

Submitted to the Federal Government eRulemaking Portal

October 19, 2026

U.S. Department of the Treasury
Attn: Office of the General Counsel
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: GENIUS Act Regulations on Payment Stablecoin Issuance, Offer, and Sale
(RIN 1505-AC95)

To Whom It May Concern,

The Independent Community Bankers of America¹ (“ICBA”) and its members appreciate the opportunity to provide comments to the Department of the Treasury (“Treasury”) in response to its notice of proposed rulemaking (“NPRM”) to implement section 3 of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the “GENIUS Act” or the “Act”).² Section 3 of the GENIUS Act establishes the core framework governing who may lawfully issue, offer, sell, or otherwise make available payment stablecoins in the United States (“U.S.”) and the prohibitions and limitations that apply.³ Treasury’s expressed objectives in this rulemaking are to provide regulatory clarity and certainty to market participants to facilitate compliance with section 3 of the Act.

Many community banks are interested in participating in the digital payments markets, provided that the applicable rules are clear and establish a level playing field with nonbank and large bank competitors. ICBA’s comments recommend revisions and clarifications to Treasury’s NPRM to ensure the final rule comports with the requirements of the GENIUS Act and administrative law as well as the practical realities of community banking. ICBA’s comments preserve Treasury’s regulatory objectives and community

¹ The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation’s community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America’s community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers’ financial goals and dreams. For more information, visit ICBA’s website at <https://www.icba.org/>.

² See GENIUS Act, Pub. L. 119-27, codified at 12 U.S.C. 5901 *et seq.* See GENIUS Act, § 3(a); 12 U.S.C. 5902(a).

³ See GENIUS Act Regulations on Payment Stablecoin Issuance, Offer and Sale at 91 Fed. Reg. 53368 (Aug. 18, 2026) (to be codified at 12 C.F.R. Part 1523). Treasury’s NPRM covers a portion of section 3 of the GENIUS Act. See 91 Fed. Reg. 53370, 3rd column, fn. 22.

banks' ability to serve their customers in furtherance of a safe, competitive, and innovative payments system.

Our approach and recommendations give effect to the statutory text, respect the limits of authority delegated to Treasury, reduce unnecessary operational and compliance burdens for community banks, and maintain Congress's express protection for permissible banking activities. We describe revised and new regulatory text for several of our recommendations to facilitate integration of our recommendations into Treasury's final regulation.

Tokenized deposits offer an attractive alternative to payment stablecoins. Regulatory clarity on the difference between tokenized deposits and payment stablecoins is especially important as community banks explore opportunities in these areas. Properly structured tokenized deposits should remain bank deposits—claims on insured depository institutions that support lending and operate within the existing framework of prudential supervision.⁴ Banks' use of distributed ledger technology to record or transfer ownership of deposits does not change the underlying legal nature of the deposits. Implementation of the GENIUS Act should preserve a clear distinction between payment stablecoins and genuine bank deposits, regardless of the technology used to record or transfer them. Failing to maintain that distinction would blur accountability, constrain responsible bank innovation, and unnecessarily divert funding away from community banks and the local lending they support.

ICBA recommends that the final rule:

- *Keep bank deposits within the banking regulatory framework.* Tokenized deposits should remain deposits when customers retain a direct claim against the bank, regardless of the technology used.
- *Enable community banks to participate in the stablecoin ecosystem.* Clearly distinguish issuers from banks providing traditional services and establish practical safe harbors and reasonable-reliance protections.
- *Limit and safeguard foreign stablecoin activity.* Per the GENIUS Act, foreign issuers should not have unrestricted authority to issue directly in the United States; any access should include strong supervisory, reserve, redemption, and transition protections.
- *Ensure clear accountability for stablecoin claims.* Responsibility—including for cross-chain stablecoins—should follow actual control, redemption obligations, and conduct, with an identifiable party accountable to customers and regulators.
- *Protect community bank deposits that fuel local lending.* Treasury should consider the effects of the proposal on community bank deposits and the ability to deploy these deposits into lending capacity that powers America's small businesses, farmers, ranchers, and local communities.

⁴ Letter from ICBA to the FDIC, Re: GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions (June 9, 2026), <https://www.icba.org/documents/45248/2352699/ICBA+Letter+-+FDIC+GENIUS+Act+NPR.pdf/be121b8b-914d-46ef-0f81-db65655e10a8?t=1781108762399>.

I. Tokenized Deposits Should Remain Subject to the Banking Framework

Treasury's NPRM asks whether certain digital assets redeemable in deposits or other monetary equivalents should fall within the definition of "payment stablecoin." The GENIUS Act explicitly excludes deposits, including deposits recorded using distributed ledger technology, from the definition of "payment stablecoin." Treasury's final rule must give meaningful effect to this key statutory difference: payment stablecoins are subject to the GENIUS Act and its implementing regulations but deposits are not, regardless of the technology used to record or transfer them.

Treasury should expressly clarify that its treatment of bridged or wrapped payment stablecoins does not apply to a genuine tokenized deposit that is a direct deposit liability of an insured depository institution. The use of distributed ledger technology to record or transfer a deposit does not convert that deposit into a payment stablecoin, a wrapped payment stablecoin, or a newly issued digital-asset liability. ICBA recommends that Treasury coordinate with the federal banking regulators to ensure that the final payment stablecoin regulation does not treat tokenized deposits as payment stablecoins.

Financial institutions, including community banks, are increasingly exploring the potential benefits of distributed ledger technology, including its use to record deposits and facilitate payments. This growing interest helped prompt the Federal Deposit Insurance Corporation ("FDIC") to propose clarifying the treatment of deposits in tokenized form as part of its broader proposal establishing GENIUS Act requirements and standards for FDIC-supervised institutions that form permitted payment stablecoin issuer subsidiaries.⁵ The FDIC's proposal seeks to provide clarity by recognizing that the definition of "deposit" in section 3(l) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(l), is technology neutral and a financial instrument that satisfies the definition of "deposit" does not cease to be a deposit merely because it is recorded in tokenized form.⁶

The FDIC's proposal does not address significant questions regarding tokenized deposits and does not offer a definition of "tokenized deposit." The FDIC acknowledges in its proposal that market participants sometimes use the terms "tokenized deposit" and "deposit token" interchangeably, even though those terms may encompass materially different legal and operational structures.⁷ A tokenized deposit may describe a bank's existing deposit liability recorded or transferred using distributed ledger technology, while a deposit token may describe a separate transferable instrument that references, represents, or is backed by a bank deposit. Although there is no uniform regulatory or industry definition of "tokenized deposit" or "deposit token," some market participants and analysts distinguish these terms based upon whether the token is a digital representation of an existing bank deposit with transactions authorized by the bank and settled on a permissioned blockchain (a tokenized deposit), or the token is a natively

⁵ See FDIC, Notice of Proposed Rulemaking: GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, 91 Fed. Reg. 18,534 (Apr. 10, 2026) (to be codified at 12 C.F.R. pts. 324, 330 & 350).

⁶ See *id.* at 18,560.

⁷ See *id.* at 18,534.

issued on the blockchain with transactions settled directly on the blockchain (a deposit token).

The distinction between these terms should rest upon the substance of the arrangement rather than the label, considering factors such as the identity of the legal obligor; whether the holder retains a direct claim against an insured depository institution; how the liability is recorded on the bank's books; who must redeem the instrument at par; whether depositor status continues after transfer; and whether an intermediary has created a separate claim against itself or pooled assets. Since no regulatory definition of "tokenized deposit" or "deposit token" has been proposed or adopted and the terms are used interchangeably, regulators must not assume that every instrument described as a "tokenized deposit" or "deposit token" warrants identical treatment.

While the FDIC's proposal would clarify that the definition of "deposit" is technology neutral, the proposal does not describe the characteristics necessary for a tokenized instrument to constitute a deposit or the treatment of related structures. Rather, the FDIC's proposal raises substantive legal, operational, and supervisory questions and asks whether additional clarification or regulatory guidance is necessary. Until these issues are settled in a final FDIC rule, the characteristics of a tokenized deposit, the regulatory distinctions between "tokenized deposit" and "deposit token," and the full parameters of the FDIC's final rule are uncertain.

This uncertainty underscores the need for further engagement with community banks and the wider banking industry. ICBA recommends that Treasury coordinate with the GENIUS Act regulators to ensure that rules addressing bridged or wrapped payment stablecoins do not bring genuine bank deposits within the payment stablecoin framework or impose conflicting or duplicative regulatory requirements on the same deposit liability.⁸ Treasury's final rule should clarify that a separate claim created by a bridge, protocol, custodian, special-purpose vehicle, or other intermediary must be evaluated according to its own legal and economic characteristics without altering the status of the underlying bank deposit or automatically subjecting the issuing bank to payment stablecoin requirements, absent its authorization, control, or material participation.

ICBA recommends a separate, coordinated interagency process to evaluate tokenized deposits and develop a consistent joint agency regulatory framework. This process should solicit banking industry input on the distinctions among tokenized deposits, deposit tokens, and separate instruments backed by deposits, as well as deposit status, deposit insurance, beneficial ownership, transferability, redemption, settlement finality, third-party involvement, interoperability, operational and cybersecurity risks, and supervisory responsibility. These distinctions and issues must not be resolved indirectly or exclusively through Treasury's regulatory treatment of bridged or wrapped payment stablecoins. To do so risks misalignment of regulatory requirements across federal regulators, duplication of regulation, and uncertainty about who is a payment stablecoin issuer, among other adverse outcomes. ICBA recommends that Treasury refrain from adopting a final regulation that addresses the treatment of bridged or wrapped payment

⁸ Treasury should coordinate with the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency with respect to deposits and the National Credit Union Administration with respect to credit union shares.

stablecoins until after consideration of the information received during the coordinated interagency process.

ICBA recommends that Treasury adopt the following regulatory text to ensure the final regulation aligns with the definition of “payment stablecoin” in the GENIUS Act:

Deposits and distributed ledger technology.

Nothing in this part shall cause a deposit, as defined in section 3(l) of the Federal Deposit Insurance Act and implementing regulations issued by the Federal Deposit Insurance Corporation, to constitute a payment stablecoin or an issuance of a payment stablecoin solely because the deposit is recorded, transferred, or settled using distributed ledger technology.

Clear treatment of tokenized deposits would allow community banks to pursue payment innovation within the regulated banking system while continuing to deploy deposit funding to meet the needs of their customers and provide credit to local economies throughout the country.

II. Treasury should clearly distinguish stablecoin issuers from banking service providers in its implementation of the GENIUS Act’s scope and definitions

Treasury’s NPRM proposes to cross-reference numerous definitions in section 2 of the GENIUS Act without elaboration and also to define several terms that are used, but not defined, in the Act, including the terms “issue,” “issuer,” and “located in the [U.S.].”⁹ Treasury intends the new definitions to help determine whether a person is a payment stablecoin issuer, when an issuance of payment stablecoin occurs, and whether a payment stablecoin transaction falls within U.S. regulatory jurisdiction.

These definitions must clearly distinguish the entity that controls issuance and assumes the payment stablecoin’s redemption obligations from banks that provide ordinary custody, reserve, payment, settlement, technology, or other services. Otherwise, the proposed definitions could impose substantial compliance burdens on community banks, discourage permissible banking relationships, and blur the statutory distinction between issuers and service providers.

A. The Definitions of “Issue” and “Issuance” Should Preserve the Distinction Between Issuers and Service Providers

The definitions of “issue” and “issuance” in the NPRM are important to community banks because they help determine when a payment stablecoin transaction counts as an issuance, the limitations that apply, and the regulatory obligations that a bank or digital asset service provider (“DASP”) may have. These definitions raise significant practical consequences and challenges for community banks.

⁹ See NPRM § 1523.1(c).

For the reasons discussed below, Treasury should interpret “issue” to mean the act of a person acting as the issuer of a payment stablecoin—i.e., the person that controls the issuance and assumes the substantive obligation associated with the payment stablecoin. Treasury should expressly provide that a community bank does not become an issuer merely because it:

1. provides custody or safekeeping;
2. holds reserve assets;
3. maintains a deposit or settlement account;
4. credits or debits a customer’s account;
5. provides correspondent banking;
6. processes or settles a payment;
7. maintains books and records;
8. provides distributed-ledger infrastructure;
9. acts as an agent or administrative service provider; or
10. performs other ordinary banking functions that do not cause the bank to assume the issuer’s obligation to convert, redeem, or repurchase the payment stablecoin.

Additionally, the “located in the United States” test should identify the geographic nexus of the issuer and the issuance transaction, rather than attributing the location of a U.S. intermediary to the foreign issuer.

1. The Definition of “Issue” Should Turn on the Conduct of the Issuer, Not Ordinary Banking Services

Treasury’s NPRM defines “issue” broadly as the first direct or indirect transfer of a payment stablecoin by its issuer, including through crediting an account, when that transfer gives another person rights to use, transfer, or redeem a payment stablecoin. Specifically, as set forth in the NPRM, Treasury’s proposed definition of “issue” means the:

first transfer of a payment stablecoin by the issuer, except as required by a lawful order, whether directly or indirectly, including by crediting an account, that results or will result in a person other than the issuer having the right to use or transfer the payment stablecoin or to have the payment stablecoin converted, redeemed, or repurchased. For the avoidance of doubt, after a payment stablecoin has been converted, redeemed, repurchased, or otherwise reacquired by the issuer, the first subsequent transfer of the payment stablecoin by the issuer that otherwise satisfies this definition is considered a new issuance, whether or not the transfer is characterized as a reissuance, except as required by a lawful order.¹⁰

¹⁰ *Id.* Treasury views the definition of “issue” in existing Uniform Commercial Code (“UCC”) definitions for other financial instruments as a useful analogy, including negotiable instruments in UCC Article 3 and controllable electronic records in UCC Article 12. See NPRM, p. 53372, fn. 29. For instance, the direct minting of a payment stablecoin to a holder’s wallet would be considered a first transfer of a payment stablecoin within the definition of “issue” whereas a digital asset that has been minted and held in the issuer’s treasury would not be considered to have been issued as a payment stablecoin because it has

ICBA recommends revising the proposed definition of “issue” to explicitly exclude banking services, such as crediting an account, in order to avoid inadvertently considering a community bank to “issue” a payment stablecoin because the bank provides typical banking services.

A bank’s acceptance of a deposit or extension of credit to the account of a payment stablecoin issuer should not constitute issuance by the bank just because the account entry is associated with a payment stablecoin transaction. A bank that provides credit, deposit, custody, settlement, correspondent, payment, reserve account, recordkeeping, or other banking services to a payment stablecoin issuer should not be considered to issue or facilitate payment stablecoin issuance solely due to its provision of banking services.

Instead, the definition of “issue” should be based upon the statutory characteristics of a payment stablecoin. Congress defined the term “payment stablecoin” in terms of the obligation of the issuer to convert, redeem, or repurchase for a fixed amount of monetary value and the issuer’s representation or reasonable expectation that the payment stablecoin will maintain stable value.¹¹ The statutory meaning of “payment stablecoin” must inform the regulatory definition of issue. ICBA recommends that Treasury interpret “issue” to focus on the entity that creates or controls the initial issuance of a payment stablecoin; undertakes the substantive obligation to convert, redeem, or repurchase payment stablecoins; or acts as the issuer for its own account.

The GENIUS Act’s treatment of bank deposits reinforces the distinction between issuance and banking. The statutory definition of “payment stablecoin” expressly excludes a “deposit,” including a deposit that a bank records using distributed ledger technology.¹² Treasury should avoid a regulatory framework in which the technological form of a bank’s recordkeeping or payment activity causes a deposit or other permissible banking activity to be treated as facilitating the issuance of a payment stablecoin.

Treasury’s definition of “issue” must reconcile with Congress’s express preservation of permissible banking activities. Section 16 of the GENIUS Act mandates that nothing in the Act may be construed to limit the authority of a bank to engage in activities permitted by Federal or State law, including accepting or receiving deposits, utilizing a distributed ledger for books and records, and providing custodial services.¹³

The separate treatment of offers, sales, and making available of payment stablecoin in section 3 of the Act supports a narrower definition of “issue.” Section 3(a) of the GENIUS Act addresses who may issue a payment stablecoin whereas section 3(b) of the Act addresses the activities of a DASP involving the offering, sale, or making available of payment stablecoins. This framework should be preserved in Treasury’s implementing

not yet transferred to a third party. This result is consistent with the OCC’s March 2026 proposed treatment of a payment stablecoin held in an issuer’s treasury, which is not yet final.

¹¹ See 12 U.S.C. 5901(22).

¹² See 12 U.S.C. 5901(22)(B)(ii); see also NPRM, § 1523.1(c).

¹³ See Genius Act § 16, 12 U.S.C. 5915.

regulations. If every bank that facilitates, settles, custodies, records, or transfers a payment stablecoin were treated as an issuer, the distinction Congress created between an issuer and other participants in the payment stablecoin ecosystem would be substantially diminished.

2. Issuer Status Should Follow Legal Responsibility for Redemption and Stable Value

Who is a payment stablecoin issuer is dependent upon who has the conversion, redemption, or repurchase obligation and who represents that the payment stablecoin will maintain its stable value. The NPRM defines an “issuer” as a person that:

- (i) is obligated to convert, redeem, or repurchase the payment stablecoin for a fixed amount of monetary value, and
- (ii) represents that the person will maintain, or creates the reasonable expectation that the person will maintain, a stable value relative to the value of a fixed amount of monetary value.¹⁴

ICBA recommends that Treasury adopt a functional definition of issuer with an express safe harbor for banking services and a clear standard for knowing participation. A definition of “issuer” alone does not give community banks sufficient certainty if they can still face substantial legal exposure under section 3(f) of the Act for participating in an issuance simply by providing routine banking services to a payment stablecoin issuer.

ICBA recommends that Treasury define the issuer according to actual obligations and control. Treasury should clarify that a bank is an issuer only when it has a substantive obligation to redeem or repurchase payment stablecoin and makes, or is responsible for, the representation that the payment stablecoin will maintain its value. The final rule should distinguish among types of responsibilities:

- (i) primary responsibility and legal obligation to redeem the payment stablecoin at a fixed monetary value,
- (ii) supporting functions, such as a bank that holds reserve deposits, processes payments, provides custody, or supplies technology without assuming the issuer’s obligations; and
- (iii) shared responsibility, such as a bank that guarantees redemption, backs another party’s obligations, or jointly undertakes responsibility for maintaining the payment stablecoin’s stable value.

If the redemption obligation and stable value representations reside with different parties, Treasury should provide a clear method for identifying the responsible issuer or issuers rather than leaving banks to infer the answer from the broad reasonable expectation standard.

¹⁴ See NPRM § 1523.1(c). The proposed definition of “issuer” incorporates elements from the definition of “payment stablecoin” in Section 2(22) of the GENIUS Act.

Where the redemption obligation and the stable value representation reside with different parties, the method for identifying the issuer should be simple: the person with the legal obligation to convert, redeem, or repurchase the payment stablecoin is the issuer. That obligation itself creates the reasonable expectation of stable value, and statements made by that person's agent, affiliate, or white-label partner on its behalf are attributed to it. Under this method, no party can avoid issuer status by staying silent, disclaiming, or letting a partner do the talking. ICBA asks Treasury to confirm this in the final rule or preamble, without changing either statutory element.¹⁵ Giving independent effect to both statutory elements does not require that each be satisfied by different conduct; the same legally enforceable redemption obligation may both establish the person's redemption responsibility and create the reasonable expectation of stable value required by the second element.

A redemption obligation creates the expectation of stable value. A person with the legal obligation to convert, redeem, or repurchase a payment stablecoin for a fixed amount of monetary value creates the reasonable expectation of stable value through that obligation, whether or not it makes any other statement. The expectation should be judged objectively, from the obligation and the arrangement as a whole. A contractual or marketing disclaimer by the redeeming person, such as a statement that it makes no representation about stable value, should not prevent the expectation from arising. The statutory test asks whether a person "create[s] the reasonable expectation," not how it chooses to describe itself.

A person that binds itself to redeem at a fixed amount has made the promise that creates the expectation, and a disclaimer in its own terms does not change the promise. Without this confirmation, a party could try to avoid issuer status by staying silent or disclaiming. Treasury has already rejected readings of the "issue" definition that would facilitate evasion of section 3(a), and this confirmation is consistent with that approach.¹⁶ This point concerns the person with the legal obligation described in category (i) above. It does not decide whether a bank that guarantees or backs another party's obligation is an issuer, which should depend on the scope of the guarantee and the bank's other representations.

Statements made on the redeeming person's behalf are attributed to it. A representation made, or expectation created, by the redeeming person's agent, affiliate, or white-label partner on its behalf should be attributed to the redeeming person. This parallels the definition of "issue," which reaches the first transfer made "directly or indirectly" through an agent or distributor.¹⁷

¹⁵ See NPRM at 53374, Questions 23 and 24 (asking whether the definition of "issuer" is appropriate and clear and whether either prong should be sufficient on its own, and who the issuer is when different persons perform the two activities and whether splitting them presents a risk of evasion).

¹⁶ See NPRM at 53372 preamble discussion of the definition of "issue" (rejecting a reading under which a redemption lockout would prevent a transfer from being an issuance because that reading would facilitate evasion of section 3(a) of the Act); 12 U.S.C. 5902(a).

¹⁷ See NPRM at 53371-72 (preamble discussion of the definition of "issue").

ICBA supports Treasury's decision to define "issuer" and to build the definition from the two elements in the Act's definition of payment stablecoin.¹⁸ The Act and the NPRM both refer to "the issuer" repeatedly, and Treasury correctly recognizes that creating and distributing a payment stablecoin can involve multiple parties, as in white-label arrangements.¹⁹ ICBA also supports Treasury's broad reading of the redemption obligation, under which a lockout period or other conditions on redemption do not prevent a person from being the issuer,²⁰ and its position that parties who only perform technical minting or lend their branding are not issuers, although they may face criminal penalties if they knowingly participate in an unlawful issuance.²¹ Every payment stablecoin must have one legally accountable issuer that holders, regulators, and community banks can look to.

These confirmations keep both statutory elements intact, and they respond to Question 24, which asks who the issuer is when different persons perform the two functions and whether splitting them creates a risk of evasion. If no single person were treated as satisfying both elements, "issue," which is defined as the first transfer by the issuer, would have no anchor,²² and the participation provisions in proposed § 1523.2(d), which apply to a payment stablecoin "issued in violation of section 3(a)," would not apply either.²³ ICBA has consistently urged regulators to prevent form-over-substance circumvention of the GENIUS Act.²⁴

3. Ordinary Banking Services Should Not Create Issuer Status or Participation Liability

ICBA recommends that Treasury establish an explicit safe harbor for ordinary banking services. Treasury should specify the types of banking activities that, standing alone, do not make a bank an issuer or constitute participation in an unlawful issuance, provided the bank meets specified conditions. Activities that should expressly fall within the safe harbor, and that would not constitute issuance of a payment stablecoin, include:

- (i) holding reserve deposits for a payment stablecoin issuer;
- (ii) processing fiat deposits, withdrawals, or payments;

¹⁸ See NPRM § 1523.1(c); 91 Fed. Reg. at 53374 (preamble discussion of the definition of "issuer").

¹⁹ See 12 U.S.C. 5901(22) (defining "payment stablecoin," the Act does not itself define "issuer"); NPRM at 53374, preamble discussion of § 1523.1(c) (noting that the creation and distribution of a payment stablecoin may involve multiple parties, such as in white label arrangements).

²⁰ See NPRM at 53374, preamble discussion of § 1523.1(c) (a lockout period or other conditions on redemption will not prevent a person from being considered the issuer if the conditions for being an issuer are otherwise satisfied).

²¹ See NPRM at 53374 (persons who perform technical functions to effectuate minting, or who provide branding in a white label arrangement, but do not carry out the statutory functions, would not be considered an issuer but may be subject to criminal penalties if they knowingly participate in an unlawful issuance, as described in the discussion of proposed § 1523.2(d)).

²² See NPRM § 1523.1(c) (defining "issue" as the first transfer of a payment stablecoin by the issuer).

²³ See NPRM at 53378, preamble discussion of proposed § 1523.2(d).

²⁴ See Letter from ICBA to the FDIC, Re: GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions (June 9, 2026), <https://www.icba.org/documents/45248/2352699/ICBA+Letter+-+FDIC+GENIUS+Act+NPR.pdf/be121b8b-914d-46ef-0f81-db65655e10a8?t=1781108762399>.

- (iii) providing custody or safeguarding of payment stablecoins;
- (iv) providing technology or blockchain infrastructure; and
- (v) lending to an issuer on customary commercial terms.

Whether a bank that guarantees payment stablecoin redemption is an issuer should depend upon the scope of the guarantee and the bank's other representations.

Treasury's NPRM asks commenters to consider standards and safe harbors for determining when a person participates in an unlawful issuance of payment stablecoin. ICBA recommends that Treasury separate issuer status from knowing participation in a violation of section 3(f) of the GENIUS Act to avoid having a bank that may not be an issuer nonetheless face liability for participating in an unlawful issuance.

A sensible framework would define the conduct that constitutes prohibited participation, taking account of the bank's actual role and knowledge. Acting as an active distribution partner that helps bring a newly issued payment stablecoin to market, substantively participating in an issuance through control of the issuance, undertaking redemption obligations, and/or knowingly assisting in evading legal requirements should be considered to constitute participation in a violation; merely providing banking services to a payment stablecoin issuer should not.

Accordingly, ICBA recommends that Treasury revise the proposal to clarify provision of banking services, stating that a depository institution does not issue a payment stablecoin or knowingly participate in an unlawful issuance solely because it provides services described in § 1523.1(c), absent actual conduct demonstrating that the depository institution itself acted as the issuer or knowingly facilitated an issuance that it knew to be unlawful.

4. White-Label and Distribution Partners Should Be Evaluated Based on Their Own Conduct

Treasury's conclusion that a person that only performs technical minting functions or provides its branding in a white-label arrangement is not the issuer "for purposes of proposed Part 1523" should not be read to shield that person from other provisions of Part 1523.²⁵ Treasury's own analysis points the same way: such persons may still face criminal penalties for knowingly participating in an unlawful issuance, and a branding partner "may be considered to facilitate key steps in the issuance process."²⁶ Treasury also treats the issuer and DASP categories as overlapping rather than mutually exclusive.²⁷ And in proposed Interpretation 3, Treasury recognizes that a DASP that is not the issuer may nonetheless have participated in the issuance and may be offering or selling the payment stablecoin.

ICBA asks Treasury to extend that principle and state in the final rule or preamble that a non-issuer status under § 1523.1(c) does not determine whether a person is a DASP,

²⁵ See NPRM at 53374.

²⁶ *Id.*, at 53374, 53378; NPRM § 1523.2(d)(2), at 53390.

²⁷ See NPRM at 53371; NPRM § 1523.1(c), at 53389.

has offered or sold a payment stablecoin, or has knowingly participated in an unlawful issuance. Each question should turn on the person's own conduct and knowledge, not its contractual label. This clarification is aimed at brand and distribution partners that actively bring a payment stablecoin to market, not at banks providing ordinary banking services to an issuer, which ICBA's proposed § 1523.2(e) addresses.

5. Community Banks Should Be Permitted to Reasonably Rely on Counterparty Representations

ICBA recommends that Treasury revise the proposal to specify in the final rule that a bank that conducts typical banking activities and performs reasonable due diligence is not participating in an unlawful issuance of payment stablecoin. ICBA recommends that Treasury provide a reasonable-reliance standard to clarify what diligence is sufficient for a bank to rely upon a representation that a customer is a permitted issuer.

Due diligence should be satisfied if a bank verifies the payment stablecoin issuer's licensing status, documents contractual responsibilities, and periodically reviews material changes to the payment stablecoin issuer's licensing status and contractual responsibilities. A bank would remain responsible for appropriate risk-based due diligence and information within its actual knowledge. This approach would preserve enforcement against knowing violations without introducing new risks into normal banking relationships.

Disclosure and reliance should not displace statutory responsibility. A disclosure can tell holders who the issuer is, but it cannot shift liability the Act places on other participants. Question 43 asks whether one participant in an issuance may rely on another's representation that the issuance is lawful, or whether questions of knowledge and diligence should instead be left to the "knowing" standard of section 3(f).²⁸ For a bank acting solely as a service provider, ICBA's proposed reasonable-reliance standard in § 1523.2(f) answers that question. For a white-label brand or distribution partner that takes an active role in an issuance, reliance should be one factor in determining whether the partner acted knowingly, not a substitute for its own diligence. If Treasury provides reliance protections for these partners, it should follow the model in § 1523.3(c), under which a DASP may rely on a foreign issuer's representation only after reasonable due diligence, and not if it knows, has reason to know, or should know the representation is false.²⁹

Accordingly, ICBA recommends that Treasury revise the proposal to clarify the reasonable reliance concept, stating that a depository institution acting solely as a service provider may reasonably rely on representations and contractual covenants from its direct counterparty concerning the counterparty's status as a permitted payment stablecoin issuer and other material facts relevant to the lawfulness of the transaction, provided the institution conducts reasonable, risk-based due diligence and does not have actual knowledge that a material representation is false.

²⁸ See NPRM at 53379 (Questions 43).

²⁹ See NPRM § 1523.3(c), at 53390; NPRM at 53382.

ICBA recommends that Treasury permit a community bank that is acting solely as a service provider to rely on reasonable representations and contractual covenants from its direct counterparty concerning:

- (i) whether the counterparty is a permitted payment stablecoin issuer (“PPSI”);
- (ii) whether the counterparty is authorized to issue the payment stablecoin;
- (iii) the location of the payment stablecoin issuer;
- (iv) the location of the recipient of the payment stablecoin when that fact is relevant to the transaction; and
- (v) whether the transaction is conducted by an authorized foreign payment stablecoin issuer.

This safe harbor is designed to prevent the rule itself from becoming a barrier to community bank participation in the payment stablecoin ecosystem.

6. Treasury Should Avoid Imposing Disproportionate Monitoring Burdens on Community Banks

A community bank may engage in several activities in a payment stablecoin transaction without controlling creation of the payment stablecoin or assuming the payment stablecoin issuer’s redemption obligation. Among other activities, a community bank may maintain a deposit or settlement account for a payment stablecoin issuer; hold reserve assets; provide custody services; provide correspondent banking; process ACH, wire, FedNow, or other payment transactions; record customer transactions on its core banking system; maintain an omnibus or subledger account; provide account reconciliation and settlement services; or provide other technology, operational, or administrative services.

Treating any of these activities as issuance of a payment stablecoin would create substantial compliance issues for community banks. If a bank were required to determine not only whether a direct customer is a permitted payment stablecoin issuer, but also whether an underlying transaction participant is located in the U.S., whether a particular account credit constitutes an initial issuance, and whether ordinary settlement activity amounts to “participation” in an unlawful issuance, the result would be significant legal, operational, and compliance costs unrelated to the actual risks addressed in section 3 of the GENIUS Act.

These costs would be particularly consequential for community banks, which generally have a smaller compliance staff and more limited technology and legal resources than larger financial institutions. A regulation that effectively requires a community bank to incur significant costs to reconstruct the complete transaction chain for every payment stablecoin-related service may dissuade community banks from providing otherwise permissible banking services. Greater market concentration would be likely because larger financial institutions are generally better positioned to absorb additional

monitoring, contracts, technology, and legal costs, while smaller community banks may withdraw from some or all payment stablecoin-related services.

7. A U.S. Intermediary's Location Should Not Determine the Location of Issuance

Treasury's NPRM proposes to define an entity as "located in the [U.S.]" if it is organized or incorporated under U.S. or state law or has its principal place of business in the U.S. For individuals, Treasury proposes to use physical presence in the U.S., subject to an exception for non-U.S. residents who are only temporarily in the U.S.

Section 3 of the GENIUS Act embodies congressional intent for U.S. regulatory jurisdiction over payment stablecoin transactions directed to U.S. persons, stating that it is "intended to have extraterritorial effect if conduct involves the offer or sale of a payment stablecoin to a person located in the [U.S.]."³⁰ Treasury's proposed geographic provisions must implement, rather than expand, the express U.S. nexus Congress established in section 3 of the Act.

Section 3 of the Act does not establish that the mere presence of a U.S. bank, correspondent account, settlement institution, custodian, or payment rail converts an otherwise foreign payment stablecoin issuance into a U.S. issuance. A U.S. bank's involvement should not independently establish U.S. issuance where the bank is acting solely as an intermediary or service provider. ICBA urges Treasury to clarify that the location of a bank customer, correspondent, service provider, or other intermediary does not cause the bank itself to be treated as having issued a payment stablecoin in the U.S.

This interpretation is appropriate because Congress created a framework that defines a foreign payment stablecoin issuer separately from a permitted payment stablecoin issuer and provides specific requirements for foreign payment stablecoin issuers.³¹ Treasury should not indirectly expand those provisions by treating the use of a U.S. bank as a sufficient nexus to characterize the foreign payment stablecoin issuer itself as issuing in the U.S.

A failure to address these considerations could leave the final rule vulnerable to the argument that Treasury did not adequately consider important aspects of the regulatory problem or the statutory provisions directly applicable to community banks.

B. Treasury Should Not Expand the Definition of "Monetary Value" Through Functional Equivalence

In the proposal, Treasury asks whether to interpret the term "payment stablecoin" and related definitions to include a digital asset that the issuer is obligated to redeem in other forms of value that may be the functional equivalent of those forms of "monetary value" as defined in the Act. The proposal asks whether digital assets should be classified as payment stablecoins if they would be redeemable for assets not enumerated in the Act,

³⁰ See GENIUS Act § 3(e) of the; 12 U.S.C. 5902(e).

³¹ See 12 U.S.C. 5901(12) and 5916.

such as for non-deposit liabilities of a company that are commonly viewed by the public as ubiquitously convertible to bank deposits, or for credit union shares.

As ICBA stated in comments on Treasury's ANPR to implement the GENIUS Act,³² the statutory definition of payment stablecoin already contains detailed elements and exclusions. The GENIUS Act provides, in relevant part, that a payment stablecoin “means a digital asset that is, or is designed to be, used as a means of payment or settlement; and the issuer of which is obligated to convert, redeem, or repurchase for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value.”³³ The Act defines “monetary value” to mean: “a national currency or deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)) denominated in a national currency.”³⁴

Treasury should not expand the definition of monetary value to encompass other financial claims merely because those claims may be readily convertible into currency or deposits. That approach could create substantial uncertainty regarding the boundary between payment stablecoins and traditional financial products and would undermine Congress's express distinction between payment stablecoins and deposits, including deposits recorded using distributed ledger technology, wherein deposits are specifically excluded from the definition of “payment stablecoin.”

Ubiquitous convertibility alone should not determine whether an instrument constitutes monetary value. A digital asset redeemable only for another financial claim should fall within the payment stablecoin definition only where that redemption arrangement satisfies the statutory definition.

Additionally, the fact that credit union shares may be readily convertible into deposits or currency should not cause a digital asset redeemable in such shares to constitute a payment stablecoin. The statutory interpretation should turn on whether the issuer is obligated to redeem the digital asset for the forms of monetary value identified by Congress, not whether the asset received upon redemption can itself subsequently be exchanged for monetary value.

Treasury should apply the statutory elements that define a payment stablecoin rigorously, including actual redemption obligations and stable value representations, avoiding an open-ended functional equivalence definition. It is reasonable to be concerned about structures that may be designed to evade the GENIUS Act through nominal or artificial intermediate redemption mechanisms. However, Treasury should address those arrangements through appropriately tailored anti-evasion standards rather than expanding “monetary value” beyond the categories established by Congress.

³² See Letter from ICBA to U.S. Dept. of the Treasury, Re: GENIUS Act Implementation, RIN 1505-ZA10 (Nov. 4, 2025), <https://www.icba.org/documents/d/asset-library-45247/letter-to-treasury-department-regarding-genius-act-implementation>.

³³ See GENIUS Act § 2(22).

³⁴ *Id.* at § 2(17).

III. Treasury Should Not Treat Section 18 as a General Authorization for Foreign Payment Stablecoin Issuers to Issue Directly in the U.S.

Treasury's NPRM interprets the GENIUS Act to permit foreign payment stablecoin issuers that satisfy requisite conditions³⁵ to issue their payment stablecoins directly to persons located in the U.S. Treasury recognizes that its interpretation is not free from doubt and has requested comments on alternate interpretations of the GENIUS Act.

ICBA supports an alternate interpretation of the GENIUS Act that rests upon both the terms and the structure of the Act as a whole and that avoids many of the detrimental impacts that flow from Treasury's proposed reading. ICBA recommends that Treasury decline to adopt a categorical rule authorizing domestic issuance by qualifying foreign payment stablecoin issuers solely because they satisfy section 18(a) of the Act, and instead, adopt a more narrow interpretation supported by the language and structure of the GENIUS Act. Treasury should interpret section 18(a) of the Act as a limited statutory exemption and not as a general declaration or authorization that eligible foreign payment stablecoin issuers have the same U.S. issuance rights as federal- or state-authorized permitted payment stablecoin issuers. Treasury should preserve the statutory distinction between issuance and distribution, and should make clear that section 18 does not exempt a qualifying foreign payment stablecoin issuer from independently applicable statutory restrictions, including the GENIUS Act's prohibition on an issuer paying interest or yield to payment stablecoin holders.

A. Foreign Stablecoin Issuance Could Undermine Community Bank Funding and Local Lending

Treasury's interpretation does not recognize the serious national and local consequences of funds flowing from U.S. consumers and businesses to foreign payment stablecoin issuers. Treasury's interpretation would have profound consequences across the U.S. banking system, producing material deposit disintermediation for community banks and harming the communities they serve.³⁶

Allowing eligible foreign payment stablecoin issuers to issue their payment stablecoins directly to U.S. customers would accelerate the movement of U.S. transaction balances

³⁵ The specific criteria for foreign payment stablecoin issuers to qualify for the statutory exception to issue their payment stablecoins in the U.S. are:

1. **Comparable foreign regulation** – Treasury must determine that the foreign payment stablecoin issuer's home jurisdiction has a regulatory and supervisory payment stablecoin regime comparable to that established under the GENIUS Act;
2. **Registration** – The foreign payment stablecoin issuer must register with the Comptroller;
3. **Reserve assets** – The foreign payment stablecoin issuer holds reserves in a U.S. financial institution sufficient to meet the liquidity demands, unless otherwise permitted by a reciprocal arrangement; and
4. **Jurisdictional restrictions** – The foreign payment stablecoin issuer's home jurisdiction must not be subject to comprehensive U.S. economic sanctions or a Treasury determination that it is in a jurisdiction of primary money laundering concern.

³⁶ See ICBA's modeling of how payment stablecoins could fuel deposit flight from community banks, and the resulting negative impacts on local lending capacity in Appendix A.

away from the insured deposits that community banks leverage to extend credit to local small businesses, agricultural borrowers, and consumers. Insured bank deposits would migrate out of community banking as consumers and businesses shift transactional capital into compliant foreign payment stablecoin issuers. To retain deposits, community banks would need to raise their interest rates, which would increase their aggregate funding costs and squeeze net interest margins.

The resulting funding pressure would materially reduce lending to U.S. small businesses, farms, households, and local communities. In sharp contrast to the community bank model, foreign payment stablecoin issuers would not advance local credit in the U.S. Deposits flowing offshore to foreign payment stablecoin issuers would deprive U.S. small businesses and households of banking credit. Additionally, permitting foreign payment stablecoin issuers to issue their payment stablecoins in the U.S. to U.S. consumers and businesses, would result in a significant increase in total issuance and circulation of payment stablecoins in the U.S.³⁷

The GENIUS Act standards that apply to domestic issuers should apply to foreign issuers. ICBA urges Treasury to specify that foreign issuers would maintain reserves under the same requirements as apply to domestic issuers – on a 1:1 basis in U.S. Treasury bonds, reverse repurchase agreements collateralized by U.S. Treasury bonds, demand deposits at U.S. insured depository institutions, U.S. coins and currency, or similar liquid Federal Government-authorized assets.³⁸ Part of determining comparability of regulation and supervision per section 18(a) of the Act should be whether the foreign issuer is required by its jurisdiction to maintain reserves 1:1 comprising the identical types of U.S. instruments as provided in section 4(a) of the Act. No reciprocal arrangements under section 18(d) of the Act should alter the requirement that foreign issuers maintain U.S.-based payment stablecoin reserves.

Further, although Treasury's proposal is silent with respect to the prohibition in the GENIUS Act on the payment of interest or yield solely in connection with the holding, use, or retention of foreign payment stablecoins, the extent to which foreign issuers pay yield or interest will clearly increase deposit flight from the U.S. ICBA urges Treasury to expressly apply the prohibition on interest or yield to foreign issuers. This approach is consistent with the OCC's recent regulatory proposal, which expressly addressed this

³⁷ Even before Treasury has promulgated a final rule, analysis shows that stablecoin issuers' demand for short-term Treasuries could approach \$400 billion by the end of 2030 if the prevailing trend continues. See Sylvain Leduc, Luiz Edgard Oliveira & Aleisha Sawyer, Fed. Reserve Bank of S.F., *Stablecoin Issuers' Growing Appetite for Treasury Securities*, Fed. Reserve Bank of S.F., S.F. Fed Blog (Sept. 26, 2026), <https://www.frbsf.org/research-and-insights/publications/economic-letter/2026/09/stablecoin-issuers-growing-appetite-for-treasury-securities/>. While this may help government financing in the short-term, private stablecoin demand may be more sensitive to market conditions and changes in investor confidence than official reserve holdings.

³⁸ See also Genius Act, §§ 18(a)(3) and 18(d).

issue, “Section 4(a)(11) [of the GENIUS Act] prohibits foreign payment stablecoin issuers from paying the holder ... any form of interest or yield...”³⁹

ICBA recommends that Treasury consider the significance of its interpretation to community banks in the U.S. and to the communities they serve. An agency must engage in reasoned decision-making after considering relevant factors brought to its attention and articulate a suitable explanation based upon the information it receives. ICBA is providing deposit disintermediation analysis as part of our comments in Appendix A.

B. Section 18 of the GENIUS Act Is a Limited Exemption, Not an Independent Authorization for U.S. Issuance by Foreign Payment Stablecoin Issuers

The language of sections 3(a) and 3(b) of the Act establishes a framework for issuance of payment stablecoins in the U.S., specifying in 3(a), that it is unlawful for any “person” other than a permitted payment stablecoin issuer to issue a payment stablecoin in the U.S. and in 3(b), that it is unlawful for a DASP to offer or sell a payment stablecoin to a U.S. person, unless the payment stablecoin is issued by a permitted payment stablecoin issuer. Section 3(a) of the Act establishes the general rule that only a permitted payment stablecoin issuer may issue payment stablecoins in the U.S.

Under section 18(a) of the GENIUS Act “the prohibitions under section 3 [of the Act] shall not apply” to a foreign payment stablecoin issuer if all of the conditions in section 18(a) are satisfied. Section 18(a) of the Act refers broadly to the prohibitions under section 3 of the Act, but that language must be interpreted in the context of the GENIUS Act as a whole.

Treasury should construe section 18(a) of the Act narrowly and only to the extent necessary to give effect to its specific exemptions rather than as an independent authorization or licensing path for foreign payment stablecoin issuers. A more narrow interpretation recognizes the difference between an exemption from a specified prohibition and an affirmative authorization to conduct a regulated activity. Treasury should not interpret section 18(a) of the Act as an unrestricted authorization for issuance in the U.S. and qualification under section 18(a) of the Act should not be treated as a substitute for other applicable licensing, registration, certification, or approval requirements set forth in the Act.

ICBA recommends that Treasury interpret section 18 to permit qualifying foreign-issued payment stablecoins to be offered or sold in the U.S. within the scope of the statutory exemption, without treating section 18 as an independent authorization for a foreign issuer to conduct initial issuance in the U.S. ICBA also urges Treasury to clarify that section 18(a) eligibility does not waive any separate statutory prerequisite, that foreign issuers remain subject to applicable requirements concerning lawful orders and

³⁹ OCC, Notice of Proposed Rulemaking: Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of Stablecoins by Entities Subject to the Jurisdiction of the Office of the Comptroller of the Currency, 91 Fed. Reg. 10,202, 10,235 (March 2, 2026).

reciprocal arrangements, and that intermediaries cannot use foreign issuance structures to circumvent U.S. restrictions.

Section 18(c) is specifically focused on a foreign payment stablecoin issuer offering or selling through a DASP. Section 18(c) of the Act, which deals with registration and ongoing monitoring, provides that,

“A foreign payment stablecoin issuer may offer or sell payment stablecoins using a digital asset service provider if the foreign payment stablecoin issuer is registered with the Comptroller.”

Section 18(d) deals with reciprocal arrangements or other bilateral agreements between the U.S. and jurisdictions with payment stablecoin regulatory regimes that are comparable to those in the GENIUS Act. Among other criteria, this provision requires Treasury to consider whether the foreign jurisdiction’s requirements for payment stablecoin issuers include:

adequate supervisory and enforcement capacity to facilitate international transactions and interoperability with U.S. dollar-denominated payment stablecoins issued overseas.⁴⁰

Section 18(d) may plausibly be interpreted to permit foreign-issued stablecoins to enter U.S. commerce without necessarily authorizing the foreign issuer itself to conduct the initial issuance in the U.S.

The structure and language of section 18 of the GENIUS Act do not automatically or affirmatively authorize a foreign payment stablecoin issuer itself to issue payment stablecoins in the U.S. Read together, these provisions create a structural and textual interpretation that Section 18 allows a foreign payment stablecoin issuer that issues its payment stablecoin abroad to offer and sell its payment stablecoin in the U.S. through a DASP, and require Treasury’s consideration of jurisdictional requirements before all of the statutory conditions can be satisfied. This reading is strengthened by Congress’s distinction between a permitted payment stablecoin issuer, defined as a person formed in the U.S. and a foreign payment stablecoin issuer, defined as an issuer organized under the laws of a foreign country and *not* a permitted payment stablecoin issuer.

Structurally, the GENIUS Act clearly addresses issuance separately from the offer, sale, and distribution of payment stablecoins and Treasury should preserve this statutory distinction between issuance and distribution of payment stablecoins. Section 3 of the Act separately addresses issuance and the offering or sale of payment stablecoins and section 18(c) addresses certain offers or sales of foreign payment stablecoins through DASPs. Treasury must not collapse these distinct activities into a single authorization without a clear statutory basis. Congress may have intended eligible foreign payment stablecoin issuers to reach U.S. customers through compliant distribution channels without necessarily authorizing those issuers to perform the initial issuance domestically.

⁴⁰ GENIUS Act § 18(d).

Treasury should ensure that foreign payment stablecoin issuer eligibility is not interpreted more broadly than the supported by statutory text and structure, and that any resulting authorization is accompanied by effective safeguards for U.S. customers and the U.S. financial system. ICBA supports pairing effective U.S. supervisory safeguards and foreign regulatory comparability.

The GENIUS Act specifies that Treasury should determine whether a foreign payment stablecoin issuer is subject to regulation and supervision comparable to that established for permitted payment stablecoin issuers in section 4(a). Section 18(a) of the Act requires a comparable foreign regulatory framework, OCC registration, and satisfaction of applicable reserve and jurisdictional conditions. Treasury has not yet published any determination of comparability with any foreign country regulators.⁴¹

Comparability at the jurisdictional level does not necessarily guarantee equivalency of outcomes for U.S. holders of foreign payment stablecoins, especially during a crisis. For example, resolution, redemption, access to reserves, enforcement of lawful orders, and coordination among regulatory agencies may differ materially across jurisdictions. Any future determination that a foreign jurisdiction's regulatory framework is comparable to the GENIUS Act will not resolve all key issues regarding the protection of U.S. holders. For example, differences in insolvency law, reserve custody, redemption rights, enforcement, and cross-border resolution may create practical challenges during periods of market stress.

To help avoid and resolve crises, ICBA recommends that Treasury require clear evidence that each qualifying foreign payment stablecoin issuer satisfies all applicable statutory conditions, including OCC registration, reserve requirements, jurisdictional restrictions, and the ability to comply with lawful orders and applicable reciprocal arrangements. ICBA also recommends that Treasury clarify the consequences of a foreign jurisdiction losing its comparability determination or a foreign payment stablecoin issuer failing to maintain its eligibility. Treasury's final regulation should establish timely notice, appropriate restrictions on new issuance, continuity of redemption, and an orderly transition for U.S. customers.

Treasury should provide explicit regulatory safeguards, a transparent supervisory framework, and an assessment of the consequences for community-bank funding, consumer protection, and local credit availability. Treasury's final regulation should explain the limits of the statutory exemption, reconcile it with the approval framework in section 4 of the Act, and require clear evidence that all applicable conditions have been met.

IV. Regulatory Responsibility Should Follow Cross-Chain Stablecoin Claims

The NPRM raises several questions about how Treasury should address cross-chain bridges and similar mechanisms that create representations of payment stablecoins on

⁴¹ See GENIUS Act, §§18(a)(1) and (3), and 18(d).

other blockchains. Payment stablecoin issuers and users can transact across numerous blockchains, including Ethereum, Solana, BNB Chain, and Tron. Although these networks all support digital-asset transactions, they generally operate independently. A crypto asset native to one blockchain cannot ordinarily be transferred directly to or used on another blockchain.

To overcome this limitation, cross-chain protocols may allow a user to lock an asset on one blockchain and receive a newly created, corresponding token on another.⁴² The resulting token may be intended to track the value of the underlying asset, but that relationship can break down. Smart contract failures, cybersecurity incidents, or other operational disruptions may impair the token's functionality or value. Other models use liquidity pools to allow a user to deposit one token, such as USDC on Chain A, to then unlock USDC from an existing liquidity pool on Chain B.⁴³ Some models utilize a method whereby the asset on one blockchain is "burned" or removed from circulation before a corresponding version is created on another blockchain.⁴⁴ Each model presents distinct operational risks. Liquidity-pool models may produce fragmented or insufficient liquidity on particular blockchains, while lock-and-mint and burn-and-mint models may experience delays, failed transactions, or other disruptions when either the originating or destination network becomes congested.⁴⁵

As the questions in Treasury's proposal recognize, some of these mechanisms may create new transferable claims with many or all of the payment functions of a payment stablecoin. ICBA and its members believe a payment stablecoin should not cease to be regulated simply because it is represented, wrapped, bridged, or reissued on another blockchain. Likewise, responsibility should not turn on an institutional label, the technology used, or the mere publication of software. It should follow verifiable conduct in creating or controlling the transferable claim, assuming or controlling its redemption obligations, authorizing its representation as a stable and redeemable instrument, or knowingly and materially participating in an unlawful issuance. ICBA therefore urges Treasury to apply the GENIUS Act's functional distinctions among issuers, service providers, and persons that knowingly participate in an unlawful issuance according to actual obligations, control, knowledge, and reasonable holder expectations.

Cross-chain arrangements present factual and evidentiary issues that may not arise to the same degree within the regulated banking system, including pseudonymous participants, dispersed governance, automated operations, and uncertainty regarding who controls or stands behind a newly created claim. Those differences do not require Treasury to abandon the Act's distinctions or to create a categorical "DeFi" exception. Rather, they reinforce the need to distinguish protected or potentially protected expression from regulated financial conduct. The writing, discussion, publication, auditing, or teaching of source code, standing alone, should not make a person an issuer or a participant in an unlawful issuance. A person may, however, move beyond software publication by deploying or operating a protocol, controlling minting or redemption,

⁴² See *Bridges*, Ethereum, <https://ethereum.org/developers/docs/bridges/> (last visited Oct. 14, 2026).

⁴³ See *What Is a Lock and Unlock Transfer?*, Chainlink, <https://chain.link/article/lock-and-unlock-transfer> (last visited Oct. 14, 2026).

⁴⁴ *Id.*

⁴⁵ *Id.*

administering material upgrades or keys, controlling reserves, distributing or marketing the resulting claim, or knowingly using the protocol to evade applicable requirements.⁴⁶ Treasury should regulate that conduct and the resulting financial activity, not the abstract creation or communication of code.⁴⁷

Treasury should approach cross-chain claims with particular caution. These arrangements frequently involve pseudonymous developers, token holders, governance participants, liquidity providers, and operators dispersed across multiple jurisdictions—or operating without any clearly established jurisdictional presence. Claims of decentralization may further obscure who controls administrative keys, determines upgrades, receives fees, maintains reserves, or can alter, pause, or terminate the arrangement. The threshold regulatory challenge is therefore identifying the persons who exercise control, benefit from the arrangement, and bear responsibility for the resulting claims.

Public visibility on a blockchain does not resolve that challenge. On-chain records may show that a transaction occurred between wallet addresses at a particular time and in a particular amount, but they ordinarily do not identify the legal or beneficial owners of those wallets, whether nominally separate wallets share common control, the relationship between the parties, the source or purpose of the transfer, or the authority under which it was initiated. Nor do they establish whether a transfer represents a sale, custody movement, collateral transfer, internal rebalancing, redemption, or issuance—or which person, jurisdiction, and body of law govern if the transaction fails.

These informational gaps underscore the value of prudential regulation. Insured depository institutions must maintain customer, account, ownership, authorization, and transaction records pursuant to established legal and regulatory requirements. Those records are supported by internal controls, independent testing, supervisory examination, and regulatory access. As a result, regulators can connect a transaction to identifiable persons, legal obligations, and a legitimate business purpose in a manner that blockchain data alone generally cannot. Treasury should recognize that supervisory and evidentiary value when allocating burdens and evaluating cross-chain arrangements.

⁴⁶ In *Crypto's First Amendment Hustle*, Professor Kyle Langvardt challenges claims that the First Amendment broadly shields decentralized-finance activities from regulation or converts generally applicable requirements—such as anti-money-laundering obligations—into unconstitutional censorship. He argues that courts ordinarily distinguish the expressive content of software from its functional operation and “have repeatedly held that intermediate scrutiny is the appropriate standard in cases where the government aims to regulate the functional characteristics rather than the expressive content of software.” Kyle Langvardt, *Crypto's First Amendment Hustle*, 26 Yale J.L. & Tech. 130, 151–52 (2023), https://yjl.org/sites/default/files/langvardt_26yalejltech130.pdf.

⁴⁷ As Chief Justice Roberts has observed, the Supreme Court extends First Amendment protection to conduct only when it is “inherently expressive,” reinforcing the distinction between communicating software and using software to conduct regulated financial activity. *Rumsfeld v. Forum for Academic & Institutional Rights, Inc.*, 547 U.S. 47, 66 (2006) (“We have extended First Amendment protection only to conduct that is inherently expressive.”).

Because cross-chain arrangements may lack both identifiable accountability and examinable records, they can impede supervision, frustrate compliance with lawful orders, and leave users and regulated intermediaries unable to identify the person legally responsible for redemption or losses. Treasury therefore should not presume that a cross-chain claim is compliant simply because no readily identifiable person appears to control it.

Nor should pseudonymity, jurisdictional uncertainty, diffuse governance, or technical complexity operate as a regulatory safe harbor. A person seeking to offer, sell, or otherwise make such a claim available in the United States as a compliant payment stablecoin should bear the burden of providing reliable information sufficient to identify the responsible parties, establish the relevant jurisdiction, demonstrate the allocation of control and legal obligations, and confirm the capacity to comply with applicable law and lawful orders. Where those matters cannot be verified, the claim should not be treated or marketed as the equivalent of a compliant payment stablecoin.

Treasury should evaluate responsibility in two stages. First, core responsibility factors should determine whether a person created or controlled the resulting claim, assumed or controlled its redemption obligations, or authorized its representation as stable and redeemable. Second, corroborating factors may illuminate a person's role but should not independently establish issuer status or knowing participation. This two-stage structure addresses nominal decentralization and hidden control without sweeping ordinary service providers—including banks, custodians, cloud providers, payment processors, liquidity providers, and software developers—into issuer status based solely on technical support or economic benefit.

1. **Core responsibility factors:** control over minting, burning, or creation of the claim; control over redemption or reserves; control over administrative keys or material upgrades; authority to pause, freeze, block, or unwind transactions; responsibility for representations that the claim is stable, redeemable, or equivalent to the parent stablecoin; and authorization by, or an agency or common-control relationship with, the parent issuer.
2. **Corroborating factors that may not be independently sufficient:** governance participation; operation of a user interface; promotion or use of branding; provision of liquidity; collection of fees; treasury participation; and other economic benefits or technical support.

The more core responsibility factors that are present, the weaker the claim that decentralization, automation, or code publication eliminates regulatory responsibility. Pseudonymity or dispersed governance should not alone establish liability, but each materially increases the need for verifiable evidence of accountability and control. Treasury should not presume that an assertion of decentralization has legal significance or is evidence of non-responsibility. A person invoking decentralization should produce sufficient information to identify responsible parties, establish the applicable jurisdiction, disclose material control arrangements, and demonstrate who bears the claim's legal and operational obligations, including control over creation, redemption, governance, distribution, and economic operation.

Where these matters cannot be verified, Treasury and regulated intermediaries should be permitted to treat the arrangement as presenting heightened risk and to deny it the benefits, presumptions, or market access afforded to compliant payment stablecoins. Safe harbors and evidentiary presumptions should remain available to identifiable service providers that perform reasonable due diligence, maintain appropriate records, and do not control issuance. This approach is not disparate substantive treatment; rather, it is risk-based evidentiary treatment grounded in verifiability, accountability, jurisdiction, and supervision.

A. Issuer-recognized representations.

When the original issuer authorizes the cross-chain representation, treats it as interchangeable with the parent stablecoin, redeems it, assumes responsibility for its stability, or exercises material control over its creation or operation, the parent issuer should retain responsibility. Promotion, branding, fee receipt, or other economic benefit may corroborate that relationship, but should not alone establish issuer status. An issuer should not be permitted to expand the circulation and utility of its payment stablecoin on another blockchain while retaining material control and disclaiming responsibility for the resulting claims.

B. Third-party-created representations.

When an unaffiliated bridge, protocol, developer, liquidity provider, or other person independently creates a new transferable claim without meaningful authorization or support from the parent issuer, responsibility should depend on that person's actual conduct and control. A person should bear responsibility when it creates or controls the claim, assumes or controls redemption obligations, authorizes representations of stable value, or knowingly and materially participates in an unlawful issuance. Writing or publishing code should not, standing alone, establish issuer status or knowing participation.

Treasury should establish a clear allocation hierarchy under which:

- 1) the parent issuer remains responsible when it authorizes or controls the cross-chain representation, assumes or controls its redemption, or represents it as interchangeable with the parent stablecoin;
- 2) a bridge or protocol operator becomes responsible when it independently creates or controls a new transferable claim or assumes the relevant redemption or stability obligations;
- 3) a person that is not the issuer may nevertheless be liable for knowing and material participation in an unlawful issuance; and
- 4) if no identifiable and legally accountable person accepts responsibility for issuance, reserves, redemption, required disclosures, operational integrity, and compliance with applicable law, the claim should not be offered, marketed, or made available as the equivalent of a compliant payment stablecoin. This market-access limitation does not treat code as a person; it ensures that a payment-like claim does not receive regulated status without an accountable party standing behind it.

In applying this hierarchy, Treasury should also consider which party maintains and can produce records sufficient to substantiate legal and beneficial ownership, authorization, reserves, redemption obligations, governance, transaction purpose, and compliance with lawful orders. Recordkeeping alone should not establish issuer status, but the inability or unwillingness of the persons operating an arrangement to produce such records should weigh strongly against treating the resulting claim as a compliant payment stablecoin.

An unrestricted exception would create practical risks, including multiplication of claims against the same underlying stablecoin, uncertainty over who owes redemption, reserve and liquidity mismatches, inconsistent sanctions and anti-money-laundering controls across blockchains, misleading use of an issuer's name or branding, and losses arising from bridge exploits, depegging, or unavailable liquidity. Passive provision of liquidity should remain a corroborating factor rather than an independent basis for issuer status; however, control over a liquidity pool, pricing, reserves, redemption mechanics, or representations to users may constitute core evidence of responsibility. The regulatory question is not merely whether blockchain data can trace a token from one address to another, but whether regulators can identify accountable parties, verify legal and beneficial ownership, understand the purpose and effect of the transaction, examine the relevant books and controls, and enforce redemption and other legal obligations. Community banks already operate within a prudential framework designed to provide those capabilities. Treasury should not confer equivalent regulatory treatment on cross-chain arrangements that cannot provide equivalent accountability, records, supervisory access, and enforceability. A technological process that changes the location or form of a claim should not erase the legal responsibilities associated with creating, maintaining, and redeeming that claim.

V. Treasury Should Apply a Risk-Based Standard to Internal and Operational Wallet Transfers

ICBA recommends that Treasury adopt a risk-based, entity-sensitive standard. An insured depository institution subject to prudential regulation and supervision, examination, BSA/AML requirements, audited controls, and regulatory recordkeeping should not be required to substantiate each non-issuance transfer under the same transaction-by-transaction standard applied to an entity that lacks comparable prudential regulation and supervision. Treasury should accord a rebuttable presumption to an insured depository institution's contemporaneous classification of a bank-initiated transfer—or a bank-facilitated transfer undertaken for the bank's own account or in an agency, custody, treasury-management, or operational capacity—when that classification is supported by ordinary-course records and remains subject to review by the institution's prudential regulator.

More specifically, a transfer by an insured depository institution should be presumed not to constitute issuance when:

- 1) The institution classifies the transaction as an internal or operational transfer in contemporaneous records;

- 2) The transfer complies with board-approved policies and established wallet controls;
- 3) The institution retains legal and beneficial ownership of the payment stablecoins;
- 4) No customer or third party acquires withdrawal, redemption, transfer, disposition, or other enforceable rights as a result of the transfer; and
- 5) Records sufficient to substantiate that treatment remain available to the institution's appropriate prudential regulator.

The presumption should remain rebuttable where supervisory or other evidence demonstrates that the transfer vested rights in another person or completed an agreed distribution.

Entities that are not subject to comparable prudential supervision present distinct evidentiary and control concerns because their books and records, wallet-management practices, governance arrangements, and internal controls are not subject to the same ongoing regulatory examination. Blockchain transactions compound those concerns. Public blockchain records ordinarily disclose wallet addresses, transaction amounts, and timestamps, but not the legal or beneficial owner of a wallet, whether nominally separate wallets share common control, the relationship between the parties, the source of funds, the authority for the transfer, or its business and legal purpose. These limitations raise a fundamental question: How can regulators determine from blockchain data alone whether a transfer changed ownership, vested enforceable rights, completed an agreed distribution, or merely reflected an internal or operational movement of assets?

That question is particularly consequential because recent research indicates that the substantial majority of outstanding USDT and USDC are held in unhosted wallets, which house cryptographic keys that control digital assets but fail to collect any identifying information about users/holders. Former IMF deputy managing director Gita Gopinath estimates that unhosted wallets hold nearly \$200 billion in USDT and USDC—far more than the amounts attributed to either U.S. or non-U.S. exchanges.⁴⁸ The research associates only 11 percent of total holdings with a specific jurisdiction and cautions that those estimates rely on “network address information that is easily masked.”⁴⁹ Indeed, indirect methods of identifying a user's location may “fail precisely when a user takes steps to hide.” These findings illustrate the limits of relying on wallet addresses or blockchain analytics to determine the legal or beneficial owner of a wallet, the relationship between the parties, or whether a transfer changed ownership, vested rights, or completed an agreed distribution.

This pervasive pseudonymity makes the off-chain records and control environment of the transferring institution especially important. Treasury does not need to resolve the resulting evidentiary problem identically for all issuers. When an insured depository institution initiates a transfer—or facilitates one for its own account or in an agency, custody, treasury-management, or operational capacity—its ownership records, wallet controls, transaction classifications, and related books and records are already subject to examination by its prudential regulator. That existing oversight should weigh heavily

⁴⁸ See Gita Gopinath, *Stablecoins and Anonymous Money*, Jacobsson Found. Lecture at 3 (June 28, 2026), <https://www.bis.org/speeches/20260628-stablecoins-and-anonymous-money.pdf>.

⁴⁹ *Id.* at 6.

in Treasury's analysis and support a less burdensome review of transactions that the institution records as internal or otherwise outside the scope of issuance. Absent evidence calling the institution's characterization into question, Treasury should permit the institution and its prudential regulator to rely on records and controls maintained through the ordinary supervisory process rather than require a separate, transaction-by-transaction demonstration of wallet ownership or control. This approach does not alter the substantive definition of issuance for insured depository institutions; it recognizes the reliability of records and controls already subject to ongoing prudential supervision in determining whether an issuance has occurred.

This differentiated treatment is competitively neutral and risk based. It does not exempt banks from the substantive definition of issuance or prevent Treasury or a prudential regulator from rebutting a bank's classification when contrary evidence exists. Instead, it recognizes that prudential regulation supplies verified records, accountable management, tested controls, and supervisory access that can resolve facts the blockchain record does not contain. Entities outside the banking system seeking the same presumption should be expected to demonstrate comparably reliable records, controls, accountability, and regulatory access.

VI. Treasury Must Engage in Reasoned Decision Making and Its Analysis Should Consider the Proposal's Effects on Community Banks

A. Treasury Should Promote a Coordinated Interagency Approach to GENIUS Act Implementation

This proposal highlights the need for Treasury and the other GENIUS Act regulators to coordinate their rules to create a cohesive regulatory regime. So far, it appears that each agency has largely worked independently. In some places, the agencies build on one another's work, and in others, inconsistencies and gaps remain between them. ICBA has raised this concern with the other agencies. ICBA has explained that the OCC's final rule is a critical predicate for meaningful comment on the FDIC's proposal,⁵⁰ and jointly with other trade groups has urged the regulators to coordinate closely so the payment stablecoin regulatory framework does not incent regulatory arbitrage or create unworkable, inconsistent requirements.⁵¹ Treasury, as the hub of the wheel, is well positioned to coordinate this effort. Collectively, the agencies, including Treasury, have

⁵⁰ Letter from ICBA to the FDIC, Re: GENIUS Act Requirements and Standards for FDIC Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, RIN 3064-AG19 (June 9, 2026), <https://www.icba.org/documents/45248/2352699/ICBA+Letter+-+FDIC+GENIUS+Act+NPR.pdf/be121b8b-914d-46ef-0f81-db65655e10a8?t=1781108762399>.

⁵¹ Joint Letter from ABA, BPI, CBA & ICBA to the OCC, FDIC, FRB & NCUA, Re: Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of Stablecoins by the Federal Payment Stablecoin Regulators, (July 27, 2026), <https://www.icba.org/web/independent-banker/d/asset-library-45247/joint-trades-genius-act-letter-to-federal-payment-stablecoin-regulators-7-27-26-vfinalforsubmission-pdf>; Joint Letter from ICBA and 44 State Banking Associations to the OCC, FDIC, FRB & NCUA (July 15, 2026), https://www.icba.org/documents/45248/2352699/ICBA+State+Association+GENIUS+Letter_July+15+2026.pdf/bcb82a31-68df-ec8d-2905-5e18feb1ce41?t=1784136799786.

produced regulatory proposals in compressed timeframes that sometimes lack cohesion, are difficult to follow, and are not fully coordinated with other GENIUS Act regulators. Treasury’s proposal does not fully resolve that problem.

B. Treasury Must Implement Section 3 of the GENIUS Act Consistent with the Act as a Whole

The Administrative Procedure Act (“APA”) ⁵² requires Treasury to engage in reasoned decision-making, considering relevant factors and articulating a satisfactory explanation connecting the information it receives to the regulatory choices it makes. Because a court may find a rule to be arbitrary and capricious where an agency fails to consider an important aspect of a relevant issue or relies on factors Congress did not intend it to consider, ICBA recommends that Treasury’s final rule specifically address (i) the interaction between section 3 and section 16 of the Act; (ii) the statutory exclusion of deposits from the definition of “payment stablecoin”; (iii) the express authorization for banks to use distributed-ledger technology; (iv) the difference between issuers and service providers; (v) the separate statutory treatment of digital asset service providers; (vi) the compliance burden created by requiring community banks to identify ultimate transaction participants; (vii) the potential effects on the availability of banking services for permitted and foreign payment stablecoin issuers; and (viii) the potential negative competitive effects of imposing disproportionate monitoring and compliance costs on community banks.

ICBA recommends that Treasury’s final rule adhere to prevailing judicial precedent construing the APA. Under this precedent, courts independently determine the best interpretation of statutory provisions and do not defer to an agency merely because a statute is ambiguous.⁵³ Agencies may exercise discretion delegated by Congress, but they remain subject to statutory boundaries and the APA. Congress expressly gave Treasury authority to issue regulations implementing section 3 of the GENIUS Act, and to define terms, but that authority does not permit Treasury to adopt regulations that do not comport with the whole of the Act, including definitions that effectively override other statutory provisions, such as section 16 of the Act.

C. Treasury Should Not Impose New Material Requirements Without Providing Adequate Notice and Comment

Treasury’s proposal repeatedly raises alternatives in generalities rather than proposing actual regulatory text for them. Treasury cannot treat the solicitation of comments on vague possible alternative regulatory approaches as a substitute for satisfying applicable notice requirements. To the extent Treasury seeks to adopt materially different provisions in the final rule, Treasury must instead repropose the rule to provide interested parties a meaningful opportunity to comment.

⁵² See 5 U.S.C. § 553.

⁵³ See *Loper Bright Enters. v. Raimondo*, 603 U.S. 369 (2024); See also *Motor Vehicle Manufacturers Association v. State Farm*, 463 U.S. 29 (1983) (requiring consideration of relevant factors and provision of a satisfactory explanation).

D. Treasury Must Consider the Proposal's Effects on Community Bank Deposits, Lending Capacity, and the Competitive Landscape

The impact analysis for Treasury's proposal raises significant concerns. Treasury's view as stated in the Regulatory Flexibility Analysis is that the proposal will not have a significant economic impact on a substantial number of small entities. However, the analysis fails to take into consideration the foreseeable effects on community banks and the Main Street economies they serve, including the risk of deposit flight; increased community bank funding costs; decreased capacity for local lending to America's small businesses, farmers, ranchers, and families that depend on community banks for access to credit; competitive disparities among banks, stablecoin issuers and foreign issuers; competitive consequences flowing from the expansive interpretation in support of foreign stablecoin activity; and compliance burdens for community banks that interact with stablecoin issuers or provide related banking services.

Treasury cannot reasonably assess the consequences of its regulatory choices without considering material effects on the banking system that are a foreseeable consequence of those choices. Rather than considering only the direct compliance costs borne by permitted payment stablecoin issuers and digital asset service providers Treasury's final analysis should consider the proposal's reasonably foreseeable effects on community bank deposits, funding, lending capacity, competition, and regulatory burden as part of its reasoned decision making and, to the extent applicable to its regulatory flexibility analysis, should account for compliance and economic burdens borne by affected small entities.

E. Treasury Should Establish a Structured Process for Updating Its Interpretive Appendix

Treasury's NPRM proposes several interpretive examples in question-and-answer format that would appear in Appendix A to new Part 1523 once adopted in final form. Although Treasury's illustrative scenarios in the proposed Appendix may provide valuable initial clarity to market participants, the need to coordinate rulemakings with other responsible regulatory agencies, as well as the evolving nature of the payment stablecoin market, pose risks to the long-term procedural validity of these interpretations under the APA and risk expansion and inconsistency of the regulatory perimeter through adoption of revised and/or new interpretations going forward.

ICBA recommends that Treasury adopt a periodic review process for conducting structured updates of the Appendix. The objective of the review would be to help ensure that the Appendix remains a means for providing clear guidance rather than a source of procedural vulnerability or unintentional regulatory expansion and inconsistency. Structured review should help to keep the interpretations current and prevent them from transforming into mandates that may violate the APA. If material changes to the Appendix are required based upon this review, Treasury must engage in notice-and-comment rulemaking as the interpretations would no longer be considered a logical outgrowth of the notice-and-comment provided.

VII. Conclusion

ICBA appreciates the opportunity to comment on the proposal and looks forward to the opportunity to work with Treasury to find a regulatory path forward that enables community banks to maintain their critical role in the U.S. financial system. Treasury should implement the GENIUS Act in a manner that ensures clear accountability for stablecoin issuers, preserves permissible banking activities, and promotes a competitive landscape in which community banks can innovate, serve their customers, and continue to deploy deposits to support local lending. If you would like to discuss the issues set forth in this letter, please contact Brian Laverdure at brian.laverdure@icba.org or Amy Ledig at amy.ledig@icba.org.

Sincerely,

/s/

Brian Laverdure, SVP, Digital Assets and Innovation Policy

/s/

Amy Ledig, VP, Safety and Soundness, Regulatory Counsel

/s/

Joseph Chaves, Senior Director, Safety and Soundness Regulatory Policy

APPENDIX A - ECONOMIC ANALYSIS

This appendix to the comments of the Independent Community Bankers of America (“ICBA”) on the notice of proposed rulemaking (“NPR”) issued by the Department of the Treasury (“Treasury”) to implement section 3 of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (“GENIUS Act”)¹ regarding the issuance, offer, and sale of payment stablecoins in the United States² presents ICBA’s economic analysis of the effects of payment stablecoin adoption on community bank deposits and lending. ICBA previously submitted this analysis as Part I of its June 9, 2026 comments on the Federal Deposit Insurance Corporation’s (“FDIC”) GENIUS Act NPR,³ and it is reproduced here with modifications to address Treasury’s proposal.

Payment stablecoins convert sticky retail deposits into large buckets of wholesale deposits or high-quality liquid assets that can create profound adverse impacts for community banks, their customers, and local communities across the country. The NPR does not analyze these effects. Treasury summarizes its regulatory impact analysis in the NPR and states that a more detailed analysis will be posted to the docket. The quantified benefits Treasury identifies are regulatory clarity, avoided depegging losses, and consumer protection from avoided issuer failures. Its non-quantified benefits include preservation of dollar dominance in digital payments markets and improved U.S. competitive positioning in global digital payments. The costs Treasury identifies are primarily transitional (market concentration costs and switching costs) along with digital asset service provide compliance costs and reduced product choice. None of these categories accounts for whether the growth in the payment stablecoin market would draw deposits out of banks or how that deposit migration would affect bank lending. The NPR’s Regulatory Flexibility Act discussion likewise states Treasury’s preliminary view that the proposal would not have significant economic impact on a substantial number of small entities, without considering community banks as institutions whose deposits and lending capacity may be affected by payment stablecoin growth.⁴

ICBA urges Treasury to consider these effects before finalizing the rule. Treasury itself has asked commenters whether its analysis appropriately distinguishes between effects attributable to the GENIUS Act and effects attributable to the proposed rule, what the costs and benefits of implementing section 3 are beyond those imposed by the Act itself and to what extent Treasury has discretion to reduce costs or increase benefits, and what impact clearer regulatory guidance would have on market participation and demand for payment stablecoins. Those questions go to the core of the proposal’s consequences for community banks and the communities they serve, and the answers should inform Treasury’s economic analysis and final rule. The Administrative Procedure Act requires reasoned consideration of the impacts of the NPR, and the Regulatory Flexibility Act requires identification and assessment of the impacts of the NPR on community banks with \$850 million or less in assets. These

¹ GENIUS Act, Pub. L. No. 119-27, 129 Stat. 419 (2025).

² Department of the Treasury, *GENIUS Act Regulations on Payment Stablecoin Issuance, Offer, and Sale*, 91 Fed. Reg. 53368 (Aug. 18, 2026) (Docket No. TREAS–DO–2026–0496; RIN 1505–AC95).

³ Letter from ICBA to Jennifer M. Jones, Deputy Executive Secretary, Federal Deposit Insurance Corporation, *Comments—RIN 3064-AG19, GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions* (June 9, 2026).

⁴ Treasury NPR, *supra* note 2, at 53387–88.

requirements call for Treasury to consider whether its GENIUS Act implementation choices unnecessarily disadvantage community banks and whether less burdensome alternatives are available. Because section 3 determines who may issue, offer, and sell payment stablecoins to persons in the United States, Treasury's choices, including its interpretation permitting foreign payment stablecoin issuers that meet section 18(a) criteria to issue directly in the United States, will shape the size and composition of the U.S. market.

Treasury's analysis should address the far-reaching adverse impacts on the ability of community banks to provide credit to local consumers, businesses, and farmers that would follow from the shift of deposits from community banks to payment stablecoins. The NPR identifies preservation of dollar dominance in digital payment markets and improved U.S. competitive positioning in global digital payments as non-quantified benefits of the proposal, and it lists market concentration and switching costs among its costs, but it does not consider effects on bank deposits or lending.⁵ To the extent Treasury expects payment stablecoin growth to bring new funds into the U.S. financial system, whether from users who lack bank accounts or from foreign demand, neither source is likely to offset deposit losses at community banks:

- According to the FDIC's own research, nearly every American household has access to a bank account, so the number of digital payment app users without a bank account is not large enough to introduce significant new sources of deposits.⁶ Additionally, the same FDIC research indicates that most unbanked individuals rely on cash, not payment apps.
- Foreign demand is speculative, and if it does occur, there is no guarantee that it would offset damaging shocks. Instead, the more likely scenario is that these funds would either flow into the largest banks as wholesale, uninsured deposits, or they would exit the U.S. banking system entirely if they flow into non-bank PPSIs that keep minimal amounts of their reserves as bank deposits. The result would be an imbalanced U.S. banking system in which the largest, too-big-to-fail banks grow even larger, while community banks are exposed to higher wholesale funding costs which would impair their lending capabilities.

The following section presents ICBA's modeling of the effects of payment stablecoin growth on the banking system, showing the effects on community banks. ICBA provides this analysis to assist Treasury in assessing the impact of payment stablecoins on community banks and in response to Treasury's request for data, studies, and other information on the costs and benefits of the proposal, including Questions 81-86. **The central conclusion is clear: community banks face severe adverse impacts whether payment stablecoins are issued by a non-bank PPSI or a bank-established PPSI subsidiary.**

Treasury's analysis measures costs primarily in terms of compliance and transition costs borne by digital asset service providers and issuers, and asks whether issuer compliance costs should be quantified separately. ICBA submits that costs borne by directly regulated parties are not the relevant measure of the rule's systemic impacts.. **The relevant policy question is not how many entities the rule directly regulates. Rather, the relevant policy questions are what amount of deposit migration the payment stablecoin market Treasury's rule enables would induce, how that deposit migration affects lending capacity, and whether any resulting costs fall disproportionately on community banks.** The analysis below addresses those policy questions directly.

⁵ Treasury NPR, *supra* note 2, at 53388

⁶ Ryan Goodstein, *A Closer Look at the Unbanked: Cash-Only Households Versus Those That Use Prepaid Cards or Nonbank Payment Apps*, Federal Deposit Insurance Corporation, Consumer Research Perspectives (July 2024), <https://www.fdic.gov/system/files/2024-08/cash-only.pdf>.

A. What are the potential costs of implementing section 3 of the GENIUS Act as proposed, and to what extent does Treasury have distraction to reduce those costs?

Payment stablecoin adoption at scale will reduce bank lending under any regulatory framework. The key policy question is not whether banks' credit creation will decline, but rather how large the decline will be and how the costs will be distributed across the U.S. banking system. At a baseline market size of \$1.2 trillion (which is consistent with a payment stablecoin market in which yield or yield-equivalent rewards are prohibited), ICBA estimates that lending at community banks would fall by \$141 billion, or 3.5%, based on credible estimates from leading researchers on stablecoin-linked disintermediation. On the other hand, if payment stablecoin issuers are permitted to offer yield or yield-equivalent rewards (or if the existing prohibition fails to prevent such rewards due to decentralized ("DeFi") wrapper loopholes), the payment stablecoin market is likely to grow to \$3–5 trillion and cause community bank lending to fall by \$850 billion. **This is equivalent to placing at risk roughly one in five dollars currently lent by community banks to farms, small businesses, and other borrowers.**

We assess the impact on credit creation in four steps:

- First, we establish estimates for a baseline scenario of stablecoin market growth in which stablecoins are restricted to a payments-only environment (i.e., stablecoins are used solely for transactions with no yield or yield-equivalent features) and deposit flight is the primary driver of lending losses. This scenario captures the impact of deposit substitution (i.e., consumers replacing traditional bank deposits with stablecoins) and wholesale funding costs (i.e., the increased cost banks face when replacing lost retail deposits with more expensive market-based borrowing), but excludes the additional effects of issuer reserve recycling (i.e., stablecoin issuers reinvesting the assets that back their tokens into the banking system).
- Second, we show how relaxing the current prohibition against yield or yield-equivalent rewards intensifies the negative impact on bank lending compared to the baseline. Permitting yield, either directly or indirectly, shifts stablecoins from a payments substitute to a store-of-value competitor. This dramatically expands the size of the stablecoin market and drives up the degree of deposit substitution.
- Third, we establish how stablecoin issuer reserves impact bank lending. Empirical evidence suggests that even reserves held directly as bank deposits tend not to translate into additional lending, as the intraday liquidity demands of stablecoin issuers require partner banks to hold those funds in reserve rather than deploy them as loans.
- Fourth, we evaluate whether issuer reserve growth offsets deposit flight through T-bill and repurchase agreement (repo) recycling. While stablecoin reserves do re-enter the financial system, the benefits are uneven. Recycling, primarily through issuer purchases of U.S. Treasuries, partially offsets deposit flight for large banks that participate in U.S. Treasury markets. However, since community banks typically do not operate as dealers, they receive little of the recycling benefit.

The ultimate impact of payment stablecoin adoption at scale is a more concentrated banking system. As the market for payment stablecoins grows, deposits and lending capacity shift from community banks toward larger institutions. This matters because community banks are not interchangeable with large banks. Community banks are vital partners to U.S. small businesses, farmers, and rural communities, accounting for 81% of farm real estate debt held

by commercial banks and 74% of operating debt,⁷ and representing over 71% of all bank branches in rural areas.⁸ These impacts illustrate that the diversity of the U.S. banking system—highlighted by thousands of community banks spread across the nation—is the bedrock of the nation's economy that policymakers should continue to preserve and promote.

1. In a Baseline \$1.2T Stablecoin Market, Deposit Flight Drives Lending Loss

This section of ICBA's analysis describes the baseline effects under a payment stablecoin regime as framed in the GENIUS Act. Under the baseline regime, payment stablecoins are primarily used as a payment medium, stablecoin issuers do not have access to Federal Reserve master accounts, and interest payments on payment stablecoins are prohibited. Products that are functionally equivalent to yield, such as exchange rewards or yield-bearing wrappers are not considered in the baseline effects, though their likely effect on bank disintermediation is discussed in section 2 of this Appendix.

As a medium of exchange, stablecoins compete directly with the transaction balances households and businesses hold at banks, attracting deposits through their programmability, settlement speed, and portability. ICBA estimates that deposit flight of this nature could reduce lending by \$269 billion at a baseline stablecoin market size of \$1.2 trillion, with community banks bearing \$141 billion of that loss (see Table 1).

These estimates are grounded in a macroeconomic model developed by Whited, Wu, and Xiao (2023)⁹, which analyzes how the introduction of a central bank digital currency ("CBDC") affects the U.S. banking system. The CBDC-based modeling framework is well-suited for analyzing private market stablecoin adoption effects because it captures the core mechanism of interest: competition between bank deposits and a digital outside option. Nigrinis (2025)¹⁰ treats the CBDC as a potential lower-bound for stablecoins because privately issued digital alternatives have stronger distribution incentives and fewer policy constraints compared to a tightly regulated, government-issued CBDC. Nigrinis, in a literature review of many other studies finds that "*Whited et al. (2023) provide the most complete and policy-relevant framework for estimating how stablecoin adoption translates into changes in bank lending.*" Therefore, the Nigrinis analysis and the ICBA analysis use stablecoins as a stand-in for CBDC in the Whited *et al.* framework.¹¹

⁷ Matt Hanauer, Brent Lytle, Chris Summers, and Stephanie Ziadeh, *Community Banks and Agricultural Lending*, Federal Reserve Bank of Kansas City Econ. Rev., Vol. 106, No. 2 (2021), <https://www.kansascityfed.org/Economic%20Review/documents/8159/EconomicReviewV106N2HanauerLytleSummersZiadeh.pdf>.

⁸ FDIC, *2020 Community Banking Study* (Dec. 2020), <https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf>.

⁹ Toni M. Whited, Yufeng Wu, and Kairong Xiao, *Will Central Bank Digital Currency Disintermediate Banks?* (Apr. 2023), <https://ssrn.com/abstract=4112644>.

¹⁰ Andrew Nigrinis, *The Lending Impact of Stablecoin-Induced Deposit Outflows*, Legal Economics LLC (Oct. 10, 2025), <https://ssrn.com/abstract=5586850>.

¹¹ The Council of Economic Advisers ("CEA") notes that private stablecoins differ from a CBDC in that issuers hold reserves as bank deposits, U.S. Treasuries, repurchase agreements, and other assets. This creates a potential recycling effect whereby some funds leaving retail deposits re-enter the banking system. ICBA examines this recycling effect in depth in section 4 of this Appendix and finds that while recycling provides a partial offset for large banks, community bank losses remain largely unchanged across reserve scenarios. As ICBA demonstrates in the section 4 of this Appendix, this recycling effect is partial, unevenly distributed, and sensitive to assumptions.

Table 1. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending Under a No-Yield Scenario

	Scenario 1 – Baseline \$1.22T Stablecoin Market	
	Large Banks	Community Banks
Total Deposits (\$B)	\$13,157	\$4,789
Total Lending (\$B)	\$8,994	\$4,007
Deposit Substitution Rate	\$0.801	\$0.844
Lending Loss per \$1 Deposit Lost	\$0.16	\$0.46
% Change in Deposits	-6.1%	-6.4%
% Change in Lending	-1.4%	-3.5%
Deposit Flight (\$B)	(\$801)	(\$307)
Forgone Lending (\$B)	(\$128)	(\$141)
Total Forgone Lending (\$B)	(\$269)	

Sources: ICBA analysis based on research conducted by Whited *et. al* (2023); Nigrinis (2025); and FDIC Call Report Data as of Q2 2025.

In this model, depositors choose among bank deposits and payment stablecoins based on interest rates, non-rate attributes like convenience and services, and other consumer preferences. The introduction of stablecoins increases competition for deposits, leading some depositors to reallocate funds even as banks respond to competitive pressures by increasing deposit rates. This, in turn, raises banks' marginal funding costs. Banks attempt to replace lost deposits with wholesale funding, but wholesale funding is more expensive, uninsured, and less stable than core deposits. These costs compound as reliance on wholesale funding increases.

Under the scenario in which stablecoins cannot bear interest directly or indirectly, the model implies that each \$1 increase in stablecoin adoption displaces roughly \$0.81 of bank deposits, translating into an average \$0.19 reduction in bank lending.¹²

The effect is stronger for community banks. Small banks are heavily dependent on deposits to fund credit, while large banks can more easily access wholesale funding if needed. Nigrinis finds that “*while all banks are exposed, the heaviest burden falls on community banks, where deposit erosion directly undermines credit to households, small firms, and rural borrowers.*”¹³ In the no-interest scenario, each \$1 deposit loss reduces lending by \$0.46 at small banks and \$0.16 at large banks,¹⁴ a threefold increase in sensitivity to deposit flight.

These estimates capture deposit flight and wholesale funding costs only. The effects of issuer reserve recycling and asset reallocation at partner banks are addressed in the third and fourth section, below.

2. Yield Expands Total Market Size and Intensifies Lending Losses

There are two primary functions of money to consider as the payment stablecoin market expands: its role as a medium of exchange and its role as a store of value (reflecting a combination of safety and yield). The effects of a

¹² Whited et al, *supra* note 18, at 49.

¹³ Nigrinis, *supra* note 19, at 1.

¹⁴ Nigrinis, *supra* note 19, derived from Whited et al., (2023). The lending loss per dollar of deposit lost is not directly reported in Whited et al. but is derived by dividing the estimated reduction in lending per unit of CBDC by the corresponding reduction in deposits per unit of CBDC.

payment stablecoin market operating primarily as a medium of exchange were explored in section 1 immediately above, concluding that lending losses may arise but are constrained by the overall size of the market.

In contrast, permitting payment stablecoins to compete with bank deposits as a store of value through the introduction of yield threatens a much larger pool of deposits. Under a pure payments use case, the payment stablecoin market is likely to grow, but the overall market size would be more limited given the narrower application for payment stablecoins.¹⁵ However, permitting yield or yield-equivalent workarounds stands to dramatically expand payment stablecoin market size. To illustrate this dynamic, we extend the analysis from the previous section of this Appendix to include two additional projections: Treasury Secretary Bessent's forecast that the market could reach \$3 trillion by 2030, and the Whited *et al.* (2023) estimate that the market could grow to \$5 trillion in a long-run equilibrium. Both projections reflect a policy world in which payment stablecoins compete meaningfully with traditional deposits as a store of value based on their ability to offer yield or yield-equivalent rewards.

As shown in Table 2, at the \$3 trillion market size, total forgone lending reaches \$945 billion, with community banks accounting for more than half of that loss (\$505 billion) despite holding roughly one quarter of total deposits. This asymmetry reflects the same dynamics discussed in the previous section: community banks are more sensitive to deposit flight and experience a greater lending contraction per every dollar flowing to stablecoins (\$0.65 per dollar compared to \$0.22 per dollar at large banks).¹⁶ At the \$5 trillion market size, total forgone lending rises to \$1.6 trillion. Large bank lending falls by \$738 billion (-8.2%) and community bank lending falls by \$850 billion (-21.2%).

Table 2. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending if Yield or Yield-Equivalent Rewards are Permitted

	Scenario 2 – Bessent/Treasury \$3.0T Stablecoin Market		Scenario 3 – Fully Realized Market \$5.01T Stablecoin Market	
	Large Banks	Community Banks	Large Banks	Community Banks
Total Deposits (\$B)	\$13,157	\$4,789	\$13,157	\$4,789
Total Lending (\$B)	\$8,994	\$4,007	\$8,994	\$4,007
Deposit Substitution Rate	\$0.815	\$0.858	\$0.815	\$0.858
Lending Loss per \$1 Deposit Lost	\$0.22	\$0.65	\$0.22	\$0.65
% Change in Deposits	-15.2%	-16.2%	-25.5%	-27.3%
% Change in Lending	-4.9%	-12.6%	-8.2%	-21.2%
Deposit Flight (\$B)	(\$2,001)	(\$777)	(\$3,355)	(\$1,307)
Forgone Lending (\$B)	(\$440)	(\$505)	(\$738)	(\$850)
Total Forgone Lending Across Banks (\$B)	(\$945)		(\$1,588)	

Sources: ICBA analysis based on research conducted by Whited *et. al* (2023); Nigrinis (2025); and FDIC Call Report Data as of Q2 2025.

¹⁵ Nigrinis, *supra* note 19, at 87.

¹⁶ In Table 1 (the no-yield baseline scenario), lending loss per dollar outflow of deposits is \$0.16 for large banks and \$0.46 at smaller banks. These figures rise to \$0.22 and \$0.65 respectively in the yield or yield-equivalent scenarios represented in Table 2. These differences reflect how lending contractions grow more severe as deposit flight accelerates. Deposit flight per dollar increase in stablecoin market size also drifts up in the presence of yield from \$0.80 to \$0.82 per dollar for large banks and from \$0.84 to \$0.86 per dollar for smaller banks.

Under the GENIUS Act, a PPSI is prohibited from paying the holder of a payment stablecoin “any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.”¹⁷ Despite this prohibition, some exchanges and other intermediaries are presently paying payment stablecoin holders forms of interest or yield such as rewards for holding stablecoins. This allows stablecoins to compete directly with banks for customer deposits.¹⁸ Competition on stored value is not a future risk—it is happening already.

According to a working paper released in March 2026 from the European Central Bank (“ECB”), as adoption increases, stablecoins’ impact on lending will grow.¹⁹ If stablecoin adoption grows enough to trigger significant deposit loss, credit effects increase disproportionately.²⁰

Treasury Secretary Bessent has recently recognized this risk, particularly for community banks. On February 5, 2026, in a hearing on “The Financial Stability Oversight Council’s Annual Report to Congress,” Secretary Bessent stated that the Treasury Department is working to ensure there would be no deposit volatility associated with yield-bearing stablecoins.²¹ However, eliminating deposit volatility is not feasible under current policy and is inconsistent with the Secretary Bessent’s projection that the market will expand to \$3 trillion. Deposit volatility is an inherent part of the equation with increasing stablecoin market size.

The lending effects of yield-bearing stablecoins have been hotly debated over the last year, including in the context of the proposed CLARITY Act. Some studies have concluded that the impact on bank deposits and lending would be minimal. For example, a Coinbase-funded paper from Charles River Associates²² (“CRA”) argues that community bank deposits will see minimal impact from stablecoin growth. However, the CRA study uses a conservative projection of baseline payment stablecoin market size that is one-sixth as large as Secretary Bessent’s \$3 trillion projection.

The CRA study is limited to current stablecoin usage and applies this linearly to projections instead of the nonlinear relationship that the ECB paper documents. Put simply, the Coinbase-funded research is grounded in today’s relatively small payment stablecoin market and makes no attempt to account for the acceleration of effects once adoption reaches scale. This puts the research at odds with a central finding of the subsequent ECB paper that the relationship between stablecoin market size and deposit and lending effects is nonlinear.

Similarly, a recent paper from the Council of Economic Advisers (“CEA”) estimated that eliminating stablecoin yield would only result in minimal increases to overall bank lending (\$2.1 billion) and community bank lending (\$500

¹⁷ GENIUS Act § 4(a)(11).

¹⁸ For example, decentralized finance (DeFi) allows consumers to deposit stablecoins into non-custodial liquidity protocols (e.g., Aave) and receive a wrapped token; the protocol can then lend out the deposited stablecoin, which can generate interest, applied to the wrapper token. This mechanism is known as a yield wrapper: while the deposited stablecoin itself cannot earn yield, the converted wrapped token can.

¹⁹ Carlo Altavilla *et al.*, *Stablecoins and Monetary Policy Transmission*, Eur. Cent. Bank Working Paper Series No. 3199 (Mar. 2026), <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp3199~ad552b59ec.en.pdf>.

²⁰ *Id.* at 18.

²¹ Financial Stability Oversight Council’s Annual Report to Congress: Hearing Before the S. Comm. On Banking, Hous., & Urban Affairs, 119th Cong. (Feb. 5, 2026), <https://www.congress.gov/event/119th-congress/senate-event/337957>.

²² Charles River Associates, *Stablecoins’ Impact on Community Bank Deposits* (July 2025), <https://media.crai.com/wp-content/uploads/2025/07/22152125/Stablecoins-impact-on-community-bank-deposits-July2025.pdf>.

million).²³ While ICBA appreciates that the CEA is engaging in the issue at hand, several assumptions used in the analysis unduly minimize the impact of yield-bearing stablecoins on lending loss.

- First, the authors solely base their findings on additional lending on today's immature stablecoin market, ignoring exploration of Treasury Secretary Bessent's \$3 trillion projection and the nonlinear increases in deposit loss that would ensue. In a fully mature stablecoin market, deposit loss, and accordingly, lending loss, would be significant.
- Second, CEA's analysis assumes that stablecoin-linked deposits as a share of total bank deposits will remain 1.7%; accordingly, the lending effect the CEA finds is minimal, as the CEA has not examined a scenario where the stablecoin market is mature. If yield is allowed, and the stablecoin market approaches Secretary Bessent's projections, the stablecoin share of bank deposits cannot remain at the 1.7% benchmark used by CEA without an unrealistic increase in the total deposit base.
- Third, CEA treats community banks as outsiders in the stablecoin market, stating that "*stablecoin flows are concentrated at large institutions on both sides of the market.*" CEA views this positively: if stablecoins operate outside of the community banking system, then any yield impacts would be minimal for community banks. However, as noted by Nigrinis in his response to the CEA report, large banks and community banks run different deposit businesses. Small banks compete with large banks by offering local pricing, local knowledge, and community ties. The unique benefit of community banks for small and rural communities is the exact thing at stake in the yield question; the CEA paper ignores the impact that shifting community bank deposits to large banks would have on the types of credit community banks support.²⁴

3. Stablecoin Reserves Held as Bank Deposits Do Not Lead to Increased Lending

A natural question arising from the analysis above is whether the growth in stablecoin issuer reserves can offset lending losses from deposit flight by replacing retail deposits with deposits from stablecoin issuers. The GENIUS Act requires PPSIs to hold reserves against stablecoins in circulation on at least a 1 to 1 basis.²⁵ As the payment stablecoin market grows, so does the reserve pool. Some reserves re-enter the financial system, including as deposits at banks. However, the benefits are uneven, and for community banks, they are essentially nonexistent.

Stablecoin reserves held as bank deposits present a distinct challenge that, according to recent literature, is another source of credit disintermediation. The GENIUS Act requires stablecoin issuers to offer "timely redemption" for stablecoin holders,²⁶ meaning that stablecoin issuers place a portion of their assets in bank deposits to fulfill redemption obligations. These stablecoin-linked deposits are often highly concentrated in specialized partner banks. Redemption obligations follow daily stablecoin primary market activity and are thus frequent and volatile, requiring banks with stablecoin-linked deposits to maintain substantially larger reserve balances to service stablecoin payment activity than is necessary for traditional deposits. Lee & Tou find that in the nine months following new partnerships with stablecoin issuers, banks' daily interbank payment activity increases by 67%,

²³ Council of Economic Advisers, *Effects of Stablecoin Yield Prohibition on Bank Lending* (Apr. 2026), <https://www.whitehouse.gov/research/2026/04/effects-of-stablecoin-yield-prohibition-on-bank-lending/>.

²⁴ Andrew Nigrinis, *Big Assumptions, Bigger Impacts: Rethinking Stablecoin Policy Findings Who Lends to Main Street When the Deposits Leave?* (Apr. 2026), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6582639.

²⁵ GENIUS Act § 4(a)(1)(A).

²⁶ *Id.* at § 4(a)(1)(B).

creating significant variation in banks' reserve balances within a given day.²⁷ Among banks holding stablecoin-linked deposits, the loan share of assets falls approximately 14 percentage points relative to peers.²⁸ Consistent with theory, partner banks must operate more narrowly to service stablecoin redemptions—holding assets but not necessarily lending to consumers or businesses. Thus, while stablecoin issuers holding reserves at banks may preserve bank deposit bases, these deposits are less likely to be used for lending.

4. In a Stablecoin Reserve Recycling Scenario, Community Banks Still Lose Core Deposits that Are Replaced with Smaller Amounts of Less Lendable Deposits

Other research, such as the recent CEA study, concludes that stablecoin reserves are likely to be recycled into the banking system as stablecoin issuers purchase U.S. Treasuries, which are primarily held by banks.²⁹ However, the CEA conclusion that prohibiting yield will only result in a \$2.1 billion increase in lending is based on a set of precise assumptions that minimize the effect on lending and fail to consider the differential impacts on community banks.³⁰

First, consider the current distribution of reserve assets across the two major stablecoin issuers, Tether and Circle, which account for roughly 90% of the current stablecoin market. Distributing these percentages, the total composition of reserves across these two issuers is 53% U.S. Treasuries, 26% repurchase agreements, 11% other (which includes assets like non-U.S. Treasuries, other investments, precious metals/bitcoin, and issuer-specific residuals), 6% secured loans, and 4% bank deposits (see Figure 1). Secured loans and other assets have no reliable path back to the U.S. banking system, so they are treated as non-recycling. Under the most favorable assumptions, that leaves 83% of assets as potentially recycling and offsetting deposit flight, although maturity mismatches between repurchase agreements and other forms of lending makes it unlikely that this portion of reserves will be fully recycled into the banking system to support lending activities.

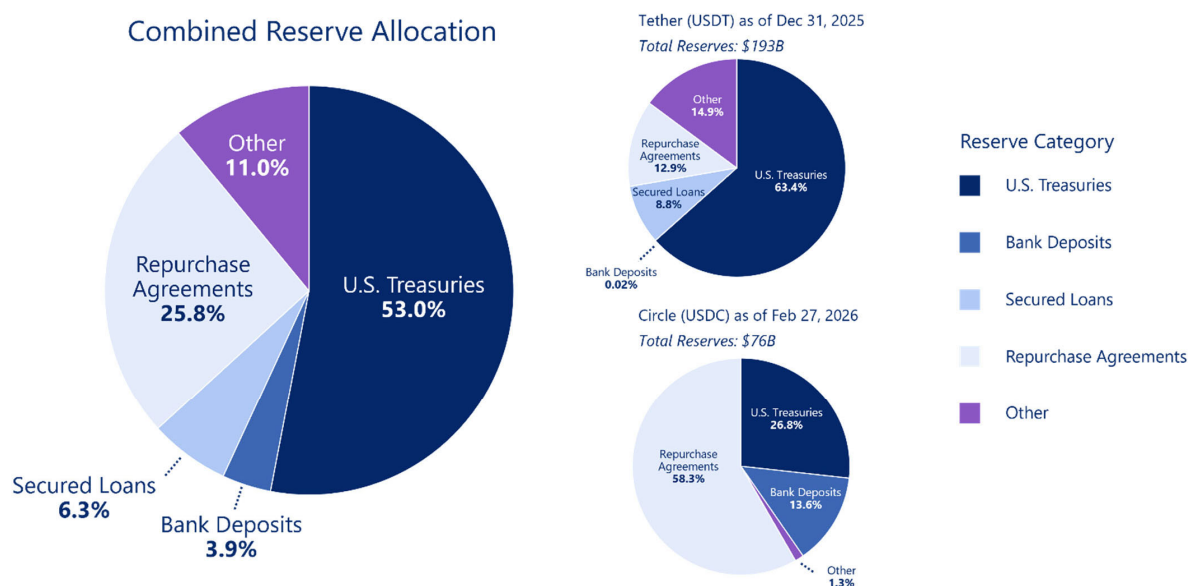
²⁷ Michael Junho Lee and Donny Tou, *Stablecoin Disintermediation*, Fed. Rsrv. Bank of N.Y. Staff Reports, no. 1185 (Feb. 2026), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1185.pdf.

²⁸ *Id.* at 5.

²⁹ Council of Economic Advisers, *supra* note 32.

³⁰ The CEA paper also establishes the baseline assumption that reserves are abundant; this represents an environment in which deposit competition is weak. Using this assumption, it is unsurprising that the CEA arrived at the conclusion that deposits would remain relatively unchanged and lending activity would be minimally impacted. However, the CEA acknowledges that in a reserves-scarce environment, "a bank that loses a deposit...would need to shrink lending to free reserves . . . In that environment, even the compositional shift could force a net contraction in credit." Council of Economic Advisers, *supra* note 32, at 3. In the scenario where reserves are scarce, the CEA finds that lending effects jump from \$2.1 billion to \$531 billion. The abundant reserves framework is a consequence of post-2008 quantitative easing and is not a permanent feature of the banking system. Notably, this jump occurs under the assumption that 88% of reserves recycle, which is implausible given their composition.

Figure 1: Composition of Reserves Across Major Stablecoin Issuers



Circle figures exclude timing & settlement differences; remaining assets renormalized to sum to 100%. “Other” includes assets such as non-U.S. Treasuries, precious metals, bitcoin, issuer-specific residuals, and other investments.

Source: Adapted from Wang (2025) with updated data from publicly available transparency reports by issuers.

In its analysis, CEA assumes that 12% of issuer reserves are held as bank deposits³¹, which CEA acknowledges as non-lendable due to intraday liquidity concerns discussed by Lee & Tou. The remaining 88% of reserves are recycled into the banking system through the purchase of U.S. Treasuries and repurchase agreements in CEA’s model.

In reality, the reserve composition of stablecoin issuers suggests that a significantly smaller share of reserve assets will be recycled through the banking system to offset deposit loss and support lending activity. As shown in Figure 1, U.S. Treasuries make up only a portion of non-deposit assets. Reserves in assets like Bitcoin or precious metals, as well as secured loans, have no clear path to re-enter the U.S. banking system. Therefore, ICBA’s analysis of the CEA’s recycling argument focused on the share of U.S. Treasuries (53%) and repurchase agreements (26%) for the top two stablecoin issuers in the U.S. as the basis for recycling scenarios.

To assess the likely impact of reserve recycling on credit creation, ICBA analyzes three different cases: high, moderate, and low recycling. These scenarios are developed based on the reserve composition of major stablecoin issuers and their holdings of U.S. Treasuries and repurchase agreements as a share of reserves, and reflect some uncertainty about the extent of recycling across different reserve asset categories. Unlike the assumptions used in CEA’s model that assume recycling of all non-deposit assets, these scenarios present plausible outcomes based on the reality of reserve composition and the suitability of various reserve asset categories in supporting lending activity.

- The High Recycling case (79% of stablecoin assets) treats both U.S. Treasuries and repurchase agreements as fully recycling, which is consistent with the CEA framework.

³¹ The 12% in bank deposits is based on Circle’s December 2025 Reserve Report.

- The Moderate Recycling case (66%) treats U.S. Treasuries as fully recycling and repurchase agreements as 50% recycling as a result of maturity mismatches between repos and other forms of lending.
- The Low Recycling case (53%) treats only U.S. Treasuries as recycling.

Importantly (and unlike the CEA analysis), the recycling adjustment is applied only to large banks across all three scenarios. Community banks are not participants in T-bill secondary markets or repo settlement circuits and have no institutional mechanism to receive these deposits. While community banks may borrow from larger banks, the cost of wholesale funding is much larger for small banks as discussed in Section 1. Community bank deposit flight and forgone lending figures are therefore invariant across all three recycling cases. A dollar leaving a community bank through stablecoin adoption is funding lost from local credit creation regardless of the recycling assumption applied to large banks. The results are presented in Table 3.

- In the baseline no-yield scenario, community banks lose \$141 billion in lending (-3.5%) across all recycling cases. Large banks, by contrast, face a range of outcomes, including deposit base and lending increases under high and moderate recycling scenarios as dollars flow out of community banks and reconcentrate at large institutions.
- As the market scales to \$3 trillion, community bank lending losses reach \$505 billion (-12.6%), invariant across recycling cases, while large banks' change in lending ranges from +\$80 billion to -\$90 billion depending on recycling assumptions.
- At \$5 trillion, community bank lending losses reach \$850 billion (-21.2%).

The analysis demonstrates that if the market for stablecoins expands rapidly due to the allowance of yield or yield-equivalent rewards, deposits will be funneled away from both community banks and large banks and toward a smaller volume of less stable and less lendable reserves, which will be held almost exclusively at large banks. The result will be a much more concentrated U.S. banking system, undermining one of its core strengths. Per Beth Hammack, President and CEO of the Federal Reserve Bank of Cleveland, *"In good times and bad, the large and diverse US banking system is our economy's 'secret sauce,' and like any great recipe, our banking sector blends a variety of ingredients to create a flavor profile with balance and harmony, one which is uniquely American."*³²

That balance is precisely what stablecoin-driven lending loss and industry concentration threatens. Ultimately, the bank creating the loan matters, and declines in the lending capacity of community banks will damage the local economies they support as well as the resiliency of the U.S. financial system.

³² Beth M. Hammack, *A Recipe for a Thriving U.S. Economy*, Federal Reserve Bank of Cleveland, (Feb. 10, 2026), <https://www.clevelandfed.org/collections/speeches/2026/sp-20260210-recipe-for-a-thriving-us-economy>.

Table 3. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending Under High, Moderate, and Low Reserve Recycling Offsets

	Scenario 1 – Baseline \$1.22T Stablecoin Market		Scenario 2 – Bessent/Treasury \$3.0T Stablecoin Market		Scenario 3 – Fully Realized Market \$5.01T Stablecoin Market	
	Large Banks	Community Banks	Large Banks	Community Banks	Large Banks	Community Banks
Total Deposits (\$B)	\$13,157	\$4,789	\$13,157	\$4,789	\$13,157	\$4,789
Total Lending (\$B)	\$8,994	\$4,007	\$8,994	\$4,007	\$8,994	\$4,007
Lending Loss per \$1 Deposit Lost	\$0.16	\$0.46	\$0.22	\$0.65	\$0.22	\$0.65
Change in Deposits (\$B) (Unadjusted for Recycling)	(\$801)	(\$307)	(\$2,001)	(\$777)	(\$3,355)	(\$1,307)
Recycling Adjustment (Applied to Large Banks Only – Community Banks Assumed to Receive No Recycling Benefit) (\$ Billions)						
Large Bank Net Deposit Loss, High Recycling (79%)	+\$160	(\$307) (invariant across recycling cases)	+\$363	(\$777) (invariant across recycling cases)	+\$592	(\$1,307) (invariant across recycling cases)
Large Bank Net Deposit Loss, Moderate Recycling (66%)	+\$3		(\$24)		(\$54)	
Large Bank Net Deposit Loss, Low Recycling (53%)	(\$154)		(\$410)		(\$699)	
Forgone Lending (\$ Billions)						
High Recycling Case	+\$26	(\$141) (invariant across recycling cases)	+\$80	(\$505) (invariant across recycling cases)	+\$130	(\$850) (invariant across recycling cases)
Moderate Recycling Case	+\$0.5		(\$5)		(\$12)	
Low Recycling Case	(\$25)		(\$90)		(\$154)	
Total Forgone Lending – All Bank Types Combined (\$ Billions)						
High Recycling Case	(\$116)		(\$425)		(\$719)	
Moderate Recycling Case	(\$141)		(\$510)		(\$862)	
Low Recycling Case	(\$166)		(\$595)		(\$1,004)	
Percent Change in Lending						
Community Banks – All Recycling Cases	--	-3.5%	--	-12.6%	--	-21.2%
Large Banks – High Recycling	+0.3%	--	+0.9%	--	+1.4%	--
Large Banks – Moderate Recycling	0.0%	--	-0.1%	--	-0.1%	--
Large Banks – Low Recycling	-0.3%	--	-1.0%	--	-1.7%	--

Sources: ICBA analysis based on research conducted by Whited et. al (2023); Nigrinis (2025); CEA (2026); and Deposit and lending base data from FDIC Quarterly Banking Profile and FFIEC Call Reports as of Q2 2025 FFIEC.