

Regulatory Alert

Regulatory Insights

May 2026

GENIUS Act: Treasury Proposal on State-Level Regulatory Regimes

KPMG Regulatory Insights:

Unified Focus: Federal and state regulators are working to implement the GENIUS Act provisions recognizing that certain state qualified payment stablecoin issuers over defined thresholds may be supervised at the federal level.

Substantial Similarity: The Department of the Treasury proposes broad-based principles to determine if state regulatory regimes are “substantially similar” to the federal regulatory framework, covering areas where the state has and does not have regulatory discretion.

“Federal Regulatory Framework”: Determined to encompass both the statutory text of the GENIUS Act and the core regulatory framework set up across federal agencies’ implementing regulations, specifically including issuances from the OCC, Treasury (e.g., BSA, sanctions), and FRB (e.g., anti-tying).

Transition: State regulatory regimes are expected to adopt transition provisions for state qualified payment stablecoin issuers to shift to federal oversight once they exceed the \$10 billion outstanding payment stablecoin issuances threshold.

Calibration: The proposal includes minimal flexibility for state-calibrated requirements (e.g. additional reserve assets, discretionary limits on timely redemptions, rehypothecation) and aligns those with GENIUS Act citations.

The Department of the Treasury (Treasury) [issued](#) a proposed rule to establish broad-based principles for determining when a state-level regulatory regime is “substantially similar” to the federal regulatory framework promulgated to implement payment stablecoins pursuant to the GENIUS Act (the Guiding and Establishing National Innovation for U.S. Stablecoins Act – see KPMG Regulatory Alert [here](#)).

Under the GENIUS Act (or the Act), state qualified payment stablecoin issuers with a consolidated total outstanding issuance of not more than \$10 billion would be allowed to opt for state-level regulation, provided the state-level regulatory regime is “substantially similar” to the federal regulatory framework. In addition, the Act defers supervisory, examination, enforcement and rule writing authority to state payment stablecoin regulators for permitted payment stablecoin issuers under their jurisdiction.

However, state qualified payment stablecoin issuers with a consolidated total outstanding issuance of more than \$10 billion would be required to transition to the federal regulatory framework (to be administered jointly by the state

and federal regulators); those that are state chartered depository institutions would be subject to oversight by the primary federal payment stablecoin regulator of the state chartered depository institution, while all other state qualified payment stablecoin issuers would be subject to oversight by the state and the OCC.

Under the GENIUS Act, Treasury is tasked with establishing broad-based principles that will be used to determine whether a state regulatory regime is “substantially similar” to the federal regulatory framework. Key aspects of the Treasury’s proposal for broad-based principles cover:

- Definitions of Key Terms
- Overall (“Guiding”) Principles
- Uniform Requirements
- State-Calibrated Requirements
- Other Provisions and Requirements

Comments on the proposal are requested through June 2, 2026.

Treasury Proposal

Definitions. Treasury defines certain key terms to be used for purposes of evaluating state-level regulatory regimes, including:

Key Term	Definition
Federal Regulatory Framework	<p>“Federal Regulatory Framework” would mean:</p> <ul style="list-style-type: none"> — All relevant provisions of the GENIUS Act. — Any interpretations of, or regulations under, the GENIUS Act issued by the OCC and published in the Federal Register. — Any interpretations, regulations, or orders of the Treasury related to the GENIUS Act provisions for Bank Secrecy Act and sanctions compliance requirements and technological capabilities to comply with lawful orders. — Any interpretations, regulations, or orders of the FRB related to the GENIUS Act anti-tying provisions.
State-Level Regulatory Regime	<p>“State-Level Regulatory Regime” would mean:</p> <ul style="list-style-type: none"> — All statutes enacted by the state regarding payment stablecoins. — Any regulations regarding payment stablecoins or that apply to a state qualified payment stablecoin issuer issued by a state payment stablecoin regulator of the state or another regulator of the state. — Any interpretations thereof or guidance thereunder, only to the extent they are enforceable against state qualified payment stablecoin issuers.
Uniform Requirement	<p>A “uniform requirement” would mean a requirement of section 4(a) of the GENIUS Act (“Standards for the Issuance of Payment Stablecoins”) that is applicable to a state qualified payment stablecoin issuer and for which the Act does not grant “substantive discretion” to a state payment stablecoin regulator.</p>
State-Calibrated Requirement	<p>A “state-calibrated requirement” would mean a requirement of section 4(a) of the GENIUS Act (“Standards for the Issuance of Payment Stablecoins”) that is applicable to a state qualified payment stablecoin issuer and for which the GENIUS Act grants substantive discretion to a state payment stablecoin regulator to develop the state-level regulatory regime.</p>

Overall Principles. To provide context for the broad-based principles for determining whether a state-level regulatory regime is substantially similar to the federal regulatory framework as set forth in the proposed rule, the Treasury expects:

- A state qualified payment stablecoin issuer would be subject to all requirements under federal statutes, including the GENIUS Act, applicable to permitted payment stablecoin issuers (PPSIs), except as otherwise provided in the proposed rule or the GENIUS Act.
- A state-level regulatory regime would be substantially similar to the federal regulatory framework if it:
 1. “Meets or exceeds” the standards and requirements of section 4(a) of the GENIUS Act, such that implementation at the state level for:
 - Uniform requirements are consistent with the federal regulatory framework in all substantive respects

- State-calibrated requirements lead to regulatory outcomes at least as stringent and protective as the federal framework.
- 2. Includes frameworks for transition to federal oversight, applications and approval, and supervision and enforcement that are consistent with the GENIUS Act provisions related to Bank Secrecy Act, sanctions compliance, and technological capabilities and provide for similar levels of authority and oversight as the federal regulatory framework.
- 3. Includes frameworks for custody and insolvency that provide substantially similar protection for payment stablecoin holders as the federal regulatory framework.
- A state-level regulatory regime would be permitted to deviate from the federal regulatory framework with respect to “nonsubstantive” matters of form or procedure while remaining substantially similar to the federal regulatory framework.

Uniform Requirements. The proposal would outline the following broad-based principles for determining whether a

state-level regulatory regime is substantially similar to the federal regulatory framework with respect to the uniform requirements under section 4(a) of the GENIUS Act:

- Each uniform requirement must be fully enforceable by the state payment stablecoin regulator against state qualified payment stablecoin issuers.
- Implementation of each uniform requirement must be consistent with the federal regulatory framework in substantive respects, including:

1. No material deviations in definitions or interpretations of statutory terms
2. The requirements are applied and construed in a manner that does not “materially” narrow, condition or limit the scope compared to the federal regulatory framework.

Uniform requirements in the GENIUS Act are identified in a table attached as Appendix A to the proposal. They include the following:

Requirements in the GENIUS Act that Apply Uniformly at the Federal and State Levels		
Reserve Assets	BSA/AML, Sanction Compliance Program	Prohibition on Deceptive Names
Redemption	Technological Capability	Audits and Reports
Monthly Publication of Reserves	Limitations on Permitted Payment Stablecoin Activity	Prohibition on Paying Interest/Yield on Stablecoins
Prohibition on Rehypothecation of Reserves	Prohibition on Tying	Limits on Non-Financial Public Companies (and certain foreign companies) Issuing Stablecoins
Independent Accountant Examination of Reports		

State-Calibrated Requirements. Certain requirements in the GENIUS Act provide discretion to state payment stablecoin regulators when developing their state-level regulatory regimes. However, such discretion is limited by the requirement that the Stablecoin Certification Review Committee must determine whether the regime meets or exceeds the standards and requirements described in section 4(a) of the GENIUS Act and is substantially similar to the federal regulatory framework.

Treasury expects that a state’s implementation of the state-calibrated requirements will lead to regulatory outcomes that are at least as stringent and protective as the federal regulatory framework. In this regard, the proposed broad-based principles for determining whether a state-level regulatory regime is substantially similar to the federal regulatory framework would permit discretion in the following areas:

Category	Principles
Reserve Assets	Reserve assets not listed in the GENIUS Act would be allowed if they have been approved by the OCC.
Redemption	Discretionary limitations on timely redemption would be allowed if appropriately disclosed and consistent with the GENIUS Act.
Rehypothecation	Repurchase agreements may be used if preapproved.
Certifications Related to Monthly Report	Monthly Certification form may deviate from those of the primary federal payment stablecoin regulators.
Capital	A state-level capital framework must include: <ul style="list-style-type: none"> — Common equity tier 1 capital and additional tier 1 capital, as defined in the federal regulatory framework, requirements commensurate with the level and nature of risks to which the issuer is exposed. — A process for assessing and maintaining the overall capital adequacy given the issuer’s business model and risk profile.

	<ul style="list-style-type: none"> — An operational backstop to meet short-term liquidity needs after a business disruption and to resume normal operations. — Consequences for failing to meet the minimum capital or backstop requirements.
Liquidity, Reserve Asset Diversification, Interest Risk Management	<p>Treasury would expect:</p> <ul style="list-style-type: none"> — Reserve assets to be sufficiently diverse to manage potential credit, liquidity, interest rate, and price risks. — Diversification for reserve asset thresholds to be equally or more stringent than the federal regulatory framework. — Interest rate risk management standards to be consistent with the federal regulatory framework. — Consequences for failing to meet the minimum reserve asset requirements.
Operational, Compliance, Information Technology Risk Management	<p>Operational, compliance, and information technology risk management principles-based requirements and standards, including BSA and sanctions compliance standards, that:</p> <ul style="list-style-type: none"> — Lead to outcomes at least as stringent and protective as the federal regulatory framework. — Are tailored to issuer business model and risk profile. — Are consistent with applicable law. — Address internal controls, information security, information systems, an internal audit system, asset growth, earnings, insider and affiliate transactions, and service provider arrangements.
Prohibited Activities	<p>Activities not specified as permitted payment stablecoin activities may be authorized only if they are:</p> <ul style="list-style-type: none"> — Incidental to specified activities. — Authorized by and consistent with other federal or state law and the GENIUS Act, and the claims of payment stablecoin holders rank senior to any potential claims of non-stablecoin creditors with respect to reserve assets.

Other Provisions and Requirements. Other areas that Treasury will consider when determining whether a state-level regulatory regime is substantially similar to the federal regulatory framework include requirements for:

- **Transitions** of state qualified payment stablecoin issuers to federal oversight
- **Applications frameworks**, including content requirements, decisioning factors, and post application and annual certifications.
- **Supervisory authority** that is similar to the authority in the federal regulatory framework regarding licensing, supervision, examination, reporting, and enforcement.

- **Custody conditions** for payment stablecoins, reserves, and collateral.
- **Insolvency provisions** covering the treatment of payment stablecoin issuers in insolvency proceedings.
- **Permissions** to impose additional restrictions or requirements, such that they do not conflict with any provision of the GENIUS Act, Treasury’s proposal, or other applicable federal law and do not modify the state-level regulatory regime to render it no longer substantially similar to the federal regulatory framework.

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Appendix

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act or the Act) was signed into law on July 18, 2025. The law will go into effect on the earlier of January 18, 2027, or 120 days after the primary Federal Payment Stablecoin Regulators (defined to include FDIC, FRB, NCUA, OCC) issue final implementing regulations. The law establishes a regulatory framework for “payment stablecoins” – generally defined as digital assets redeemable at a fixed monetary value and used for payments or settlement.

Among the provisions, the Act sets forth:

1. Permitted Payment Stablecoin Issuers
2. Requirements for Issuing Payment Stablecoins
3. Capital, Liquidity and Risk Management Requirements
4. Bank Secrecy Act and Sanctions Laws
5. Other Provisions

Permitted Payment Stablecoin Issuer. There are three categories of “permitted payment stablecoin issuers:”

- *Subsidiaries of insured depository institutions (IDIs)*, subject to approval by the relevant “federal payment stablecoin regulator” (the primary federal regulator of the IDI).
- *“Federal qualified payment stablecoin issuers,”* defined to include nonbank entities (other than a state qualified payment stablecoin issuer), OCC-chartered uninsured national banks, and federal branches that have been approved by the OCC.
- *“State qualified payment stablecoin issuers,”* defined to include entities that are established under state laws and approved to issue payment stablecoins by a “state payment stablecoin regulator” and are not an uninsured national bank chartered by the OCC, a federal branch, an insured depository institution, or a subsidiary of such national bank, federal branch, or insured depository institution.

Federal payment stablecoin regulators. In coordination with one another, federal payment stablecoin regulators are required to issue regulations to establish a payment stablecoin regulatory framework within one year of enactment.

State payment stablecoin regulators. State payment stablecoin regulators are permitted to issue orders and rules to same extent as the primary federal payment stablecoin regulators.

State qualified payment stablecoin issuers with a consolidated total outstanding issuance of not more than \$10 billion would be allowed to opt for state-level regulation, provided the state-level regime is “substantially similar” to the federal regulatory framework. However, state qualified payment stablecoin issuers with a consolidated total outstanding issuance of more than \$10 billion would be required to transition to the Federal regulatory framework (to be administered jointly by the state and federal regulators); those that are state chartered depository institutions would be subject to oversight by the primary federal payment stablecoin regulator of the state chartered depository institution, while all other state qualified payment stablecoin issuers would be subject to oversight by the state and the OCC.