

Safety by Design: Why GENIUS Gets Stablecoin Regulation Right

Payment stablecoins carry a narrower risk profile than bank deposits, and GENIUS regulates them accordingly

The Promise of GENIUS Stablecoins

PAYMENT STABLECOINS REGULATED UNDER THE GENIUS ACT ARE among the most consequential innovations in U.S. financial infrastructure in a generation. They give the dollar a digital, programmable form that moves at internet speed, settles around the clock, and reaches users wherever they are. For the United States, the strategic upside is substantial.

Domestically, stablecoins promise faster and cheaper payments, real-time settlement, and a foundation for tokenized financial markets. They expand access to new and better payment services for households and small businesses underserved by the traditional banking system. They generate steady, structural demand for short-dated U.S. Treasuries, supporting the depth of the most important market in the world.

Globally, the promise is larger still. The dollar's role as the world's reserve and invoicing currency has historically depended on physical cash, correspondent banking, and SWIFT messaging. GENIUS stablecoins modernize this role, with a new digital form of money that can be held and used globally by anyone with a smartphone. For populations in countries with weak currencies or limited access to U.S. banking, pre-GENIUS dollar stablecoins are already functioning this way. A well-regulated U.S. stablecoin framework will make USD payment stablecoins trusted money.

Stablecoin regulation is therefore not merely a domestic policy matter—it is a key instrument of U.S. economic and geopolitical leadership in the digital age. We must get this regulatory framework right: rigorous enough to maintain trust, calibrated enough not to stifle the benefits.

GENIUS got the regulation right for the risk profile

GENIUS recognizes that payment stablecoins are not bank deposits and sets out a regulatory framework appropriate for stablecoin issuers, not banks. Bank regulation exists to manage the specific risks banks take. Banks lend. They create deposit money by lending: backing on-demand, liquid deposits with long-term, illiquid loans. They operate at high leverage. The Basel capital and liquidity framework, deposit insurance, stress testing, and resolution planning exist to contain the consequences of these maturity and liquidity transformation activities. GENIUS stablecoin issuers cannot do any of this. They cannot lend, and they do not create new money. GENIUS minimizes the issuer's credit and liquidity risk. The risk surface that bank regulation is designed to address is simply not present on a GENIUS issuer's balance sheet.

Recent academic work makes the point sharply. Hanley and Faulkender (2026)¹ argue that the systemic-risk critique of stablecoins is misplaced precisely because critics evaluate stablecoins as if they were traditional

¹ Hanley, Kathleen Weiss and Faulkender, Michael W., Systemic Risk Implications of Stablecoins After the Passage of the Genius Act (April 28, 2026). Available at SSRN: <https://ssrn.com/abstract=6667738>

financial intermediaries—focusing on leverage, credit exposure, and reserve impairment—when stablecoins do not generate those risks in the first place. The relevant question, they observe, is not whether stablecoin reserves are safe (they are), but whether an issuer continues stablecoin redemptions at par under stress. To the extent stablecoins share a vulnerability with banks, money market funds, clearinghouses, and other institutions, it is a common dependence on the smooth functioning of the U.S. Treasury market—a system-wide feature, not a stablecoin-specific issue. Stablecoins, in their words, do not create a new vulnerability; they make an existing one more visible.

This is the correct frame for evaluating GENIUS. The Act regulates the risks that stablecoin issuers actually present—full reserve backing and asset quality, redemption integrity, segregation and bankruptcy remoteness, operational resilience, and AML compliance—and it does so with provisions calibrated to those risks. It accurately targets the actual locus of stablecoin risk, rather than importing a prudential stack designed for credit creation and maturity transformation that addresses different risks altogether.

The result of GENIUS and fundamental to the value proposition of stablecoins is a lower-risk instrument than the bank deposits.² The table below illustrates the point.

Comparison: Bank Deposits vs GENIUS Stablecoins

Risks Carried by the Instrument	Bank Deposits	GENIUS Stablecoins
Are the underlying assets exposed to meaningful credit risk (loans, corporate bonds, longer-duration securities)?	YES	NO
Is there a meaningful maturity mismatch between assets and on-demand liabilities?	YES	NO
Is the issuer leveraged against the assets backing customer claims?	YES	NO
Is the issuer unable by design to meet all redemption claims on demand?	YES	NO
Does the issuer face material interest-rate risk from long-duration assets?	YES	NO
Are reserves and balance-sheet composition opaque to the public?	YES	NO
In the issuer's failure, are customers general unsecured creditors of the estate?	YES	NO
Does the business model rely on a public backstop (deposit insurance, lender of last resort)?	YES	NO
Does the issuer create new credit through lending and contribute to procyclical lending cycles?	YES	NO

Conclusion

Sound regulation matches the regime to the risk. GENIUS does precisely that: it establishes rigorous, purpose-built standards for stablecoins, a money instrument whose risk profile is structurally narrower than a bank deposit's. Layering bank-style prudential requirements on top would not improve safety—the risks those requirements address are not present—but would foreclose the very public benefits, domestic and global, that make payment stablecoins worth getting right. As Congress turns to CLARITY and the agencies finalize their GENIUS rules, the standard should remain regulation that is rigorous for what stablecoins are, not regulation borrowed from what they are not.

² Stablecoin issuers will face higher credit risk, of course, if they hold a significant amount of their reserves in uninsured bank deposits rather than in Treasuries.