November 4, 2025

U.S. Department of the Treasury
Attn: Office of General Counsel
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: GENIUS Act Implementation Comments

To Whom It May Concern:

Paradigm Operations LP ("Paradigm") is grateful for the opportunity to provide comments in response to the Advance Notice of Proposed Rulemaking ("ANPRM") on implementing the GENIUS Act (the "Act").[1]

In this comment letter, Paradigm responds to question 14, which seeks comments about potential rulemaking related to Section 4(a)(11) of the Act. Paradigm urges the U.S. Department of the Treasury (the "Department") not to change parts of Section 4(a)(11) that are already clear, and to limit any new rules to simply explaining what the term "pay" means in that section. As we note, Congress has already considered this topic in detail and made its decision: while issuers of stablecoins may not directly pay yield or interest to stablecoin holders for the described activities, other entities (including issuers' affiliates) may do so. This question has already been asked and answered by Congress in the Act's actual text. It is beyond the power of any administrative agency to change that decision via rulemaking.

Paradigm also responds to questions 37, 38, and 56-68, covering matters relevant to tax treatment of stablecoins and key factors for current and future rulemakings that the Department should consider. On these matters, Paradigm recommends that the Department classify payment stablecoins as cash equivalents for all retail and consumer transactions.

Paradigm also briefly addresses question 12, relating to reserve asset composition. Paradigm recommends the Department and other rulemaking agencies consider clarifying the phrase "similarly liquid" as used for permitting reserve assets.

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[1] GENIUS Act Implementation, A Proposed Rule by the Treasury Department on 09/19/2025, *available at* https://www.federalregister.gov/documents/2025/09/19/2025-18226/genius-act-implementation.

1. **Response to Question 14**

    a. Rules extending the Interest Prohibition to payments by non-issuers—or altering the meaning of "solely"—would not withstand judicial scrutiny.

Section 4(a)(11) of the Act, entitled "Prohibition on Interest," states that "[n]o permitted payment stablecoin issuer or foreign payment stablecoin issuer shall pay 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."

That statutory text (which we refer to as the "Interest Prohibition") clearly establishes two points: (i) it limits application only to payments by permitted payment stablecoin issuers and foreign payment stablecoin issuers, not other entities; and (ii) these issuers can still pay interest or yield to stablecoin holders if those payments are based on something other than simply holding, using, or retaining the stablecoin. We explain each point below and explain that the Department should not issue rules that contradict clear language under the guise of regulatory "clarification." Doing so would violate the Administrative Procedure Act and would echo past executive overreach on crypto policy.

i. *The Interest Prohibition does not apply to indirect payments.*

In creating the Interest Prohibition, Congress clearly stated who it applies to: "permitted payment stablecoin issuers" and "foreign payment stablecoin issuers," the two types of issuers defined elsewhere in the Act.[2] Congress clearly knew that exchanges and other intermediaries—not just issuers—often provide yield or rewards. However, even though the Act separately defines these intermediaries as "digital asset service providers" (DASPs), Congress intentionally left DASPs out of the Interest Prohibition.[3] Because Congress chose not to include DASPs, the Department has no authority to apply the Interest Prohibition to them. Any rule purporting to do so would likely be struck down as invalid.

Similarly, the Department would also be defying the Act if it tried to apply the prohibition to DASPs, even if it was only to prevent "indirect payments" by stablecoin issuers. The Interest Prohibition forbids the *stablecoin issuers* from "pay[ing] the holder of any payment stablecoin any form of interest or yield." On a plain reading of this clause, *the issuer* must pay the holder for the payment to be subject to the Interest Prohibition.

It's worth noting what Congress did not focus on here. Congress did not state that the "issuer or a similarly situated individual" or "the issuer or anyone in a business relationship with the issuer" may not make payments; Congress instead targeted only the two specifically defined types of issuers. Nor did Congress grant authority to the Department to expand the Interest Prohibition's scope to include other entities via a rulemaking subsequent to the Act's passage. Indeed, Congress did not even use the plural "issuers" to suggest implicitly that multiple parties could be

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2 *See* 12 U.S.C. §§ 5901(12), (23).

3 *See* 12 U.S.C. § 5901(7).

regarded as applicable to this prohibition. The language applied the prohibition to provide yield on the issuer and only the issuer itself, full stop.

Based on other choices Congress made in drafting the Act, the choice to focus on just the issuer for the prohibition was no accident. Notably, Congress used the qualifying phrase "directly or indirectly" elsewhere in the Act,[4] but the Interest Prohibition does not contain any similar condition. Where, as here, a "document has used one term in one place, and a materially different term in another," courts presume "that the different term denotes a different idea."[5] In this case, the only logical inference is to accept that the Interest Prohibition applies to actions explicitly and exclusively by the issuer itself. We must not fall into Wonderland Logic; Lewis Carroll's Red Queen does not in fact have a good heuristic for following legal processes.

The solution is to simply clarify that an issuer does not pay the stablecoin holder absent a clear contract to do so. Because DASPs often have promotional arrangements with stablecoin issuers—in addition to offering stablecoin rewards programs to the DASPs' customers—we recommend the Department clarifies that a stablecoin issuer does not "pay" a holder that is a customer of a DASP so long as it has no direct contractual obligation to pay the holder. This is consistent with the plain meaning of "pay," as well as hornbook principles of contract and agency law, under which parties can in some circumstances be held responsible for the acts of their agents, but generally are not responsible for the acts of third parties acting independently.[6] Under those principles, if an issuer made a payment to a DASP under one contract, and the DASP used those funds to make a payment to a stablecoin holder under a separate, independent contract, such payments would not be subject to the Interest Prohibition because the issuer is liable only to the DASP.[7] On the other hand, if a DASP were to make a payment on the issuer's behalf to the holder, the payment would violate the Interest Prohibition because the issuer would be liable to the stablecoin holder as principal.[8] Beyond that modest point in clarifying the term "pay," however, no other clarification is needed in light of the Act's unambiguous terminology as used in the Interest Prohibition.

ii. *The Interest Prohibition allows stablecoin issuers to pay interest or yield where the payment is based on some factor other than holding, use, or retention.*

The Act prohibits yield or interest payments by stablecoin issuers only when they are made "*solely* in connection with the holding, use, or retention of such payment stablecoin."[9] The qualifier "solely" has an unambiguous plain meaning: "to the exclusion of all else."[10] Courts

4 *See* 12 U.S.C. § 5903(a)(2).

5 *See Southwest Airlines Co. v. Saxon*, 596 U.S. 450, 457-58 (2022) (applying meaningful-variation canon of statutory interpretation).

6 *See, e.g.*, *2A* N.Y. Jur. Agency §§ 2, 278 (2d. 2025).

7 *See, e.g.*, 22 N.Y. Jur. Contracts § 315 (2d. 2025).

8 *See, e.g.*, 2A N.Y. Jur. Agency § 277 (2d. 2025).

9 Emphasis added.

10 "Solely," Merriam-Webster Dictionary Online (accessed Nov. 4, 2025).

interpreting "solely" in other federal statutes have reached the same conclusion.[11] It follows that if issuers make yield or interest payments based in part on something *other* than the mere holding, use, or retention of a payment stablecoin, then those payments are not subject to the Interest Prohibition (even if holding, using, or retaining the stablecoin is also necessary to receive the payments). To be pedantic, "solely" means "solely," nothing more and also nothing less.

When we apply these principles to the so-called Interest Prohibition, the meaning is clear. The phrase "solely in connection with the holding, use, or retention of such payment stablecoin" can only mean that an issuer cannot pay interest or yield exclusively as it relates to holding, using, or retaining a stablecoin. If a payment is tied to any other factor, even partly, it falls outside the prohibition, like a pop fly ball landing foul.

If the Department believes it must address the term "solely" in rulemaking, it should stick to the plain text. "Solely" means exclusively—nothing more, nothing less. Any broader interpretation would rewrite the statute, not clarify it.

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In sum, the plain meaning of the Interest Prohibition leaves no basis for extending the provision to a third-party service provider or altering the scope of the word "solely."[12] The text is the judge, jury, and executioner of all other arguments on this point, and there is no room to seek a last-minute reprieve by the Department. Should the Department or another rulemaking agency attempt to stretch or redefine the provision's scope, any resulting rule would be an unlawful regulatory act and likely face immediate legal challenge. Such litigation would impose needless uncertainty on market participants, hinder stablecoin adoption in the United States, and frustrate congressional intent.

b. <u>Banks had ample opportunity to propose alternative language to the yield prohibition during the Act's drafting process—but failed to do so.</u>

All interested parties had plenty of opportunities to promote different language in the Act prior to its passage this year. Trying to rewrite the text ex-post via regulations would be wrong. We do not treat legislation as a "best of three" set, with the rubber match coming in the agencies. Instead, those who failed to get their preferred language enacted need to accept their failure with solemnity and not clever, desperate regulatory stratagems.

The Interest Prohibition did not appear at the end of the legislative process like a thief in the witching hour. In fact, early drafts of what became the Act included the Interest Prohibition in some form throughout early 2025, and the Interest Prohibition appeared in its ultimately enacted

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11 *See, e.g.*, *Soledad v. U.S. Dep't of Treasury*, 304 F.3d 500, 505 (5th Cir. 2002) (evaluating "solely because of" language under federal Rehabilitation Act claims).

12 *See Oklahoma v. Castro-Huerta*, 597 U.S. 629, 642 (2022) (quoting *Magwood v. Patterson*, 561 U.S. 320, 334 (2010) and *Henson v. Santander Consumer USA Inc.*, 582 U.S. 79, 89 (2017)) ("The Court may not 'replace the actual text with speculation as to Congress' intent'…. Rather, the Court 'will presume more modestly' that 'the legislature says what it means and means what it says.'").

form for over a month preceding the Act's passage.[13] Throughout that period, none of the groups providing input to Congress on the proposed legislation—including the many banking trade associations that monitored the legislative proceedings—raised any concerns about the Interest Prohibition. Indeed, the American Bankers Association affirmatively praised Congress for inclusion of the Interest Prohibition.[14]

Having failed to raise any concerns about the Interest Prohibition before passage, banking groups cannot now decry it as an unintended "loophole" requiring a regulatory fix. From its earliest form, the Interest Prohibition has been expressly tied either to the payment stablecoin itself or its issuer. Through several early drafts, the prohibition appeared as a defining characteristic of either the term "payment stablecoin" or "permitted payment stablecoin issuer." If enacted in that form, the Interest Prohibition would still not have prevented a third-party service provider from offering a rewards program in connection with a resale or other use of the stablecoin. And while the Interest Prohibition in its enacted form now appears among the issuer requirements, its scope remains limited to the issuer's own actions (as discussed above).

As such, it would be incorrect to assume that Congress did not intend the Interest Prohibition to apply in the limited manner that its text unambiguously provides. The Interest Prohibition—like the broader Act—underwent extensive legislative deliberation. Consumers and businesses have a reasonable expectation of finality, and the Department should refrain from promulgating rules that would unnecessarily and unlawfully expand the Interest Prohibition, as banking trade groups have recently advocated. Simply because certain incumbent banking interests find the ultimate agreement on legislative language to be suboptimal does not give them the right to demand that regulators rewrite that language ex-post. Such an action would be clearly unlawful and would undermine the careful balance that Congress struck through months of closely negotiated legislative proceedings. Congress has thoughtfully set the balanced language of the Act; it is not the place of regulators to supplant Congress' considered wisdom. Congress writes the laws and regulators implement them, not the other way around.

c. <u>No empirical or policy basis exists for extending the Interest Prohibition.</u>

Even assuming that the Interest Prohibition could be extended to indirect payments, or otherwise broadened (which it cannot), current data does not provide a sufficient empirical or policy basis for doing so. In other words, even if you toss out all the textual arguments, there is not a good evidenced-based argument to prohibit third parties or affiliates from paying interest.

Banking trade groups have argued that the Interest Prohibition could negatively affect deposit demand, asserting that funds will migrate from traditional deposits to payment stablecoins if issuers are permitted to pay interest.[15] These claims, however, rely on thin research and

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13 *See* S. 1582, 119th Cong. § 4(a)(11) (as engrossed in the Senate, June 17, 2025).

14 *See* American Bankers Associations, "Statement for the Record on Behalf of the American Bankers Association before the Senate Committee on Banking, Housing, and Urban Affairs" (March 13, 2025), *available at* https://www.aba.com/-/media/documents/letters-to-congress-and-regulators/sfrgeniusact20250313.pdf?rev=8b45e16c68604be68162d4e14432ac35.

15 *See, e.g.*, Bank Policy Institute, "The Risks from Allowing Stablecoins to Pay Interest" (September 25, 2025), *available at* https://bpi.com/the-risks-from-allowing-stablecoins-to-pay-interest/. *See also* Consumer

speculative models that lack real-world support. Agencies should not rely on such conjecture to effectively amend legislation passed only months ago.

For instance, many of these claims rely on an unrealistic assumption that *all* stablecoins would pay interest. This is wildly reductionist. In reality, issuers would need distinct business cases to support such payments within the Act's limits. Moreover, these trade groups overlook that many stablecoins issuers hold substantial reserves as bank deposits—a factor that would offset, not exacerbate, the impact of deposit demand. And while the trade groups' arguments rely heavily on formulas and conclusory statements, the arguments fail to include meaningful analysis or evidence of harm. In effect, these claims are less based on rigorous research and more like a long parade of horribles based on dubious assumptions. They should be regarded with no more accord in policymaking than a speculative blogpost by an ardent amateur critic of a field.

The actual market evidence, by contrast, shows that the banking trade groups' concerns are substantially overstated. For years, digital asset platforms have offered a rewards program tied to the purchase and holding of stablecoins (such as Coinbase with respect to USDC). During this time, there has been no demonstrable reduction in deposit demand attributable to such programs.[16] Similarly, stablecoins have had legal regimes in other jurisdictions for some time now, including in Japan and the European Union; those jurisdictions have also not yet seen demonstrable drops in deposit demands.

That said, even the studies cited by some trade groups acknowledge that payment stablecoins remain a nascent product. At this stage, it is premature to draw firm conclusions about their long-term effects on deposits or other monetary instruments. Stablecoin reward programs might have minimal impact on deposits or might more directly affect other cash equivalents such as stored-value balances or money market mutual funds. These programs might also result in increased demand for deposits by supercharging economic growth broadly, thereby boosting deposits. There simply is insufficient data to justify regulatory intervention.

Imposing restrictions now would limit consumer choice and stifle innovation in a promising segment of financial services. It would also conflict with the Trump Administration's stated policy of fostering responsible innovation in digital assets. Should future evidence indicate adverse market effects, regulators already possess tools—such as adjustments to reserve or liquidity requirements—to respond appropriately. Until then, the Interest Prohibition should remain unchanged.

Bankers Association, "Closing the Payment of Interest Loophole for Stablecoins" (August 12, 2025), *available at* https://consumerbankers.com/press-release/closing-the-payment-of-interest-loophole-for-stablecoins/.

16 *See* Board of Governors of the Federal Reserve System (US), Deposits, All Commercial Banks, retrieved from FRED, Federal Reserve Bank of St. Louis, *available at* https://fred.stlouisfed.org/series/DPSACBW027SBOG.

2. **Response to Questions 37, 38, & 56-58**

    a. Federal regulators should issue a proposed rule that classifies payment stablecoins as the functional equivalent of payment methods permitted by law for taxes and wages, such as cash or checks. The Department should also allow payment of federal taxes using payment stablecoins and clarify that payment stablecoins are not property.

        i. *A proposed rule should classify payment stablecoins as meeting the definitions of "cash," "currency," and "lawful money," as well as "checks" in the context of payments, provided the payee consents.*

The Department should make clear that retail payments via stablecoins are equivalent to cash. The Department and the other primary federal payment stablecoin regulators should propose a rule that federal and state statutes permitting payment with "cash," "currency," "lawful money," "checks," or a similar term may lawfully be made using a payment stablecoin issued by a permitted payment stablecoin issuer under the Act when a payee consents. In other words, the Department and the other applicable regulators should establish that a payment stablecoin is a "cash equivalent" for payments-related purposes. Both in federal statute and common usage, cash is commonly defined as including cash equivalents, including checks. A payment stablecoin is equivalent to cash or a check because it is (i) intended to be used as payment and (ii) redeemable for legal tender under a regulatory structure that provides at least as much protection for a payee as a traditional cash equivalent like a check or commercial bank money.

Making such a rulemaking would not be remarkable or even out of the ordinary. Federal law recognizes a long list of items that are the functional equivalent of money and therefore qualify as "cash." For example, the tax code states that "the term 'cash' includes foreign currencies and cash equivalents."[17] SEC regulations describe a "cash transaction" as one in which a payment is made "in currency or in checks or other orders drawn upon banks or bankers and payable upon demand."[18] Similarly, the IRS instructs businesses in IRS Form 8300, which implements the statute relating to "cash receipts of more than $10,000," that "[c]ash includes the coins and currency of the United States and a foreign country," and may also include "cashier's checks, bank drafts, traveler's checks, and money orders."[19] And in the banking context, the FDIC's Risk Management Manual of Examination Policies states that "[c]ash accounts include U.S. and foreign coin and currency on hand," as well as "transit, clearing, and cash items," while "cash items" are in turn defined as "checks or other items in process of collection payable in cash upon presentation."[20] Furthermore, the SEC reportedly issued staff guidance indicating that stablecoins

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17 *See* 26 U.S.C. § 643(i)(2)(A).

18 *See* 17 C.F.R. § 260.11b-4.

19 *See* Internal Revenue Service, "IRS Form 8300 reference guide," *available at* https://www.irs.gov/businesses/small-businesses-self-employed/irs-form-8300-reference-guide, implementing 26 U.S.C. § 6050I.

20 *See* Federal Deposit Insurance Corporation, "Basic Examination Concepts and Guidelines," *available at* https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/risk-management-manual-complete.pdf, at 3.4-2.

that are pegged to the U.S. dollar may be treated as cash equivalents under accounting standards.[21] In the context of wages, the Fair Labor Standards Act and its related regulations allow for payments by either cash or redeemable negotiable instruments.[22]

Like this federal authority, the ordinary definition of cash includes items that are the functional equivalent of money. Cash means "1. [m]oney or its equivalent" or "2. [c]urrency or coins, negotiable checks, and balances in bank accounts."[23] The term "equivalent" in the definition of "cash" should be interpreted according to its plain meaning, which is "equal in value, force, amount, effect, or significance," or "corresponding in effect or function; nearly equal; virtually identical."[24]

A payment stablecoin issued by a permitted payment stablecoin issuer under the Act is one that is definitionally intended to be used for payment in a manner equivalent to cash or a check. The Act defines a payment stablecoin as something that "is, or is designed to be, used as a means of payment settlement" and "the issuer of which . . . is obligated to convert, redeem, or repurchase for a fixed amount of monetary value…."[25] "Monetary value," in turn, is defined as "a national currency or deposit … denominated in a national currency."[26]

The redeemability of payment stablecoins is already protected by extremely robust statutory requirements. A permitted payment stablecoin issuer must maintain identifiable reserves backing the issuer's outstanding stablecoins on at least a 1-to-1 basis, and the reserves must consist of various low-risk items such as U.S. currency.[27] Issuers must publish on their websites the monthly composition of their reserves, and they are permitted to engage in a limited range of activities such as issuing stablecoins, redeeming stablecoins, and related undertakings.[28] Issuers are also required to segregate assets, and regulators are authorized to impose capital requirements

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21 *See* https://news.bloomberglaw.com/business-and-practice/crypto-friendly-sec-offers-stopgap-stablecoin-accounting-clarity; https://www.theblock.co/post/365554/sec-staff-guidance-stablecoins; https://www.nysscpa.org/news/publications/the-trusted-professional/article/sec-releases-guidance-clarifying-stablecoin-accounting-080625.

22 *See* 29 C.F.R. § 531.27(a)-(b) (providing that the Fair Labor Standards Act "require[s] payments of the prescribed wages, including overtime compensation, in cash or negotiable instrument payable at par").

23 *See* Black's Law Dictionary (12th ed. 2024); *see also Gennell v. FedEx Corp.*, No. 05-CV-145-PB, 2014 WL 1091148, at *4 (D.N.H. Mar. 19, 2014) (in context of "cash advance" payment to FedEx Drivers under New Hampshire law, quoting Black's Law Dictionary and stating that "'money or its equivalent' implies a variety of compensation methods"); *see also Schott v. Allstate Ins. Co.*, No. 4:24-CV-136 (CDL), 2025 WL 1416286, at *3 (M.D. Ga. May 15, 2025) (interpreting "actual cash value" under insurance contract); *Talvitie v. Talvitie*, 245 N.E.3d 1077 (Mass. App. Ct. 2024) (interpreting when "cash is realized").

24 *See Jackson v. Harvest Cap. Credit Corp.*, No. 17 Civ. 5276 (JFK), 2020 WL 705084, at *7 (S.D.N.Y. Feb. 12, 2020), aff'd, 848 F. App'x 455 (2d Cir. 2021) (internal marks omitted) (citing Equivalent, Black's Law Dictionary (9th ed. 2009); Equivalent, Merriam-Webster's Collegiate Dictionary (11th ed. 2011)).

25 *See* 12 U.S.C. § 5901(22)(A).

26 *See* 12 U.S.C. § 5901(17).

27 *See* 12 U.S.C. § 5903(a)(1)(A).

28 *See* 12 U.S.C. § 5903(a)(1)(C), (7).

on issuers.[29] Further, claims by payment stablecoin holders receive priority in bankruptcy proceedings.[30] Given these rigorous requirements for payment stablecoins discussed above, a payment stablecoin issued by a permitted payment stablecoin issuer under the Act is the functional equivalent of money and should meet the definition of cash.

These requirements are at least as stringent as the requirements applicable to checks or commercial bank money, which are already cash equivalents. For example, banks maintain reserve requirements far lower than the 1-to-1 requirement of payment stablecoins. In fact, the Federal Reserve Board's Regulation D currently do not require member banks to maintain reserves on transaction accounts or savings accounts.[31] Based on this logic, there is no defensible or legally justifiable reason to treat payment stablecoins, which could be safer than checks and commercial bank money, any differently from those products. If payment stablecoins cannot be deemed a cash equivalent, the only logical move for the Department and other regulators is to strip that status from checks. There is no third option.

If anything, treating stablecoins as riskier than existing products at banks is illogical. In truth, banks may engage in much riskier activities with reserves, including making loans, which puts the redeemability of commercial bank money at a relatively higher risk.[32] Nevertheless, the Federal Reserve Board has concluded that commercial bank money is "sufficiently safe that the general public can transact in [such] money with confidence that a dollar of bank deposits is easily exchangeable for a dollar of physical currency or a dollar of deposits at another bank."[33] This conclusion should not be based on the presence of deposit insurance since many accounts, including business accounts paying wages, have account balances that exceed deposit insurance amounts.

Moreover, the Act itself acknowledges that a payment stablecoin can be treated as cash or a cash equivalent. This is because the Act provides that "[a] payment stablecoin that is not issued by a permitted payment stablecoin issuer shall not be . . . treated as cash or as a cash equivalent for accounting purposes."[34] By expressing limited circumstances when a payment stablecoin may not be treated as cash, Congress has indicated that a payment stablecoin could be treated as cash in other circumstances—specifically when the stablecoin is issued by a permitted payment stablecoin issuer.[35]

Furthermore, the Treasury Borrowing Advisory Committee ("TBAC") already recognizes the reality that stablecoins are the functional equivalent of cash. In a presentation from April 2025,

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29 *See* 12 U.S.C. §§ 5903(a)(4), 5909(c)(1).

30 *See* 11 U.S.C. § 507(e).

31 *See* 12 U.S.C. § 1821; 12 C.F.R. § 204.4(f); *see also* https://www.federalreserve.gov/monetarypolicy/reservereq.htm.

32 *See* 12 C.F.R. § 7.1000 (implementing 12 U.S.C. § 24).

33 *See* Federal Reserve Board, "Money and Payments: The U.S. Dollar in the Age of Digital Transformation" (January 20, 2022), *available at* https://www.federalreserve.gov/publications/january-2022-cbdc.htm.

34 *See* 12 U.S.C. § 5902(g).

35 *See, e.g.*, *Chevron U.S.A. Inc. v. Echazabal*, 536 U. S. 73, 80 (2002) (discussing "expressio unius" canon).

the TBAC concluded that stablecoins: "are ubiquitously utilized as 'cash on-chain,' effectively serving as a new payment mechanism"; "[p]rimarily utilized as a form of cash across on-chain applications"; "[i]ntentionally designed to provide an on-chain version of cash, enabling instant payments"; and "can be transferred peer-to-peer."[36] In that regard, for the Department to state that payment stablecoins are the functional equivalent of cash for payments is not asking for any new decision to be made about the status of payment stablecoins. Instead, we merely recommend that the Department regards stablecoins publicly just as they already treat them privately.

Finally, the proposed regulation should have broad preemptive effect on any conflicting state laws. The Act's purpose is to facilitate payment stablecoins as a means of making payments through interstate commerce. As a result, any conflicting state laws that impact the status of payment stablecoins "stand[] as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress," sentiment that could be applied to the Act's implementation.[37] The Act expressly provides a federal regulatory framework for treating payment stablecoins as a "means of payment or settlement."[38] Moreover, the regulation of interstate payments is a uniquely federal concern. Courts are therefore unlikely to find a presumption against preemption when considering a state law that would impede the Act's facilitation of stablecoin payments in interstate commerce.[39]

In sum, both federal statutes and common usage define cash as including items that are the functional equivalents of money, including checks. Here, that functional equivalency is clearly met for payment stablecoins. The Act specifically provides and requires that payment stablecoins are intended to be used as a payment, and they must be redeemable for legal tender under strict regulatory requirements. Federal regulators should therefore issue a rule that federal and state statutes permitting payment with "cash," "currency," "lawful money," "checks," or a similar term may lawfully be made using a payment stablecoin issued by a permitted payment stablecoin issuer with the payee's consent. While such a rule is appropriate as a regulatory matter, it is also just good common sense, which is perhaps the most American virtue used in rulemakings.

ii. *Potential counterarguments to issuing a rule permitting lawful use of payment stablecoins in the foregoing context are unavailing.*

Ardent critics of stablecoins may argue that defining payment stablecoins as the functional equivalent of cash and checks appears inconsistent with the UCC's definition of "money," which has been amended in some states to exclude digital assets.[40] However, such a critique is

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36 *See* TBAC, "Digital Money" (April 30, 2025), *available at* https://home.treasury.gov/system/files/221/TBACCharge2Q22025.pdf, at 2, 6 (emphasis omitted).

37 *See Hillman v. Maretta*, 569 U.S. 483, 490 (2013).

38 *See* 12 U.S.C. § 5901(22)(A).

39 *Cf. Hillman*, 569 U.S. at 490–91 (internal marks omitted) (noting the "presumption against pre-emption of state laws" in matters that are "traditionally the domain of state law" (such as domestic relations)"); see also United States v. Le, 902 F.3d 104, 113 (2d Cir. 2018) (internal citation omitted) (noting that "[r]egulating the instrumentalities of interstate commerce is . . . a matter of strong federal interest, one not traditionally left principally to the States").

40 *See* UCC § 1-201(b)(24).

misguided. Simply put, this provision is defining a different and narrower term than cash. Therefore, even taking the UCC's exclusion of digital assets from "money" does not change the analysis of whether permitted payment stablecoins are "cash."

The Act's prohibition on issuers marketing payment stablecoins "in such a way that a reasonable person would perceive the payment stablecoin to be . . . legal tender" also does not change the analysis discussed above.[41] Many cash equivalents are not legal tender, including checks and commercial bank money. However, they function as cash equivalents without being marketed as legal tender. With apologies to the Bard, a dollar by any other name is as useful for commerce.

iii. *The Department should also issue a rule that permits paying federal taxes using payment stablecoins and also revisit its position in 2014-21 that digital assets are property.*

The Department should take two other concrete actions in the tax context, using its federal tax-related authority, to facilitate the use of payment stablecoins.

First, the Department should enact a regulation that allows federal tax payments to be made using a payment stablecoin from a permitted payment stablecoin issuer. The Department has specific authority to receive tax payments by "any commercially acceptable means that the Secretary [of the Treasury] deems appropriate," and the Department also has related rulemaking authority.[42] These provisions allow the Department to deem payment via a permitted payment stablecoin an appropriate means for receiving tax payments. Under regulations that are already in effect, the Department may receive tax payments by credit or debit card or by checks or money orders that are drawn on any financial institution incorporated under the laws of the United States or any state.[43]

This rule would promote the statute's goal of interoperability. With wages for example, employers must withhold federal taxes (such as social security and Medicare tax). Clarifying that federal taxes can be paid with payment stablecoins will promote interoperability by allowing both the employee and the IRS to receive the same cash equivalent form of payment.

Second, the Department should revisit Notice 2014-21 to account for payment stablecoins. That notice took the position that digital assets are property rather than currency.[44] For all the reasons discussed above, any revised notice should instead characterize payment stablecoins issued by a permitted payment stablecoin issuer under the Act as a cash equivalent.

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41 *See* 12 U.S.C. § 5903(a)(9)(A)(ii).

42 *See* 26 U.S.C. § 6311(a), (d).

43 *See* 26 C.F.R. §§ 301.6311-1, 301.6311-2.

44 *See* Internal Revenue Service, "Notice 2014-21" (2014), *available at* https://www.irs.gov/pub/irs-drop/n-14-21.pdf

3. Response to Question 12

a. Rules should establish uniform standards for additional kinds of U.S. Government securities that can be permitted reserve assets.

The Act expressly authorizes the Department to issue rules for establishing uniform standards regarding reserve assets, particularly with regard to additional kinds of U.S. Government securities that may qualify. The Department should do so.

As written, the Act states that, in addition to the list of enumerated reserve assets, stablecoin reserves may consist of "any other similarly liquid Federal Government-issued asset" approved by regulators. However, it isn't clear to stakeholders what standard should be applied when referring to the term "similarly liquid." This is one area where the drafters of the Act have left a gap for regulators to fill in.

To provide clarity to market participants, and ensure consistency across stablecoin regulators, the rules relating to the reserve asset provisions should establish principles for interpreting the phrase "similarly liquid." Analogues exist within other areas of banking regulation, which the Department could reference and adopt when developing rules to clarify this phrase's meaning.

As one example, the Federal Reserve Board's Regulation WW requires large banking organizations to maintain a minimum level of "high quality liquid assets," which includes specified securities that are "liquid and readily-marketable."[45] To be "liquid and readily marketable," a security must be "traded in an active secondary market with: (1) [m]ore than two committed market makers; (2) [a] large number of non-market maker participants on both the buying and selling sides of transactions; (3) [t]imely and observable market prices; and (4) [a] high trading volume."[46] Rules adopting similar language could enable federal regulators to consider other U.S. Government securities beyond those expressly enumerated in the Act for stablecoin reserves.

With this clarity, payment stablecoin issuers would have clearer guidelines for requesting approval from their respective regulators to add new reserve assets. It could also enable payment stablecoin issuers to diversify reserves across other types of U.S. government securities over time. If governed by appropriate capital and liquidity policies, among other relevant controls, this could create additional demand for other critical Treasury markets (*e.g.*, 10 year) and lessen concentration in short-term Treasury securities for this purpose.

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45 *See* 12 C.F.R. § 249.20. To illustrate, a high-quality liquid asset includes a "security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, a U.S. government agency (other than the U.S. Department of the Treasury) whose obligations are fully and explicitly guaranteed by the full faith and credit of the U.S. government, provided that the security is liquid and readily-marketable." *Id.* at § 249.20(a)(4).

46 *See* 12 C.F.R. § 249.3.

Paradigm appreciates the Department's consideration of our comments. If you have questions or would like to discuss these comments further, please reach out to justin@paradigm.xyz.

Sincerely,

/s/ *Justin Slaughter*
Justin Slaughter

VP of Regulatory Affairs

Paradigm

/s/ *Alex Grieve*
Alex Grieve

VP of Government Affairs

Paradigm