Stablecoin

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Issue Update

On July 18, 2025, the President signed into law the Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025 (S. 1582, the GENIUS Act of 2025). The GENIUS Act establishes a regulatory framework for payment stablecoins and marks a key milestone in regulating one part of the cryptocurrency market.

Payment stablecoins, which have grown in aggregate value from about $12 billion in July 2020 to almost $265 billion as of August 2026, are a form of digital asset that is intended to maintain a 1-to-1 peg with a reference asset by holding reserves as collateral. Stablecoins are unique among digital assets in that they mimic commercial bank money. Potential stablecoin use cases include instant payments, cross-border remittances, financial market settlement, programmable money for smart contracts, access to digital dollars for the unbanked, and digital cash management for businesses.

With the GENIUS Act enacted, an extensive rulemaking effort has begun. The Genius Act includes 16 calls for rulemaking, including on critical topics such as capital, liquidity, and risk management; applicability of existing capital standards; BSA and sanctions treatment; and principles for state-level regulatory regimes; among others. Most of the rulemaking is to be carried out by the banking regulators and the Department of the Treasury through a notice and comment process.

In addition, Congress is working on a second piece of crypto legislation, the CLARITY Act. This bill deals with the broader crypto ecosystem, including digital asset exchanges and other intermediaries. Some of these entities offer or plan to offer rewards to payment stablecoin holders, taking advantage of a loophole in the GENIUS Act, which applies a prohibition on interest to payment stablecoin issuers.

Why It Matters

Without strong safeguards, stablecoins risk undermining the banking system by eroding the foundations of credit creation, financial stability, and the separation of banking and commerce. Despite the name, payment stablecoins are likely to function as a store of value, pulling funds away from bank deposits, as well as a means of payments. 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 stablecoin.

Recommended Action Items

Urge Congress and regulators to close gaps that allow stablecoin issuers and other marketplace participants to pay interest and yield on stablecoin balances. Left unaddressed, the current gaps in law create a workaround which results in deposit-like returns outside the banking system, accelerating deposit flight and limiting banks' capacity to lend to households and small businesses.

- Congress should strengthen the GENIUS Act's interest and yield prohibition in the CLARITY Act to prohibit interest-like payments on stablecoin balances or other stores of value across the stablecoin ecosystem.
- Regulators should adopt an implementing standard that bars such payments whether made directly by an issuer or indirectly through affiliates, partners, or fee-sharing structures, and that treats structuring designed to evade the prohibition as a violation of it.

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Urge regulators to ensure robust and consistently applied regulation, supervision, and enforcement across all payment stablecoin issuers to prevent charter arbitrage, promote financial stability, and protect consumers. Applying consistent oversight to all stablecoin issuers—based on the principle of "same activity, same risk, same regulation"—is essential to maintaining the integrity of the financial services ecosystem. Policymakers should focus on:

- **Interagency coordination and regulatory harmonization:** Payment stablecoins can be regulated by multiple federal and state authorities, and material inconsistencies across those frameworks create direct opportunities for regulatory arbitrage that undermine safety and soundness. Regulators must actively coordinate with peer regulators to ensure that requirements are developed and implemented consistently across jurisdictions and charter forms, so that regulatory differences do not become a competitive variable that drives activity toward less rigorous regimes.
- **Bringing novel entities into the regulatory fold:** Regulators must build a durable prudential architecture for nonbank issuers from the outset, with standardized capital floors, robust liquidity and stress testing requirements, and hard structural guardrails rather than deferring key calibration questions to supervisory discretion or future guidance. Bringing novel entities into the regulatory fold means nonbank PPSIs should face capital, data security, consumer protection, and risk management requirements substantively equivalent to those applied to banks and their subsidiaries not lighter standards justified by novelty or market immaturity.