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Financial Services Alert

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The GENIUS Act: Stablecoins are here as a payment mechanism

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The future of payments just got a boost from Congress. Discover how payment stablecoins could reshape everyday life from contracts to the checkout line.



What's the impact?

- The GENIUS Act defines “payment stablecoins” as digital assets intended for use in transactions that can be exchanged for a set amount of money tied to a national currency.
- The GENIUS Act establishes two categories of regulated business entities: Permitted Payment Stablecoin Issuers and Digital Asset Service Providers.
- The GENIUS Act and forthcoming federal and state regulations will likely come into force as early as November 2026.

On July 18, 2025, Congress passed the [GENIUS Act](#), governing the issuance of “payment stablecoins” in the United States. Under the act, federal and state regulators will establish a comprehensive system for regulating digital assets whose value is pegged to the U.S. dollar, and which can be used as payment instruments. Depository and non-depository institutions will

apply to regulators, as defined under the act, for approval to become “Permitted Payment Stablecoin Issuers.” The act permits other businesses to become “Digital Asset Service Providers” that provide exchange and custodial services for payment stablecoin transactions.

The issuance of payment stablecoins under the GENIUS Act promises to revolutionize the payments industry, both domestically and cross-border. Predicted benefits include facilitating peer-to-peer payment and money transmittal services on a faster and less expensive basis than traditional payment methods. The business community, whether involved in issuing stablecoins, providing services to the industry, or planning to harness stablecoins as a payment mechanism, will want to consider providing comments to federal and state regulators as they formulate the rules required by the act. Businesses will also want to carefully evaluate compliance obligations in adopting a stablecoin payment system for business-to-business or consumer use.

What is a payment stablecoin?

The GENIUS Act defines a “payment stablecoin” as a digital asset used for payment purposes and redeemable for a fixed amount of money based on a national currency. A digital asset is a digital representation of value recorded on a cryptographically secured digital ledger. The act specifies that payment stablecoins are neither a national currency, nor a security, nor a commodity and amends certain laws defining securities and commodities to carve out payment stablecoins issued by a PPSI from the definition. The act also specifies that payment stablecoins are not investments and an issuer cannot pay interest or a yield to a person solely in connection with holding payment stablecoins.

How are payment stablecoins used?

Payment stablecoins can greatly reduce settlement times and fees in cross-border transactions because they allow for peer-to-peer transmittal of funds without the use of the traditional banking system. Consumer-facing businesses that operate internationally see a benefit in using stablecoins because their value is not subject to substantial volatility. Domestic businesses may choose to issue stablecoins as a means of creating and fostering loyalty to their particular goods and services. At the same time, Congress recognized the potential for abuse of payment stablecoins. Under the act, issuers are subject to the Bank Secrecy Act and must maintain anti-money-laundering programs, including performing appropriate risk assessments supervised by a designated officer.

Key compliance requirements

The GENIUS Act provides for two types of regulated business entities: Permitted Payment Stablecoin Issuers (PPSIs) and Digital Asset Service Providers (DASPs). The PPSI approval process follows one of three paths: (1) federal payment stablecoin regulators will approve applications by

a subsidiary of an insured depository institution; (2) the Office of the Comptroller of the Currency (OCC) will approve applications by nonbanks and uninsured national banks; and (3) relevant state regulators can approve applications by nonbanks issuing less than \$10 billion in payment stablecoins. Significantly, federal approval will allow issuers to operate in all 50 states.

PPSIs are required to maintain identifiable reserves backing outstanding payment stablecoins on at least a 1-to-1 basis. The reserves may consist of, among other assets, U.S. currency; funds held as demand deposits or insured shares at an insured depository institution; or Treasury bills, notes, or bonds. PPSIs must certify the status of their reserves to their regulators on a monthly basis. The act further requires federal and state regulators to issue rules, within one year of enactment, governing capital, liquidity, and risk management requirements “tailored to the business model and risk profile” of PPSIs.

DASPs are any entities that, among other things, are compensated for exchanging digital assets for money or other digital assets, transferring digital assets to a third party, or acting as custodian of digital assets. DASPs do not include, however, entities that develop a distributed ledger protocol, operate a distributed ledger, validate transactions, or participate in a pool providing liquidity for peer-to-peer transactions. To act as a custodian of payment stablecoins, a business must be subject to supervision or regulation by a federal stablecoin regulator or federal regulator as described in the Dodd-Frank Act, 12 U.S.C. § 5301(12), or by a state bank or credit union supervisor. With certain exceptions, custodians must maintain separate accounting for payment stablecoins and reserves, and these cannot be comingled with other assets.

Timeline for compliance

The GENIUS Act is set to take effect by the earlier of 18 months from its enactment or within 120 days after the primary federal stablecoin regulators issue rules implementing the act. Because the regulators must promulgate the required rules within a year after enactment, the act is likely to become effective in November 2026. At that time, PPSIs must be approved by the appropriate regulatory body and comply with the act and its implementing rules. DASPs, however, have three years from enactment to come into compliance, at which time, they must restrict their activities to payment stablecoins that have been issued by PPSIs. Businesses will want to consult with their counsel to track and determine required compliance dates under the act.

Bankruptcy considerations

If a PPSI declares bankruptcy, claims of payment stablecoin holders to the required reserves will have priority over the claims of other persons to those assets. The required reserves would be excluded from the bankruptcy estate of the bankrupt PPSI on the theory that it does not obtain legal title to the reserves. If the required reserves are insufficient, payment stablecoins holders may have priority over other assets of the bankruptcy estate to the extent that “compliance

with [S]ection 4 of the GENIUS Act would have required additional reserves to be maintained by the permitted payment stablecoin issuer for payment stablecoin holders.”

Foreign stablecoin issuers

The GENIUS Act provides that within one year of enactment, the Secretary of the Treasury must issue rules for determining “whether a foreign country has a regulatory and supervisory regime that is comparable to the [act’s] requirements.” Foreign payment stablecoin issuers, regulated within their home country, can then request a determination from Treasury that its home country satisfies such Treasury rules. If approved, the foreign entity would be allowed to issue payment stablecoins to people in the United States without obtaining separate approval to operate as a PPSI. Treasury must make its determination within 210 days of the request. Foreign stablecoin issuers who receive an exception from the PPSI requirements through this process must comply with various registration, technological, reserve, and other requirements under the act.

Anti-money-laundering considerations

The GENIUS Act requires Treasury, within 30 days of the date of enactment and for a period of 60 days thereafter, to seek public comment to identify innovative or new methods that regulated financial institutions may use to detect illicit activity, such as money laundering involving digital assets, including comments with respect to (1) application program interfaces, (2) artificial intelligence, (3) digital identity verification, and (4) use of blockchain technology and monitoring.

Within three years after enactment, the Financial Crimes Enforcement Network (FinCEN) must issue public guidance or notice and comment rulemaking, based on the results of research of public comments related to innovative methods to detect illicit activity, such as money laundering, involving digital assets. FinCEN’s guidance or rulemaking must include (1) standards for issuers to identify and report illicit activity involving payment stablecoins, including fraud, cybercrime, money laundering, financing of terrorism, sanctions evasion, or insider trading; and (2) standards for issuers’ systems and practices to monitor transactions on blockchains that attempt to make payment stablecoin transactions or the identity of the transaction parties less identifiable.

Business considerations

With the passage of the GENIUS Act, the United States joins the European Union in permitting the use of payment stablecoins, creating a substantial market for the use of stablecoins as an alternative payment mechanism. The predicted benefits of making cross-border transactions faster and less costly, and competitive pressures to facilitate payments for consumer goods and services, may lead businesses to use or accept payment stablecoins. Businesses may want to consider submitting comments to regulators promulgating required capital and liquidity rules.

Businesses may also want to consider the costs and benefits of standing up payment-stablecoin-issuing subsidiaries or adopting stablecoin payment mechanisms. Finally, businesses may want to consider the interface between various state consumer protection statutes and offering payment stablecoins to consumers or accepting stablecoin payments from customers as such payment mechanisms become more commonplace. Nixon Peabody will continue to monitor developments in payment stablecoins as they occur.

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