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## POST-GENIUS ENACTMENT: LEGAL DEVELOPMENTS AND IMPLICATIONS FOR PAYMENT STABLECOIN

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### ABSTRACT

This study looks at stablecoins' quick development from erratic, cryptocurrency-backed experiments to a regulated cornerstone of the world's financial system. The study illustrates the crucial requirement for high-quality, fiat-backed liquid reserves to maintain price parity by examining the past shortcomings of algorithmic and crypto-collateralized models, such as BitUSD, NuBits, and Terra USD-LUNA.

The Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act of 2025, which created the first federal statutory framework for payment stablecoins and successfully settled jurisdictional disputes between the SEC and CFTC, is thoroughly examined in this study. It also examines the technical and regulatory guidelines established by CFTC Staff Letters 25-39, 25-40, and 26-05, which elucidate the function of national trust banks and tokenized assets in the ecosystem of digital assets.

Finally, the study takes a comparative perspective, assessing the different regulatory paths followed by the UAE and Japan. The UAE uses a layered regime under the Central Bank's Payment Token Services Regulation (PTSR), as demonstrated by the 2026 launch of the DDSC stablecoin, whereas Japan incorporates stablecoins as electronic payment instruments into its Payment Services Act.

**Keywords:** Payment stablecoin, tokenized assets, CFTC letters, GENIUS Act, stablecoin reserves.

## INTRODUCTION

Stablecoins are a type of crypto asset, which maintains a stable value relative to a specific currency. They are issued on distributed ledgers; blockchains, like other crypto assets. However, they are operated and issued in such a manner by entities like financial institutions that they maintain a fixed value relative to a specific currency backed by reserved assets. Stablecoin is backed with high liquidity assets in 1:1 ratio by the issuers. Currently existing stablecoins are operated in USD. The regulations related to stablecoins are constantly evolving.<sup>1</sup>

Stablecoins have a high potential to be used in different types of payment transactions yet they are currently mostly used for crypto trades. According to data, stablecoin issuance has doubled in the past two years due to increase in crypto trades and cross-border payments, filling the gap between volatile unbacked crypto assets and fiat currencies.<sup>2</sup>

Stablecoin are transferable peer-to-peer and through intermediaries and exist on-chain. Digital wallet, exchanges (centralized or decentralized), asset custodians and block chain validators are a part of the stablecoin ecosystem. Stablecoin is essentially regulated by rules enforced by the issuer's governing body. They are issued by approved issuers on demand with the promise that the coins would be redeemed at the pegged rate. Buyers transfer the funds to the issuer and in return are issued the stablecoin after the funds are added to the reserve.<sup>3</sup>

Traditional and tokenized assets are different from stablecoins in various ways. Tokenization of an asset does not change its fundamental characteristics, it just changes the process and way in which the asset is recorded, issued and transferred aiming to make the process more efficient and less financially straining. Tokenization creates a digital representation of an asset usually on a blockchain.

The GENIUS Act<sup>4</sup> enacted on 17<sup>th</sup> July, 2025, brings order to this evolving sector. It sets certain standards as to who can issue stablecoins and how the reserves to back the stablecoin are to be

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<sup>1</sup> Jack Manley, *What is a stablecoin?*, JP Morgan (Sept. 7, 2025), <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/on-the-minds-of-investors/what-is-a-stablecoin/>.

<sup>2</sup> Ibid.

<sup>3</sup> Yuxuan Tang, *Demystifying Stablecoins: The use cases, the pegging mechanism, and the implications on financial market*, JP Morgan (Oct. 13, 2025), <https://privatebank.jpmorgan.com/apac/en/insights/markets-and-investing/demystifying-stablecoins>.

<sup>4</sup> Guiding and Establishing National Innovation for U.S. Stablecoins Act, 2025 (U.S.).

managed. It also lays down the procedures to get the approval to issue and use stablecoins as collateral for assets.

## HISTORY AND EVOLUTION OF STABLECOIN

BitUSD was the first stablecoin in the world was issued on July 21<sup>st</sup>, 2014. It was a crypto backed stablecoin which was issued by Bitshares blockchain. It collapsed in 2018 after losing its 1:1 parity with the USD.<sup>5</sup> Therefore, BitUSD was more like a volatile digital asset and not a stablecoin. However, it introduced the concept of a pegged cryptocurrency or a pegged digital asset.

NuBits was also similar to BitUSD launched in 2014, but it used Seigniorage system to maintain the peg. It still failed in the end because Bitcoin was a volatile asset. As soon as the value of Bitcoin crashed or spiked, the coin's reserves became inadequate. When Bitcoin's value increased people would instantly redeem NuBits to get Bitcoins and when Bitcoin's value decreased, demand for NuBits would go up. This investor sentiments in play made it difficult to maintain the peg.<sup>6</sup>

Terra USD-LUNA was a two coined system. It maintained the peg to USD by controlling the demand and supply by using LUNA pool as counterweight. Arbitrageurs were allowed to trade \$1 worth of LUNA for 1 UST, and vice versa, regardless of LUNA and UST prices. To incentivize adoption of UST, the anchor protocol offered a yield of 19.5% to the depositors. This generated significant inflow of funds and led to issuing to large amount of UST. However, as the inflow of funds through deposits increased it became increasingly tough to maintain that subsidy rate.<sup>7</sup> Later due to a fall in cryptocurrency value, LUNA's market value diminished more than UST. Entry rate also decreased as exit rate increased. It ultimately failed.

In all these cases there was one common factor: they tried to create a stable digital asset back by a highly volatile asset. This is the flaw. A volatile asset cannot be used as a reserve asset to maintain a peg for a stable asset.

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<sup>5</sup> Jean Chalopin, *The History of Stablecoins*, Deltec Bank & Trust (2024), <https://www.deltecbank.com/news-and-insights/the-history-of-stablecoins/>.

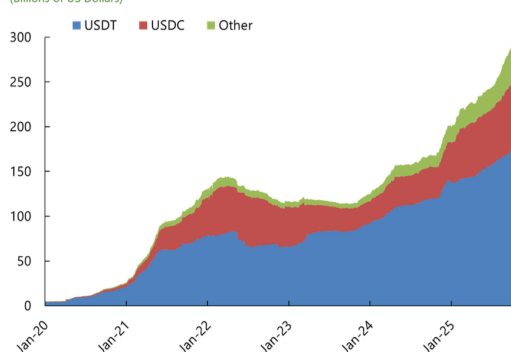
<sup>6</sup> Reserve Research Team, *The End of a Stablecoin: The Case of NuBits*, Reserve Blog (2024), <https://blog.reserve.org/the-end-of-a-stablecoin-the-case-of-nubits-dd1f0fb427a9>.

<sup>7</sup> Antoinette Schoar, Igor Makarov, Jiageng Liu, *Anatomy of a Run: The Terra Luna Crash*, MIT Sloan School of Management (May 22, 2023), <https://mitsloan.mit.edu/cfi/anatomy-a-run-terra-luna-crash>.

Tether (USDT) and Circle (USDC) understood this principle. Their stablecoin was not backed by a volatile asset. Instead, it was backed off the blockchain on hard liquid reserves of fiat currency making it comparatively easier to maintain the pegged rate.<sup>8</sup> Their efficiency makes them prosper in today’s era.

Although stablecoin supply has grown significantly in recent years, it is still only a small portion of the total value of cryptocurrency assets. Since 2024, the amount of stablecoins issued has doubled, reaching approximately \$300 billion. The two biggest stablecoins, USDT and USDC, account for over 90% of the market. The majority of stablecoins are valued in US dollars. Tether's USDT is headquartered in El Salvador, whereas Circle's USDC is headquartered in the US. In 2024, the trade volume of USDT and USDC reached \$23 trillion, a 90% increase from 2023.<sup>9</sup>

**1. Selected Stablecoin Market Capitalization**  
(Billions of US Dollars)



**2. Crypto v Stablecoin Market Capitalization**



Sources: CoinGecko and IMF staff calculations

## THE GENIUS ACT 2025

Until 2025, there was no single federal definition for stablecoins in the U.S., which left the industry operating in a legal gray area. In the absence of national laws, individual states stepped in with their own rules, and federal regulators mostly governed through court cases.

The Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, enacted on 17<sup>th</sup> July 2025, represents the first comprehensive federal statutory framework for

<sup>8</sup> MacKenzie Sigalos, *A Stablecoin Collapse Could Spill Into U.S. Bond Market: Academic*, CNBC (13 January 2023), <https://www.cnbc.com/2023/01/13/a-stablecoin-collapse-could-spill-into-us-bond-market-academic.html>.

<sup>9</sup> International Monetary Fund, *Understanding Stablecoins*, 17 (IMF Dep’t Paper No. 25/009, 2025).

payment stablecoins in US history.<sup>10</sup> This Act resolved the longstanding jurisdictional conflict between the SEC and CFTC by providing clear legal categories and standards for the stablecoin industry, successfully replacing the previous model of rule-by-lawsuit with a unified statutory framework. The aim of the Act is to integrate digital assets into the mainstream financial system while supporting the primacy of the U.S. dollar.

The act gave the statutory definition of payment stablecoin, defining it as a digital asset recorded on a cryptographically secured distributed ledger that satisfies three criteria: it must be designed for payment or settlement, the issuer must be legally bound to redeem it for a fixed monetary value, and the issuer must maintain a reasonable expectation of stable value relative to that amount.<sup>11</sup>

The issuance of payment stablecoin is limited to Permitted Payment Stablecoin Issuers as per the Act.<sup>12</sup> The GENIUS Act limits issuance to Permitted Payment Stablecoin Issuers (PPSIs) through three channels: bank subsidiaries overseen by the Fed or FDIC, OCC approved nonbanks or uninsured national banks, and state licensed entities. To use the state pathway, issuers must maintain less than \$10 billion in circulation, and the state's rules must be certified as substantially similar to federal law.<sup>13</sup>

Significantly, Section 4(a)(11) of the Act prohibits issuers from paying any form of interest or yield to holders;<sup>14</sup> this zero-remuneration policy is a strategic safeguard designed to prevent stablecoins from competing with traditional bank deposits and triggering deposit flight from community banks.

The act also excludes national currencies, commodities, traditional bank deposits and securities from this definition, which further clarifies the jurisdiction. Section 17 of the Act explicitly amends the Securities Act of 1933 and the Commodity Exchange Act to clarify that compliant payment stablecoins are not securities or commodities.<sup>15</sup> By removing these assets from the oversight of the SEC and CFTC, the primary supervision is under the Office of the Comptroller of the Currency (OCC), the Federal Reserve, and the FDIC.

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<sup>10</sup> GENIUS Act, *supra* note 4, 2025.

<sup>11</sup> GENIUS Act, § 2(22), 2025.

<sup>12</sup> GENIUS Act, § 3(a), 2025.

<sup>13</sup> GENIUS Act, § 4(c) (1), 2025.

<sup>14</sup> GENIUS Act, § 4(a) (11), 2025

<sup>15</sup> GENIUS Act, § 17, 2025.

The Act also introduces strict safety rules that mirror traditional banking principles. It says that every approved issuer to maintain at least one dollar in safe reserves for every one stablecoin they issue.<sup>16</sup> These reserves are limited to high-quality assets, such as cash or U.S. Treasury debt that expires in 93 days or less. Additionally, the Act mandates federal oversight for issuers exceeding \$10 billion in circulation and grants holders ratable priority to ensure they are paid first from reserves during bankruptcy.<sup>17</sup>

To prevent financial crime, the Act treats issuers as "financial institutions" under the Bank Secrecy Act.<sup>18</sup> This requires bank-level identity checks and federal oversight, going further than the basic data-sharing required by the international FATF Travel Rule. Additionally, Section 4(a)(11) bans issuers from paying interest.<sup>19</sup> This ensures stablecoins are used as payment tools rather than savings accounts, protecting local community banks from losing their deposits to digital assets.

The act was further refined with the issuance of the Letter 26-05 by the CFTC, which corrected an omission in the original regulation by explicitly including National Trust Banks as permitted issuers for using stablecoins as margin collateral in derivatives markets.<sup>20</sup>

### **CFTC CLARIFIES STABLECOIN FRAMEWORK: NATIONAL TRUST BANKS, GENIUS ACT, AND THE DERIVATIVES MARKET**

United States Commodity Futures Trading Commission recently released Letter 26-05<sup>21</sup> which clarifies whether National trust banks were included in the definition of the payment stablecoin. The letter states that national trust bank may be a permitted issuer of a payment stablecoin for purposes of the no-action position taken in Letter 25-40.<sup>22</sup> After issuing the Letter 25-40, the staff of CFTC came to a realization that payment stablecoins that meet the definition under GENIUS Act and Letter 25-40 can also be issued by a National Trust bank.<sup>23</sup>

This update removes the conflict between the GENIUS Act and CFTC regulations and creates

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<sup>16</sup> GENIUS Act, § 4(a)(1), 2025.

<sup>17</sup> GENIUS Act, § 4(d), 2025.

<sup>18</sup> GENIUS Act, § 4(a)(5)(A), 2025.

<sup>19</sup> GENIUS Act, *supra* note 14, 2025.

<sup>20</sup> Press Release, MPD, CFTC, *Staff No-Action Position Regarding Digital Assets Accepted as Margin Collateral*, (February 6, 2026), <https://www.cftc.gov/csl/26-05/download>.

<sup>21</sup> *Id.*

<sup>22</sup> Press Release, MPD, CFTC, *Staff No-Action Position Regarding Digital Assets Accepted as Margin Collateral*, (Dec. 8, 2025), <https://www.cftc.gov/csl/25-40/download>.

<sup>23</sup> *Id.*

a harmonious framework. Without the expansion of definition of payment stablecoins which excluded national trust banks from no action framework, National trust banks would not be capable of using the stablecoins issued by them as collateral and digital assets in derivative markets. The Letter 25-40 and Letter 26-05 aim at creating a more unified federal framework for regulating the digital asset market. This revision of the CFTC regulation mirrors the law laid down in the GENIUS Act.<sup>24</sup>

The GENIUS Act doesn't treat stablecoin as a commodity or security removing it from the jurisdiction and oversight of CFTC and SEC.<sup>25</sup> After the enactment, it falls under the banking regulations, the issuer's primary financial regulator and OCC oversight.

CFTC has also launched digital assets pilot program for certain digital assets including USDC. It withdraws the outdated laws mainly letter 20-34 and guides the use of stablecoin as tokenized asset's collateral in the light of enactment of GENIUS Act.<sup>26</sup> Strict conditions have been laid down in the legally enforceable guidelines with respect to haircuts, customer segregation funds and operational oversight. The no action position of CFTC only applies to FCMs similarly registered. The no action position only ensures that enforcement will not be recommended against the FCMs that follow the guidelines by the committee. However, it is not an absolute promise of not to sue.<sup>27</sup>

CFTC chairman Michael Selig has described the revision of the regulations as a joint effort with United States Security and Exchange Commission (SEC).<sup>28</sup> The main object is to ensure that the laws are unified and not in conflict with each other, simplifying the procedure and erasing any ambiguity for efficient functioning of the system.

The revised regulations, GENIUS act and tokenization pilot program by the CFTC all have the same objective, faster adoption of payment stablecoin in the derivatives market increasing efficiency and lowering the transactional costs.

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<sup>24</sup> GENIUS Act, §§ 17, 3(g)(2), 2025.

<sup>25</sup> GENIUS Act, § 17, 2025.

<sup>26</sup> Press Release, MPD, CFTC, *Tokenized Collateral Guidance*, (Dec. 8, 2025), <https://www.cftc.gov/csl/25-39/download>.

<sup>27</sup> *Id.*

<sup>28</sup> Press Release, CFTC, *CFTC and SEC Reschedule Joint Event on Harmonization, U.S. Financial Leadership in the Crypto Era* (Jan. 29, 2026), <https://www.cftc.gov/PressRoom/PressReleases/9172-26>.

## CFTC GIVES GUIDELINES ON USE OF TOKENIZED ASSETS AS COLLATERAL

The technical foundation supporting the GENIUS Act's requirement for reserve backed assets was established through CFTC Staff Letter 25-39, issued on December 8, 2025. This guidance serves as an essential bridge by defining a tokenized asset as a digital representation of traditional real-world instruments, such as U.S. Treasuries, corporate bonds, or money market fund shares, recorded on a blockchain. The letter also states that the use of digital ledger technology ('DLT') to tokenize an asset need not change the fundamental characteristics of that asset. Furthermore, it clarifies that existing Commission regulations do not require any particular technology or operational infrastructure to hold or transfer assets, provided they meet standard legal and risk requirements.<sup>29</sup>

To ensure these digital versions of U.S. debt are safe for professional institutional use, the letter outlines five specific regulatory pillars that must be met:

1. **Eligible Tokenized Assets:** Firms must focus on tokenized versions of assets that are already approved for regulatory margin. These assets must be highly liquid, have proven valuation discounts; haircuts, and reliably hold their value during extreme market stress.<sup>30</sup> Under regulation §39.13(g), clearing organizations are required to limit these assets to those with minimal credit and market risk.<sup>31</sup>
2. **Legal Enforceability:** Entities must prove that their tokenized collateral operates under a transparent and enforceable legal framework. This includes meeting strict standards for netting arrangements and settlement finality, ensuring the firm's legal interest in the collateral is valid even if a partner goes bankrupt.<sup>32</sup>
3. **Segregation, Custody, and Control:** All tokenized assets must be held by eligible custodians<sup>33</sup> and remain subject to the Commission's existing rules to prevent the mixing of customer and company funds. Because different tokenization structures offer varying levels of protection, each must be analyzed individually to ensure a perfected security interest is maintained.<sup>34</sup>

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<sup>29</sup> MPD, CFTC, *supra* note 26.

<sup>30</sup> *Id.*

<sup>31</sup> 17 C.F.R. § 39.13(g), 2026.

<sup>32</sup> MPD, CFTC, *supra* note 26.

<sup>33</sup> 17 C.F.R. §§ 1.20(b), 22.7, 30.7, 2026.

<sup>34</sup> MPD, CFTC, *supra* note 26.

4. Risk-Based Haircuts and Valuation: Valuation discounts must follow the same risk-based logic applied to traditional assets. However, firms are required to adjust these discounts to account for unique digital factors, such as differences in settlement times or specific liquidity risks inherent to the digital form.<sup>35</sup>

5. Operational Readiness: Registrants must apply their existing risk management systems to these new technologies.<sup>36</sup> This means demonstrating the technical expertise necessary to handle cybersecurity threats, unauthorized access, and the unique network-wide disruptions that can occur with blockchain infrastructure.

## **BENEFITS OF ADOPTION OF PAYMENT STABLECOIN**

Although the extent of benefits of stablecoin adoption cannot be completely ascertained, they will surely lead to cheaper payment cost and quicker transactions. In traditional banking system, the bank charges a certain fee for their services like identity verification, legal expense, operational risks undertaken by them, etc. Blockchain can provide a single source of verification through a shared immutable ledger which reduces the need for reconciliation between institutions and systems.<sup>37</sup> Also, the extend and widespread use of stablecoin for transactions would determine its interoperability and integration with the system. If stablecoin payments get integrated well with the system they could also be used by people in remote areas that do not receive adequate banking services. Although there are certain privacy concerns related to such transactions, certain tools can be employed to restrict others from knowing certain information. Transparency can be limited.<sup>38</sup>

## **RISKS AND IMPLICATIONS**

As can be seen from earlier collapses of stablecoin namely in 2022<sup>39</sup> and 2023,<sup>40</sup> it can be clearly inferred that stablecoins are exposed to volatility in value due to dynamic market

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<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> International Monetary Fund, *Elements of Effective Policies for Crypto Assets*, (IMF Pol'y Paper No. 2023/004, 2023).

<sup>38</sup> Matt Higginson, Garry Spanz, *The Stable Door Opens: How Tokenized Cash Enables Next-Gen Payments*, McKinsey & Company (July 21, 2025), <https://www.mckinsey.com/industries/financial-services/our-insights/the-stable-door-opens-how-tokenized-cash-enables-next-gen-payments>.

<sup>39</sup> Anatomy of a Run, *supra* note 7 at 3.

<sup>40</sup> Ashley, Capoot, *Stablecoin USDC Breaks Dollar Peg after Firm Reveals \$3.3 Billion in SVB Exposure*, CNBC (March 11, 2023), <https://www.cnbc.com/2023/03/11/stablecoin-usdc-breaks-dollar-peg-after-firm-reveals-it-has-3point3-billion-in-svb-exposure.html>.

conditions, liquidity issues, credit risks of reserved asset as well as certain operational risks. This macro-financial instability can lead to breaking of the peg between stablecoin and fiat currency leading to a collapse in its value if not controlled effectively and efficiently. Although these risks can be mitigated by having high liquidity assets to back the stable coin, there are other factors that can amplify the risks.<sup>41</sup> Such collapse in value can negatively affect the reserved assets like treasury bills and repos, the main reserve assets that back stablecoin. The degree of collapse would also depend upon the capacity of other investors to absorb the sudden and huge supply of assets in a short span of time.<sup>42</sup>

If the use of stablecoin gains acceptance, its convenience would replace the traditional bank deposits (especially if interest on stablecoin is permitted in the future) as it would be quicker and cheaper in comparison. Since stablecoin requires 1:1 backing by liquid reserve assets, it would decrease the funds available for banks to lend.

Stablecoins are a relatively recent and developing form of transactions that can have far-reaching global implications. It would make cross-border payments much simpler by reducing settlement time and lowering costs while bypassing the banking networks. If US-denomination stablecoins like USDC and USDT gain public trust and acceptance, it would reinforce the global dominance of dollar. However, when multiple stablecoin issuers and blockchains operate, concerns with respect to interoperability will arise. If the framework makes it difficult due to varying regulations of different countries, stablecoin transactions will become inefficient, defeating their main purpose.<sup>43</sup>

Like other digital assets, stablecoins are also in risk of frauds and operational problems. Although GENIUS Act strictly regulates such transactions but external factors like human errors, system collapse, governance lapses, data breaches, etc. affect the safety and efficiency. Moreover, the swift and mostly irrevocable nature of such digital transactions increases the chances of fraud. Coding errors and security flaws might lead to a loss of funds. Cyber-attacks

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<sup>41</sup> Parma Bains et al., *Regulating the Crypto Ecosystem: The Case of Stablecoins and Arrangements*, International Monetary Fund, Fintech Note No. 2022/008 (2022); see also, Bains et al., *Crypto's Conservative Coins*, 59 *Fin. & Dev.* 50, 51 (2022).

<sup>42</sup> Ma Yiming et al., *Stablecoins Runs and the Centralization of Arbitrage*, National Bureau of Economic Research, Cambridge, NBER Working Paper No. 33882 (2025).

<sup>43</sup> Bank For Int'l Settlements, *Blueprint for the Future Monetary System: Improving the Old, Enabling the New* ch. 3 (BIS Annual Econ. Rep. 2023).

are another major threat to be tackled in this landscape.<sup>44</sup>

Although GENIUS Act contains stringent provisions to combat societal evils like money laundering, terrorism financing, financing weapons of mass destruction and other illicit activity, the practical implementation of the act might not achieve such objectives. Stablecoins will become a preferred way of payments due to its pseudonymity, low transaction cost, more stability (as compared to other cryptocurrencies) and easier cross-border transfer of funds.<sup>45</sup>

The biggest challenge of all is the legal uncertainty at a global level. All major nations are gradually coming up with laws suitable for their own economy and system to regulate digital assets, tokenization of assets and stablecoin. However, due to concerns regarding a nation's monetary sovereignty, it will be difficult to arrive at a common ground.<sup>46</sup> Without the integration of these individual laws into an international framework, cross-border stablecoin transactions will remain complex. To enable a seamless flow of funds and establish a process that does not add unnecessary complexity, a global initiative is essential.

## WAY FORWARD

The GENIUS Act allows non-bank entities and private entities to issue stablecoins after being permitted by OCC and the respective financial regulatory body. However, this raises a big question: whether the US Federal Reserve would intervene in the future to stop a particular PPSI's stablecoin value crash. This question mainly arises because the stablecoin is not a state banked currency like CBDC. It is merely a digital asset backed by liquid reserve assets deposited with the PPSI.

In such a case with no state backing, the reserve assets need to be highly liquid so that a sudden redemption does not lead to a liquidity crisis and cause a crash in value of stablecoin. This is however unlikely. Another major issue is that the responsibility the state seeks to escape cannot be done without consequences. US treasury bills form a significant portion of the reserved assets used to back the stablecoin. A large, unexpected redemption of Treasury bills (T-bills) by the public creates significant, immediate negative impacts on a state's fiscal stability,

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<sup>44</sup> Int'l Org. Of Sec. Comm'ns (Iosco), *Policy Recommendations for Crypto and Digital Asset Markets* 39 (Final Rep. 2023).

<sup>45</sup> Fin. Action Task Force (FATF), *Targeted Update on Implementation of the FATF Standards on Virtual Assets and Virtual Asset Service Providers* (2025).

<sup>46</sup> Adrian et al., *Asset Purchases and Direct Financing: Guiding Principles for Emerging Markets and Developing Economies during COVID-19 and Beyond*, International Monetary Fund, (IMF Dep't Paper No. 2021/023, 2021).

primarily by causing a sudden cash flow crisis and increasing the cost of borrowing.

## **GLOBAL FRAMEWORKS: JAPAN AND THE UAE**

Japan and the UAE both treat stablecoins as part of a regulated financial infrastructure, though they take different paths. Japan builds its framework around the Payment Services Act (PSA), while the UAE relies on central bank regulation paired with specialized virtual asset regimes.

### **Japan: e-money stablecoins under the PSA**

Japan's 2023 amendments to the Payment Services Act (PSA) established a clear legal category for e-money stablecoins that guarantee redemption at face value.<sup>47</sup> Under Japanese law, these tokens are regulated as electronic payment instruments rather than speculative assets. Issuance is limited to prudentially regulated institutions: banks, fund transfer services, and trust companies.<sup>48</sup> Trust banks must hold client funds as demand deposits, while other providers must maintain 1:1 reserves in highly liquid assets like short-term government paper.<sup>49</sup> Japan also regulates the distribution layer, requiring domestic intermediaries to hold reserves equal to their customers' foreign stablecoin holdings to prevent opaque offshore backing.

Similar to the GENIUS Act, Japan enforces a bankification model and strict 1:1 reserve. However, while the U.S. seeks to scale the digital dollar globally, Japan remains domestically focused, requiring reserves for local tokens to be held in Yen at licensed Japanese banks.

### **The UAE: PTSR and Institutional Settlement**

The UAE's approach is centered on the Central Bank's Payment Token Services Regulation (PTSR), which entered into force in 2024.<sup>50</sup> This regulation created a dedicated category for payment tokens and established a layered oversight model. While the Central Bank (CBUAE) maintains federal authority over dirham-pegged tokens, specialized emirate-level regimes, such as VARA in Dubai and the FSRA in Abu Dhabi, oversee service providers. The PTSR mandates reserve segregation and strict liquidity standards while explicitly prohibiting algorithmic stablecoins. It also restricts foreign-issued tokens in local commerce, limiting their

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<sup>47</sup> Payment Services Act, 2009 (Japan).

<sup>48</sup> PSA, Art. 2 (5) (iii), 2009.

<sup>49</sup> PSA, Art 2 (5)(i), 2009.

<sup>50</sup> Payment Token Services Regulation, 2024 (U.A.E.).

use primarily to virtual asset purchases.<sup>51</sup> This focus is exemplified by the February 2026 approval of the DDSC stablecoin for First Abu Dhabi Bank (FAB) on the institutional ADI Chain blockchain.

The UAE's layered oversight mirrors the U.S. federal-state structure under the GENIUS Act. However, the UAE actively restricts foreign tokens to protect its domestic currency, whereas the U.S. framework is designed to hardwire the dollar into global digital infrastructure.

## CONCLUSION

The GENIUS Act of 2025 marks a clear turning point for payment stablecoins. It moves them away from the failures of the past, like BitUSD, NuBits, and Terra-LUNA, which crumbled under volatile backing and toward a solid system built on fiat reserves. This paper has laid out that journey, along with the Act's key rules and what lies ahead.

The Act ends the old SEC-CFTC disputes with firm definitions and limits on who can issue stablecoins: mainly banks, OCC-approved nonbanks, or small state-licensed players under \$10 billion in circulation. Issuers must hold dollar-for-dollar reserves in safe assets like cash or short-term Treasuries, ban interest payments to shield community banks, and give holders first claim in bankruptcy. CFTC letters 25-39, 25-40, and 26-05, add practical details, like using tokenized Treasuries as derivatives collateral through five strict tests: asset eligibility, legal strength, fund separation, adjusted haircuts, and tech readiness. They also greenlight national trust banks.

On the upside, stablecoins cut costs and speed up payments, even across borders, while boosting the dollar's global reach. But risks remain: peg breaks from market shocks, cyber-attacks, money laundering slips, and sudden Treasury sell-offs that could strain U.S. finances.

Ultimately, America has molded stablecoins into vital cogs of the financial machine. Yet vulnerabilities, like the interest prohibition and international disconnects, requires firm guidance to hold steady after 2028.

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<sup>51</sup> PTSR, Art 2(3), 2024.