

ALERT

Building a Digital Asset Regulatory Framework: The GENIUS Act and Next Steps

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On July 18, President Trump signed into law the Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025 (the GENIUS Act) establishing a regulatory framework for digital assets classified as payment stablecoins. The GENIUS Act is the first major cryptocurrency legislation to become law and is set to take effect on January 18, 2027 or 120 days after the implementing regulations are issued, whichever comes first.

The GENIUS Act addresses payment stablecoins, creating a regulatory framework for the oversight of these digital assets at the federal and state levels, including mandated requirements. Below we provide a high-level overview of the new law and outline next steps for companies and other stakeholders that may issue or use payment stablecoins under the new framework.

GENIUS Act Overview

Under the GENIUS Act, permitted issuers may issue a payment stablecoin for use by U.S. persons, subject to certain requirements, exceptions, and safe harbors. Payment stablecoins include digital assets that are "designed to be used as a means of payment or settlement" that the stablecoin issuer is obligated to convert, redeem, or repurchase for a fixed amount of monetary value and that remains stable relative to the value of that fixed monetary value. Payment stablecoins are not a national currency, a deposit, or a registered security.

The federal framework delegates authority to several federal financial regulators to provide the necessary approval to stablecoin issuers, and the "Primary Federal Payment Stablecoin Regulator"

Authors

Duane C. Pozza
Partner
202.719.4533
dpozza@wiley.law
Frank Scaduto
Partner
202.719.3479
fscaduto@wiley.law
Lauren N. Lerman
Associate
202.719.4664
llerman@wiley.law
Kimberly S. Alli
Associate
202.719.4730
kalli@wiley.law

Practice Areas

Digital Assets, Cryptocurrencies, and Blockchain
Emerging Technologies
FTC and Consumer Protection

varies depending on the entity seeking approval to issue payment stablecoins. For example, subsidiaries of an insured depository institution will be regulated by the appropriate federal banking agency of such insured depository institution; credit unions will be regulated by the National Credit Union Administration; and nonbank federal qualified payment stablecoin issuers will be regulated by the Comptroller of the Currency. The law also provides for state agencies to serve as payment stablecoin regulators with certain regulatory caps and guidelines in place.

Applications to Issue Payment Stablecoins. The GENIUS Act limits the issuance of payment stablecoins to “permitted payment stablecoin issuers” that have been approved by the primary federal regulator or state payment stablecoin regulator. Entities interested in approval to issue payment stablecoins must submit applications to the relevant regulator. Factors used to evaluate applications include:

1. Ability to meet the financial backing requirements to issue payment stablecoins;
2. An officer’s or director’s prior conviction of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud;
3. Competence, experience, and integrity of the officers, directors, and principal shareholders of the applicant, its subsidiaries, and parent company; and
4. The sufficiency of the redemption policy of the applicant as required under the law.

The primary federal regulator may also use other factors to evaluate applications to ensure the safety and soundness of the permitted payment stablecoin issuer. During the application process, the primary federal regulator may provide applicants a safe harbor that waives the requirements in this Act for up to 12 months. The federal regulators must issue a decision 120 days after receiving a substantially complete application. The GENIUS Act further outlines a process to appeal a denial and institutes a right to reapply.

Requirements for Permitted Payment Stablecoin Issuers. Permitted payment stablecoin issuers are only permitted to issue and redeem payment stablecoins and engage in custodial and reserve management activities that support the issuance and redemption of the stablecoins. Once an issuer has been approved, the GENIUS Act also outlines a number of specific rules for the permitted payment stablecoin issuer.

1. Issuers must maintain reserves backing the stablecoin on a one-to-one basis using U.S. currency or other similarly liquid assets, such as treasury bills, notes, or bonds.
2. Issuers must maintain and publicly disclose a redemption policy that establishes clear and conspicuous procedures for timely redemption of outstanding payment stablecoins and discloses all fees associated with purchasing or redeeming the stablecoins.
3. Issuers must publish monthly the details of their reserves, which have been examined by a registered public accounting firm.
4. Issuers must comply with the financial institution requirements under the Bank Secrecy Act, including maintaining an anti-money laundering (AML) program, customer identification program, and economic sanctions compliance program.

5. Issuers may not use terms related to the United States Government or market stablecoins in a way that a reasonable person would perceive the asset as legal tender.
6. Issuers may not make the issuance or redemption of a payment stablecoin contingent on a customer's purchase of an additional product or service.
7. Issuers may not pay the holder of a payment stablecoin any form of interest or yield solely in connection with the holding, use, or retention of such stablecoin.
8. Issuers with more than \$50 billion in consolidated total outstanding issuance shall prepare an annual financial statement, which must be made publicly available online and submitted to the primary federal regulator.

Enforcement and Penalties. The applicable primary federal regulator (Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Federal Reserve, or National Credit Union Administration) is tasked with enforcement of this law and may conduct examinations of permitted payment stablecoin issuers. If violations of the law are found, the regulator may initiate cease-and-desist proceedings or prohibit an entity from participation in the affairs of the permitted payment stablecoin issuer. In addition to injunctive relief, the law permits the federal regulators to issue civil penalties of up to \$100,000 a day for certain violations of the law.

The GENIUS Act also imposes criminal penalties for certain violations including:

- Unlicensed issuance
- False certifications of monthly reports
- False certification of AML/sanctions compliance program
- Misrepresenting insured status

Next Steps. Although the GENIUS Act lays out a high-level regulatory framework for payment stablecoins, the law also necessarily tasks numerous federal agencies with developing rules to implement this law, conducting research on related topics such as effective anti-money laundering practices, and submitting congressional reports.

For example, by August 18, 2025, the Secretary of the Treasury is instructed to initiate a 60-day public comment period to seek feedback on 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. Additionally, each federal regulator is tasked with issuing regulations to carry out the GENIUS Act through appropriate notice and comment rulemakings no later than July 18, 2026.

As the regulatory framework moves toward implementation, industry stakeholders should remain engaged and provide comments and feedback to regulators when available, and consider how new regulations will impact development and use of payment stablecoins.

Other Legislation to Watch

This legislation follows substantial work by the House Financial Services Committee to push digital asset legislation forward. In April 2025, the Committee set out six principles for digital asset legislation: (1) promote innovation; (2) provide clarity for the classification of assets; (3) codify a framework for the issuance of new digital assets; (4) establish the regulation of spot market exchanges and intermediaries; (5) establish best practices for the protection of customer assets; and (6) protect innovative decentralized projects and activities.

On July 17, the House of Representatives passed the Digital Asset Market Clarity Act of 2025 (CLARITY Act) and the Anti-CBDC Surveillance State Act (Anti-CBDC Act). The Anti-CBDC Act is straightforward and would prohibit the Federal Reserve from issuing a central bank digital currency (CBDC), or any digital asset that is substantially similar, directly to an individual. The CLARITY Act, however, proposes a broad regulatory framework for many types of digital assets. Among its mandates, the bill delineates authority for different types of digital assets between the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC) and creates avenues for digital assets registration with the appropriate agency. Of note, the CLARITY Act would also provide the CFTC with exclusive jurisdiction over registered digital commodity exchanges and digital commodity brokers and dealers, preempting state authority over those entities with respect to activities and transactions discussed in the law. Both of these bills are now headed to the Senate.

The GENIUS Act's passage was an important step forward in creating a more defined regulatory framework for this part of the digital asset industry. This bill becoming law was only the first step, and with the anticipated rulemakings and potential for other digital asset legislation, industry members should remain engaged in the development of this emerging regulatory structure.

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