PUBLICATION

The GENIUS Act: A New Era for Stablecoins Begins – What the Fintech, Investment and Banking Industry Sectors Need to Know?

Authors: Matthew George White, Justin S. Daniels
July 22, 2025

On July 18, 2025, President Trump signed into law the Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025 – better known as the GENIUS Act. The GENIUS Act establishes the most comprehensive federal framework to date for the regulation of payment stablecoins in the United States. Whether you're a fintech startup issuing digital dollars, a national bank considering custody services, or a hedge fund evaluating new instruments, this is not one to miss out on. Here's what you need to know, and what you should be doing next.

The GENIUS Act at a Glance: Why It Matters

The GENIUS Act is a deliberate attempt to shore up trust in digital dollars while reserving room for innovation. The Act creates a clear legal path for issuing and operating payment stablecoins – a category of digital assets designed to maintain a stable value relative to a traditional fiat currency, typically the U.S. dollar. Stablecoins function as a bridge between traditional finance and blockchain-based systems, offering the speed and programmability of crypto coupled with the familiarity and predictability of fiat. Unlike volatile cryptocurrencies such as Bitcoin or Ethereum, stablecoins are issued by entities that commit to redeeming each token for a fixed monetary value, typically on a 1:1 basis. The GENIUS Act recognizes this unique role and allows stablecoin issuance only by entities that are federal= or state- approved, provided they meet strict requirements for reserves (e.g., cash or short-term Treasuries), transparent reporting, independent attestation, and timely redemption practices.

Key goals of the Genius Act include:

- **Prevent Another Terra/Luna-Style Collapse:**
  The Act draws a hard line between speculative "algorithmic stablecoins" and fiat-backed payment stablecoins. Following the high-profile failure of TerraUSD – whose value collapsed despite being labeled "stable" – Congress has now mandated real, redeemable reserves. Under the GENIUS Act, issuers must back every token 1:1 with low-risk, highly liquid assets like cash, short-term Treasuries, or central bank deposits. This isn't optional – and it's designed to protect everyday users and the broader financial system from digital bank runs.

- **Establish Clear Federal and State Oversight:**
  For years, stablecoin issuers operated in a gray zone – too crypto for bank regulators, too monetary for the Securities and Exchange Commission (SEC). The GENIUS Act resolves that by giving supervisory authority to established regulators: the Office of the Comptroller of the Currency (OCC), the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and state financial regulators (if their regimes are "substantially similar"). The result is a coordinated (and potentially overlapping) federal–state framework that delivers oversight and eliminates the gaps that once enabled regulatory arbitrage.

- **Standardize Redemption Practices and Disclosures:**
  A stablecoin is only as trustworthy as your ability to get your money out – on demand, and without

drama. The GENIUS Act requires monthly public disclosures of reserve holdings, independent verification by a registered public accounting firm, and CEO/CFO certifications under penalty of law. It also mandates clearly published redemption policies and timely redemptions – no more ghosting users in a crisis.

- **Create Guardrails Without Smothering Innovation:**
  While the Act tightens the screws on compliance, it doesn't shut the door on new entrants. Nonbanks can still apply to become permitted issuers, and smaller issuers (under $10 billion in market cap) can operate under qualified state regimes. By keeping the framework open – but rigorous – the Act hopes to encourage continued U.S. leadership in digital asset infrastructure, rather than driving innovation offshore.

Who Needs to Pay Attention – and Why

The GENIUS Act doesn't just set new standards – it redraws the map for how different players interact with stablecoins in the U.S. market. The following sections break down what this legislation means for key stakeholders: stablecoin issuers, who now face stricter requirements and licensing pathways; traditional financial institutions, which may see new opportunities (and obligations) as stablecoins inch closer to the regulated banking world; and investors and users, who must reevaluate risk and compliance in light of the new framework. Whether you're building, banking, or investing, the GENIUS Act changes the rules. Here's what you need to know.

For Stablecoin Issuers: The Bar Just Got Higher

Stablecoin issuance is now a licensed activity. Only "permitted payment stablecoin issuers" may operate in the U.S., including:

- Subsidiaries of insured depository institutions,
- Nonbank entities approved by the OCC, or
- State-chartered issuers regulated under "substantially similar" frameworks.

Key obligations include:

- 1:1 reserves held in cash, short-term Treasuries, demand deposits, or tri-party repos.
- Monthly reserve disclosures and third-party attestations.
- Strict limits on business activities (i.e., no speculative lending or proprietary trading).
- CEO/CFO certification of reserve reports – with criminal liability for false filings.

This isn't a watered-down version of Sarbanes-Oxley – it's Sarbanes-Oxley with real-time blockchain transparency and personal liability to match.

For Investors and Purchasers: More Trust, But Not Without Risk

The GENIUS Act aims to restore confidence in dollar-backed digital assets. Unlike prior "stablecoins" that turned out to be little more than algorithmic IOUs, compliant issuers will be:

- Heavily supervised,
- Backed by transparent, high-quality reserves,
- Subject to real redemption mechanics.

However, due diligence is still key. Just because an issuer says it's compliant doesn't mean it is. Investors should:

- Scrutinize monthly reserve disclosures.
- Confirm approval status (especially for state-regulated issuers).
- Consider redemption friction during market stress.

The Act might stop another Terra, but it doesn't guarantee smooth sailing in a run on an issuer scenario.

For Banks and Credit Unions: Opportunity with a Compliance Tag

The GENIUS Act opens a path for bank-affiliated stablecoin programs, but also imposes real constraints:

- A bank's stablecoin-issuing subsidiary must be separately licensed and supervised.
- Existing Bank Secrecy Act/Anti-Money Laundering (BSA/AML), IT governance, and liquidity frameworks must extend into the stablecoin entity.
- Permitted stablecoin activities are narrowly defined – and subject to capital and operational risk standards.

This is an opportunity for forward-looking institutions to extend their trusted infrastructure into digital assets – but only if they build with compliance and audit-readiness in mind from day one.

Big Picture: Will This Prevent the Next Run?

The GENIUS Act takes a meaningful step toward legitimizing stablecoins as "trustworthy digital dollars" – but it doesn't eliminate all of the structural risks that have plagued the sector. Even with strict reserve requirements and mandated disclosures, the real-world execution of redemptions under stress remains a potential fault line. In a market panic, liquidity could evaporate, and redemption backlogs could quickly snowball into destabilizing outflows.

Transparency helps, but it's not the same as immediate access to funds – especially when stablecoins can move across multiple platforms or jurisdictions. And while the Act aims for regulatory consistency, the dual federal-state framework could still produce uneven oversight or supervisory fragmentation in practice.

In short, the GENIUS Act lays the foundation – but navigating volatility, managing liquidity, and building operational resilience will still separate the strong from the fragile. In this market, risk management won't just be a compliance function – it will be a competitive advantage.

What You Should Be Doing Now

With the GENIUS Act now law, participants across the digital asset ecosystem have work to do – and quickly.

If you're a stablecoin issuer or aspiring to become one, now is the time to take a hard look at your reserve composition, redemption mechanics, and public disclosures. The days of opaque backing and vague promises are over. You'll need to demonstrate full 1:1 backing in cash or near-cash instruments, publish monthly reports attested by a public accounting firm, and stand behind those reports with executive certifications – under penalty of law. For nonbank issuers, the road runs through the OCC; for state-based issuers, compliance with your state's certified framework is essential. Either way, don't assume your current structure qualifies.

Action Items for Stablecoin Issuers:

- Audit reserve structures and redemption policies immediately.

- Engage with the OCC or state regulators to understand the path to licensure.
- Lock in attestation providers and build SOX-compliant reporting processes.

For banks and credit unions, the Act opens new strategic territory. It offers a rare opportunity to leverage your existing regulatory credibility to provide stablecoin infrastructure – either directly or through subsidiaries. But that opportunity comes with capital, liquidity, and compliance expectations that mirror traditional banking oversight. Now is the moment to assess whether issuing or safekeeping stablecoins fits within your long-term digital strategy, and if so, whether your governance, IT, and risk functions are prepared to meet regulatory scrutiny.

Action Items for Financial Institutions:

- Re-evaluate digital asset strategy in light of new licensing and custody rules.
- Identify where existing BSA/AML programs need to extend into affiliated entities.
- Consider the business case for partnering with or acquiring compliant issuers.

Investors and institutions active in the digital asset markets should also be reassessing their exposure. Just because a stablecoin carries a dollar label doesn't mean it's legally or operationally compliant under the new regime. Under the GENIUS Act, only "permitted payment stablecoin issuers" are authorized to operate in the U.S. It's time to confirm whether your counterparties make that cut. Evaluate reserve transparency, redemption timelines, and audit controls as part of your diligence – not after a redemption delay turns into a news headline.

Action Items for Investors and Market Participants:

- Confirm whether current holdings are issued by permitted issuers.
- Reassess counterparty and redemption risk under the new framework.
- Monitor for early signs of compliance breakdowns or enforcement actions.

In short, the GENIUS Act changes the rules of the game, but it also gives every player a playbook. The advantage now goes to those who act first, prepare smartly, and build with compliance in mind.

Final Thoughts:

The GENIUS Act brings needed legitimacy to the stablecoin ecosystem, but it also creates friction, responsibilities, and real penalties for getting it wrong.

If you're building in this space, now is the time to get ahead of the Act's requirements. If you're investing, now is the time to reassess your risk profile. And if you're a financial institution, now is the time to reimagine your role in the digital asset economy.

Need help navigating the GENIUS Act? Baker Donelson's Blockchain and Digital Assets Team is prepared to advise clients across the digital asset ecosystem – including stablecoin issuers, national and state-chartered banks and other financial institutions, custodians, asset managers, and fintech innovators – on how to operationalize compliance, seize new opportunities, and manage emerging risks. Whether you're evaluating licensing options, reworking your redemption mechanics, or building out a compliance framework from the ground up, we're here to help. The regulatory landscape has shifted – and early movers will have the advantage. Contact the authors, Matt White, AIGP, CIPP/US, CIPP/E, CIPT, CIPM, PCIP, or Justin Daniels, and we'll help you make the GENIUS Act work for you – not the other way around.