The GENIUS Act and Stablecoins

Summary

The GENIUS Act introduces the first regulatory framework for stablecoins as payment instruments in U.S. markets, addressing some of the issues with the existing stablecoin market. In this paper, we review investors' assumptions for the U.S. stablecoin market and how to think about the competitive landscape for payment processing as stablecoins become more readily available.

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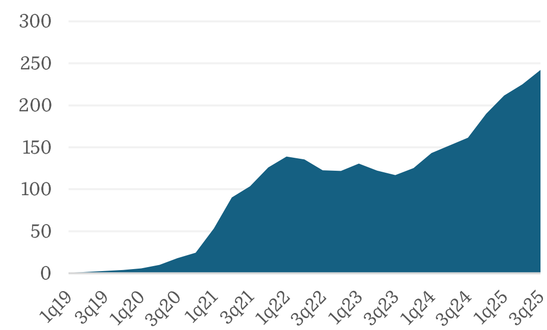
On July 18th, 2025, President Trump signed the *Guiding and Establishing National Innovation for US Stablecoins* (GENIUS[1]) Act into law, creating the first regulatory framework for stablecoins in the U.S. Cryptocurrencies have long been the bane of regulators' existence given their highly speculative nature, lack of anti-money laundering compliance, and the question of whether they are a security, commodity, or something else entirely. Under the GENIUS Act, stablecoins are established as payment instruments, not securities or commodities, meaning they do not fall under the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC). The GENIUS Act specifies which entities can issue stablecoins in the U.S. and addresses concerns with stablecoins that currently operate globally by requiring a 1:1 ratio of net asset value (NAV) to reserve assets, requirements to hold highly liquid reserve assets with short duration (essentially T-bills), compliance with the Bank Secrecy Act to address anti-money laundering and Know Your Client issues, and transparency through monthly reporting and financial audit requirements. Notably, Tether (USDT), the largest existing stablecoin at over $160 billion in supply, does not currently meet the GENIUS Act's requirements[2]. However, many qualifying U.S. entities will likely seek to issue stablecoins that meet the requirements given excitement around the business prospects and asset growth projections of U.S.-based stablecoins.



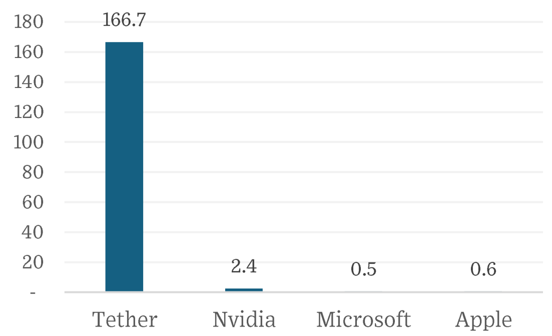
Growth in Stablecoin Assets Over Time ($b)
Source: visaonchainanalytics.com

[1] *We are not sure if these bills start with the acronym and then find the bill's formal title or vice versa, but we applaud the efforts of all those involved in Washington, DC.*
[2] *Tether has never conducted an independent financial audit from a U.S.-based accounting firm and holds numerous investments outside of the Genius Act's required reserves such as Gold, Bitcoin, and Venture Capital investments.*

Some readers at this point may need a quick refresher on a stablecoin and how it differs from well-known cryptocurrencies like Bitcoin. Stablecoins are a type of cryptocurrency designed to maintain either a constant value, or a value linked to another asset like a currency or commodity. There are also stablecoins that invest in a basket of cryptocurrencies or try to manage their price through a supply and demand algorithm. Stablecoins utilize decentralized blockchain networks and have many of the same properties of cryptocurrencies like Bitcoin but are issued by a centralized entity (like Tether). Unlike Bitcoin, stablecoins have emerged globally as a functional medium of exchange. They are widely utilized for facilitating crypto trades, cross-border transactions, achieving liquidity and safety in foreign countries where citizens want easy access to the US dollar, or circumventing the traditional banking system (either to avoid an authoritative regime or for less lawful reasons[3]). Despite a lack of any comprehensive regulatory framework, the stablecoin market has delivered substantial increases in assets and transaction volume since 2019 despite notable historical issues around lack of asset reserve transparency, regulatory fines, and losing control of NAV pricing (see TerraUSD).

The Current Stablecoin Market

To date, the stablecoin market to date has been dominated by two large U.S. dollar denominated stablecoins in Tether and USDC. Tether manages over $160 billion of assets, while USDC sits at $67 billion according to DefiLlama, a website that tracks stablecoins. The creation of a U.S. regulatory framework raises the question of whether a more regulated stablecoin environment will put a dent in what is by all accounts an incredible business? Tether recently reported $5 billion in net profit for the 2nd quarter of 2025. Stablecoins like Tether do not pay interest to coin holders like a bank or money market fund would to depositors or investors. Their business model is to facilitate transactions while taking an individual or entity's money, invest that capital in short-duration securities like US Treasuries (and other assets), and retain all of that interest or capital gain as issuer of the stablecoin. By one measure (see chart), you could argue that Tether is one of the best or most efficient businesses in the world. With just over 100 employees[4], its profit per employee dwarfs any other



Annualized 2025 Profit to Total Employees Ratio ($m)
Source: Yahoo! Finance, Tether.io

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[3] *Illicit activity can be a touchy subject among the crypto community. A report by Chainalysis cites $51b of stablecoin activity tied to illicit addresses in 2024, less than 1% of total volume. However, the report states they do not include funds associated with terrorists or extremist groups, fraudulent crypto platforms and that they likely understate total illicit activity. The same analysis saw their 2023 number double from its original estimate as part of 2024's report.*

[4] *Tether's employee count appears to be between 100-150 employees based on the internet and Google, corroborated by a Reddit thread from 2021 called "Tether has just 13 employees" and an article from Bloomberg in mid-2024 stating the company plans to hire to get to 200 employees by end of 2025.*

well-known company. Nvidia, Microsoft, and Apple will all earn roughly 4-5x Tether's annual profits in 2025, but they currently employ 30-200x as many employees. Under the GENIUS Act, stablecoins remain prohibited from paying or distributing income, likely to maintain their classification as payment instruments. Lawmakers also seem to be incentivizing US stablecoins to compete on cost and efficiency rather than eye-popping interest rates that could fuel more speculative behavior.

Can Stablecoins Compete?

Stablecoins may compete with a variety of businesses currently in the U.S. including traditional banking services, money market funds, credit card and payment processers like Visa and Mastercard, and related payment transaction companies like PayPal and Venmo. Proponents argue that stablecoins are more cost effective, more efficient in transacting, and have round-the-clock execution and settlement compared to existing payment methods. Stablecoins are also better suited for international payments which remain expensive and time intensive.

Traditional banks are likely to get into the ballgame with stablecoins to ensure they maintain their banking market share. The ability to lend against more assets, like stablecoins, could increase lending opportunities and profits for banks. Given the nature of stablecoins being restricted from distributing income, we do not see major competitive threats to the $7 trillion U.S. money market industry, given U.S. consumers would be unlikely to hold significant assets in non-interest-bearing accounts for extended periods of time. Especially if banks make using stablecoins easier and consumers can move seamlessly from an interest-bearing account to the stablecoin.

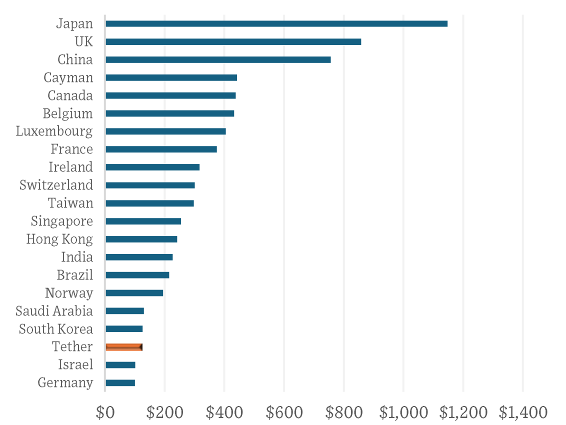
The most interesting competitive pressure may fall on existing credit card and transaction payment companies like Visa, Mastercard, and PayPal (Venmo is owned by PayPal). Credit card companies have protection given their business model of providing credit in addition to payment processing. Visa, in particular, seems to have embraced stablecoins and published a white paper detailing how "*Visa is a leader working to integrate stablecoins into the next generation of payments*." PayPal has already launched its own stablecoin, PYUSD, and has over $1 billion in assets, making it a distant competitor to the Tether and Circle products. But PayPal may be in a better position than a foreign entity like Tether to adopt the GENIUS Act provisions and pick up U.S. market share relative to their existing position as a distant player overall.

Stablecoin adoption and the GENIUS Act are as much about ensuring the U.S. remains a global leader in digitization, a business opportunity for the Trump family (a criticism by some Democrats that was not addressed in the bill), and creating a regulatory framework to protect U.S. consumers. U.S. adoption of stablecoins may take time given payment processing was already seeing a revolution from technology, smart phones and the digitization of traditional assets. While credit cards and payment platforms have embedded fees, the vast majority of those fees are paid by businesses (sellers, not buyers). Businesses may have more of an incentive to encourage adoption of stablecoin payments (especially if they can launch their own stablecoin). The challenge will be whether businesses can force consumer behavior to adapt.

Adoption will also likely follow generational lines. Younger consumers, larger users of digital environments, will likely adopt stablecoins more quickly, while older demographic segments will be much slower to adapt. This was a historical trend in the rise of online retail, which has been around for over 25 years now and grows faster than in-person consumption, yet still only represents 16% of total retail shopping. That percentage is much higher for younger generations that have never existed without the concept of shopping online.

Will Stablecoins Create New Demand for U.S. Treasuries?

As with many Trump administration policies, the GENIUS Act intertwines various initiatives or campaign policies and objectives. Tariff policy and the administration's treatment of U.S. trading partners created questions about the sanctity of the U.S. dollar and Treasury markets. While conditions have stabilized from the height of tariff concerns in April, questions remain around U.S. deficits and the supply and demand dynamics in Treasury markets given deficit financing. In the lead up to the GENIUS Act being approved, Treasury Secretary Scott Bessent posted on X that "*a thriving stablecoin ecosystem will drive demand from the private sector for U.S. Treasuries, which back stablecoins. This newfound demand could lower government borrowing costs and help rein in the national debt*[5]." Tether, in its July "attestation report", reported that it owns $127 billion of U.S. Treasury bills, making it the 18th largest owner of U.S. Treasuries if it was categorized as a foreign country. With a user base concentrated in Asia, Latin America, and Africa, Tether's growth has likely contributed to incremental U.S. Treasury demand. The GENIUS Act raises the question of whether U.S.-based stablecoins would further that incremental demand as the Treasury Secretary suggests. U.S. consumers already have numerous options to store capital in the U.S. at banks and in money market funds that will hold a significant portion of their assets in U.S. Treasuries given requirements for safety and liquidity. Will U.S. stablecoins see their marginal



US Treasury Holdings: Tether vs. Foreign Countries ($b)
Source: US Department of Treasury, Tether.io

[5] *Secretary Bessent's full post can be found here: https://x.com/SecScottBessent/status/1935027160374210573*

adoption come from assets that are just as likely to be already invested in Treasuries (banks, money market funds) or from other sources that will create marginal demand? U.S. corporations also already have sophisticated cash management teams that have full access to money markets or owning Treasuries and other assets outright. It is less clear to us why that capital would suddenly be moved to stablecoins that do not pay income. The marginal owner of stablecoins is either U.S. consumers who have not accessed traditional bank and investment platforms, or non-U.S. consumers who will increase adoption with a safer U.S. regulatory structure now in place. Prior to the GENIUS Act, there was already a marginal demand for U.S. Treasuries coming from Tether and USDC. Lowering government borrowing costs appears optimistic given U.S. stablecoins will only invest in the short duration T-bill marketplace that is anchored to Fed policy. A sudden surge in T-bill demand would certainly provide liquidity but is unlikely to reduce interest rates overall.

Markets are Assuming Stablecoins will be a Big Business in the U.S.

Because stablecoins exist in the crypto world and our current market environment is generally speculative, capital is moving quickly on the assessment that stablecoins and U.S. market adoption are a certainty. Various projections by global banks, consultants, and crypto industry writers are predicting assets in the trillions by 2030. We are on record that Tether is an incredible business model and financial powerhouse, but Tether is currently privately owned. By contrast, Circle Internet Group, the entity behind USDC had its initial public offering on June 5th, well-timed with the GENIUS Act being signed into law shortly thereafter. The IPO was well received by the market, shares initially priced at $31, promptly rocketed to almost $300 by June 23rd, and recently settled in at about $127/share, or a robust $32 billion market capitalization. Cryptocurrencies like Bitcoin and Ethereum have also seen new highs since the GENIUS Act was signed, and other “altcoins” and “tokens” that were seemingly left for dead after the 2022 correction are rearing their heads. While additional legislative support for crypto may be on the horizon, stablecoins have attracted more bipartisan support given their use case. That pesky “use case” has not been proven in other more popular areas of the crypto world but that has not slowed down adoption among asset managers, institutions, and retail investors.

Stablecoin’s innovation holds promise in areas like 24/7 processing, cost efficiency, and cross-border transactions. Yet, current payment processing is not the yellow pages or rotary phone in that substantial innovation is already happening. Lack of income and yield for stablecoins feels like a substantial hinderance to replacing existing payment options tied to bank and brokerage accounts. It is also clear that government policy is looking to spur competition in the U.S. to drive efficiencies for consumers. Policy goals are never a sure thing, but it is less clear that the Tether and Circle’s of the current landscape will emerge as dominant U.S. forces in the face of stiff competition from U.S. banks and financial services companies, as well as every company from Amazon to Walmart floating a stablecoin as an option. Whether it’s the GENIUS Act or President Trump’s pressure on the Federal Reserve, short-term rates also look likely to fall. That hits directly at the heart of the stablecoin profit machine, similar to how big money market players like Federated Investors public stock often trade on the direction of Fed policy.

On the 2nd quarter 2025 earnings call for JPMorgan, CEO Jamie Dimon stated "*We're going to be involved in both JPMorgan deposit coins and stablecoins to understand it, to be good at it. I think they're real, but I don't know why you would want to (use a) stablecoin as opposed to just payment*". The CEO of the world's largest bank saying essentially "it is happening, but I am not sure why" says a lot about our current market environment. The GENIUS Act is not due to be implemented until January 2027[6], giving time for regulators to create policy frameworks for overseeing this new financial product. Over a year is an eternity in blockchain and crypto, or even traditional markets and Fed policy. While we do not believe the GENIUS Act has major market or economic impact, its influence on consumer adoption rates and the competitive marketplace for financial services and payment processing is a fascinating mix of innovation, regulation, and U.S. policy initiatives.

Important information

[6] *Technically the implementation date is 1/18/27 or 120 days after regulators issue final regulations, whichever happens first.*