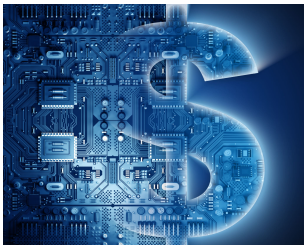

Jul 18, 2025

Categories:

Banking On It
Blockchain and Digital Assets
Publications

Authors:

Melody Charlton
J. Dylan Grafe

GENIUS Act to Create Legal Framework for Stablecoin Issuers

On June 17, the U.S. Senate voted 68-30 to pass the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act. A month later, on July 17, the U.S. House voted 308-122, and the GENIUS Act now awaits signature from President Trump to go into law. The GENIUS ACT establishes a regulatory framework for the issuance of payment stablecoins, which are cryptocurrencies tied to fiat currencies like the U.S. dollar. The GENIUS Act will go into effect on the earlier of (a) 18 months after the date of enactment; or (b) 120 days after the date on which the primary federal payment stablecoin regulators issue any final implementing regulations.

Historically, banks and traditional financial institutions have been discouraged (though arguably, not completely prohibited under law) from dealing in certain cryptocurrencies and other digital assets, in large part due to regulatory uncertainty. While crypto-natives and adopters of the technology have been able to avail themselves of payment rails and solutions made possible through blockchain technology, established institutions have had to rely on existing, and more expensive, frameworks. The passage of the GENIUS Act will allow these parties, which have previously not seen a path to leveraging this technology, to compete with existing blockchain and stablecoin-based solutions. It will also enable them to offer pathways for clients who are often traditional and institutional investors to participate in using these more efficient solutions.

Framework Established by the GENIUS Act

The GENIUS Act would establish a process by which "permitted payment stablecoins issuers" can obtain licenses while establishing a regulatory framework within which such issuers must operate. Under the GENIUS Act, a permitted payment stablecoin issuer may be an individual or entity formed in the United States that is:

- A subsidiary of an insured depository institution (IDIs), subject to approval by the primary federal regulator of the IDI;

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- A federal-qualified payment stablecoin issuer; or
- A state-qualified payment stablecoin issuer, subject to approval by a state payment stablecoin regulator.

The framework requires that permitted payment stablecoins issuer shall comply with the Bank Secrecy Act as financial institutions, maintain reserves, meet certain capital, liquidity, and risk management requirements, make certain disclosures, and conduct regular audits, among other requirements. Further, the GENIUS Act limits permitted payment stablecoins issuers to only issuing and redeeming payment stablecoins, managing reserves, providing custodial services of payment stablecoins and reserves, and undertaking any other action to support the aforementioned activities. Also, of particular note, permitted payment stablecoin issuers are prohibited from paying interest or yield on payment stablecoins.

The GENIUS Act makes it unlawful for:

- Any person other than a permitted payment stablecoin issuer to issue a payment stablecoin in the United States;
- A digital asset service provider to offer or sell a payment stablecoin to a person in the United States, unless the payment stablecoin is issued by a permitted payment stablecoin issuer, for three years after the enactment of the GENIUS Act; or
- Any digital asset service provider to offer, sell, or otherwise make available in the United States a payment stablecoin issued by a foreign payment stablecoin issuer, unless the foreign payment stablecoin issuer has the technological capability to comply—and will comply—with the terms of any lawful order and any reciprocal arrangement pursuant to section 18 of the GENIUS Act.

In terms of regulatory oversight, stablecoin issuers with less than $10 billion in market capitalization can choose a federal or state regulator. Yet stablecoin issuers with more than $10 billion in market capitalization would be subject to federal oversight depending on the issuer type (i.e., Federal Reserve, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC),

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or National Credit Union Administration (NCUA)).

Scope of Legislation & Regulatory Guidance

In addition to the GENIUS Act, the following pieces of legislation are pending and designed to provide oversight of cryptocurrencies:

- Financial Innovation and Technology for the 21st Century ("FIT21") Act, H.R. 4763, May 22, 2024
- Digital Asset Market Clarity Act of 2025 ("CLARITY Act"), H.R. 3633, May 29, 2025
- Stablecoin Transparency and Accountability for a Better Ledger Economy Act of 2025 ("STABLE Act"), H.R. 2392, April 2, 2025

Further, various regulatory agencies have taken the following actions in connection with cryptocurrencies:

- SEC Statement: Statement on Stablecoins, April 4, 2025
- SEC Statement: Offerings and Registrations of Securities in the Crypto Asset Markets, April 10, 2025
- Federal Reserve Board withdrawal of guidance for banks related to their crypto-asset and dollar token activities, April 24, 2025
- OCC Interpretive Letter 1183 Addressing Certain Crypto-Asset Activities, March 7, 2025
- FDIC Financial Institution Letter, FIL-7-2025, Clarification of Process for Banks to Engage in Crypto-Related Activities, March 28, 2025

Key Considerations

In the event that the GENIUS Act is passed into law, eligible entities who become issuers of stablecoins—or other parties who wish to engage in this ecosystem as stablecoins become more commonplace but who do not necessarily wish to become stablecoin issuers—would want to consider the following components as part of an effective change management process to operationalize the requirements:

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- Training
- Compliance management processes
- Insurance to cover the crypto-related activities
- Risk management processes

For more information about the GENIUS Act and the evolving regulatory framework for cryptocurrencies, please contact the authors or any attorney with Frost Brown Todd's Data, Digital Assets, and Technology or Consumer Financial Services and Protection practices.

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