What Is the GENIUS Act?

The first US federal law for stablecoins — who may issue one, the reserve rules, the ban on paying you interest, and why the whole thing is still not fully in force.

Alain AI Lab Research · Published July 28, 2026 · 10 min read

The GENIUS Act is the United States federal statute governing payment stablecoins, signed into law in July 2025 after several years of failed attempts to legislate in this area. It does something no previous US law had done: it defines what a payment stablecoin is, states who is permitted to issue one, and sets binding requirements for the reserves behind it. For an instrument class that had grown to a scale rivalling major banks while operating almost entirely outside purpose-built rules, that is a substantial change — and its provisions explain several features of the stablecoin market that otherwise look arbitrary. It assumes you know what a stablecoin is.

AT A GLANCE

WHAT IT IS	SIGNED	REQUIRES
US federal stablecoin law	**July 2025**	**Full backing in liquid assets**
BANS	RESTRICTS	STATUS
Issuers paying holders yield	**Who may issue at all**	**Rules still being finalised**

01

What the law actually does

The Act's central move is to make issuing a payment stablecoin a licensed activity. Under the statute, only a *permitted payment stablecoin issuer* may issue such a token in the United States — which converts stablecoin issuance from something any company could attempt into something requiring authorisation, much like taking deposits or issuing electronic money.

Around that core sit the substantive obligations: requirements for what the reserves must consist of, how they must be held, how often composition must be disclosed, and an obligation to honour redemptions. The Act also reaches beyond issuers themselves, restricting service providers from offering stablecoins to US customers unless the issuer is authorised or meets conditions applying to foreign issuers. The design is recognisably that of banking regulation rather than securities regulation — it concerns the safety and soundness of an institution making a payment promise, not the disclosure obligations of someone selling an investment.

02

Who may issue

The statute creates more than one route to authorisation, and the choice between them shapes who can realistically compete. A subsidiary of an insured depository institution may issue with approval from its banking regulator — the path built for banks. A non-bank may seek federal approval through the national bank regulator, which is the route open to a specialist trust company or payments firm. And a state-level pathway exists for smaller issuers operating under a state regime certified as substantially similar to the federal standard, subject to a size threshold above which federal oversight applies.

Two consequences follow. First, this is a genuine on-ramp rather than a bank monopoly: a well-capitalised non-bank can be authorised, which is why the regulated-trust-company model has become the standard structure for branded stablecoins — the arrangement behind PayPal's PYUSD, where a chartered trust issues and a consumer brand distributes. Second, the state pathway with a federal backstop above a threshold means small issuers can start locally but cannot scale indefinitely without entering the federal perimeter.

03

The reserve rules

This is where the law bites hardest, and the provisions go beyond the obvious. Issuers must hold reserves at least equal to the tokens outstanding, in a narrow set of high-quality liquid assets — cash, short-dated Treasury obligations, and equivalents. That alone rules out the reserve compositions common in this sector's earlier years, and it forecloses the more adventurous allocations still found in some non-US issuers' holdings, as our note on Tether's reserves describes.

Less discussed but arguably more important is the restriction on what may be *done* with those reserves. They may not be pledged, re-lent, or otherwise reused, except to create liquidity for meeting redemptions — with a narrow allowance for pledging Treasury holdings in short-dated repurchase agreements. This attacks the failure mode that has destroyed financial institutions for centuries: quietly lending out the assets meant to back a demand liability, and discovering the mismatch only when everyone asks for their money at once. Combined with disclosure obligations on composition, the effect is to make a reserve-backed stablecoin something much closer to a genuinely segregated claim than an unsecured loan to a company.

> *The law's most consequential line is not about reserves at all. By forbidding issuers from paying holders interest, it decided that a stablecoin must be money rather than a savings account — and pushed everyone who wanted to pay you a yield into finding another way to do it.*

04

The ban on paying you interest

The single most contested provision prohibits a permitted issuer from paying any interest or yield to holders simply for holding the token — whether in cash, in more tokens, or in any other consideration. The issuer earns the return on the reserves; it may not pass that return to you as a feature of the coin.

The rationale was structural rather than punitive. An instrument that is fully backed by government paper, redeemable on demand, and pays interest is functionally a bank deposit or a money market fund without the corresponding regulatory apparatus — and permitting it at scale would have risked drawing deposits out of the banking system into an instrument supervised on a lighter basis. Whether that reasoning is correct is genuinely debated, and the provision has attracted sustained criticism as protective of incumbent banks. But the effect is clear and it explains something otherwise puzzling in the market: where a stablecoin appears to pay you a return, the payment is coming from somewhere other than the issuer — a distributor's own marketing budget, or a separate product wrapping the token — and that distinction determines how durable the payment is and who is actually promising it. The economics of that workaround are covered in our note on stablecoin yield.

05

Redemption, disclosure, and failure

Three further protections matter to a holder. The Act requires issuers to establish and publish clear redemption procedures, which addresses the practical gap where a token is theoretically backed but the route to converting it is unclear or unavailable — the mechanism that actually holds a peg, as our note on how stablecoins stay pegged explains. Monthly disclosure of reserve composition is required, with executive certification and examination by a registered accounting firm.

The provision most likely to matter in a crisis concerns insolvency: the statute establishes that holders' claims on the reserves take priority over other creditors if an issuer fails. This is a meaningful improvement on the prior position, where a token holder would have been an ordinary unsecured creditor competing with everyone else. It is not deposit insurance — there is no government guarantee, and a shortfall in the reserves is still a shortfall — but it does mean the assets set aside for holders are legally directed to them first rather than absorbed into a general pool.

06

The foreign issuer question

A statute confined to US-domiciled issuers would have done little, since the largest stablecoin by circulation is issued offshore. The Act addresses this by restricting US service providers from offering stablecoins whose issuers are not authorised, unless the foreign issuer meets specified conditions — broadly, home-country regulation the US authorities judge comparable, plus registration and the capacity to comply with lawful orders.

The practical result is a market splitting along regulatory lines rather than technical ones. Issuers that pursue authorisation gain access to US-regulated venues and institutional users; those that do not retain enormous global liquidity while facing narrowing access to regulated US and European channels. That divergence is the central dynamic in the comparison set out in USDT vs USDC, and it is a deliberate policy outcome rather than an accident: the law uses access to the American market as the lever, since it cannot regulate a foreign issuer directly.

07

Where it actually stands

Here is the part most summaries get wrong, and it matters for anyone reading claims about compliance. Signing a statute is not the same as it taking effect. The Act operates on a delayed timetable: it becomes effective on the earlier of a fixed period after enactment — which falls in the early part of 2027 — or a short window after the primary federal regulators finalise implementing regulations.

Those regulations have been working through the rulemaking process during 2026, with proposals published for comment and the statutory deadline for finalising them falling around the middle of this year. The consequence is a transitional period in which the law exists, its broad requirements are known, firms are restructuring to meet them, and the detailed rules governing exactly how compliance is demonstrated are still being settled. So a claim that a token is “GENIUS Act compliant” today describes an issuer positioning itself against the statute's requirements rather than a completed authorisation under a fully operative regime. That is a reasonable thing for an issuer to say, and it is not the same as saying the regime is finished.

08

What it does not do

Four limits are worth holding. It does not make stablecoins government-guaranteed — there is no deposit insurance, and the protection comes from reserve quality and claim priority rather than a public backstop. It does not cover crypto assets generally: this is a law about payment stablecoins specifically, and the broader questions of market structure and token classification were left to separate legislation.

It does not apply outside the United States, so a holder elsewhere is governed by their own jurisdiction's rules, with the European framework operating on a different basis. And it does not eliminate risk. An authorised issuer can still fail through mismanagement, its reserves can still fall short, technology and custody risks remain entirely unaddressed by any statute, and the assets sitting behind the token remain claims on private institutions. What the law changes is the floor: it makes the worst historical practices unlawful for anyone operating in the US market, and it gives holders a defined claim if things go wrong. That is a real improvement, and it is considerably less than a guarantee.

> *“Hitherto shalt thou come, but no further: and here shall thy proud waves be stayed.”*
>
> JOB 38:11

Methodology & Sources

This report summarises legislation as at the date of publication and is not legal advice; anyone with a compliance question should consult the statute itself and qualified counsel. The GENIUS Act was signed into law in July 2025. Provisions described — the requirement that only permitted payment stablecoin issuers may issue payment stablecoins in the United States; authorisation pathways via subsidiaries of insured depository institutions, federal approval for non-banks, and a state regime for smaller issuers subject to a threshold; reserve requirements of at least one-to-one backing in high-quality liquid assets; restrictions on pledging, rehypothecating or reusing reserves other than to create liquidity for redemptions, with a narrow allowance for short-dated repurchase agreements collateralised by Treasury holdings; the prohibition on issuers paying interest or yield to holders in any form for merely holding the token; obligations covering redemption procedures, periodic reserve disclosure with executive certification and accounting-firm examination; priority of holder claims over other creditors in insolvency; and conditions restricting US service providers from offering tokens of unauthorised foreign issuers — reflect the statute as publicly reported and analysed. Implementing regulations were proceeding through federal rulemaking during 2026 and specific compliance mechanics may differ from the summary here once finalised. The effective date operates on the earlier of a fixed statutory period following enactment or a short window after final regulations are issued. Descriptions of the policy rationale for the yield prohibition, and of criticism that it protects incumbent deposit-takers, characterise a genuine public debate rather than endorsing either position. Nothing here is a recommendation regarding any token, issuer, or trade, and no stablecoin is government-guaranteed.

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