

Title: U.S. Enacts Genius Act Regulating Stablecoins

On July 18, President Trump signed the “Guiding and Establishing National Innovation for U.S. Stablecoins Act” (“GENIUS Act”),^[i] which establishes a federal framework for payment stablecoins. This landmark act defines what qualifies as a stablecoin, limits who may issue them and imposes strict prudential standards (including one-to-one reserve backing in cash or Treasuries and timely redemption obligations). A federal licensing regime, overseen by the Federal Reserve, the U.S. Department of the Treasury’s Office of the Comptroller of the Currency (OCC) and other federal agencies will bring stablecoin issuers under bank-like supervision, with coordinated oversight for state-regulated issuers. The act also requires certain disclosures and other consumer protections and mandates anti-money laundering controls.

This update analyzes the GENIUS Act’s key provisions and practical implications for issuers, custodians, exchanges and institutional users.

Definition of “Stablecoin”

Under the GENIUS Act, a “payment stablecoin” is defined as a digital asset that: (i) is designed as a means of payment; (ii) is redeemable on demand for a fixed amount of fiat currency (e.g. one U.S. dollar per token); and (iii) is designed to maintain a stable value relative to that fiat currency.^[ii] The act explicitly excludes certain instruments from this definition: a stablecoin cannot be legal tender itself, and it is not a bank deposit or a security.^[iii] As discussed below, payment stablecoins must be fully collateralized: tokens that rely instead on algorithmic functions to achieve stability do not qualify.

Permitted Issuers

The GENIUS Act restricts stablecoin issuance to regulated entities. “Permitted Payment Stablecoin Issuers” include: (1) insured depository institutions such as U.S. banks and credit unions; (2) non-bank financial companies and uninsured banks that obtain a special federal stablecoin charter from the OCC (a “Federal Qualified Payment Stablecoin Issuer”); and (3) entities operating under a state stablecoin regulatory regime that is certified as equivalent to federal standards.^[iv]

In essence, a fintech company that is not a bank can issue stablecoins only by becoming a bank, securing OCC approval or by coming under a compliant state framework that “is substantially similar to the federal regulatory framework.”^[v] State-regulated issuers will be subject to annual Treasury certification of their home state’s oversight.^[vi] Unlicensed or ad hoc issuers are prohibited – it is unlawful for any person to issue payment stablecoins in the U.S. without being a “permitted stablecoin issuer” under the act.^[vii] Additionally, in three years after the GENIUS Act becomes effective, it will also be illegal to offer payment stablecoins from other issuers that are not in

compliance.[viii] In sum, existing stablecoin providers will need to become banks or obtain a new license (or partner with one) to continue issuance legally under the GENIUS Act.

Permitted Activities

Stablecoin issuers' business activities are tightly circumscribed under the act. A licensed stablecoin issuer may only issue and redeem stablecoins, manage the reserve assets and conduct related payments and custody services directly incidental to stablecoin operations.[ix] However, issuers cannot engage in traditional lending or risk-taking with stablecoin holders' funds.

This specialization is designed to insulate stablecoin operations from other financial risks. For example, an issuer may not offer interest-bearing accounts or pay any yield on stablecoin balances.[x] Likewise, reserve assets cannot be lent out or leveraged. They must remain liquid and available for redemption at all times.[xi] Banks that issue stablecoins are expected to do so through a ring-fenced affiliate or trust to separate it from the bank's lending business, thereby avoiding regulatory capital complications.

In practice, an issuer can provide wallet custody to users and facilitate transfers of its stablecoin, but it cannot extend credit, invest customer stablecoin funds in risky assets or commingle the reserves with general corporate funds. The clear mandate is that stablecoins function as a pure payment mechanism, not as an investment product or a fractional banking substitute.

Reserve & Redemption Requirements

The GENIUS Act imposes strict reserve backing and redemption obligations – the cornerstone of the new stablecoin regime. Every stablecoin must be 100% backed by high-quality liquid assets. Permissible reserve assets are enumerated by statute: 1) essentially cash and cash-equivalents, including U.S. currency, funds held as insured bank deposits or at Federal Reserve banks; 2) short-term U.S. Treasury securities (93 day maturity or less), or overnight Treasury repo agreements backed by such securities; and 3) certain money market funds investing only in those safe assets.[xii]

Riskier reserve assets – e.g. commercial paper, longer-term bonds, equities or crypto – are not permitted. Reserves must be segregated from the issuer's other assets to protect customers.[xiii] One-to-one redemption is legally guaranteed. The act expects "timely redemption," and industry practice will likely require redemption requests to be honored within a very short window.[xiv] To reinforce this, the law mandates transparent reserve reporting: issuers must publish monthly reserve reports on their website, disclosing the total stablecoins outstanding and the composition of reserves backing them.[xv] Each report must then be examined by an independent auditor the following month, and top executives (CEO/CFO) must attest to its accuracy to regulators.[xvi]

In short, the act creates a framework akin to a money-market fund: full dollar-for-dollar backing, transparent asset quality and an unambiguous redemption promise – all to prevent the risk of runs and maintain public confidence. The difference is that interest on the short duration treasuries will go to the issuer to pay for operations and as its only source of profit and the reserves cannot be invested in commercial paper.

Treatment in Bankruptcy

To protect stablecoin users in an insolvency scenario, the GENIUS Act provides that reserve assets are bankruptcy-remote and customer redemption claims have priority.[xvii] The law requires issuers to hold reserves in trust or segregated accounts for the benefit of stablecoin holders, meaning those assets do not become part of the issuer's estate if the issuer files for bankruptcy.[xviii] These robust bankruptcy provisions of the GENIUS Act are aimed at preventing any repeat of scenarios where crypto customers found their assets entangled in lengthy bankruptcy proceedings.

Regulatory Oversight & Licensing

Primary regulatory oversight of stablecoin issuers will depend on the issuer's charter: bank-affiliated issuers will be supervised by their existing federal banking regulator (OCC for national banks, Federal Reserve or Federal Deposit Insurance Corporation (FDIC) for state banks, National Credit Union Administration (NCUA) for credit unions), while new non-bank stablecoin firms will be supervised by the OCC as their primary regulator.[xix] The act directs these agencies to develop tailored regulations for stablecoin issuers – covering capital adequacy, liquidity, risk management and governance – analogous to bank safety-and-soundness rules but calibrated to the stablecoin business model.[xx]

Prospective issuers will undergo an application and approval process before launching. For a non-bank applicant, this means applying to the OCC for a “qualified payment stablecoin issuer” license and meeting criteria that Treasury and the Fed will set (financial resources, business plan, governance, etc.). Bank subsidiaries must likewise seek approval from their primary regulator to engage in stablecoin issuance.[xxi] The act fosters coordinated supervision: federal regulators are required to consult with state authorities for state-based issuers and to rely on information from state examinations where applicable. Conversely, states that wish to license stablecoin issuers must certify annually to Treasury that their oversight is “substantially similar” to the federal standards, subject to Treasury's rejection if a state regime is inadequate.[xxii]

Issuers will be examined by their primary regulator and must submit regular reports.[xxiii] The Federal Reserve is tasked with overall monitoring of stablecoin systemic impacts, and the act establishes an interagency council to ensure all relevant regulators (Federal Reserve, OCC, FDIC, U.S. Securities and Exchange Commission

(SEC), Commodities Futures Trading Commission (CFTC), etc.) share information and coordinate if a stablecoin or issuer poses broader financial stability risks.[xxiv]

AML / National-Security Controls

Stablecoin arrangements are explicitly brought into the anti-money laundering (AML) and sanctions compliance perimeter. The GENIUS Act designates all permitted stablecoin issuers as “financial institutions” under the Bank Secrecy Act (BSA), if they were not already, thereby obligating them to implement anti-money laundering (AML) programs, know your customer (KYC) identification procedures, and suspicious activity reporting (SAR).[xxv] In practice, this means an issuer must verify the identity of customers who are obtaining or redeeming stablecoins similar to how banks KYC their account holders.

For bank-issued stablecoins, this is a continuation of existing customer due diligence rules. Non-bank issuers will need to register as money services businesses (MSBs) with Treasuries' Financial Crimes Enforcement Network (FinCEN) and comply with BSA requirements, including filing Currency Transaction Reports (CTRs) for large cash conversions and SARs for any suspected illicit use of their stablecoins.

Office of Foreign Assets Control (OFAC) sanctions screening is also mandated: issuers and intermediaries must screen stablecoin wallet addresses and transactions to prevent dealings with prohibited parties or jurisdictions. Many stablecoin issuers already maintain “blacklists” of sanctioned addresses; the act effectively requires this capability.

The act also instructs regulators to study and report on illicit finance risks in decentralized stablecoin use and allows the Treasury and DOJ to pursue unlicensed or non-compliant operators even if they are overseas. Notably, the act calls for improved information-sharing: it encourages stablecoin issuers to join collective efforts (like FinCEN's 314(b) program) to share intelligence on fraud and financial crime involving digital assets. The law also gives the Federal Reserve and Treasury a joint role in monitoring stablecoin networks for systemic AML risks.

Enforcement Mechanisms

The act provides multiple enforcement tools to regulators to police the stablecoin space. The primary federal regulators (OCC, Fed, FDIC, etc.) can use their existing cease-and-desist and civil penalty authorities against any permitted issuer that violates the GENIUS Act or implementing regulations – for example, if an issuer under-reserves its stablecoin or fails to file required reports, it could face fines, orders to remediate or in extreme cases, removal of its charter.[xxvi]

For unlicensed activity, the act introduces penalties akin to those for unlicensed banking: any person issuing stablecoins without approval faces potential civil penalties and criminal liability. The statute makes it a federal offense to willfully operate an

unpermitted stablecoin scheme, punishable by fines (which could run into the millions for organizations) and, for individuals, possibly imprisonment.[xxvii] This is intended to deter “wildcat” stablecoin issuers.

The law's reach has an extraterritorial element: it prohibits offering or selling stablecoins in the U.S. by foreign issuers that are not subject to comparable regulation.[xxviii] The act calls for the Fed and Treasury to study reciprocity for foreign-regulated stablecoins before imposing an outright ban. Nonetheless, expect U.S. exchanges and custodians to delist or restrict stablecoins that do not come from a permitted issuer as the law's provisions kick in.

Post-Enactment Next Steps

With the GENIUS Act now enacted, attention turns to implementation. The act's provisions will not take full effect immediately – instead, it sets a timeline for regulators and industry to transition. Key federal agencies (the Federal Reserve, OCC, FDIC, and NCUA) are required to issue implementing regulations within months, covering specifics like capital requirements for issuers, examination procedures, and further definitions of terms. A statutory deadline generally gives regulators up to one year to finalize rules, with the act becoming operative no later than 18 months after enactment.[xxix]

The Treasury Department will immediately begin evaluating state regulatory frameworks for stablecoins; states wishing to maintain a role must promptly certify their rules and possibly adjust state laws to meet the federal minimum standards.

On the industry side, entities will be submitting license applications – nonbank fintech issuers to the OCC, and banks to their regulators – well ahead of the deadlines. Several stablecoin issuers or aspiring stablecoin issuers have already filed for national bank charters, including BitGo Bank & Trust (issues USD1, the stable coin issued in partnership with World Liberty Financial); Ripple National TR Bank, Fidelity Digital Assets and First National Digital Currency Bank (Circle). More are certain to follow. The public will have opportunities to comment on proposed rules (for example, rules on risk management or on what constitutes “other permissible activities” for stablecoin issuers).

The act also mandates studies and reports: within one year, the Federal Reserve and Treasury will report to Congress on the feasibility of accepting foreign stablecoins (reciprocity agreements), and FSOC will report on any systemic risk issues and whether additional safeguards are needed. We may see interagency coordination producing guidance on areas the act left flexible, such as how exactly how fast redemptions must occur.

[i] [GENIUS Act, S. 1582, 119th Cong. \(2025\)](#). Yes, the self-described “stable genius” signed the stable coin “GENIUS Act.” No, that is not a coincidence, proving that at least some people in Washington D.C. still have a sense of humor.

- [ii] GENIUS Act, § 2(22)(A).
- [iii] GENIUS Act, § 2(22)(B).
- [iv] GENIUS Act, § 2(11), (23), (30).
- [v] GENIUS Act, § 4(c)(2).
- [vi] GENIUS Act, § 4(c)(4)(C).
- [vii] GENIUS Act, § 3(a).
- [viii] GENIUS Act, § 3(b).
- [ix] GENIUS Act, § 4(a)(7).
- [x] GENIUS Act, § 4(a)(11).
- [xi] GENIUS Act, § 4(a)(1)(A); (a)(2).
- [xii] GENIUS Act, § 4(a)(i)(A).
- [xiii] GENIUS Act, § 10(c)(1).
- [xiv] GENIUS Act, § 4(a)(1)(B)(i).
- [xv] GENIUS Act, § 4(a)(1)(C).
- [xvi] GENIUS Act, § 4(a)(3).
- [xvii] GENIUS Act, § 11(a)(1).
- [xviii] GENIUS Act, § 11(e).
- [xix] GENIUS Act, § 2 (25).
- [xx] GENIUS Act, § 3(d), § 4(a)(4)(A), § 4(a)(4)(C)(iv); § 5(a)(2).
- [xxi] GENIUS Act, § 5(a).
- [xxii] GENIUS Act, § 4(c).
- [xxiii] GENIUS Act, § 6(a).
- [xxiv] GENIUS Act, § 15.
- [xxv] GENIUS Act, § 4(a)(5).
- [xxvi] GENIUS Act, § 6(b).
- [xxvii] GENIUS Act, § 3(f)(1).
- [xxviii] GENIUS Act, § 3(a)(2).

[xxix] GENIUS Act, § 13(a); § 20.