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The OCC and GENIUS Act Reopens the Battle for Digital Money Economics

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18 November 2026

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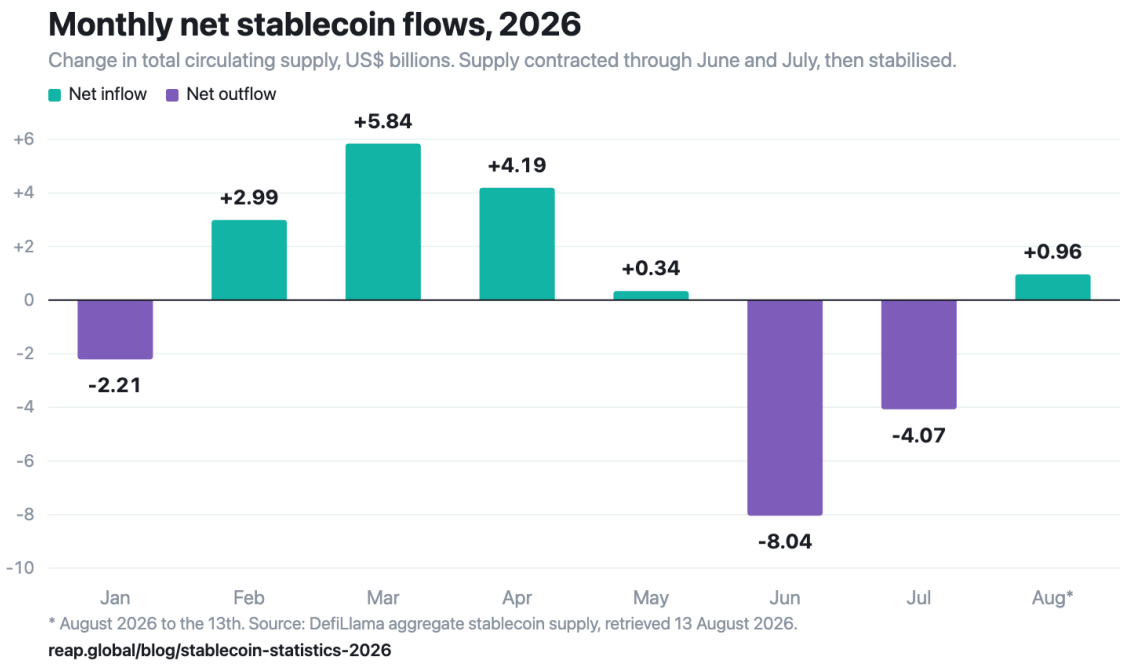
The OCC and GENIUS Act Reopens the Battle for Digital Money Economics

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Executive Summary

- The OCC's final GENIUS Act rule reshapes the economics of digital money, retaining the prohibition on payment stablecoin issuers paying holders yield while allowing greater scope for third-party rewards, subject to scrutiny for potential circumvention.
- The GENIUS Act preserves two distinct models. Stablecoins derive their economics from reserve assets and distribution, while tokenised deposits remain bank liabilities that can combine digital payment functionality with interest-bearing balances.
- Stablecoins retain a structural distribution advantage through open blockchain networks, hosted and self-custody wallets, existing liquidity, exchange integrations and network effects.
- However, their use remains concentrated in crypto trading, with practical payment adoption still developing.
- Tokenised deposits offer banks a potential yield advantage, particularly in corporate treasury and wholesale payments.
- Project Agora demonstrate the potential for programmable, atomic cross-border settlement using tokenised commercial bank money.
- The competition will ultimately depend on infrastructure, not regulation alone. Banks must overcome interoperability challenges and build accessible networks, while stablecoin issuers must translate existing distribution and liquidity into wider payment utility.

Key Picture: Stablecoin Flows



Source: Reap

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1. OCC and the New Economics of Digital Money

Written text here The key question raised by the OCC's final rules implementing the GENIUS Act is no longer simply whether digital money can generate a return, rather which participants in the digital money ecosystem can capture the return. This distinction matters because the GENIUS Act establishes different treatment for payment stablecoins and bank deposits, including deposits recorded on distributed ledgers.

The final rule retains the statutory prohibition on permitted payment stablecoin issuers paying holders interest on yield, whether in cash, tokens or other consideration, solely related to holding, using or retaining their stablecoins. However, it removes a proposed rebuttable presumption that certain transactions involving affiliates and related third parties violated this prohibition. The OCC considered that approach potentially overinclusive and underinclusive, and instead stated that arrangements would be assessed individually on their facts and circumstances. It also retained its authority to address attempts to evade the prohibition. Consequently, third party rewards are not automatically prohibited, but neither do they enjoy a regulatory safe harbour.[1]

This distinction could reshape the commercial incentives across the stablecoin ecosystem. Issuers can generate income from eligible reserve assets, but cannot directly pass that income to holders as yield. Exchanges, wallet providers and other distribution platforms may have greater scope to compete for customers through rewards and other commercial arrangements, provided these do not circumvent the issuer-level restriction.

Meanwhile, banks retain a distinct advantage. The GENIUS Act explicitly excludes deposits, including those recorded using DLT, from its definition of payment stablecoins. The OCC has therefore confirmed that the Act's yield prohibition does not prevent banks from paying interest on tokenised deposits, subject to applicable banking regulations.[2]

2. The Tokenised Deposit Exclusion

Perhaps the most consequential distinction in the OCC's final GENIUS Act framework is between payment stablecoins and tokenised deposits. The Act defines a payment stablecoin as a digital asset designed for payment and settlement, whose issuer is obligated to redeem it for a fixed amount of monetary value and represents that it will maintain a stable value. Crucially, the definition expressly excludes deposits, including those recorded using DLT.[3] This means that tokenised deposits fall outside the Act's payment stablecoin category, even when they perform payment functions on blockchain networks. They remain bank deposit liabilities rather than separately issued payment stablecoins. The OCC explicitly confirms that the Act's yield prohibition does not extend to interest paid on tokenised deposits.

This leads to an important commercial distinction. Stablecoin issuers cannot pay holders interest on yield solely for holding, using or retaining their coins. Banks, however, can pay interest on tokenised deposits, subject to applicable banking regulation. Deposit-insurance eligibility also depends on the underlying deposit and applicable FDIC requirements as tokenisation alone does not guarantee coverage.[4]

In this context, tokenised deposits can combine the characteristics of a bank deposit with digital payment and interest-bearing functions, meanwhile, stablecoins retain their own advantages in public-blockchain accessibility and distribution. Hence, the distinction can give banks a competitive advantage. The GENIUS Act preserves a regulatory pathway for banks to compete in digital payments with an interest-bearing product that payment stablecoin issuers cannot replicate. Moreover, banks' ability to translate this advantage into adoption depends on interoperability, payment utility, and scaling.

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3. Two Economic Models Emerge

The OCC's final rule preserves two distinct economic models for digital money i.e., payment stablecoins built around reserve economics and distribution and tokenised deposits built around balance sheets and the economics of bank deposits.

In the first model, stablecoin issuers maintain reserves backing outstanding coins and may earn income from eligible reserve assets and permitted services. However, they cannot pay holders yield solely for holding, using or retaining their stablecoins. Exchanges, wallets and payment platforms may compete for users through third-party commercial arrangements, although structures that circumvent the issuer-level prohibition remain subject to OCC scrutiny.[5] In the second model, tokenised deposits remain liabilities of the issuing banks, recorded and transferred using DLT. Banks can potentially combine digital payment functions with interest-bearing deposits while their economics are derived from deposit funding, lending and other banking services, including the net interest margin between asset returns and deposit costs.[6]

These two models are not necessarily substitutes. Stablecoins may appeal where public-chain accessibility, programmability and cross-border distribution are priorities. Tokenised deposits may appeal where customers value bank-mediated payments, integration with existing accounts and interest-bearing balances.[7] [8] Here, it is crucial to note that the OCC framework does not suggest a prevailing model, rather it only preserves different routes to monetising digital money.

4. Stablecoins' Structural Advantage

Even without direct issuer-paid yield, stablecoins retain a structural distribution advantage. Unlike tokenised deposits, which require the involvement of deposit-taking institutions and links to settlement accounts, stablecoins can circulate on open blockchain networks. They can be accessed through hosted wallets or, in principle, self-custody wallets, without necessarily requiring users to maintain a bank deposit account. This creates potential reach beyond traditional banking relationships, although regulated exchanges and on- and off-ramps remain subject to applicable compliance requirements.[9] Moreover, established dollar stablecoins also benefit from accumulated liquidity, exchange integrations and existing adoption. Network effects reinforce this position – wider acceptance and integration make a payment instrument more useful to additional users and counterparties. However, stablecoin infrastructure remains fragmented across blockchains, and liquidity and acceptance are not uniform across issuers or networks.[10]

Programmability adds another advantage. Stablecoins can interact with smart contracts to automate transactions, support conditional payments and facilitate atomic settlement. These capabilities create potential applications in DeFi, digital-asset settlement, treasury operations and cross-border transfers. However, their practical use as payment instruments remains less developed than their role in crypto trading and transfers.[11] [12]

Distribution incentives could provide another competitive channel. Although issuers cannot pay holders yield solely for holding, using or retaining their stablecoins, third-party platforms may explore commercial rewards and other incentives. The OCC has removed its proposed rebuttable presumption concerning certain affiliate and third-party arrangements, but declined to establish a general safe harbour for independently provided customer rewards. Arrangements remain subject to scrutiny based on their economic substance and potential to circumvent the statutory prohibition.[13]

5. Banks' Yield Advantage

Tokenised deposits could become banks' strongest strategic response to stablecoins. But their advantage depends on execution rather than the ability to pay interest alone. The GENIUS Act excludes deposits, including those recorded using DLT, from its definition of payment stablecoins and consequently, its issuer-level yield prohibition does not extend to interest paid on tokenised deposits. This gives banks a potential product

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advantage i.e., a digital representation of a bank deposit that can support programmable payments while retaining the characteristics of an interest-bearing bank liability.[14]

A tokenised deposit remains a claim on the issuing bank, with payments represented as transfers between deposit balances. In a properly designed system, this can combine programmable transaction functions with the existing two-tier monetary system, in which interbank settlement takes place using central bank money. The FDIC has also proposed clarifying that deposit-insurance treatment does not depend on the technology or recordkeeping used to represent a bank's deposit liabilities.[15] [16] However, insurance eligibility remains subject to the ordinary statutory requirements and tokenisation does not independently confer coverage.

The potential advantage is particularly relevant to corporate treasury and wholesale payments. Banks could develop tokenised deposit systems supporting programmable transfers, conditional payments, internal liquidity management and settlement across participating institutions. Project Agora has demonstrated the feasibility of using tokenised commercial bank money for atomic cross-border wholesale payments, although this remains an experimental model and therefore should not be interpreted as evidence of widespread commercial deployment.[17] [18]

The BIS has noted that existing tokenised deposit arrangements are typically confined to permissioned platforms, with no established multi-bank or cross-border ecosystem operating through a fully interoperable framework. Without common standards, participating institutions and clear settlement arrangements, banks risk creating isolated networks that limit the usefulness of their digital deposits. Hence, the principal obstacle is interoperability.[19] Furthermore, paying interest can attract deposits and strengthen customer relationships, but it increases funding costs. A bank's net interest margin depends on the relationship between income earned on assets and interest paid on funding. If deposit costs rise without a corresponding increase in asset returns, profitability can come under pressure.[20] Hence, banks must also maintain appropriate capital, liquidity, cybersecurity and operational risk controls.

Ultimately, banks have a potential yield advantage, but stablecoins retain a distribution advantage. Tokenised deposits could bring interest-bearing bank money onto programmable payment infrastructure, but their competitiveness will still depend on interoperability, accessibility and adoption, not just regulatory classification alone.

6. The Unresolved Boundary – Who Captures the Economics of Digital Money?

The OCC's final rule removes the proposed rebuttable presumption that certain affiliate and third-party arrangements would violate the stablecoin yield prohibition. It does not create a general safe harbour, de minimis exemption or grandfathering for existing rewards programmes. The OCC will assess arrangements under the statutory language and the facts and circumstances of each case.[21]

The prohibition on permitted payment stablecoins remains unchanged and the OCC declined to define key terms, including "interest" and "yield", and emphasised that interest does not cease to be interest simply because it is given another name. Payments made through an agent on an issuer's behalf may still be prohibited. By contrast, payments for bona fide services would generally not be prohibited, absent additional facts suggesting otherwise, no explicit safe harbour applies. This leaves issuers and distributors room to develop customer incentives, but no assurance that third-party arrangements will escape scrutiny. The OCC retains anti-evasion authority and does not presume pre-existing rewards programmes comply. The implication extends to competition with tokenised bank deposits. The GENIUS Act excludes deposits recorded using DLT from its definition of payment stablecoins. The OCC confirms that the yield prohibition does not prevent interest being paid on deposits, including tokenised deposits, subject to other applicable banking requirements.[22] [23]

It is crucial to note that the models have different infrastructure requirements. Stablecoins can circulate on open networks and are accessible through hosted wallets and, in principle, self-custody wallets. Tokenised deposits

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require coordinated participation by deposit-taking institutions and links to settlement accounts. The BIS argues that interoperability allows network effects to compound, while fragmented platforms can trap liquidity and require costly intermediation. It also finds that stablecoin activity remains concentrated in crypto trading and that cross-border payment performance is uneven once fees, spreads and conversion costs are included.[24]

Neither model has a guaranteed advantage. Stablecoin issuers must turn accessibility into practical payment use i.e, banks must make tokenised deposits interoperable and usable. Thus, the competition is over who builds the networks through which digital money circulates and captures the value they generate.

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