

What the GENIUS Act means for stablecoin issuers and banks

October 24, 2025



Executive Summary

The passage of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) in July 2025 represents a turning point in how the U.S. regulates digital assets. The act brings clarity and consumer protection to the stablecoin market, but it's also sparked an intense debate between traditional banks and nonbank financial entities over who will dominate digital payments. Banks are now evaluating how to proceed under these new circumstances.

What is the GENIUS Act?

The GENIUS Act establishes a federal framework for payment stablecoins — digital assets pegged to the U.S. dollar and backed by liquid reserves. Only certain entities can issue stablecoins under the framework: bank subsidiaries, Office of the Comptroller of the Currency (OCC)-supervised nonbanks and state-chartered entities with federal approval.

The act requires issuers to:

- Maintain 1:1 reserves in liquid and highly rated assets like Treasury bills and bank deposits.
- Obtain monthly attestation and annual independent audits (depending on their size).
- Comply with anti-money laundering and Bank Secrecy Act regulations.
- The act also prohibits issuers from paying interest to stablecoin holders, which effectively bans yield-bearing stablecoins.

“While the act legitimizes stablecoins as a payment mechanism, it also lets nonbank entities — fintechs and cryptocurrency firms — compete directly with banks under the right conditions,” said Markus Veith, Grant Thornton’s National Industry Leader for Blockchain, Digital Assets and Web3 Solutions. “Banks could face serious competition for deposits and payment volume from entities that don’t carry the same regulatory burden or capital requirements.

What are the banking industry’s concerns?

Banks have begun lobbying to tighten the act’s restrictions, particularly around the yield prohibition loophole. “While the act bans issuers from paying interest to stablecoin holders, it doesn’t explicitly prevent affiliated exchanges or platforms from offering rewards or yield-bearing programs,” Veith said. “This has led to fears of deposit flight from traditional banks to high-yield stablecoin alternatives.”

In a joint letter to Congress, over 40 banking associations, led by the American Bankers Association, urged lawmakers to extend the interest ban to affiliates and exchanges, warning that unchecked yield programs could destabilize the banking

system by draining deposits used for lending.

How are nonbank issuers responding?

Despite the pushback, nonbank stablecoin issuers continue to dominate in the marketplace. Companies like Circle, PayPal and Ethena have launched or expanded stablecoin offerings, often through partnerships with cryptocurrency exchanges that offer yield-bearing products.

Major technology companies including Apple, Google and Meta are exploring stablecoin integration into their platforms. Other major businesses such as Walmart and FIS have also begun exploring the development of stablecoin products that could offer seamless payment experiences and better yields than traditional deposit accounts.

“This trend will ultimately lead to a fragmentation of the stablecoin market,” Veith said. “The dominant stablecoins USDT and USDC saw their combined market share drop from 89% to under 84% over the past year. It’s clear new entrants are gaining traction.”

What are banking regulatory bodies’ stances?

The OCC has provided clarity for banks, affirming that they may engage in stablecoin activities — including custody, reserve holding and blockchain-based payments — without prior approval, provided they maintain robust risk controls. This positions banks to move quickly if they choose to enter the market.

The Federal Reserve is more cautious but hasn’t opposed nonbank issuers outright. Through its participation in the Stablecoin Certification Review Committee, the Fed evaluates nonbank applications for systemic risk and compliance. This committee ultimately determines which nonbank entities qualify to issue stablecoins under the GENIUS framework.

What's next?

As the GENIUS Act moves toward full implementation by January 2027, banks are assessing several different pathways forward. They can either:

- Leverage their existing regulatory relationships and infrastructure by launching their own stablecoins or partnering with established issuers.
- Differentiate through innovation in digital payments that builds on their trusted customer relationships and integrated service offerings.
- Lobby for tighter regulations to curb non-bank competition.

Meanwhile, nonbank issuers and tech platforms are racing to capitalize on opportunities under the GENIUS Act, which will likely reshape the competitive dynamics in financial services in the U.S.

Summary

The GENIUS Act has legitimized stablecoins while creating new facets of competition between banks and emerging digital players. As regulatory frameworks continue to evolve, banks will need to begin the decision-making process of where they stand on digital payments — because the battle over who controls the future of money is just beginning.

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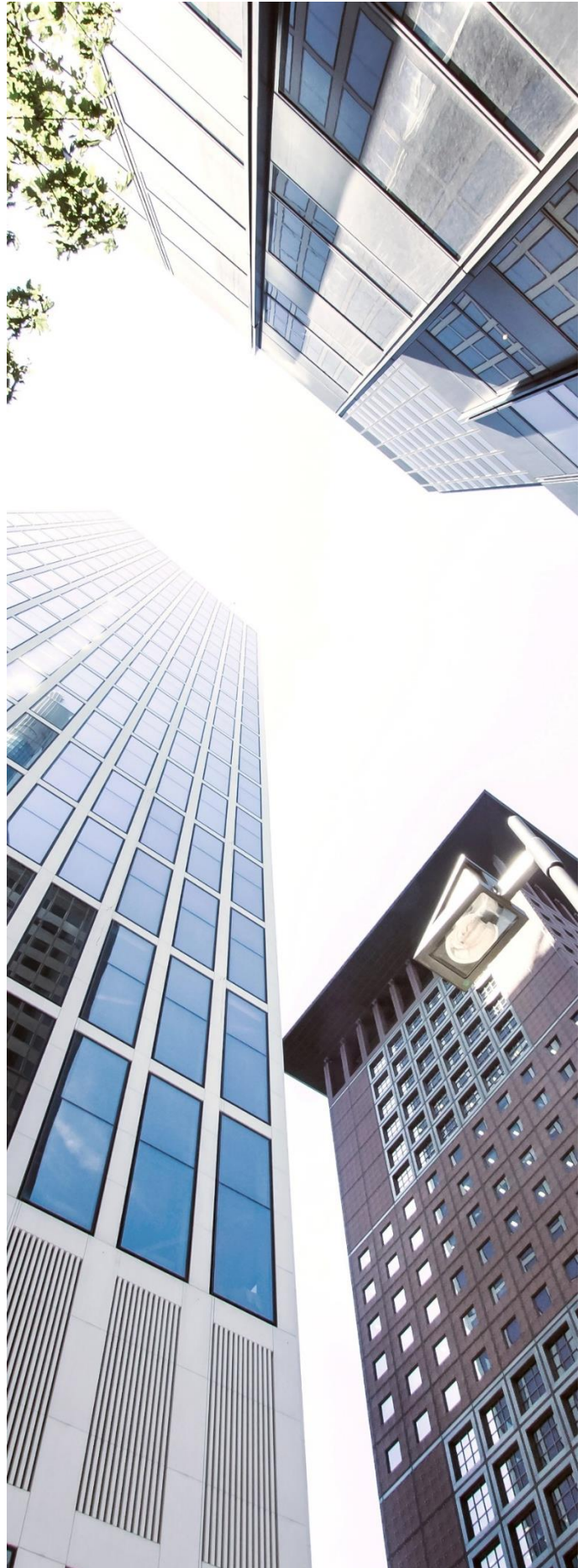
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