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Since 1897

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Hon. Ted Budd
U.S. Senate
354 Russell Senate Office Building
Washington, DC 20510

Hon. Thom Tillis
U.S. Senate
113 Dirksen Senate Office Building
Washington, DC 20510

Re: Market Structure Legislation

Dear Senators Budd and Tillis:

On Thursday, the U.S. Senate Committee on Agriculture, Nutrition & Forestry voted to advance the Digital Commodities Consumer Protection Act (DCCPA). On behalf of the North Carolina Bankers Association (NCBA), which represents banks operating across our state and their approximately 100,000 employees, we write to reiterate our concern that any market-structure legislation must close the loophole in federal law that some crypto exchanges are using to pay yield-like rewards.

Section 4(a)(11) of the GENIUS Act (S.1582 / Public Law 119-27) clearly prohibits payment stablecoin issuers from offering “any form of interest or yield” in connection with the holding, use, or retention of payment stablecoins. Despite this unambiguous restriction, certain issuers and exchanges have created arrangements that, in our view, circumvent – and in some cases may violate – the statute.

A primary concern for the banking industry is the growing pattern in which stablecoin issuers avoid the GENIUS Act’s yield ban by directing income from invested reserves to exchanges and wallet providers. Those platforms then use that revenue to pay “rewards” to stablecoin users. A tool intended strictly for payments is being recast by intermediaries into a yield-bearing product, diverting deposits away from the banking system – deposits that would otherwise support loans to families and businesses in our communities.

To illustrate, Coinbase holds an equity stake in Circle, the issuer of USD Coin (USDC), and participates in a 50:50 revenue-sharing model for interest earned on USDC reserves, plus 100% of interest for USDC held on Coinbase’s platform. If Coinbase is deemed the “holder” of USDC in hosted wallets, then Circle is effectively paying Coinbase interest-like distributions solely because Coinbase holds USDC – an arrangement that appears inconsistent with the GENIUS Act’s prohibitions.

Coinbase’s Q3 2025 earnings report underscores this issue. The company states that it “holds” USDC as a financial instrument and notes that USDC reserves consist of cash, short-duration U.S. Treasuries, and overnight Treasury repo agreements maintained for the benefit of USDC holders. In that quarter alone, Coinbase generated $354 million in stablecoin revenue, primarily from interest earned on USDC reserves – creating a powerful incentive to increase the volume of USDC on its platform. These flows function, in effect, as interest-sharing.

Even if one assumes instead that individual wallet users – not Coinbase – are the "holders," the implications remain troubling. Coinbase currently offers a 3.5% APY in USDC rewards to "Coinbase One" subscribers through a paid membership program. Given the issuer-exchange revenue-sharing structure, the economic source of these rewards is not hard to determine. The more dollars converted into stablecoins, the more reserve income the issuer earns – and the more revenue an exchange can receive as an inducement to promote additional stablecoin adoption. Whether this violates the GENIUS Act or merely exploits a loophole, it is a practice Congress should address.

This is not simply a dispute between banks and crypto firms, nor is it a question of resisting innovation. Congress should consider the systemic implications when a payment stablecoin begins to resemble a deposit that yields interest. Community banks currently hold roughly $4.8 trillion in deposits, which support about $4 trillion in lending. An analysis by the Independent Community Bankers of America (ICBA) suggests that permitting exchanges to pay yield or rewards on stablecoin balances could reduce community bank deposits by $1.3 trillion. The American Bankers Association (ABA), citing Treasury Department estimates, warns that as much as $6.6 trillion in total deposits could be at risk.

Because deposits are the foundation of lending, a large outflow into yield-bearing stablecoins would reduce credit availability – precisely when communities and the broader economy may need it most. Innovation is healthy, but lax oversight and non-enforcement of statutory restrictions create risks Congress never intended.

The GENIUS Act focused on "payment" stablecoins for a reason. Stablecoins may be used to make purchases, power automated smart-contract payments, or facilitate cross-border corporate settlement. The Act also strengthened demand for U.S. Treasuries through issuer reserve requirements. None of these policy objectives presupposed or permitted interest-bearing features.

If Congress moves to close the existing loophole – as we strongly urge – it will be important to ensure that new restrictions cannot be easily circumvented. For example, even if interest on wallet balances is prohibited, an exchange could attempt to pay "rewards" tied to transaction activity that are, in substance, a proxy for yield. Careful drafting is essential to prevent continued workarounds.

We respectfully encourage the Senate to continue its careful, bipartisan work on digital asset market structure. Any final legislation establishing oversight roles for the CFTC, SEC, and state regulators should clearly and unambiguously close the stablecoin-rewards loophole.

We appreciate your leadership and your thoughtful engagement on these complex issues. Please let us know if we can provide additional information.

Thank you.

Sincerely,

Peter K. Gwaltney
President & CEO

Nathan R. Batts
SVP, Counsel & Director of Government Relations