

The GENIUS Act: Overview and Applicability to Payment Stablecoin Issuers and Regulators in the U.S. and Puerto Rico

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On July 18, 2025, the President of the United States signed into law the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the “GENIUS Act” or the “Act”). The GENIUS Act establishes a comprehensive federal framework for the issuance, sale, and regulation of payment stablecoins. It is the first major cryptocurrency-specific federal statute in the U.S., applicable to issuers, banks, custodians, and related entities operating within the U.S., its states, and territories. The Act’s requirements and oversight depend on whether an issuer qualifies as a federal, state, or foreign payment stablecoin issuer, each subject to different approval and oversight regimes.

Definition of Payment Stablecoin

The GENIUS Act defines a “payment stablecoin” as a digital asset that is, or is designed to be, used as a means of payment or settlement, and whose issuer: (i) is obligated to convert, redeem, or repurchase it for a fixed amount of monetary value; and (ii) represents, or creates the reasonable expectation, that it will maintain a stable value relative to that fixed amount. The Act expressly excludes from this definition any national currency, deposit, or security.

The Act further defines a “digital asset” as “any digital representation of value that is recorded on a cryptographically secured distributed ledger.”

Permitted Payment Stablecoin Issuers

Only Permitted Payment Stablecoin Issuers (“PPSIs”) may issue payment stablecoins in the United States. Under the Act, a PPSI must be formed in the United States, which includes states and territories per Section 2(28), and fall into one of the following categories:

- Federal qualified payment stablecoin issuer – including certain OCC-approved nonbank entities, uninsured national banks, and approved federal branches.

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- Subsidiary of an FDIC-insured depository institution approved to issue payment stablecoins.
- State-qualified payment stablecoin issuer – entities organized under state or territorial law (including Puerto Rico), approved by a state payment stablecoin regulator, and not otherwise qualifying as federal issuers.

The GENIUS Act imposes additional requirements on PPSIs, including that they must:

- Maintain one-to-one reserves in approved assets.
- Publicly disclose redemption policies.
- Publish monthly reserve composition reports.
- Prohibit rehypothecation of reserves.
- Comply with capital, liquidity, and risk management standards.
- Adhere to Bank Secrecy Act, Anti-Money Laundering, and sanctions requirements.
- Hold reserves with qualified custodians.

Limitations on PPSI Activities

PPSIs are restricted to a narrow set of activities: (i) issuing and redeeming payment stablecoins; (ii) managing associated reserve assets; (iii) providing custodial services for stablecoins and reserves; and (iv) ancillary support functions. They are not permitted to engage in lending, deposit-taking, or other traditional banking activities.

Congress intended PPSIs to function as narrowly scoped, prudentially supervised issuers, not full-service financial institutions. Their business model relies on earning yield from risk-free reserves and charging operational fees, rather than leveraging customer funds. This design aims to address the “shadow bank” risks that prompted federal regulation.

State-Qualified PPSIs: Supervision and Thresholds

If a state-qualified PPSI's outstanding issuance exceeds \$10 billion, it must either: (i) transition to joint supervision by a state and federal regulator within 360 days; (ii) obtain a waiver from its primary federal payment stablecoin regulator, granted based on capital, examination history, supervisory

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experience, and the robustness of the regulatory framework; or (iii) cease issuing new stablecoins until issuance falls below the threshold.

The Act prohibits any person who is not a PPSI from issuing payment stablecoins. Federal regulators are empowered to approve applicants, examine compliance, and enforce the requirements of the Act.

Foreign Payment Stablecoin Issuers

A foreign payment stablecoin issuer is one that does not qualify as a PPSI and is organized or domiciled in a foreign country or U.S. territory, including Puerto Rico. Foreign issuers may operate in the U.S. if they: (1) are subject to a comparable regulatory regime (as determined by the Secretary of the Treasury); (2) register with the OCC; (3) maintain sufficient reserves at a U.S. financial institution; and (4) comply with applicable sanctions and lawful order requirements.

Legal Ambiguity in the GENIUS Act's Applicability to Puerto Rico

Puerto Rico entities are designated as foreign issuers under Section 2(12). However, Section 2(28) defines "State" to include U.S. territories. As a result, we understand that if Puerto Rico's financial regulator, likely the Office of the Commissioner of Financial Institutions (OCIF), obtains certification from the Stablecoin Certification Review Committee ("SCRC") that its regulatory regime is substantially similar to the federal framework, Puerto Rico-based issuers could qualify as state-qualified PPSIs.

Absent this certification, Puerto Rico issuers must meet the requirements applicable to foreign issuers. This dual-path framework leaves Puerto Rico-based issuers in a state of regulatory uncertainty until further federal implementation rules are issued.

Effective Date

The GENIUS Act will take effect on the earlier of: (1) 18 months after enactment (January 18, 2027); or (2) 120 days after implementing regulations are finalized. Federal and state regulators, along with the U.S. Treasury, must issue the necessary implementing regulations within one year of enactment and

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coordinate to ensure consistent application.

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