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Brief Remarks on Stablecoins

by

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Thank you for the opportunity to be part of this discussion.

Last year, Congress passed the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, which provides some needed clarity to issuers of stablecoins about how they can fit into the regulatory framework. While there is a lot of work to do by the relevant agencies to fill in the specifics during the rulemaking process, increased regulatory certainty could lead to more rapid development of stablecoins.

Today, stablecoins are mostly used to facilitate crypto-trading activities and, secondarily, as a dollar-denominated store of value in some foreign jurisdictions. Stablecoins might also be used to reduce the costs of remittances between some countries, to improve the speed of managing the paperwork and processes inherent in global trade and trade finance, or to help global firms manage their treasury functions. Other innovations in payments may also develop by using stablecoins, tokenized deposits, or other systems.

A key area of concern, however, is the potential for stablecoin use in money laundering or terrorist financing, since bad actors can purchase stablecoins in secondary markets that may not have customer identification requirements. Both regulatory and technological solutions will need to be deployed to limit these risks.

A second key area of concern is financial stability. While people purchasing something called a “stablecoin” might reasonably assume that they can rely on redemption at par on demand, the quality and liquidity of the reserve assets backing the stablecoins could make them vulnerable. Stablecoins will be stable only if they can be reliably and promptly redeemed at par in a wide range of conditions, including during

stress in the market that can put pressure on the value of otherwise liquid government debt and during episodes of strain on the individual issuer or its related entities.

Caution is warranted because we have a long and painful history of private money created with insufficient safeguards. For example, in the early 1800s, during the so-called Free Banking Era, the United States had competing forms of private money in the form of bank notes, which often traded below par. There were frequent bank runs and even financial panics. While improvements were made in the 1860s with the National Banking Acts, financial crises persisted. The particularly severe Panic of 1907, which featured a run on trust companies that offered deposit products backed by less liquid assets, led eventually to the creation of the Federal Reserve System in 1913.¹

These same run dynamics occurred in modern times with respect to money market funds, which came under pressure during both the Global Financial Crisis and the onset of the COVID-19 pandemic. Stablecoins themselves have been subject to valuation pressures in recent years.

The quality and liquidity of stablecoin reserve assets are critical to their long-run viability. At the same time, stablecoin issuers have an incentive to maximize the return on their reserve assets by extending the risk spectrum as far out as possible. That incentive can increase profits in good times but risks undermining confidence during market stress.

To address these vulnerabilities, Congress passed the bipartisan GENIUS Act. The act's primary tool to mitigate the risk of runs is limiting permissible reserve assets to

¹ See Michael S. Barr (2025), "Exploring the Possibilities and Risks of New Payment Technologies," speech delivered at 2025 D.C. Fintech Week, Washington, October 16, <https://www.federalreserve.gov/newsevents/speech/barr20251016a.htm>.

an itemized list of high-quality, highly liquid assets. Tight control over reserve assets, coupled with supervision, capital and liquidity requirements, and other measures, could enhance the stability of stablecoins and make them more viable payment instruments.

But success in accomplishing these goals will depend on the details of regulatory implementation. Key issues include regulation of reserve assets, the potential for regulatory arbitrage, the scope of permissible activities for stablecoin issuers beyond stablecoin issuance, appropriate capital and liquidity requirements, anti-money-laundering controls, and consumer protection requirements. While the GENIUS Act made important progress in creating a regulatory framework for stablecoins, a great deal will depend on how federal and state regulators implement the statute.

Thank you, and I look forward to the conversation.