

The GENIUS Act – a boost for fund tokenisation

Briefing Summary: The recently passed GENIUS Act might provide a major boost for the tokenisation of funds. A regulated, blockchain-based payment mechanism brings the automation of payments by tokenised funds a step closer. Drawdowns and distributions might now be effected by transfers of stablecoins to and from the wallets of investors, without the need to utilise traditional bank accounts.

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What are stablecoins?

Stablecoins are a type of cryptocurrency[1]. They are designed to maintain a stable value, being pegged to traditional fiat currencies (such as the U.S. dollar). They aim to provide a less volatile alternative to other cryptocurrencies (such as Bitcoin), providing the stability required to facilitate everyday financial transactions.

What does the GENIUS Act do?

The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins) was passed into law as of 18 July 2025. The GENIUS Act regulates U.S. stablecoins for the first time, thereby promoting their legitimacy, safety and broader adoption.

The GENIUS Act is intended to facilitate rapid institutional uptake, innovation in payments and broader integration into the financial system.

What are the core provisions of the GENIUS Act?

- Regulatory clarity and formal licensing

Only "Permitted Payment Stablecoin Issuers" ("PPSIs")—such as bank subsidiaries, federally qualified non-bank issuers, or state-licensed entities—may legally issue stablecoins in the U.S. [2]

- Strict reserve & redemption standards

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(a) Stablecoins must be backed 1:1 by U.S. dollars (or highly liquid assets like short-term US Treasuries or Federal Reserves deposits)

(b) Issuers must disclose monthly reserve breakdowns and, for large-scale issuers, produce annual audits

(c) Rehypothecation of reserves is largely prohibited

(d) Issuers must publish clear redemption procedures and fees

- Classification and yield restrictions

(a) Stablecoins from PPSIs are explicitly excluded from being classified as securities or commodities

(b) PPSIs are prohibited from paying any interest or yield to holders merely for holding the stablecoin

- Consumer protection and insolvency safeguards

(a) If an issuer becomes insolvent, stablecoin holders are prioritised over other creditors

(b) Marketing restrictions prevent misleading claims (PPSIs may not imply any government backing, FDIC insurance or legal tender status)

- AML/KYC and enforcement

PPSIs are brought within the ambit of the U.S. Bank Secrecy Act, requiring AML and sanctions compliance, including the ability to freeze, burn (i.e. cancel) or seize stablecoins if required.

What are the implications of the GENIUS Act for stablecoins?

- Legitimacy and institutional confidence

The GENIUS Act provides legal clarity for stablecoins, which previously operated in a regulatory grey area. Institutional players (banks, fintechs, payment providers) now have a clear and transparent regulatory regime to assess risk and compliance

- Momentum for major stablecoin issuers

U.S.-compliant stablecoins (such as Circle's "USDC") stand to benefit significantly:

(a) They now operate under a legally defined framework (transparent, fully backed and audited)

(b) Institutions and payment systems can integrate them with greater confidence for cross-border settlement, liquidity, and real-time payments

- Increased adoption by banks and financial institutions
- Market uplift and investor confidence

(a) The GENIUS Act is seen as a regulatory milestone, with regulatory clarity instilling investor optimism

(b) Federal Reserve Governor Michelle Bowman emphasised that the GENIUS Act signals a shift toward a “less cautious” approach—regulators must now proactively adapt to enable these technologies

(c) The U.S. is aiming to cement its dominance in global digital finance by legitimising dollar-backed stablecoins. While Europe leans toward central bank digital currencies (digital forms of a country's fiat currency, issued and regulated by its central bank) and tighter regulation (e.g., MiCA), the U.S. is seen to be doubling down on innovation

What are the implications of the GENIUS Act for tokenisation?

One of the key benefits of tokenisation (and a big reason for their adoption) is the potential for payment processes to be automated. Cryptocurrencies are a key means by which this automation can be effected.

To use a basic example, a tokenised fund might make a drawdown of moneys by sending a payment demand to tokenholders, with the payment being effected by the automatic transfer of cryptocurrency. The cryptocurrency is taken from the wallet in which the fund token is credited and transferred into the fund's wallet, with settlement being almost immediate.

By regulating U.S. stablecoins, the GENIUS Act brings greater legitimacy to the use of such cryptocurrencies, meaning the take-up of tokenisation is likely to increase in order to take advantage of the greater efficiencies (i.e. near instant settlement) brought by automated payment mechanisms.

Carey Olsen and tokenisation

At Carey Olsen, we have written extensively on the benefits of tokenisation and continue to follow closely the developments in this area. Due to its legal and regulatory regime, Guernsey is an ideal jurisdiction for fund interests to be tokenised.

Please contact us to find out more.

[1] Cryptocurrencies are digital currencies or digital money. They have no "real world" physical manifestation like coins and cash carried in people's (physical) wallets. They exist only virtually, typically credited to digital wallets held on blockchains.

[2] Issuers with over \$10 billion in issuance must be federally regulated; smaller issuers (\leq \$10 billion) may choose state regulation if the state's regime matches federal standards.

FAQs

Why are stablecoins considered important for the financial system?

Stablecoins combine the benefits of blockchain technology—such as speed, transparency, and programmability—with the stability of fiat currency. This makes them ideal for real-time payments, cross-border transactions, and automated settlement processes.

How does the GENIUS Act differ from previous U.S. approaches to crypto regulation?

Before the GENIUS Act, stablecoins operated in a regulatory grey area, creating uncertainty for issuers and institutions. The Act introduces a clear licensing regime, strict reserve requirements, and consumer protections, marking the first comprehensive U.S. framework for stablecoins.

What does the GENIUS Act mean for banks and payment providers?

Banks and regulated payment providers can now integrate stablecoins into their systems with confidence. The Act's clarity on classification (not securities or commodities) and insolvency safeguards reduces risk and encourages institutional adoption.

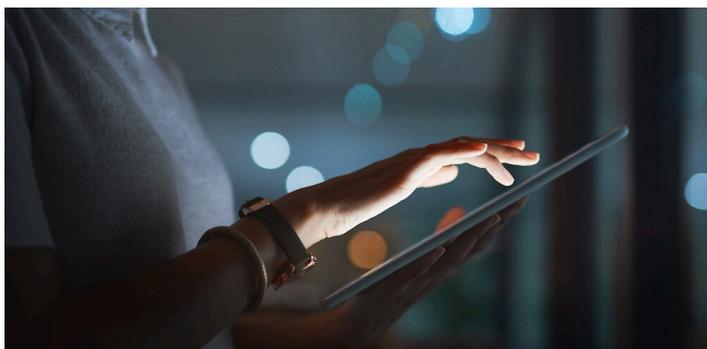
Does the GENIUS Act allow stablecoin issuers to pay interest?

No. The Act explicitly prohibits PPSIs (Permitted Payment Stablecoin Issuers) from paying interest or yield to holders simply for holding the stablecoin. This ensures stablecoins remain a payment instrument, not an investment product.

How will the GENIUS Act influence global digital finance trends?

By legitimizing dollar-backed stablecoins, the U.S. is positioning itself as a leader in digital finance innovation. While Europe focuses on central bank digital currencies and stricter regulation, the U.S. approach under the GENIUS Act emphasizes private-sector innovation and rapid adoption.

Please note that this briefing is intended to provide a very general overview of the matters to which it relates. It is not intended as legal advice and should not be relied on as such. © Carey Olsen (Guernsey) LLP 2026



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