

Insights

THE GENIUS ACT USHERS IN A NEW ERA FOR STABLECOIN REGULATION

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On July 17, 2025, Congress passed the [Guiding and Establishing National Innovation for U.S. Stablecoins Act](#) (“GENIUS Act” or “Act”) – a landmark piece of legislation that received bipartisan support and was signed into law by President Trump on July 18, 2025. The Act establishes a comprehensive federal regulatory framework for the regulation of payment stablecoins, aiming to foster trust, transparency, and security, while promoting responsible innovation within the digital assets industry.

Stablecoins are a class of digital assets typically pegged to the value of a traditional currency – most commonly the U.S. dollar – and backed by cash or cash-equivalent reserves. Consumers often use stablecoins to mitigate the volatility associated with other cryptocurrencies and to facilitate payments, particularly cross-border transactions and peer-to-peer transfers. They also serve a growing role in blockchain-based financial services, such as lending and decentralized finance platforms.

The GENIUS Act aims to bring structure and oversight to the issuance and operation of stablecoins by limiting issuance to Permitted Payment Stablecoin Issuers (“PPSIs”), which the Act restricts to subsidiaries of insured depository institutions and federal- or state-qualified nonbanks. It sets clear federal standards around licensing, reserve composition, risk management, consumer protection, and market stability in response to growing concerns about the potential systemic impact of unregulated stablecoins. These standards are intended to clarify regulatory expectations, protect consumers, and safeguard financial stability without impeding innovation.

Though concerns remain regarding consumer protection and the potential fallout should there be a major stablecoin collapse, the GENIUS Act represents a significant and positive shift in U.S. regulatory posture toward this category of digital assets. It is poised to increase institutional confidence and enhance consumer protections and may serve as a catalyst for continued innovation in the blockchain and fintech sectors.

Overview

The GENIUS Act is fundamentally focused on consumer protection and financial stability. Key provisions include:

- **Bankruptcy Prioritization:** Stablecoin holders are granted priority in repayment in the event of issuer insolvency.
- **Redemption Rights:** Issuers must ensure holders can redeem stablecoins for their full-face value.
- **Transaction Monitoring:** Issuers must comply with anti-money laundering (“AML”) and counter-terrorism sanctions frameworks.
- **Reserve Requirements:** Stablecoin reserves must be diversified and held in safe, liquid assets. Use of risky assets, such as corporate debt and equities, is prohibited. With limited exceptions, issuers are prohibited from rehypothecating reserves.
- **Risk Management Standards:** Issuers must address capital, liquidity, and interest rate risk through robust internal practices.

Federal and State Oversight

The GENIUS Act squarely charges federal and state banking regulators with the responsibility for regulating stablecoin issuers, with specific oversight depending on the nature of the issuer. The Office of the Comptroller of the Currency (“OCC”) is designated as the primary federal regulator for nonbank stablecoin issuers, including those with a national trust charter. The Federal Reserve, Federal Deposit Insurance Corporation (“FDIC”), and National Credit Union Administration (“NCUA”) will oversee stablecoin activities conducted by subsidiaries of state member banks, nonmember banks, and credit unions, respectively. Within the framework of the Act, these agencies are collectively referred to as the “appropriate federal payment stablecoin regulator” for their respective institutions. The Financial Crimes Enforcement Network (“FinCEN”) and other federal entities will also have some involvement since the Act requires stablecoin issuers to comply with the Bank Secrecy Act (“BSA”) and AML regulations. In addition to federal oversight, state regulators will retain authority to issue state charters for stablecoin issuers, although any issuer exceeding \$10 billion in outstanding stablecoins must come under federal supervision.

Significantly, the Act also provides clarity as to the treatment of stablecoins and their issuers by eliminating possible redundant regulatory oversight. By amending the definitions in the federal securities statutes and the Commodity Exchange Act of the terms “security” and “commodity” not to include payment stablecoins issued by a PPSI,^[1] the Act excludes the Securities and Exchange Commission (“SEC”) and Commodity Futures Trading Commission (“CFTC”) from any direct oversight role with respect to stablecoins.^[2]

Enforcement and Compliance Expectations

We expect regulators will focus their attention on the composition, quality and accounting treatment of stablecoin reserves. The GENIUS Act requires issuers to hold reserves in highly liquid, low-risk assets like short term U.S. Treasury securities and to disclose reserve holdings, redemption policies, and associated fees in a transparent and timely manner.^[3] Regulatory scrutiny will also extend to risk management practices, particularly those related to interest rate risk, operational resilience, and compliance with AML and sanctions laws. Protecting consumers from deceptive practices, ensuring recourse for redemptions, and promoting accessible disclosures will remain top regulatory priorities. In parallel, federal and state regulators will need to collaborate to maintain consistency and avoid regulatory fragmentation, while also ensuring that compliance obligations do not hinder competition or innovation in the stablecoin space.

Stakeholder Perspectives

The GENIUS Act has received a mixed response. Proponents argue that the Act provides long-awaited regulatory clarity that will accelerate growth of the digital asset economy and invite broader participation from traditional financial institutions. They believe the Act will foster competition, innovation and consumer confidence by helping users distinguish credible issuers from bad actors. Critics, however, contend that the legislation may be overly favorable to certain industry interests, insufficiently address conflicts of interest, and lack strong enforcement provisions. The Act does limit public companies that are not predominantly engaged in financial activities from issuing stablecoins, which is generally consistent with an underlying policy view that associates stablecoins with the business of banking and its instrumentalities as opposed to general commerce – a distinction that has historically been a cornerstone of US financial regulation but has blurred somewhat in recent years, particularly in the digital asset space.^[4]

Potential Impact

The GENIUS Act establishes the first clear regulatory landscape for stablecoins in the U.S. It offers the kind of clarity that institutional investors and large financial players have long sought and is likely to catalyze greater adoption of stablecoins in both consumer and institutional markets. By formalizing protections for consumers and standardizing reserve requirements, the Act is anticipated to attract participation from established institutional market participants, further legitimizing the stablecoin market. It may also help promote the dominance of the U.S. dollar in the digital economy by creating a stable, regulated pathway for dollar-back digital assets and buttress the marketplace for U.S. Treasury securities.^[5] This regulatory clarity has already fueled interest from large companies – some of which have launched their own stablecoins or gone public – signaling strong momentum as legal uncertainties recede. The Act also paves the way for strategic partnerships between stablecoin issuers and traditional financial institutions, enabling wider use of stablecoins in payments, remittances, and investment products.

Challenges and Uncertainties

Despite its promise, the GENIUS Act does not resolve all challenges. Concerns about long-term reliability of stablecoins persist, especially during periods of market stress. Competition from established payment systems poses another hurdle, as stablecoins must demonstrate clear advantages to achieve broad adoption. Interoperability and coordination among regulators – federal and state – will be critical to avoiding fragmented oversight and ensuring uniform compliance standards. Additionally, regulators must remain vigilant to ensure that their frameworks do not inadvertently entrench incumbents or create inefficient concentrations. While the GENIUS Act is a pivotal step forward, ongoing regulatory refinement and industry reengagement will be essential to realizing its full potential.

[1] Act § 17.

[2] Both the CFTC and the SEC have in the past brought enforcement actions against stablecoin issuers. In *In re Tether Holdings Ltd.*, CFTC Dkt. No. 22-04 (Oct. 15, 2021), for instance, the CFTC found that the tether U.S. dollar stablecoin was a “commodity” capable of being subject to its jurisdiction. In *SEC v. Terraform Labs Pte. Ltd.*, 708 F. Supp.3d 450, 472 (S.D.N.Y. 2023), the Court agreed with the SEC’s argument that Terraform Labs’ UST stablecoin was a “security” under the federal securities laws.

[3] Act § 4(a)(1)(A).

[4] Act § 4(a)(12).

[5] J. Sindreu, *Global Investors Have a New Reason to Pull Back From U.S. Debt*, Wall St. J. (June 4, 2025) available at <https://www.wsj.com/finance/investing/us-bonds-debt-foreign-investment-e9d22b74>

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