

CLIENT ALERT

The GENIUS Act of 2025: Stablecoin Legislation Adopted in the US

July 24, 2025

The statute's new regulatory framework for payment stablecoins paves the way for increased digital asset adoption and innovation.

KEY POINTS

- The GENIUS Act, the US's first federal legislation on digital assets, establishes a regulatory framework for payment stablecoins. Insured depository institution and insured credit union subsidiaries that issue payment stablecoins are subject to the regulatory oversight of their primary financial regulator, and federally licensed nonbank stablecoin issuers are subject to oversight by the OCC. A payment stablecoin issued by a permitted payment stablecoin issuer is not a "security" under the US federal securities laws or a "commodity" under the Commodity Exchange Act, and therefore is not subject to the oversight of the SEC or CFTC.
- The GENIUS Act prohibits any person other than a permitted payment stablecoin issuer from issuing a payment stablecoin in the US. Digital asset service providers may not offer or sell a payment stablecoin to a person in the US unless the payment stablecoin is issued by a permitted payment stablecoin issuer

(with an exception for payment stablecoins issued by certain compliant foreign payment stablecoin issuers).

- The GENIUS Act takes effect on the earlier of (i) 18 months after its enactment or (ii) 120 days after the primary federal stablecoin regulators issue final regulations implementing the Act.

On July 18, 2025, President Trump **signed** into **law** the Guiding and Establishing National Innovation for US Stablecoins Act (the GENIUS Act), **legislation** that establishes a regulatory framework for payment stablecoins. It is the first federal legislation on digital assets to be enacted since President Trump issued an **executive order aiming** to make the US the “crypto capital of the world” (for more information, see this Latham **blog post**).

First introduced in the Senate on February 4, 2025, the bill overcame procedural hurdles to pass with bipartisan support in the Senate on June 17, 2025 (by a vote of 68 to 30) and the House of Representatives on July 17, 2025 (by a vote of 308 to 122).

This Client Alert provides an overview of the GENIUS Act’s key provisions as well as a preview of other digital asset bills continuing to work their way through Congress. These other bills may provide additional regulatory clarity later this year.

KEY TAKEAWAYS

- A public company that is not predominantly engaged in one or more enumerated financial activities is prohibited from issuing a payment stablecoin unless it obtains clearance from the Stablecoin Certification Review Committee created by the statute.
- Payment stablecoin issuers with not more than \$10 billion in total outstanding issued payment stablecoins may opt for regulation under a

state-level regulatory regime as long as that regime is “substantially similar” to the federal regulatory framework.

- Permitted payment stablecoin issuers must maintain reserves backing outstanding payment stablecoins on at least a one-to-one basis, consisting only of certain specified assets, including US dollars and short-term Treasuries.
- Permitted payment stablecoin issuers will be considered “financial institutions” for purposes of the Bank Secrecy Act.
- A stablecoin issuer may not offer any form of interest or yield to stablecoin holders.
- A stablecoin issuer will be subject to bank-like prudential regulation and may not condition the availability of products or services to a customer based on whether that customer obtains an additional paid product or service from the permitted payment stablecoin issuer.
- In insolvency proceedings, stablecoin holders will have priority over all other claims against the permitted payment stablecoin issuer.

KEY TERMS AND REGULATORY CLASSIFICATION

The GENIUS Act adopts the following key terms:

- The central concept of a “payment stablecoin” is defined as a “digital asset” (i) that is, or is designed to be, used as a means of payment or settlement and (ii) the issuer of which:
 - is obligated to convert, redeem, or repurchase it for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value; or
 - represents that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value for it relative to the value of a fixed amount of monetary value.

- The term “payment stablecoin” does not include a digital asset that is (i) a national currency; (ii) a deposit as defined in the Federal Deposit Insurance Act (including a deposit recorded using distributed ledger technology); or (iii) a security as defined in the Securities Act, Exchange Act, or Investment Company Act. Thus, for example, tokenized money market funds, although having some stablecoin characteristics, may still be regulated as funds and not as payment stablecoins.
- For purposes of these definitions, the GENIUS Act defines a “digital asset” as “any digital representation of value that is recorded on a cryptographically secured distributed ledger.”
- A “digital asset service provider” is defined as a person¹ who, for compensation or profit, engages in the business in the US (including on behalf of customers or users in the US) of exchanging digital assets for monetary value or other digital assets, transferring digital assets to a third party, acting as a digital asset custodian, or participating in financial services relating to digital asset issuance. However, there are a number of important exclusions from this definition, including for distributed ledger protocols (e.g., DeFi), development activities, immutable and self-custodial wallet interfaces, and liquidity pool participation.

In terms of regulatory classification, the GENIUS Act amends the US federal securities laws and the Commodity Exchange Act (CEA) to provide that a payment stablecoin is not a “security” or a “commodity,” leaving federal regulation of payment stablecoins to banking regulators. The GENIUS Act also amends the Investment Company Act to provide that a permitted payment stablecoin issuer is not an “investment company.”

Importantly, however, these carveouts only extend to payment stablecoins issued by a “permitted payment stablecoin issuer” (discussed below).

ISSUANCE, OFFER, AND SALE OF PAYMENT STABLECOINS

Section 3 of the GENIUS Act prohibits (i) any person other than a permitted payment stablecoin issuer from issuing a payment stablecoin in the US; and (ii) a digital asset service provider from offering or selling a payment stablecoin to a person in the US unless the payment stablecoin is issued by a permitted payment stablecoin issuer (with an exception for payment stablecoins issued by certain compliant foreign payment stablecoin issuers, discussed below), effective three years after the date of enactment.

Notably, the prohibitions under Section 3(e) aim to have extraterritorial effect by extending to conduct outside the US that involves the offer or sale of a payment stablecoin to a person located in the US (for more information, see below *Foreign Issuers of Payment Stablecoins*).

Permitted Payment Stablecoin Issuers

A “permitted payment stablecoin issuer” is defined as:

- a person formed in the US that is:
 - a subsidiary of an insured depository institution, including an insured credit union, that has been approved to issue payment stablecoins under Section 5 (*Approval of Subsidiaries of Insured Depository Institutions and Federal Qualified Payment Stablecoin Issuers*) of the GENIUS Act;
 - a “Federal qualified payment stablecoin issuer,” defined as:
 - a nonbank entity, other than a state-qualified payment stablecoin issuer, approved by the Office of the Comptroller of the Currency (OCC) to issue payment stablecoins pursuant to Section 5;
 - an uninsured national bank that is (i) chartered by the OCC pursuant to title LXII of the Revised Statutes (Title LXII) and (ii) approved by the OCC to issue payment stablecoins, pursuant to Section 5; and

- a federal branch of a non-US bank that is approved by the OCC to issue payment stablecoins pursuant to Section 5; or
- a “State qualified payment stablecoin issuer,” defined as an entity that:
 - is legally established under the laws of a state and approved to issue payment stablecoins by a state payment stablecoin regulator, and
 - is not (i) an uninsured national bank chartered pursuant to Title LXII, (ii) a federal branch of a non-US bank, (iii) an insured depository institution, or (iv) a subsidiary of such uninsured national bank, federal branch, or insured depository institution.

Foreign Issuers of Payment Stablecoins

The GENIUS Act prohibits a digital asset service provider (defined above) from offering, selling, or otherwise making available in the US a payment stablecoin issued by a foreign stablecoin issuer.

However, this prohibition does not apply to payment stablecoins issued by a foreign payment stablecoin issuer that (i) is from a qualifying non-US jurisdiction with a comparable regulatory and supervisory framework as determined by the Secretary of the Treasury, and (ii) can demonstrate capability of complying with US “lawful orders” (including compliance with regulatory asset freezes, seizures, and blocks, and relevant anti-money laundering and economic sanctions directives).

Even with a determination of comparability, foreign issuers would only be permitted to issue payment stablecoins in the US if they register with the OCC and hold reserves in a US financial institution sufficient to meet liquidity demands of US customers. These extraterritorial requirements may therefore have a significant impact on foreign payment stablecoin issuers based in jurisdictions whose regulatory regimes may impose less stringent restrictions

as compared to the heightened standards imposed under the GENIUS Act. The Secretary of the Treasury is directed to engage in more detailed rulemaking to implement this process for making comparability determinations with respect to overseas regulatory and supervisory regimes.

Non-Financial Services Public Company Issuers of Payment Stablecoins

The GENIUS Act prohibits a public company (including its wholly or majority-owned subsidiaries or affiliates) that is not “predominantly engaged in one or more financial activities”² from issuing a payment stablecoin unless it obtains clearance from the Stablecoin Certification Review Committee.³ The Stablecoin Certification Review Committee must unanimously find that the public company will not pose a material risk to the safety and soundness of the US banking system, the financial stability of the US, or the federal deposit insurance fund; will comply with enumerated consumer data use restrictions; and will comply with the Act’s tying prohibitions (see below).

This prohibition (and its exceptions) appears to extend to the direct issuance of a payment stablecoin by any company not domiciled in the US or its territories that is not predominantly engaged in one or more financial activities.

Exempt Transactions

Certain transactions are exempt from the requirements of the GENIUS Act, including:

- a direct transfer of digital assets between two individuals acting on their own behalf and for their own lawful purposes, without the involvement of an intermediary;
- any transaction involving the receipt of digital assets by an individual between an account owned by the individual in the US and an account

- owned by the individual abroad that are offered by the same parent company; or
- any transaction by means of a software or hardware wallet that facilitates an individual's own custody of digital assets.

REGULATION AND SUPERVISION OF PERMITTED PAYMENT STABLECOIN ISSUERS

Federal Stablecoin Regulators

The GENIUS Act states that subsidiaries of insured depository institutions and insured credit unions that issue payment stablecoins must be subject to the regulatory oversight of their primary financial regulator (the appropriate federal banking agency, or the National Credit Union Administration in the case of a credit union subsidiary).

Federally licensed nonbank stablecoin issuers, which currently fall outside the traditional federal bank regulatory regime, would now be subject to oversight by the OCC.

State Stablecoin Regulators

The GENIUS Act also provides a role for state-level regulation, allowing payment stablecoin issuers with not more than \$10 billion in total outstanding issued payment stablecoins to opt for regulation under a state-level regulatory regime.

These state-level regulatory regimes, however, must be “substantially similar” to the federal regulatory framework. State regulators would be required to submit to the Secretary of the Treasury an initial certification that their state-level regulatory regime meets the criteria of “substantial similarity” within one year of the enactment of the GENIUS Act, and annually thereafter. If state regulators fail to submit proper certification, then a payment stablecoin issuer that would otherwise be regulated under that state's laws would be subject to

the federal regulatory framework, regardless of the amount of the stablecoin that has been issued. These certifications would be subject to review and denial by the Stablecoin Certification Review Committee.

In addition, if a payment stablecoin issuer is regulated at the state level and reaches a market capitalization of more than \$10 billion, it must transition within 360 days to regulation under the federal regulatory framework (if a depository institution, under the Federal Reserve Board; and if not a depository institution, then under the OCC) or obtain a waiver from the applicable primary federal payment stablecoin regulator. In the alternative, the state stablecoin issuer must cease issuing new stablecoins until its market capitalization falls below the \$10 billion threshold.

Preemption

For federal qualified payment stablecoin issuers or subsidiaries of insured depository institutions or credit unions, the GENIUS Act preempts state laws related to chartering, licensure, or other authorization to do business as a permitted payment stablecoin issuer, but specifically states that it does not preempt state consumer protection laws. This potentially reduces the burden of registering under state money transmission and virtual currency laws — although the law does not by its terms preempt state laws relating to digital asset custody, transmission, or exchange of virtual currencies.

Enforcement and Penalties for Noncompliance

The GENIUS Act includes regulatory, civil, and criminal penalties for noncompliance. A primary federal payment stablecoin regulator may prohibit an issuer from issuing payment stablecoins, initiate cease-and-desist proceedings, remove an affiliated party from participation, or issue civil monetary penalties. Unlicensed issuance of stablecoins is subject to civil penalties of up to \$100,000 per day, and knowingly participating in a violation

can result in penalties of up to \$1,000,000 per violation, up to five years of imprisonment, or both.

REGULATORY REQUIREMENTS FOR PAYMENT STABLECOINS ISSUERS

Reserve Requirements

The GENIUS Act requires permitted payment stablecoin issuers to maintain reserves backing outstanding payment stablecoins on at least a one-to-one basis, and provides that reserves may only consist of certain specified assets, including US dollars, federal reserve notes, funds held at certain insured or regulated depository institutions, certain short-term Treasuries and Treasury-backed reverse repurchase agreements, and money market funds.

In addition, the GENIUS Act requires stablecoin issuers to provide monthly public reporting as to the composition of their reserve portfolios on their website, and requires larger issuers (with more than \$50 billion in consolidated total outstanding issuance) to publish annual audited financial statements. These monthly reports must be examined by a registered public accounting firm, and the CEO and CFO of a permitted payment stablecoin issuer must certify the accuracy of these reports to the primary federal payment stablecoin regulator or state payment stablecoin regulator, as applicable.

Redemption of Stablecoins

Stablecoin issuers are “obligated to convert, redeem, or repurchase” their stablecoins “for a fixed amount of monetary value.” Stablecoin redemption policies must be publicly disclosed by issuers and must “establish clear and conspicuous procedures for timely redemption of outstanding payment stablecoins.” Any fees associated with purchasing or redeeming stablecoins must also be disclosed by issuers, “publicly, clearly, ... conspicuously ... [and] in plain language.”

The GENIUS Act does not specify whether all stablecoin holders must be allowed to redeem stablecoins directly from the issuer, or if intermediary exchanges are permitted to process redemption requests for some subset of stablecoin holders, such as retail market participants.

Custody, Safekeeping, and Limitations on Stablecoin Activities

The GENIUS Act limits the permissible activities of stablecoin issuers to issuing and redeeming stablecoins, managing reserves, and providing custodial and safekeeping services of stablecoins or private keys. It also requires segregation of assets backing stablecoins and prohibits commingling of assets, with limited exceptions.

The GENIUS Act provides that custodial and safekeeping services for the payment stablecoin reserve, the payment stablecoins used as collateral, or the private keys used to issue permitted payment stablecoins may only be performed by entities subject to regulatory oversight by federal or state banking regulators. Federal regulators may not require depository institutions to include assets held in custody, including stablecoins, as liabilities on financial statements or balance sheets, or to hold additional regulatory capital against assets in custody or safekeeping, except as necessary to mitigate operational risks.

The GENIUS Act also provides an exclusion stating that it does not apply to persons engaged in “providing hardware or software to facilitate a customer’s own custody or safekeeping of the customer’s payment stablecoins or private keys.”

Prohibition on Rehypothecation

The GENIUS Act prohibits payment stablecoin issuers from rehypothecating (also known as repledging or reusing) collateral held in reserves, except for creating liquidity to meet reasonable redemption expectations. It allows, for

the purposes of creating liquidity, reserves in the form of Treasury bills to be pledged as collateral for short-term repurchase agreements that can either be cleared by an approved central clearing counterparty or by prior approval with the appropriate stablecoin regulator.

Bank Secrecy Act (BSA) Obligations

Under the GENIUS Act, a permitted payment stablecoin issuer will be considered a “financial institution” for purposes of the BSA, and thus subject to federal laws applicable to financial institutions regarding operational, compliance, and information technology risk management standards, including anti-money laundering (AML), countering the financing of terrorism (CFT), and sanctions compliance. Violations of these federal laws could result in criminal exposure for the stablecoin issuer.

In addition, in an acknowledgement of the unique nature of payment stablecoins, the GENIUS Act provides that within 30 days after the enactment of the Act, the Treasury Secretary will seek public comment for a period of 60 days “to identify innovative or novel methods, techniques, or strategies that regulated financial institutions use, or have the potential to use, to detect illicit activity, such as money laundering, involving digital assets.”

Prohibition on Interest

The GENIUS Act prohibits stablecoin issuers from offering any form of interest or yield to stablecoin holders, but does not explicitly prohibit affiliate or third-party arrangements that might offer interest-bearing products.

Prohibition on Tying

A permitted payment stablecoin issuer may not condition the availability of products or services to a customer based on whether that customer obtains an additional paid product or service from the permitted payment stablecoin

issuer (or any of its subsidiaries), or based on the customer's agreement not to obtain an additional product or service from a competitor.

Marketing Restrictions

The GENIUS Act prohibits issuers from employing "deceptive names" in marketing, such as representing that their payment stablecoins are backed by the full faith and credit of the US, guaranteed by the US government, or covered by federal deposit insurance. Issuers must also ensure that their marketing does not imply that their payment stablecoins are legal tender or government-issued or -approved. Misrepresentation is subject to civil penalties.

Insolvency, Conservatorship, and Receivership

In the event that a permitted payment stablecoin issuer goes bankrupt, the GENIUS Act provides that stablecoin holders will have priority over all other claims against the permitted payment stablecoin issuer in insolvency proceedings. It also mandates expedited court review and distribution of reserves to stablecoin holders.

Interoperability

Under the GENIUS Act, the Treasury Department may implement reciprocal or other bilateral agreements between the US and other jurisdictions to facilitate international transactions and interoperability with US dollar-denominated stablecoins issued overseas.

Ban on Stablecoin Issuance by Elected Officials

The GENIUS Act states that congressional ethics provisions and Office of Government Ethics laws prohibit any member of Congress or senior executive branch official from issuing a payment stablecoin during their time in public

service, but does not explicitly prohibit affiliation with or ownership stakes in stablecoin-issuing operations.

ADDITIONAL RULEMAKINGS

The primary federal payment stablecoin regulators, the Treasury Secretary, and each state payment stablecoin regulator are directed to promulgate implementing regulations through notice and comment procedures within one year of enactment of the GENIUS Act.

The primary federal payment stablecoin regulators and state regulators must also issue certain tailored requirements and standards applicable to permitted payment stablecoin issuers, including capital requirements; liquidity standards; reserve asset diversification standards; interest rate risk management standards; and principles-based requirements and standards related to operational, compliance, and information technology risk management.

RAMIFICATIONS FOR THE FINANCIAL MARKETS

The GENIUS Act may drive institutional adoption and acceptance of payment stablecoins in the traditional finance (TradFi) sector, and by extension, retail market participation. By establishing definitions and guidelines for payment stablecoins and issuers, the GENIUS Act provides a higher level of regulatory certainty than was previously available, and gives market participants a workable framework upon which to deploy this foundational technology. The text of the Act is not free of ambiguities, however, and time will tell if such ambiguities will be resolved via rulemaking and whether any lack of precision ultimately has a positive or negative effect on market dynamics.

With the GENIUS Act's focus on reserve requirements, transparency, and regulatory oversight, financial institutions are more likely to offer services employing compliant payment stablecoins, or innovate with their own

issuances. Indeed, recent reports indicate that major financial institutions in the US are already exploring proprietary payment stablecoin issuances for money transfers, trade settlement, and other financial transactions.

However, the exclusion of payment stablecoins (issued by permitted payment stablecoin issuers) from the definitions of “security” under the federal securities laws and “commodity” under the CEA means that market participants that transact in such payment stablecoins, absent some other jurisdictional hook, will have no recourse under those laws for fraud or market manipulation. As a result, civil plaintiffs may seek to utilize other federal or state laws to advance claims for perceived harm.

Various financial regulatory agency heads welcomed the passage of the GENIUS Act. SEC Chair Paul Atkins **noted** upon the GENIUS Act’s adoption that “[p]ayment stablecoins will play a significant role in the securities industry moving forward,” and that he has therefore “asked SEC staff to consider whether guidance, rulemaking, or other steps may be helpful to accommodate SEC registrants utilizing payment stablecoins, including for settlement and margining.” Comptroller of the Currency Jonathan V. Gould **applauded** the GENIUS Act, stating that it “will transform the financial services industry,” and that “[t]he OCC is prepared to work swiftly to implement this landmark legislation that expands the authority of the OCC to include nonbank payment stablecoin issuers.” And CFTC Acting Chair Caroline D. Pham **praised** the GENIUS Act as a “significant milestone” that “will open a new chapter in financial services.”

POTENTIAL FUTURE LEGISLATION

The GENIUS Act was part of a package of crypto-related bills that passed in the House as part of what Financial Services Committee Chair French Hill (R-Ark.) and Agriculture Committee Chair Glenn Thompson (R-Pa.) dubbed “**Crypto Week**.” The House also passed the following crypto-related bills on July 17, 2025:

- **H.R.3633**, the Digital Asset Market Clarity Act of 2025 (the CLARITY Act), a comprehensive digital asset market infrastructure bill first **introduced** in the House on May 29, 2025, by Chair Thompson and Chair Hill (passed by a vote of 294 to 134); and
- **H.R.5403**, the CBDC Anti-Surveillance State Act, which would prohibit the Federal Reserve from researching, designing, building, testing, or issuing a central bank digital currency, absent congressional authorization (passed by a vote of 219 to 210).

Both the CLARITY Act and the CBDC Anti-Surveillance State Act will now proceed to the Senate for consideration, with the anti-CBDC bill to be appended to the fiscal year 2026 National Defense Authorization Act. Senate Banking Committee Chair Tim Scott (R-S.C.) has **stated** that he wants the Senate to advance market structure legislation by September 30, 2025. Further, he has **said** that the House's CLARITY Act will offer a "strong template" for the Senate.

On July 22, 2025, Senator Scott and Subcommittee on Digital Assets Chair Cynthia Lummis (R-Wyo.) **released** a discussion draft of the Senate's version of the bill for public review and comment.

CONCLUSION

The passage of the GENIUS Act, and the potential passage of a broader crypto market structure bill later in 2025, marks a significant step forward in integrating digital assets and blockchain technology into the mainstream financial system. With an established regulatory framework, and an administration committed to fostering digital asset innovation and growth, the US is positioned at the forefront of the digital finance sector.

ENDNOTES

- 1 For the purposes of the GENIUS Act, “person” is defined as “an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.”
- 2 As defined in Section 2(7)(A)-(B) and Section 4(a)(7)(A) of this Act, and Section 4(k) of the Bank Holding Company Act of 1956 ([12 U.S.C. 1843\(k\)](#)), including digital asset service provider activity; payment stablecoin issuance activity; banking activities; insurance activities; financial, investment, or economic advisory services; lending, exchanging, transferring, investing for others, or safeguarding money or securities; underwriting, dealing in, or making a market in securities.
- 3 The Stablecoin Certification Review Committee is chaired by the Secretary of the Treasury, and includes the Chair of the Board of Governors of the Federal Reserve System (Federal Reserve Board) (or the Vice Chair for Supervision, as delegated by the Chair of the Federal Reserve Board), and the Chair of the Federal Deposit Insurance Corporation.

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