



The GENIUS Act (S.1582): A Smart Approach to Stablecoin Regulation

Providing Regulatory Clarity, Consumer Protections, and Market Efficiency

The **Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act** represents a significant step forward in establishing a bipartisan, national regulatory framework for payment stablecoins. In an era of global digital finance competition, this legislation affirms Congress's ability to provide clarity for industry, protect consumers, and enhance U.S. financial and national security interests—all while preserving American leadership in financial innovation.

The GENIUS Act was initially passed out of the **Senate Banking Committee in March** with bipartisan support, marking the first time stablecoin legislation advanced through the Senate. Building on that momentum, Senator Bill Hagerty introduced an updated bill ([S.1582](#)) on **May 1, 2025**, reflecting months of stakeholder input and bipartisan negotiation.

Since its reintroduction, **Democratic staff and offices have played a vital role in strengthening the legislation.** Through a series of negotiations, Democratic leaders secured key improvements that will be incorporated via formal amendment. These improvements reinforce the bill's provisions on **consumer protection, financial stability, and national security**, while ensuring appropriate regulatory oversight and coordination across federal agencies.

Once these provisions are incorporated, the GENIUS Act will reflect a carefully negotiated and thoughtfully constructed framework—one that balances innovation with accountability and reflects the shared priorities of lawmakers across the aisle. With stablecoin adoption accelerating globally, this legislation offers the United States a long-overdue path toward a secure, competitive, and transparent stablecoin market.

Regulatory Clarity: A National Standard for Stablecoins

Stablecoin issuers and financial institutions have long operated in a fragmented regulatory landscape, facing inconsistent interpretations from federal agencies, uncertainty around securities laws, and a growing patchwork of state-level requirements. The **GENIUS Act** addresses this confusion head-on by establishing a **coherent federal framework** for stablecoin issuance that fosters innovation, promotes financial integrity, and ensures regulatory accountability.

Key Provisions in the Bill:

- **Defines permissible issuers of stablecoins**, ensuring that both banks and well-regulated nonbank entities can issue U.S. dollar-backed stablecoins.
 - A lack of clear rules has pushed companies offshore, with major stablecoin issuers like **Tether (USDT) operating outside U.S. jurisdiction**, creating financial stability risks.¹²
- **Establishes a federal licensing regime for large issuers** while allowing state-regulated issuers to continue operating with federal recognition.
 - Establishing federal oversight will **ensure stablecoin issuers remain accountable** while allowing responsible players to **operate legally in the U.S. financial system**.
- **Clarifies that stablecoins, when properly structured, are not securities**, preventing misclassification and unnecessary regulatory overreach by the SEC.
 - Overlapping enforcement actions from the **SEC, CFTC, and state regulators have** caused uncertainty for market participants and have **driven innovation to crypto-friendly jurisdictions like the EU, Singapore, and Hong Kong**.³
- **Prevents the creation of a state-by-state regulatory patchwork** by offering uniform federal standards while respecting existing state regulatory authority for smaller issuers.
 - By creating **uniform, enforceable rules**, the GENIUS Act ensures that stablecoin issuers can operate legally and responsibly in the U.S. financial system while maintaining flexibility for both state and federal regulators.

¹ Financial Stability Board (FSB), "[Global Stablecoin Arrangements: Regulatory Recommendations](#)," October 2022.

² The Wall Street Journal, "[Federal Investigators Probe Cryptocurrency Firm Tether](#)," October 25, 2024.

³ Electric Capital, "[Asia Leads in Crypto Developers While the U.S. Continues to Lose Ground](#)," October 31, 2024.

Consumer Protections: Ensuring Safe and Reliable Digital Dollars

Stablecoins offer faster and more efficient transactions, but without a clear regulatory framework, consumers are vulnerable to fraud, misrepresentation, and instability. The **GENIUS Act** establishes robust federal standards to ensure that stablecoins remain **safe, transparent, and redeemable**, backed by strong oversight and clear redemption rights.

Key Provisions in the Bill:

- **Mandates full 1:1 reserve backing**, ensuring that every stablecoin issued is fully redeemable and backed by high-quality liquid assets.
 - The collapse of **TerraUSD (UST)** in 2022 led to **\$45 billion in investor losses**, highlighting the need for **transparent and well-regulated stablecoin reserves**.⁴ Unlike **TerraUSD, which was an algorithmic stablecoin**, the **GENIUS Act prohibits algorithmic stablecoins**, ensuring that only **fully reserved, fiat-backed stablecoins** can operate under the new regulatory framework.
- **Requires regular public disclosures and independent audits**, ensuring accountability and transparency for stablecoin issuers.
 - Regular **audits and public disclosures** are essential to **prevent bad actors from misleading consumers** about the backing of their stablecoins.
- **Prohibits risky fractional reserve practices**, preventing issuers from loaning out reserves and creating bank-run risks similar to Silicon Valley Bank's collapse.⁵
 - This safeguard **reduces the risk of a digital-era bank run**, like the one that contributed to the collapse of Silicon Valley Bank, and ensures that stablecoin users can access their funds on demand.
- **Enhances consumer protection standards**, ensuring issuers provide clear redemption policies and maintain strong anti-fraud measures.
 - **Without federal oversight, some stablecoin issuers lack clear redemption policies**, leaving consumers vulnerable to **withdrawal restrictions and liquidity crises**.
- **Preserves CFPB and FTC jurisdiction to take enforcement action** if issuers fail to maintain disclosures, comply with redemptions, or engage in deceptive practices.

⁴ Bloomberg, "[TerraUSD UST Stablecoin Plunges as Crypto Market Awaits Rescue](#)," May 11, 2022.

⁵ S&P Global, "[Stablecoin Stability Assessment](#)," 2023.

- Preserving **CFPB and FTC enforcement authority** ensures that stablecoin issuers remain accountable under longstanding consumer protection laws. This guarantees that agencies with a track record of protecting everyday consumers can intervene when disclosures are misleading, redemptions are denied, or fraud is committed.
- **Protects against preemption** of stronger state-level consumer protection laws, ensuring states retain authority to protect residents from misconduct.
 - **Protecting state-level consumer protection laws** ensures that the GENIUS Act sets a federal floor, not a ceiling, for consumer rights. States will continue to serve as first responders in cases of misconduct, providing an added layer of accountability and recourse for residents across the country.
- **Prohibits misleading naming conventions**, preventing issuers from using terms such as “United States,” “United States Government,” or “USG” in stablecoin names. This ensures consumers do not mistakenly believe stablecoins are backed by the full faith and credit of the U.S. government.
 - Restricting the use of official-sounding names helps **prevent confusion between private stablecoins and government-issued money**, reducing the risk that consumers mistakenly believe they are transacting in federally guaranteed instruments. Clear labeling promotes transparency and trust.
- **Bans false claims about FDIC insurance**, prohibiting stablecoin issuers from representing that their tokens are insured by the FDIC or backed by the full faith and credit of the U.S. government, without exception.
 - Misrepresenting **FDIC insurance status** can give consumers a false sense of security and lead to risky financial decisions. A clear ban on these claims helps ensure users understand the true nature of the product they’re using and reinforces market integrity.
- **Enhances customer priority in bankruptcy**, ensuring that all stablecoin holders have a legal claim in the event of an issuer’s insolvency, regardless of whether they have explicit contractual redemption rights.
 - In the event of bankruptcy, **stablecoin holders must not be left behind**. This provision guarantees that consumers retain the right to reclaim their funds, even without formal redemption contracts, offering stronger protections and greater confidence in the safety of stablecoin products.

National Security: Keeping the U.S. Dollar Strong

As the global financial system accelerates its transition toward digital assets, **stablecoins have become a strategic economic tool**. U.S.-backed stablecoins can reinforce the dollar's global dominance and offer a safe, regulated alternative to foreign digital currencies. Inaction would leave space for adversarial regimes to shape the global digital financial infrastructure and diminish American influence.

Key Provisions in the Bill:

- **Encourages the development of U.S. dollar-backed stablecoins**, reinforcing the dollar's role as the world's reserve currency.
- **Ensures that all stablecoins operate within a U.S. regulatory framework**, preventing foreign-backed stablecoins from gaining traction in global trade.
 - China's **digital yuan (e-CNY)** has already been integrated into cross-border transactions, posing a **long-term threat to U.S. financial dominance**.⁶ Additionally, **it is suspected that the digital yuan will be incorporated into China's Belt and Road Initiative (BRI)**, further expanding its influence in global trade and financial systems at the expense of the U.S. dollar.
 - If the U.S. fails to establish clear rules, **foreign jurisdictions will set global standards**, forcing American businesses to comply with **less favorable international regulations**.⁷
- **Requires all issuers to comply with Bank Secrecy Act (BSA)/AML and counter-terrorism financing (CFT) standards**, ensuring that stablecoins do not become conduits for illicit finance, money laundering, or sanctions evasion.
- **Requires the Federal Reserve and the Office of the Comptroller of the Currency (OCC) to submit annual reports** on payment stablecoin industry trends and potential market risks **to Congress and the Director of the Office of Financial Research (OFR)**. These findings must be incorporated into the Financial Stability Oversight Council's (FSOC) systemic risk assessments, **ensuring that stablecoins are formally considered when evaluating financial stability risks**.

⁶ Atlantic Council, "[Practice makes perfect: What China wants from its digital currency in 2023](#)," April 24, 2023.

⁷ European Securities and Markets Authority, "[Markets in Crypto-Assets Regulation \(MiCA\)](#)," July 2023.

- The **Financial Stability Oversight Council (FSOC)** has warned that **unregulated stablecoins could pose risks to national security and financial stability** if left unchecked.⁸
- Establishes a **multi-agency Stablecoin Certification Review Committee**, requiring Treasury, the Fed, and FDIC to jointly assess whether a foreign country's regulatory regime is comparable to U.S. standards, preventing unilateral recognition by any one official.
 - By **requiring joint consensus** from Treasury, the Federal Reserve, and FDIC, this safeguard **prevents politically motivated or rushed decisions** and ensures that any recognition of foreign frameworks reflects rigorous, coordinated scrutiny. This protects against the infiltration of weak or adversarial standards into the U.S. financial system and **upholds national security and regulatory integrity**.
- **Prohibits sanctioned and high-risk foreign issuers** from operating in the U.S. stablecoin market, including entities based in countries subject to comprehensive U.S. sanctions or designated by the Treasury Secretary as primary money laundering concerns.
 - **Blocking access to sanctioned or high-risk foreign issuers** helps prevent bad actors from exploiting U.S. financial infrastructure. This provision ensures that stablecoins do not become tools for authoritarian regimes, money launderers, or sanctioned jurisdictions to bypass U.S. laws and financial controls.
- **Directs FinCEN to establish DeFi risk management standards**, requiring financial institutions to implement appropriate controls when interacting with decentralized finance (DeFi) protocols such as mixers, tumblers, and other anonymizing technologies.
 - **DeFi protocols can be exploited by illicit actors** to obscure the origin and destination of funds, enabling money laundering, sanctions evasion, and other illegal activities. By empowering FinCEN to set clear risk management rules, the GENIUS Act helps safeguard the financial system while preserving space for responsible DeFi innovation.

⁸ Financial Stability Oversight Council (FSOC), "[Report on Digital Asset Financial Stability Risks and Regulation](#)," 2022.

Ethics, Accountability & Safeguards: Limiting Conflicts of Interest

To preserve public trust and integrity in financial markets, the GENIUS Act includes provisions to deter misconduct, promote ethical governance, and close loopholes that could allow abuse of power or regulatory capture. These measures reflect bipartisan concern that both **private market actors** and **government officials** must be held to high standards as stablecoins grow in systemic importance. The legislation not only strengthens federal enforcement tools but also expands ethics oversight to ensure that public service is not compromised by financial self-interest.

Key Provisions in the Bill:

- **Creates separate acts of noncompliance**, enabling regulators to pursue enforcement for egregious violations, including when negligence by a stablecoin issuer or misconduct by an exchange leads to a high volume of illicit transactions.
 - **Separating acts of noncompliance allows regulators to pursue serious enforcement actions** even when harm results from negligence rather than intentional misconduct. This ensures that issuers and exchanges cannot evade accountability simply because violations were not “willful.”
 - By addressing systemic failures, such as lax oversight that enables a high volume of illicit transactions, **this provision protects consumers, reinforces market integrity, and deters irresponsible behavior** across the ecosystem.
- **Strengthens Treasury’s enforcement authority** by allowing the suspension of an issuer’s registration for both **reckless and willful violations**, closing a loophole that previously limited this power to only willful misconduct.
- **Expands federal ethics coverage** by applying **Office of Government Ethics (OGE) financial conflict-of-interest standards** to both **regular and special government employees**, including politically appointed figures such as **Elon Musk** if serving in official roles.
 - Ensuring that **special government employees are subject to the same ethics rules** as permanent federal employees helps protect against self-dealing, especially when powerful individuals in industry also serve in advisory or policymaking roles.

Market Efficiency: Driving Payments Innovation

Stablecoins provide cheaper, faster, and more efficient payment options, particularly for underbanked communities and international transactions. The GENIUS Act supports modern payment infrastructure while ensuring market integrity.

Key Provisions in the Bill:

- **Encourages the use of stablecoins for instant transactions**, reducing reliance on outdated, slow, and costly payment systems like SWIFT and ACH.
 - Regulated stablecoins provide a **faster, cheaper, and more accessible alternative** to traditional bank transfers, which **can take days to settle**.⁹
- **Increases financial inclusion**, providing an alternative for the 4.2% of U.S. households that are unbanked.¹⁰
 - Stablecoins can **reduce remittance fees**, which cost migrants **an average of 6.6% per transaction**, making them a **cost-effective alternative** to traditional cross-border payments.¹¹
- **Ensures competition among issuers**, allowing both banks and non-bank financial institutions to participate under a common regulatory framework.
 - Large financial institutions, including **Visa and Mastercard**, are **integrating stablecoin settlement**, proving that **private-sector innovation is already underway**.¹²¹³

⁹ Andreessen Horowitz, "[How stablecoins will eat payments, and what happens next](#)," December 12, 2024.

¹⁰ Federal Deposit Insurance Corporation, "[2023 FDIC National Survey of Unbanked and Underbanked Households](#)," 2024.

¹¹ The World Bank, "[Remittance Prices Worldwide](#)," December 16, 2024.

¹² Visa, "[Visa Expands Stablecoin Settlement Capabilities to Merchant Acquirers](#)," September 5, 2023.

¹³ Mastercard, "[Mastercard creates simplified payments card offering for cryptocurrency companies](#)," July 20, 2021.