

CLIENT ALERT

The GENIUS Act: A New Pathway for Stablecoin Issuance

July 24, 2025

AUTHORS

J. Christopher Giancarlo | Kari S. Larsen | A. Kristina Littman | Chelsea Pizzola
Jenna Fattah | Leanne Aban

On July 18, 2025, President Donald Trump signed S. 1582, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the “GENIUS Act” or the “Act”) into law.¹ The Act was adopted by the U.S. Senate on June 17, 2025, and the U.S. House of Representatives on July 17, 2025, during “Crypto Week.” The Act ushers in a new era in U.S. cryptocurrency innovation by establishing a comprehensive federal regulatory framework for the issuance of payment stablecoins in the U.S. For the first time, stablecoin issuers will be able to rely on a clear legal framework, empowering them to issue stablecoins in the U.S. with greater confidence. This alert will provide an overview of the GENIUS Act, the regulatory paths to becoming a permitted payment stablecoin issuer (“PPSI”) and the broader implications for the future of payment stablecoins.

¹ Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025, S. 1582, 119th Cong. (2025), *available* [here](#).

Key Takeaways

The GENIUS ACT is the most significant financial services legislation to be adopted since the 2008 Dodd-Frank Act 17 years earlier. It arrives as stablecoins have advanced over the past three years from mere tools used by crypto traders and exchanges to move money outside of banks to become increasingly used in developed economies for ordinary consumer and enterprise payments and as a stable store of value in place of failed currencies in bankrupt nation states. The supply of stablecoins today is around \$260B, having grown from under \$10B five years ago. Major companies such as Visa, Mastercard and Stripe have begun to incorporate stablecoins into their payment flows.

The rapid growth and adoption of U.S. dollar-pegged stablecoins confirms that global demand for the U.S. dollar has been underserved by the instrument in its analog state. Passage of the GENIUS Act is intended to support the U.S. dollar as the world's primary reserve currency by satisfying unmet global dollar demand from both the supply side through greater ease of digital access and on the demand side for the higher utility of stablecoins for automated transactions and smart contract applications.

The GENIUS Act establishes a U.S. state and federal regulatory framework for USD-pegged stablecoins operated by banks, fintechs, and retailers. It grants sweeping oversight and rulemaking authority to the Department of Treasury and establishes the foundation for a mature, regulated stablecoin market by 2028. The Act's three-pathway framework provides flexibility while maintaining uniform consumer protections and reserve requirements.

The GENIUS Act generally applies the existing bank financial surveillance regime to stablecoin issuers under the Bank Secrecy Act. It is perhaps disappointing that Congress did not take the opportunity to consider enhanced privacy protection for users of U.S. dollar stablecoins.

Client success in the new GENIUS Act regulatory environment will depend heavily on pathway selection, proactive engagement in the rulemaking process, and comprehensive preparation for the application process beginning July 2026. Thoughtful consideration should be given to which pathway is most strategic, including considerations of transition costs from existing compliance frameworks, technology needs, timeline feasibility, compliance costs, operational impacts, risk management frameworks, additional personnel and hiring needs, and long-term scalability implications of the capped state pathway threshold. It will be important to track rulemaking developments across the OCC, Federal Reserve, FDIC, NCUA, and Treasury, particularly as there is still regulatory uncertainty surrounding state substantial similarity standards and the cross-border implementation and implication.

In summary, the GENIUS Act marks a significant first step toward establishing a clear pathway for issuers of U.S. dollar-pegged stablecoins and their global growth and proliferation.

Key Definitions

The Act defines a “payment stablecoin” as “a digital asset that is, or is designed to be, used as a means of payment or settlement” and the issuer of which (i) “is obligated to convert, redeem, or repurchase for a fixed amount of monetary value” and (ii) represents it will “maintain or create the reasonable expectation that it will maintain a stable value relative to the value of a fixed amount of monetary value.”² A payment stablecoin does not include a digital asset that is a national currency, a deposit, or a security issued by an investment company under the Investment Company Act of 1940 (the “1940 Act”).³ In addition, Section 17 of the Act amends provisions of the Investment Advisers Act of 1940, the 1940 Act, the Securities Act of 1933, the Securities Exchange Act of 1934, the Security Investor Protection Act of 1970, and the Commodity Exchange Act to clarify that the definitions of “security” and “commodity” do not include payment stablecoins.⁴

The GENIUS Act allows approved U.S.-based PPSIs to issue payment stablecoins in the U.S. and, beginning July 18, 2028, makes it unlawful for any person other than a PPSI to issue a payment stablecoin in the U.S.⁵ As discussed in greater detail below, PPSIs are those that fall into one of the following three categories:

- (a) a subsidiary of an insured depository institution that has been approved to issue stablecoins under the Act;
- (b) a federal-qualified nonbank payment stablecoin issuer that has been approved to issue stablecoins under the Act; or
- (c) a state-qualified payment stablecoin issuer.⁶

Foreign Issuers

Generally, foreign payment stablecoin issuers are prohibited from issuing stablecoins in the U.S. However, under Section 18, a foreign issuer may issue stablecoins in the U.S. only if (i) it is subject to regulation and supervision by a foreign payment stablecoin regulator that the Secretary of the Treasury determines is comparable under the Act; (ii) it is registered with the Comptroller; (iii) it holds reserves in a U.S. financial institution sufficient to meet liquidity demands of U.S. customers; and (iv) the foreign country in which the foreign issuer is domiciled and regulated is not subject to economic sanctions by the U.S. or a jurisdiction determined to be a primary money laundering concern by the Secretary of the Treasury.⁷

² S. 1582, § 2(22) (2025). The Act defines a “digital asset” as “any digital representation of value which is recorded on a cryptographically-secured distributed ledger.” *Id.* § 2(6).

³ *Id.*

⁴ *Id.* § 17.

⁵ *Id.* § 3(a).

⁶ *Id.* § 2(15).

⁷ *Id.* § 18.

Permitted PPSI Activities

Under the Act, PPSIs are permitted to engage in a defined set of activities:

- (i) issue or redeem payment stablecoins;
- (ii) manage related reserves (including purchasing and holding reserve assets);
- (iii) provide custodial or safekeeping services for payment stablecoins; and
- (iv) undertake other functions that directly support the work of issuing and redeeming payment stablecoins.⁸

In addition, the Act specifically prohibits PPSIs from:

- (i) requiring customers to obtain an additional paid product or service from the issuer;
- (ii) using marketing terms relating to the U.S. Government; and
- (iii) paying interest or yield to the holder of any stablecoin.⁹

PPSI Obligations

In order for a PPSI to maintain its status and ability to issue payment stablecoins, it must comply with several requirements outlined under Section 4 of the Act. The key requirements include:

- **Reserves.** PPSIs must maintain reserves backing all payment stablecoins on at least a 1:1 basis. The reserves must consist of high quality, liquid assets with a maturity date of 93 days or less.¹⁰ The reserves are prohibited from being pledged, rehypothecated, or reused, with narrow exceptions for liquidity management.¹¹

⁸ *Id.* § 4(a)(7)(A).

⁹ *Id.* §§ 4(a)(8), 4(a)(9) and 4(a)(11).

¹⁰ Under Section 4(a)(1)(A), the reserves may be comprised of U.S. coins and currency, funds held as demand deposits, treasury bills, notes, or bonds, repurchase agreements and reverse repurchase agreements subject to certain limitations, money market funds invested solely in underlying assets previously described, and any other similarly liquid federal government-issued asset approved by the primary federal payment stablecoin regulator.

¹¹ *Id.* § 4(a)(2).

- *Disclosure Requirements.* PPSIs must publicly disclose their redemption policies and publish monthly reserve composition reports.¹² These disclosures must be examined by a registered public accounting firm.¹³
- *Capital, Liquidity and Risk Management.* PPSIs must comply with capital, liquidity, and risk management standards set by the applicable federal or state payment stablecoin regulator.¹⁴ They also must comply with operational, compliance, and information technology risk standards, including those set under the Bank Secrecy Act, as well as sanctions compliance standards.¹⁵

Other Notable Provisions

- *Bankruptcy.* In an insolvency proceeding, a person holding payment stablecoins issued by the PPSI has first priority over all other claims against the PPSI.¹⁶ Reserve assets backing stablecoins are excluded from the bankruptcy estate, protecting them from general creditors and preserving them exclusively for stablecoin holder redemptions.¹⁷
- *Consumer Privacy.* Although the Act does not explicitly provide federal or state payment stablecoin regulators direct access to consumer transaction data through PPSIs, neither federal nor state banking institutions can limit the authority of a host state bank regulator to ensure compliance with host state consumer protection laws.¹⁸ This is because the Act explicitly asserts that it will not preempt state consumer protection laws, “including common law, and the remedies available thereunder” except for chartering, licensure or other authorization to do business as a PPSI.¹⁹
 - *Public Companies.* Generally, a public company that does not predominantly engage in one or more financial activities may not issue a payment stablecoin unless it obtains unanimous approval from the Stablecoin Certification Review Committee (the “Committee”).²⁰ Approval requires the Committee to find that the public company will comply with data use limitations, including that nonpublic personal information obtained from stablecoin transaction data may not be used to target, personalize, or rank advertising, be sold to any third party, or be shared with non-affiliates.²¹ Notably, such nonpublic data may be shared (i) if the public company receives consent from the

¹² *Id.* § 4(a)(1)(B).

¹³ *Id.* However, under Section 4(a)(10)(A), PPSIs with at least \$50 billion in consolidated total outstanding issuance are required to prepare an annual financial statement in accordance with GAAP. The financial statement must be audited by a registered public accounting firm and made publicly available on the issuer’s website.

¹⁴ *Id.* § 4(a)(4).

¹⁵ *Id.*

¹⁶ *Id.* § 11.

¹⁷ *Id.*

¹⁸ *Id.* § 16(d)(2).

¹⁹ *Id.* § 7(f)(4).

²⁰ *Id.* § 4(a)(12)(B).

²¹ *Id.*

consumer or (ii) to comply with federal, state, or local laws, rules, and other legal requirements; to comply with legal, judicial, or regulatory proceedings.²² However, the Committee is required to provide an interpretive rule clarifying the application of this rule by July 2026.²³

- *Federal Authority.* A Federal payment stablecoin regulator may revoke or suspend a PPSI's registration on the grounds that the PPSI has willfully or recklessly violated any condition in connection with a written agreement entered into between the PPSI and the primary federal payment stablecoin regulator.²⁴ Although unclear based on the plain language of the Act, there could be a potential risk that certain payment stablecoin consumer transaction data is shared with a federal payment stablecoin regulator in connection with a condition imposed by the regulator on the issuer.
- *Digital Asset Service Providers.* Under the Act, Digital Asset Service Providers²⁵ are prohibited from offering or selling payment stablecoins, including stablecoins issued by foreign issuers, to a person in the U.S. unless the stablecoin is issued by a PPSI.²⁶ Digital Asset Service Providers may not offer or sell stablecoins issued by foreign issuers unless the issuer has the technological capability to comply, and will comply with the terms of any lawful order and any reciprocal agreement made under Section 18.²⁷

The Path to Becoming a PPSI

As noted, under the Act, entities may qualify as permitted issuers through bank subsidiaries approved by federal regulators, direct OCC approval for nonbank entities, or state-level qualification for smaller issuers below the \$10 billion threshold.

- *Bank Subsidiaries.* PPSIs may operate as subsidiaries of insured depository institutions ("IDIs"), including banks, savings associations, or credit unions insured by the FDIC or NCUA. The subsidiary must be incorporated in the U.S. and approved by the parent IDI's primary federal regulator.²⁸ Each subsidiary falls

²² *Id.*

²³ *Id.*

²⁴ *Id.* § 6(b)(1)(B).

²⁵ The Act defines a "Digital Asset Service Provider" as "a person that, for compensation or profit, engages in the business in the United States (including on behalf of customers or users in the United States) of—(i) exchanging digital assets for monetary value; (ii) exchanging digital assets for other digital assets; (iii) transferring digital assets to a third party; (iv) acting as a digital asset custodian; or (v) participating in financial services relating to digital asset issuance" and excludes from the definition: "(i) a distributed ledger protocol; (ii) developing, operating, or engaging in the business of developing distributed ledger protocols or self-custodial software interfaces; (iii) an immutable and self-custodial software interface; (iv) developing, operating, or engaging in the business of validating transactions or operating a distributed ledger; or (v) participating in a liquidity pool or other similar mechanism for the provisioning of liquidity for peer-to-peer transactions." *Id.* § 2(7).

²⁶ *Id.* § 3(b)(1).

²⁷ *Id.* §§ 3(b)(1), 18.

²⁸ *Id.* §§ 2, 4(a)(2)(B).

under its parent's primary federal regulator: OCC for national banks, Federal Reserve for state member banks, FDIC for state nonmember banks, and NCUA for credit unions. These entities benefit from complete federal preemption of state money transmitter and trust company licensing requirements while maintaining quarterly reporting and examination obligations.²⁹ Federal banking agencies must establish these tailored requirements through coordinated rulemaking within one year.

- *Federal-Qualified Nonbank and Bank Issuers.* The OCC holds exclusive regulatory and supervisory authority over federal-qualified payment stablecoin issuers, including nonbank entities, OCC-chartered uninsured national banks, and federal branches of foreign banks.³⁰ Entities must demonstrate the ability to meet the requirements for PPSIs discussed above, provide comprehensive background information on officers and directors, and satisfy safety and soundness factors.³¹ The OCC has a maximum of 120 days to render application decisions once applications are deemed complete, with automatic approval if no decision is made within this time frame.³² Federal-qualified issuers face comprehensive requirements, including tailored capital and liquidity standards, AML program maintenance, sanctions compliance, and technological capability to comply with lawful orders for seizure, freezing, or transfer prevention of stablecoins. These issuers enjoy complete preemption of state licensing requirements.³³
- *State-Qualified Issuers.* This alternative pathway is strictly limited to entities with \$10 billion or less in consolidated outstanding payment stablecoin issuance.³⁴ When issuers exceed the \$10 billion threshold, federal regulators may grant waivers based on the strength of state supervision, issuer capitalization, and regulatory history. Without waivers, automatic transition to federal oversight occurs within 360 days.³⁵ States must obtain certification from the Stablecoin Certification Review Committee (SCRC) comprising the Treasury Secretary (Chair), Fed Chair/Vice Chair for Supervision, and the FDIC Chair. State regulatory regimes must be deemed “substantially similar” to federal frameworks, with certifications requiring unanimous SCRC approval within 30 days.³⁶ This option preserves state regulatory innovation while maintaining federal coordination.³⁷

²⁹ *Id.* § 11(a).

³⁰ *Id.* §§ 2, 5.

³¹ *Id.* § 5(c).

³² *Id.*

³³ *Id.* § 5(h).

³⁴ *Id.* § 2.

³⁵ *Id.* § 5(d).

³⁶ *Id.* § 4(c)(2).

³⁷ *Id.* § 4(c)(2).

- *Preemption Considerations*

- Both bank subsidiaries and federal-qualified nonbank PPSIs enjoy complete preemption of state money transmitter and trust company licensing requirements, eliminating the current complex patchwork of state licensing.³⁸
- The Act does not provide blanket preemption for state-qualified issuers. When operating across state lines, host states cannot apply more restrictive laws to out-of-state certified issuers than they would apply to federal issuers, but state-qualified issuers must still navigate varying host state requirements.³⁹

Determining Eligibility: Universal PPSI Requirements

- *Financial Condition Requirements.* All PPSI pathways require entities to demonstrate adequate financial condition, provide background information on officers and directors, and satisfy safety and soundness factors.⁴⁰ Persons convicted of financial crimes are prohibited from serving in key positions.⁴¹
- *Size-Based Eligibility.* The State-qualified issuer pathway includes a specific \$10 billion limitation on consolidated outstanding payment stablecoin issuance.⁴² Entities approaching this threshold must plan transition strategies to federal oversight, unless they receive a waiver from the applicable federal regulator.⁴³
- *Operational Capability Requirements.* PPSIs must maintain technological capabilities to comply with lawful orders for asset seizure, freezing, or transfer prevention of stablecoins.⁴⁴ PPSIs must also demonstrate capacity for effective AML programs and sanctions compliance.⁴⁵

Application Process

- For bank subsidiary and federal-qualified nonbank PPSI pathways, applications are submitted to the appropriate primary federal regulator (OCC, Federal Reserve, FDIC, or NCUA)⁴⁶ and must include detailed financial projections, business plans, and management information.⁴⁷

³⁸ *Id.* § 11(a).

³⁹ *Id.* § 7(f).

⁴⁰ *Id.* § 5.

⁴¹ *Id.* § 4(a)(3)(C).

⁴² *Id.* § 2.

⁴³ *Id.* § 4(c)(3).

⁴⁴ *Id.* § 4(a)(6).

⁴⁵ *Id.* § 4(a)(2)(D).

⁴⁶ *Id.* § 5.

⁴⁷ *Id.* § 5(b).

- State-qualified issuers apply through their state regulator, but the state must first obtain certification from the SCRC.⁴⁸ State *regulatory* regimes must be deemed “substantially similar” to federal frameworks.⁴⁹
- All applications require *comprehensive* documentation, including corporate structure, financial statements, risk management frameworks, and detailed operating procedures.⁵⁰ Background checks and fitness evaluations are required for key personnel.⁵¹

Approval/Decision Timeline

- *120-Day Federal Decision Period.* Federal regulators have a maximum of 120 days to render application decisions once they inform applicants their submissions are complete.⁵² If no decision is made within this time frame, applications are automatically approved.⁵³
- *State Certification Timeline.* States must obtain SCRC certification within specific deadlines, with initial certifications required by July 18, 2026.⁵⁴ SCRC decisions require unanimous approval within 30 days of completed submissions.⁵⁵
- *Safe Harbor Protections.* Entities with pending applications receive a 12-month safe harbor protection beginning on the Act’s effective date.⁵⁶ This provides continued operation authority during the approval process.⁵⁷

Federal Rulemaking

Each primary federal payment stablecoin regulator (OCC, Federal Reserve, FDIC, and NCUA) plus Treasury and participating state regulators must promulgate implementing regulations within one (1) year after the date of the Act’s enactment (July 18, 2026) through coordinated notice and comment rulemaking.⁵⁸ The rules must also establish principles for determining “substantial similarity” of state regulatory regimes.⁵⁹ Within 180 days after the effective date of the Act, each federal banking agency shall submit to the Committee on Banking, Housing, and

⁴⁸ *Id.* § 4(c)(1).

⁴⁹ *Id.* § 4(c)(2).

⁵⁰ *Id.* § 5(b).

⁵¹ *Id.* § 4(a)(2)(C).

⁵² *Id.* § 5(c).

⁵³ *Id.* § 5(c)(2).

⁵⁴ *Id.* § 4(c)(1).

⁵⁵ *Id.* § 5(c)(2).

⁵⁶ *Id.* § 3(b).

⁵⁷ *Id.* § 3(b)(2).

⁵⁸ *Id.* § 13(a)-(b).

⁵⁹ *Id.* § 4(c)(2).

Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives a report that confirms and describes the regulations promulgated to carry out this Act.⁶⁰

Implementation Timeline

- *Primary Effective Date.* The GENIUS Act becomes effective on the earlier of (1) January 18, 2027 (18 months from enactment) or (2) 120 days after primary federal payment stablecoin regulators issue final implementing regulations.⁶¹
- *Application Window Opens.* PPSI applications may be submitted starting July 18, 2026, after implementing regulations are issued. Federal regulators must render decisions within 120 days of informing applicants their applications are complete.⁶²
- *Transition Period and Final Compliance Deadline.* Current market participants have until July 18, 2028, before the prohibition on transacting in non-PPSI payment stablecoins takes effect, providing a three-year transition period.⁶³ Entities currently issuing payment stablecoins may continue operations during the transition period, provided that they submit PPSI applications by specified deadlines.⁶⁴ Safe harbor protections extend 12 months beyond the effective date for entities with pending applications.⁶⁵

⁶⁰ *Id.* § 13(c).

⁶¹ *Id.* § 20.

⁶² *Id.* § 5(c).

⁶³ *Id.* § 3(a).

⁶⁴ *Id.* § 5(f).

⁶⁵ *Id.*

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

J. Christopher Giancarlo

212 728 3816

jcgiancarlo@willkie.com

Kari S. Larsen

212 728 3297

klarsen@willkie.com

A. Kristina Littman

202 303 1209

aklittman@willkie.com

Chelsea Pizzola

202 303 1092

cpizzola@willkie.com

Jenna Fattah

212 728 3066

jfattah@willkie.com

Leanne Aban

212 728 8168

laban@willkie.com

WILLKIE

BRUSSELS CHICAGO DALLAS FRANKFURT HAMBURG HOUSTON LONDON LOS ANGELES
MILAN MUNICH NEW YORK PALO ALTO PARIS ROME SAN FRANCISCO WASHINGTON

Copyright © 2025 Willkie Farr & Gallagher LLP. All rights reserved.

This alert is provided for educational and informational purposes only and is not intended and should not be construed as legal advice, and it does not establish an attorney-client relationship in any form. This alert may be considered advertising under applicable state laws. Our website is: www.willkie.com.