

U.S. ESTABLISHES FIRST FEDERAL REGULATORY FRAMEWORK FOR STABLECOINS

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Executive Summary

- **What is new:** The U.S. Congress has passed the GE-

NIUS Act, establishing the first federal regulatory framework for payment stablecoins, addressing consumer protection, financial stability and AML compliance. President Trump signed the bill into law on July 18, 2025.

- **Why it matters:** The GENIUS Act creates a new licensing regime for payment stablecoin issuers and is the first major crypto-related legislation to be passed by both chambers of Congress.
- **What to do next:** Companies should assess their eligibility as permitted stablecoin issuers.

On July 17, 2025, the U.S. House of Representatives passed the Guiding and Establishing National Innovation for U.S. Stablecoins (“GENIUS”) Act. The landmark legislation, which the U.S. Senate passed in June, introduces the first federal regulatory framework for “payment stablecoins,” addressing consumer protection, financial stability, national security and anti-money laundering (“AML”) compliance. President Donald Trump signed it into law the following day.

The GENIUS Act regulates the issuance and trading of payment stablecoins in the U.S. and applies to payment stablecoin issuers and intermediaries (known as digital asset service providers). Below, we discuss the GENIUS Act’s key provisions and requirements.

Definition of Payment Stablecoins

The GENIUS Act regulates payment stablecoins, which are defined as digital assets that are or are designed to be used as a means of payment or settlement, the issuer of which (1) is obligated to convert, redeem or repurchase them for a fixed amount of monetary value, and (2) represents that they will maintain a stable value relative to a fixed amount of monetary value.

Permitted Payment Stablecoin Issuers

The GENIUS Act prohibits anyone other than a “permitted payment stablecoin issuer” from issuing a payment stablecoin in the U.S.

Entities can become permitted payment stablecoin issuers through dual federal and state licensing pathways.

- **Permitted federal issuers.** Subsidiaries of insured depository institutions (“IDIs”), nonbank entities (*i.e.*, not IDIs or their subsidiaries), federal branches of foreign banks, and uninsured national banks are eligible to be licensed as permitted payment stablecoin issuers. The IDI’s appropriate federal banking agency will serve as the primary regulator for permitted issuers that are subsidiaries of IDIs, and the Office of the Comptroller of the Currency (“OCC”) will serve as the primary regulator for all other permitted federal issuers.
- **Permitted state issuers.** Issuers with \$10 billion or less in consolidated total outstanding stablecoins may opt into a state-only regulatory regime, provided that (1) a state regulatory agency with primary regulatory and supervisory authority over payment stablecoin issuers certifies that its regulatory framework is “substantially similar” to the federal regime, and (2) the Stablecoin Certification Review Committee, comprised of the Secretary of the Treasury, the Chair or Vice Chair for Supervision of the Federal Reserve Board, and the Chair of the Federal Deposit Insurance Corporation, does not deny the certification within 30 days. A state-qualified issuer with more than \$10 billion in consolidated total outstanding stablecoins generally must transition to federal oversight within 360 days of reaching such threshold (or cease issuing new stablecoins until the stablecoin is under such threshold).

Digital asset service providers, including digital asset exchanges and custodians, therefore cannot offer or sell payment stablecoins in the U.S. unless the stablecoin is issued by (1) a permitted payment stablecoin issuer or (2) a comparably regulated foreign payment stablecoin issuer, as discussed below.

Treatment of Foreign Issuers

The GENIUS Act restricts digital asset service providers from offering, selling or otherwise making available in the U.S. a payment stablecoin that is issued by a foreign issuer, unless the foreign issuer:

- Has the technological capability to comply, and will

comply, with lawful orders to seize, freeze, burn, or prevent the transfer of outstanding stablecoins.

- Is subject to a “comparable” regulatory regime, as determined by the Treasury Secretary upon a recommendation by each of the other members of the Stablecoin Certification Review Committee.
- Registers with the OCC and is subject to OCC supervision.
- Holds reserves in U.S. financial institutions sufficient to meet liquidity demands of U.S. customers.
- Is not domiciled and regulated in a jurisdiction subject to comprehensive U.S. economic sanctions or determined by the Treasury Secretary to be a jurisdiction of primary money laundering concern.

There are also significant restrictions on the treatment of foreign payment stablecoins for accounting, margin and use as a settlement asset for banking organizations and payment infrastructures.

Restrictions on Nonfinancial Stablecoin Issuers

A U.S. public company and any non-U.S. company that is not predominantly engaged in one or more financial activities, and any wholly or majority-owned subsidiaries or affiliates of such a company, may not issue a payment stablecoin unless the public company obtains a unanimous vote of the Stablecoin Certification Review Committee finding that:

- It will not pose a material risk to safety and soundness of the U.S. banking system, financial stability or the Deposit Insurance Fund.
- The public company will comply with limitations on use of nonpublic personal information (*e.g.*, not selling such data to third parties).
- The public company and its affiliates will comply with anti-tying requirements, which will be clarified through an interpretive rule issued by the Stablecoin Certification Review Committee within one year of enactment of the GENIUS Act.

Preemption

The GENIUS Act expressly preempts state licensing requirements, such as money transmitter laws, for permitted payment stablecoin issuers that are (1) federal qualified issuers or (2) subsidiaries of IDIs. A subsidiary of a state IDI may engage in money transmission or custodial services if it is subject in its home state to adequate liquidity and capital requirements that take into account changes in its financial condition and risk profile.

The GENIUS Act explicitly does *not* preempt state consumer protection laws.

Prohibition on Interest Payments

The GENIUS Act prohibits permitted payment stablecoin issuers and foreign payment stablecoin issuers from paying payment stablecoin holders yield or interest (whether in cash, tokens or other consideration) solely in connection with the holding, use or retention of such payment stablecoin. This potentially leaves open the possibility that parties other than an issuer itself (such as its affiliates) may pay yield for providing such services.

Activities Limits

Permitted payment stablecoin issuers must limit their activities to issuing and redeeming payment stablecoins, managing related reserves (*i.e.*, purchasing, selling and holding reserve assets or providing custodial services for reserve assets), providing custodial or safekeeping services for payment stablecoins and private keys of payment stablecoins, undertaking other activities that directly support any of the permitted activities, and any other activities authorized by the primary federal or state regulator.

Reserve Requirements

Payment stablecoins must be backed on at least a one-to-one basis, which in effect establishes a 100% reserve requirement. Reserves are limited to the following eligible assets:

- U.S. cash and currency and balances held at a Federal Reserve Bank.
- Funds held as demand deposits (or other deposits that may be withdrawn upon request) at an IDI.

- Short-term Treasury bills, notes or bonds with a remaining maturity or issued with a maturity of 93 days or less.
- Money received under repurchase agreements on short-term Treasuries.
- Reverse repurchase agreements overcollateralized by Treasuries where the issuer is the buyer of securities, subject to certain market terms requirements.
- Securities issued by a registered investment company or government money market fund that invests only in the assets listed above.
- Other similarly liquid U.S. government-issued assets if approved by the issuer's primary regulator.
- Tokenized versions of the above assets.

Issuers are prohibited from pledging, rehypothecating or reusing these reserves except for limited circumstances, such as pledging short-term Treasuries for repurchase agreements.

Capital, Liquidity and Risk Management Requirements

Federal and state payment stablecoin regulators must impose capital, liquidity, operational, compliance and information technology risk management requirements on payment stablecoin issuers, tailored to the business model and risk profile of issuers. These rules must exempt any IDI or IDI holding company that includes a permitted payment stablecoin issuer from risk-based and leverage regulatory capital requirements with respect to the assets and operations of the stablecoin issuer in excess of the operational capital requirement based on the stablecoin issuer's business model and risk profile. Federal regulators will have one year after enactment to promulgate regulations through notice and comment rulemaking.

The GENIUS Act also prohibits the federal banking agencies and the Securities and Exchange Commission ("SEC") from reintroducing requirements to hold custodied digital assets on-balance-sheet akin to those imposed by Staff Accounting Bulletin 121, not only with respect to stablecoins but to all digital assets. It further prohibits the

federal banking agencies from requiring an IDI or any affiliate thereof to hold regulatory capital against digital assets and stablecoin reserves (except with respect to the operational risk capital requirements described above).

Custody of Payment Stablecoins

Only regulated financial institutions supervised by a federal banking agency, the SEC, the Commodity Futures Trading Commission ("CFTC") or a state banking supervisor may engage in custodial or safekeeping services for payment stablecoins reserves, payment stablecoins used as collateral, or the private keys used to issue payment stablecoins. These entities must treat the customer's stablecoins, private keys, cash and other property as the property of the customer, take steps to protect the assets from creditor claims, and avoid commingling of customer assets with custodian assets, subject to certain exceptions.

Consumer Protection

As noted above, the GENIUS Act does not preempt state consumer protection laws. It is unlawful to market a product in the U.S. as a payment stablecoin unless the product is issued pursuant to the GENIUS Act. Additionally, any person convicted of certain felonies, including offenses involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism or financial fraud, may not serve as an officer or director of a payment stablecoin issuer. The GENIUS Act also prohibits tying—the condition of services on a customer also agreeing to buy other products or services—by a permitted payment stablecoin issuer.

AML and Economic Sanctions

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 and the prevention of money laundering. Issuers must therefore maintain effective AML and sanctions compliance programs, as well as customer identification programs that include Know Your Customer verification procedures and appropriate enhanced due diligence. Issuers must also monitor and report suspicious activities and retain appropriate transaction records. Issuers will need to have the technological capability to comply

with all lawful orders to seize, freeze, burn or prevent the transfer of outstanding stablecoins. Each issuer must submit a certification within 180 days of the approval of an application, and annually thereafter, that it has implemented AML and economic sanctions compliance programs reasonably designed to prevent the issuer from facilitating money laundering and the financing of terrorist activities.

The GENIUS Act also calls for a study and Financial Crimes Enforcement Network (“FinCEN”) guidance no later than three years after the date of enactment regarding (1) novel and innovative methods for detecting illicit finance; (2) standards for payment stablecoin issuers to identify, monitor and report illicit activity involving payment stablecoins; and (3) tailored risk management standards for financial institutions interacting with decentralized finance protocols.

Issuer Solvency and Bankruptcy

Stablecoin holders’ claims in bankruptcy against the issuer’s reserves are given priority—on a ratable basis with the claims of other holders of such payment stablecoins—over other claims in the issuer’s insolvency, much like bank depositors. This priority also applies to all other assets of the permitted payment stablecoin issuer to the extent of any deficiency in stablecoin reserves. The GENIUS Act also applies the Bankruptcy Code’s automatic stay to stablecoin reserves but provides relief under certain conditions to allow permitted payment stablecoin issuers to more quickly satisfy customer redemptions. The primary federal payment stablecoin regulators are required to perform a study of the potential insolvency proceedings of permitted payment stablecoin issues and submit a report and recommendations to Congress not later than three years after the date of enactment of the GENIUS Act.

Access to Federal Banking System

The GENIUS Act does not grant nonbank issuers access to a Federal Reserve master account or the discount window and explicitly provides that nothing in the statute shall expand or contract the legal eligibility to receive services from or make deposits with a Federal Reserve Bank. Moreover, the GENIUS Act does not subject payment stablecoins to a deposit insurance scheme or other similar government backstop, and makes it unlawful to represent otherwise.

Effective Date and Potential for Further Amendments

The GENIUS Act takes effect on the earlier of (1) 18 months after the date of enactment; or (2) 120 days after the date on which the primary federal payment stablecoin regulators issue any final implementing regulations. In general, prohibitions on digital asset service providers offering or selling payment stablecoins that are not issued by a permitted payment stablecoin issuer begin three years after enactment, subject to any safe harbor established by the Treasury Secretary.

Other “Crypto Week” Developments

Passage of the GENIUS Act has capped off what some have dubbed “crypto week.” In addition to the GENIUS Act, the House passed the Digital Asset Market Clarity (“CLARITY”) Act and the Anti-CBDC Surveillance State Act. The CLARITY Act would establish jurisdictional boundaries between the SEC and the CFTC with respect to digital assets and seeks to resolve regulatory ambiguity regarding the meanings of “security” and “commodity.” The Anti-CBDC Surveillance State Act would amend the Federal Reserve Act to prohibit any Federal Reserve Bank from issuing a central bank digital currency. Both pieces of legislation now head to the Senate for consideration.

The GENIUS Act is nothing short of historic. It highlights a bipartisan consensus that digital assets have moved beyond the fringe and are increasingly seen as part of mainstream finance.