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Regulatory Alert

Regulatory Insights



November 2026

GENIUS Act: OCC Final Rule for Payment Stablecoin Issuers

KPMG Regulatory Insights:

Supervisory Framework: *Establishes OCC-specific standards for reviewing PPSI applications and supervising payment stablecoin activities; forthcoming final rules from additional regulators may differ.*

Interest and Yield Prohibition: *Statutory prohibition of yield and interest on stablecoins treated on a case by case basis for issuer and third-party arrangements; parameters may be clarified through the applications/licensing process as well as through potential rulemaking.*

Ongoing Verification: *Entities issuing payment stablecoins should be prepared to demonstrate that capital and operational backstop requirements were satisfied at all times throughout each reporting period.*

The Office of the Comptroller of the Currency (OCC) has issued a final rule implementing the GENIUS Act for the issuance of payment stablecoins and related activities by entities subject to the OCC's jurisdiction. The rule establishes a regulatory framework that is generally consistent with the OCC's previous proposal (see KPMG Regulatory Alert here) including prudential requirements for permissible activities, reserve assets, redemption, risk management, custody, capital, applications/registration, and reporting. The OCC has also adopted select changes to add clarification, flexibility, or additional requirements (e.g., new permissible activities, elimination of the rebuttable presumption, lessened quantitative liquidity requirements).

The final rule (and the GENIUS Act) becomes effective January 18, 2027. The OCC adds "given the nascency of the industry, the OCC will closely monitor its evolution and structure and adjust the supervisory and regulatory framework for payment stablecoin issuers to the extent necessary." Further, the OCC notes that it is addressing the GENIUS Act's Bank Secrecy Act, anti-money laundering, and economic sanctions provisions through a separate rulemaking in coordination with the Department of the Treasury.

KPMG has covered the applications/registration and reporting requirements provisions included in the final rule in separate Regulatory Alerts:

- GENIUS Act: OCC Applications and Waivers
- GENIUS Act: OCC Reporting Forms for PPSIs and FPSIs

OCC Jurisdiction

The OCC has regulatory and supervisory jurisdiction over the payment stablecoin activities and certain custody activities of national banks and their subsidiaries, federal savings associations and their subsidiaries, federal branches and their subsidiaries, foreign payment stablecoin issuers (FPSIs), nonbank entities that seek to be or are approved as "federal qualified payment stablecoin issuers;" and "state qualified payment stablecoin issuers" for whom the OCC has regulatory or enforcement authority (i.e., generally those state licensed entities with a total consolidated outstanding issuance value of more than $10 billion).

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Federal permitted payment stablecoin issuers (PPSIs) are defined to include:

- Subsidiaries of an insured national bank or Federal savings association or federal branch that have been approved by the OCC to issue payment stablecoins.
- "Federal qualified payment stablecoin issuers," which include nonbank entities, uninsured national banks, and uninsured federal branches that have been approved by the OCC to issue payment stablecoins.
- State qualified payment stablecoin issuers subject to the OCC's regulatory or enforcement authority.

Highlights of Key Changes in the Final Rule

Permissible Activities

In the final rule, the OCC has added three new permissible activities while simultaneously clarifying that the list of (now) eleven permissible activities is an exclusive list. The new activities allow a PPSI to:

- Hold as principal non-payment stablecoin digital assets as necessary to pay fees, including customer fees and network fees, or to conduct necessary testing on distributed ledger-based platforms, provided that such principal holdings do not exceed quantities necessary for the reasonably foreseeable conduct of such activities.
- Establish a trust arrangement under applicable law for reserve assets, including the granting of a security interest in reserve assets, provided they benefit only payment stablecoin holders and do not impair timely redemptions or the responsibilities of a receiver.
- Manage foreign exchange risk.

The final rule also explicitly states that PPSIs may engage third parties to support permissible activities.

Interest and Yield

The GENIUS Act prohibits PPSIs and foreign payment stablecoin issuers from paying any form of interest or yield (whether cash, tokens, or other consideration) solely in connection with the holding, use, or retention of a payment stablecoin. A proposed "rebuttable presumption" that would have addressed certain affiliate and "related third party" arrangements involving interest and yield was eliminated from the final rule. Further, the OCC did not define "interest" or "yield" and did not adopt a safe harbor for any type of arrangements.

The OCC states it will evaluate each issuer and third-party arrangement individually under this requirement, initially through the application process and through ongoing supervision. If the OCC identifies transactions that violate or evade the prohibition, the OCC will take action and provide additional public guidance as appropriate and in consideration of those actions and interpretations. The OCC anticipates it will be able to propose a future rule clarifying the yield prohibition once it has gained experience identifying prohibited transactions.

Reserve Assets

Excess Reserve Assets. In contrast to the proposed monthly withdrawal limitation, the final rule permits PPSIs to withdraw excess reserve assets after conducting due diligence and determining that, at the time of withdrawal, the fair value of the remaining reserve assets is at least equal to outstanding issuance value (i.e., at least meets the 1:1 test) and the remaining reserve assets comply with applicable reserve requirements. The final rule also requires that PPSIs ensure that reserve asset value (a newly defined term to mean total fair value of reserve assets net of associated liabilities plus the face value of U.S. coin and currency held as reserve assets) will continue to equal or exceed outstanding issuance value at all times and that the reserve asset portfolio will be capable of supporting timely redemption under both normal conditions and adverse economic, liquidity, market, and interest rate conditions. PPSIs are expected, to the extent necessary, to maintain a buffer of reserve assets in excess of outstanding issuance value based on the PPSI's risk profile, business model, and reserve asset portfolio.

Diversification and Concentration. The OCC did not adopt either of the two proposed options regarding reserve asset diversification and concentration. Rather the final rule adopts two requirements: 1)PPSIs must maintain at least 5 percent of reserve assets in demand deposits at insured depository institutions, share accounts at insured credit unions payable on demand, or deposits at a Federal Reserve Bank, and 2) PPSIs must limit total exposure to any single counterparty to no more than 40 percent of reserve assets, excluding exposures to the United States Government, qualifying custodial exposures, centrally cleared repurchase agreements, and centrally cleared reverse repurchase agreements.

In addition, the OCC did not adopt provisions related to weekly liquidity, holdings at any one financial institution, the weighted-average maturity of reserve assets, or a minimum insured deposit amount as proposed.

Redemption

In the final rule, the OCC clarifies when redemption begins, adding a new paragraph stating that a PPSI's obligation to redeem begins once the PPSI has received a redemption order from a customer. In addition, it requires PPSIs to establish onboarding procedures reasonably designed to not unduly delay the onboarding of retail or other customers, including in times of stress, the customer has been successfully onboarded. The OCC states the provisions are

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designed to ensure that a PPSI cannot use deficiencies in its onboarding process as a pretext to artificially extend the timeline for redemption.

The OCC has retained the two-business day timeline for timely redemptions but has eliminated a proposed provision that would have extended the period for timely redemption to seven calendar days if the PPSI faces redemption demands in excess of 10 percent of its outstanding issuance value in a 24-hour period. In its place, the OCC requires a PPSI to provide notice to the OCC within 24 hours if it receives redemption requests in excess of 10 percent of the outstanding issuance value of any brand of payment stablecoin issued by the PPSI in a single 24-hour period. The PPSI may request an extension of the timeline for timely redemption though the OCC has discretion to grant or deny the extension request or impose discretionary limitations. The 10 percent notification threshold is determined separately for each payment stablecoin brand.

Risk Management; Exams; Reports

New Requirements. Several new requirements have been added to the risk management provisions addressing:

- Monetization and stress testing – PPSIs must:
  - Ensure that the reserve asset portfolio, taken as a whole, is capable of supporting timely redemption under both normal and stressed conditions, including by conducting analyses that consider a range of redemption scenarios.
  - Maintain and demonstrate to the OCC the ability to reliably access and monetize reserve assets necessary to meet redemption requests in normal and stressed conditions, taking into account market access, financing channels, haircut assumptions, and operational readiness.
  - Engage in regular stress testing of the reserve asset portfolio in order to confirm that the portfolio of reserve assets will continue to equal or exceed outstanding issuance value in stressed conditions, including in significant positive interest rate scenarios.
- Foreign exchange risk – PPSIs that issue a payment stablecoin denominated in monetary value other than the U.S. dollar must hedge any residual foreign exchange risk identified pursuant to the monetization and stress testing requirements. Certain conditions apply to "ensure appropriate hedging" and protections against "impermissible speculation."

Examinations. The final rule retains the requirement for the OCC to conduct a full-scope examination of each supervised PPSI at least once every 12-month period as well as the provision giving the OCC an option to extend the examination cycle for certain qualifying PPSIs. However, the final rule shortens the extended examination cycle from 18- to 36-months to 18- to 24-months; it also removes "trading volume" as a factor for determining qualifications for the extended examination cycle and adds the requirement that to qualify for an extended examination cycle, the PPSI must have an outstanding issuance value, together with any affiliated PPSIs, of less than $1 billion.

Reports. Both weekly and quarterly reporting requirements for all PPSIs have been retained. Subject to approval from the Office of Management and Budget, revised forms will take effect on January 25, 2027 (weekly report) and March 31, 2027 (quarterly report). An additional supervisory report, required to be submitted upon request of the OCC, covers the PPSI's: 1) financial condition, 2) systems for monitoring and controlling financial and operating risks, and 3) compliance with the GENIUS Act and OCC regulations. A fourth provision covering compliance with the Bank Secrecy Act and sanctions laws, is limited to "federal qualified nonbank payment stablecoin issuers."

Custody

The OCC states that it has adopted the custody provisions generally as proposed with some modifications to enhance clarity. The modifications include:

- Changes to the definition of "covered assets" to clarify that the term "covered assets": 1) only applies with respect to payment stablecoins that are offered, sold, or otherwise made available to persons in the United States; and 2) includes only payment stablecoins used as collateral, where a covered custodian has actual knowledge that such payment stablecoins are being used as collateral.
- A new provision to clarify that a covered custodian may custody its own assets and the covered assets of a covered customer at a sub-custodian provided appropriate safeguards and internal controls are in place.

Minimum Capital and Operational Backstop

Capital. With regard to minimum capital, PPSIs must maintain capital:

- Based on total equity accounts determined in accordance with U.S. generally accepted accounting principles (as opposed to common equity Tier 1 capital and additional Tier 1 capital, as proposed), less specified deductions for goodwill, other intangible assets, deferred tax assets, and equity-funded assets supporting the operational backstop.
- Equal to at least $5 million during and after the de novo period (as opposed to only during the de novo period).

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The OCC has the authority to set a higher capital requirement for more complex PPSIs if determined necessary.

Operational Backstop. A PPSI must maintain an operational backstop to support continued operations during a business disruption; the backstop must be held separately from reserve assets. Changes from the proposed rule include:

- Continued calibration of the operational backstop requirement based on the total expenses of the PPSI over the previous 12-month period (calculated quarterly), with the added provisions that the OCC will allow a PPSI to request approval to exclude from the operational backstop calculation a one-time expense that is wholly unrelated to continuing operation of the PPSI.
- Clarification that up to 50 percent of the operational backstop may be funded with qualifying debt (e.g., minimum maturity of five years, unsecured, subordinated, callable after five years and subject to OCC approval).

Meeting Minimum Requirements. The final rule requires PPSIs to meet minimum capital and operational backstop requirements at all times (not just at quarter end) and to report to the OCC within 24 hours if they fail to meet one or both measures.

In general, if a PPSI remains noncompliant at the end of the quarter it is prohibited from issuing any new payment stablecoins starting on the first day of the following month and until such time as it satisfies its minimum capital and backstop requirements. However, the OCC may impose restrictions on the PPSI prior to the end of the quarter if it does not appear that the PPSI will regain compliance with the minimum capital or operational backstop requirements. Further, the OCC may permit a PPSI to continue operations while its operational backstop is below the required amount if 1) the backstop assets were liquidated to address a temporary disruption or other operational event, 2) the PPSI provides a plan within seven days to regain compliance with the operational backstop requirement within 90 days, and 3) the OCC deems the plan viable.

For more information, please contact Chad Polen or Andrew Devlin.

Contact



Laura Byerly
Managing Director
Regulatory Insights
lbyerly@kpmg.com



Brian Hart
Principal
Risk, Regulatory and Compliance
bhart@kpmg.com

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