

Post-Genius Landscape Reveals Technical Stablecoin Hurdles

By **John Moon and Daniel Stone** (November 5, 2025, 2:09 PM EST)

Following the passage of the Genius Act earlier this year, many speculated about the widespread adoption of stablecoins and the proliferation of issuing organizations. However, the legal legitimacy conferred by the law is only one aspect of the challenges facing mass stablecoin adoption.

While legitimacy can aid in a new product's adoption, the product must also meet market demand and offer a competitive advantage.

For stablecoins, the market is undeniably large and active. The total stablecoin market capitalization is estimated to exceed \$300 billion, according to Canaccord Genuity, with global transfer volumes reportedly reaching \$27.6 trillion last year, surpassing the combined volume of Visa and Mastercard, according to a report from the World Economic Forum.

This clearly demonstrates a robust market for dollar-denominated cryptocurrencies.

The critical question, however, is how stablecoin providers will differentiate themselves in a market designed to create coins with a stable \$1 value.

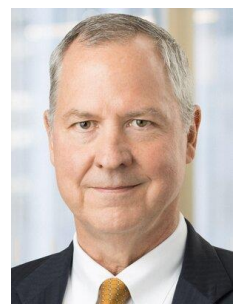
Like any cash-equivalent product, there are three primary factors that stablecoin issuers could use to differentiate themselves and secure market share: the stablecoin's so-called interest rate, the stablecoin's relative liquidity, and the stablecoin's safety and security. The Genius Act directly affects all three factors.

Stablecoins are prohibited from competing on interest rates.

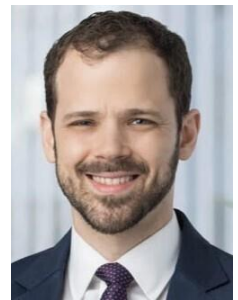
The Genius Act eliminates the first primary means of differentiation: It prohibits stablecoin providers from paying interest to stablecoin holders, despite mandating that stablecoins be primarily backed by interest-bearing assets like treasuries.

While this benefits providers by allowing them to retain profits, it removes a key incentive for issuers to attract users through financial rewards.

Consequently, stablecoin issuers must find alternative ways to differentiate. Established players like Tether Ltd. and USDC benefit from first-mover advantages, likely enabling them to maintain market



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dominance.

Big financial institutions will use their brand recognition and branch coverage to break into the space.

Newer startup entrants, such as Stripe Inc.'s USDB, launched recently and must secure a competitive edge to encourage their tokens' use and adoption.

Stablecoin liquidity depends on regulatory pressures and technical integration.

Stablecoin liquidity at its most basic is assured by the blockchain protocols underlying the technology. Stablecoin issuers therefore largely rely on the largest and most secure blockchain protocols — like Ethereum and Tron — to provide their users with consistent access to liquidity.[1]

The Genius Act encourages stablecoin issuers to continue to innovate and expand their stablecoin issuances to new blockchains.

In particular, it requires federal stablecoin regulators to develop regulations encouraging compatibility and interoperability standards among stablecoin operators and with the broader digital finance ecosystem.[2]

These regulations may also be key for stablecoin issuers to differentiate themselves, as stablecoins that integrate best into the broader digital finance ecosystem will offer the most utility and, ultimately, achieve the greatest success.

Yet, these technical innovations bring inherent risks. Cross-blockchain bridges, for instance, have frequently been exploited as critical weak points in blockchain infrastructure, leading to millions of dollars in losses due to unsecured private keys and unaudited smart contracts.[3]

Again, it will be critically important for regulators and private participants to collaborate closely to ensure these regulations encourage safe interprotocol operability without sacrificing security or exposing stablecoins to malicious attacks or unauthorized — and therefore unbacked — minting.

Stablecoin security will be driven by regulatory competition.

In the realm of financial institution regulation, there is robust interstate regulatory competition. For example, because federal regulations allow credit card companies to utilize state interest rate laws, many credit card companies are now based out of South Dakota, a state with permissive interest rate regulations.

We anticipate stablecoin regulation will similarly compete significantly through regulatory arbitrage, leveraging the various regulators empowered by the Genius Act to find different competitive advantages.

The law requires federally qualified stablecoin operators to be licensed, regulated and supervised exclusively by the Office of the Comptroller of the Currency.

Conversely, state-qualified operators may opt for a state regulatory regime, provided it is "substantially similar," as the act says, to the federal regulatory framework, and the issuer does not exceed \$10 billion in tokens issued and outstanding.[4]

Given the vague nature of the term "substantially similar," we foresee a proliferation of diverse state-based regulatory regimes offering varying degrees of oversight for new stablecoin operators.

For instance, New York state regulations are likely to evolve from existing BitLicenses, issued by the New York State Department of Financial Services since 2015. These BitLicenses, which have been described as "onerous"[5] and "difficult to obtain and maintain,"[6] include stringent capital requirements and customer protection regulations.[7]

We expect that New York's eventual state regulatory regime for stablecoin operators will be similarly strict.

However, these regulations have not always prevented misconduct. Indeed, the New York State Attorney General's Office investigated Tether in 2017 for issuing unbacked tokens. The investigation revealed that Tether, along with affiliated entities, had lost access to global banking, temporarily preventing one-to-one redemptions.[8]

As a result, a class action — In re: Tether and BitFinex Crypto Asset Litigation, still **pending** in the U.S. District Court for the Southern District of New York — alleges that these unbacked Tether tokens inflated crypto-asset prices worldwide. Tether's alleged market manipulation, despite New York's stringent regulatory regime, highlights the limited power of domestic regulators to police multinational stablecoin operators.

While New York has adopted a strict approach, at least some states will likely implement more flexible regimes. Some states may even decide to introduce their own stablecoins, like Wyoming, which issued its Frontier Token stablecoin on Aug. 29.[9]

It remains to be seen which approach proves more competitively advantageous: a race to the top, in which stricter regulatory regimes foster consumer trust and greater market share, or a race to the bottom, in which looser regulatory environments enable faster market entry and unleash greater innovation without the attendant compliance costs.

Another area where stablecoin operators will likely differentiate themselves, and an area worth highlighting given that October was Cybersecurity Awareness Month, is in stablecoin issuers' security and system architecture.

The Genius Act mandates certain technological features, such as requiring stablecoin providers to maintain the functionality to seize, freeze or destroy issued stablecoins pursuant to a lawful order.[10]

Other protections, however, will evolve to address the novel challenges presented by stablecoins.

For example, last month, PayPal's stablecoin PYUSD accidentally minted \$300 trillion of the stablecoin before deleting the newly minted tokens.[11] This accidental mint briefly made PYUSD the world's largest stablecoin by hundreds of trillions of dollars, and for that period, PYUSD was no longer backed 1-to-1 by its reserve assets.

PayPal's solution — destroying the tokens before distribution — aligns with the Genius Act's technical requirements.

As stablecoin providers continue to develop underlying technologies and enhance issuance and redemption protocols, it is conceivable that future stablecoins could make the issuance of unbacked tokens a technical impossibility.

Conclusion

Ultimately, stablecoins will need technically implementable regulations to ensure the market serves consumers without exposing them to unknown risks.

The true test of the Genius Act, and the stablecoin industry writ large, will be how the market balances crypto-assets' unparalleled speed and innovation with the financial industry's need for security and protection.

In the end, as the issues described above highlight, consumers will have difficulty discerning the safest coins from the riskier ones, as those risks will only become apparent when they are realized.

The pressure is therefore on the regulators to craft regulations that protect end users while being technically feasible to implement.

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[1] <https://tether.to/en/supported-protocols/>.

[2] GENIUS Act § 12.

[3] <https://chain.link/education-hub/cross-chain-bridge-vulnerabilities>.

[4] GENIUS ACT, Sec. 4 (b)-(c).

[5] <https://www.axios.com/2023/01/24/new-york-regulator-bitlicense-crypto-nydfs>.

[6] <https://www.omm.com/insights/alerts-publications/from-new-york-to-california-the-bitlicense-goes-bicoastal/>.

[7] 23 NYCRR 200.8–200.9.

[8] <https://ag.ny.gov/press-release/2021/attorney-general-james-ends-virtual-currency-trading-platform-bitfinexs-illegal>.

[9] <https://www.braumillerlaw.com/wyoming-laws-more-crypto-friendly-with-issuance-of-state->

stablecoin/.

[10] GENIUS Act, § 2(16).

[11] <https://thedefiant.io/news/defi/paxos-mints-and-burns-usd300-trillion-pyusd-on-ethereum>.