THE GENIUS ACT AND STABLECOINS: COULD THIS REPLACE STATE MONEY TRANSMITTER LICENSING?

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Congress created a new framework around payment stablecoins but has done more than regulate a digital asset class—it has quietly set in motion a potential transformation of the regulation of core payment systems.

CONGRESS CREATES A NATIONAL FRAMEWORK FOR STABLECOINS

On 18 July 2025, the president signed the United States's first digital assets law—Guiding and Establishing National Innovation for US Stablecoins Act (GENIUS Act or Act). The Act creates a comprehensive regulatory framework for payment stablecoins in the United States. While there has been much discourse on the Act's obvious impact on the digital assets marketplace, one of the most significant, yet rarely discussed, implications is on the broader payments sector, including fintechs and other nonbanks. For the first time, it appears Congress may have created a kind of bespoke fintech license—one that could provide a new national payments rail.

THE CURRENT SYSTEM: BANKS OR FRAGMENTED STATE LICENSES

Currently, a nonbank fintech (Fintech) that wishes to provide payment services (such as peer-to-peer mobile wallets, remittances, payroll, bill payment, escrow services, merchant settlement services, payment instruments, or prepaid cards) generally needs either to: (i) partner with a chartered (usually FDIC insured) bank to hold and move the funds; or (ii) obtain state "money transmitter licenses."

Both options have their shortcomings. Bank partnerships restrict a Fintech's independence and increase costs. Bank regulators have concerns about these relationships and have imposed strict guidance on how such partnerships must be structured. As a result, such partnerships may only make sense at the earlier stages of a Fintech's growth.

In contrast, state money transmitter licenses may reduce bank issues but then impose other complex regulatory burdens. Forty-nine states and the District of Columbia have laws that require any party that wants to engage in the business of payment services to obtain a money transmitter license prior to doing so. In general, these laws apply to: (i) issuers and sellers of "payment instruments" or "stored value"; or (ii) the receipt of money or monetary value for purposes of transmission. The phrase "receiving money for transmission" (or transmitting money) generally entails receiving funds from one person or entity for the purposes of transmitting those funds to a different person, entity, or location.

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There is no question that these money transmitter licensing laws are important and provide a critical level of safety and security for the public, protecting against financial crimes, fraud, and money laundering. However, a challenge with state money transmitter licensing laws has been the requirement that a Fintech must obtain duplicative licenses for every state in which a Fintech's customers may reside. It has frequently been noted that the time and cost of obtaining such licenses can be daunting for Fintechs, and the associated impact on payments innovation can be significant. One law review article noted that, "[p]ayments startups must deal with highly fragmented regulation across states early in their lives, resulting in large and often redundant compliance costs while offering comparatively less marginal benefit to consumers."[1] Recognizing industry concerns about the onerous and redundant licensing process, many states have enacted the Money Transmission Modernization Act (MTMA), in whole or in part, which has certainly helped to streamline the state licensing process. But the MTMA does not eliminate the need for multiple state licenses.

The industry has long sought a single national charter or a single state license that can be passported across borders (similar to state banks) to provide payment services legally and securely at a reasonable cost throughout the United States. This appeared possible back in 2016, when the Office of the Comptroller of the Currency announced plans for a "fintech charter." But when the OCC began accepting applications in 2018,[2] it was promptly sued by a number of states, including New York, for exceeding its authority.[3] The litigation was eventually dismissed,[4] but nevertheless, Fintechs have continued to languish under the patchwork of burdensome and duplicative state money transmitter licensing laws.[5]

In the midst of this unfavorable regulatory landscape, could the GENIUS Act suddenly provide unexpected hope for many US payments companies: the possibility of a single national payments license?

THE GENIUS ACT: USING PAYMENT STABLECOINS TO PROVIDE A REGULATED NATIONAL PAYMENTS PLATFORM

The Act, among other things, sets forth allowable activities for "permitted payment stablecoin issuers"—which term includes nonbanks that are either "Federal qualified payment stablecoin issuers" (FQPSI) (regulated by the OCC) or "State qualified payment stablecoin issuers" (SQPSI) (regulated by their qualifying state). Positioned as a "Limitation on payment stablecoin activities," Section 4(a)(7) of the Act states that such entities are permitted only to:

- Issue payment stablecoins;
- Redeem payment stablecoins;
- Manage related reserves, including purchasing, selling, and holding reserve assets or providing custodial services for reserve assets, consistent with state and federal law;
- Provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins, consistent with this Act; and
- Undertake other activities that directly support any of the activities described above.

While some might argue that these restrictions effectively tie the hands of permitted payment stablecoin issuers to do nothing more than issuing and redeeming such stablecoins, one could disagree. After all, the Act is intended to

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enhance “innovation” and “payment stablecoins” are defined as a digital asset “that is, or is designed to be used as, a means of payment or settlement.” The broad language of the Act, which expressly allows permitted payment stablecoin issuers to undertake other activities that directly support the issuance and redemption of payment stablecoins, could raise fundamental questions for Fintech companies currently licensed as money transmitters—notably, whether the Act could provide an opportunity to establish a stablecoin-based platform so that Fintechs can offer payment services under a single, unified, national payments license.

Let's take a closer look. A “payment stablecoin,” when used as a means of payment or settlement, has the potential to replace or augment current payment Fintech models that rely on either traditional banking partnerships or money transmitter licenses.

PAYMENT STABLECOINS AS THE NEW PAYMENT RAIL

Under the Act, a payment stablecoin could now serve as a new foundational payment rail. What follows are key examples of how payment stablecoins could be used to shift current Fintech business models.

Case Study 1: Remittances (Remitco)

Suppose a Fintech operates a cross-border remittance company (Remitco) specializing in remittances to Brazil with licenses in about 35 states, costing it at least US$100,000 a year to maintain. If the Fintech instead became an FQPSI or SQPSI, it would still have to meet liquidity and reserve requirements and would still have to comply with reporting and anti-money laundering obligations. But having only one license would presumably reduce administrative costs and filing fees considerably. In order to take advantage of the Act's provisions, Remitco would offer customers the ability to complete a cross-border transaction by issuing and redeeming stablecoins as follows:

- Remitco markets its service in a manner that discloses it will be using stablecoin technology to provide the service.
- The customer pays US$500 to Remitco and thereby acquires US$500 worth of stablecoin issued and custodied by Remitco.
- Remitco must hold US$500 in value on a one-to-one basis (which mirrors the requirements of state money transmitter licensing laws) for that transaction, pending settlement. (No interest can be paid on the stablecoin balance held by the Fintech.)
- The customer instructs Remitco to transfer the value of her stablecoins to her recipient in Brazil.
- Remitco transfers the stablecoin (less any applicable disclosed fees) to their licensed Brazilian agent or to an online app, which then immediately converts the stablecoin to local currency, at the time it is picked up by the recipient.
- The customer gets a receipt with the details of the transfer and the amount picked up by her recipient.
- Upon settlement to the recipient, the transaction is completed and the US$500 payment stablecoin is extinguished.

Case Study 2: Bill Payments (Billco)

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Similarly, if the Fintech provides bill-pay services (Billco), and becomes either an FQPSI or SQPSI the business model would look something like this:

- As above, Billco would market its service in a manner that discloses it will be using stablecoin technology to provide the service.
- The bill paying customer wants to pay out US$10,000 in vendor payments and payroll.
- The bill paying customer goes to Billco to obtain bill payment/payroll services.
- The bill paying customer purchases US$10,000 in payment stablecoins that are custodied in a wallet held by Billco.
- Billco must hold on a one-to-one basis US$10,000 and must ensure that the funds are available.
- The bill paying customer provides Billco with a list of recipients for the payments, and Billco sends the designated stablecoin value to the recipient, who can either store it in their own wallet, or immediately convert it to an equivalent amount of US dollars.
- Billco can provide a receipt for the payments made to the bill paying customer.

Case Study 3: Prepaid Cards (Prepaidco)

A final example is prepaid cards or prepaid payment applications (collectively, cards) that allow cardholders to make purchases at retail locations or sometimes to access cash at ATMs. These are more difficult because broad merchant acceptance generally requires that such cards be branded by a payment network such as Visa, MasterCard, American Express, or Discover. At the present time, in the United States, Visa and MasterCard typically require issuers to be chartered banks. The rules at American Express and Discover are more flexible, but in any event, the payment networks will need to generate new rules to accommodate a prepaid card/app issuer (Prepaidco) that uses payment stablecoins to make payments and is licensed as either an FQPSI or SQPSI. This is how it would work:

- As above, the Fintech Prepaidco would market its service in a manner that discloses it will be using stablecoin technology to provide the service.
- Prepaidco issues prepaid cards bearing the logo of a participating payment network.
- When the consumer purchases a US$100 prepaid card, they are buying US$100 worth of stablecoin, that is custodied by Prepaidco, until the card is used.
- The consumer presents the card at a merchant that accepts the payment network brand displayed on the card, to buy a US$50 shirt.
- The payment network approves the sale and the Prepaidco settles with the payment network in stablecoin, which can immediately be converted by the payment network into US dollars.

In all of these above examples, the role of the stablecoins is effectively invisible to the consumer, but because the stablecoin transaction is recorded on the applicable blockchain, the entire transaction can be traced and verified by each Fintech and monitored by their regulator.

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In each instance, the Fintech can receive customer funds and can issue to the customer a like amount of stablecoin in order to complete the transaction. The Fintech can custody the stablecoin on behalf of the customer, convert or redeem the stablecoin, always at the same fixed value at which it is sold. We believe that most, if not all, business models requiring a money transmitter license could be converted into a payment stablecoin-based business, provided it is done with care, is fully transparent, and is done in compliance with applicable law.

WILL "PERMITTED PAYMENT STABLECOIN ISSUERS" NO LONGER NEED STATE MONEY TRANSMITTER LICENSES?

Once a Fintech becomes a "permitted payment stablecoin issuer," and uses payment stablecoins to redeem or settle payments, does that mean it would no longer need state money transmitter licenses? Yes, that appears to be the case. When a Fintech becomes either an FQPSI or an SQPSI, it appears that any requirements to obtain state licenses or charters are preempted.

Section 5 of the Act sets forth the rules for obtaining approval as an FQPSI.

- Section 5(h) states: "The provisions of this section [i.e., the licensing of FQPSI] supersede and preempt any state requirement for a charter, license or other authorization to do business with respect to a federal qualified payment stablecoin issuer…"

So, there is no question that if a Fintech obtains its approval to be an FQPSI, it is exempt from state licensing laws. Such preemption is limited to chartering or licensure laws but does not preempt state consumer protection laws.

Section 7 of the Act discusses the laws applicable to SQPSIs:

- Section 7 addresses the laws of the "home state" (i.e., the state where the SQPSI is qualified) versus the "host state" (i.e., another state where the SQPSI does business).
- Section 7(f) notes that a host state's consumer protection laws shall apply to SQPSI activities conducted in the host state but that host state laws "governing the chartering, licensure, or other authorization to do business in the host state" are excluded and will not apply to out of state SQPSIs.

So yes, it certainly appears that the broad language of the Act preempts money transmitter license requirements. If a Fintech correctly structures itself and goes through the rigorous process of obtaining approval to be either an FQPSI or an SQPSI, it will benefit from only having one regulator and license—instead of multiple licenses required under the current patchwork of US state laws.

This is not to suggest that the way ahead for Fintechs seeking to do business as an FQPSI/SQPSI will be easy or fast. The Act does not become effective until the earlier of 18 months after enactment (i.e., 18 January 2027), or 120 days after the implementing regulations are finalized. Moreover, implementing regulations may further refine how state laws are preempted. For example, states may decide to impose other requirements short of a license or charter and those requirements may not be preempted.

Even after becoming a permitted payment stablecoin issuer, the Act imposes substantial ongoing requirements on such issuers, including holding US dollar reserves on a one-to-one basis, monthly certification of those reserves,

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implementing strict anti-money laundering controls, and forbidding (re)hypothecating reserves or paying interest to holders.

RESPONSES FROM STATE REGULATORS

The states have not been entirely silent regarding this new development. In a 17 June 2025 press release[6] that preceded the passage of the GENIUS Act, the Conference of State Bank Supervisors (CSBS) asserted that "Senate revisions to the bill have substantially narrowed the scope of authorized activities for stablecoin issuers – keeping their business model focused on stablecoin-related functions." As we have noted above, however, a business model that is focused on payment stablecoin-related functions can still quite legally and transparently offer a range of money-transmitter-related services using solely payment stablecoins.

In addition, following passage of the Act, a letter addressed to Congress from the CSBS and other advocacy groups[7] raised concerns about section 16(d) of the Act that permits state-chartered uninsured depository institutions with a stablecoin subsidiary to perform "traditional (i.e., not solely related to payment stablecoins) money transmission and custody activities nationwide." Calling this an "unprecedented overriding of state law and supervision [that] weakens vital consumer protections, creates opportunities for regulatory arbitrage, and undermines state sovereignty," the letter asks Congress to strike Section 16(d) in conjunction with the upcoming digital asset market structure legislation.

We would not be surprised to see such concerns also raised with respect to Fintechs who become permitted payment stablecoin issuers. Much depends on the regulations developed with respect to FQPSIs and SQPSIs, the level of supervisory oversight to be maintained and the rigorousness of the approval process. Certainly, appropriate, thorough, and exacting approval procedures and regulations can achieve both important goals—protecting consumers while providing a platform for payments innovation and nationwide Fintech industry regulation under a single regulator.

FOOTNOTES

[1] *See* Benjamin Lo, "Fatal Fragments: The Effect of Money Transmission Regulation on Payments Innovation." 18 Yale J. L. & Tech 111 (2016) at https://openyls.law.yale.edu/server/api/core/bitstreams/f2f22c70-a277-4f29-99ed-56803c3faadc/content

[2] OCC, OCC Begins Accepting National Bank Charter Applications From Financial Technology Companies, News Release 2018-74 (July 31, 2018), https://www.occ.gov/news-issuances/news-releases/2018/nr-occ-2018-74.html

[3] Caroline Spiezio, *NY Suit Against OCC Could Delay Regulatory Clarity for Fintech Companies*, New York Law Journal (Sept. 17, 2018),

[4] CRS, Second Circuit Dismisses New York State Challenge to OCC's Fintech Charter Authority, LSB10623 (July 16, 2021), https://www.congress.gov/crs-product/LSB10623.

[5] It is worth noting here that in Europe, similar licenses can be "passported" between countries; in the United States, no such "passporting" is allowed—even within the same country. That means that a payments Fintech licensed in New York would have to get another license if it wished to offer services in New Jersey or Connecticut.

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And an online company offering payments related services nationally would require 49+ separate licenses.

[6] CSBS, CSBS Statement on Passage of Senate Stablecoin Act (June 17, 2025), https://www.csbs.org/newsroom/csbs-statement-passage-senate-stablecoin-act.

[7] CSBS et al., Letter to Congress (Aug. 13, 2025), https://www.csbs.org/sites/default/files/other-files/Coalition%20Letter%20to%20Strike%20Uninsured%20Depository%20Institution%20Flaw%20of%20GENIUS%20Act.pdf.

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