

Closing the Back Door on Stablecoin Yield

LAY OF THE LAND Momentum on the CLARITY Act, which sought to restrict digital asset service providers from paying interest and yield on payment stablecoins, has stalled. That makes regulators' interpretation of the GENIUS Act's yield prohibition the primary lever to close this gap, raising the stakes on the OCC's rule as the template other regulators will follow.

THE ASK

Strengthen the OCC's proposed yield-prohibition framework so issuers cannot use exchanges, distribution partners, or volume-based fees to pay stablecoin holders yield indirectly.

THE LAW AND THE LOOPHOLE

GENIUS ACT § 4(A)(11): PROHIBITION ON INTEREST

"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."

The GENIUS Act bars permitted payment stablecoin issuers (PPSIs) from paying interest or yield to holders of payment stablecoins. But most PPSIs distribute through exchanges and institutional partners, not directly to holders, and reserve income flows issuer → exchange → holder. For example, Circle shares USDC reserve income with Coinbase based on platform volume, and Coinbase in turn offers interest-like incentives to USDC holders. As part of its rulemaking to implement the GENIUS Act, the OCC must determine when interest-like payments made by a distribution partner are actually indirect payments from the issuer and therefore prohibited by the GENIUS Act.

THE RULE: OCC'S PROPOSED TWO-PART PRESUMPTION

PROPOSED 12 C.F.R. § 15.10(C)(4)(I)

"The OCC presumes that a permitted payment stablecoin issuer is paying interest or yield (whether in cash, tokens, or other consideration) to the holder of a payment stablecoin solely in connection with the holding, use, or retention of such payment stablecoin if:"

- A** § 15.10(c)(4)(i)(A). *"The permitted payment stablecoin issuer has a contract, agreement, or other arrangement with an affiliate of the issuer or related third party to pay interest or yield to the affiliate or related third party."*

Concerns: only catches payments *labeled* interest or yield (a volume-based distribution fee or marketing allowance escapes it, even if functionally identical). It also only reaches *formal* arrangements (a contract, agreement, or other documented arrangement), leaving informal or undocumented understandings between an issuer and its partner outside the presumption entirely.

- B** § 15.10(c)(4)(i)(B). *That same affiliate or related third party (or, if a related third party, its own affiliate) has a contract, agreement, or other arrangement to pay interest or yield (whether in cash, tokens, or other consideration) to a holder of any payment stablecoin issued by the permitted payment stablecoin issuer solely in connection with the holding, use, or retention of such payment stablecoin.*

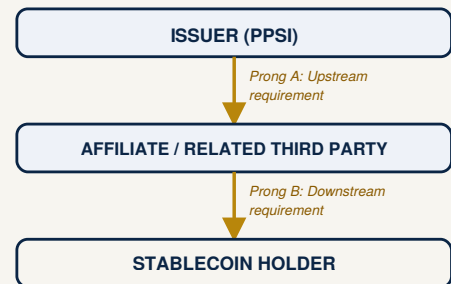
Concerns: similar to the upstream requirements, only catches payments labeled interest or yield and requires a formal arrangement with the token holder. In addition, "related third party" is defined narrowly, covering only parties offering yield "as a service" to the issuer and parties issuing on the issuer's behalf. Sponsors, integration partners, and platforms paid on adoption volume can fall outside it entirely.

WHY IT MATTERS

Without a strong interest prohibition, stablecoins risk undermining the banking system and financial stability by eroding the foundations of credit creation. Payment stablecoins are intended to function as a means of payment and should not generate interest or yield like other store of value products. If stablecoins scale as a store of value, this dynamic could significantly disintermediate banks' core roles in deposit-taking and lending, threatening the broader economy. For this reason, it is essential that digital asset exchanges and other intermediaries be prohibited from paying interest, yield, or rewards on payment stablecoins.

HOW THE PRESUMPTION WORKS

Both the upstream and downstream prongs of the presumption must be satisfied for a payment to be prohibited.



WHAT'S NEXT

OCC's final rule sets the floor for Federal Reserve, FDIC, NCUA, and state GENIUS Act rulemakings to follow: whatever standard it sets here becomes the template the rest of the federal framework builds on. Regulators are working toward finalizing their rules ahead of the Act's January 18, 2027 effective date, making the OCC's approach the first and most consequential mover in that process.

OUR RECOMMENDATIONS

1

Add a clear substantive prohibition on indirect yield-like benefits, not just enumerated presumptions novel structures can outpace.

2

Broaden the presumption to reach any economic value that flows through to the holder, however the payment is characterized.

3

Expand "related third party" to cover anyone distributing, promoting, or integrating the stablecoin using PPSI-derived funds.

4

Clarify "solely" can't be evaded with a token condition: presume coverage whenever holding is a necessary or principal reason for the benefit.