

Stablecoins: Finance and Payments in the GENIUS Act Era

Financial Services Regulatory Crystal Ball Series

May 2026

Meet Our Presenters



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Overview of the GENIUS Act

Andrew Balthazor

GENIUS Act Overview



- Federal framework for U.S. “payment stablecoins”
- Harmonizes state and federal oversight
- Standards for reserves, disclosures, and consumer protection
- Takes effect earlier of
 - January 18, 2027; or
 - 120 days after final implementing regulations
- Safe harbor: Non-permitted issuers may continue issuing stablecoins through July 17, 2028. Act § 3(b)(1).

GENIUS ACT: Key Provisions

Defines “permitted payment stablecoins”

- Used for payment or settlement
- Issuer obligated to redeem
- Maintain stable value relative to stable reference asset
- Not a national currency/deposit/security
- Treated as cash/equivalent



Licensing requirements for “permitted payment stablecoin issuers” and federal/state framework



Reserve asset mandates

- 1:1 backing in low-risk liquid assets



Reporting and audit obligations



Prohibitions on stablecoin tying or issuer-awarded interest/yield

Stablecoin Payments

Chris Phillips

Contracting for Stablecoin Payments: Key Legal Considerations

- **Stablecoin settlement changes the contractual framework.**

With 24/7 finality and no network chargebacks, agreements should address refund and error workflows, reversal responsibility, and par-redemption service levels.

- **MTL preemption is a key advantage for non-bank issuers, but it has limits.**
Federal streamlining applies to issuance and redemption by permitted issuers, while ancillary services may still trigger state MTL requirements. Scopes of work and licensing exhibits should map activities precisely.

- **Existing payment-rule concepts need to be adapted to on-chain activity.**

Stablecoin addenda should incorporate authorization records, dispute timing, and data standards, while distinguishing on-ramp/off-ramp activity from native on-chain transactions.

- **Counterparty diligence must extend beyond traditional vendor review.**
Confirm issuer status, reserve custody arrangements, disclosure frequency, outage and incident reporting, and include audit rights and termination triggers tied to regulatory or reserve-policy issues.

Competitive Landscape: Integration, Risks, and What's Next

- **Stablecoins and tokenized deposits serve different use cases.**
Stablecoins fit open-loop, 24/7, cross-platform settlement, while tokenized deposits are better suited to closed-loop bank uses, more familiar controls, and integration with existing cash-management structures.
- **Interoperability and treasury design will be critical.**
Programs should support just-in-time funding between stablecoins and RTP/FedNow, streamline reconciliation, and define sweep rules back to bank liquidity.
- **Deposit effects and customer disclosures require close attention.**
As adoption grows, disclosures should make clear that holders do not receive pass-through FDIC insurance and that par redemption—not insurance—is the core protection.
- **Partnership and M&A activity is likely to accelerate.**
Networks, processors, and banks may build or buy stablecoin capabilities, so diligence should cover reserve attestations, custodial diversification, smart-contract governance, and change-of-law terms.

Stablecoin-Collateralized Lending and the Uniform Commercial Code

Joe Dewey

What is a stablecoin under the UCC?

Classification is the threshold question — it drives the perfection method, the priority waterfall, the choice-of-law analysis, and whether a transferee takes free of your security interest.

The likely characterization

THE TOKEN

Controllable Electronic Record

A record stored in an electronic medium that can be subjected to control under § 12-105. The stablecoin token itself.

THE REDEMPTION RIGHT

Controllable Payment Intangible

The issuer's GENIUS-mandated obligation to redeem at par is a right to payment evidenced by a CER — a CPI under § 9-102.

What a payment stablecoin is NOT

Not a security

Expressly excluded from the federal securities laws under GENIUS § 3

Not a commodity

Expressly excluded from the Commodity Exchange Act

Not electronic money

Article 12 reserves that term for government-issued digital currency

Not a deposit

Despite the 1:1 reserve requirement at insured depositories

WATCH FOR

Article 8 opt-in. If the coin is held by a custodian that treats it as a 'financial asset' in a 'securities account,' it becomes investment property — different rules entirely.
Non-adopting jurisdictions. States that have not enacted the 2022 amendments treat the coin as a general intangible; perfection by control is unavailable.

Two paths to perfection — very different outcomes

Article 9 (as amended in 2022) offers two methods for perfecting a security interest in a stablecoin. They are not equivalent.

PATH 1

By filing a UCC-1

Treat the stablecoin as a general intangible — Article 12 property is captured.

Pros: Familiar mechanics; no custody change; one filing covers all CERs of the debtor.

Cons: Loses to any later interest perfected by control; debtor retains the ability to move the coins.

PATH 2 · PREFERRED

By control (§ 12-105)

Three elements plus identifiability:

- (a) Power to obtain substantially all benefit of the CER
- (b) Exclusive power to prevent others from same
- (c) Exclusive power to transfer that control
- (d) Secured party readily identifiable to a third party

§ 9-326A Control beats filing. A security interest perfected by control has priority over a competing interest perfected by an earlier-filed financing statement.

How control is actually achieved

1

Direct private-key custody

Secured party holds the keys

2

Multi-signature wallet

Lender holds requisite signatures

3

Smart-contract escrow

Transfers gated on lender authorization

4

Tri-party custody

Qualified custodian + control agreement

PRACTICE POINTS

Belt & suspenders: file AND control. **Hard-fork trap:** 21-day grace if a fork creates a new CER you don't control. **Choice of law (§ 12-107):** look to the CER, then the system, then D.C.

Stablecoin Issuer AML Obligations

Peter Hardy

Proposed Anti-Money Laundering Rule

For covered PPSIs, proposed rule largely tracks existing AML rules for financial institutions covered by BSA

But: proposed rule imposes “first of kind” legal requirement to have “effective” sanctions compliance program

PPSIs must file SARs for transactions of \$5K or more, but not for secondary market activity

However: risk assessments may have to include secondary market, and technical ability to block, freeze and reject must include secondary market transactions

Examination, Enforcement and FinCEN Consultation

Stablecoin Holder Redress & Issuer Requirements

Camelia Lopez Shoemaker

When Good Stablecoins Go Bad

Cases and Remedies

Cetus v. Doe / Circle

Decentralized exchange hacked for \$61M. Plaintiffs allege unjust enrichment and negligence in failing to block asset transfers that looked suspicious.

McCollum v. Circle

Decentralized exchange hacked for \$230M+. Plaintiffs allege Circle failed to act during 8-hour bridging and conversion activity that was publicly monitored.

Celacare v. Circle

Plaintiff sent USDC to wrong address. Plaintiff tried to recover from Issuer per theory that stablecoins are security certificates. Case dismissed. Appeal pending.

Legal Remedies?

- *Aided & abetted conversion* **
- *Negligence* **
- *Claim for lost or destroyed security* **
- Conversion
- Unjust enrichment
- Declaratory Judgment
- Criminal reports to FBI / IC3.gov

KEY GAP Users currently lack reliable mechanisms to recover lost or stolen stablecoins.

Cetus Technology Ltd. v. Doe Nos. 1-25 and Circle Internet Group, Case No. 1:25-cv-25130 (SDFL)
McCollum v. Circle Internet Group, Inc., Case No. 1:26-cv-11733 (D.Mass)
Celacare Technologies v. Circle Internet Financial, No. 24-12322, (D.Mass)

Freeze Obligations & Tech Requirements

GENIUS Act

01

Universal Tech Mandate

Every issuer (domestic & foreign) must **build freeze / block / burn / seize capability into its technology** and **must comply** with lawful orders.

02

Layered Compliance

Technical infrastructure + written policies + compliance officers + sanctions screening.

03

Treasury Coordination

Government will try to coordinate with issuer before taking action... but it doesn't have to.

04

Foreign-Issuer Parity

Same requirements apply. Non-compliance triggers trading bans and penalties up to \$1M per day.

05

Decentralization Limit

Fully decentralized, immutable stablecoin designs are effectively prohibited from the regulated U.S. market.

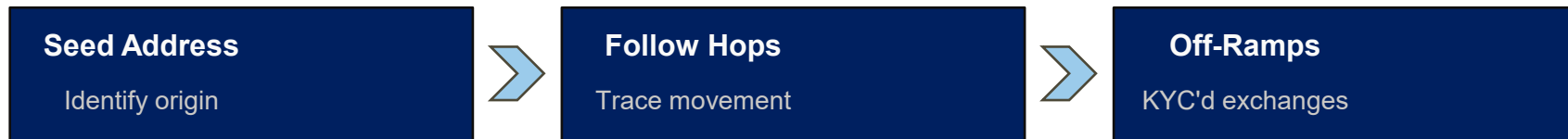
06

Enforcement Lifecycle

Application, examination, and annual certification — with personal criminal liability for false certifications.

Blockchain Tracing & AML Integration

Investigation & Compliance



Why Stablecoins Trace Well

- **Public, immutable ledger** — pseudonymous, not anonymous
- **Clustering** groups addresses via co-spending, gas fees, and behavioral patterns
- **Stable value**
- **Limits:** mixers, privacy coins, cross-chain transfers, DEXs

Integrating Into AML

- Subscribe to blockchain analytics tools
- Train investigations & compliance teams
- Update written AML / sanctions policies
- Build exchange and issuer relationships

GENIUS Act Stakeholders and the Policy Divide

Yasmin Nelson

The GENIUS Act: The Real Policy Fight Isn't Crypto vs. Banks — It's Control of the Future Payments Infrastructure

Emerging Stakeholder Divide

Stakeholder	Primary Objective	Primary Concern
Large Banks	Preserve deposit base & payments dominance	Deposit flight / disintermediation
Community Banks	Protect lending capacity	Loss of local deposits
Stablecoin Issuers	National regulatory clarity & scale	Overly restrictive rules
Payments Companies	Faster, lower-cost settlement	Fragmented compliance obligations
Merchants & Consumers	Reduced friction & lower fees	Interoperability & trust
Policymakers & Regulators	Financial stability & AML integrity	Shadow banking & systemic risk

GENIUS Act + CLARITY Act: What Financial Institutions & Issuers Should Be Watching

Near-Term Outlook

GENIUS Act

- Narrower, payments-focused framework
- Stronger bipartisan viability
- Designed to create guardrails for regulated payment stablecoins
- Prioritizes reserve quality, supervision, AML, and consumer confidence

CLARITY Act

- Broader digital asset market structure legislation
- Reopens debate around:
 - Yield-bearing products
 - Securities classification
 - DeFi integration
 - SEC vs. CFTC jurisdiction
- More politically complex path forward

Strategic Implications for Banks & Issuers

• For Banks

- Stablecoins may reshape deposits, treasury operations, and payment rails
- Opportunity to become:
 - custodians,
 - reserve managers,
 - infrastructure providers,
 - or issuers themselves

• For Stablecoin Issuers & Fintechs

- Regulatory clarity may accelerate institutional adoption
- Market advantage likely shifts toward:
 - trusted compliance frameworks,
 - banking partnerships,
 - transparency,
 - and scalable interoperability

Questions?





Holland & Knight