and
- any other similarly liquid federal government-issued asset approved by the primary federal regulator.

The PPSI is required to publicly disclose its policy for the "timely" redemption of outstanding payment stablecoins. The PPSI is also required to publish a monthly reserve disclosure, which must be certified by its CEO and CFO. The Act imposes criminal penalties on individuals knowingly certifying false information. Monthly reserve disclosures must be examined by a registered public accounting firm. Additionally, a PPSI with more than $50 billion in outstanding stablecoins must publish audited financial statements and submit those financial statements to its primary regulator.

Custodial or safekeeping services for payment stablecoin reserves, payment stablecoins used as collateral, or private keys used to issue payment stablecoins may be conducted only by entities regulated by a federal or state banking regulator, the SEC, or the CFTC. The custodian must segregate the assets from, and not commingle them with, its own assets or the assets of other customers. However, a custodian that is an insured depository institution may treat the assets as cash on deposit, which allows the bank to utilize those funds in its lending and investment activities.

Permitted Payment Stablecoin Issuers (PPSIs)

The Act enumerates the types of entities that may become a PPSI and assigns jurisdiction for each type of entity to a primary regulator. These primary regulators include the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC"). Among these three agencies, the Act generally places the OCC in a featured role.

Type of entity	Primary regulator
Subsidiary of FDIC-insured state member bank	Federal Reserve
Subsidiary of FDIC-insured state nonmember bank	FDIC
Subsidiary of credit union	National Credit Union Administration
Subsidiary of national bank that is FDIC-insured	OCC
National bank that is not FDIC-insured	OCC
Federal branch of non-U.S. bank	OCC
Nonbank entity approved by OCC to be a PPSI	OCC
Entity established under state law that meets the requirements for the state-based regulatory framework	State agency responsible for PPSIs

REGULATORY APPROVAL PROCESS

The Act lists the factors that a primary regulator is to consider when reviewing an applicant's proposal to become a PPSI. These factors are: (i) the ability of the applicant, based on its financial condition and resources, to meet the Act's requirements to issue payment stablecoins; (ii) whether an officer or director of the applicant has been convicted of certain felonies involving financial crime; (iii) the competence, experience, and integrity of the officers, directors, and principal shareholders of the applicant; (iv) whether the applicant's redemption policy meets the requirements of the Act; and (v) other factors established by the primary regulator that are "necessary to ensure the safety and soundness" of the PPSI. The Act includes broad preemption of state licensing requirements for a PPSI that is approved by a federal regulator.

The Act provides that the primary regulator shall render a decision within 120 days of receiving a "substantially complete" application and shall deny any application based on the factors above only if it determines that the activities of the PPSI would be "unsafe or unsound." In its use of the phrases "substantially complete" and "unsafe and unsound," the Act borrows from fairly subjective concepts in the existing U.S. bank regulatory framework that have historically provided the banking regulators with broad leeway in their substantive and procedural approaches to applications.

ADDITIONAL HURDLE FOR NON-FINANCIAL PUBLIC COMPANIES

If an applicant to become a PPSI is, or is a majority- or wholly-owned subsidiary or affiliate of, a publicly traded company that is not predominately engaged in "financial activities," then the Act imposes an additional procedural hurdle. The publicly traded company must obtain unanimous approval of the Stablecoin Certification

Review Committee (the "SCRC"), which is a committee composed of the Secretary of Treasury, the Chair of the Federal Reserve, and the Chair of the FDIC. The SCRC must find that the public company's issuance of stablecoins, among other things, will not pose material risk to U.S. financial stability and will comply with consumer data restrictions.

This additional requirement in the Act was intended to address the concerns of some policy-makers regarding potential involvement of large commercial companies (especially BigTech) as issuers of payment stablecoin. The House of Representative's version of the CLARITY Act proposes to amend the Act to replace this provision with a provision that would prohibit any company from controlling a PPSI if the company does not derive a majority of its revenue from financial activities.

Federal Regulatory Framework for PPSIs

The Act establishes a federal framework for the regulation and supervision of PPSIs. The Act borrows heavily from the existing regulatory regime governing U.S. banks and bank holding companies. In many areas, the Act itself sets forth only high-level concepts or general standards—with the details to be determined by the regulators through rulemaking and real-world supervisory experience.

For ease of understanding, this section addresses the Act's requirements under the federal framework to be implemented by the primary federal payment stablecoin regulators. The alternative state-based regulatory framework is addressed separately in the next section.

EXAMINATION AND ENFORCEMENT

The Act provides that the primary regulator will examine each PPSI to assess (i) the nature of the operations and financial condition of the PPSI; (ii) financial, operational, technological, and other risks associated with the PPSI that may pose risk to the PPSI's "safety and soundness" or the U.S. financial system; and (iii) the systems for monitoring and controlling such risks.

The Act also provides the primary regulator with enforcement authority over a PPSI and its institution-affiliated parties, including the ability to suspend or revoke registration as a PPSI; to bring cease-and-desist proceedings; ban an individual's participation with PPSIs; and to impose civil money penalties. Violations of the Act may also lead to criminal penalties.

The Act's examination and enforcement provisions are broadly similar to those in the existing regulatory framework governing U.S. banks. For example, the Act uses the phrase "safety and soundness," which U.S. banking regulators have historically interpreted broadly to include a wide range of financial and non-financial considerations. In an effort to reduce the subjectivity of bank examination and enforcement practices, the U.S. banking industry has advocated for a more clear and objective definition of "safety and soundness."

REGULATIONS ON CAPITAL, LIQUIDITY, DIVERSIFICATION, AND RISK MANAGEMENT

The Act requires the primary regulators to issue regulations implementing:

- capital requirements applicable to PPSIs;
- the liquidity standard in the Act that requires the maintenance of reserves and timely redemption of payment stablecoin;
- reserve asset diversification, including deposit concentration at banking institutions, and interest rate risk management standards; and
- appropriate operational, compliance, and information technology risk management principles-based requirements and standards, including Bank Secrecy Act and sanctions compliance standards.

These are broad topics that leave a lot to be determined by the regulators in their implementation. However, the Act specifies that these standards should be "tailored to the business model and risk profile of [PPSIs]" and should "not exceed requirements that are sufficient to ensure the ongoing operations of [PPSIs]." The Act states that the regulators "should coordinate, as appropriate," in their issuance of regulations under this and other provisions of the Act. However, the Act does not require that their regulations be identical. Thus, it is possible the primary regulators could adopt differing regulations or supervisory standards applicable to the PPSIs within their jurisdiction.

ANTI-MONEY LAUNDERING AND ECONOMIC SANCTIONS COMPLIANCE

A PPSI will be treated as a financial institution for purposes of the Bank Secrecy Act and therefore subject to a panoply of anti-money laundering and counter-terrorist financing requirements. Among other things, a PPSI will be required to (i) maintain an "effective" anti-money laundering program, including "appropriate" risk assessments and the appointment of an officer to supervise the program; (ii) retain appropriate records; (iii) monitor and report suspicious transactions; (iv) have technical capabilities, policies, and procedures to block, freeze, and reject specific or impermissible transactions that violate federal or state laws, rules, or regulations; (v) maintain an "effective" customer identification program, including identification and verification of account holders with the PPSI, high-value transactions, and appropriate enhanced due diligence; and (vi) maintain an effective economic sanctions compliance program, including verification of sanctions lists, consistent with federal law. A PPSI is required to submit an annual certification to its primary regulator stating that it has implemented an anti-money laundering and sanctions compliance program that is reasonably designed to prevent the facilitation of money laundering. Any person knowingly submitting a false certification may be subject to criminal penalties.

PPSIS MAY CONDUCT ONLY ENUMERATED ACTIVITIES

The Act limits the types of activities that may be conducted by a PPSI. A PPSI may only (i) issue payment stablecoins; (ii) redeem payment stablecoins; (iii) manage related reserves; (iv) provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins; and (v) undertake other activities that directly support these enumerated activities.

INSOLVENCY OF A PPSI

The Act does not create any governmental backstop in the event a PPSI becomes insolvent or is otherwise unable to redeem its outstanding payment stablecoins. Nor does the Act create any new special insolvency regime for PPSIs. However, the Act does include provisions intended to prioritize the treatment of payment stablecoin holders if a PPSI enters federal bankruptcy or other insolvency proceedings under state law. First, the Act provides that the claims of a payment stablecoin holder will have priority over any other claims with respect to the payment stablecoin reserves. Second, if the reserves are insufficient to satisfy the claims of the payment stablecoin holders, then their remaining claims will have priority over any other claims against the PPSI in federal bankruptcy proceedings. Third, the Act gives relief from the automatic stay provisions of the bankruptcy process to allow a PPSI to more quickly satisfy redemption requests from its payment stablecoin holders. Despite these special provisions, it is unclear whether the federal bankruptcy process would be well equipped to resolve an insolvent PPSI.

Alternative State-Based Framework

The Act follows a long tradition in U.S. financial services legislation of jurisdictional compromises and complexity by allocating jurisdiction among multiple federal banking regulators and providing for an alternative state-based regulatory framework for certain PPSIs. This approach in the Act is both a reflection of the long-standing dual federal-state financial regulatory framework in the United States and an acknowledgment that a substantial portion of the stablecoin ecosystem already exists in state-regulated institutions.

The Act permits a PPSI to opt into state-level regulatory regimes if two criteria are met. First, the PPSI must have no more than $10 billion in outstanding circulating payment stablecoins. Second, the state regulatory regime must be “substantially similar” to federal requirements. The determination of whether a given state’s regulatory regime is “substantially similar” to federal requirements must (i) be certified by the state regulator and (ii) unanimously approved by the SCRC. If a PPSI successfully opts in to the state framework, then it would generally be subject to the sole supervision of the applicable state regulator. The Act provides that, in “unusual and exigent” circumstances, the Federal Reserve and the OCC may issue enforcement actions against a state-regulated PPSI to address serious risks to the financial safety, soundness or stability of the PPSI, including by limiting stablecoin redemptions and restricting transactions between the PPSI and its affiliates.

If a state-regulated PPSI exceeds $10 billion of payment stablecoins in circulation, it must transition to oversight by the applicable primary federal regulator. The Act permits the primary federal regulator to issue a waiver to allow the PPSI to remain solely supervised by its state regulator. In determining whether to grant a waiver, the primary federal regulator must exclusively consider the following factors: (i) the capital maintained by the PPSI; (ii) the past operations and examination history of the PPSI; (iii) the experience of the primary state regulator in supervising the PPSI; and (iv) the supervisory framework of the PPSI with respect to payment stablecoins and digital assets. An over $10 billion state-licensed PPSI that does not receive a waiver is subject to joint supervision by applicable state and federal regulators.

Effective Date and Implementation

Most provisions of the Act will take effect on the earlier of (i) January 18, 2027, or (ii) 120 days after the primary regulators issue final regulations implementing the Act.

Implementation of the Act will require primary regulators to develop and issue a wide range of new rules, guidance, and supervisory frameworks to address the novel and complex issues surrounding payment stablecoins. These rules, many of which will need to be developed from the ground up, will need to address a number of areas and potentially competing considerations. Under the Act, the primary federal regulators, Secretary of the Treasury, and each state regulator are required to promulgate regulations to implement the Act within one year of enactment. The Act also imposes an interim deadline of 180 days after enactment for primary federal regulators to provide a report to applicable Senate and House committees that describes proposed regulations. Given the complexity of the subject matter, lack of precedent, and need for interagency coordination and public comment, full implementation of the Act will be a significant undertaking for primary regulators.

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