



Stablecoins & the GENIUS Act: What Financial Institutions Need to Know **U.S. Financial Services Regulatory Center**

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Stablecoins & the GENIUS Act: What Financial Institutions Need to Know

Meet Your Presenters

Guides to Help You Navigate This Complex Topic



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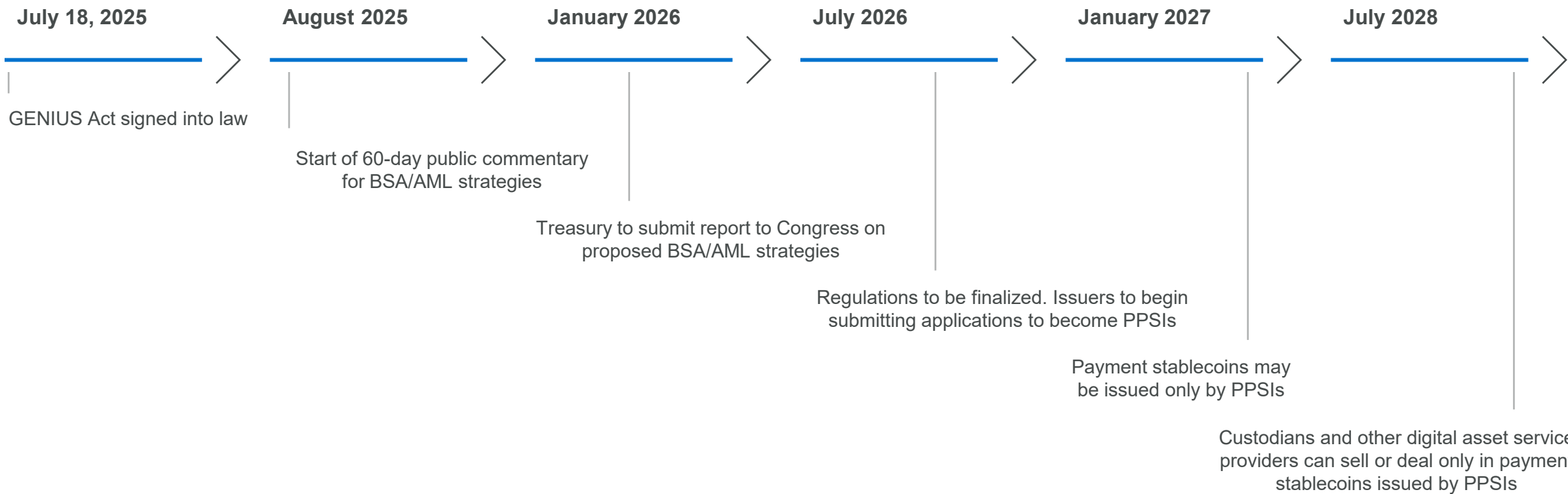
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The GENIUS Act

Timeline & Expected Guidance

The Act will take effect on the earlier of (1) the date that is 18 months after the date of enactment of this Act; or (2) the date that is 120 days after the date on which the primary Federal payment stablecoin regulators issue any final regulations implementing this Act.

The GENIUS Act		
Permitted Payment Stablecoin Issuers	Licensure & Regulators	Anti-Money Laundering
Reserves & Transparency	Allowable & Prohibited Activities	Foreign Payment Stablecoin Issuers
Non-Bank Issuers	Timeline & Expected Guidance	Safe-Keeping Requirements





What We'll Cover

- 01 What Is a Stablecoin?
- 02 How Do Stablecoins Work?
- 03 Stablecoins – By the Numbers
- 04 The GENIUS Act
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- 06 How Are Banks Adapting?
- 07 How Can Banks Get Involved?

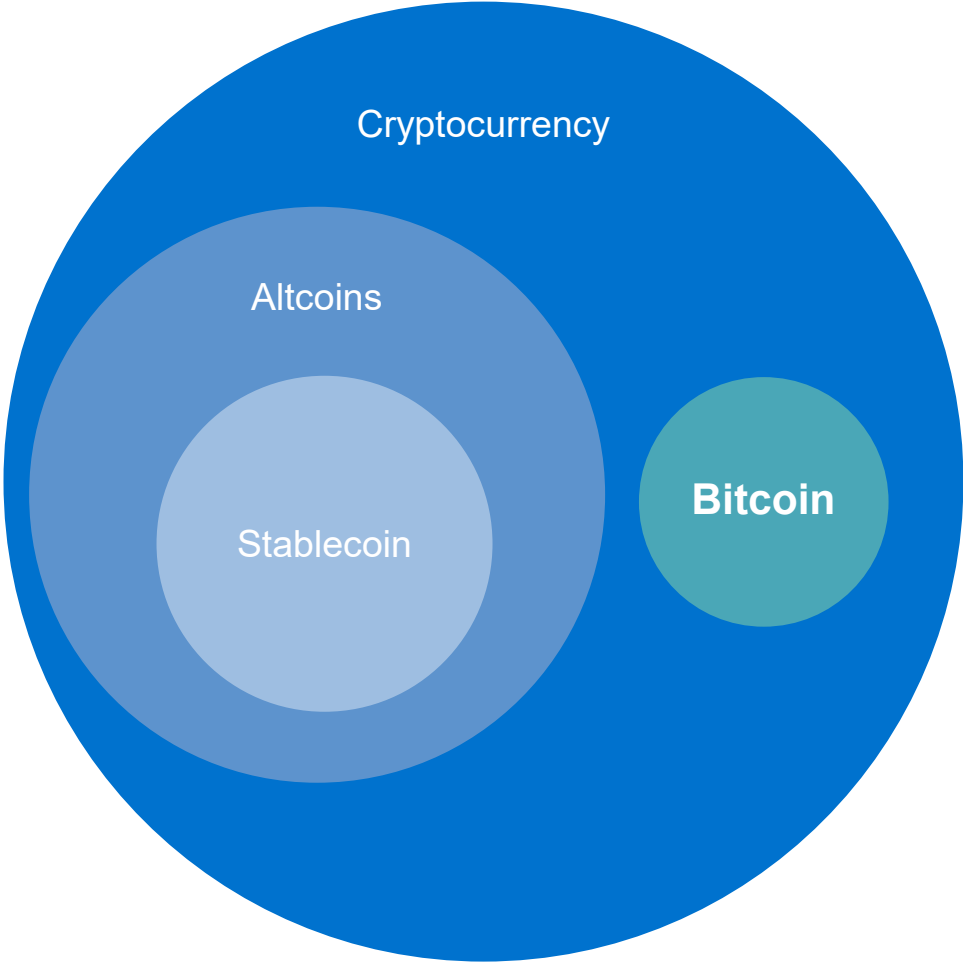
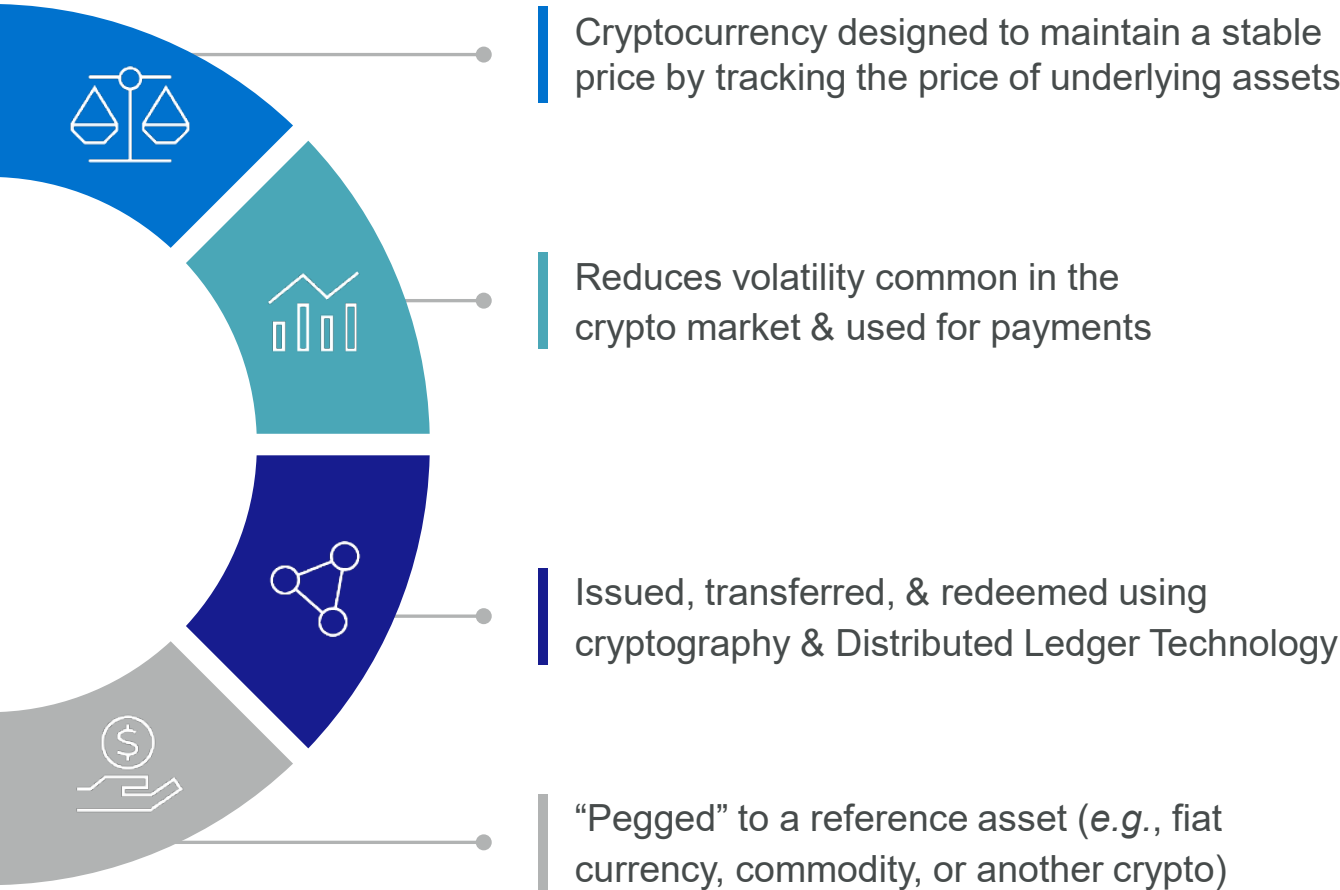
01

What Is a Stablecoin?



What Is a Stablecoin?

Definition & Purpose

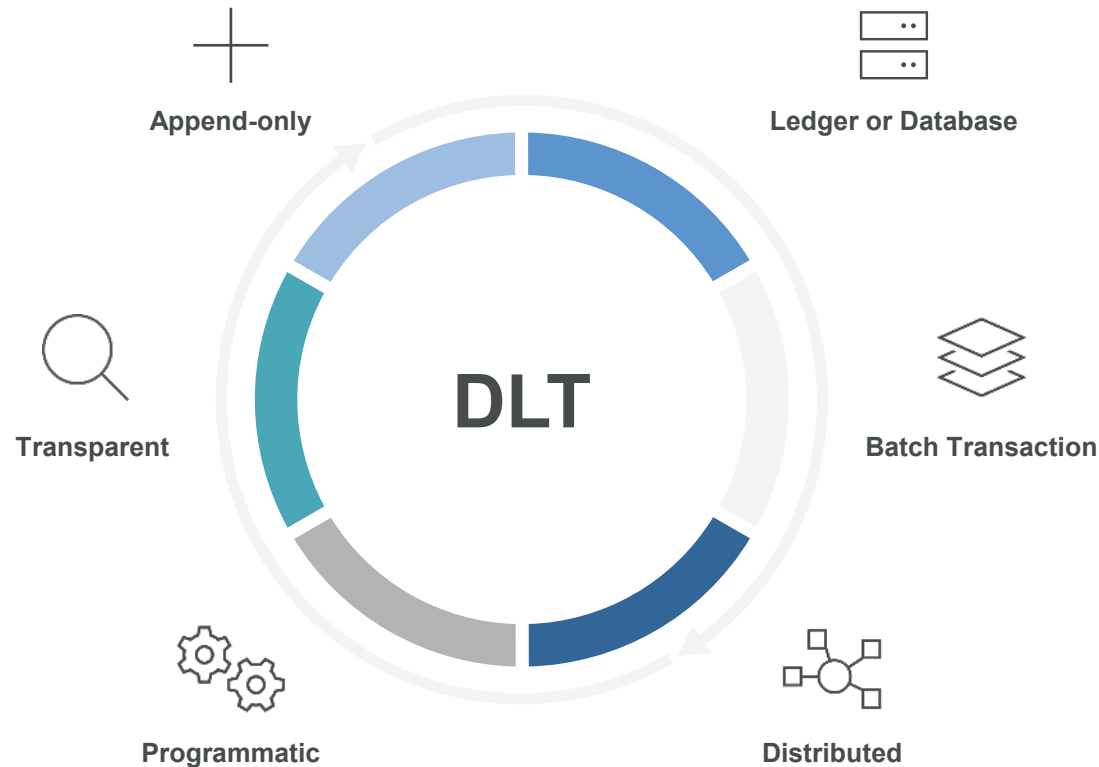


What Is a Stablecoin?

Blockchain or Distributed Ledger Technology (DLT)

What is Distributed Ledger Technology (DLT)?

Blockchain is a common form of DLT



Why use Distributed Ledger Technology?

- Near-instantaneous settlement
- 24/7
- Reduced reliance on 3rd party intermediaries
- May also reduce fees
- No cap on amount that can be moved
- Use of cryptography
- Programmability

02

How Do Stablecoins Work?



How Do Stablecoins Work?

Fiat-Backed Stablecoins

Onboarding

- Customer onboards to financial institution that is a part of the stablecoin issuer mint network
- Issuer has already performed AML/KYC checks over institution
- Financial institution collects AML/KYC information from end customer

Transfer

- Customer initiates transfer of fiat currency to financial institution in exchange for stablecoin
- Financial institution collects fee, then transfers fiat to stablecoin issuer, which are held in reserve

Receipt

- In return, an equivalent amount of stablecoin tokens are minted on a distributed ledger
- Minted tokens are credited to the customer's account

Use

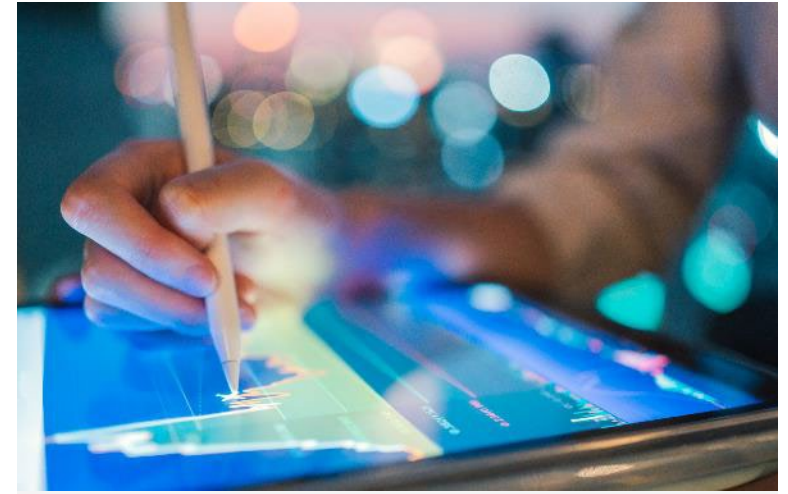
- Customer holds stablecoin in digital wallet
- Customer uses stablecoin for payment or goods/services or transfer of value

Redemption

- Customer redeems stablecoins for fiat
- Equivalent amount of stablecoin tokens are burned
- Fiat is released from reserves back to the customer

Transparency

- Issuer publishes monthly composition of issuer's reserves on website
- Monthly attestation of reserves performed by registered public accounting firm



Example Fiat-Backed Stablecoins

- **USDT (Tether)**
\$175B supply
- **USDC (Circle)**
\$65B supply
- **PYUSD (PayPal w/ Paxos)**
\$950M supply
- **EURC (Circle)**
\$180M supply

How Do Stablecoins Work?

What's the risk? Stablecoin shortcomings?



Fraud Risk

- Stablecoins are bearer instruments
 - Little time to pre-screen transactions
 - Very difficult to block or reverse mistakes in transfers
- Account credential theft and takeover
- Impersonation
- Purchase or invoice scams



Business Model Risk

- Liquidity risk (“run on the bank”)
- Interest rate risk
- BSA/AML compliance
- Privacy of customer data on public ledgers



Cybersecurity Risk

- Smart contract vulnerabilities
- Wallet vulnerabilities
- Blockchain oracle manipulation
- Data breaches
- Custody and crypto-asset safekeeping

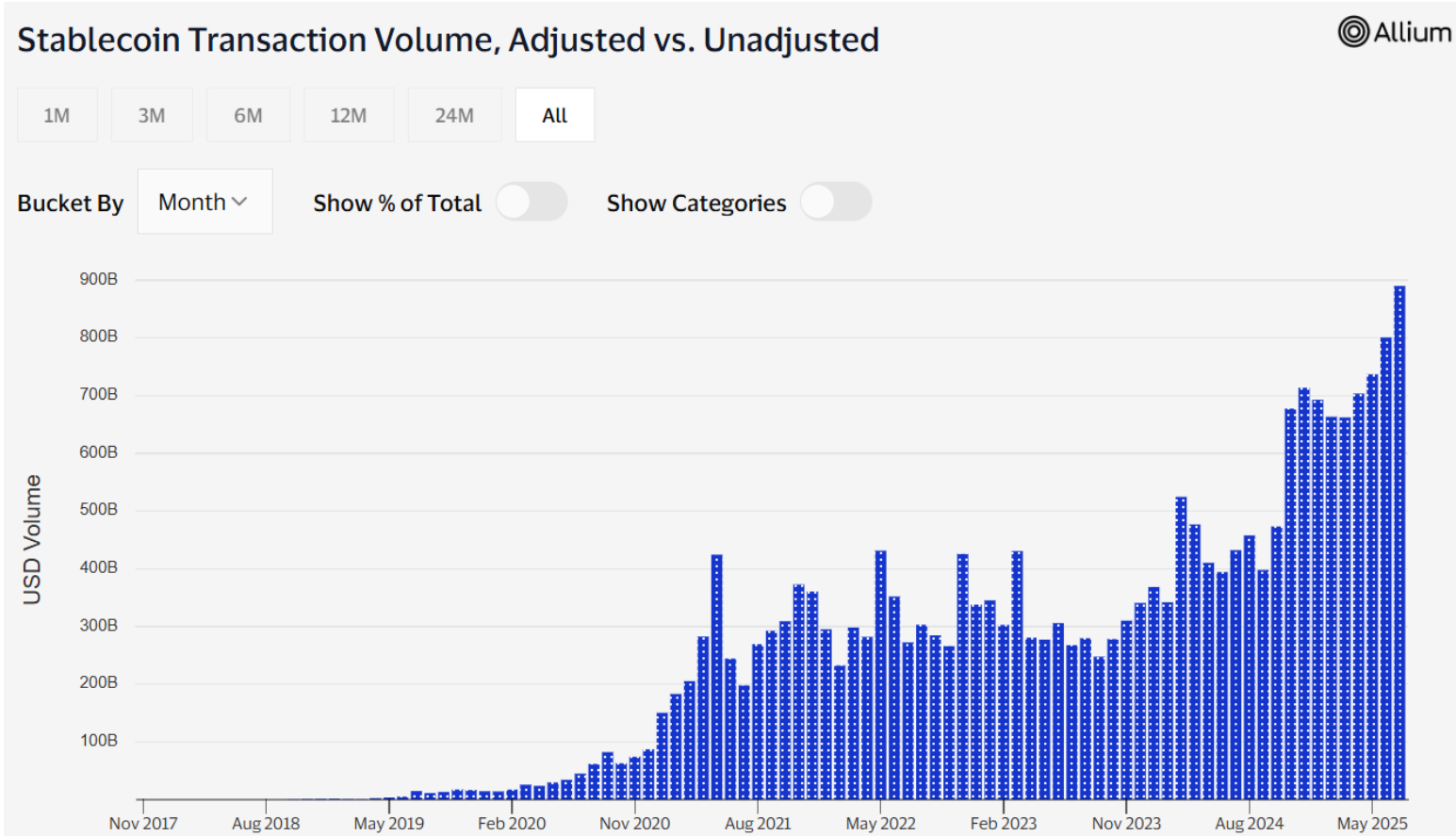
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Stablecoins – By the Numbers



Stablecoin – By the Numbers

Total Transaction Volume



Observations

Steady Growth

- ~\$900B in adjusted transaction volume for trailing 30 days
- Adjusted to remove high-frequency trading and bots.

Transaction Count

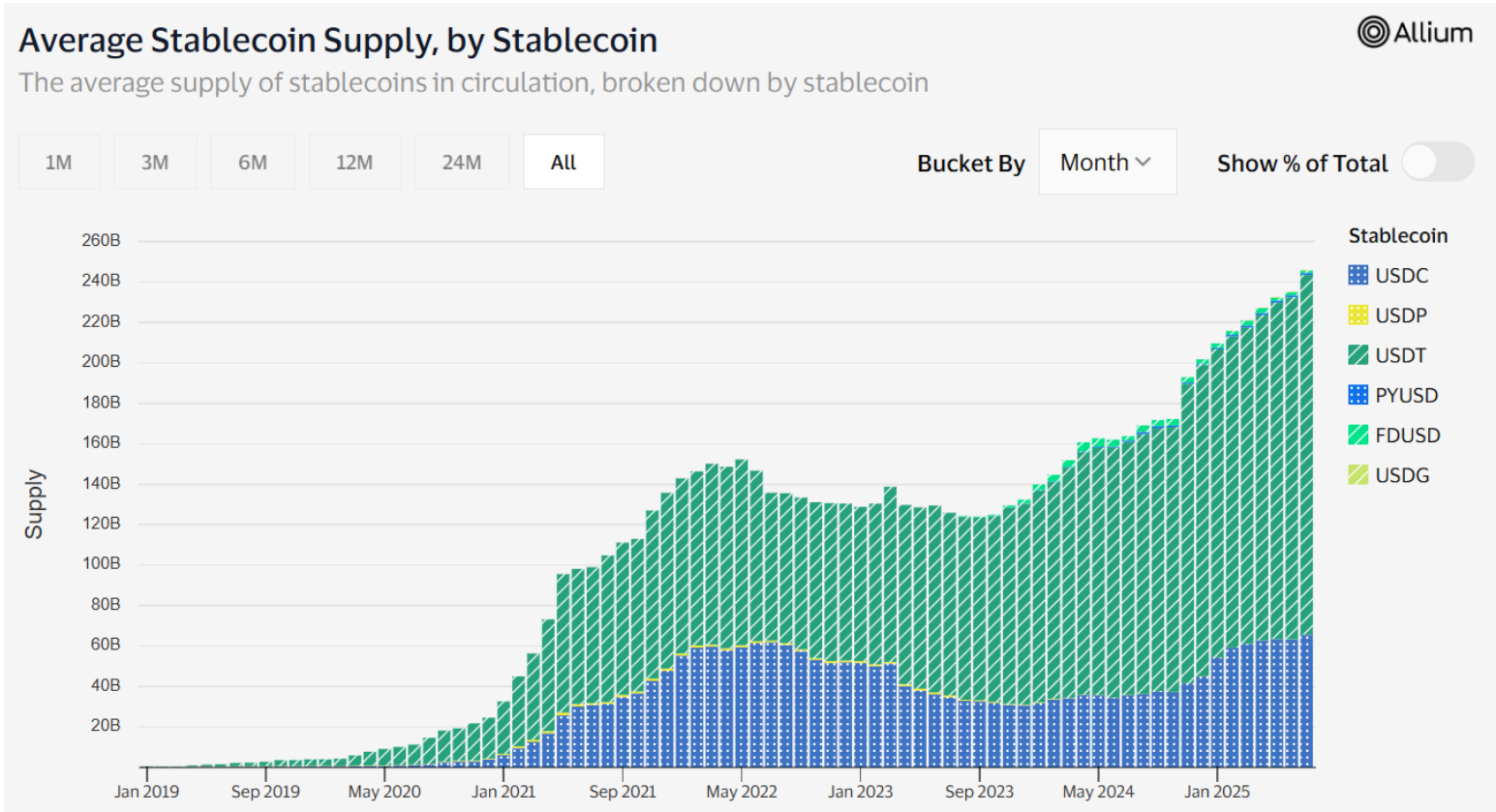
- ~240 million
- Average transaction amount: ~\$3,750

Retail vs. Non-retail

- ~99% of volume is non-retail
- ~49% of transaction count is retail

Stablecoin – By the Numbers

Stablecoin by Supply



Observations

Total Market Supply

- ~\$250B in total market supply

USDT & USDC Lead the Way

- USDT: ~72% of total supply
- USDC: ~26% of total supply
- All others: ~2% of total supply

USDT vs. USDC

- USDT: Targets international market
- USDC: Targets U.S. regulated market

04

The GENIUS Act



The GENIUS Act

Permitted Payment Stablecoin Issuers (PPSIs)

Permitted Issuers	Types of Issuers	Regulator
Subsidiary of Insured Depository Institution (IDI)	<ul style="list-style-type: none"> A subsidiary of a bank insured by the FDIC A subsidiary of a credit union insured by the NCUA 	IDI's appropriate federal banking agency
Federal qualified issuer	<ul style="list-style-type: none"> A “nonbank entity” (defined as a person that is not a depository institution or subsidiary of a depository institution) An uninsured national bank A federal branch of a foreign bank 	Office of the Comptroller of the Currency (OCC)
State qualified issuer	<ul style="list-style-type: none"> Less than \$10B in payment stablecoins outstanding Certified by the applicable state regulator as “substantially similar” to the federal regime The Stablecoin Certification Review Committee does not reject the certification 	Appropriate state regulator (must be under \$10B in total supply)

The GENIUS Act		
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Observations

OCC Trust Charters

- Some current stablecoin issuers have applied for trust charters with the OCC
- May be looking to expand their operations to include custody and reserve management through these trusts
- May also be seeking access to a Fed master account
- ABA, ICBA, ACU, CBA, NDA pushed back and asked for OCC to postpone applications

The GENIUS Act

AML/CFT & Sanctions Considerations

The GENIUS Act extends key Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Sanctions obligations to PPSIs; however, many key details of these requirements require further development through federal and state regulating agencies

Bank Secrecy Act (BSA) Applicability

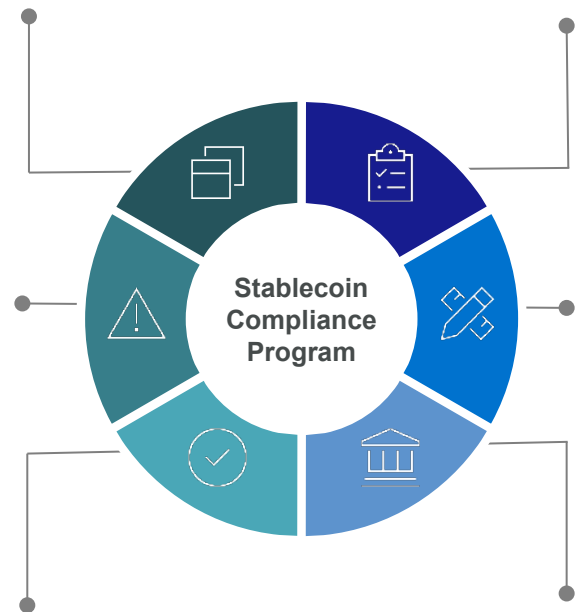
- PPSIs will be treated as financial Institutions under the BSA
- Key definitions and requirements have not yet been outlined; they will be established via implementing regulations

Reporting and Recordkeeping

- PPSIs must comply with existing BSA recordkeeping rules (CTR, Travel Rule)
- Transaction Monitoring and SAR filings, where required

Technical Requirements

- Must have technology required to comply with any lawful order, i.e., requirement to block, seize, or prevent transfer of stablecoins
- Applies to foreign stablecoin issuers, as well



Risk Assessments

- Must have effective AML/CFT compliance program, including Risk Assessment (and responsible officer)
- Remaining BSA pillars not specifically mentioned, but will likely apply

Sanctions Compliance

- Must have effective sanctions compliance program, which means screening against sanctions lists
- Written OFAC program commensurate with customers, products, geos

Customer Identification Program

- Must have CIP program, likely including CDD/EDD measures
- Process for identifying account holders with stablecoin issuer, high value transactions, EDD where required
- Does “high value” extend to customers and counterparties?

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What's Next?

- **Regulatory Framework defined at both the State and Federal Level:**
State vs. federal licensing considerations.
- **Technical Capabilities:**
Internal controls are required for blocking, freezing, rejecting (due to existing Sanctions), but does GENIUS extend these to the secondary market?
- **Implementing Regulations:**
Likely to define permitted stablecoin issuers as “financial institutions” similar to banks, broker-dealers, and MSBs.

The GENIUS Act

Reserves & Transparency

Requirements	Description
Maintain at least 1:1 Reserves	<ul style="list-style-type: none"> United States coins and currency Funds held as demand deposits or insured shares at an insured depository institution Money received under repurchase agreements Reverse repurchase agreements Treasury bills, notes, or bonds Securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940 (15 U.S.C. 80a–8(a)) that are invested solely in allowable reserves <ul style="list-style-type: none"> May also be backed by allowable reserves (except repos and U.S. Treasuries) in a tokenized form, e.g., other stablecoin Any other similarly liquid Federal Government-issued asset approved by the primary Federal payment stablecoin regulator
Disclose Redemption Policy	<ul style="list-style-type: none"> Establish clear and conspicuous procedures for timely redemption of outstanding payment stablecoins Publicly, clearly, and conspicuously disclose in plain language all fees associated with purchasing or redeeming the payment stablecoins, provided that such fees can only be changed upon not less than seven days’ prior notice to consumers
Publish Monthly Consumption on Issuer Website	<ul style="list-style-type: none"> The total number of outstanding payment stablecoins issued by the issuer; and The amount and composition of the reserves, including the average tenor and geographic location of custody of each category of reserve instruments

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Observations

Are not FDIC insured

- Backed 1:1
- Super senior insolvency preference

USDC (Circle) Reserves

- 46.5% in U.S. Treasuries
- 41.7% in U.S. Treasury Repos
- 11.8% in cash
- \$1.6B in reserve income (2024)

The GENIUS Act

Allowable & Prohibited Activities

Allowed?	Activity
✓	Issue payment stablecoins
✓	Redeem payment stablecoins
✓	Manage related reserves including purchasing, selling, and holding reserve assets
✓	Providing custodial services for reserve assets, consistent with State and Federal law
✓	Provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins
✓	Undertake other activities that directly support any of the above activities
✗	Provide services to a customer on the condition that the customer obtain an additional paid product or service from the PPSI, or any of its subsidiaries, or agree to not obtain an additional product or service from a competitor. (aka Tying)
✗	Paying the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin

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Observations

Tying Is Prohibited

- Expecting more guidance from regulators
- Does not prevent ancillary promotions, e.g., charging higher price for using credit

Paying Yield Is Prohibited

- Expecting more guidance
- Yield is prohibited by issuer solely in the connection of holding, use, or retention of stablecoin
- Examples exist where custodians offer yield to customers to custody stablecoins in their platform

The GENIUS Act

Non-Bank Issuers

In general, a public company that is not predominantly engaged in one or more financial activities, and its wholly or majority owned subsidiaries or affiliates, may not issue a payment stablecoin unless the public company obtains a unanimous vote of the Stablecoin Certification Review Committee finding that:

Criteria	
✓	It will not pose a material risk to the safety and soundness of the United States banking system, the financial stability of the United States, or the Deposit Insurance Fund
✓	<div>The public company will comply with data use limitations providing that, unless the public company receives consent from the consumer, nonpublic personal information obtained from stablecoin transaction data may not be:<ul style="list-style-type: none">• used to target, personalize, or rank advertising or other content;• sold to any third party; or• shared with non-affiliates</div>
✓	The public company and the affiliates of the public company will comply with the tying prohibitions

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Observations

Large Retail Organizations

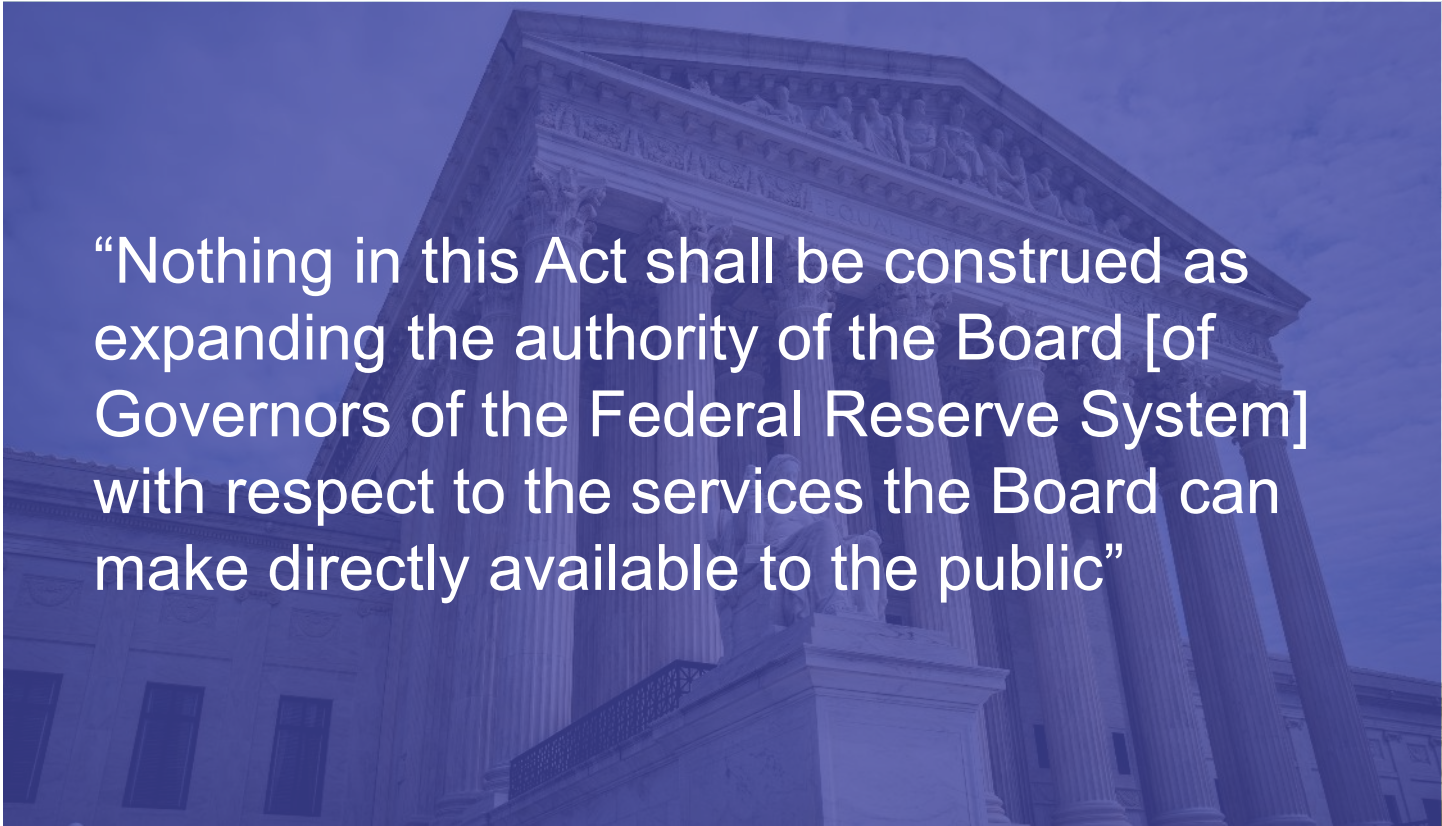
- Reported to be exploring issuing their own stablecoins

Stablecoin Certification Review Committee

- Composed of:
 - Treasury Secretary
 - Chair of the FRB (or Vice Chair for Supervision)
 - Chair of the FDIC

The GENIUS Act

Allowable & Prohibited Activities



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Observations

Central Bank Digital Currency

- This section was included to avoid any unintended consequences such as expanding or confirming the Federal Reserve's power to issue a retail CBDC.

Anti-CBDC Bill Passed House

- Passed House on July 17 in mostly partly-line vote 219–210
- Senate next to consider

05

Anticipated Impact



Anticipated Impact

Impact on Fixed Income Markets & Deposits



Increased Demand for Fixed Income Markets

- Other than cash and deposits, reserves are mostly limited to fixed income investments
- Could increase demand for U.S. Treasuries
- Viewed as a way to cement the U.S. dollar as the global reserve currency



Deposit Flight

- Customers could move funds out of deposits and into payment stablecoins
- Fewer deposits could lead to:
 - Reduced ability to lend
 - Reliance on more expensive or volatile funding source
- In times of financial stress, customers may rapidly convert deposits, especially uninsured deposits, into stablecoins if perceived as safer or more liquid



Observations

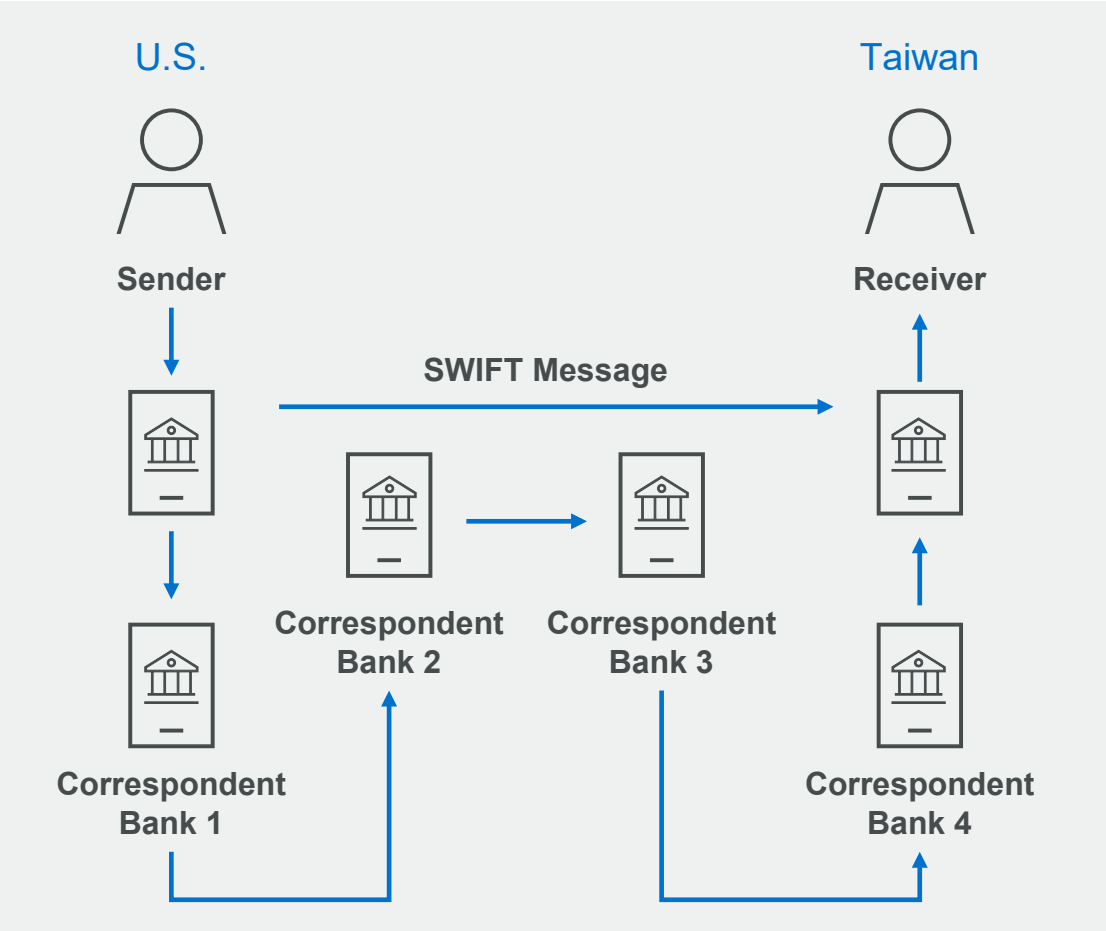
Impact on Deposits

- FRED data – total deposits at commercial banks ~\$18T
- Estimated demand for payment stablecoins:
 - JP Morgan Chase: \$500M
 - Treasury Secretary: \$2T
 - Citigroup: \$3.7T

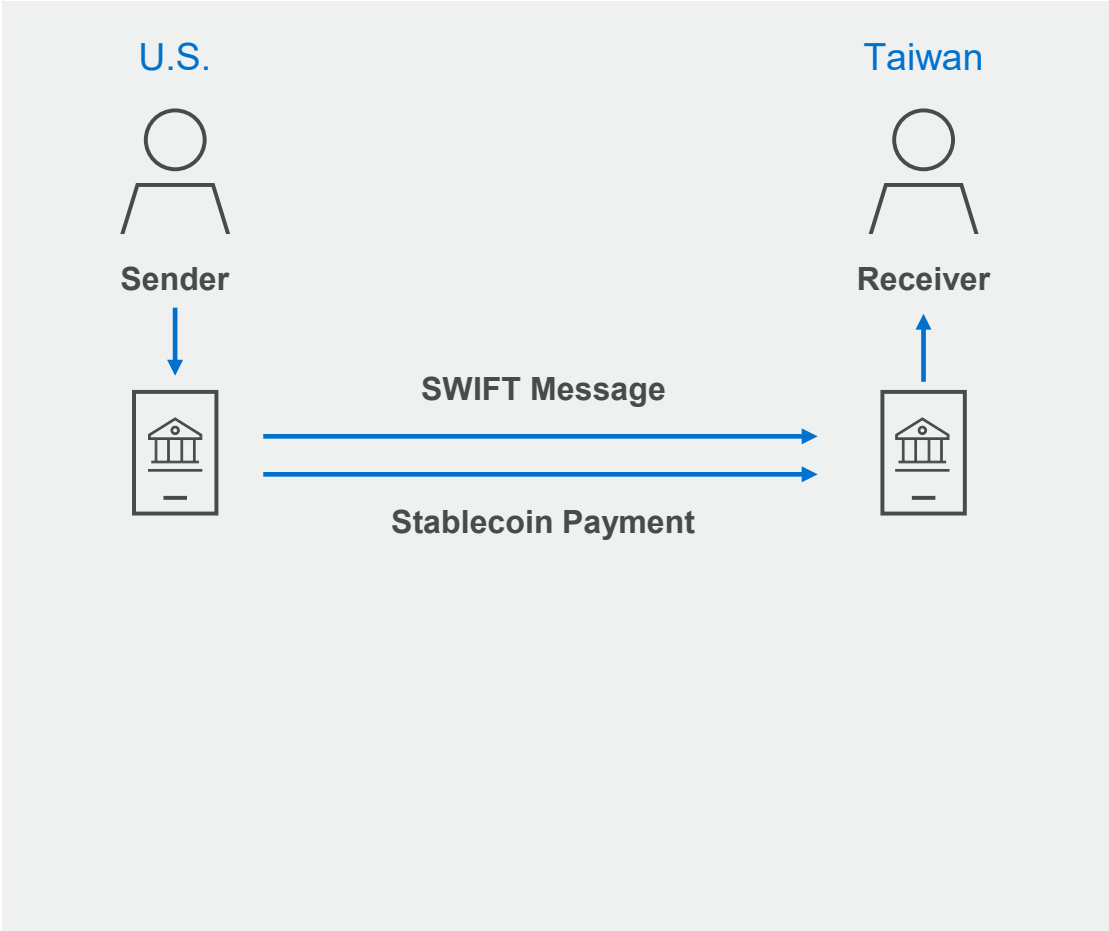
Anticipated Impact

International Payments

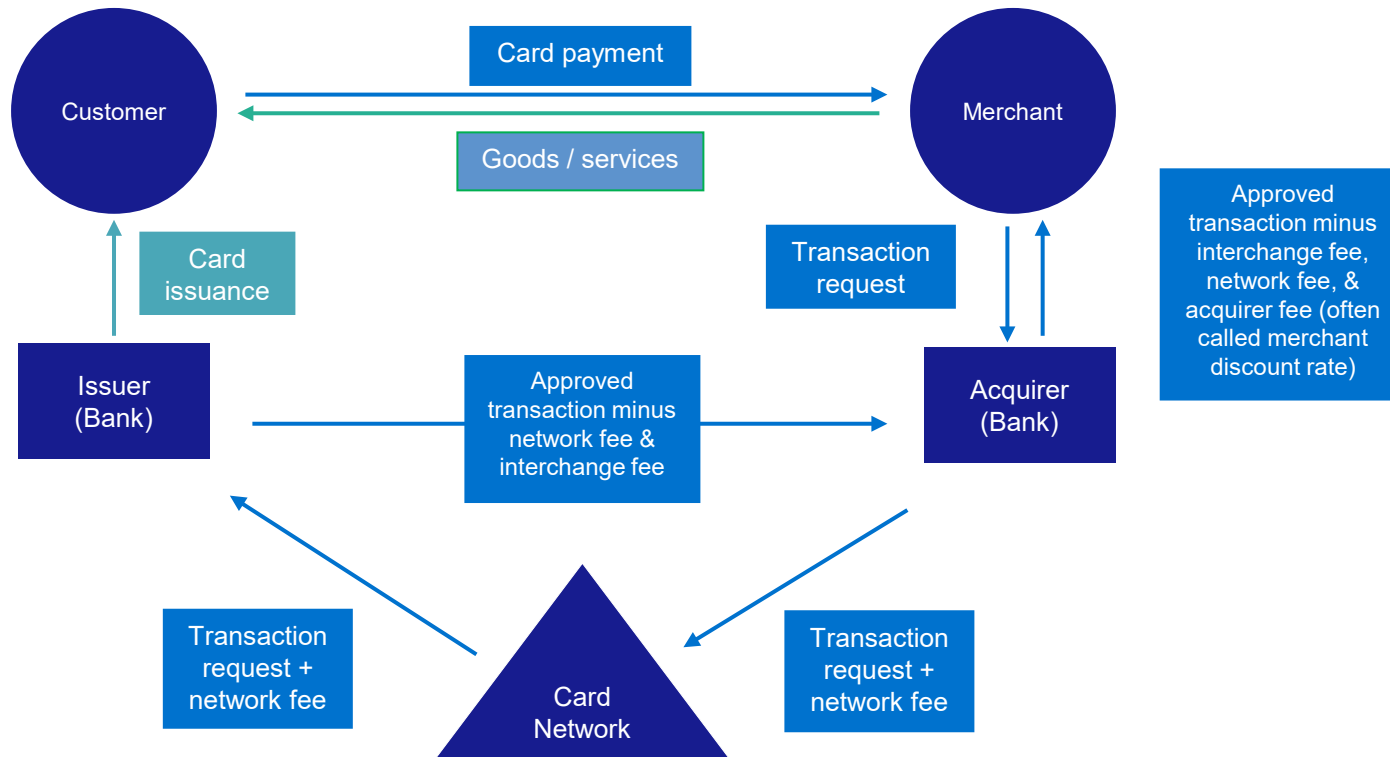
Without Stablecoin



With Stablecoin



Anticipated Impact Card Network



Visa/Mastercard Adopting Stablecoins

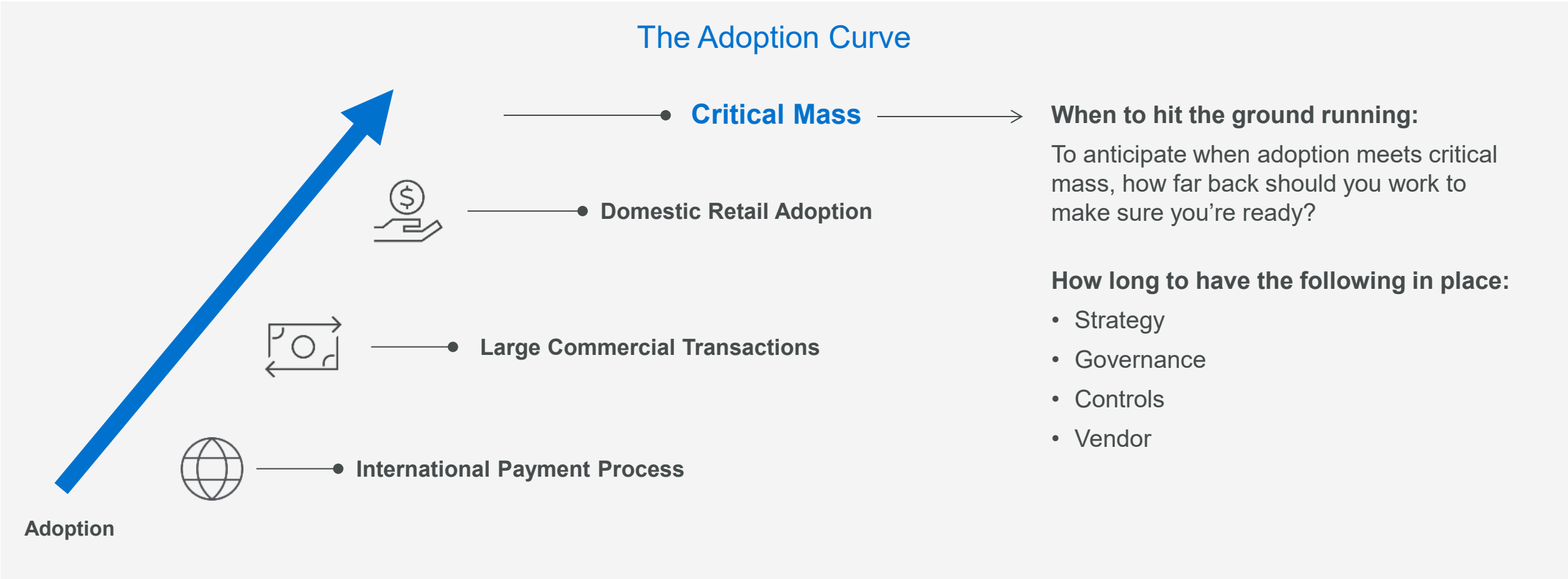
- Stablecoin-linked debit cards are issued through Banking as a Service platform
- Directly linked to customer's wallet
- If both the customer and merchant agree to settle in payment stablecoins
 - T+0 settlement
 - Could disintermediate traditional issuers (banks) and acquirers (banks)

PayPal offering PYUSD Settlements

- PYUSD stored in-app is held in custody through Paxos – customer is not custodian of PYUSD
- If both the customer and merchant agree to settle in payment stablecoins
 - Debit/credit customer accounts, but total PYUSD in circulation did not change within PayPal
 - Paxos need only update internal ledger to reflect outcome of transaction
 - Total in reserves remains the same

Anticipated Impact

Timing of Adoption



06

How Are Banks Adapting?



How Are Banks Adapting?

Implementation of Stablecoin



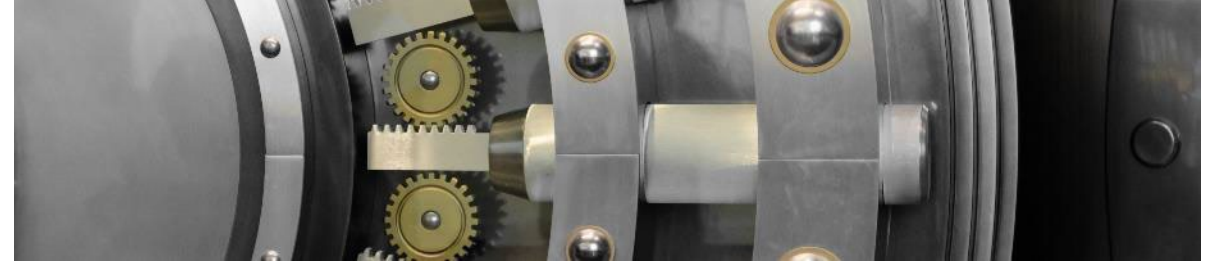
GSIBs (\$250bn+)

Q2 Earnings Call:

- **Bank of America:** “We will partner with some of the stablecoins, we already have partnerships with some of them”
- **Citigroup:** “We are looking at the issuance of a Citi stablecoin. But probably most importantly is the tokenized deposit space where we're very active, and then also providing custodial solutions for crypto assets”
- **Jamie Dimon:** “I am a believer in stablecoins, believer in blockchain ... there are things that stablecoins maybe can do that your traditional cash can't.”

Other Sources:

- **Charles Schwab:** “Charles Schwab plans to launch spot Bitcoin trading by April 2026”
- **PNC:** “PNC customers will soon be able to buy, sell and hold cryptocurrency through the bank's new partnership with Coinbase”



Banks \$50–250bn

- Potential to offer services such as:
- Liquidity and transaction management
- Risk mitigation and management practice
- Banking services to stablecoin issuers
- Utilize blockchain and stablecoins to modernize transaction frameworks
- Modernize cross-border payments

How Are Banks Adapting? Tokenized Deposits

According to JP Morgan, regulators outside the U.S. are leaning toward tokenized bank deposits over payment stablecoins.

	Payment Stablecoin	Tokenized Deposits
Deposit Insurance	Prohibited by statute	Likely treated the same as an official item issued by the bank, such as a cashier's check or money order
Reserve	Statutorily required reserves of at least 1:1	Backed by deposit insurance up to the insurance limit; otherwise backed by the financial strength of the bank
Yield	Prohibited by statute from paying yield for the sole purpose of holding the payment stablecoin	No prohibitions specific to tokenization



Tokenized Deposits generally represent a digital version of a customer's bank deposit and may benefit from the unique traits DLT offers.

07

How Can Banks Get Involved?



How Can Banks Get Involved?

Potential Pathways

	Build		Buy	
	Launch Your Own Payment Stablecoin	Launch a Payment Stablecoin With a Consortium	White Label a Payment Stablecoin Through Third-Party Infrastructure	Join a Stablecoin Payment Network via API
Regulator	Depends: <ul style="list-style-type: none"> - Federal Banking Agency if subsidiary of IDI - OCC if not an IDI and over \$10B - State Regulator if less than \$10B 	Depends: <ul style="list-style-type: none"> - Federal Banking Agency if subsidiary of IDI - OCC if not an IDI and over \$10B - State Regulator if less than \$10B 	Depends: <ul style="list-style-type: none"> - Federal Banking Agency if subsidiary of IDI - OCC if not an IDI and over \$10B - State Regulator if less than \$10B 	Depends: <ul style="list-style-type: none"> - Federal Banking Agency if subsidiary of IDI - OCC if not an IDI and over \$10B - State Regulator if less than \$10B
Speed to Market	Long	Variable – depends on consortium formation and approvals	Moderate	Short
Permissible Activities	GENIUS Act-defined services including issuance, redemption, reserve management, etc.	GENIUS Act-defined services shared across consortium members	Customer-facing issuance and redemption; backend managed by third party	Stablecoin payments and settlements via network
Compliance Burden	High – must meet GENIUS Act standards and regulatory oversight	Moderate – shared across consortium	Low to Moderate – Third Party Risk Management, BSA/AML, and Compliance burdens still responsibility of bank	Low to Moderate – Third-Party Risk Management, BSA/AML, and Compliance burdens still responsibility of bank
Scalability	High – but likely dependent on bank’s brand and gravitas	High – but likely dependent on consortium’s brand and gravitas	Moderate – dependent on third-party capabilities and likely dependent on bank’s brand and gravitas	Moderate – limited to payment network’s capabilities and no control over branding
Bottom Line	Best for banks with strong internal capabilities, strong brand, and desire to lead in digital payments	Best for banks seeking scale and efficiency through collaboration and strong brand when combined	Best for banks focused on customer experience and speed to market	Best for banks expanding digital payment capabilities without issuing their own payment stablecoin

Unlock More Guidance on the Future of Payments

Explore potential paths your institution can take to integrate payment stablecoins with Forvis Mazars' GENIUS Act Playbook!



Scan the QR code to download today!

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