

Navigating the GENIUS Act proposed rulemaking:

Key implications for stablecoin issuers,
financial institutions and service providers



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1. Executive summary

The Office of the Comptroller of the Currency (“OCC”) has issued an extensive proposed rule to implement the Guiding and Establishing National Innovation for U.S. Stablecoins (“GENIUS”) Act. The proposed rule covers permissible activities, reserve standards, redemption, risk management, compliance, custody, capital, examinations, assessments and enforcement. It further contains registration requirements for national banks, federal savings associations, federal branches (and their subsidiaries), non-bank stablecoin issuers, state-qualified payment stablecoin issuers for whom the OCC has regulatory or enforcement authority, and foreign issuers (“covered firms”).

The comment period for the proposed rule ends May 1, 2026 (unless extended), when changes based on industry feedback are expected; there are important areas that warrant attention.

Scope of permitted activities:

- The application of the rebuttable presumptions the OCC will use to assess whether payment of yield/interest is inconsistent with GENIUS Act prohibitions.
- The financial and operational impact of requiring multi-brand stablecoin issuers to issue specific brands under separate legal entities.

Redemption requirements:

- Financial and operational impacts of seven-day mandatory redemption extension if demand exceeds 10 % of outstanding issuance in a single 24-hour period.
- The extent to which OCC mandatory and discretionary redemption extensions incentivize market signaling of stablecoin distress and precipitate runs.

Prudential capital, liquidity and reserve asset diversification requirements:

- Financial and operational impacts of reserve asset diversification requirements, especially monetization expectations and diversification of custody providers.
- Tailoring of internal capital and liquidity planning expectations.

Risk management and compliance:

- Enhancing information security and operational resiliency requirements.
- Enhancing insider and affiliate relationship compliance requirements.



Key elements of the proposal closely mirror the OCC's existing regulatory and supervisory framework for national banks, and the final rule is likely to continue to do so. As a result, covered firms will have to review their activities and upgrade risk management, compliance and reporting capabilities to be comparable to those of national banks.

As a result, covered firms should assess the potential: i) financial and operational impacts and ii) gaps between current prudential, risk management, compliance and reporting programs and capabilities against the proposed rule's requirements.

Some areas for consideration include:

- Confirming the extent to which current activities fall within permitted stablecoin issuer activities.
- Evaluating whether separating issuance by stablecoin brand necessitates structural changes to existing legal entities, operations or product offerings.
- Conducting pro forma financial analyses of reserve composition and custodian diversification for the proposed alternatives (e.g., Options A and B).
- Enhancing intraday liquidity management capabilities to ensure the fair value of reserve assets meets or exceeds par value of tokens outstanding at all times, especially under stress.
- Benchmarking enterprise risk management, cyber and information security programs against OCC handbooks, guidance and Federal Financial Institutions Examination Council ("FFIEC") standards inclusive of third-party and affiliate programs.
- Assessing readiness to meet new regulatory reporting and disclosure standards, including Chief Financial Officer ("CFO") and director attestation requirements and developing related data quality control and assurance programs for comparability to bank reporting and disclosure frameworks.



2. Overview of the proposed rule

2.1. Key considerations

The proposal closely mirrors the OCC's existing regulatory and supervisory framework for national banks while acknowledging the need to calibrate existing requirements to address the activities and risk profiles of stablecoin issuers. As mandated by the GENIUS Act, the proposed prudential, risk management and compliance standards are intended to be consistent with existing law, principles-based, not excessive relative to the need to maintain ongoing operations and tailored to issuer activities.

Although the OCC is soliciting input on whether the proposed rule appropriately balances the considerations mandated in the GENIUS Act, the requirements nevertheless set high expectations for prudent risk management, including operational, compliance and information technology risks standards, that are comparable to national banks. Upon finalization of the rule, the OCC is likely to retain considerable discretion in how it examines against requirements and, therefore, their stringency over time.

As a result, stablecoin issuers, other covered entities and service providers that support them should be prepared to invest in foundational risk management and compliance capabilities that are scalable based on regulatory stringency. The proposed rule also introduces additional requirements around redemption, reserve asset management, regulatory reporting (including custodian diversification) and public disclosure (including attestation) that will likely require significant enhancements in capabilities.

Although extensive, the proposed rule does not cover all rule-making required for GENIUS Act implementation. First, the OCC intends to address Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") and Office of Financial Asset Control ("OFAC") standards, in future proposed rule-making. Second, companion proposals are expected from the Federal Deposit Insurance Corporation (FDIC) and the Clean geometry and strong lines for the banking institutions they supervise. In addition, there are areas in the Act that, do not require rule-making by the OCC but, nevertheless have implications for entities covered under the Act, such as resolution of a stablecoin issuer under insolvency or bankruptcy (e.g., Question 207), as well as certification of state and foreign stablecoin regulatory regimes.

The OCC has explicitly posed over 200 questions soliciting feedback, which, in general, raise questions on whether a final rule should be more prescriptive or specific in several areas.

2.2. Scope of application: issuers, custodians and other digital asset service providers

The GENIUS Act was enacted on July 18, 2025, and is expected to come into effect the earlier of January 17, 2027, or 120 days after final rules are promulgated by federal regulators. The Act grants the OCC the authority to license and supervise payment stablecoin issuers, while also creating explicit requirements for third parties that support stablecoin issuers. The proposed rule also creates implicit requirements for other service providers. Open questions remain as to the full scope of infrastructure providers captured by the proposed rule; however, they may be held to similar standards by virtue of providing a service to in-scope entities. Service providers that support stablecoin issuers should expect more stringent third-party arrangements as covered firms cascade their requirements to their service providers.

The proposed rule applies to the following entities:

- National banks and their subsidiaries
- Federal savings associations and their subsidiaries
- Federal branches and their subsidiaries
- Federal qualified payment stablecoin issuers (inc. non-bank entities seeking approval)
- State qualified payment stablecoin issuers
- Foreign payment stablecoin issuers

2.3. Permitted and prohibited issuer activities

Proposed requirements

Although the proposed rule identifies an explicit set of permitted activities, the proposal contemplates that operational activities that directly support specific activities enumerated in the proposal would also be permissible.

In addition, the activities that have already been deemed permissible for national banks would also be permitted for those institutions; however, many of the conditional approvals for recent national trust applications suggest that some adjustment in the activities of national trust banks may be required.

The OCC will likely receive many comments regarding the set of activities that are deemed to directly support the activities identified in the proposed rule as well as permissible activities for national trust banks versus permitted payment stablecoin issuers.

Furthermore, the proposed rule raises the question as to whether each issuing entity would only be able to issue a single brand of stablecoin. The proposed rule's prohibition on interest or yield will likely receive continued debate and response, as the full perimeter of allowable reward arrangements remain unclear. The OCC is contemplating allowing a *de minimis* exception to such arrangements, and expressly states that prohibition is not intended to restrict a merchant from independently offering a promotional reward that is transactional or activity-based, and not linked to maintaining a balance or holding period.

The full set of permitted activities explicitly cited in the proposed rule include:

- Issuance and redemption of payment stablecoins
- Management of reserve assets
- Custodial/ safekeeping services
- Acting as principal or agent with respect to any payment stablecoins;
- Charging and paying fees that facilitate customer transactions and
- Operational activities that directly support the first three items above.

Key implications for stablecoin issuers

- Conduct a full review of Service Level Agreements (“SLAs”) with affiliates and third-party service contracts and associated data and technology capabilities to maintain a timely, accurate and complete set of agreements.
- Evaluate the consistency of their activities and practices with the set of permitted activities defined in the proposal, with a focus on ones deemed to directly support the activities in the first three bullets above.
- Assess the impact on existing legal entity structures and operations if the OCC limits permitted payment stablecoin issuers to issuing a single brand of payment stablecoin as described in the proposal.

Prohibited activities include:

- Rehypothecation of reserves, except in narrow redemptive or liquidity related circumstances
- Use of names suggesting US government affiliation (e.g., United States, or USG)
- Misrepresenting stablecoins as legal tender or FDIC-insured instruments
- Paying interest or yield to stablecoin holders solely in connection with the holding, use or retention of the payment stablecoin, with two main rebuttable presumptions that prohibited yield/interest is being paid if, 1) issuer has a contract, agreement or other arrangement with an affiliate, or related third party to pay interest or yield, or 2) that affiliate or related third party has a contract, agreement or other arrangement to pay yield or interest to a holder or
- Any practice designed to evade regulatory requirements.



2.4. Redemption

Proposed requirements

The proposal requires issuers to maintain a public redemption policy that must meet certain minimum requirements, including a clear and conspicuous plain English language description of procedures for timely redemption, including instructions on where and how customers can redeem stablecoins along with web links to do so.

More specifically, the proposed rule covers:

- Timely redemption of stablecoins within two business days with no discretion for temporary limitations unless imposed by the OCC (or other primary payment stablecoin regulator).
- Mandatory extension of redemption timeframe of seven calendar days if greater than 10 % of outstanding supply is redeemed in a single 24-hour period with notification to the OCC unless the OCC authorizes a redemption timeframe of less than seven days.
- OCC discretionary extension of timely redemption timeframes to preserve safety and soundness, financial stability or promote the public interest.
- Fees associated with redemptions with consideration for removing charges in liquidation scenarios.
- Fixed minimum unit of redemption amount at 1 stablecoin.

The proposal also considers whether to require that a custody agreement provides for prompt release of custodied covered assets, within a specific timeframe (e.g., Question 163).

Key implications

- Evaluate cash flow forecasting, stress testing, contingency funding arrangements and liquidity risk management, with a focus on intraday monitoring to meet more prescriptive redemption requirements.
- Assess the market stress scenarios under which the OCC may mandate extended redemption timeframes, including the need for early-warning triggers and thresholds.

2.5. Custody

Proposed requirements

The custody requirements of the proposed rule are also principles-based and largely consistent with existing requirements governing custody for other regulated financial institutions, but expand the scope of requirements to cover stablecoin reserves, stablecoins used as collateral, private keys, as well as cash and other property received as part of custodial or safekeeping services provided to the issuer. Additional attention is given to the novel risks associated with digital asset custody.

The custody requirements cover:

- Segregation and protection of customer assets from custodian creditors
- Possession and control standards, depending on the asset
- Use of omnibus accounts with safeguards;
- Exclusion of self-custody software and hardware infrastructure providers from requirements and
- Quarterly reporting requirements on financial condition of custodian, and total covered assets under custody, total payment stablecoin reserves

Key implications

- Review and reinforce key management processes (segregation of duties, audit trails, access controls, transaction orchestration, signing) across both internal and third-party environments with a focus on physical and logical access management and control.
- Evaluate incident response, resilience and recovery plans, ensuring alignment with OCC expectations and coverage of affiliate/third-party dependencies.
- Assess on-chain detection capabilities to identify potential vulnerabilities and emerging threats.
- Validate that smart contract logic supports timely asset release during redemptions or enforcement actions.

2.6. Risk management

Proposed requirements

The risk management requirements of the proposed rule are intended to be principles-based and tailored to the business model and risk profile of issuers in a manner consistent with applicable law. As a result, existing laws, rules, regulations and guidance for national banks should be calibrated to address the operational, compliance and information technology risk considerations applicable to covered firms. Notably the requirements closely resemble the conditions applied to recently approved National Trust Bank charters for digital native firms.

The proposal's risk management requirements are largely focused on operational risk because the OCC views operational risk as the most material source of risk for covered firms and related activities such as custody. The final rule may contain additional risk management provisions concerning the use of smart contracts and blockchains, as the OCC has asked via its questions whether specific aspects of these technologies should be considered and incorporated. Additionally, the OCC prescribes five broad internal control requirements such as segregation of duties and timely and accurate reporting.

Proposed requirements cover the following areas:

- Internal controls and information systems.
- Information technology and security program requirements, including digital asset/key management, appointment of a qualified Information Technology and Security Officer, and the creation of an inventory and classification of assets, processes and sensitivity of data with supporting controls and processes.
- Board-approved security policies and independent testing and continuity planning.
- Insider and affiliate transaction oversight and service provider oversight.
- Evaluation and monitoring of earnings and prudent asset growth consistent with risk management capabilities, capital levels, operational capacity and staffing.
- Internal audit, with specific requirements such as providing adequate monitoring and a system of independent review of key controls, and adequate independent testing.

Key implications

- Evaluate the consistency of their risk management and information security policies, practices, process and internal controls with existing requirements for national banks as set forth in existing OCC handbooks and guidance, including FFIEC manuals.
- Review the quality of process and control map documentation, data accuracy and timeliness, risk assessment and testing of stablecoin operations, such as issuance/redemption and key management.
- Assess internal audit methodologies, process and staffing regarding risk management, compliance and operations with a focus on blockchain-related risks.
- Develop quality control and assurance programs with consideration for internal controls and monitoring capabilities for new technologies, such as smart contract operations.
- Tailor existing operational resilience capabilities, including mapping key business services to stablecoin activity.
- Evaluate the effectiveness of vendor risk management programs and related affiliate and third-party servicing arrangements.

2.7. Reserve requirements

Proposed requirements

Issuers must maintain one-to-one backing of stablecoins with identifiable, segregated reserve assets (from the custodian's or issuer's own assets), whose fair value equals or exceeds outstanding stablecoin issuance (as defined in the proposal). The requirement must be met "at all times" and breaches reported to the OCC, although the OCC does not specify a timeframe for when the OCC must be notified.

There are several types of assets eligible to meet reserve composition requirements, including in tokenized form, with avenues to request approval from the OCC for others, including:

- 1 US currency and coins (including Federal Reserve notes), or money standing to the credit of an account with a Federal Reserve Bank.
- 2 Funds held as deposits or insured shares payable upon demand at an insured depository institution, subject to FDIC limitations
- 3 US Treasuries with remaining maturity of 93 day or less.
- 4 Repos with a no longer than overnight maturity backed by Treasury bills with a maturity of 93 days or less.
- 5 Overnight (reverse) repos with the issuer acting as a purchaser, and collateralized by Treasury bills, notes or bonds with less than 93 days maturity.
- 6 Securities issued by registered investment companies or other registered Government money market funds invested in the items above.
- 7 Any other similarly liquid Federal Government-issued asset approved by the OCC .
- 8 Compliant tokenized forms of the above.



Issuers are required to demonstrate the operational capability to access and monetize reserve assets; if there are surpluses in reserve assets, issuers are only permitted to withdraw excesses on a monthly basis after examination and certification report requirements have been met.

The OCC proposes two alternative options to meet the reserve asset diversification and concentration requirement:

Option A: a principle-based approach requiring issuers to maintain reserve assets that are sufficiently diverse to manage potential credit, liquidity, interest rate or price risk, with non-mandatory safe harbor provisions that give issuers discretion in how to meet reserve asset diversification requirements, subject to satisfying allocations of reserve assets in specific forms.

Option B: a prescriptive approach based on Option A that mandates a standardized diversification requirement modeled on the safe harbor provisions in Option A across issuers.



Notably, Option B would make the provision for issuers to maintain a weighted average maturity of no more than 20 days a requirement rather than a safe harbor. There is an additional requirement that issuers with \$25b or more of issuance maintain at least 0.5%, capped at \$500m, of reserves in insured deposits or insured shares at an insured depository institution. The feasibility of meeting this requirement is expected to attract industry comment. The OCC imposes strict requirements for failure to meet minimum reserve asset requirements, including prohibiting the issuer from issuing any new payment stablecoins immediately.

Additionally, the asset diversification criteria introduce additional requirements for subject firms. Although Option A provides more leniency and allows institutions to tailor their approach to their business and risk profile, demonstrating reserve adequacy and management may require significant enhancements for digital natives to bring capital management capabilities more inline with the OCC's expectations based on its experience with national banks. On the other hand, although Option B would be easier to implement and removes ambiguity, it may be considered overly stringent compared to current practices, as the Option implies a requirement for non-bank issuers to use at least three reserve custodians and bank issuers to use at least two reserves custodians (in addition to the issuing bank).

Key implications

- Issuers and their custodians should develop well-defined procedures, processes and controls to monetize reserve assets with a focus on stressed market conditions.
- Issuers should conduct pro forma financial analysis to assess the financial impact of Option B and assess what changes in reserve composition are needed to meet the allocations prescribed in the approach while maintaining a prudent buffer.
- In light of the proposal's requirement that the fair value of reserve assets cover the par value of stablecoin issuance at all times, issuers should assess their intraday liquidity management capabilities, particularly under stress.

2.8. Capital and operational backstop

Proposed requirements

Consistent with other sections of the proposed rule, capital requirements are intended to be principles-based, tailored to the business model and risk profile and not exceed requirements sufficient to ensure ongoing operations. As a result, the OCC is proposing a minimum capital requirement that focuses primarily on the operational risk of stablecoin issuers because the OCC deems credit risk, market risk and interest rate risk as either minimal for stablecoin issuers or addressed in other sections in the proposed rule (e.g., reserve asset composition and diversification requirements). However, the OCC does not propose a specific ongoing requirement but rather discusses several possible alternatives where extensive feedback is both solicited and expected.

The proposal sets initial capital requirements based on individual evaluations of capital adequacy consistent with the process the OCC applies when determining minimum capital requirements for chartering national trust banks under existing guidance for National Trust Banks (OCC Bulletin 2007-21, "Supervision of National Trust Banks: Revised Guidance: Capital and Liquidity"). Under that guidance, the capital amount is based on an analysis of quantitative and qualitative factors, including, but not limited to, the nature of activities, financial projections, as well as fixed and variable expenses.

The proposed rule implies that stablecoin issuers will need a well-defined capital planning process to ensure capital adequacy on an ongoing basis consistent with the issuer's activities and risk-profile.

Key aspects of the capital considerations discussed in the rule include:

- Minimum \$5 million of capital for de novo issuers (3-month period).
- Definitions of regulatory capital are based on Common Equity Tier 1 (CET1) and Additional Tier 1 (no Tier 2 definition).
- No minimum CET1 or Tier 1 requirements and no capital deductions (such as for goodwill and intangible assets), but with consideration for an ongoing capital requirement based on market factors (e.g., stablecoin issuance, reserve asset volatility).
- Operational backstop that entails a quarterly calculation based on 12 months of operating expenses in readily available liquid assets that are separately identified and reported.
- Prompt corrective action framework that requires a stablecoin issuer to liquidate reserve assets, cease issuing new stablecoins and redeem outstanding ones (without charging redemption fees) if a permitted stablecoin issuer fails to meet its capital or backstop requirements for two consecutive quarters.
- OCC discretion to impose minimum capital requirements.
- OCC imposition of semiannual and discounted (relative to national banks) on balance sheet asset-based assessments for examinations.
- Consideration for whether to allow or mandate existing National Trust Banks to adopt the capital standard applicable to stablecoin issuers.
- Consideration for adjustments in retained earnings, receivables and risk-weighted assets for stablecoin issuers that are subsidiaries of insured depository institutions to reflect deconsolidation requirements.

Key implications

- Conduct pro forma financial analysis to assess the potential financial impacts of the alternatives described in the proposed rule, inclusive of assessment fees and deconsolidation for stablecoin issuers that are subsidiaries of insured depository institutions.
- Evaluate the effectiveness and sustainability of internal capital management processes and controls with a focus on enhancements as appropriate to align more closely with the practices of national banks.

2.9. Reporting, audit, and disclosure

Proposed requirements

The proposed rule includes specific requirements regarding reporting, audit and disclosure that align very closely with the requirements for OCC national banks.

Reporting and disclosures

The OCC proposal emphasizes supervisory reporting for payment stablecoin issuers, establishing a prudential reporting structure focused on reserve sufficiency and segregation, redemption activity, financial condition and capital levels.

Daily	■ Daily reporting to OCC if reserve assets fall below outstanding stablecoin issuance on any day and will require intraday monitoring.
Weekly	■ Weekly confidential reports to OCC.
Monthly	■ Monthly composition reports: composition, tenor, geographic location of custody and external accountant examination attestation.
Quarterly	■ Quarterly financial statements , including income, expenses, balance sheet, reserves, capital and assets under custody. CFO and directors must provide formal attestation.
Annually	■ Annual audited financials for issuers with >\$50b. Within 180 days after the application approval and annually thereafter, AML and sanctions board certification (applies to all issuers).

Key implications

- Assess regulatory reporting capabilities inclusive of data and technology processes against existing and comparable regulatory reporting instructions for national banks (e.g., FFIEC 051) to inform plans to meet requirements for reports of financial condition.
- Evaluate quality control and assurance programs to support CFO and director attestations with a focus on data quality, availability, governance and lineage to support new reporting line items in the proposed rule.
- Implement daily monitoring and reporting and disclosure processes for reserve assets and establish escalation and remediation capabilities intraday.

2.10. Conclusion

Although the proposed rule remains open to comment and subject to change, the OCC's direction regarding risk management, compliance and disclosure expectations are clear. Covered firms will be required to align their practices accordingly, with due consideration for the nature of their activities and risk-profiles. Alignment will require the creation and maintenance of new capabilities to support risk management, compliance and disclosure. Furthermore, the proposed rule incorporates requirements that are tailored to address the risks associated with payment stablecoins, which will also require the development and maintenance of new capabilities. As a result, there are "no-regret" actions that covered firms can take to ensure they can meet requirements in an effective and sustainable manner.

At a minimum, these include:

- Confirming the extent to which current activities fall within permitted stablecoin issuer activities.
- Evaluating whether separating issuance by stablecoin brand necessitates structural changes to existing legal entities, operations or product offerings.
- Conducting pro forma financial analyses of reserve composition and capital alternatives (e.g., Options A and B).
- Enhancing intraday liquidity management capabilities to ensure the fair value of reserve assets meets or exceeds par value of tokens outstanding at all times, but especially under stress.
- Benchmarking enterprise risk management, cyber, and information security programs against OCC handbooks, guidance and FFIEC standards inclusive of third-party and affiliate programs.
- Assessing readiness to meet new regulatory reporting standards, including CFO and director attestation requirements and developing related data quality control and assurance programs for comparability to bank reporting frameworks.



How we can help

Ernest & Young LLP participates in the digital asset ecosystem and is the leader in digital asset product strategy, blockchain technology, risk management and compliance (including financial crimes) with the experience, credibility and capabilities to support participation in the digital assets ecosystem.

We support traditional regulated institutions, digital asset native firms and digital asset natives seeking regulatory licenses who are developing digital asset strategies, blockchain capabilities, risk management and compliance to support a client's end-to-end digital asset journey.

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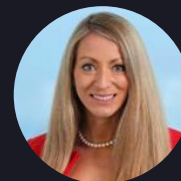
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