

The GENIUS Act and Financial Stability

Full-reserve backing makes stablecoins safer than banking. High-quality liquid assets, combined with mandatory par redemption and transparent monthly disclosures, mitigate key run and liquidity risks.

Secondary market deviations are not depegs. They represent normal supply and demand dynamics that actually help maintain the peg by creating arbitrage opportunities and market incentives to move liquidity where needed.

Flexible capital requirements address asset quality variations. The Act ensures that stablecoin issuers maintain adequate cushions against market, credit, and operational risks without imposing one-size-fits-all constraints that could stifle innovation.

Broader adoption will reinforce stability. As more regulated, well-capitalized institutions use and endorse stablecoins, consumers and markets place greater trust in their stability and legitimacy

GENIUS in context

The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025), signed into law on July 18, 2025, creates the first comprehensive federal regulatory framework for payment stablecoins, establishing robust safeguards against financial instability while fostering innovation in digital payments. This legislation fulfills the administration's commitment to making America the "crypto capital of the world," with stablecoins representing a critical pathway to achieving technological and economic leadership in the digital economy.

Full-reserve backing makes stablecoins safer than banking

At the heart of the GENIUS Act's protective framework is its requirement that all regulated stablecoins maintain 1:1 backing with high-quality liquid assets, including U.S. Treasuries, cash, and other low-risk instruments. This full-reserve backing, combined with mandatory par redemption and transparent monthly disclosures, mechanically mitigates the key run and liquidity risks that have plagued unregulated digital assets.

Unlike traditional banks that engage in maturity transformation and fractional reserve lending, exposing them to both credit and liquidity risks,

stablecoin issuers under the GENIUS Act can hold short-term government bonds, the prevailing standard for maintaining stable value. This fundamental distinction makes regulated stablecoins inherently safer than traditional banking, past or present. Banks create credit money through lending, generating unsecured liabilities that depend on complex institutional arrangements to maintain stability. Stablecoins, by contrast, are non-credit money and are backed dollar-for-dollar by the prevailing method for maintaining stable value, eliminating the credit risk inherent in bank deposits while providing superior liquidity.

The stability framework under the GENIUS Act could be further strengthened by recent Federal Reserve developments. On October 21, 2025, Fed Governor Christopher Waller proposed "skinny" master accounts—streamlined payment accounts that would give stablecoin issuers direct access to Federal Reserve payment rails. These accounts could allow eligible issuers to hold a portion of their reserves directly with the Fed as central bank money, eliminating counterparty risk from intermediary banking partners that could themselves be subject to runs. Combined with Treasury-backed reserves, this direct Fed access would provide an additional stability backstop.

Secondary market deviations are not depegs

Critics who point to temporary price deviations in secondary markets as evidence of instability risk misunderstand the difference between normal secondary trading fluctuations that exist for any asset—including the U.S. dollar—and stablecoin redemptions, which are required to be made at full value. Small secondary market fluctuations are the result of market participants who may decide to offload an asset immediately, and are willing to take a value less than par for whatever reasons. This is a normal feature of a healthy market for any asset. The critical test for singleness is whether stablecoins are accepted at par in actual payment contexts, and the evidence is clear: regulated stablecoins today are used at par for peer-to-peer remittances and payments for goods and services.

Secondary market deviations from par do not constitute depegs; they represent normal supply and demand dynamics that actually help maintain the peg by creating arbitrage opportunities and market incentives to move liquidity where needed. When temporary imbalances occur, market participants can profit by moving stablecoins to where demand is highest. As regulatory standards and infrastructure mature under the GENIUS Act, these deviations should become rarer and more constrained, serving as useful market signals rather than threats to stability.

Flexible capital requirements address asset quality variations

The GENIUS Act further strengthens stability through flexible capital requirements that allow regulators to account for variations in the quality and risk profile of backing assets. Federal and state regulators are mandated to issue tailored capital, liquidity, and risk management rules, ensuring that any differences in reserve composition can be properly addressed through appropriate capital buffers. This regulatory framework mirrors the successful approach taken with traditional banking—creating standardization across issuers while maintaining prudential oversight. By allowing regulators to calibrate requirements based on the specific risks of different reserve assets, the Act ensures that stablecoin

issuers maintain adequate cushions against market, credit, and operational risks without imposing one-size-fits-all constraints that could stifle innovation.

Broader adoption will reinforce stability

Moreover, as stablecoin adoption expands under the GENIUS Act's clear regulatory framework, a virtuous cycle of stability emerges. Broader adoption across consumers, financial institutions, and decentralized finance platforms strengthens arbitrage dynamics and market discipline. A wider, more diverse user base reinforces confidence through network effects: as more regulated, well-capitalized institutions use and endorse stablecoins, consumers and markets place greater trust in their stability and legitimacy. This confidence drives increased use, which in turn deepens stability by aligning the interests of issuers, intermediaries, and users around preserving the peg. The reputational spillover from institutional adoption creates self-reinforcing expectations that stablecoins will maintain parity, making it increasingly costly for any issuer to deviate from best practices.

Conclusion: A pathway to safer, more efficient payments

The GENIUS Act provides the regulatory clarity, risk guardrails, and institutional backing needed to transform stablecoins from experimental instruments to mainstream payment tools. By requiring full reserve backing, transparent disclosures, and federal supervision, the Act creates the conditions for stablecoins to achieve true singleness—where each regulated dollar stablecoin functions equivalently to a dollar. Rather than posing systemic risks, properly regulated stablecoins under the GENIUS Act offer a pathway to safer, more efficient payments while cementing the U.S. dollar's status as the global reserve currency and positioning America as the leader in the digital financial revolution.

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