Stablecoin Bills Present Opportunities, Challenges For Banks

By **James Bergin, Eun Young Choi and Anthony Raglani** (July 14, 2025)

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The U.S. Congress is expected to adopt stablecoin legislation in the coming weeks. The enactment of legislation would serve as a key milestone in the Trump administration's effort to promote U.S. leadership in the digital asset sector.

Two similar bills will likely form the basis for the final enacted legislation: the Guiding and Establishing National Innovation of U.S. Stablecoins, or GENIUS, Act in the U.S. Senate; and the Stablecoin Transparency and Accountability for a Better Ledger Economy, or STABLE, Act in the U.S. House of Representatives. The GENIUS Act was adopted by the Senate on a bipartisan basis, 68-30, on June 17.

Essentially, the legislation will establish a novel federal regulatory framework for stablecoins that would apply to banking organizations and nonbanks alike. A federal stablecoin law presents opportunities and challenges for insured depository institutions and their holding companies.

On the one hand, banking organizations could leverage existing infrastructure and risk management controls to enter the stablecoin market as issuers, custodians or service providers. Additionally, as regulatory restrictions around engagement by banking organizations in digital asset-related activities ease, banking organizations may be able to couple stablecoin-related activities with other digital asset activities in ways that facilitate market entry or expansion of market share.

On the other hand, the legislation will create a platform for certain nonbanks to compete directly with banking organizations in the stablecoin market. Nonbanks — often technologically savvy and well known in the digital asset sector — may be well positioned in this regard.

Banking Organizations' Digital Assets Activities

Stablecoin legislation comes against the backdrop of more permissive regulatory attitudes from the federal banking agencies, which have recently liberalized restrictions on banking organizations' digital asset activities. [1]

Banking organizations now may engage in such activities, without prior notice to or receipt of approval from the relevant agency, provided that the activities are carried out in accordance with safe and sound banking principles.[2] Stablecoin legislation presents a clear avenue for engagement by banking organizations in digital asset activities, because a legislative framework will enable banks to engage in this new and rapidly growing market.[3]

Payment Stablecoins

Stablecoins, broadly, are privately issued digital assets designed to maintain a stable value relative to a peg specified by a reference asset.[4]

The legislation would cover a specific form of this asset, called payment stablecoins, which are defined, generally, as digital assets that are, or are "designed to be, used as a means of payment or settlement" whose issuer (1) is "obligated to convert, redeem, or repurchase" such asset "for a fixed amount of monetary value"; and (2) represents that the asset will "maintain, or create the reasonable expectation that it will maintain, a stable value relative to ... a fixed amount of monetary value."[5]

Authorized Payment Stablecoin Issuers, Reserve Requirements and Other Features

Under the GENIUS Act, issuance of payment stablecoins would be restricted to:

- Subsidiaries of insured depository institutions approved under applicable federal or state regulatory regimes to issue stablecoins;

- "Federal qualified payment stablecoin issuers" approved by the Office of the Comptroller of the Currency to issue payment stablecoins, including nonbank entities, uninsured national banks and federal branches of foreign banking organizations; or

- Certain entities that would not qualify as federal qualified payment stablecoin issuers approved by a state regulatory agency to issue payment stablecoins.

The activities of payment stablecoin issuers generally would be limited to the issuance, redemption and management of, and providing of custodial or safekeeping services for, payment stablecoins.

The bills establish reserving standards for stablecoins on at least a 1-to-1 basis with safe assets, such as Treasurys and certain repurchase agreements and deposits, as well as standards for redemption policies and fees, and requirements for the public reporting and auditing of such reserves. Stablecoins would not benefit from deposit insurance, and the payment of any form of interest or yield on a payment stablecoin would be prohibited.

Federal Regulation of Payment Stablecoin Issuers

Payment stablecoin issuers that are subsidiaries of insured depository institutions generally would be regulated by the federal banking agency that supervises the parent depository institution.[6] Other permitted issuers, including federal branches of foreign banking organizations and uninsured national banks, would be regulated by the OCC. Institutions would need to apply to the appropriate federal agency for permission to issue payment stablecoins.

Nonbank entities could apply to the OCC for permission to issue payment stablecoins as a federal qualified payment stablecoin issuer (under the GENIUS Act) or a federal qualified nonbank payment stablecoin issuer (under the STABLE Act), and, if successful, would be supervised by the OCC.

Further, the GENIUS Act includes provisions addressing the status of non-financial services public companies, which are publicly traded companies that are not predominantly engaged in financial activities for purposes of Section 4(k) of the Bank Holding Company Act. The

GENIUS Act provides further that such companies are not permitted to issue payment stablecoins unless authorized by a stablecoin certification review committee consisting of representatives from the U.S. Department of the Treasury, Federal Reserve and Federal Deposit Insurance Corp.[7] The same prohibitions would expressly apply to non-U.S. companies that are not predominantly engaged in financial activities.

Federal stablecoin regulators would be required to promulgate a regulatory regime governing stablecoin issuance — including capital, liquidity, reserve asset diversification, interest rate, operational and other risk management standards— tailored to the business of issuing stablecoins.

Under the STABLE Act, these prudential standards would apply to all permitted payment stablecoin issuers, and the federal authorities are required to consult with state authorities in developing the standards. Under the GENIUS Act, the federal standards apply to federally permissioned issuers, while state standards apply to state-permissioned issuers.

State Regulation of Payment Stablecoin Issuers

Under the GENIUS Act, the legislation would establish a state supervisory regime to function in parallel with the federal regime, available to any entity that is "approved to issue payment stablecoins by a State payment stablecoin regulator" and is not an insured depository institution, or a subsidiary thereof, an uninsured national bank or a federal branch.

Each state would be required to certify that its regulatory regime meets the standards of the legislation, and such certification would be reviewed by the stablecoin certification review committee (GENIUS Act) or the Treasury Department (STABLE Act). Certification would be granted if the standards of a state regime are deemed to meet or exceed those of the federal regime. The GENIUS Act also provides that the state-level regime must be substantially similar to the federal regime.

Under the GENIUS Act, only state-qualified payment stablecoin issuers not exceeding $10 billion in consolidated total outstanding issuance could opt into a state regime. State regulatory agencies would be granted supervisory, examination and enforcement authority over "State qualified payment stablecoin issuers."

Bank Secrecy Act/AML and Sanctions Compliance Requirements

Each bill provides that permitted payment stablecoin issuers will be treated as financial institutions for purposes of the Bank Secrecy Act and subject to applicable anti-money laundering laws, customer identification, due diligence and economic sanctions.[8] Under the GENIUS Act, permitted payment stablecoin issuers are also required to ensure that they have the technical capabilities, policies and procedures to block, freeze and reject transactions that violate federal or state laws, as well as ensure they can comply with all applicable court orders.

Federal and state regulators would further be required to address Bank Secrecy Act and sanctions compliance standards as part of the more general list of requirements affecting capital, liquidity and risk management that they would have to address in their respective stablecoin regulatory regimes. The Treasury is also tasked with adopting rules, tailored to the size and complexity of permitted payment stablecoin issuers, to ensure the implementation of these requirements.

In addition, the Financial Crimes Enforcement Network would be responsible for issuing public guidance and rules regarding, among other things, the monitoring, identification, and reporting of illicit activity and obfuscation efforts involving stablecoins.

Similarly, under the STABLE Act, FinCEN, in consultation with federal stablecoin regulators, would be required to issue regulations to apply the Bank Secrecy Act to permitted payment stablecoin issuers. These regulations, which are to be tailored to the size and complexity of the issuers, would obligate each issuer to establish an AML program similar to the existing program requirements for financial institutions — with an explicit requirement to establish an appropriate risk assessment.

Opportunities for Banking Sector Participation

The legislation, if adopted, will present ample opportunities to financial institutions seeking new ways to engage with digital assets. Banks may consider becoming payment stablecoin issuers through subsidiaries, thereby utilizing the proposed regulatory framework as a means of bringing funding into their institutions or serving customers in innovative ways.

The extent of the demand for stablecoins will depend on their utility among various customer populations. In the digital asset sphere, payment stablecoins can be used as a digital form of money, including serving as a store of value and a medium of exchange, and thereby unlocking opportunities for the trading of digital assets. Other uses may include merchant payment transactions, peer-to-peer funds transfers and cross-border remittances.

Banks must assess whether the market and customer demand, and the costs of managing attendant risks, make stablecoin issuance a worthwhile investment. Bank subsidiary issuers will need to establish compliance, governance and transparency frameworks for the new products, and satisfy supervisory and reporting expectations on an ongoing basis. Banks might instead find it more palatable to act as service providers by serving as custodians for the reserves of payment stablecoin issuers or engaging in other kinds of digital asset custody and execution services, including for stablecoins.[9]

More broadly, as the federal banking agencies are liberalizing their formerly restrictive policy toward banking organizations' digital asset-related activities, banking organizations may consider other opportunities to expand their presence in this arena. Notably, the bills would not limit existing authorities of banks to engage in otherwise permissible digital asset activities. Opportunities may include, for example, the tokenization of deposits and paying interest on such instruments. Expressly permitted by the legislation, banks may wish to explore this avenue instead — either to avoid the erosion of deposits or to enable new functionalities.

Additionally, certain banks are exploring the establishment of a multibank payment network or platform built around stablecoins, or a single interoperable stablecoin. Banks may be well positioned to support the range of functions required to operate such a network or platform, and the performance of such functions would align with stablecoin-related payment activities that have been deemed to be bank-permissible.[10]

The Challenge of Nonbank Competition — And the Opportunity of Cooperation

In each arena, banks and nonbanks will need to find their areas of comparative advantage. While the GENIUS Act narrows the channel for nonbanks in certain respects, nonbanks are permitted to engage in payment stablecoin issuance through the federal- and state-regulated channels. Whether these regimes will actually be equals in respect of banks and

nonbank, as intended by the legislation, figures to be a live question for years to come.

Even where different types of stablecoin issuers would be subject to equivalent regulatory regimes, banking organizations would start from a place of heightened regulation — faced with supervision, capital, liquidity, management, activity and affiliate transaction requirements not applicable to nonbanks. However, banks have advantages of their own — some may find that their status and reputations place them in a prime position to operate in a novel industry where new customers may be seeking trusted partners.

Notably, banking organizations must have in place controls designed to mitigate and manage risks associated more prominently with stablecoins, such as AML and illicit activity risk, liquidity and interest rate risk, and cybersecurity risk. And, banks, as depository institutions, may operate as service providers to stablecoin issuers, including as providers of deposit reserves and custody services, taking advantage of their deep experience in these areas. It may be that there are significant opportunities for partnerships between banks and nonbanks in the years to come.

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[1] For example, the OCC reaffirmed the permissibility of national banks and federal savings associations providing custody services, accepting dollar deposits as reserves for stablecoins, acting as verification nodes on certain distributed ledger technology (DLT) networks, and engaging in the facilitation of payments on a DLT network. OCC Interpretive Letter Nos. 1170, 1172, 1174, and 1184.

[2] OCC Interpretive Letter No. 1183; Federal Reserve Board, Press Release, Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities; FDIC FIL 7-2025.

[3] See, e.g., Federal Reserve, Treasury Borrowing Advisory Committee Report, Digital Money (Apr. 30, 2025) (noting that market capitalization for stablecoins currently is approximately $243 billion but has the potential to grow to approximately $2 trillion by 2028).

[4] See An Introduction to Stablecoins | Advisories | Arnold & Porter.

[5] Importantly, by definition, "payment stablecoins" would not include national currencies, bank deposits, or "securities" as defined under the federal securities laws and the Investment Company Act of 1940.

[6] That is, the OCC, Federal Reserve, FDIC, or the National Credit Union Administration.

[7] This Committee must unanimously determine that, among other standards, the issuance of a payment stablecoin by such a company 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," meet data use standards, and comply with certain "anti-tying" prohibitions set forth in the bill.

[8] These requirements include maintenance of an effective AML program, retention of appropriate records, monitoring and reporting of suspicious activity, and maintaining an effective customer identification program to ensure appropriate due diligence.

[9] OCC Interpretive Letter No. 1170 affirms the authority of national banks to provide traditional bank custody services in respect of digital assets, and OCC Interpretive Letter No. 1184 further clarifies that national banks may provide digital asset and fiat currency exchange and trade execution services within the scope of such authority.

[10] See OCC Interpretive Letter No. 1174.