



The Takeaway

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Understanding Stablecoins

Market Growth, Regulatory Challenges, and the GENIUS Act

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Stablecoins have grown from experimental crypto trading tools to critical payment infrastructure processing \$6.3 trillion annually.¹ Yet, as my coauthor and I explain in a recent paper, their explosive growth has outpaced legal frameworks designed to protect users, creating substantial policy challenges that demand immediate regulatory attention.²

STABLECOINS AS A SOLUTION TO CRYPTOCURRENCY VOLATILITY

Traditional cryptocurrencies, like Bitcoin, suffer from extreme price swings that make them impractical for commerce. Bitcoin averages 4-5% daily volatility compared to 0.5-1.0% variances for major government currencies.³ This instability stems from prices being driven primarily by speculation rather than by underlying economic value.

Stablecoins were designed to capture blockchain technology's benefits (fast settlement, low costs, and global accessibility) while maintaining price stability relative to a reference asset, typically the US dollar. The largest stablecoins, including Tether's USDT and Circle's USDC, aim to maintain a 1:1 peg with the dollar.⁴

As we explain, however, across multiple research papers, maintaining price stability requires sophisticated mechanisms that create different risk profiles and legal relationships between issuers and users.⁵ Under-



WHAT'S THE TAKEAWAY?

Stablecoins have evolved into critical payment infrastructure processing \$6.3 trillion annually.

Current legal protections for stablecoin users are inadequate, creating significant vulnerabilities.

The recently enacted GENIUS Act offers comprehensive regulation but risks unintended market consequences.

Effective regulation must balance innovation with consumer protection without distorting financial markets.

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standing these differences is crucial for effective regulation.

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THREE MODELS, THREE DIFFERENT RISK PROFILES

Reserve-backed stablecoins dominate the market and include USDT and USDC. Issuers promise to mint new coins for \$1 and redeem existing coins for \$1, maintaining large asset reserves to honor these commitments.⁶ Success depends entirely on market confidence that issuers have sufficient resources and will fulfill their promises. Tether's reserves have evolved from a diverse mix of assets to over 80% US Treasury securities, reflecting both regulatory pressure and the profitability of government debt in higher interest rate environments.⁷

Dual-coin systems attempt stability through a secondary token that absorbs volatility.⁸ When the main stablecoin drops below \$1, the system auctions secondary tokens to buy back and reduce supply of the primary coin. This mechanism's viability, however, depends on the secondary token maintaining value. When confidence collapses, both tokens can fail catastrophically, as demonstrated by TerraUSD's collapse in May 2022, which wiped out tens of billions in value almost overnight.⁹

Algorithmic stablecoins use automated supply adjustments to maintain price stability by increasing coin supply when prices rise and decreasing supply when prices fall.¹⁰ These systems have no asset backing and rely entirely on market confidence in the stabilization algorithm. Multiple projects using this approach have failed when users lost faith in the mechanism.

FROM TRADING TOOLS TO PAYMENT INFRASTRUCTURE

While over 60% of stablecoin supply still sits on centralized exchanges serving as a base currency for digital asset trading, use cases have expanded dramatically.¹¹ The most transformative development has been stablecoin's emergence for cross-border payments.¹²

In the twelve months prior to February 2025, stablecoins handled approximately \$6.3 trillion in payments, which was equivalent to 15% of global retail cross-border payments.¹³ The value proposition is compelling: stablecoin transfers cost is 0.5-3.0% compared to traditional remittance fees averaging 6.35%, while settling in minutes rather than days across all time zones.¹⁴

This transformation has been particularly pronounced in emerging markets where banking access is limited or expensive. The TRON network processes over half of all peer-to-peer stablecoin transfers, consisting largely of remittances into Latin America, West Africa, and Southeast Asia.¹⁵ In these regions, stablecoins serve not only as a payment medium but also as a hedge against depreciation in the local currency.

Institutional adoption is accelerating rapidly. JPMorgan's JPM Coin supports euro-denominated corporate payments for clients like Siemens.¹⁶ Major banks including Bank of America, Wells Fargo, and Japan's three largest banks are piloting stablecoin initiatives.¹⁷ Retail payment adoption is emerging through services like PayPal's PYUSD.¹⁸

CRITICAL LEGAL VULNERABILITIES EXPOSE USER RISKS

Despite their growing importance, stablecoins operate with many inadequate legal protections that leave users vulnerable to significant losses. In our recent paper, we conduct an analysis of major stablecoin arrangements and, in doing so, reveal several critical weaknesses.¹⁹

Tenuous legal relationships mean many stablecoin holders (particularly those acquiring coins in secondary markets) have no direct contractual relationship with the issuer of the stablecoin itself. This leaves them without clear legal recourse when problems arise, which is of particular concern given that most stablecoin activity occurs through intermediaries rather than through direct relationships with issuers.

Uncertain redemption rights create immediate risk. While stablecoin issuers typically promise redemption on a 1:1 basis with a fiat currency, these commitments are often hedged with exceptions, high minimum transaction amounts, and substantial fees. Some issuers retain broad discretion to suspend redemptions, as occurred during various market stress events.

Unclear property rights in reserve assets mean stablecoin holders typically have no direct claim to funds/assets supposedly backing their stablecoins. Thus, if a stablecoin issuer becomes insolvent, holders may rank as unsecured creditors competing with all other claims against the company, despite their stablecoins being marketed as backed by specific reserve assets.

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THE GENIUS ACT: COMPREHENSIVE REFORM WITH UNINTENDED CONSEQUENCES

The US GENIUS Act (passed by Congress and signed into law in July 2025, referred to herein as the “Act”) represents the most comprehensive attempt to address stablecoin vulnerabilities through federal legislation.²⁰ The Act creates a unified regulatory framework for “payment stablecoins” defined as: digital assets designed to maintain stable value and be readily redeemable for fiat currency.

Many stablecoin holders have no direct contractual relationship with the issuer of the stablecoin itself.

The legislation tackles user protection through several mechanisms. It defines payment stablecoins in terms of issuer obligations, creating statutory rights that run with coin ownership regardless of contractual relationships. This addresses the problem of secondary market holders lacking direct legal connections to stablecoin issuers.

For redemption rights, the Act requires issuers to establish “clear and conspicuous procedures for timely redemption” with disclosed fees and advance notice for changes. Critically, it removes an issuer’s unilateral ability to suspend redemptions, though designated regulators may elaborate on permissible limitations.

Most significantly, the Act directly amends the Bankruptcy Code to create unprecedented protections for stablecoin holders. It requires the segregation of reserves from the assets of reserve custodians, it excludes reserves from bankruptcy estates entirely, and it grants stablecoin holders super-priority over all other claims (even administrative expenses necessary to operate the bankruptcy proceeding itself).

IMPLEMENTATION CHALLENGES AND POLICY IMPLICATIONS

In our paper, however, we note that the GENIUS Act’s ambitious scope creates significant implementation challenges. The legislation delegates broad rulemaking

authority to federal and state agencies, but we observe that coordination between multiple regulators could prove difficult. Also, the Act’s definition of payment stablecoins may not clearly address whether obligations run in favor of stablecoin owners or those who merely control the stablecoin at issue. This distinction could prove crucial in practice, such as, for example, instances where there is a hack and stablecoins are stolen.

More fundamentally, we find that the Act’s focus on reserve-backed stablecoins may inadequately address decentralized projects like MakerDAO’s DAI, where traditional issuer-holder relationships do not exist.²¹ These protocols operate through smart contracts with distributed governance, making conventional regulatory approaches difficult to apply.

Lastly, the legislation intersects with broader debates about digital asset classification, cross-border regulatory coordination, and the appropriate role of private digital currencies in the monetary system. As stablecoin issuers have become significant holders of US Treasury securities (collectively holding over \$120 billion²²) their operations increasingly affect government debt markets.

THE POLICY IMPERATIVE

Stablecoins have evolved into critical financial infrastructure supporting cross-border payments, decentralized finance, and emerging retail applications. Their \$250 billion market represents more than experimental technology—it constitutes a growing part of the plumbing for an increasingly digital economy.

While the GENIUS Act represents significant progress toward comprehensive regulation, its aggressive provisions could create unintended consequences for bankruptcy law and competitive balance in financial services.

Policymakers face the challenge of fostering innovation while ensuring adequate consumer protection and systemic stability. This requires carefully calibrated regulation that addresses stablecoins’ unique characteristics without stifling beneficial innovation or creating preferential treatment that distorts broader financial markets. The stakes are high: getting stablecoin regula-

tion right will help determine whether these digital assets become stable, trusted infrastructure or else sources of systemic risk in an increasingly interconnected global economy.

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Notes:

¹ Bruce, K. J., Odinet, C. K., & Tosato, A. (2022). The private law of stablecoins. *Arizona State Law Journal*, 54, 1106–1107. <https://doi.org/10.2139/ssrn.4191646>.

² Odinet, C. K., & Tosato, A. (forthcoming 2026). Regulating stablecoins: Comparing Micar and the Genius Act. *Notre Dame Law Review Reflection*, 101, 1–19. <https://doi.org/10.2139/ssrn.5383158>.

³ Odinet & Tosato (forthcoming 2026).

⁴ Odinet & Tosato (forthcoming 2026), pgs. 3–4.

⁵ Odinet & Tosato (forthcoming 2026), p. 4; Bruce et al. (2022), pgs. 1073–1074.

⁶ Odinet & Tosato (forthcoming 2026), p. 4; Bruce et al. (2022), pgs. 1093–1094.

⁷ Wolf, N. (2025, July 12). Stablecoins are on the rise. bond investors should pay attention. *Barrons*. <https://www.barrons.com/articles/stablecoins-risk-treasury-yields-demand-109f49bf>; Bradley Peak, (2025, July 2). Tether Made \$5.2B in 2024: Here's How Stablecoins Make Money. *Cointelegraph*. <https://cointelegraph.com/explained/tether-made-52b-in-2024-heres-how-stablecoins-make-money>.

⁸ Odinet & Tosato (forthcoming 2026), p. 4.

⁹ Bruce et al. (2022), p. 1077.

¹⁰ Odinet & Tosato (forthcoming 2026), p. 4.

¹¹ Odinet & Tosato (forthcoming 2026), p. 4.

¹² Bruce et al. (2022), pgs. 1106–1107; RebelFi (2025, July 2). Cross-Border Payments Are Broken: How DeFi Infrastructure Can Fix Banking's \$150B Problem. *RebelFi*. <https://medium.com/@rebelFi/cross-border-payments-are-broken-how-defi-infrastructure-can-fix-bankings-150b-problem-3356e949fe09>; Ingham, L., Tyndall, C., Lawal, A., & Webber, D. (2025, September 5). The state of stablecoins in cross-border payments: 2025 Primer. *FXC Intelligence*. [https://www.fxcintel.com/research/reports/ct-state-of-stablecoins-](https://www.fxcintel.com/research/reports/ct-state-of-stablecoins-cross-border-payments-2025)

[cross-border-payments-2025](https://www.fxcintel.com/research/reports/ct-state-of-stablecoins-cross-border-payments-2025).

¹³ Bruce et al. (2022), pgs. 1106–1107; RebelFi (2025, July 2); Ingham et al. (2025, September 5).

¹⁴ Bruce et al. (2022), p. 1105–1106; CRYPTOPRO (accessed 2025, September 6). The Complete Guide to Coinbase Fees. CRYPTOPRO. <https://cryptopro.app/coinbase-fees-guide/> [<https://perma.cc/RV4C-PWPF>].

¹⁵ Nessi, L. (2025, August 28). Tron Didn't Replace Ethereum—But It Took \$80B in USDT and Dominates Stablecoin Payments. *CCN*. <https://www.ccn.com/education/crypto/tron-vs-ethereum-usdt-dominance-explained/>.

¹⁶ Sigalos, M., & Smith, J. (2025, June 28). Stablecoins go mainstream: Why banks and credit card firms are issuing their own crypto tokens. *CNBC*. <https://www.cnbc.com/2025/06/28/stablecoin-visa-mastercard-circle-jpmorgan.html>.

¹⁷ Sigalos & Smith (2025, June 28); Mazza, R., & Kallakuri, L. (2025, May 26). Big Banks consider joint stablecoin to counter growing crypto competition - fintech weekly. *FinTech Magazine Article*. <https://www.fintechweekly.com/magazine/articles/big-banks-consider-joint-stablecoin-crypto-competition>; Ledger Insights. (2024, September 5). Japan's big 3 banks to use stablecoins, swift for cross border payments. *Ledger Insights - blockchain for enterprise*. <https://www.ledgerinsights.com/japans-big-3-banks-to-use-stablecoins-swift-for-cross-border-payments/>.

¹⁸ Paypal (last visited 2025, September 9). Built for stable payments. *Paypal*. <https://www.paypal.com/us/digital-wallet/manage-money/crypto/pyusd>; Stripe (accessed 2025, September 6). Stablecoin Financial Accounts. *Stripe*. <https://docs.stripe.com/crypto/stablecoin-financial-accounts>.

¹⁹ Odinet & Tosato (forthcoming 2026), pgs. 6–11.

²⁰ Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025, S. 1582, 119th Cong. (enacted July 18, 2025) (“GENIUS Act”).

²¹ Odinet & Tosato (forthcoming 2026), pgs. 6–11.

²² Wolf, N. (2025, July 12). Stablecoins are on the rise. bond investors should pay attention. *Barrons*. <https://www.barrons.com/articles/stablecoins-risk-treasury-yields-demand-109f49bf>; Bradley Peak, (2025, July 2). Tether Made \$5.2B in 2024: Here's How Stablecoins Make Money. *Cointelegraph*. <https://cointelegraph.com/explained/tether-made-52b-in-2024-heres-how-stablecoins-make-money>.

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