STABLECOINS AS THE NEW SHADOW BANKS

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I. INTRODUCTION

Although blockchain has transformed financial markets, one of the most significant concerns is how stablecoins are beginning to affect the traditional banking system and contribute to the growth of shadow banking. Stablecoins are cryptocurrencies on a public blockchain that are designed to maintain a stable value by being pegged to a fiat currency, such as the U.S. dollar.[1] Because they enable fast, low-cost, and decentralized transactions, stablecoins have grown rapidly, and Morgan Stanley found that they had reached a market capitalization of approximately $300 billion by late 2025.[2] The growth of stablecoins has raised concerns about their potential to disrupt traditional banks.[3] Although U.S. regulators have begun to address the risks posed by stablecoins, the current framework remains incomplete without stricter federal rules and uniform requirements. Despite the potential for technological innovation in payments, stablecoin issuers risk repeating the same patterns that exist in the shadow banking system, thereby exposing the economy to instability and potential failure due to regulatory gaps.

II. SHADOW BANKING

Unlike bank deposits, stablecoins are often issued by private entities outside the conventional banking system, placing their issuers within what is commonly referred to as shadow banking.[4] The term, shadow banking, was coined in 2007 by Paul McCulley in a speech about nonbank financial institutions that

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1. Jack Manley, *What is a stablecoin?*, J.P. MORGAN ASSET MANAGEMENT (July 9, 2025), https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/on-the-minds-of-investors/what-is-a-stablecoin/ [https://perma.cc/38PN-3XBF].

2. David Krause, *Beyond the GENIUS Act: Regulatory Gaps and Operational Challenges in Stablecoin Adoption*, 80 U. MIA. L. REV. 337, 339 (2026); *see* Frederick McMullen, *Stablecoins—Modernizing Financial Infrastructure*, MORGAN STANLEY: INSIGHTS (Sep. 15, 2025), https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/modernizing-financial-infrastructure.html [https://perma.cc/MFW4-LWJ8].

3. Manley, *supra* note 1.

4. Laura E. Kodres, *What Is Shadow Banking?*, 50 FIN. & DEV. 42, 43 (2013), https://www.imf.org/external/pubs/ft/fandd/2013/06/basics.htm [https://perma.cc/5QKE-PCHH].

were engaging in the same type of maturity transformation as traditional banks, borrowing short-term liabilities and then buying assets with longer-term maturities.[5] However, because shadow banks are not traditional banks, they are not subject to typical bank regulation. In turn, they are also not provided with the same basic safety nets, such as borrowing from the Federal Reserve or deposit insurance.[6]

The risks of this minimal regulation became apparent during the 2007–2009 financial crisis, and shadow banks were a key contributor to the Great Recession.[7] Before the financial crisis, shadow banks provided inexpensive credit by issuing short-term debt backed by long-term, risky assets.[8] This system increased real estate prices and expanded credit.[9] Nevertheless, shadow bank's reliance on private guarantees made them inherently fragile.[10] When confidence in these private backstops collapsed, the shadow banking system became prone to runs and contributed to severe financial instability during the crisis.[11] As stablecoins become more widely used for payments and value storage, they may draw funds away from traditional bank deposits and potentially reduce banks' ability to lend and alter the structure of financial intermediation.

III. STABLECOINS

As the global leader in the stablecoin market, Tether (USDT) serves as a prime example of how stablecoin issuers can function as key financial intermediaries within the cryptocurrency ecosystem.[12] The functionality of Tether is supported through multiple blockchains, especially TRON and Ethereum, which is similar to most other stablecoin issuers.[13] Tether is issued by Tether Limited and is designed to maintain a one-to-one value with the U.S. dollar through reserve backing consisting of cash and cash equivalents.[14] Although the par value is intended to remain stable, market forces have been found to cause Tether's price to deviate slightly above or below the $1 equivalency range, which has been termed as depegging.[15] These types of depegging events are typically a result of changes in trader trust, market stress, and even demand fluctuation.[16]

5. *Id.*
6. *Id*.
7. *See* Zoltan Pozsar et al., *Shadow Banking*, 19 FED. RES. BANK N.Y. ECON. POLICY REV. 1, 1 (2013), https://www.newyorkfed.org/medialibrary/media/research/epr/2013/0713adri.pdf [https://perma.cc/J564-NYWJ].
8. *Id.* at 2.
9. *Id.*
10. *Id*.
11. *Id*.
12. *See What Are Tether Tockens and How Do They Work?*, TETHER, https://tether.to/en/how-it-works [https://perma.cc/9BYX-X5PA] (last visited Sep. 25, 2026) [hereafter Tether Ltd]*; see also* Sean Foley, Seung Ah Lee, & George Milunovich, *How Tether Depegging Affects Cryptocurrency Returns*, ACCT. & FIN. 1 at 1 (March 8, 2026), https://doi.org/10.1111/acfi.70201 [https://perma.cc/P865-K8PY].
13. Tether Ltd., *supra* note 11.
14. *See* Tether Ltd., *supra* note 11*;* Foley et al., *supra* note 11.
15. Foley et al., *supra* note 11.
16. *Id.*

Although Tether is currently one of the largest stablecoin issuers in the world with over $100 billion market capitalization, the company has faced controversy over the composition and transparency of its reserves and internal operations.[17] The New York Attorney General accused Tether of covering up the loss of nearly $850 million in investor funds.[18] The Attorney General also claimed that Tether did not maintain adequate reserves of 1:1 US dollar to Tether coin.[19] Ultimately, the settlement resulted in an agreement on behalf of Tether to pay $18.5 million, not trade with New York residents, and provide quarterly reports to increase transparency.[20] This settlement also showed that Tether had only been maintaining roughly 3% of its backing in cash, which was severely insufficient to support mass immediate redemptions.[21] After this, the U.S. Commodity Futures Trading Commission investigated and found that Tether had misrepresented whether the company had U.S. dollar reserves sufficient to back all USDT in circulation, and Tether had misstated that it underwent routine audits.[22]

Since these controversies, Tether has adopted additional transparency measures and has implemented a proof of reserve system on its website, which provides a daily record about its balances and reserves.[23] Tether also publishes reports quarterly on the status of its reserves that are prepared by BDO Italia, a third-party accounting firm.[24] The reports show that the reserves are greater than the redemption value of stablecoins in circulation.[25] This change illustrates how regulatory oversight and subsequent enforcement actions can improve transparency and strengthen reserve practices in stablecoin markets.

One of the key advantages driving the popularity of stablecoins, such as Tether, is their ability to enable international payments without the lengthy chain of intermediaries required in traditional financial systems.[26] Instead of a payment passing through correspondent banks, it can be converted directly into stablecoins. Once the funds are stablecoins, these can be directly transferred to the

17. *See* Mary Elizabeth Burke, *From Tether to Terra: The Current Stablecoin Ecosystem and the Failure of Regulators*, 28 FORDHAM J. CORP. & FIN. L. 99, 101 (2023).

18. Matt Stankiewicz, *The New York Attorney General's Office Reaches Settlement with Bitfinex and Tether*, JDSUPRA (Mar. 15, 2021), https://www.jdsupra.com/legalnews/the-new-york-attorney-general-s-office-9385268/ [https://perma.cc/2C29-M566].

19. *Id.*

20. Stankiewicz, *supra* note 17; *see also CFTC Orders Tether and Bitfinex to Pay Fines Totaling $42.5 Million*, COMMODITY FUTURES TRADING COMM'N, No. 8450-21 (Oct. 15, 2021), https://www.cftc.gov/PressRooml/PressReleases/ 8450-21 [https://perma.cc/HGJ3-R57P].

21. *In Winning DeFi, Circle's USDC Shows It Can Be the No. 1 Stablecoin*, PYMNTS (Jan. 17, 2022), https://www.pymnts.com/cryptocurrency/2022/winning-defi-circle-usdc-shows-it-can-be-top-stablecoin/ [https://perma.cc/5ZZ6-LTRQ].

22. Stankiewicz, *supra* note 17; *see also CFTC Orders Tether and Bitfinex to Pay Fines Totaling $42.5 Million*, COMMODITY FUTURES TRADING COMM'N, No. 8450-21, *supra* note 19.

23. *See Transparency*, TETHER (last updated Sep. 25, 2026) https://tether.to/en/transparency/ [https://perma.cc/M3B4-BBWX].

24. *Id.*

25. *Id.*

26. *Id.*

recipient, even if it is a foreign entity.[27] Because of the reduction in intermediary steps and the use of blockchain, some stablecoins can be transferred much faster than traditional international payments. This system also eliminates many of the fees associated with using intermediaries, such as compliance fees.[28] With 50% of international payments using U.S. dollars, stablecoins that are U.S. dollar-denominated have the potential to infiltrate international trade and, according to the International Monetary Fund, "reinforce global dominance of the dollar."[29]

Because stablecoins are programmable, payments can be automated to occur when certain conditions are met.[30] For example, JPMorgan Chase noted that a company could set up a contract that pays a supplier automatically as soon as delivery is confirmed or transfers funds after an earn-out provision is satisfied following an acquisition.[31] These transactions are recorded in a permanent digital ledger, which creates a clear record and helps reduce the risk of fraud or mistakes.[32] Unlike many other cryptocurrencies, stablecoins are designed to maintain a stable value, which helps businesses avoid the volatility associated with tokens, such as Bitcoin.[33]

In 2025, a study was conducted to investigate how stablecoins and other digital payment technologies impact payments, and the results were presented at the International Scientific Conference on Business and Economics.[34] The study developed a stablecoin payment framework ("SPF") to evaluate the performance of stablecoins.[35] The SPF evaluated multiple factors, including transaction speed, security, and costs, which are key in a business setting.[36] The SPF showed that there was a 70% reduction in data exposure risk when performing transactions with stablecoin because security was enhanced through blockchain encryption.[37] Additionally, the study reported a 30% increase in transaction speed, as it reduced settlement times to almost instantaneous.[38] The SPF also found a 60% reduction in transaction costs.[39] With corporations making frequent cross-border payments, these reductions are invaluable for facilitating financial transactions.

27. Tobias Adrian et al., *Understanding Stablecoins*, INT'L MONETARY FUND at 28 (2025), https://www.imf.org/-/media/files/publications/dp/2025/english/usea.pdf [https://perma.cc/V8PC-V4GS].

28. *Id.*

29. *See* Carol Bertaut, Bastian von Beschwitz, & Stephanie Curcuru, *The International Role of the U.S. Dollar–2025 Edition*, FEDS NOTES BD. OF GOVERNORS OF THE FED. RSRV. SYS. (July 18, 2025) https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-u-s-dollar-2025-edition-20250718.html [https://perma.cc/6WU5-KW3Q]; *Id.*

30. Manley, *supra* note 1.

31. *Id.*

32. *Id*.

33. *Id*.

34. Aditya Deshpande, *Enhancing Cross-Border Payment Efficiency with Stablecoins: Reducing Costs and Settlement Delays*, ECON. RESILIENCE AND SUSTAINABILITY VOL. 2 at 1 (Mar. 1, 2025), https://ssrn.com/abstract=5337435 [https://perma.cc/9NN8-DTA2].

35. *Id.*

36. *Id.*

37. *Id.*

38. *Id.*

39. *Id*.

IV. GENIUS ACT

To provide regulatory clarity and address challenges with transparency, reserve requirements, and systemic stability, the United States enacted the Guiding and Establishing National Innovation for U.S. Stablecoins ("GENIUS") Act.[40] This legislation created a federal framework for stablecoin payments.[41] The GENIUS Act requires 1:1 reserves in high-quality assets, such as Federal Reserve deposits or Treasury bills, and mandates operational safeguards to prevent runs or reserve mismanagement.[42] The Act also establishes a federal licensing framework overseen by multiple government agencies, including the Office of the Comptroller of the Currency ("OCC"), the Federal Reserve, and the Federal Deposit Insurance Corporation ("FDIC"), and requires robust anti-money laundering programs, regular audits, and reporting standards to increase transparency.[43]

To prevent stablecoin issuers from acting as shadow banks, Section 203 of the GENIUS Act provides that "[a] permitted payment stablecoin issuer shall not, directly or indirectly, pay or offer to pay interest, yield, dividends, or other returns to a payment stablecoin holder based solely on such holder's holding or use of a payment stablecoin."[44] While this language seems to prohibit all forms of interest payments and effectively prevent the replacement of traditional bank savings functions with stablecoin, the language, "based solely on such holder's holding," is narrow and may permit rewards or payments tied to other factors, such as trading stablecoins, platform loyalty, etc.[45] Bank of America, along with other banks, concerns that any type of stablecoin yields could lead to a loss of bank deposits for them.[46] However, the April 2026 Council of Economic Advisers report found that this concern is overstated.[47] Although consumers may shift funds from their bank accounts into stablecoins, those funds do not exit the financial system. Stablecoin issuers typically invest their reserves in short-term government securities and hold the proceeds through banks or other financial intermediaries.[48] This results in the composition of deposits changing, and funds would only shift from consumer bank accounts to institutional accounts that

40. David Krause, *Beyond the GENIUS Act: Regulatory Gaps and Operational Challenges in Stablecoin Adoption*, 80 U. MIA. L. REV. 337, 339 (2026); S. 1582, 119th Cong. (2025), https://www.congress.gov/bill/119th-congress/senate-bill/1582/text [https://perma.cc/K6GU-GRJH].

41. Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119-27, 139 Stat. 419 (2025).

42. *Id.*

43. *Id.*

44. *Id*.

45. *Id.*

46. Stephen Gandel, *Why U.S. Banks' Stablecoin Pleading Is Flawed*, REUTERS (Feb. 13, 2026), https://www.reuters.com/commentary/breakingviews/why-us-banks-stablecoin-pleading-is-flawed-2026-02-13/ [https://perma.cc/YY8P-57LJ].

47. Council of Econ. Advisers, *Effects of Stablecoin Yield Prohibition on Bank Lending* (Apr. 8, 2026), https://www.whitehouse.gov/research/2026/04/effects-of-stablecoin-yield-prohibition-on-bank-lending/ [https://perma.cc/2MQQ-JGQ2].

48. *Id.*

manage stablecoin reserves.[49] In fact, banning stablecoin yields was found to only increase bank lending by 0.02%.[50]

Since the passage of the GENIUS Act, U.S. stablecoins have gained a higher degree of reliability, but regulatory gaps still remain. The Act seeks to create greater uniformity between federal and state oversight, yet it preserves a dual supervisory system for certain issuers. The biggest gap in the GENIUS Act arises from state-issued stablecoins being entirely excluded.[51] Under the Act's definition of a "person," state governments are not included.[52] While a "business entity" is included in the definition, state governments do not fall within that category.[53] This results in the requirements outlined in the Act not applying to state governments that issue stablecoins. As a result, stablecoins can effectively be issued with no federal oversight or regulation. Although the Act intended to create nationwide uniform regulation of stablecoins, there remains a divide between federally regulated private issuers and unregulated state-backed issuers. This divide does not resolve the risks relating to stablecoins acting as shadow banks.

Under the Act, state-qualified payment stablecoin issuers with less than $10 billion in outstanding issuance may elect to be regulated at the state level as long as the state rules are "substantially similar" to the federal GENIUS Act framework.[54] This means that some issuers will be examined and supervised directly by federal regulators operating under a nationally uniform set of standards, while others may be overseen by individual state banking or financial-services regulators applying state-specific rules and enforcement priorities. Even though the federal framework establishes baseline requirements, states retain significant discretion in overseeing and regulating stablecoin issuers.[55] Because there is not yet a clear definition for "substantially similar" regulation, the ambiguities would prompt issuers to incorporate in states with the most lenient regulation and minimal oversight.

This concern has become increasingly important following the Treasury Department's 2026 proposed rulemaking interpreting the GENIUS Act.[56] The

49. *Id.*

50. *Id.* at 15.

51. *See id.*

52. S.1582 - GENIUS Act, CONGRESS.GOV, https://www.congress.gov/bill/119th-congress/senate-bill/1582/text [https://perma.cc/UL4K-REEQ] (last visited Sep. 25, 2026).

53. *Id.*

54. Edwin Smith, Stacie Hartman & Joseph Healy, *The GENIUS Act's Stablecoin Regulatory Scheme Promotes Uniformity But May Fall Short*, MORGAN LEWIS (Sept. 3, 2025), https://www.morganlewis.com/pubs/2025/09/the-genius-acts-stablecoin-regulatory-scheme-promotes-uniformity-but-may-fall-short [https://perma.cc/F7EX-NC3Q].

55. *See id.*; *see also GENIUS Act Broad-Based Principles for Determining Whether a State-Level Regulatory Regime Is Substantially Similar to the Federal Regulatory Framework*, Docket No. TREAS-DO-2026-0232-0001 (Dep't of Treasury Apr. 3, 2026), https://www.regulations.gov/document/TREAS-DO-2026-0232-0001 [https://perma.cc/CQ3B-DCBY].

56. *GENIUS Act Broad-Based Principles for Determining Whether a State-Level Regulatory Regime Is Substantially Similar to the Federal Regulatory Framework*, Docket No. TREAS-DO-2026-0232-0001 (Dep't of Treasury Apr. 3, 2026), https://www.regulations.gov/document/TREAS-DO-2026-0232-0001 [https://perma.cc/TC42-5V59].

proposed rule addresses many of the regulatory arbitrage loopholes and outlines concrete principles that could be used in determining whether state-level regulation is "substantially similar" to federal.[57] It also proposes that stablecoin issuers regulated by a state still have to follow federal law, including the GENIUS Act, even if the issuer is not directly supervised by federal regulators.[58] Additionally, states that supervise stablecoin issuers would have to create a regulatory system that is at least as strict as the federal framework under the GENIUS Act.[59] Concerns about regulatory arbitrage are not limited to academic or policy circles, and traditional banking institutions have also expressed concerns. During JPMorgan's April 2026 earnings call, Jeremy Barnum, the CFO of JPMorgan Chase, warned that stablecoins could become a vehicle for "regulatory arbitrage" if they are not subject to the same level of strict oversight and consumer protection standards as traditional bank deposits.[60] If the Treasury's rule is enacted, the new guidance for states would significantly decrease concerns about regulatory arbitrage between the state and federal regulation.

V. DIGITAL ASSET MARKET CLARITY ACT

The U.S. government has proposed to expand many of the regulations described for stablecoins to other digital assets and cryptocurrencies through the Digital Asset Market Clarity Act ("Clarity Act").[61] It also classifies some types of digital assets as securities, while leaving others labeled as simply commodities.[62] For these types of digital assets, the Clarity Act assigns oversight to the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC").[63] This type of oversight by government agencies would introduce a positive type of regulation for stablecoins and other cryptocurrencies that could potentially prevent the risk of shadow banking by issuers.

Even though they are excluded from treatment as securities, blockchain-based assets and certain types of stablecoin issues would still be subject to oversight by the CFTC. Seth Oranburg, a law professor and fintech researcher, wrote in a paper evaluating the Clarity Act: "By importing many tried-and-true regulations from the commodities and securities worlds, the Act ensures that as the industry matures, it operates under familiar investor protection standards (record-keeping, anti-fraud rules, capital requirements). This addresses practitioners' concern that a new legal category might otherwise create an unregulated shadow sector."[64] The Clarity Act is exactly the type of regulation the stablecoin and

57. *Id.*

58. *Id.*

59. *Id.*

60. Helene Braun, *JPMorgan CFO Warns Stablecoins Risk Becoming 'Regulatory Arbitrage' Play*, COINDESK (Apr. 14, 2026), https://www.coindesk.com/business/2026/04/14/jpmorgan-cfo-warns-stablecoins-riskbecoming-regulatory-arbitrage-play [https://perma.cc/6UGX-4LWE].

61. Digital Asset Market Clarity Act of 2025, H.R. 3633, 119th Cong. (2025), https://www.congress.gov/bill/119th-congress/house-bill/3633/text.

62. *Id.*

63. *Id.*

64. *Id.* at 48.

cryptocurrency industry needs in order to avoid the risks related to shadow banking and keep the economy stable.

VI. MARKETS IN CRYPTO-ASSETS REGULATION (MICA)

Similar to the GENIUS and Clarity Acts, the European Union ("EU") has recognized the risks related to stablecoins and has implemented the Markets in Crypto-Assets ("MiCA") regulation, which establishes rules for crypto-assets, issuers, and service providers ("CASPs").[65] MiCA regulates crypto-asset issuance and provides an implementation framework for all twenty-seven member states of the EU, unlike most other EU financial regulation, which grants discretion to the member states for implementation.[66] The regulation applies to Asset-Referenced Tokens ("ARTs") and Electronic Money Tokens ("EMTs"), which encompass most types of stablecoins in the EU.[67]

Under MiCA, the term "stablecoin" is not itself a formal legal category. The regulation divides stable-value crypto-assets into two classifications of Asset-Referenced Tokens ("ARTs") and Electronic Money Tokens ("EMTs").[68] These categories collectively encompass what are commonly referred to as "stablecoins" in Europe, but they are regulated differently because they are designed to serve different economic functions.[69] ARTs maintain their stable value by being backed by a basket of multiple assets, and MiCA defines these as "a type of crypto-asset that is not an e-money token and that purports to maintain a stable value by referencing any other value or right or a combination thereof, including one or several official currencies."[70] Because ARTs can resemble privately issued monetary instruments or investment products, MiCA subjects issuers to heightened requirements and stronger regulation.[71] By contrast, EMTs are tokens that are backed by the value of a single official fiat currency, such as the euro, and are intended to function similarly to electronic money.[72] EMT issuers are under a regulatory framework that is similar to traditional electronic money institutions and payment regulation.[73] Despite these distinctions, the umbrella term of "stablecoin" is still used because both ARTs and EMTs share the defining characteristic of price stability.[74]

65. European Securities and Markets Authority (ESMA), *Markets in Crypto-Assets Regulation (MiCA)* (Apr. 1, 2026), https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica [https://perma.cc/VU63-LUSK].

66. David Krause, *A Comparative Analysis of Stablecoin Interest Prohibition Under MiCA and the GENIUS Act* (Feb. 12, 2026), http://dx.doi.org/10.2139/ssrn.6225858.

67. *Id.*

68. Ilja Nikiforov, *Electronic Money Token (EMT) Under MiCA*, EESTI FIRMA (Mar. 17, 2026) https://www.eestifirma.ee/en/electronic-money-token-emt-under-mica/ [https://perma.cc/2UQ9-AM6S].

69. *Id.*

70. Regulation (EU) 2023/1114 of the European Parliament and of the Council (Markets in Crypto-Assets Regulation), art. 3(1)(6), 2023 O.J. (L 150) 40; Eco Support, *MiCA EMTs vs ARTs Explained*, https://eco.com/support/en/articles/14796307-mica-emts-vs-arts-explained [https://perma.cc/HNM4-DRYN].

71. Nikiforov, *supra* note 60.

72. *Id.*

73. *Id.*

74. *See id.*

One part of the regulation introduces a categorical ban on yield-bearing stablecoins.[75] Article 22(4) of MiCA prohibits crypto-asset issuers from providing interest or benefits related to the time that the asset is held.[76] The underlying policy rationale is to prevent stablecoins and other cryptocurrencies from competing with traditional bank savings functions, such as money market funds or bank deposits.[77] This policy concern is precautionary and based on the Great Recession and European sovereign debt crisis.

The drafters of MiCA had three main concerns regarding stablecoin issuers that are also relevant in the U.S. as well.[78] First, a deposit substitution risk exists where yield-bearing stablecoins could potentially encourage businesses or individuals to pull funds from bank deposits and significantly affect bank funding.[79] Similarly, widespread stablecoin adoption could potentially reduce the European Central Bank's ability to influence rates and control monetary policy.[80] Lastly, stablecoins do not have deposit insurance, which increases the risk of runs. When a stablecoin issuer is faced with a run, it will liquidate the reserve assets, which are primarily Treasuries, to satisfy the redemption demands.[81] If multiple issuers are liquidating treasuries simultaneously, a "fire sale" effect could occur, driving down the price of Treasuries and disrupting financial markets.[82] The run risk, deposit insurance, limit for government regulation of monetary policy, and "fire sale" effect are present in both the U.S. and the EU, demonstrating the need for stronger U.S. legislation to mitigate these risks.

VII. CRYPTOCURRENCY LOBBYING AND REGULATORY DECISIONS

The federal government has entered a period of increasingly favorable regulatory decisions and approvals that are facilitating the expansion of cryptocurrency and stablecoins. At the same time, the industry has engaged in significant lobbying and political participation efforts. Cryptocurrency companies contributed approximately $120 million in federal election spending, which equated to nearly half of all corporate political contributions.[83] Some individual industry participants have also made notable personal donations; for example, the co-

75. David Krause, *A Comparative Analysis of Stablecoin Interest Prohibition Under MiCA and the GENIUS Act* (Feb. 12, 2026), http://dx.doi.org/10.2139/ssrn.6225858.

76. *Id.*

77. David Krause, *Stablecoin Interest at a Crossroads: MiCA's Prohibition and the US Regulatory Maze*, OXFORD BUSINESS LAW BLOG at 3 (Mar. 4, 2026), https://blogs.law.ox.ac.uk/oblb/blog-post/2026/03/stablecoin-interest-crossroads-micas-prohibition-and-us-regulatory-maze [https://perma.cc/5YZ5-VCGQ].

78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.*

83. Robert C. Pozen, *Crypto's 'Shadow Banks' Don't Want to Play by the Rules—Setting the Stage for a Major Crisis*, MARKETWATCH (Mar. 21, 2026), https://www.morningstar.com/news/marketwatch/20260321162/cryptos-shadow-banks-dont-want-to-play-by-the-rules-setting-the-stage-for-a-major-crisis [https://perma.cc/CP6Q-GPG3]; *see Public Citizen Renews Call for Investigations Into Crypto Corruption*, PUBLIC CITIZEN (May 7, 2025), https://www.citizen.org/news/public-citizen-renews-call-for-investigations-into-crypto-corruption/ [https://perma.cc/CLH2-GQTF].

founder of Kraken, a cryptocurrency exchange platform, contributed nearly $1 million.[84] Overall, these developments highlight the increasing visibility and political engagement of the cryptocurrency industry alongside a period of evolving federal regulatory attention to digital assets.

A. Fedwire Access

Shortly after these lobbying efforts, Kraken set its sights on entering the Federal Reserve's payment infrastructure.[85] In March 2026, Kraken became the first crypto firm ever to be approved for a Federal Reserve master account.[86] With this account, Kraken can use Fedwire, which is the Federal Reserve's real-time gross settlement ("RTGS") system that enables banks to transfer funds instantly and settle transactions on a one-to-one basis.[87] Kraken can also hold limited balances overnight.[88] These new features enable Kraken to bypass traditional banking intermediaries and move money more quickly and at lower cost.

Access to Fedwire has traditionally been limited to traditional banks because they are trusted members of the U.S. financial system and are subject to strict regulations.[89] This has prompted concern by many about the risks related to a lightly regulated crypto firm providing bank-like services without FDIC insurance or sufficient regulation.[90] A spokesperson from Kraken clarified how much leeway the company has been afforded, and within the Fed, Kraken cannot earn interest on any reserve balances or access emergency Fed lending.[91] While this reduces some avenues of risk in shadow banking, the spokesperson declined to comment on whether Kraken can receive Fed credit. Under Federal Reserve rules, only depository institutions are eligible to receive master accounts.[92] Although Kraken and Anchorage hold depository charters, they still do not have federal deposit insurance.[93] Meanwhile, Wise, Ripple, and several other cryptocurrency firms are pursuing similar charters.[94]

84. Pozen, *supra* note 75.

85. *Kraken Becomes First Digital Asset Bank to Receive a Federal Reserve Master Account*, KRAKEN BLOG (Mar. 4, 2026), https://blog.kraken.com/news/federal-reserve-master-account [https://perma.cc/9HGJ-WZ4K].

86. *Id.*

87. *Fedwire Funds Services*, BD. OF GOVERNORS OF THE FED. RSRV. SYS. (June 25, 2024), https://www.federalreserve.gov/paymentsystems/fedfunds_about.htm [https://perma.cc/5A4P-FGNT]; Pozen, *supra* note 75.

88. *Crypto Giant Kraken's Fed Payment Account Sparks Concerns About Risks*, REUTERS (Apr. 10, 2026), https://www.reuters.com/legal/transactional/crypto-giant-krakens-fed-payment-account-sparks-concerns-about-risks-2026-04-10/ [https://perma.cc/NH3Z-H8SW].

89. Pozen, *supra* note 75.

90. *Crypto Giant Kraken's Fed Payment Account Sparks Concerns About Risks*, *supra* note 80.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.*

B. National Trust Charter Approval

With stablecoins offering efficiency and low-cost transactions, their prominence has prompted crypto firms to seek formal recognition within the banking system.[95] Most notably, multiple crypto firms have sought approval from the Office of the Comptroller of the Currency ("OCC") for a National Trust Charter.[96] This approval would allow the firms to integrate their digital assets into federally regulated financial infrastructure. In April 2026, Coinbase, a leading cryptocurrency exchange platform, received conditional approval.[97] With an approved charter, cryptocurrency firms will possess a form of a federal banking license that allows the company to operate as a national trust bank.[98] The charter enables the firm to hold and manage assets on behalf of clients, provide fiduciary services such as managing trusts, estates, and retirement accounts, and offer certain financial products and settlement services.[99] Unlike traditional commercial banks, trust banks typically do not take retail deposits or make conventional loans.[100] Federal oversight under the OCC provides a new level of structure, which is especially important for crypto firms seeking to operate in a secure and compliant environment. For cryptocurrency and stablecoin issuers, a trust charter allows them to safely manage digital assets while meeting operational standards under laws such as the GENIUS Act. Yet with a national trust charter, crypto firms may not be subject to state banking regulation, and there is no requirement for a national trust charter to obtain FDIC insurance.[101] These developments in Fedwire access and national trust bank charters indicate that crypto firms becoming more integrated with the traditional banking system, which raises concerns about whether the line between banks and nonbanks is starting to blur.

VIII. ECONOMIC IMPLICATIONS

The negative economic implications of insufficiently regulated stablecoins are widespread. Stablecoin issuers are much more susceptible to runs than traditional banks. The President's Working Group on Financial Markets released a report along with recommendations on stablecoins, which primarily focused on runs and systemic risk.[102] Stablecoins can be redeemed instantaneously on the

95. *OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications*, OFF. OF THE COMPTROLLER OF THE CURRENCY (Dec. 12, 2025), https://occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html [https://perma.cc/HL9K-2HJT].

96. *Id.*

97. *Coinbase Gets Conditional US Approval for Trust Charter, Bloomberg News Reports*, REUTERS (Apr. 2, 2026), https://www.reuters.com/sustainability/boards-policy-regulation/coinbase-gets-conditional-us-approval-trust-charter-bloomberg-news-reports-2026-04-02/ [https://perma.cc/69NH-F292].

98. *Id.*

99. *See id.*

100. Bank Pol'y Inst., *What's in a Charter?* (Nov. 7, 2025), https://bpi.com/whats-in-a-charter/ [https://perma.cc/Q2HP-T9MW].

101. *Id.*

102. *President's Working Group on Financial Markets Releases Report and Recommendations on Stablecoins,* U.S. DEP'T OF THE TREASURY (Nov. 1, 2021), https://home.treasury.gov/news/press-releases/jy0454 [https://perma.cc/MY7J-HWB4].

blockchain, enabling rapid withdrawals during times of uncertainty. Traditional banks are constrained by limited banking hours and withdrawal limits, so bank runs tend to take hours or days, but a "digital bank run" can occur in minutes.[103] What further differentiates a stablecoin run from a traditional bank run is the lack of federal safety nets. Stablecoins do not have access to a lender of last resort, such as the Federal Reserve, and do not possess deposit insurance from the FDIC.[104] As a result, issuers may be forced to rapidly liquidate reserve assets to meet the demand for redemptions.

This risk was further demonstrated by the crash of TerraUSD.[105] In 2022, TerraUSD was the third-largest cryptocurrency platform, right next to Bitcoin and Ethereum.[106] However, it lost $50 billion and collapsed in less than three days.[107] The run was focused on blockchain-based borrowing and lending that offered high yields to stablecoin ("UST") depositors. On May 7, a few large investors started pulling their money out of UST.[108] Because blockchain transactions are public, other investors could watch these large transactions happening on-chain.[109] This distinguishes stablecoins from traditional banking since withdrawals are not instantly visible to other investors. The high visibility resulted in a rapid chain reaction. Once investors saw that others were selling, they followed suit to avoid significant losses.[110] This replicated a bank run but occurred much faster than in traditional finance systems. All investors are incentivized to watch for signs of collapse and exit immediately, and transactions are public, which spreads panic faster.[111] Ultimately, the crash of TerraUSD demonstrated just how fragile stablecoin issuers are due to their lack of a regulatory safety net.[112]

Stablecoins also have the potential to weaken the effectiveness of traditional monetary policy measures.[113] Because stablecoin issuers operate outside the traditional banking, many people may begin relying less on banks, especially for payments, and hold funds in stablecoins instead.[114] This would shift deposits

103. Ken Sweet & Stan Choe, *Bank Runs Used to Be Slow. The Digital Era Has Sped Things Up*, PBS NEWSHOUR (Mar. 15, 2023), https://www.pbs.org/newshour/economy/bank-runs-used-to-be-slow-the-digital-era-has-sped-things-up [https://perma.cc/KSR8-GS3V].

104. *President's Working Group on Financial Markets Releases Report and Recommendations on Stablecoins*, *supra* note 93.

105. *See generally* Jiageng Liu, Igor Makarov & Antoinette Schoar, *Anatomy of a Run: The Terra Luna Crash*, NAT'L BUREAU OF ECON. RSCH., Working Paper No. 31160 (Apr. 2023), https://ssrn.com/abstract=4426941 (discussing the collapse of TerraUSD).

106. *Id*. at 1.

107. *Id*. at 1.

108. *Id*. at 36.

109. *Id*. at 4.

110. *Id*. at 36.

111. *See generally id.*

112. *See id.*

113. Kyungmin Kim, Romina Ruprecht & Mary-Frances Styczynski, *Payment Stablecoins and Cross Border Payments: Benefits and Implications for Monetary Policy Implementation*, FEDS NOTES BD. OF GOVERNORS OF THE FED. RSRV. SYS. (Mar. 30, 2026), https://www.federalreserve.gov/econres/notes/feds-notes/payment-stablecoins-and-cross-border-payments-benefits-and-implications-for-monetary-policy-20260330.html [https://perma.cc/X5HT-7VGX].

114. *Id.*

away from banks and toward stablecoin issuers, which would, in turn, fund the backing for the stablecoin.[115] Under the GENIUS Act, backings must be high-quality, liquid reserves, such as short-term Treasuries or bank deposits. The Federal Reserve investigated the risks of stablecoins on the overall economy and found that certain backings for stablecoins result in fewer shifts in the financial system.[116] If stablecoins are backed by bank deposits, money will flow into banks and could change the amount banks hold in their reserves. If stablecoins are backed by Treasury bills, the demand for Treasuries would increase. This would cause Treasury yields to fall. This effect is particularly significant because Treasury rates influence the entire economy by impacting mortgage rates, borrowing costs, and other loans. The Federal Reserve, however, found that if stablecoins are backed by central bank reserves, the overall system would likely not change much.[117] The macroeconomic risks show a clear need for consistent regulation of stablecoin backings beyond what is required in the GENIUS Act to ensure that stablecoins do not shift the financial system in the U.S. too much or undermine monetary policy transmission.

IX. CONCLUSION

Stablecoins offer many advantages over traditional payment methods by improving the speed of transactions and reducing fees for businesses and small banks, but their growth raises familiar concerns. Due to their ability to function like banks, they present many of the same risks as past shadow banking systems.[118] The crash of TerraUSD demonstrated that stablecoin issuers are at higher risk of runs due to their unique level of transparency on the blockchain and the strong incentives for investors to sell early before losing their money.[119] Recent legislative efforts, such as the GENIUS Act, proposed Treasury rule, and the Clarity Act, are positive steps, but gaps in coverage and opportunities for regulatory arbitrage remain. If stablecoins continue to integrate into the financial system, regulation needs to be more comprehensive and uniform across the state and federal levels. As discussed by the Federal Reserve, it may be necessary to require certain stablecoin backings to avoid undermining banks or disrupting monetary policy.[120] Reserve requirements, audits, and financial safety nets would also significantly increase the reliability of stablecoin issuers. Despite these current gaps, stablecoins' ability to transform the banking industry and influence how money moves across the globe makes them one of the most promising financial innovations.

115. *Id.*
116. *Id.*
117. *Id.*
118. Krause, *supra* note 69.
119. *See generally* Liu, Makarov & Schoar, *supra* note 96 (discussing the collapse of TerraUSD).
120. Kim, Ruprecht, & Styczynski, *supra* note 104.