

The GENIUS Act: What Is It and What's Next?

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On June 17, the U.S. Senate voted 68-30 to pass [S.1582](#), the Guiding and Establishing National Innovation for U.S. Stablecoins Act, known as the GENIUS Act (the Act). This represents a landmark effort by the U.S. Congress to establish a comprehensive federal framework for the regulation of payment stablecoins. Passed with bipartisan support in the Senate, the Act aims to provide regulatory clarity, enhance consumer protection, and safeguard national security in the rapidly growing stablecoin sector.

Policy Objectives

The Act is designed to close regulatory gaps, mitigate systemic and illicit finance risks, and maintain the U.S. dollar's dominance in the digital economy. It seeks to provide a clear legal pathway for stablecoin innovation while ensuring consumer and financial system protection.

Definition and Scope

Definition: The Act defines “payment stablecoins” as digital assets designed to maintain a stable value relative to a fixed amount of U.S. dollars or similarly liquid assets and intended for use as a means of payment or settlement. Only entities designated as “permitted payment stablecoin issuers” will be legally authorized to issue payment stablecoins in the U.S.

Permitted Payment Stablecoin Issuers: There are three categories of “permitted payment stablecoin issuers” in the U.S.:

- Subsidiaries of insured depository institutions (IDIs), subject to approval by the primary federal regulator of the IDI;
- Federal qualified payment stablecoin issuers, which include nonbank entities (other than a state qualified payment stablecoin issuer), OCC-chartered uninsured national banks, and federal branches that have been approved by the OCC; and
- State qualified payment stablecoin issuers, subject to approval by a “state payment stablecoin regulator.”

Permitted payment stablecoin issuers would be limited to the following activities:

- Issuing payment stablecoins;

- Redeeming payment stablecoins;
- Managing related reserves, including purchasing, selling, and holding reserve assets or providing custodial services for reserve assets;
- Providing custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins;
- Undertaking other activities that directly support any of the permitted activities; and
- Other activities authorized by the primary federal or state regulator.

Permitted payment stablecoin issuers would be *prohibited* from paying interest to stablecoin holders.

Exclusivity: The Act makes it unlawful for any entity other than a permitted issuer to issue payment stablecoins in the U.S. The Act also makes it unlawful for a digital asset service provider to offer or sell a payment stablecoin to a person in the U.S. that is not issued by a permitted payment stablecoin issuer. Violations could result in fines of up to \$1,000,000 per violation and up to five years of imprisonment.

Reserve and Redemption Requirements

Full Reserve Backing: Issuers must maintain reserves on at least a one-to-one basis with the value of outstanding stablecoins. Permitted reserves include:

- U.S. currency;
- U.S. Treasury bills, notes, or bonds with a remaining maturity of 93 days or less;
- Short-term repurchase and reverse repurchase agreements backed by Treasuries;
- Demand deposits or insured shares at IDIs; and
- Money market funds invested in any of the above assets.

Prohibition on Rehypotheication: Reserve assets cannot be pledged, rehypothesized, or reused, except for limited liquidity management purposes, and only with regulatory approval.

Reporting Requirements: Issuers must publish monthly disclosures of reserve composition, including the total number of outstanding stablecoins and the amount and type of reserves. Issuers with over \$50 billion in market capitalization must also provide annual audited financial statements and disclose related party transactions and make them publicly available. Issuers must have their reserve information examined monthly by a registered public accounting firm, with executive officers certifying the accuracy of these reports. False certifications carry

penalties.

Redemption Rights: Issuers must establish clear redemption procedures and publicly disclose their redemption policy, including all fees associated with purchasing or redeeming the payment stablecoins. All stablecoin holders have the legal right to redeem their coins at par value directly with the issuer.

Bankruptcy Proceedings

The Act amends the Bankruptcy Code to exclude required payment stablecoin reserves from the property of the debtor's estate. Nonetheless, the Act's Bankruptcy Code amendments refer to stablecoin holders' redemption rights as "claims" in the bankruptcy, and expressly makes the automatic stay under 11 U.S.C. § 362 applicable to the reserves. Holders' redemption claims are given superpriority status over all other claims in the case, both against the reserves themselves and — to the extent of any deficiency in the reserves — all other assets of the issuer. However, the Act's amendments to the Bankruptcy Code make no provision for the payment of the costs of reconciling holders' redemption claims or administering the reserves, raising questions about how an issuer bankruptcy would actually be viable.

Regulatory Oversight and Licensing

Federal and State Roles: Issuers with over \$10 billion in market capitalization are subject to federal oversight from the Federal Reserve, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), or National Credit Union Administration (NCUA), depending on the issuer type, and these federal payment stablecoin regulators would have one year after enactment to promulgate regulations to carry out the Act through appropriate notice and comment rulemaking, including regulations implementing:

- Capital requirements;
- Liquidity standards;
- Reserve asset diversification; and
- Operational, compliance, and information technology risk management principles-based requirements and standards.

State qualified payment stablecoin issuers of not more than \$10 billion would be allowed to choose state-level regulation if the state regime is "substantially similar" to federal standards. However, state qualified payment stablecoin issuers with more than \$10 billion of outstanding issuance would be required to transition to the federal regulatory framework (to be administered jointly by the state and federal regulators), and state qualified payment stablecoin issuers that are state-chartered depository institutions would be subject to oversight by the primary federal payment stablecoin regulator of the state-chartered depository institution, while all other state qualified payment stablecoin issuers would be subject to oversight by the state and the OCC. States will be required to certify and recertify their regimes to the Treasury, and if the state regime is not certified or found insufficient, the issuer must transition to federal oversight within 360 days or stop issuing new stablecoins.

Licensing Regime: Subsidiaries of IDIs, certain uninsured banks, and approved non-bank entities will be able to issue stablecoins, and they will be subject to prudential standards similar to those for banks, including capital, liquidity, and risk management requirements.

Supervisory Authority: Federal and state regulators will have broad powers to license, regulate, supervise, examine, and enforce compliance, including the ability to suspend or revoke licenses, issue cease-and-desist orders, and impose penalties. Regulators may also remove institution-affiliated parties for violations and seek judicial enforcement of orders.

Consumer Protection

Marketing Restrictions: Issuers are prohibited from marketing stablecoins as “legal tender,” “U.S. government-backed,” or “FDIC insured.” Misrepresentation is subject to civil penalties up to \$500,000 per violation.

Operational Limits: Issuers are restricted from using reserve assets for purposes other than backing the stablecoin and are generally barred from engaging in high-risk financial activities, such as proprietary trading or lending with reserves.

Prohibition on Payment of Interest: Issuers are prohibited from paying any form of interest or yield to holders of payment stablecoins solely in connection with the holding, use, or retention of such payment stablecoin.

Custodial Services: IDIs are permitted to provide custodial services for payment stablecoins, private keys of payment stablecoins, or reserves backing payment stablecoins. Federal banking agencies, the NCUA, and the Securities and Exchange Commission (SEC) are prohibited from requiring financial entities to report custodial digital assets as liabilities.

Custodian Requirements: Custodians are required to maintain asset segregation and are prohibited from commingling customer property with custodial property, with limited exceptions. Custodian requirements shall not apply to any person solely on the basis that such person engages in the business of providing hardware or software to facilitate a customer’s self-custody of their payment stablecoins or private keys.

Anti-Money Laundering (AML) and National Security

AML Compliance: Permitted payment stablecoin issuers are treated as financial institutions under the Bank Secrecy Act and all federal laws applicable to financial institutions in the U.S. relating to economic sanctions, the prevention of money laundering, customer identification, and due diligence. Issuers must implement AML and economic sanctions compliance as well as customer identification programs including verification (Know Your Customer) and appropriate enhanced due diligence, monitor and report suspicious transactions, and comply with recordkeeping and risk assessment requirements.

Technical Enforcement: Issuers must demonstrate the technical capability to comply with lawful orders, including the ability to freeze, block, or burn stablecoins as directed by courts or federal agencies. When feasible, the Treasury Secretary must coordinate with issuers before blocking transactions involving foreign entities.

Foreign Issuers: Foreign issuers may only issue payment stablecoins in the U.S. if they are from jurisdictions with comparable regulatory regimes, register with the Comptroller, and comply with U.S. lawful orders. Non-compliant foreign issuers are barred from U.S. markets, and the Treasury is authorized to take action if foreign stablecoin activity threatens financial integrity.

Enforcement Mechanisms

Civil and Criminal Penalties: Unlicensed issuance of stablecoins is subject to civil penalties of up to \$100,000 per day, and criminal penalties of up to \$1,000,000 per violation and five years of imprisonment. Licensed issuers and their affiliates face similar penalties for material violations and are subject to additional penalties for knowing or willful violations.

Cease-and-Desist Powers: Federal regulators can issue cease-and-desist orders, impose temporary suspensions, and seek judicial enforcement to address violations or protect customer interests.

Judicial Review: Aggrieved parties are entitled to judicial review of regulatory actions, ensuring due process and the right to appeal enforcement decisions.

What's Next?

The Act represents a significant shift in U.S. financial regulation, introducing a tightly regulated environment for stablecoins, paving the way for more widespread, mainstream adoption of payment stablecoins by the general public. By mandating full reserve backing, robust oversight, and strong consumer and national security protections, the Act aims to foster innovation while still safeguarding the integrity of the U.S. financial system.

Next, the Act will go before the House of Representatives. It is expected that a conference committee, comprised of members of both chambers, will be formed to reconcile the GENIUS Act with the House's similar, but not identical, Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act. Once the committee is able to reconcile the differences between the two bills in a manner that is acceptable to both chambers of Congress, they will draft a conference report containing the agreed-upon text of the bill, which will require separate approval by the House and Senate. If both chambers approve the conference report, the final bill will be sent to the President for signature.

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