11 Myths v. Facts: The GENIUS Act

Myth 1: *The bill lacks sufficient consumer protections.*
Fact: At its core, the GENIUS Act is a consumer protection bill. GENIUS establishes a first of its kind federal framework to regulate payment stablecoins; a payment product that is already offered in the U.S. with little regulatory oversight. Without this framework, consumers face risks like unstable reserves or unclear operations from stablecoin issuers. GENIUS establishes reasonable federal safeguards, including:

- 100% reserve backing with US dollars and short-term Treasuries, or similarly liquid assets as determined by primary regulator.
- Simple monthly public disclosure of reserve composition.
- Annual audited financial statements for issuers with more than $50 billion in market capitalization.

This approach protects stablecoin holders and enhances consumer confidence in the licensed payment stablecoin market, which also helps the crypto industry.

Myth 2: *Stablecoins will erode the US dollar's global supremacy.*
Fact: The GENIUS Act strengthens dollar supremacy by:

- Requiring reserves in US dollars and Treasuries.
- Creating demand for short-term US debt.
- Establishing the US dollar as the primary reserve for digital payment transactions.

Myth 3: *The bill destroys the separation between banking and commerce and enables big tech firms to enter the banking system with little to no guardrails.*
Fact: This bill allows for non-banks to issue payment stablecoins because a payments product is inherently different than banking.

- Payment stablecoin issuers are not offering lending or credit products.
- Payment stablecoins are backed by a 1:1 reserve.
- Payment stablecoin reserves cannot be pledged, rehypothecated, or reused by payment stablecoin issuers.

The point of this bill is to bring tech companies that are already issuing payment stablecoins under a federal framework, not to exclude them from the industry as a whole. The GENIUS Act's approach allows for appropriate competition which makes the payment stablecoin market better.

Myth 4: *The bill increases systemic risk from stablecoin runs and is a threat to the US financial system.*
Fact: Under the GENIUS Act, stablecoins are always backed 1:1. No exceptions. The GENIUS Act also PREVENTS destabilizing runs through a tailored regulatory framework that includes:

- Diversification requirements for reserve assets.
- Interest rate risk management standards.
- Capital, liquidity, and risk management requirements.
- Prohibiting riskier reserve assets like corporate debt or equities.

All of these requirements are carefully designed to avoid unnecessary regulatory costs.

Myth 5: *Repurchase agreements (repos) and reverse repurchase agreements (reverse repos) should not be eligible as reserves for stablecoins.*
Fact: The GENIUS Act permits overnight repurchase (repos) and reverse repurchase (reverse repo) agreements. These agreements are backed by the same extremely liquid products permitted as reserves, and do not present any incremental risks to stablecoin issuers. Repos and Reverse repos also allow for increased reserve asset diversification and liquidity, enhancing the safety and soundness of the reserve and redemption needs. The GENIUS Act also requires all repos and reverse repos to be centrally cleared, providing an additional layer of security. Furthermore, repo transactions are overcollateralized, further mitigating credit risk.

Myth 6: *Stablecoins are too unstable. The bill does nothing to solve this problem.*
Fact: Previous failures involved three critical gaps that the GENIUS Act carefully addresses:

- Reserve Rules: Some collapsed stablecoins held risky assets or fractional reserves, which will be banned under the 1:1 backed reserves requirement created by the GENIUS Act.
- Transparency: Failed issuers often hid reserve composition – now addressed through mandatory monthly disclosures that are examined by a registered public accounting firm.
- Oversight: Past collapses lacked federal audits, while the GENIUS Act incorporates an annual audit for larger stablecoin issuers.

Myth 7: *The bill allows nonbank stablecoins issuers to pay interest and compete with FDIC-insured banks.*
Fact: The GENIUS Act regulates payment stablecoins, not yield-bearing products. Legislating a workable legal framework for similar yield-bearing products would require separate legislation.

Myth 8: *The bill will allow stablecoins to be offered without essential insolvency protections for consumers.*
Fact: The GENIUS Act explicitly prioritizes stablecoin holders in insolvency proceedings, granting them legal claim to reserves AHEAD of other creditors.

Myth 9: *The bill weakens anti-money laundering efforts.*
Fact: The GENIUS Act requires all stablecoin issuers to comply with Bank Secrecy Act requirements. It also grants the Treasury department the authority to designate foreign stablecoin issuers as noncompliant if they fail to comply with lawful orders. This would prohibit generally centralized digital asset service providers from facilitating the secondary trading of these foreign stablecoins in the United States.

Other comprehensive AML provisions for digital assets, digital asset service providers, and secondary markets, would be more appropriate for a broader discussion, and potentially enacted as a part of a crypto market structure bill.

Myth 10: *Chairman Scott is advancing the legislation too rapidly, limiting the opportunity for Democrats and other key stakeholders to provide meaningful input on the bill.*
Fact: The GENIUS Act is the culmination of years of bipartisan discussions on stablecoin legislation. It incorporates input from state regulators, multiple federal agencies, including the Federal Reserve, the Treasury Department, OCC, SEC, FDIC, and NCUA, as well as over 45 commenters from a broad range of perspectives and industries.

Myth 11: *State regulators can't be trusted with oversight.*
Fact: The GENIUS Act prevents a regulatory race to the bottom by ensuring that state regulators have stablecoin frameworks that are "substantially similar" to the federal framework. Larger issuers must either face federal regulation, seek a waiver, or halt new issuance once they surpass the $10 billion threshold. The legislation provides standards for when a waiver is appropriate to ensure that the waiver process is workable.