

GBA Position on the GENIUS Act



EXECUTIVE SUMMARY

The GENIUS Act provides some clarity with respect to the type of stablecoins that can be issued, who can issue them and how they are to be controlled and audited. The majority of the Act is focused on the requirements of the issuer and control and reporting of the assets that back the stablecoins. There is very little defined for the underlying blockchain or distributed ledger that record the stablecoin transactions themselves or the many crypto or non-U.S. dollar fiat currencies that stablecoins can be exchanged into. There is a blanket liability provision against the issuers for the holders of stablecoins, however, the jurisdictionally agnostic nature and functional limitations of the blockchain are overlooked and look to be covered by many standards and practices outlined in the Act that have yet to be defined. As blockchains are not financial ledgers, there are open questions on how the integrity of the stablecoins can be ensured in the long term. The Government Blockchain Association provides a means to assess blockchain solutions and has supplemental set of requirements for Banking and Finance use-cases including stablecoins. There are a series of recommended actions at the end of the report.



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THE GENIUS ACT

The GENIUS Act was passed to provide clarity on the definition, issuance, maintenance and utilization of stablecoins. The goal is only to allow for U.S. dollar based stablecoins to be issued and for the issuers to be regulated by the U.S. However, it is interesting to note that the current public blockchains being used to record the stablecoin transactions are non-U.S., open-source, jurisdictionally ambivalent and are often run through collective groups with no accountability for any issues. The key points of the GENIUS Act are summarized below.



ISSUANCE AND OFFER OF PAYMENT STABLECOINS

It is unlawful for any person to issue, offer, or sell a payment stablecoin in the United States unless the issuer is a permitted payment stablecoin issuer.

- "It is unlawful for any person to issue, or to offer or sell in the United States, a payment stablecoin unless the coin is issued by a 'permitted payment stablecoin issuer'." [1].

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DEFINITIONS: DIGITAL ASSETS AND PAYMENT STABLECOINS

The Act defines digital assets broadly and specifies what constitutes a payment stablecoin to set clear regulatory boundaries.

- "Any digital representation of value that is recorded on a cryptographically secured distributed ledger." [2]
- "Fiat-pegged digital assets redeemable 1:1 in U.S. dollars or high-quality liquid assets such as U.S. Treasuries or Reserve bank deposits." [1]



BACKING AND RESERVE REQUIREMENTS

Issuers must maintain full backing for all outstanding stablecoins and provide regular transparency on reserve holdings.

- "Fully back all issued stablecoins with eligible liquid assets; Publish clear redemption policies; Disclose the monthly composition of their reserves." [1]
- "Requires 100% reserve backing with liquid assets like U.S. dollars or short-term Treasuries." [3]

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LEGAL CLASSIFICATION AND MARKETING RESTRICTIONS

Payment stablecoins are explicitly not treated as securities, deposits, or commodities, and issuers face strict marketing rules.

- "Clarifies that payment stablecoins are not classified as securities, deposits, or commodities." [2]
- "Stablecoin issuers are forbidden from making misleading claims that their stablecoins are backed by the U.S. government, federally insured, or legal tender." [3]
- "Issuers are prohibited from paying interest on stablecoins or marketing them as government-backed or legal tender." [2]

ANTI-MONEY LAUNDERING AND SANCTIONS COMPLIANCE

Stablecoin issuers are brought under the Bank Secrecy Act's regime to strengthen AML and sanctions enforcement.

- "Subjects stablecoin issuers to the Bank Secrecy Act, thereby clearly obligating them to establish effective anti-money laundering and sanctions compliance programs with risk assessments, sanctions list verification, and customer identification." [3]

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INSOLVENCY AND CONSUMER PROTECTIONS

In the event of an issuer’s insolvency, stablecoin holders’ claims receive priority over those of other creditors, ensuring redemption rights.

- "In the event of insolvency of a stablecoin issuer, the GENIUS Act prioritizes stablecoin holders’ claims over all other creditors, ensuring a final backstop of consumer protection." [3]

For the issuers of stablecoins, there are many compliance and reporting requirements. Below is a periodized summary of every key task, report, and regulatory milestone that defined persons under the GENIUS Act must complete, from enactment onward.



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REGULATOR IMPLEMENTATION MANDATES

- Within 180 days of enactment
 - The Treasury Secretary, Federal Reserve Board, OCC and FDIC must issue joint implementing regulations covering permitted-issuer licensing, reserve standards, custody requirements and supervisory procedures.
- Within 360 days of enactment
 - State-qualified payment stablecoin issuers exceeding \$10 billion in outstanding supply must transition to the federal regime or secure a formal waiver from the appropriate federal regulator.

PRE-ISSUANCE AND INITIAL SETUP (PRIOR TO TOKEN LAUNCH)

- Entity Formation & Chartering
 - Obtain a federal charter (OCC approval) or qualify as a state-chartered subsidiary of an insured depository institution.
- Reserve Account Establishment
 - Open dedicated U.S. dollar custodial accounts or approved Treasury-only reserve vehicles.
- Auditor Engagement
 - Retain a PCAOB-registered audit firm to perform ongoing reserve attestations.
- Compliance Program Adoption
 - File and implement AML/KYC, cybersecurity, operational-risk and governance policies with the lead regulator.

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ONGOING DAILY OPERATIONS

- Reserve Maintenance (Daily)
 - Ensure 1:1 backing of every stablecoin in circulation using cash or short-term U.S. Treasuries.
- Redemption Readiness (Real Time)
 - Honor redemption requests at par value upon demand or within the statutory settlement window.
- Books and Records (Continuous)
 - Capture every mint, burn and movement event in a secure, tamper-evident system.

PERIODIC REPORTING AND DISCLOSURES

Periodic Reporting and Disclosures

Period	Task Description
Daily	Monitor reserve account balances versus net tokens outstanding.
Monthly	Publish certified figures for: total issued, total redeemed and net outstanding
	Submit monthly reserve attestation report, audited by PCAOB-registered firm
	CEO/CFO must sign off on accuracy of disclosures
Quarterly	File detailed financial statements and audit committee updates with lead regulator.
Annual	Undergo a full financial and compliance audit by an independent auditor.
	Renew auditor engagement and report any changes.



TRANSITION AND SPECIAL-EVENT DEADLINES

- Exceeding \$10 Billion Cap (360 days)
 - State-qualified issuers must convert to a federal charter or obtain waiver.
- Material Change Notice (Within 3 business days)
 - Disclose any significant operational, governance or reserve-related deviations to the regulator and public.
- Enforcement Response (As specified)
 - Respond to regulator examinations or data-requests according to prescribed timelines (usually within 30 days).

ONGOING COMPLIANCE AND AUDIT

- AML/KYC and BSA Reporting
 - Continually file Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) per FinCEN rules.
- Record Retention
 - Preserve all transaction logs, audit trails and compliance records for at least five years.
- Cybersecurity and Operational-Risk Reviews
 - Conduct annual penetration tests and risk assessments; deliver results to regulators.

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By mapping each requirement to a clear deadline, entities can build a compliance calendar that ensures no task under the GENIUS Act is overlooked. Beyond the timelines above, issuers should watch for forthcoming Treasury and Fed rulemakings, which may refine or add to these obligations.

BOOKKEEPING & REGULATIONS

However, while the GENIUS Act outlines the many responsibilities, the primary focus is on the issuance of the stablecoins and the safekeeping and accounting of the assets that back them, which are controlled on legacy infrastructure. The public blockchains on which the stablecoins are recorded and transacted are predominantly not addressed in the Act and the integrity of the stablecoins records related to being minted, burned and transacted are heavily reliant on undefined oversight by “Registered Public Accounting Firms” within unclear requirements. Separately, with the U.S. jurisdictional focus, the Act does not address the primary use-cases for stablecoins, cross-crypto or cross-border payments between fiat currencies.

It is important to note that the well-known and recognized public and private blockchains are not financial ledgers; they are perpetual, continuous state change logs. They do not:

- record double-entry accounting journals
- have distinct reconciled or archivable transacting periods and
- have no way of recording current period or future-dated payables and receivables

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The Act itself, while it references stablecoin(s) 600+ times, it only references accounting 12 times, distributed ledger 11 times, blockchain 3 times, decentralized finance 2 times and revealingly doesn't reference reconcile, reconciliation or bookkeeping at all.

Although there is this critical gap, the reason that stablecoins can function and the Act is tenable to a certain extent is that, despite the accounting limitations, stablecoins only perform pre-funded transfers and cannot be borrowed or lent like fiat currencies.

Note: although stablecoins can be "staked" in DeFi protocols to earn interest, this is a very risky, unregulated activity and does not replicate spread-based lending of fiat currencies and does not reflect the full accounting of the loans or collateral.

Related to that, somewhat minimally, the Act only requests risk standards guidance and the definition of "digital asset service provider" to be defined as it relates to any interactions with decentralized finance (DeFi) and the staking of stablecoins, where there is a wholly different population of the non-U.S., open-source, jurisdictionally ambivalent, public blockchains. Also, the liability for the record keeping on legacy or digital infrastructure is with the issuer not the public blockchain.



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For reconciliation purposes, the well-known and recognized public and private blockchains rely on a variety of roll-ups; encrypted headers or algorithmically generated outputs to bring their state change logs into a format that can be reconciled with the normal downstream regulatory required general ledgers that will form the basis of any regulated reporting. Consistent with the Act, the Registered Public Accounting Firms will have to develop procedures, controls and auditable reports for the various methods, depending on the blockchain protocol utilized by the stablecoins and some stablecoins are recorded on multiple protocols.

Regardless of the above there is still a question on how the secondary outputs are reconciled, within current audit practices, to the original blockchain state-change logs. The issuer is liable and has to follow bookkeeping standards. As the Act is biased towards U.S. issued stablecoins, the bookkeeping considerations are only U.S. based.

BOOKKEEPING REGULATIONS

The list below are a sample of bookkeeping regulations and standards that the issue and its Registered Public Accounting Firms will have to comply with regardless of the data sets created within the current blockchains.

Expedited Funds Availability Act (Regulation CC) emphasizes accurate reconciliation to prevent discrepancies. [4] [5]

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Section 5 of the Federal Trade Commission Act Reconciliation practices must ensure that customers are not disadvantaged by errors or discrepancies. [4] [5]

Interagency Guidance on Deposit-Reconciliation Practices (issued by agencies like the FDIC, Federal Reserve, CFPB, NCUA, and OCC) outlines supervisory expectations for deposit-reconciliation practices. [4] [5]

Basel Accords: These international banking regulations emphasize risk management and operational efficiency, which include accurate reconciliation as part of maintaining financial stability.

The Sarbanes-Oxley Act (SOX) establishes strict requirements for financial reporting and internal controls, including reconciliation processes. [6]

The Public Company Accounting Oversight Board (PCAOB) requires auditors to verify the accuracy of financial records. Tick-and-tie methods are commonly used during audits to ensure transactions align with supporting documentation.

THE GOVERNMENT BLOCKCHAIN ASSOCIATION'S BLOCKCHAIN MATURITY MODEL

The Government Blockchain Association, (GBA) has developed a Blockchain Maturity Model (BMM) [7] that can assess a blockchain solution for any use case against eleven elements: Distribution, Governance, ID Management, Infrastructure Sustainability, Interoperability, Performance, Privacy, Reliability, Resilience, Security and Synchronization.

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There are also supplemental requirements defined for different use cases. For Banking and Finance twenty-three requirements were classified as required, applicability to be decided in the assessment or not applicable against twenty-four use-cases.

For stablecoins under the GENIUS Act, they would fall under the crypto currencies use-case.

The matrix of requirements vs use cases, which are all defined in the supplement are summarized below.

Financial Service Use Case	Blockchain/Distributed Ledger Technology Requirements																								
	Distributed Ledger Records	Distributed Settlement	Clearance and Settlement	Real-time Settlement	Scalable	High-Capacity	Reconcilable Records	Auditable Records	Identity Verification	Regulatory Reporting/Monitoring	Third Party Legal Responsibilities	Confidentiality	Transaction and Balances	Double-entry Accounting	Tax Lot Accounting	Fractional Reserve Accounting	Digital Securities Issuance	Lending (Payables/Receivables)	Credit and Risk Mgmt Transaction Data	Future-dated Transactions	Interoperability (Legacy Infrastructure)	Interoperability (Other Networks)	Interoperability (Other Protocols)		
Value Transfer Business	R	R	R	A	R	A	R	R	R	R	R	R	R	R	A	R	R	A	N/A	R	A	A	R	A	A
Individual Banking	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	R	N/A	R	R	R	R	R	A	A
Private Banking	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	A	A
Institutional Banking	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	A	A
Community Banking	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	A	R	A	R	R	R	R	R	A	A
Micro Lending / Micro Payments	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	R	N/A	R	R	R	R	R	A	A
Credit Cards	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	N/A	R	R	R	R	R	A	A
Debit/Pre-Paid Cards	R	R	R	A	R	R	R	R	A	R	R	R	R	R	R	N/A	N/A	N/A	R	N/A	R	R	R	A	A
Central Banks and National Banks	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	N/A	R	R	R	R	R	A	A
CBDC	A	A	R	A	R	R	R	R	R	R	R	R	A	R	R	N/A	A	N/A	N/A	N/A	A	A	A	A	A
Capital Markets (Debt/Equity)	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	R	A	A
Structured Products	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	R	A	A
Exchange-Traded Derivatives	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	R	A	A
Over-the-Counter (OTC) Derivatives	R	R	R	A	A	A	R	R	R	R	R	R	R	R	R	R	N/A	R	R	R	R	R	R	A	A
Retail Investing	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	R	A	R	R	R	A	A
Institutional Investing	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	R	A	R	R	R	A	A
Governments	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	R	R	A	R	R	R	A	A
Supernational Bodies	R	R	R	A	R	R	R	R	R	R	R	R	R	R	R	N/A	N/A	R	R	A	R	R	R	A	A
Crypto Currencies	R	R	R	A	A	A	R	R	A	A	A	A	A	A	A	A	R	A	A	A	A	A	A	A	A
CeX	R	R	R	A	A	A	R	R	A	A	A	A	A	A	A	A	N/A	N/A	A	A	A	A	A	A	A
DeFi (incl. DeX)	R	R	R	A	A	A	R	R	A	A	A	A	A	A	A	A	N/A	R	A	A	A	A	A	A	A
NFT's	R	R	R	A	A	A	R	R	A	A	A	A	A	A	A	A	N/A	R	A	A	A	A	A	A	A
P2P Distributed Apps (DApps)	R	R	R	A	A	A	A	A	A	A	A	A	A	A	A	N/A	N/A	A	A	A	A	A	A	A	A

Legend
R = Required
A = Assessment to decide Applicability
N/A = Not Applicable

The well-known and recognized public and private blockchains would not meet all requirements of the GBA's BMM Banking and Financial Supplement.

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Separately, the Performance element is not promoting bigger and faster is better but does the blockchain's scale and capacity meet the requirements of the use-case. Current stablecoin utilization is still small compared to retail or institutional scale financial transaction volumes, so the performance of the blockchains is critical, if widespread adoption is to be considered.

RECOMMENDED ACTIONS

While the GENIUS Act clarifies many aspects for a regulated stablecoin market, there is still a lot to be defined within the Act and beyond what it requires:

The following actions are recommended

:

- All the definitional requirements of the Act need to be clarified within the defined time limits or sooner.
- Any public or private blockchain currently or is planned to be used for stablecoins should go through a GBA BMM Assessment, including the Banking and Financial Supplement.
- The blockchains should go through a scenario-based analyses to test their robustness and resilience against hacks or faulty code.
- The Registered Public Accounting Firms need to document the complete procedures and methods for reconciling and accounting for blockchain ledgers into GAAP/IFRS formats.
- The future use-cases expected of stablecoins beyond pre-funded transfers only, for now, should be defined and the extended requirements of the Act or its regulators should be documented.
- A study should be undertaken to consider the direct use of double-entry accounting, reconcilable and archivable transacting periods and future-dated payables and receivables within any blockchain to be utilized for financial ledgers.

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CONCLUSION

The GENIUS Act has laid a basic foundation for a regulated US dollar based stablecoin market. There are many aspects of the new market that have to be defined, as stipulated in the Act. However, there are aspects Act related the records, performance and auditing of the underlying blockchains that remain unclear or unspecified. Those need to be rectified. The current blanket liability for the issuer against these unclear or unspecified risks, is not a satisfactory solution.

REFERENCES

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