

# No longer just a bill: The GENIUS Act becomes law

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**AUGUST 15, 2025**

On July 18, 2025, President Trump signed the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act into law. This act represents a significant step toward the integration of “payment stablecoins” into the U.S. financial system.

Although not without its flaws, the law creates a solid foundation for regulating payment stablecoins, which are digital assets that are (1) kept on a distributed ledger, (2) created to primarily be used as a means of payment, (3) maintain a fixed redemption value, and (4) for which an issuer has created a reasonable expectation that its worth will remain stable as compared to the fixed value associated with that asset. It also does a fair job of creating a regulatory scheme for permitted payment stablecoin issuers, who are allowable entities that create and issue payment stablecoins.

The GENIUS Act addresses many of the long-standing concerns about stablecoins. Overall, there is still much more to come in terms of creating regulations, before most of the provisions of the act becoming effective in 2028. Yet, insofar as it gives a basic structure for regulation of stablecoins and creates some meaningful investor protections, the GENIUS Act represents a good start at creating a stablecoin regulatory regime.

## Why did the GENIUS Act pass now, when the House had it for weeks?

Prior to the U.S. House of Representatives passing the GENIUS Act, which had started in and was passed by the U.S. Senate, the House had its own version of a stablecoin bill, the Stablecoin Tethering and Bank Licensing Enforcement (STABLE) Act. Many thought that because of the differences in the two bills that both focused on creating a regulatory scheme for stablecoins, the House would pass the STABLE Act, and then that act and the GENIUS Act would go through the reconciliation process in committee.

However, the president had, according to news reports, set a goal of the end of August to pass stablecoin legislation. It may be that the president’s deadline put pressure on the House to pass the GENIUS Act. The August deadline would likely not have been met had these bills gone to committee. This article discusses stablecoins, some of the criticisms of stablecoins, and key provisions of the GENIUS Act that are aimed at addressing some of those concerns.

## What is a stablecoin and why do we need a law?

For those unfamiliar with cryptocurrency jargon, a stablecoin is a type of cryptocurrency designed to have the upside of cryptocurrency (speed and security) without the downside (volatility). Unlike traditional cryptocurrencies, a stablecoin is pegged to the market value of an asset external to the blockchain and is generally backed by reserve holdings. The linked asset can be a fiat (government-issued) currency like the U.S. dollar that is not backed by physical assets, a commodity like gold, or even another cryptocurrency.

There is a second type of stablecoin, an “algorithmic” stablecoin where a smart contract mechanism using mathematical rules controls the value of the coin by adjusting the amount of coins in circulation. In other words, the mechanism will, without human interaction, mint or burn coins to keep the value pegged to the referential asset. In theory, an algorithmic stablecoin is designed to keep its peg. However, algorithmic stablecoins are often regarded with suspicion because of past problems with certain coins.

Regardless of the type, the idea behind any stablecoin is to get the speed, lower cost, and security of blockchain, but minimize the volatility that is seen with typical cryptocurrencies. This should allow stablecoins to be more easily used for payments and lending.

Payments are expensive! A quick Google search shows when paying with a credit card the transaction fee cost is 1.5%–4% or more, and possibly the additional cost of the equipment or software used to process the transaction. Venmo and Cash App are similarly priced at up to 3% of the transaction cost.

What these payments have in common is that they have multiple intermediaries (banks, credit card issuers, software companies, payment processing companies, etc.). Accepting cryptocurrency eliminates the need for these intermediaries. Depending on the blockchain, the same transaction might cost 1% or less (instead of 3% or more) and a buyer ends up paying a seller directly. The transfer is instantaneous. There is also no possibility of a chargeback with a cryptocurrency payment once the transfer is completed.

The likelihood of fraud is also much less with cryptocurrency because of the blockchain and the fact that no private information is disclosed by the purchaser. If a seller accepts a

stablecoin, it should have a known value. For a small business or an international transaction, the low cost should be appealing. However, with regulatory uncertainty and lack of specific safeguards, there has not been widespread adoption for use as payments even though there are many stablecoins in existence.

Before this landmark law, stablecoins may have been regulated by state regulators via state payment laws, by the Commodity Futures Trading Commission, or by the Securities and Exchange Commission, though their status as securities or commodities was not clear. The act represents the first comprehensive federal regulation of stablecoins. It is aimed at providing confidence in the system to make payments. This is in line with Trump's pledge to make the U.S. "the crypto capital of the world."

### Who is the primary regulator after the GENIUS Act goes into effect?

The GENIUS Act focuses on creating a new regulatory regime for what it terms "payment stablecoins" and "permitted payment stablecoin issuers." Payment stablecoins are defined in the act to include digital assets kept on a distributed ledger that are designed to primarily be used as a means of payment or settlement, where the issuer of such payment stablecoin is both obligated to redeem such asset at a fixed value and has represented that the asset's worth will, or creates a reasonable expectation that its worth will, remain stable as compared to the fixed value associated with that asset.

A permitted stablecoin issuer is a person (an entity) formed in the U.S. that is a subsidiary of an insured depository institution that has been approved to issue stablecoins under the law, and an issuer that is qualified by federal or state authority to issue payment stablecoins. Under the GENIUS Act, only a permitted payment stablecoin issuer is lawfully allowed to issue a payment stablecoin. Also, payment stablecoin issuers are prohibited from paying interest or yields on stablecoins.

The GENIUS Act divides the regulation of issuers between the federal and state governments. Entities with less than \$10 billion in payment stablecoin issuance will be able to choose federal or state regulation if the state agency meets the requirements as a regulator. Banks and credit unions that are insured depository institutions would be regulated by their current regulator at the federal level for any issuance of payment stablecoins.

The Office of the Comptroller of the Currency (OCC) will oversee those nonbank entities that are allowed to issue stablecoins, along with uninsured national banks, and federal branches of foreign banks. Nonbank entities not primarily engaged in financial activities are required to satisfy additional requirements before they are allowed to issue stablecoins.

Additionally, the OCC will serve as the federal regulator for state-chartered stablecoin issuers where a state's regulatory regime is not deemed "substantially similar" to the federal framework. States are given the role of creating a substantially similar state-level regulatory schema to the federal system. The secretary of the Treasury is required to issue rules for

making a determination as to what qualifies as substantially similar under the law. State regulatory agencies that pass muster will be able to have supervisory, investigatory, and enforcement authority over state qualified issuers.

In addition, the GENIUS Act attempts to clear up any ongoing regulatory confusion about whether the SEC and CFTC have authority over issuers in the payment stablecoin space. The act modifies existing laws to specifically exclude payment stablecoins from the definition of a "security" under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940, as well as the Securities Investor Protection Act of 1970.

The act also carves out payment stablecoins from the definition of "commodity" under the Commodity Exchange Act. There may still be instances where a digital asset otherwise meets the definition of a security under securities laws or a commodity under commodities laws, but unless the asset independently meets the criteria to put it in one of these buckets, it should not fall under the purview of the SEC or CFTC. Similarly, the act makes clear that an issuer does not need to register as an investment company solely because it issues stablecoins.

### What are the arguments made for and against stablecoins?

Some arguments made by proponents of stablecoins are that they will allow for greater inclusion of people in the non-cash marketplace and allow for easier and cheaper cross-border transactions. This could strengthen the U.S. dollar, because it will potentially increase the attractiveness of the dollar as the currency for international trade, particularly in areas with poor financial infrastructure. There is also a belief that U.S. dollar-backed stablecoins can help strengthen the dollar because it will lead to a higher demand for U.S. Treasury securities. With the act's reserving requirements, this may be true.

Although stablecoins are designed to minimize volatility, they are not immune from risks. It is possible for a stablecoin to lose its peg, or "depeg," meaning its value would deviate from the asset to which it is tied. Reserve asset value fluctuations, loss of confidence in the coin, market disasters (like the collapse of Silicon Valley Bank), or even operational breakdowns in the blockchain could cause depegging events.

When these events happen, it can lead to major losses. For example, in 2020, TerraUSD became depegged because of a systemic breakdown, which created a run to redeem coins, causing the value to fall and collapse. There was more than \$60 billion in capitalization lost in the fray. The SEC ended up bringing civil fraud action against the issuer and creator.

There have been other criticisms against stablecoins, including that they are used in speculative digital asset trading (because they allow for fast movement between platforms), they are misused by bad actors, such as widespread noncompliance with anti-money laundering rules, lack of transparency or disclosure around reserve pools, and lack of meaningful investor protection.

In addition, there is always a risk of concentration of economic power, which can lead to large problems with the wider economy if something goes wrong. Specifically, we would not want a stablecoin to have such a large circulation that if it failed it affected the wider economic conditions.

### How are the criticisms of stablecoins addressed by the GENIUS Act?

The GENIUS Act tries to address some of these existing issues with its key provisions. To address the issues with keeping a coin's value pegged to a representative asset, an issuer is required to have reserves supporting that asset in a one-to-one ratio. This means that if a coin were pegged to the U.S. dollar for every stablecoin minted, the issuer will have to have in reserve one dollar in allowable assets. In theory, this will help the currency keep its tie to the dollar.

A payment stablecoin owner will also have a right to redeem a coin at par value. The issuer is tasked with publicly disclosing the redemption process. Because of these redemption rights, much like the case of insurance company reserves, stablecoin issuers will be required to hold and segregate in reserve high-quality, liquid assets such as cash currency, Treasury bills, and short-term government bonds in an amount equal to their token liabilities (the one-to-one ratio). Again, this is designed to help the payment stablecoin keep its peg.

The GENIUS Act prohibits using reserves as collateral for the issuer's own borrowing unless the transaction is to create liquidity, and it is approved by the issuer's primary regulator. Together with the redemption rights and reserving requirements, the pledge prohibition is seen as some protection for stablecoin investors.

Another potential area of protection may be found in marketing rules that are aimed at preventing misstatements and fraud. The act also goes into detail about the bankruptcy of an issuer to preserve the coin value and protect stablecoin holders in the event of such bankruptcy. In the past, investors might have lost all value of the stablecoin if an issuer went under. Critics say that without federal insurance, like the FDIC, the protections in the act are not enough for consumers.

### About the author



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This article was first published on Westlaw Today on August 15, 2025.

To address transparency issues in the stablecoin ecosystem, the act also contains substantial reporting, disclosure, and attestation requirements. Like regulated banking institutions, a stablecoin issuer will be subject to an examination schedule. Stablecoin issuers also will have a monthly reporting requirement (to their primary regulator) on their reserve assets. The CEO and CFO of the stablecoin issuer will have to certify the accuracy of the information provided in the monthly report. Additionally, a public accounting firm will have to examine these reports. Critics argue this isn't enough to prevent fraud.

The GENIUS Act tasks the primary regulator, whether it be the state or a federal agency, with creating capital requirements and appropriate liquidity management standards, along with operational compliance and technology risk standards, including requirements for compliance with anti-money laundering requirements. By splitting between primary regulators, the act distributes power to a bifurcated system, which will be run by a state or a federal agency, depending on the issuer's applicable regulator.

The secretary of the Treasury is tasked in the law with soliciting public comment regarding the identification of novel ways to detect criminal activities with digital assets. In addition, the Financial Crimes Enforcement Network (FinCEN) will be responsible for issuing guidance on identifying and reporting illegal activities involving stablecoins. (Others have noted that anti-money laundering rules could be programmed into a blockchain.)

For example, any transaction over \$10,000 could result in the creation of a notification to FinCEN. Critics of the act also worry about consumers who lose private keys or have their digital wallets hacked, which has happened to some digital wallet holders. Some of this the law can't protect against.

There is still much more to be decided around payment stablecoins. There may be more meat added to this law as the regulations are issued in the coming years. The GENIUS Act creates a foundation and focuses on the core elements of establishing a workable payment stablecoin regulatory system. As the system grows and more is learned about issuer reserving, there are bound to be amendments to the act.