MONEY AND SOVEREIGNTY

*Lindsay Sain Jones**

The United States' level of monetary sovereignty (i.e., control over its currency) is unparalleled. This extraordinary level of monetary sovereignty enables the United States to exercise self-determination and effectively implement monetary and fiscal policies. To maintain monetary sovereignty, the United States not only exercises control over public money (i.e., money issued by the government), but also regulates private money (i.e., money created by private institutions). For example, for money created by banks, the United States has exercised its monetary sovereignty through bank regulation and Federal Reserve policies.

In recent years, stablecoins (i.e., cryptocurrencies whose prices are pegged to a reference asset) have emerged as a new form of private money that can be used as a medium of exchange for domestic and cross-border transactions.[1] With increasing political backing, stablecoins are well-positioned to become "mainstream."[2] One problem with this is that stablecoins could threaten the monetary sovereignty of the United States by competing with U.S. dollars, functioning as unregulated deposits, and allowing users to bypass controls that restrict the use of dollars. While recently passed legislation addresses some of these concerns, this Article contends that additional policy measures are needed to adequately address these specific threats to monetary sovereignty.

---

* Assistant Professor of Legal Studies, Terry College of Business, University of Georgia; Courtesy Appointment, School of Law, University of Georgia. This Article benefited from feedback from attendees of the 2025 Wharton Financial Regulations Conference and the Women in Law & Finance Conference hosted by the Wharton Initiative on Financial Policy and Regulation and the University of Pennsylvania's Institute for Law & Economics.

1. *See* Lambis Dionysopoulos & Andrew Urquhart, *10 Years of Stablecoins: Their Impact, What We Know, and Future Research Directions*, ECON. LETTERS, Sep. 17, 2024, at 2 ("[S]tablecoins represent offshore US liabilities that primarily operate outside of the US regulatory regime.").

2. Muyao Shen, *Crypto's $205 Billion Stablecoin Market Set to Go Mainstream*, BLOOMBERG L. (Dec. 31, 2024), https://www.bloomberglaw.com/product/blaw/bloomberglawnews/crypto/BNA%2000000194-1d3c-d457-a5bf-1dbe205a0003? [https://perma.cc/P6YS-WANU].

INTRODUCTION

Traditional notions of monetary sovereignty refer to a country's exclusive right to issue money, determine the value of that money, and regulate the use of that money and any other currency within its borders.[3] In the United States, the Constitution grants Congress the sole power to "coin money" and "regulate the value thereof."[4] Congress delegated

3. *See* François Gianviti, *Current Legal Aspects of Monetary Sovereignty*, *in* 4 CURRENT DEVELOPMENTS IN MONETARY & FINANCIAL LAW 3, 4–5 (Int'l Monetary Fund ed., 2008).

4. U.S. CONST. art. I, § 8, cl. 5.

some of its monetary authority when it created the Federal Reserve.[5] Now, the Federal Reserve creates sovereign money by circulating physical currency[6] and by increasing reserve balances through open market operations or emergency loans.[7]

Much of the money in use today has been created by private institutions, though, and is thus not considered *public* sovereign money.[8] Historically, banks in the United States had the ability to create dollars due to the fractional reserve system.[9] When a customer deposited money in a bank, the bank was required to hold only a fraction of that deposit as reserves.[10] The bank then loaned out the remaining portion by issuing deposits to borrowers in the amounts of the loans.[11] These balances were then used to make payments or transferred to other accounts.[12] Again, the receiving bank only had to keep a fraction of that deposit, and the process continued as each new deposit led to a loan, creating new deposits and more dollars.[13]

---

5. *See* Federal Reserve Act, Pub. L. No. 63-43, 38 Stat. 251 (1913) (creating the Federal Reserve and directing it to "maintain long run growth of the monetary and credit aggregates"). For a discussion of the constitutionality of the Federal Reserve System, see PETER CONTI-BROWN, THE POWER AND INDEPENDENCE OF THE FEDERAL RESERVE 103-26 (2016) and Daniel Hemel, *Maybe the Federal Reserve Banks Are Constitutional After All*, YALE J. ON REG.: NOTICE & COMMENT (Apr. 4, 2016), https://www.yalejreg.com/nc/maybe-the-federal-reserve-banks-are-constitutional-after-all-by-daniel-hemel/ [https://perma.cc/QF9V-C2RB]. While the Fed is technically an independent body, it derives its authority from the Federal Reserve Act, with its structure, mandates, and existence ultimately subject to congressional oversight and revision, ensuring that the U.S. government retains sovereign control over public sovereign currency. *See* CONTI-BROWN, *supra*, at 163.

6. The Federal Reserve Board determines the number of Federal Reserve Notes that are needed and submits that order to the Treasury Department's Bureau of Engraving and Printing. *Currency and Coin Services*, FED. RSRV. (Feb. 3, 2017), https://www.federalreserve.gov/paymentsystems/coin_about.htm [https://perma.cc/BWL7-C2Q8].

7. Christina Parajon Skinner, *Central Bank Digital Currency as New Public Money*, 172 U. PA. L. REV. 151, 163 (2023).

8. *See* Steffen Murau & Jens van 't Klooster, *Rethinking Monetary Sovereignty: The Global Credit Money System and the State*, 21 PERSPS. ON POL. 1319, 1326 (2023) ("Within the United States' monetary jurisdiction, the public money segment is relatively small compared to the private-public and the private segments.").

9. *See* Anna J. Schwartz, *Money Supply*, ECONLIB, https://www.econlib.org/library/Enc/MoneySupply.html [https://perma.cc/V74B-X9K5].

10. This fraction is known as the reserve requirement and is set by the Federal Reserve. *Id.*

11. Skinner, *supra* note 7, at 164.

12. *Id.*

13. In March 2020, however, the Federal Reserve eliminated reserve requirements for banks. In this environment, the traditional money multiplier model is less relevant as a description of how money is created. For more information, *see infra* note 91.

Even though this money was not directly created by the sovereign, the U.S. exercises monetary sovereignty over this money in multiple ways. One way is by regulating and supervising banks.[14] Bank regulations provide the conditions under which banks are allowed to issue new credit money.[15] The Federal Reserve ("the Fed") maintains the ability to influence the supply of this privately created money by adjusting reserve requirements and setting the interest rate paid on bank reserves held at the Fed.[16]

Newer forms of private money operate outside of this framework, though. For example, money market funds, repurchase agreements ("repos"), and asset-backed commercial paper ("ABCP") emerged in the late 20th century.[17] These assets are viewed as money not because they are used as payment methods, but rather because they are redeemable on demand at face value.[18] Even more recently, stablecoins—cryptocurrencies whose prices are ostensibly pegged to a reference asset such as the U.S. dollar—have emerged as a new form of private money that can be used as a medium of exchange for domestic and cross-border transactions.[19] Stablecoin issuers function similarly to banks by receiving customers' dollars and creating liabilities in the form of digital tokens that are redeemable for dollars.[20]

The rise of stablecoins has sparked intriguing debates about the nature of money. In response, scholars from a wide range of

14. Murau & van 't Klooster, *supra* note 8, at 1330. Although nonbank lenders also make loans, they do not create money in the same way because they do not have the ability to issue deposits. In other words, the money they lend was already in circulation, they do not create new money. *See generally* Richard A. Werner, *How Do Banks Create Money, and Why Can Other Firms Not Do the Same? An Explanation for the Coexistence of Lending and Deposit-Taking*, 36 Int'l Rev. Fin. Analysis 71 (2014).

15. Murau & van 't Klooster, *supra* note 8, at 1330. For example, banks are also subjected to prudential regulations that are aimed at preventing bank failure and crises. *Id.*

16. Schwartz, *supra* note 9.

17. Murau & van 't Klooster, *supra* note 8, at 1322.

18. *Id.*

19. Gary B. Gorton & Jeffery Y. Zhang, *Protecting the Sovereign's Money Monopoly*, 75 Ala. L. Rev. 955, 957 (2024); *see also* Kara Bruce, Christopher K. Odinet & Andrea Tosato, *The Private Law of Stablecoins*, 54 Ariz. St. L.J. 1074, 1078 (2022); Christian Catalini, Alonso de Gortari & Nihar Shah, *Some Simple Economics of Stablecoins*, 14 Ann. Rev. Fin. Econ. 117, 119 (2022) (discussing the history of stablecoins).

20. Gary B. Gorton & Jeffery Y. Zhang, *Taming Wildcat Stablecoins*, 90 U. Chi. L. Rev. 909, 911 (2023).

disciplines—including economics,[21] anthropology,[22] and law[23]—have explored both the defining characteristics of money and its purposes. These scholars have traced the evolution of money, from specie private issued banknotes to modern forms of public and private money.[24] This historical perspective informs their responses to privately issued stablecoins and the potential threat they pose to monetary sovereignty.

Beyond their historical analyses, scholars offer distinct perspectives on the best path forward for digital currencies. Gary Gorton and Jeffery Zhang, for example, have proposed a "carrot and stick" approach to address the sovereignty challenges posed by stablecoins, which would consist of developing a superior central bank digital currency ("CBDC") (the carrot) and deterring stablecoin adoption by either banning or taxing stablecoins (the stick).[25] Christina Parajon Skinner, on the other hand, explores the potential implications of such CBDCs for individual rights, the independence of central banks, and monetary sovereignty.[26] Skinner contends that the introduction of a widely available CBDC would create competition with existing forms of dollars.[27] Skinner's article highlights the importance of carefully considering policy responses to stablecoins.

This Article contends, as Gorton and Zhang have, that the widespread adoption of stablecoins threatens U.S. monetary sovereignty. Rather than advocating for an outright ban or punitive taxation, though, this Article asserts that policy responses should be carefully tailored to address the specific risks stablecoins pose to monetary sovereignty. Four key threats posed by stablecoin issuers are identified: competing with U.S. dollars, amplifying private liquidity beyond sovereign control, functioning as unregulated banks by essentially "accepting deposits," and allowing users to bypass controls that restrict the use of dollars.

With these risks in mind, the Article offers suggestions for policymakers that are guided by the preservation of monetary sovereignty. Namely, stablecoin issuers should be required to obtain a bank charter in order to continue accepting customers' funds. Receipt of such a charter should be conditioned on reserve requirements and stringent anti-money laundering ("AML") and know-your-customer ("KYC") obligations. This measure would not only bring them under

21. George C. Georgiou, *Cryptocurrency Challenges Sovereign Currency*, 21 WORLD ECON. 117, 118–20 (2020).

22. Taylor C. Nelms, Bill Maurer & Lana Swartz, *Social Payments: Innovation, Trust, Bitcoin, and the Sharing Economy*, 35 THEORY CULTURE & SOC'Y 1 (2018).

23. *See, e.g.*, Gorton & Zhang, *supra* note 19, at 969-87.

24. *See, e.g.*, *id.*

25. *See generally id.*

26. *See generally* Skinner, *supra* note 7.

27. *Id.* at 192-93.

the purview of financial regulators but also grant them access to deposit insurance, thereby reducing the likelihood of runs. While others have similarly proposed requiring stablecoin issuers to obtain a charter, this Article is the first do so based upon monetary sovereignty principles. The lens of monetary sovereignty helps to clarify both the urgency of action and the need to tailor proposals to avoid overreach.

Monetary sovereignty is adopted as a framework here for evaluating regulatory responses to stablecoins because it directs attention to a foundational—but often overlooked—assumption: The United States' unparalleled control over its currency is enduring and secure. This assumption treats monetary sovereignty as static and self-sustaining, rather than as a dynamic legal and institutional achievement that must be actively preserved. In reality, the state's ability to define and control what counts as money is not guaranteed; it is constantly shaped—and potentially undermined—by developments in private finance, technology, and global markets.[28]

A regulatory framework grounded in monetary sovereignty makes visible the structural stakes of these developments. It shifts the analysis beyond questions of market efficiency or consumer protection to focus on the conditions necessary for the state to conduct independent monetary and fiscal policy, enforce legal obligations, and maintain macroeconomic stability. As stablecoins increasingly replicate the core functions of sovereign money while operating outside established regulatory regimes, this framework helps identify the ways in which such instruments may erode the monetary authority of the state. In doing so, it not only justifies regulatory intervention, it also exposes the risks of inaction in terms of weakening the very foundation of the U.S. monetary order.

The Article proceeds in three primary parts. Part I offers a working definition of monetary sovereignty, examines how the U.S. exercises this authority, and articulates the rationale for its preservation. Part II demonstrates how stablecoins present a significant challenge to the United States' monetary sovereignty. Part III then transitions to the practical implications of this threat, critically analyzing various proposals to address the rise of stablecoins, including the newly passed GENIUS Act, and offering suggestions guided by the goal of preserving monetary sovereignty.

28. *See* Martin Wolf, *Trump's Assault on the Global Dollar*, Fin. Times (May 20, 2025), https://www.ft.com/content/d9656820-0b3e-46e7-97c9-b6684d558776 [https://perma.cc/3S8Z-7KN6] (challenging the notion that the dollar's status is guaranteed).

I. Sovereignty and State Control of Currency

Foundational to a discussion about preserving monetary sovereignty is the establishment of a working definition of monetary sovereignty and an understanding of why it is worth preserving. Fundamentally, monetary sovereignty entails the authority of a nation to control its own currency and monetary policy. As the global financial system has evolved, though, so too has the concept of monetary sovereignty,[29] encompassing not only traditional principles but also adapting to interconnected economic landscapes shaped by cross-border transactions, digital currencies, and the influence of non-state actors in monetary affairs.

A. What Is Monetary Sovereignty?

François Gianviti identified three core components of monetary sovereignty: 1) the right to issue currency that serves as legal tender within the nation's territory, 2) the right to determine and change the value of that currency, and 3) the right to regulate the use of that currency and any other currency within its borders.[30] While some contend that such monetary sovereignty is a myth in today's interconnected global economy,[31] a more precise perspective is that absolute monetary sovereignty is indeed unattainable but that monetary sovereignty now exists on a continuum,[32] with the United States being in a class of its own in terms of monetary sovereignty and countries such as Ecuador, who rely solely on U.S. dollars as their currency, having little-to-no monetary sovereignty.[33]

Recognizing the complexities of the modern financial system, Steffen Maurau and Jens van't Klooster examine the practical actions that states can take within the constraints of the global credit money system.[34] They argue that *effective* monetary sovereignty requires a nation to govern all segments of the monetary system, adapt to the global credit money system, and align monetary governance with

29. *See generally* Clause D. Zimmerman, *The Concept of Monetary Sovereignty Revisited*, 24 Eur. J. Int'l L. 797 (2013) (considering whether the concept of monetary sovereignty is subject to evolution).

30. Gianviti, *supra* note 3, at 4–5.

31. Francis Coppola, *The Myth of Monetary Sovereignty*, Coppola Comment (Nov. 2, 2018), https://www.coppolacomment.com/2018/11/the-myth-of-monetary-sovereignty.html [https://perma.cc/LCY9-ANQC].

32. Stephanie Kelton, The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy 133–34 (2020).

33. *Id.* at 135–36.

34. *See* Murau & van 't Klooster, *supra* note 8, at 1320.

policy objectives.[35] This broader approach acknowledges that economic sovereignty increasingly depends not only on issuing and valuing currency but also on a nation's ability to engage with global credit markets, digital currencies, and foreign exchange in ways that preserve economic stability and independence.[36]

Other economists have explored the critical components of monetary sovereignty, though there is no universally agreed-upon metric to quantify a country's level thereof. Eric Helleiner has written extensively on monetary sovereignty and national self-determination, emphasizing the political control over money issuance and its role in state power.[37] While he does not offer a quantification, his work explores "micro-level" sources of monetary power, including a state's ability to influence regulatory trends and crisis management and capacity to influence perceptions of identity and self-interest.[38]

Benjamin J. Cohen has examined the *sources* of "currency power" rather than focusing on the "manifestations of a state's capabilities in monetary affairs," as he characterizes Helleiner's analysis.[39] Cohen emphasizes the "power to deflect" and the "power to delay," highlighting how dominant currencies can shift economic adjustments onto others.[40] These powers are dependent on a country's international liquidity position as well as its ability to resist price and exchange rate changes.[41] Cohen introduces concepts such as the "currency pyramid," which illustrates the hierarchical structure of global currencies based on their international acceptance and influence.[42] According to Cohen, the dollar alone "occupies the highest stratum of the currency pyramid . . . no other money comes close."[43]

Yet, the dollar's status is not immutable. Historical precedent, such as when the U.S. dollar initially replaced the British pound sterling as the world's reserve currency in the 20th century, suggests that the

35. *Id.* at 1331–32.
36. *Id.*
37. *See generally* Eric Helleiner, The Making of National Money: Territorial Currencies in Historical Perspective 115-20 (2003); Eric Helleiner, *Electronic Money: A Challenge to the Sovereign State*, 51 J. Int'l Affs. 387 (1998).
38. *See* Eric Helleiner, *Below the State: Micro-Level Monetary Power*, *in* International Monetary Power 72, 89 (David M. Andrews ed., 2006) ("[A]ttention to how a dominant state can shape these elements . . . provides important insights into the nature of . . . monetary power.").
39. Benjamin J. Cohen, Currency Power: Understanding Monetary Rivalry 51 (2015).
40. *Id.* at 64.
41. *Id.*
42. *Id.* at 16.
43. *Id.* at 17.

dollar's dominance and the monetary sovereignty of the United States could also wane.[44] As the next section will demonstrate, the ability of a country to maintain its monetary sovereignty impacts its ability to engage in nation-building, exercise self-determination, and implement effective monetary and fiscal policies.

B. Why Is Monetary Sovereignty Worth Preserving?

Monetary sovereignty reinforces national identity and serves as a foundation for consolidating political authority. As John Stuart Mill wrote in 1848, "almost all independent countries choose to assert their nationality by having . . . a peculiar currency of their own."[45] And, modern scholars, such as Eric Helleiner, have examined how various policymakers were motivated to create a single national currency, in part, by the desire to strengthen the *political* sovereignty of that nation.[46] For instance, 19th-century European nation-states replaced fragmented local currencies with standardized national ones to reinforce territorial authority.[47] Similarly, the United States pursued monetary unification through the National Banking Acts of the 1860s, creating a uniform currency that bolstered federal authority during Reconstruction.[48] These examples underscore the role of sovereign currency as a mechanism of national identity.

Higher levels of monetary sovereignty empower nations to better exercise self-determination, as they become less constrained by the dictates of foreign powers or private interests. Economist Stephanie Kelton points to Greece as an example.[49] Greece abandoned its own currency, the drachma, in 2001 when it adopted the Euro.[50] In the face of crisis in 2009, Greece could not respond by issuing its own currency or adjusting its monetary policies.[51] This lack of autonomy forced the

44. Gita Gopinath & Jeremy C. Stein, *Banking, Trade, and the Making of a Dominant Currency*, 136 Q.J. Econ. 783, 783 (2020).

45. John Stuart Mill, Principles of Political Economy 155 (1848).

46. *See* Helleiner, *supra* note 37, at 115–20 (examining the national sovereignty motivation of policymakers in constructing national currencies).

47. *Id.* at 169 ("To facilitate this objective of 'extraverting' local economies, colonial authorities sought to replace precolonial currencies with a standardized money issued by the new colonial power.").

48. Gorton & Zhang, *supra* note 19, at 979–81. Adoption was not immediate though, as many continued to use state banknotes. *Id*. To encourage the adoption of national currency, Congress imposed a 10% tax on payments using currencies other than national bank notes. Act of July 13, 1866, ch. 184, 14 Stat. 146; *see also* Richard H. Timberlake, Constitutional Money: A Review of the Supreme Court's Monetary Decisions 81 (2013).

49. Kelton, *supra* note 32, at 124–25.

50. *Id.* at 81.

51. *Id.* at 81–82.

country to rely on external lenders, such as the European Central Bank and the International Monetary Fund ("IMF"), which imposed strict austerity measures that restricted Greece's policy choices and worsened its economic hardships.[52] By giving up its monetary sovereignty, Greece also ceded some of its autonomy as an independent nation.

Along similar lines, Katharina Pistor has contended that monetary sovereignty is important because it can determine a country's genuine sovereignty.[53] In her view, states that do not control their own currency or issue debt in a foreign currency are not in control at all.[54] Monetary sovereignty is tied to effective control over financial resources, which is the key to power in a global economy.[55] The hierarchy of money can predetermine "winners and losers in times of crisis," making monetary sovereignty important.[56] States with compromised monetary sovereignty may not be truly sovereign.[57] Pistor posits that the changing landscape of monetary sovereignty challenges the very notion of state sovereignty because of the importance of control over money.[58]

A close relationship also exists between a nation's monetary sovereignty and its ability to achieve key policy objectives, namely monetary stability, financial stability, and financial integrity.[59] Monetary stability (i.e., a steady low level of inflation) is a central goal of most monetary policy.[60] To achieve this goal, central banks employ various monetary policy tools, such as adjusting interest rates and reserve requirements, to impact the

52. *Id.* at 86; *see also* Nektaria Stamouli, *Greece Exits Bailout Monitoring, but Austerity Pain Lingers*, POLITICO (Aug. 16, 2022), https://www.politico.eu/article/greece-exit-bailout-monitor-austerity-economy/ [https://perma.cc/729M-NFVK] ("[M]any economists now say that the long-term cost of the bailouts — which channeled some €290 billion of loans from the Commission, the ECB and the International Monetary Fund — inflicted pain that's still being felt today.").

53. Katharina Pistor, *From Territorial to Monetary Sovereignty*, 18 THEORETICAL INQUERIES L. 491, 493–94 (2017).

54. *Id.* at 493.

55. *Id.* at 494–95.

56. *Id.*

57. *Id.* at 493.

58. *Id.* at 493–94.

59. Zimmerman, *supra* note 29, at 810; *see also* KELTON, *supra* note 32, at 133 ("Governments need a high degree of monetary sovereignty in order to exercise policy autonomy—that is, to be able to run their fiscal and monetary policies without fear of painful backlash from financial or foreign exchange markets."); Marau & van 't Klooster, *supra* note 8, at 1327 ("Where the existing monetary system allows the United States to achieve a range of economic policy objectives.").

60. The Governing Council of the European Central Bank has stated that its primary policy objective is to keep inflation below, but close to, 2%. *Introduction*, EUR. CEN. BANK, https://www.ecb.europa.eu/mopo/intro/html/index.en.html [https://perma.cc/BGJ3-M3C3]. Similarly, the FRB targets 2% inflation. BD. OF GOVERNORS OF THE FED. RSRV., MONETARY POLICY REPORT (2024).

supply of money.[61] Such tools are unavailable to countries with low levels of monetary sovereignty. For example, the free banking era in the United States (1837–1864), characterized by a lack of national standards and the proliferation of private banknotes, was marked by currency fluctuations and inflation.[62]

Higher levels of monetary sovereignty enable a country to respond to crises in order to maintain or restore financial stability.[63] By managing interest rates and liquidity, sovereign central banks can stabilize banking systems and prevent financial contagions.[64] Additionally, monetary sovereignty allows a country to act as a lender of last resort, providing support to financial institutions in distress and averting systemic failures.[65] During the global financial crisis of 2008, the Fed reduced interest rates to nearly zero and engaged in quantitative easing to inject liquidity into the financial system.[66] The Fed also provided emergency loans to financial institutions and others to prevent them from failing, reducing contagion.[67]

Lastly, financial integrity—creating and maintaining a financial system that is clean, transparent, and accountable[68]—hinges upon a nation's ability to govern all components of the monetary system. Monetary sovereignty enables nations to establish and enforce anti-money laundering ("AML") and counter-terrorist financing measures

---

61. In the U.S., the Fed employs its monetary policy tools—open market operations, discount window lending, and adjustments to discount rates and reserve requirements—to influence banks' willingness to lend. These measures directly impact the availability of credit in the economy and, consequently, the money supply. *See Policy Tools*, FED. RSRV. (Dec. 15, 2025), https://www.federalreserve.gov/monetarypolicy/policytools.htm [https://perma.cc/8Q22-RCC8].

62. Edoardo D. Martino, *Monetary Sovereignty in the Digital Era. The Law & Macroeconomics of Digital Private Money*, COMPUT. L. & SEC. REV., Apr. 2024, at 3; *see also* Skinner, *supra* note 7, at 185.

63. This is particularly true in developing countries, where currency depreciations have more damaging macroeconomic impacts due to the heightened risk of financial instability stemming from potential currency mismatches and the withdrawal of portfolio investments. Daniela Prates, *Beyond Modern Money Theory: A Post-Keynesian Approach to the Currency Hierarchy, Monetary Sovereignty, and Policy Space*, 8 REV. KEYNESIAN ECON. 494, 505 (2020).

64. GARRY J. SCHINASI, SAFEGUARDING FINANCIAL STABILITY 135–39 (2005).

65. *Id.* at 143.

66. *See* Stephen G. Cecchetti, *Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis*, 23 J. ECON. PERSPS. 51, 65 (2009); Press Release, Fed. Rsrv., Fed. Open Mkt. Comm., FOMC Statement (Mar. 18, 2009), https://www.federalreserve.gov/newsevents/pressreleases/monetary20090318a.htm [https://perma.cc/T8WP-8J55].

67. FED. RSRV. BANK OF N.Y., STAFF REP. NO. 563, FEDERAL RESERVE LIQUIDITY PROVISIONS DURING THE FINANCIAL CRISIS OF 2007-2009, at 4 (2012).

68. *Financial Integrity*, TRANSPARENCY KNOWLEDGE HUB, https://knowledgehub.transparency.org/topics/financial-integrity-parent-label [https://perma.cc/P3T8-J7ZN].

that align with their domestic priorities and legal systems.[69] Without proper control over its currency and the institutions that create it, a country will be unable to prevent illicit flows of money or maintain the integrity of the financial system.

In sum, monetary sovereignty is integral to nation-building, exercising self-determination, and implementing effective monetary and fiscal policies. Historical examples, such as 19th-century Europe and the post-Civil War United States, illustrate how sovereign currencies reinforce territorial control and unity. Greece's economic crisis highlights the dangers of relinquishing monetary control, leaving nations vulnerable to external constraints. Sovereignty over monetary policy enables nations to achieve stability, manage crises, and maintain financial integrity by enforcing laws against illicit financial activities. Ultimately, monetary sovereignty is not merely a technical tool but a vital instrument of national independence and resilience.

C. How Has the U.S. Exercised Monetary Sovereignty?

Recall that the key components of monetary sovereignty are the authority of a country to control the creation of its sovereign currency, the ability to control the value thereof, and the authority to regulate the use of its currency and any currency within its borders.[70] With respect to the first two, the U.S. Constitution grants Congress the power to "coin money" and to "regulate the value thereof."[71] Pursuant to this authority, Congress created the Department of Treasury in 1789[72] and passed the Coinage Act of 1792, which formally established a bimetallic (gold and silver) standard in the United States.[73] Starting in 1834, though, the United States switched to a *de facto* gold standard—with the U.S. dollar pegged to a specific quantity of gold—that was later formalized in the Gold Standard Act of 1900.[74]

---

69. *See* Int'l Monetary Fund, Financial Sector Assessment: A Handbook 211–12 (2005) (discussing the conditions required for effective implementation of AML-CFT standards).

70. Gianviti, *supra* note 3, at 3.

71. U.S. Const. art. I, § 8, cl. 5.

72. Within months of the Constitution becoming effective, Congress created the Department of the Treasury, which was focused on collecting revenue and managing public debt. *History of the Treasury*, U.S. Dep't of the Treasury, https://home.treasury.gov/about/history/history-overview/history-of-the-treasury [https://perma.cc/J65T-M9SH].

73. Michael D. Bordo, *Gold Standard*, Econlib, https://www.econlib.org/library/Enc/GoldStandard.html [https://perma.cc/RU77-SFSR]; *see also* Coinage Act of 1792, ch. 16, 1 Stat. 246 (1792) (establishing the U.S. Mint in Philadelphia and prescribing the metal contents for gold, silver, and copper coins).

74. Bordo, *supra* note 73.

In 1913, Congress delegated some of its monetary authority when it created the Federal Reserve System as the United States' central bank.[75] Congress built the gold standard into the framework of the Fed, as the Fed was required to hold gold equal to 40% of the value of the currency it issued (Federal Reserve Notes, referred to as "dollars") and to convert that currency into gold at a fixed price of $20.67 per ounce of pure gold.[76]

In the 19th century, though, the United States began to move away from the gold standard. Amidst the Great Depression, President Franklin D. Roosevelt suspended the domestic convertibility of the dollar into gold in 1933, as large quantities of gold were flowing out of the Fed.[77] The Gold Reserve Act of 1934 followed, transferring all privately held gold to the U.S. Treasury and devaluing the dollar by raising the official price of gold from $20.67 to $35 per ounce, a move designed to increase the money supply and stimulate economic recovery.[78]

Internationally, though, the United States remained on a modified gold standard under the Bretton Woods system, established in 1944, which pegged other currencies to the dollar, with the dollar convertible to gold at $35 per ounce.[79] As a result, the dollar became the world's primary reserve currency, leading to an accumulation of U.S. dollars outside of the country.[80] Amid rising Cold War tensions, the Soviet Union, fearing a freeze on its deposits, withdrew its dollars from U.S. banks and placed them in European banks.[81] These banks, in turn, issued dollar-denominated deposit liabilities, which became known as "Eurodollars."[82]

---

75. Skinner, *supra* note 7, at 166. *See* Federal Reserve Act, 38 Stat. 251 (1913) (creating the Federal Reserve System).

76. Gary Richardson, Alejandro Komai & Michael Gou, *Roosevelt's Gold Program*, Fed. Rsrv. Hist. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/roosevelts-gold-program [https://perma.cc/VL33-3QX5].

77. *Id.*; *see also* Peter Temin, Lessons from the Great Depression 22, 32 (1989).

78. Gary Richardson, Alejandro Komai & Michael Gou, *Gold Reserve Act of 1934*, Fed. Rsrv. Hist. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/gold-reserve-act [https://perma.cc/GP2E-HCFE].

79. Sandra Kollen Ghizoni, *Creation of the Bretton Woods System*, Fed. Rsrv Hist. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/bretton-woods-created [https://perma.cc/8AP4-ZPH3].

80. *See* Oscar Sanchez-Sibony, *Capitalism's Fellow Traveler: The Soviet Union, Bretton Woods, and the Cold War, 1944-1958*, 56 Compar. Stud. Soc'y & Hist. 290, 314 (2014).

81. *Id.* at 313.

82. The term "Eurodollar" is now used to refer to any dollar-denominated deposit that is not subject to U.S. banking regulations regardless of where it is held. Marvin Goodfriend, *Eurodollars*, *in* 7 Instruments of the Money Market 48 (Timothy Q. Cook & Robert K. Laroche ed., 1993).

Some critics referred to the Bretton Woods system as "America's exorbitant privilege" as it cost the United States nearly nothing to print 100 U.S. dollars, whereas other countries must expend $100 in value to do so.[83] In response to inflation and trade deficits in the late 1960s, though, President Richard Nixon ended the direct convertibility of the dollar into gold in 1971, in what became known as the "Nixon Shock,"[84] effectively ending the Bretton Woods system and transitioning the United States to a fiat currency regime.[85]

Under this fiat system, dollars derived their value from the trust and authority of the U.S. government rather than by reference to a physical commodity like gold.[86] Once the dollar was decoupled from gold, the Fed had more flexibility in implementing monetary policy.[87] The Fed creates sovereign money by circulating physical currency and through open market operations,[88] but much of the money in circulation is created by private banks through the fractional reserve system described next.[89]

Historically, banks are required to hold a fraction of customer deposits as reserves and can lend out the rest, subsequently creating

---

83. Barry Eichengreen, Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System 8, 10–11 (2011). The term was first introduced in the 1960s by Valéry Giscard d'Estaing, who served as the French Minister of Finance at the time. *Id.* at 4.

84. Roger Lowenstein, *The Nixon Shock*, Bloomberg (Aug. 4, 2011), https://www.bloomberg.com/news/articles/2011-08-04/the-nixon-shock [https://perma.cc/4F6L-52NY].

85. Sandra Kollen Ghizoni, *Nixon Ends Convertibility of U.S. Dollars to Gold and Announces Wage/Price Controls*, Fed. Rsrv. Hist. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/gold-convertibility-ends [https://perma.cc/UG92-WKZS].

86. *How the Gold Standard Compares to a Fiat Money System*, Fed. Rsrv. Bank of St. Louis (Oct. 20, 2014), https://www.stlouisfed.org/timely-topics/the-gold-standard/videos/part-1-what-is-a-gold-standard [https://perma.cc/Y6KN-ADKV].

87. Mark A. Carlson & David C. Wheelock, *Navigating Constraints: The Evolution of Federal Reserve Monetary Policy*, *1935-59*, at i (Fed. Rsrv. Bank of Dall. Globalization & Monetary Pol'y Inst., Working Paper No. 205, 2014), https://www.dallasfed.org/-/media/documents/institute/wpapers/2014/0205.pdf [https://perma.cc/7QEZ-DCD7] ("[G]old policies and New Deal legislation limited the Fed's ability to conduct an independent monetary policy.").

88. The Federal Reserve Board determines the number of Federal Reserve Notes that are needed and submits that order to the Treasury Department's Bureau of Engraving and Printing. *Currency and Coin Services*, Fed. Rsrv. (Feb. 3, 2017), https://www.federalreserve.gov/paymentsystems/coin_about.htm [https://perma.cc/R4W3-ZLN9]. The Federal Reserve conducts open market operations by buying government securities from banks, which credits the banks' reserve accounts at the Fed, thereby increasing the supply of money available for lending. *Policy Tools: Open Market Operations*, Fed. Rsrv. (Dec. 12, 2025), https://www.federalreserve.gov/monetarypolicy/openmarket.htm [https://perma.cc/X9LM-N6WC].

89. *See* Murau & van 't Klooster, *supra* note 8, at 1320; Schwartz, *supra* note 9.

new deposits in borrowers' accounts.[90] This cycle of deposits and loans expands the money supply. [91] Even though this money is not directly created by the sovereign, the United States exercises monetary sovereignty over this money in multiple ways. One way is by regulating and supervising banks.[92] As described next, bank regulations provide the conditions under which banks are allowed to issue new credit money.[93]

Banks exist and can accept deposits only after being granted a charter by either the Office of the Comptroller of the Currency ("OCC") or a state banking agency.[94] Similar to articles of incorporation for a corporation, a bank's charter provides operational guidelines for the bank. Bank charters differ significantly from charters for other business organizations, however, in that access to bank charters is subject to stringent public review and control, with the OCC and state chartering

90. This fraction is known as the reserve requirement and is set by the Federal Reserve. Schwartz, *supra* note 9.

91. Skinner, *supra* note 7, at 164. In the fractional reserve system, each new deposit is split between required reserves and excess funds available for lending, and as those loans are redeposited and again partially reserved and re-lent, the process generates a multiplied expansion of the total money supply. *Id.* In March 2020, however, the Federal Reserve eliminated reserve requirements for banks. In this environment, the traditional money multiplier model is less relevant as a description of how money is created. Jane E. Ihrig, Gretchen Weinbach & Scott A. Wolla, *Teaching the Linkage Between Banks and the Fed: R.I.P. Money Multiplier*, Fed. Rsrv. Bank of St. Louis (Sep. 17, 2021), https://www.stlouisfed.org/publications/page-one-economics/2021/09/17/teaching-the-linkage-between-banks-and-the-fed-r-i-p-money-multiplier [https://perma.cc/Y3NP-4KRY].

92. Murau & van 't Klooster, *supra* note 8, at 1330. Although nonbank lenders also make loans, they do not create money in the same way because they do not have the ability to issue deposits. In other words, the money they lend is already in circulation; they do not create new money. *See generally* Richard A. Werner, *How Do Banks Create Money, and Why Can Other Firms Not Do the Same?*, 36 Int'l Rev. Fin. Analysis 71, 72 (2014).

93. Murau & van 't Klooster, *supra* note 8, at 1330. For example, banks are also subjected to prudential regulations that are aimed at preventing bank failure and crises. *Id.*; *see also* Michael S. Barr, Howell E. Jackson & Margaret E. Tahyar, Financial Regulation: Law and Policy 168 (3d ed. 2021) ("[B]ank charters of all types have long been closely controlled by the sovereign.").

94. *See* David Zaring, *Modernizing the Bank Charter*, 61 Wm. & Mary L. Rev. 1397, 1408 (2020); *see also How Can I Start a Bank?*, Fed. Rsrv. (Aug. 2, 2013), https://www.federalreserve.gov/faqs/banking_12779.htm [https://perma.cc/A2KS-946K]. Since the enactment of the National Banking Act of 1863, banks have operated under a dual system of chartering wherein a bank may be chartered by either a federal or state banking agency. *See* Henry N. Butler & Jonathan R. Macey, *The Myth of Competition in the Dual Banking System*, 73 Cornell L. Rev. 677, 677 (1988); *see also* Arthur E. Wilmarth, Jr., *The Expansion of State Bank Powers, the Federal Response, and the Case for Preserving the Dual Banking System*, 58 Fordham L. Rev. 1133, 1157–58 (1990). This charter is a license that allows a financial institution to provide financial services, such as accepting deposits and making loans. Andrew P. Scott, Cong. Rsch. Serv., R47014, An Analysis of Bank Charters and Selected Policy Issues 1 (2022).

agencies granting only a limited number of charters.[95] The chartering agency audits and inspects bank records, periodically reviews the bank's compliance with regulations, and reviews the bank's financial performance.[96]

The National Bank Act ("NBA") grants the OCC the authority to issue charters that entitle an entity to "engage in the business of banking."[97] Although the outer limits of what could be considered the "business of banking" have long been debated,[98] courts have generally interpreted the term to include, at a minimum, accepting deposits, lending money, transacting payments, and paying checks.[99] Banks chartered by the OCC—i.e., national banks—are required to be members of the Federal Reserve and to be insured by the Federal Deposit Insurance Corporation ("FDIC").[100]

State-chartered banks, on the other hand, may choose to become members of the Federal Reserve System by applying for membership and meeting the Fed's requirements.[101] To qualify, they must adhere to the capital, liquidity, and management standards set by the Federal

95. *See* Robert C. Hockett & Saule T. Omarova, *"Special," Vestigial, or Visionary? What Bank Regulation Tells Us About the Corporation—and Vice Versa*, 39 SEATTLE U. L. REV. 453, 474–75 (2016). Organizers are required to submit financial information, business plans, performance projections, and proof that the proposed bank will be sufficiently capitalized. *Id.* at 475. In 2025, the OCC received nine applications for *de novo* charters, approving none and conditionally approving one. *Key Data & Statistics*, OFF. OF THE COMPTROLLER OF THE CURRENCY (Sep. 30, 2025), https://www.occ.treas.gov/about/what-we-do/key-data-and-statistics/index-occ-and-federal-banking-system-at-a-glance.html [https://perma.cc/4HVZ-LF3G].

96. OFF. OF THE COMPTROLLER OF THE CURRENCY, COMPTROLLER'S HANDBOOK, BANK SUPERVISION PROCESS 12 (2019).

97. 12 U.S.C. § 26 ("Comptroller shall . . . ascertain . . . whether such association has complied with all . . . [s]tatutes required to entitle it to engage in the business of banking."). The OCC charters national banks pursuant to authority granted by the National Bank Act of 1864. The constitutionality of central banking was established by the Supreme Court in 1819. *See* McCulloch v. Maryland, 17 U.S. 316, 316 (1819) ("The Bank of the United States has, constitutionally, a right to establish its branches or offices of discount and deposit within any state.").

98. *See* Edward L. Symons Jr., *Business of Banking in Historical Perspective*, 51 GEO. WASH. L. REV. 676, 678–84 (1983) (reviewing narrow, broad, and intermediate interpretations of the phrase "business of banking").

99. *See id.*

100. SCOTT, *supra* note 94, at 3. A bank is a national bank if the "corporate entit[y] [is] chartered not by any State, but by the Comptroller of the Currency of the U.S. Treasury." Wachovia Bank v. Schmidt, 546 U.S. 303, 306 (2006).

101. 12 U.S.C. § 321. States also issue bank charters. SCOTT, *supra* note 94, at 2; *see also How Can I Start a Bank?*, *supra* note 94 ("The proposed bank must first receive approval for a federal or state charter."). Approximately 16% of insured state-chartered banks are members of the Federal Reserve. BD. OF GOVERNORS OF THE FED. RSRV. SYS., 109TH ANNUAL REPORT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 26 (2022)

Reserve Board.[102] If approved, a state-chartered member bank is required to hold stock in its regional Federal Reserve Bank, just like national banks.[103] Membership grants these banks access to the Federal Reserve's payment systems and discount window lending.[104] The Fed also influences the supply of credit money through open market operations: setting the discount window rate, adjusting discount rates and reserve requirements, and setting the interest rate paid on bank reserves held at the Fed.[105]

However, state-chartered banks that opt not to join the Federal Reserve System remain regulated by state banking authorities and, if they are insured, the FDIC.[106] For insured banks, the FDIC conducts regular examinations and evaluates the banks' capital adequacy, asset quality, management practices, earnings, liquidity, and sensitivity to market risk (collectively termed the CAMELS rating system).[107] While nearly all state-chartered banks are FDIC-insured, the decision to require FDIC insurance remains at the discretion of the issuing state.[108] Until 2019, all states required federal deposit insurance for newly-chartered banks that accepted retail deposits.[109] Wyoming and Nebraska, however, have since authorized new forms of charters that do not require deposit insurance.[110] State-chartered banks that are not members of the Federal Reserve or insured by the FDIC are regulated solely by their respective state banking agencies.[111]

---

102. *See Capital Adequacy*, FED. RSRV. (Feb. 25, 2026), https://www.federalreserve.gov/supervisionreg/topics/capital.htm [https://perma.cc/KZ8A-MHYM]; *Liquidity Risk Management*, FED. RSRV. (Sep. 5, 2023), https://www.federalreserve.gov/supervisionreg/topics/liquidity_risk.htm [https://perma.cc/78A6-7FKM].

103. *Becoming a State Member Bank*, FED. RSRV. BANK OF CLEVELAND, https://www.clevelandfed.org/banking-and-payments/state-member-bank [https://perma.cc/UJL9-3J7P].

104. *The Discount Window*, FED. RSRV. DISC. WINDOW (Dec. 1, 2025), https://www.frbdiscountwindow.org/pages/general-information/the-discount-window [https://perma.cc/7AVD-FCA8].

105. Schwartz, *supra* note 9.

106. SCOTT, *supra* note 94, at 3. Until 2019, every state required state-chartered banks to be federally insured in order to accept deposits. Arthur Wilmarth, *It's Time to Regulate Stablecoins as Deposits and Require Their Issuers to Be FDIC-Insured Banks*, BANKING & FIN. SERVS. POL'Y REP., Feb. 2022, at 1, 10. Wyoming and Nebraska have since authorized newer forms of charters that do not require FDIC insurance. *Id.* at 10.

107. FED. DEPOSIT INS. CORP., RISK MANAGEMENT MANUAL OF EXAMINATION POLICIES § 1.1.

108. Wilmarth, *supra* note 106.

109. *Id.*

110. *Id.*

111. Kerri Allen & Jeff Legette, *Understanding Federal Reserve Supervision and Becoming a State Member Bank*, CMTY. BANKING CONNECTIONS, no. 1, 2022, https://www.communitybankingconnections.org/articles/2022/i1/understanding-federal-reserve-supervision [https://perma.cc/B8S9-4BG6].

With respect to the third component of monetary sovereignty—the right to regulate the use of sovereign currency and any other currency within a country's borders—the Bank Secrecy Act ("BSA") and the PATRIOT Act impose anti–money laundering ("AML") and sanctions-compliance obligations on banks and Money Services Businesses ("MSBs").[112] These laws require these financial institutions to implement customer due diligence, monitor transactions, report suspicious activity, and maintain robust compliance programs to prevent illicit financial flows, including those that involve sanctioned individuals, entities, or jurisdictions.[113]

MSBs are required to register with the Financial Crimes Enforcement Network ("FinCEN"), while banks are automatically subject to BSA and sanctions oversight through the chartering process.[114] These regulatory measures are essential tools by which the United States exercises control over how its currency is used, particularly in blocking access to the financial system for actors that threaten national security. However, as discussed in the next Part, the rise of stablecoins challenges this framework by enabling pseudonymous transactions that evade AML safeguards and sanctions enforcement. This undermines the U.S. government's ability to monitor and restrict financial activity within its borders, ultimately posing a threat to its capacity to maintain monetary sovereignty.

II. Stablecoins as a Challenge to Monetary Sovereignty

As Part I established, monetary sovereignty is the ability of a country to issue its own currency, regulate the value of that currency, and regulate the use of that currency and any other currency within its borders. The United States primarily exercises monetary sovereignty through the Fed and other federal administrative agencies. The United States occupies a unique position in terms of monetary sovereignty, affording it distinct advantages in utilizing its status to sustain its

112. *The Bank Secrecy Act*, Fin. Crimes Enf't Network, https://www.fincen.gov/resources/statutes-and-regulations/bank-secrecy-act [https://perma.cc/962S-K5NY]; *USA PATRIOT Act*, Fin. Crimes Enf't Network, https://www.fincen.gov/resources/statutes-and-regulations/usa-patriot-act [https://perma.cc/EG7Y-A6BP].

113. *The Bank Secrecy Act*, *supra* note 112; *USA PATRIOT Act*, *supra* note 112.

114. Fin. Crimes Enf't Network, Money Services Business Registration Fact Sheet (2004) (requiring that MSBs register with FinCEN); *Bank Secrecy Act (BSA) & Anti-Money Laundering (AML) Examinations*, Off. of the Comptroller of the Currency, https://www.occ.treas.gov/topics/supervision-and-examination/bsa/bsa-aml-examinations/index-bsa-aml-examinations.html [https://perma.cc/Y4Z2-WL6B].

political sovereignty, implement effective monetary and fiscal policies, and maintain the integrity in its financial system.[115] Part II uncovers how stablecoins present a challenge to the monetary sovereignty of the United States.

A. What Are Stablecoins?

Stablecoins emerged in the 2010s as a response to the volatility of traditional cryptocurrencies like Bitcoin, with the first widely recognized stablecoin, Tether ("USDT"), introduced in 2014 to provide a digital asset pegged to the value of the U.S. dollar.[116] Stablecoins work by linking their value to reserve assets such as fiat currencies, commodities, or other cryptocurrencies, with their price stability maintained through collateralization or, less commonly, via algorithmic supply control mechanisms.[117] Many collateralized stablecoins, like USD Coin ("USDC"), purportedly maintain reserves equivalent to their issuance, while algorithmic stablecoins, such as TerraUSD, adjust supply dynamically to stabilize value.[118] The adoption of stablecoins has grown significantly in decentralized finance ("DeFi"), payments, and cross-border transactions due to their ostensible stability and blockchain integration.[119]

B. How Do Stablecoins Threaten the Monetary Sovereignty of the U.S.?

This Section contends that with increasing adoption of, and the second Trump Administration's embrace of, crypto, stablecoins pose a threat to the United States' monetary sovereignty. First, this Section

115. *See, e.g.*, KELTON, *supra* note 32, at 136; Pistor, *supra* note 53, at 493 ("The only states that may be deemed sovereign in monetary terms are the United States, the United Kingdom, Canada, Japan, Switzerland, Australia, and the People's Republic of China."); Marau & van 't Klooster, *supra* note 8, at 1326.

116. Dionysopoulos & Urquhart, *supra* note 1, at 1–3.

117. *See* Richard K. Lyons & Ganesh Viswanath-Natraj, *What Keeps Stablecoins Stable?*, J. INT'L MONEY & FIN., Mar. 2023, at 1–2 (describing how stablecoins preserve their peg through collateralization with fiat or crypto assets, arbitrage opportunities that incentivize traders to buy or redeem when prices deviate from $1, and algorithmic supply adjustments that contract or expand issuance to maintain stability). Stablecoins become unpegged primarily because their architecture, whether collateralized or algorithmic, renders them susceptible to destabilizing runs whenever investor confidence is lost in the liquidity and sufficiency of their backing assets. *Id.* at 3.

118. *Id.* at 1–4.

119. Dionysopoulos & Urquhart, *supra* note 1, at 3. DeFi has been defined as a paradigm that uses distributed ledger technology, rather than centralized intermediary institutions, to deliver financial services. Raphael Auer et al., *The Technology of Decentralized Finance (DeFi)*, 6 DIGIT. FIN. 55, 58 (2023).

demonstrates how stablecoins function effectively as money—serving as a store of value, unit of account, and medium of exchange—allowing them to rival sovereign currencies in ways that other private financial instruments do not. Second, it examines how stablecoin issuers may amplify liquidity beyond sovereign control, creating pressures that undermine the Fed's power. Third, it assesses the extent to which stablecoin issuers effectively operate as unregulated banks. Finally, it discusses how stablecoins hinder the United States' ability to regulate the use of the dollar and other currencies within its borders. Together, these sections support the view that stablecoins, by bypassing traditional regulatory controls and disrupting established monetary systems, pose a significant challenge to monetary sovereignty.

1. Stablecoins Compete with Dollars.

Stablecoins, unlike sovereign currency issued by a nation-state, are created by private stablecoin issuers such as Tether.[120] They circulate as tokens representing private digital versions of cash.[121] Currently, stablecoins are largely used within the cryptocurrency ecosystem for speculative trading.[122] Cryptoenthusiasts anticipate, however, that over the next decade, stablecoins will be used for transactions similar to cash, ultimately capturing a significant portion of the global money supply.[123] Indeed, stablecoin transfer volumes reached $27.6 trillion in 2024, already surpassing the combined volumes of Visa and Mastercard by 7.7%.[124] Further, pro-crypto moves by the Trump Administration continue to bolster and entrench stablecoins as a permanent part of the financial system.[125]

120. Gorton & Zhang, *supra* note 19, at 963, 989.

121. *Id.* J.S. Nelson has made the argument that cryptocurrencies in general are "non-sovereign fiat currenc[ies]." J.S. Nelson, *Cryptocommunity Currencies*, 105 CORNELL L. REV. 909, 909 (2020).

122. *Id.* at 968.

123. *See, e.g.*, Krisztian Sandor, *Circle's Allaire: Stablecoins Could Expand by Trillions in 10 Years, Will Be Integral Part of Global Financial System*, COINDESK (Oct. 24, 2024), https://www.coindesk.com/business/2024/10/24/circles-allaire-stablecoins-could-expand-by-trillions-in-10-years-will-be-integral-part-of-global-financial-system [https://perma.cc/22TV-QE2F] ("Allaire said he envisions stablecoins – a type of cryptocurrency whose value is pegged to a conventional currency like the U.S. dollar or euro – capturing a 5% to 10% share of a global money supply of $100 trillion over the next decade as the technology spreads.").

124. *Congress Faces Decision on Stablecoin Legislation and Global Competition*, HOLDER.IO (Apr. 4, 2025), https://holder.io/news/congress-stablecoin-legislation-competition/ [https://perma.cc/B3T7-8X55].

125. For example, Trump announced that the U.S. would create a strategy crypto reserve. Allison Durkee, *Trump Announces 'Crypto Strategic Reserve'—Here's What to*

Stablecoins are more likely to succeed as a form of currency than other forms of privately issued money. Unlike money market mutual funds ("MMMFs") that are not directly transferable[126] or traditional cryptocurrencies whose prices are volatile, stablecoins' attributes allow them to more aptly function as money.[127] Academic literature commonly references three functions of money: a store of value, unit of account, and medium of exchange.[128] As discussed below, stablecoins perform each of these functions, allowing them to compete with sovereign currencies in ways that other privately issued short-term liabilities have not.[129]

When cryptocurrency holders anticipate market downturns they often switch their crypto to stablecoins to mitigate volatility and avoid the higher switching costs associated with converting to fiat currency, thus allowing stablecoins to operate as a store of value.[130] With ostensible price stability and a relatively low cost of currency exchange, stablecoins offer the ability to function as a unit of account as well.[131] Then, on cryptoexchanges, stablecoins are used as a medium of exchange to acquire other cryptocurrencies.[132]

Aside from merely substituting for U.S. dollars, cryptoenthusiasts believe that stablecoins have features, such as speed, transparency, security, programmability, and cross-border capability, that make them superior.[133] These purported features may woo certain users away from sovereign currencies like the U.S. dollar. The primary concern is that, if widely adopted, stablecoins could create their own monetary systems, with their own account-based structures built on top.[134] Further, in

---

Know, FORBES (Mar. 2, 2025), https://www.forbes.com/sites/alisondurkee/2025/03/02/trump-announces-strategic-crypto-reserve-heres-what-to-know/ [https://perma.cc/NP6P-DGGR].

126. Martino, *supra* note 62, at 7.

127. Dionysopoulos & Urquhart, *supra* note 1, at 2.

128. *See, e.g.*, Steven L. Schwarcz, *Money: A Functional Analysis*, 30 STAN. J.L., BUS. & FIN. (forthcoming 2025) (manuscript at 1, 3 n.4) (on file with author).

129. Gorton & Zhang, *supra* note 19, at 963.

130. Dionysopoulos & Urquhart, *supra* note 1, at 2.

131. Isaiah Hull & Or Sattath, *Revisiting the Properties of Money* 6 (Sveriges Riksbank Working Paper No. 406, 2021), https://www.riksbank.se/globalassets/media/rapporter/working-papers/2021/no.-406-revisiting-the-properties-of-money.pdf [https://perma.cc/3RK9-262Z].

132. Dionysopoulos & Urquhart, *supra* note 1, at 2.

133. *See* Brandon Zemp, *The Power of Stablecoins - Enabling Fast and Efficient Cross-Border Transactions*, FORBES (Apr. 5, 2023), https://www.forbes.com/sites/forbesbooksauthors/2023/04/05/the-power-of-stablecoinsenabling-fast-and-efficient-cross-border-transactions/ [https://perma.cc/4RVU-2DPL].

134. Gorton & Zhang, *supra* note 19, at 967–68.

Gorton and Zhang's view, this could destroy the central bank's ability to implement monetary sovereignty as it challenges the central bank's monopoly on money creation.[135]

This concern, once considered a remote possibility, appears increasingly likely under the second Trump Administration.[136] During his campaign, Trump embraced the moniker "crypto president," launching a cryptocurrency named $Trump.[137] Indeed, on his second day as president, he signed an executive order which aims to "secure America's position as the world's leader in the digital asset economy."[138] This swift action signals a shift toward a more favorable regulatory stance on cryptocurrency at the highest levels of government. Indeed, the market cap of crypto has grown to over $3 trillion since the November 2024 election.[139]

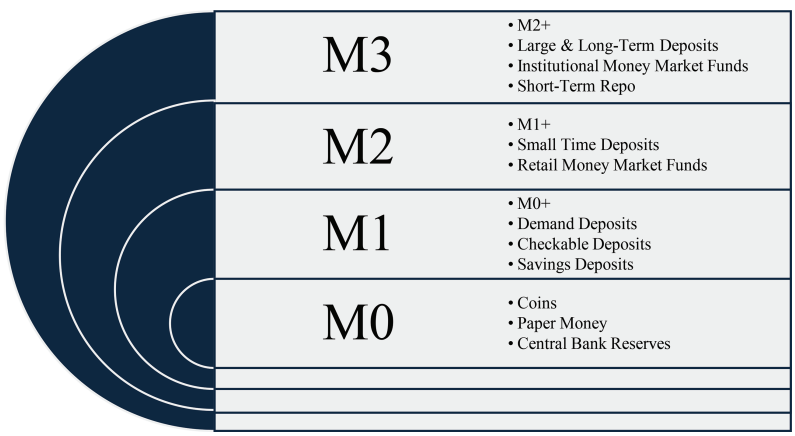
2. Stablecoin Issuers Amplify Private Liquidity Beyond Sovereign Control.

As stablecoins grow in popularity, though, so too does their ability to impede the monetary sovereignty of the United States. As discussed in Part I, the ability to control the value of the currency is a primary component of monetary sovereignty. The United States, through the Fed, attempts to control inflation through its monetary policy tools. Stablecoin issuers have operated without regulation, amplifying private liquidity beyond sovereign control and undermining regulatory efforts.

Economists measure four categories of money supply: M0, M1, M2, and M3.[140] M0, referred to as the monetary base, measures the sovereign money in circulation.[141] M1 includes M0 and all account-based demand

135. *Id.* at 960.
136. Shen, *supra* note 2.
137. Joel Khalili, *The Trump Memecoin's 'Money Grab' Economics*, WIRED (Jan. 28, 2025), https://www.wired.com/story/the-trump-memecoins-money-grab-economics/ [https://perma.cc/8F4U-49FW].
138. Press Release, White House, Fact Sheet: Executive Order to Establish United States Leadership in Digital Financial Technology (Jan. 23, 2025), https://www.whitehouse.gov/fact-sheets/2025/01/fact-sheet-executive-order-to-establish-united-states-leadership-in-digital-financial-technology/ [https://perma.cc/E3EF-MGX9].
139. Tom Westbrook, *Global Crypto Market Tops $3 trillion on Hopes of Trump-Fueled Boom*, REUTERS (Nov. 14, 2024), https://www.reuters.com/technology/crypto-market-capitalisation-hits-record-32-trillion-coingecko-says-2024-11-14/? [https://perma.cc/X93F-5DRD].
140. Mike Finnegan, *Money Supply*, ECON FOCUS, First Quarter 2019, at 6; *M1 (M1SL)*, FED. RSRV. BANK OF ST. LOUIS (Oct. 28, 2025), https://fred.stlouisfed.org/series/M1SL [https://perma.cc/Y699-8JQ4]. Before May 2020, the Fed excluded savings accounts from M1. *M1 (M1SL)*, *supra*.
141. Finnegan, *supra* note 140.

deposits and savings accounts.[142] M2 is equal to M1 plus time deposits (under $100,000) and retail money market funds.[143] M3 includes M2 with the addition of larger time deposits and institutional money market funds.[144]



At least one study has suggested that stablecoin issuers may exert contractionary effects on the U.S. money supply, particularly when they allocate reserves to U.S. Treasury securities rather than to bank deposits.[145] The concern is that, if funds are withdrawn from deposit accounts to purchase stablecoins and those reserves are then placed into Treasuries, the banking system may have fewer deposits on which to extend credit.[146] However, it is important to clarify that such allocations do not reduce the monetary base, which consists of currency and bank reserves at the Fed that remain under the Fed's exclusive control. Stablecoin issuers purchasing Treasuries on the open market simply reallocate funds within the financial system, without "removing" them altogether.

The more significant risk arises when stablecoins are not fully backed by liquid dollar assets. In these cases, issuers function more like fractional-reserve banks, creating money-like liabilities in excess of their liquid holdings. For example, a 2021 enforcement action against Tether revealed that the company had co-mingled customer deposits

142. *Id.*
143. *Id.*
144. *Id.*
145. Ahmed Mehedi Nizam, *How the Fiat-Backed Stablecoins Are Manipulating US Money Supply* 16 (Munich Personal RePEc Archive Working Paper, 2023), https://mpra.ub.uni-muenchen.de/117948/1/Stablecoins.pdf [https://perma.cc/JQD2-UBTX].
146. *Id.* at 16. Without stablecoins, such funds would likely have been deposited in U.S. banks. *Id.* Empirical evidence indicates that U.S. banks allocate a smaller proportion of their resources to treasury securities compared to stablecoin issuers. *Id.*

with operational funds and invested in less-liquid instruments such as commercial paper and repurchase agreements.[147] When redemptions surged, customers could not be repaid in dollars on demand—demonstrating that under-backed stablecoins can generate run dynamics similar to bank deposits.

In this case, regulatory scrutiny was not rooted in concerns about Tether's potential impact on financial stability. Rather, the enforcers accused Tether of making fraudulent misrepresentations to its customers.[148] Tether had claimed that customers' funds would be "100% backed by . . . traditional currency held in our reserves."[149] In other words, if Tether had not misrepresented its reserve status to its customers, it could have continued with these practices.

Relatedly, looking at dollar creation, the Fed circulates cash and creates new dollars through open market operations.[150] Banks also create money through the fractional reserve system, and the United States and individual states exercise monetary sovereignty over this private money creation through chartering.[151] Stablecoin issuers, on the other hand, do not create new dollars per se, but stablecoins amplify liquidity in crypto-ecosystems. They can be re-hypothecated (i.e., used as collateral again and again), increasing the supply of privately issued money.

The central argument, then, is not that stablecoins mechanically change the Fed's monetary aggregates, but that by issuing unregulated, money-substitute liabilities, stablecoin issuers can erode the government's exclusive authority over money creation. Unlike banks, whose activities are constrained by safety-and-soundness regulation, stablecoin issuers have greater discretion in how they use customer funds, increasing both legal and financial risks.[152] Thus, stablecoin issuers occupy a unique position that enables them to undermine the U.S. monetary sovereignty (as long as they are not fraudulent in these endeavors).[153]

3. Stablecoin Issuers Function as Unregulated Banks.

As noted in Part I.C, the United States asserts monetary sovereignty through bank regulation. Under U.S. law, only chartered banks can

147. *In re* Tether Holdings Ltd., CFTC No. 22-04, 2021 WL 8322874, at 5-7 (Oct. 15, 2021).
148. *Id.* at 8.
149. *Id.* at 4.
150. *See supra* notes 6–7 and accompanying text.
151. *See supra* notes 8–13, 94–96 and accompanying text.
152. *See, e.g.*, 12 C.F.R. § 204.2 (2025) (providing the reserve requirements for depository institutions).
153. As discussed in Part III.A., however, newly passed legislation will likely address this particular threat.

accept deposits.[154] Yet, without a charter, stablecoin issuers essentially "accept deposits" in that they receive customer funds in exchange for stablecoins, which are redeemable on demand, mirroring the deposit-redeem dynamic of banks.[155] Indeed, cryptocurrency exchanges initially established stablecoin providers to "accept deposits" and convert the deposits to on-chain representations of "deposits."[156]

Even though stablecoins are treated as deposits by users, stablecoin issuers have not been restricted in how they use their "depositors'" funds in the way that banks are.[157] In the wake of the Great Depression, Congress passed the Glass-Steagall Act, which forced the separation of commercial and investment banks by restricting broker-dealers from accepting deposits, disallowing Federal Reserve member banks from forming affiliations with investment banks, preventing member banks from engaging in equity and non-investment grade securities investments, and prohibiting employee interlocks.[158] This division was aimed at preventing banks from speculating with customers' deposits by establishing clear boundaries between true banking and investment activities, with the aim of fostering stability in banking.[159]

In 1999, the Gramm-Leach-Bliley Act repealed Sections 20 and 32 of the Glass-Steagall Act, thereby permitting commercial banks to again affiliate with investment banks.[160] Section 21, which prohibits depository institutions from engaging in securities underwriting, was not

154. Glass-Steagall Act (Banking Act of 1933), Pub. L. No. 73-66, 48 Stat. 162 (1933) (codified in part as amended in scattered sections of 12 U.S.C., repealed in part by the Gramm-Leach-Bliley Act of 1999, Pub. L. No. 106-102, 113 Stat. 1338 (1999)).

155. Gorton & Zhang, *supra* note 20, at 924–25; *see also* Hilary Allen, *DeFi: Shadow Banking 2.0?*, 64 Wm. & Mary L. Rev. 919, 943-46 (discussing the deposit-like qualities of stablecoins); Howell E. Jackson & Morgan Ricks, *Locating Stablecoins Within the Regulatory Perimeter*, Harv. L. Sch. F. on Corp. Governance (Aug. 5, 2021), https://corpgov.law.harvard.edu/2021/08/05/locating-stablecoins-within-the-regulatory-perimeter/ [https://perma.cc/6PMV-Q6XK] ("The question for Tether and other stablecoin issuers, in other words, is whether they are engaged 'to any extent whatever' in the business of receiving 'Glass-Steagall' deposits.").

156. Dionysopoulos & Urquhart, *supra* note 1, at 2.

157. As discussed in Part III.A., however, newly passed legislation will likely address this particular threat.

158. Barr, Jackson & Tahyar, *supra* note 93, at 53. Section 32 of the Act prohibited officer, director, and employee interlocks between member banks and securities firms. Glass-Steagall Act (Banking Act of 1933), Pub. L. No. 73-66, § 32, 48 Stat. 162 (1933) (codified in part as amended in scattered sections of 12 U.S.C., repealed in part in 1999). This prevented officers, directors, or employees of securities firms from serving as an officer, director, or employee of bank. *Id.*

159. Julia Maues, *Banking Act of 1933 (Glass-Steagall)*, Fed. Rsrv. Hist. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/glass-steagall-act [https://perma.cc/6MCT-DGEN].

160. Gramm-Leach-Bliley Act, Pub. L. No. 106-102, 113 Stat. 1338 (1999).

repealed, however.[161] Further, the Volcker Rule, part of the Dodd-Frank Act of 2010, restricted banks from proprietary trading and limited their investments in hedge funds and private equity.[162] In 2018, the Volcker Rule was modified as part of the Economic Growth, Regulatory Relief, and Consumer Protection Act, which exempted from the Rule banks with less than $10 billion in total assets and with trading assets and liabilities comprising less than 5%.[163] Yet, the Volcker Rule remains in effect for non-exempt banks, prohibiting them from engaging in certain speculative activity.

Stablecoin issuers are not bound by these restrictions and are known to engage in speculative activities with customers' funds. As previously discussed, a notable example is Tether, which faced CFTC scrutiny for misleading statements about its reserves.[164] The investigation revealed that, between 2016 and 2018, Tether only held sufficient fiat reserves to back its stablecoins 27.6% of the time.[165] The remaining reserves were held in various assets, including unsecured receivables and non-fiat investments, indicating engagement in speculative activities.[166] Furthermore, a 2022 report by the International Monetary Fund ("IMF") highlighted that stablecoin issuers often invest in a range of financial assets to generate returns, which can include commercial paper and other short-term debt instruments.[167]

The concerns surrounding the speculation with customer funds are twofold and interrelated. First, risky investments inherently carry the potential for financial loss, and if the issuers incur significant losses, they may face insolvency.[168] Second, if the investments are illiquid, the

161. Gorton & Zhang, *supra* note 20, at 950. Artur Wilmarth contends that subsequent regulatory changes and bank activities have rendered Section 21 functionally obsolete, however, effectively nullifying its restrictions. Arthur E. Wilmarth, Jr., *The Road to Repeal of the Glass-Steagall Act*, 17 WAKE FOREST J. BUS. & INTELL. PROP. L. 441, 445 (2017).

162. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 619, 124 Stat. 1376 (2010) (codified at 12 U.S.C. § 1851); *see generally* Charles K. Whitehead, *The Volcker Rule and Evolving Financial Markets*, 1 HARV. BUS. L. REV. 39 (2011) (analyzing the relationship between the Glass-Steagall Act and the Volcker Rule).

163. Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. No. 115-174, § 203, 132 Stat. 1296 (2018).

164. *In re* Tether Holdings Ltd., CFTC No. 22-04, 2021 WL 8322874 (Oct. 15, 2021).

165. *Id.* at 5.

166. *See id.*

167. INT'L MONETARY FUND, REGULATING THE CRYPTO ECOSYSTEM: THE CASE OF STABLECOINS AND ARRANGEMENTS 20 (2022), https://doi.org/10.5089/9798400221675.063.

168. Gary Richardson et al., *Stock Market Crash of 1929*, FED. RSRV. HIST. (Nov. 22, 2013), https://www.federalreservehistory.org/essays/stock-market-crash-of-1929 [https://perma.cc/R7CM-EF59] (describing speculation by banks leading up the Great Depression).

platform may be unable to meet customer redemption requests, further heightening the risk of insolvency.[169] While similar concerns exist with bank deposits, a critical distinction lies in the fact that bank deposits are insured, or at least insurable, by the FDIC, whereas the funds held by stablecoin issuers do not enjoy such protections.[170]

In addition to separating commercial and investment banking, the Glass-Steagall Act created federal deposit insurance and established the FDIC to administer the program.[171] Under this program, the federal government guarantees that depositors will be reimbursed up to a fixed amount of losses in the event of a bank failure.[172] This framework has been instrumental in stabilizing the banking system by significantly reducing the incidence of bank runs.[173]

Without such regulatory safeguards, several stablecoin runs have occurred. A prominent example is the collapse of TerraUSD ("UST"), an algorithmic stablecoin that lost its peg to the U.S. dollar following a sudden loss of market confidence in May 2022.[174] This decoupling led to a broader financial crisis within the Terra ecosystem, significantly impacting the cryptocurrency market.[175] The collapse resulted in significant losses for investors.[176] In total, the Terra ecosystem—comprising UST and its sister token, Luna—saw an estimated $40 billion in market value evaporate.[177]

These crises not only expose the vulnerabilities of stablecoins but also reveal that they carry the same deposit risks as banks. Yet, stablecoin issuers operate without the oversight or protections imposed on banks. By effectively accepting deposits without being subject to equivalent regulatory safeguards, stablecoin issuers erode the United States' monetary sovereignty. A key benefit of strong monetary sovereignty is the ability to maintain financial stability during crises. As stablecoins become more prevalent and U.S. monetary sovereignty weakens, the

169. Allen, *supra* note 155, at 943–46. *See also* Int'l Monetary Fund, *supra* note 167, at 20.

170. Press Release, Fed. Deposit Ins. Corp., Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies (July 29, 2022), https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html [https://perma.cc/7F3L-TRBT].

171. Barr, Jackson & Tahyar, *supra* note 93, at 53.

172. *Id.* at 256.

173. *Id.* at 259.

174. *What Happened to Terra?*, Corp. Fin. Instit. (Oct. 13, 2022), https://corporatefinanceinstitute.com/resources/cryptocurrency/what-happened-to-terra/ [https://perma.cc/AG9ZWA4J].

175. *Id.*

176. *Id.*

177. *Id.*

risk that stablecoin-related shocks will destabilize the broader economy grows.[178]

4. Stablecoins Allow Users to Bypass Controls that Restrict Movement of Funds in and out of the U.S.

A key component of monetary sovereignty is a nation's ability to regulate the use of its own currency and "any other currency within its territory."[179] Stablecoins threaten both prongs of this authority by enabling unregulated transactions that escape the oversight of U.S. financial regulators.[180] As described in Part I.C, the United States enforces its authority over the dollar and other currencies by regulating how they move through U.S. financial institutions. Under the BSA, both banks and Money Services Businesses ("MSBs"), including money transmitters, must implement AML programs, conduct customer due diligence, monitor transactions, and report suspicious activity.[181]

A crucial distinction arises when examining how the term "money" is interpreted within the context of BSA regulations.[182] Financial institutions are typically defined based on their involvement with "currency"—that is, the tangible coins and paper notes issued by the U.S. or other governments—or with financial instruments that are denominated in such currency.[183] However, when it comes to determining whether an activity qualifies as money transmission under the BSA,

178. *See* Hilary Allen, *The Superficial Allure of Crypto*, Int'l Monetary Fund Fin. & Dev. Mag., Sep. 2022, https://www.imf.org/en/Publications/fandd/issues/2022/09/Point-of-View-the-superficial-allure-of-crypto-Hilary-Allen [https://perma.cc/K492-AM2X]. If confidence in a stablecoin is shaken—whether by a hack or losses in its reserve assets—holders will rush to redeem at par. To meet those redemptions, the issuer must liquidate its reserves, pushing down asset prices and threatening broader market stability. In short, a run on a large stablecoin could simultaneously incapacitate the stablecoin as a means of transaction and transmit stress to traditional financial markets. *Hearing on* "*Stablecoins: How Do They Work, How Are They Used, and What Are Their Risks?" Before the S. Comm. on Banking, Hous., & Urb. Aff.*, 117th Cong. 5 (2021) (statement of Hilary J. Allen, Professor of L., Am. Univ. Wash. Coll. of L.).

179. Gianviti, *supra* note 3, at 2.

180. As Hilary Allen and Graham Steele put it: "[T]he illusion of decentralization facilitates illicit finance," which is exacerbated by the fact that "the Trump administration and Republican congressional majority are treating crypto as if it is exceptional and therefore exempt from long-standing financial law." Hilary J. Allen & Graham Steele, *How Congress Can Stop the Looming Crypto Disaster*, Just Sec. (May 7, 2025), https://www.justsecurity.org/110820/how-congress-can-stop-crypto-crash/ [https://perma.cc/F2AR-243Z].

181. Fin. Crimes Enf't Network, Money Laundering Prevention 4–9.

182. Chris Brummer, Fintech Law in a Nutshell 449 (2020).

183. *Id.*

the scope broadens significantly. Per FinCEN's interpretation, "money" is not limited to physical currency but also encompasses "substitutes for currency."[184] This broader interpretation means that transferring value via alternative mediums—such as stablecoins—falls within the definition of money transmission, subjecting the entity involved to BSA compliance, even though no physical dollars change hands.[185]

Applying FinCEN's guidance on cryptocurrencies, stablecoin issuers should register as MSBs because they act as "administrators" of "virtual currencies."[186] Yet, in practice, this oversight is often ineffective.[187] While major stablecoin issuers like Tether Limited, Binance, Circle, Paxos, and Gemini are registered as MSBs,[188] some stablecoins, such as DAI or FRAX, are issued by so-called decentralized autonomous organizations ("DAOs") with no centralized entity responsible for compliance.[189] Further, even for the registered platforms, AML compliance has been inconsistent. Prior to a 2023 enforcement action,[190] Binance had allowed vast amounts of laundered money to flow through its platform and failed to comply with AML monitoring and reporting requirements.[191]

Then, for centralized issuers, AML obligations are most relevant at the point of issuance: Most illicit activity occurs after minting when tokens circulate through peer-to-peer markets and decentralized exchanges.[192] For example, Tether's MSB status has done little to prevent its use in criminal networks: In 2023 alone, TRM Labs linked Tether to

184. Fin. Crimes Enf't Network, FIN-2013-G001, Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies (2013) [hereinafter FinCEN Virtual Currencies Guidance].

185. Brummer, *supra* note 182, at 449.

186. FinCEN Virtual Currencies Guidance, *supra* note 184; *see also* Kenneth A. Blanco, Dir., Fin. Crimes Enf't Network, Prepared Remarks at the Chainalysis Blockchain Symposium (Nov. 15, 2019), https://www.fincen.gov/news/speeches/prepared-remarks-fincen-director-kenneth-blanco-chainalysis-blockchain-symposium [https://perma.cc/9RKU-Q7ZE].

187. *See* Fin. Action Task Force, Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers 12 (2021).

188. *MSB Registrant Search Web Page*, Fin. Crimes Enf't Network, https://www.fincen.gov/msb-state-selector [https://perma.cc/U9SR-WB4S].

189. MakerDAO, The Maker Protocol: MakerDAO's Multi-Collateral Dai (MCD) System (2020).

190. Plea Agreement at 3–4, United States v. Binance Holdings Ltd., d/b/a Binance.com, No. 23-178RAJ (W.D. Wash. Nov. 21, 2023). In 2023, the U.S. government imposed a $4.3 billion penalty on Binance for violations of anti-money laundering and sanctions requirements. *Id.*

191. *Id.* at 3.

192. Fin. Crimes Enf't Network, FIN-2019-A003, Advisory on Illicit Activity Involving Convertible Virtual Currency 2–7 (2019).

$19.3 billion in illicit transactions.[193] The UK's National Crime Agency uncovered Russian money laundering operations that used Tether to convert physical cash into crypto and fund drug purchases across Western countries.[194] With its price stability and global transferability, evidence suggests that Tether is increasingly becoming the de facto currency of organized crime networks.[195]

Sanctions are also a mechanism by which a country may "regulate the use of its currency." Through sanctions, a country can restrict or prohibit the use of the nation's currency and its financial institutions for transactions that are deemed harmful to national security, foreign policy, or economic interests.[196] When a country imposes sanctions, it effectively uses its control over its currency to limit or block the financial activities of specific foreign governments, individuals, or entities.[197] This control can include freezing assets held in the nation's financial system, prohibiting financial transactions in its currency, or restricting access to its financial markets.

The U.S. government, through the Office of Foreign Assets Control ("OFAC"), administers and enforces sanctions against foreign countries, individuals, and entities deemed threats to national security,

193. TRM Labs, The Illicit Crypto Economy 4 (2024).

194. Angus Berwick, *Authorities Target Russian Criminal Gangs Who Used Crypto to Move Cash*, Wall St. J. (Dec. 4, 2024), https://www.wsj.com/finance/currencies/authorities-target-russian-criminal-gangs-who-used-crypto-to-move-cash-3363311d [https://perma.cc/BS6D-V65X]. A Financial Times investigation further highlighted Tether's growing appeal among cartels, hackers, and sanctioned entities due to its combination of price stability and cross-border transferability, while also noting Tether's profits had soared to $5.2 billion in the first half of 2024—a figure comparable to major banks. Miles Johnson, *The Criminal's 'Go-to Cryptocurrency' Has a New Friend in the White House*, Fin. Times (Dec. 11, 2024), https://www.ft.com/content/b3c5b67d-1df8-4417-8dd5-2c86d76d6392 [https://perma.cc/6KHK-VV35].

195. Johnson, *supra* note 194.

196. David Mortlock et. al, *Sanctions: The US Perspective,* Glob. Investigations Rev. (Nov. 13, 2024), https://globalinvestigationsreview.com/guide/the-practitioners-guide-global-investigations/2025/article/sanctions-the-us-perspective [https://perma.cc/KWR9-2Q4W]. One prominent example of a U.S. sanction that prohibits the use of the U.S. dollar is the sanctions against Iran. *Iran Sanctions, FAQ No. 606*, Off. of Foreign Assets Control (Aug. 6, 2018), https://ofac.treasury.gov/faqs/606 [https://perma.cc/9XQP-8M9Z]. Critics argue that the United States has turned the dollar into a tool of coercion, particularly when it enforces sanctions unilaterally, without backing from its allies or international partners. *See* Sam Boocker & David Wessel, *The Changing Role of the Dollar*, Brookings Instit. (Aug. 23, 2024), https://www.brookings.edu/articles/the-changing-role-of-the-us-dollar/ [https://perma.cc/222S-JJPT].

197. Ntina Tzouvala, *Sanctions, Dollar Hegemony, and the Unraveling of Third World Sovereignty*, Yale J. Int'l L.: Online (June 10, 2024), https://yjil.yale.edu/posts/2024-06-10-sanctions-dollar-hegemony-and-the-unraveling-of-third-world-sovereignty [https://perma.cc/TWU8-R27S].

foreign policy, or the economy.[198] Under the International Emergency Economic Powers Act, the President has the authority to declare a national emergency and grant OFAC the power to freeze assets, prohibit financial transactions, and restrict the use of U.S. financial institutions in certain dealings.[199] Through executive orders and acts of Congress, the United States has imposed comprehensive sanctions against Cuba, Iran, North Korea, Syria, and Russia, as well as specific regions in Ukraine.[200] The United States has imposed more limited sanctions against countries such as Afghanistan, Iraq, Yemen, and Venezuela.[201]

Stablecoins, by design, undermine this authority by facilitating borderless transactions that allow users to bypass traditional capital controls.[202] With this, stablecoins have become a tool for some sanctioned countries to evade these measures. In 2022, Russia indicated its intent to use stablecoins for cross-border transactions to circumvent sanctions.[203] By 2024, Deputy Secretary of the Treasury Wally Adeyemo acknowledged that Russia increasingly relied on stablecoins for this purpose.[204] Further reports in March 2025 indicated that Russian oil companies were using stablecoins like Tether to convert currencies such as the Chinese yuan and Indian rupees into Russian rubles, further weakening the effectiveness of U.S. sanctions.[205]

198. *About OFAC*, Off. of Foreign Assets Control, https://ofac.treasury.gov/about-ofac [https://perma.cc/XDR5-BLMB].

199. Christopher A. Casey et al., Cong. Rsch. Serv., R45618, The International Emergency Economic Powers Act: Origins, Evolution, and Use 25 (2020).

200. *OFAC Sanctioned Countries*, Princeton U. Off. of Rsch. & Project Admin., https://orpa.princeton.edu/export-controls/sanctioned-countries [https://perma.cc/QMY5-K95F].

201. *Id.*

202. David Carlisle, *Ensuring Sanctions Compliance for Stablecoins with Ecosystem Monitoring*, Elliptic (Aug. 13, 2024), https://www.elliptic.co/blog/ensuring-sanctions-compliance-for-stablecoins-with-ecosystem-monitoring [https://perma.cc/7Q5S-T8EA] ("Because they offer users the ability to conduct peer-to-peer, pseudonymized transactions across borders without the wild price fluctuations common to other cryptoassets, stablecoins can enable sanctioned actors and nation states to move funds reliably outside of the banking sector.").

203. *Sanctions Busting Russian Stablecoin Would Test US Regulations*, PYMTS (Sep. 7, 2022), https://www.pymnts.com/cryptocurrency/2022/sanctions-busting-russian-stablecoin-would-test-us-regulations/ [https://perma.cc/Z4PF-SWLT].

204. Andrea Shalal, *US Treasury's Adeyemo Warns "Malign" Actors Are Using Virtual Assets*, Reuters (Apr. 10, 2024), https://www.reuters.com/markets/us/us-treasurys-adeyemo-warns-malign-actors-are-using-virtual-assets-2024-04-09/ [https://perma.cc/SS53-AJH7].

205. Anna Hirtenstein & Chen Aizhu, *Russia Leans on Cryptocurrencies for Oil Trade, Sources Say*, Reuters (Mar. 14, 2025), https://www.reuters.com/business/energy/russia-leans-cryptocurrencies-oil-trade-sources-say-2025-03-14/ [https://perma.cc/HY2V-CNNX]. U.S. sanctions on Russia broadly block transactions involving

Similarly, Venezuela, facing reimposed oil sanctions in 2024, began requesting partial payment for oil contracts in Tether.[206] This allowed the state-owned oil company to maintain dollar-based pricing while avoiding direct reliance on the traditional banking system.[207] North Korea, too, has been implicated in using stablecoins as part of its illicit activities. After conducting cyber thefts and hacks, North Korea frequently exchanges stolen funds for stablecoins, which it then launders through decentralized platforms.[208] Moreover, North Korean operatives have used stablecoins to receive compensation for their work at crypto exchanges, where they disguise their roles as IT professionals to facilitate cybercrime.[209]

In conclusion, stablecoins present a significant challenge to the monetary sovereignty of the United States. By enabling sanctioned countries and criminal entities to circumvent financial controls, stablecoins undermine the ability of the United States to regulate the use of its own currency and other currencies within its borders. As the use of stablecoins continues to grow, stablecoins increasingly compromise the United States' ability to monitor, restrict, or block the use of both its own currency and foreign currencies within its borders.

***

In essence, Part II shows stablecoins' growing role as a substitute for sovereign money, their ability to amplify private liquidity beyond sovereign control, and their function as unregulated banks collectively challenge the foundations of U.S. monetary sovereignty. Left unchecked, these dynamics could lead to a financial system where stablecoin issuers wield significant influence over monetary policy without the corresponding oversight imposed on traditional financial institutions. As the regulatory landscape shifts under the second Trump Administration's embrace of cryptocurrency, the risks associated with stablecoins become even more pronounced. Given these challenges, the next Part explores potential solutions for mitigating the threats

---

designated Russian banks or individuals, including prohibitions on the use of U.S. correspondent accounts and participation in the U.S. financial system. By settling trade in stablecoins instead of passing through U.S. dollar rails, actors can evade those prohibitions. *Frequently Asked Question* 967: *Russian Harmful Foreign Activities Sanctions*, Off. of Foreign Assets Control, (Feb. 22, 2024), https://ofac.treasury.gov/faqs/967 [https://perma.cc/9QL4-7F82].

206. Marianna Parraga & Deisy Buitrago, *Exclusive: Venezuela to Accelerate Cryptocurrency Shift as Oil Sanctions Return*, Reuters (Apr. 23, 2024), https://www.reuters.com/business/finance/venezuela-accelerate-cryptocurrency-shift-oil-sanctions-return-2024-04-22/ [https://perma.cc/7VFT-HH6R].

207. *Id.*

208. Carlisle, *supra* note 202.

209. *Id.*

stablecoins pose, including regulatory interventions, policy reforms, and structural safeguards that could preserve the monetary sovereignty of the United States.

III. Potential Responses

In 2024, stablecoin transfer volumes reached $27.6 trillion, surpassing the combined volumes of Visa and Mastercard by 7.7%.[210] As stablecoins have continued to gain traction in financial markets, policymakers face growing pressure to craft effective regulatory responses. Ultimately, this mounting pressure culminated in the passage of the GENIUS Act. This Part examines the new legislation alongside other proposed responses to stablecoins, advocating for the aim of preservation of monetary sovereignty to guide policy development. Section A categorizes existing proposals into five main approaches, assessing their strengths and implications for monetary sovereignty. Then, Section B offers targeted policy recommendations aimed at addressing the specific threats that stablecoins pose to U.S. monetary sovereignty.

A. Proposals-to-Date

As stablecoins continue to challenge traditional financial and regulatory frameworks, policymakers and scholars have advanced a range of responses to mitigate their risks. These proposals often focus on financial stability risks and generally fall into five broad categories: (1) introducing central bank digital currencies ("CBDCs") as a public alternative to stablecoins, (2) banning or heavily taxing stablecoins to discourage their use, (3) limiting stablecoin adoption through restrictions on their use or issuance, (4) regulating stablecoins like MMMFs, and (5) regulating stablecoin issuers. This section examines each of these approaches, assessing their potential effectiveness in addressing the threats stablecoins pose to monetary sovereignty.

1. Compete with Stablecoins via a CBDC.

The emergence of stablecoins has fueled debates about the potential for a CBDC as a means to maintain monetary sovereignty and control over the digital currency space.[211] A CBDC is a public digital currency

210. *Congress Faces Decision on Stablecoin Legislation and Global Competition*, *supra* note 124.

211. *See, e.g.*, Markus K. Brunnermeier, Harold James & Jean-Pierre Landau, *The Digitalization of Money* 1 (Nat'l Bureau of Econ. Rsch., Working Paper No. 26300, 2019), https://doi.org/10.3386/w26300.

issued by a central bank, representing a liability of the central bank.[212] Until recently, the United States was among more than 130 countries exploring a CBDC as a means to preserve monetary sovereignty and enhance payment efficiency.[213] Any momentum toward a CBDC in the United States was halted, though, when President Trump signed an executive order banning the creation of a CBDC in January 2025.[214]

The potential issuance of a CBDC has been viewed as a direct response to the perceived threat from stablecoins, with CBDCs offered as a means for the United States to adapt and maintain its dominant position in the evolving digital financial landscape.[215] For example, Gorton and Zhang argue that a CBDC can help maintain the monetary sovereignty of the United States by out-competing private stablecoins.[216] They suggest that there is market demand for private money, and it takes a product to beat a product.[217] In prior centuries, private money circulated because there was no better alternative.[218] They believe that CBDCs could be a better product than private stablecoins and could be used in cross-border transactions if designed properly.[219]

For context, there are four key design considerations for a CBDC: (i) account-based vs. token-based, (ii) wholesale vs. retail, (iii) direct vs. indirect issuance, and (iv) centralized vs. decentralized settlement.[220] Some central banks are exploring account-based CBDCs, which would digitalize cash balances in existing central bank accounts, while others are considering token-based CBDCs that function independently

212. Skinner, *supra* note 7, at 152.

213. Marc Jones, *Trump's Digital Dollar Ban Gives China and Europe's CBDCs Free Rein*, Reuters (Jan. 28, 2025), https://www.reuters.com/markets/currencies/trumps-digital-dollar-ban-gives-china-europes-cbdcs-free-rein-2025-01-28 [https://perma.cc/XEQ8-F2Z9].

214. *Id.*

215. Raphael Auer et al., *Central Bank Digital Currencies: Motives, Economic Implications and the Research Frontier*, 14 Ann. Rev. Econs. 697, 698-99 ("Many central banks see CBDCs as a public infrastructure that could help to ensure competition and open markets in the face of competitive threats from the incursion of big techs into payment systems."). Some scholars more broadly view CBDCs as a way to modernize payment systems, addressing issues of cost, speed, and access. John Crawford, Lev Menand & Morgan Ricks, *Fedaccounts: Digital Dollars*, 89 Geo. Wash. L. Rev. 113, 116 (2021).

216. Gorton & Zhang, *supra* note 19, at 995-97.

217. *Id.* at 997.

218. *Id.*

219. *Id.*

220. Wouter Bossu et al., *Legal Aspects of Central Bank Digital Currency: Central Bank and Monetary Law Considerations* 9 (Int'l Monetary Fund, Working Paper 20/254, 2020), https://www.imf.org/-/media/files/publications/wp/2020/english/wpiea2020254-print-pdf.pdf [https://perma.cc/6E5X-A8P7] (explaining the different design considerations and comparing them).

of accounts.[221] CBDCs can be issued exclusively to large financial institutions and public entities (i.e., wholesale) or made available to the general public (i.e., retail).[222] In a direct model, central banks would issue and manage the CBDC themselves, whereas in an indirect model, commercial banks would issue fully backed liabilities on the central bank's behalf.[223] Finally, CBDC transfers could be settled centrally, using existing real-time gross settlement ("RTGS") systems, or by leveraging distributed ledger technology ("DLT").[224] While each design choice carries significant legal implications,[225] this paper focuses more generally on how a CBDC could impact monetary sovereignty.

Christina Skinner contends that a CBDC may not bolster the monetary sovereignty of the United States and may instead undermine the dollar's status.[226] In her view, the United States has historically embraced the concept of *popular* monetary sovereignty, where the private sector has "wide latitude" in creating and issuing money.[227] She asserts that the creation of a CBDC would likely shift the balance of issuance rights from the people to the state, as it could draw demand away from private-sector issued money like bank deposits.[228] Although the United States does have a long history of allowing private money creation, "wide latitude" might be an overstatement. Indeed, the private sector plays a role in issuing money (e.g., through bank deposits), but it does so under the regulatory authority of the state.[229] Further, the United States may exercise its constitutional authority to issue sovereign money without regard to the impact on privately issued money, regardless of its form.

When considering the goal of preserving monetary sovereignty, a CBDC still may not be the right solution, however. Cryptoenthusiasts, the primary users of stablecoins, value decentralization and autonomy, and are unlikely to be swayed by a CBDC, as it would remain under the

221. *Id.*
222. *Id.*
223. *Id.* at 10. Gorton and Zhang argue in favor of the indirect model, where the consumer has a claim on an intermediary, with the central bank keeping track of the accounts. Gorton & Zhang, *supra* note 19, at 963. Under their preferred design option, a CBDC would be issued as a digital version of physical cash. *Id.* This means that if someone were to withdraw funds from their bank account, they could choose to receive either digital cash (on their phone or in a blockchain "wallet") or physical cash. *Id.*
224. Bossu et al., *supra* note 220, at 10.
225. *See id.* at 9–13 (discussing the general legal implications of these choices).
226. Skinner, *supra* note 7, at 216.
227. *Id.* at 191.
228. *Id.*
229. *See supra* notes 90–111 and accompanying text.

control of the government.[230] This group is driven by a desire to escape traditional financial systems, and the introduction of a CBDC may not deter them from pursuing private stablecoins.[231] Instead of preventing the rise of a parallel monetary system, a CBDC could reinforce the appeal of decentralized currencies by failing to address the underlying motivations of those seeking financial independence from state control.

Skinner also contends that the introduction of a CBDC could undermine property rights in money and erode fiscal discipline by enabling expansive monetary policy interventions, which could reduce confidence in the dollar.[232] This shift could encourage foreign central banks and international businesses to explore alternative reserve currencies, particularly if the U.S. dollar loses its perceived independence from political influence.[233] Thus, if the objective is to strengthen monetary sovereignty without weakening the dollar's status, policymakers may be better served by focusing on existing regulatory frameworks that maintain confidence in the existing monetary system.

2. Ban Stablecoins.

The most direct solution to stablecoins' threat to monetary sovereignty would be to ban them, as ten countries already have.[234] Several scholars argue for banning stablecoins and cryptocurrencies due to concerns over financial stability, monetary sovereignty, and the risks of private money.[235] For example, Gorton and Zhang contend that the

230. Christian Keroles, *Why Central Bank Digital Currencies Can't Compete with Bitcoin,* Bitcoin Mag. (Oct. 10, 2023), https://bitcoinmagazine.com/culture/why-central-bank-digital-currencies-cant-compete-with-bitcoin-? [https://perma.cc/QEW7-NAQK] (explaining the more restricted nature of CBDCs).

231. *Id.*

232. *See* Skinner, *supra* note 7; *see also* Boocker & Wessel, *supra* note 196 (contending that CBDCs challenge the dollar's dominance because they "could also upend the dollar's role as a currency "middleman" by reducing settlement times, making it cheaper and easier to trade non-dollar currencies, and, unlike SWIFT and CHIPS, integrating messaging and payments").

233. *See* Skinner, *supra* note 7, at 216. Skinner suggests that the introduction of a CBDC creates structural incentives and mechanisms that could severely jeopardize this independence, leading to outcomes that undermine confidence in the stability and value of the USD. In her view, "the possibility that the Fed could issue CBDC to monetize the debt creates incentivizes for the Treasury to pressure the Fed to do just that and thus re-exert its 'fiscal dominance.'" *Id.* at 212.

234. Lorena Nessi, *10 Countries Where Crypto Remains Banned in 2025*, CCN (Feb. 3, 2025), https://www.ccn.com/education/crypto/10-countries-where-crypto-remains-banned [https://perma.cc/7EUX-N7SM] (describing bans on cryptocurrencies by ten different countries).

235. Hilary Allen, *The Case for Banning Crypto*, Foreign Affs. (Apr. 5, 2023), https://www.foreignaffairs.com/united-states/crypto-currency-finance-blockchain-case-banning-rewards? [https://perma.cc/CB5J-VH25] (describing risks of cryptocurrencies).

coexistence of private and sovereign money "makes it more difficult to control the money supply and conduct monetary policy."[236] They liken stablecoins to private banknotes from the Free Banking Era, prone to destabilizing runs.[237] To protect the sovereign monopoly, they propose a ban or heavy tax on private stablecoins.[238]

Gorton and Zhang admit, though, that, because of the transnational nature of stablecoins, a U.S.-only ban would be insufficient to address the risks presented by stablecoins, as enforcement would be very challenging.[239] They also note that, from a political perspective, Congress has little appetite to ban stablecoins outright.[240] Indeed, after the 2024 election, "little appetite" is an understatement. As discussed next, Edoardo D. Martino argues that a regulatory ban would be unnecessary if, when effectively regulated, digital money can generate efficiency gains, ameliorating the pain points of the existing payment infrastructures.[241]

3. Limit Stablecoins.

Like Gorton and Zhang, Edoardo D. Martino is critical of the idea that stablecoins and CBDCs can simply coexist in a public-private partnership.[242] Rather than a ban, though, Martino supports limiting convertibility between private digital money and public money, emphasizing that such measures would fragment the market and reduce stability risks.[243]

Martino suggests that the primary way to regulate convertibility is through regulatory designation, where a country would assign digital currencies a place in the hierarchical financial system, preventing them from reaching the top.[244] This involves managing stablecoins' liquidity and safety by ensuring holders do not have overly strong withdrawal or bankruptcy rights, thus preventing stablecoins from becoming a

236. Gorton & Zhang, *supra* note 19, at 992. On the other hand, Marco Dell'Erba has argued that stablecoins may trigger a more active reaction from governments and central bankers in designing and effectively implementing CBDCs. *See generally* Marco Dell'Erba, *Stablecoins in Cryptoeconomics: From Initial Coin Offerings to Central Bank Digital Currencies*, 22 N.Y.U. J. LEGIS. & PUB. POL'Y 1 (2019).
237. Gorton & Zhang, *supra* note 19, at 994.
238. *Id.* at 997–1000.
239. *Id.* at 997. *See also* Martino, *supra* note 62, at 11 ("[R]esearch shows that despite the ban, the level of crypto adoption in China remains high, suggesting that it is either ineffective or loosely enforced.").
240. Gorton & Zhang, *supra* note 19, at 997–98.
241. Martino, *supra* note 62, at 11.
242. *Id.* at 9.
243. *Id.*
244. *Id.*

reliable store of value.[245] Furthermore, Martino suggests preventing licensed payment systems from settling claims in stablecoins or allowing obligations to the state, such as taxes, to be discharged with stablecoins.[246] According to Martino, stablecoins can be a means of payment among private parties but should not be a widely recognized unit of account.[247]

Viewing Martino's approach through the monetary sovereignty lens, it would indeed shore up monetary sovereignty by preventing private currencies from undermining the state's control over money. By regulating convertibility, the state would maintain control over money, countering the risk of a "hostile takeover" of monetary sovereignty by powerful private entities. This strategy would ensure that private digital currencies do not reach the apex of the financial system, reducing the likelihood of state backstopping. By assigning a regulatory status to digital currencies, the government can emphasize payment efficiency, monetary policy, and financial system stability. Martino's legal approach allows states to actively counter threats from private circulating money. As discussed next, however, alternative proposals aim to regulate stablecoin *issuers* within the existing financial system rather than the assets themselves.

4. Regulate Stablecoins like Money Market Mutual Funds.

One of the most widely discussed approaches to stablecoin regulation is to regulate them like money market mutual funds ("MMMFs"). Several scholars have noted the structural similarities between stablecoins and MMMFs. For example, one study found that fiat-reserve-backed stablecoins are similar to MMMFs in that both instruments are pegged to one unit of account, serve as short-term facilities to par funds, and utilize similar market structures with indirect support through exchanges.[248] Further, another study demonstrated that stablecoin markets suffer from the same "flight to safety" dynamics that MMMF markets do, where investors run from riskier to safer assets during periods of market stress.[249]

245. *Id.*
246. *Id.*
247. *Id.*
248. Nico Oefele et al., *Are Stablecoins the Money Market Mutual Funds of the Future?*, J. Empirical Fin., Dec. 2024, at 18 (describing similarities between MMMF's and fiat-reserve-backed stablecoins).
249. Kenechukwu Anadu et al., Runs and Flights to Safety: Are Stablecoins the New Money Market Funds? 28 (2024).

Given the similarities between the two assets, some scholars and policymakers have proposed regulating stablecoins under a framework similar to that applied to MMMFs. For example, Sheila Bair, former Chair of the FDIC, has suggested that stablecoins be subject to MMMF-style regulation, which would require issuers to hold reserves in cash or highly liquid federally backed securities and to provide enhanced investor transparency. [250]

MMMFs operate under SEC Rule 2a-7, which imposes requirements to ensure liquidity, credit quality, and diversification.[251] The rule mandates that MMMFs maintain a specific percentage of their assets in liquid investments to handle redemption demands during periods of market stress.[252] It also restricts the types of securities MMMFs can hold and imposes limits based on issuer characteristics.[253] To mitigate credit and interest rate risks, the rule sets constraints on the maturity of the securities within MMMF portfolios.[254] Moreover, MMMFs must diversify their holdings to limit exposure for individual issuers, regularly conduct stress tests, and provide monthly detailed portfolio disclosures to the SEC.[255] Rule 2a-7 permits MMMFs to use the amortized cost method for calculating their Net Asset Value, allowing them to value assets at their purchase price instead of at fluctuating market prices. [256]

Bringing stablecoins under Rule 2a-7 would place controls on what issuers do with customers' funds, thereby improving the ability of the United States to maintain monetary sovereignty. As discussed in Part I though, the United States maintains monetary sovereignty, in part, by regulating banks as money creators. Morgan Ricks has proposed treating MMMFs as deposits, suggesting that Rule 2a-7

250. Sheila Bair, *Regulate Stablecoins. Please!*, FIN. TIMES (June 10, 2022) https://www.ft.com/content/981c380f-bb1c-45bd-8d0d-a95b15d96a00 [https://perma.cc/28SF-EMZZ] (explaining the benefits of regulating stablecoins like MMMFs); *see also* Mia Wright, *If It Looks Like a Duck: The Case for Regulating Stablecoins as Money Market Funds*, 18 J.L., ECON. & POL'Y 430, 439–40 (2023) (describing the instability and flight risks of stablecoins).

251. 17 C.F.R. § 270.2a-7 (2024).

252. Specifically, the Rule requires a fund to hold at least 25% of its total assets in daily liquid assets and 50% of its total assets in weekly liquid assets. *Id.* § 270.2a-7(c)(4).

253. Specifically, at least 75% of the fund's assets must be invested in "First-Tier" securities. *Id.* § 270.2a-7(c)(2).

254. Specifically, the rule caps the weighted average maturity (WAM) at 60 days and the weighted average life (WAL) at 120 days and requires that funds maintain at least 10% of assets in daily liquid assets and 30% in weekly liquid assets. *Id.*

255. *Id.* § 270.2a-7.

256. *Id.* § 270.2a-7(a)(2). Other investment companies must follow mark-to-market valuation. MORGAN RICKS, REFORMING THE SHORT-TERM FUNDING MARKETS 22 (2012).

alone without the structural safeguards of the banking system, such as capital requirements or deposit insurance, is insufficient.[257] In Ricks' view, "enhanced portfolio constraints" like Rule 2a-7 create a fragile framework that legitimizes private money creation by nonbanks and contributes to shadow banking. [258] In other words, applying Rule 2a-7 could further entrench structurally unstable forms of private money issuance, and Ricks advocates for a regime that prohibits nonbanks from issuing money-like liabilities altogether.[259]

These critiques of Rule 2a-7 underscore a broader concern: that applying MMMF-style regulation to stablecoins may not go far enough to mitigate the full range of risks they pose to the financial system and to monetary sovereignty. While Rule 2a-7 can reduce some liquidity and credit risks, it stops short of addressing the deeper institutional vulnerabilities that arise when nonbanks issue instruments functionally equivalent to money. This has led many scholars to argue that a more appropriate regulatory response would be to treat stablecoin issuers like banks, subjecting them to prudential safeguards such as capital requirements, deposit insurance, and direct supervision by banking regulators. The next section explores this approach, which seeks to integrate stablecoins into the formal monetary system rather than regulate them at its periphery.

5. Regulate Stablecoin Issuers like Banks.

Earlier work by Gorton and Zhang considered requiring stablecoins to be issued exclusively through banks.[260] Gorton and Zhang's proposal focused on transforming private money into sovereign money, arguing that requiring stablecoin issuers to operate within the banking system would prevent stablecoins from functioning as unregulated shadow banks.[261] By issuing stablecoins through banks, Gorton and Zhang contended that financial stability could be preserved while ensuring that stablecoins remained subject to the robust regulatory framework that governs traditional banking.[262] Banks issuing stablecoins is not as

257. Morgan Ricks, The Money Problem 243 (2016) (viewing such provisions as "unreliable safeguard[s] against panics" that fail to eliminate MMMFs' inherent susceptibility to runs, as shown in the 2008 financial crisis); *see also id.* at 97, 251.
258. *Id.* at 245, 246, 251.
259. *Id.* at 251.
260. Gorton & Zhang, *supra* note 20, at 949–50.
261. *Id.*
262. *Id.*

far-fetched as it once seemed, given that the CEO of Bank of America recently indicated the bank's interest in going "into that business."[263]

While recently enacted legislation stops short of requiring stablecoin issuers to become banks, it does mark a shift toward the direct regulation of issuers in the United States. On July 18, 2025, the GENIUS Act was signed by the President, in order to "provide for the regulation of stablecoins."[264] According to the Senate Banking Committee press release on advancing the GENIUS Act out of committee, the legislation's intent is to "establish a clear regulatory framework for payment stablecoins" and to protect both consumers and national security.[265] By introducing a licensing regime for "permitted payment stablecoin issuers,"[266] mandating one-to-one reserve backing, and imposing compliance with anti-money-laundering standards, the Act mitigates many of the risks that stablecoins pose to the federal government's control over money creation and circulation.

To qualify as a permitted issuer, an entity must be incorporated in the United States and approved by either the OCC or a state regulator or structured as a subsidiary of an insured depository institution.[267] Issuers must maintain one-to-one reserves in qualifying liquid assets for their payment stablecoins.[268] Acceptable reserves include U.S. coins and currency, Federal Reserve bank deposits, insured depository institution demand deposits, Treasury securities maturing in ninety-three days or less, certain repurchase agreements, reverse repurchase agreements, and money market funds.[269]

Some scholars and policymakers believe these measures are insufficient.[270] For example, Hilary Allen and Graham Steele have

263. Ayesha Aziz, *Bank of America Plans to Launch Stablecoin once U.S. Legislation Is Passed, CEO Says*, YAHOO FIN. (Feb. 27, 2025), https://finance.yahoo.com/news/bank-america-plans-launch-stablecoin-081305207.html [https://perma.cc/7RQV-KD22].

264. Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), Pub. L. No. 119-27 (2025).

265. Press Release, U.S. S. Comm. on Banking, Hous., & Urban Affs., Scott Advances Stablecoin, Debanking Legislation out of Banking Committee (Mar. 13, 2025), https://www.banking.senate.gov/newsroom/majority/scott-advances-stablecoin-debanking-legislation-out-of-banking-committee [https://perma.cc/A54M-RZA7]

266. GENIUS Act §§ 2(23), 5(a).

267. *Id.* § 2(23).

268. *Id.* § 4(a)(1)(A).

269. *Id.*

270. *See, e.g.*, Press Release, U.S. S. Comm. on Banking, Hous., & Urb. Affs., On Senate Floor, Warren Urges Colleagues to Vote No on the GENIUS Act (May 19, 2025), https://www.banking.senate.gov/newsroom/minority/on-senate-floor-warren-urges-colleagues-to-vote-no-on-the-genius-act [https://perma.cc/8NND-UDFB] (reporting that Sen. Elizabeth Warren is "deeply concerned this bill will directly lead to the next financial meltdown"); Allen & Steele, *supra* note 180.

raised concerns that the "light-touch" regulatory approach adopted in the GENIUS Act proceeds on the assumption that underlying reserves will be sufficient to support their peg to the dollar.[271] They point to research that shows that stablecoins lose their pegs regularly.[272] Their concern is that de-pegging events will have a destabilizing effect on the financial system, leading to preventive bailouts of stablecoin issuers.[273] Ultimately, Allen and Steele propose prohibiting the use of public permissionless blockchains for financial transactions and point to proposals to create regulatory compliant "tokenized deposits" as an alternative.[274]

With a similar focus, Arthur Wilmarth has called for stringent regulatory measures to ensure stablecoin issuers operate within a framework that prioritizes financial stability.[275] He specifically advocates for legislation that would treat stablecoins as deposits and require stablecoin issuers to obtain FDIC insurance, arguing that such a requirement would reduce the potential for stablecoin runs.[276] By applying the same safeguards as those required for traditional banks, Wilmarth believes stablecoin issuers would be held to a standard that mitigates systemic risks, ultimately protecting the broader financial system.[277]

These proposals, while differing in scope and specific regulatory mechanisms, reflect a growing consensus that regulating stablecoin issuers is crucial for maintaining financial stability. As discussed in the next part, evaluating these approaches through the lens of monetary sovereignty provides further insights into how such regulations can address the broader risks posed by the proliferation of stablecoins.

---

271. Allen & Steele, *supra* note 180. Stablecoin pegs are maintained through collateralization (being backed by assets or reserves) or decentralized arbitrage (investors restore parity by depositing fiat currency with the issuer to create new tokens or redeeming tokens at a fixed rate). Lyons & Viswanath-Natraj, *supra* note 117, at 2.

272. Allen & Steele, *supra* note 180.

273. *Id.*

274. *Id.*

275. Wilmarth, *supra* note 106 (arguing for legislation that requires all issuers and distributors of stablecoins to be FDIC-insured banks).

276. *Id.* at 15. Todd Phillips finds legal and operational challenges with insuring stablecoins as either bank deposits or stablecoins issued by banks and instead proposes tokenized deposit stablecoins that can be provided with deposit insurance. *See generally* Todd Phillips, *Tokenized Deposits: How I Learned to Stop Worrying and Love Stablecoins*, 42 Rev. Banking & Fin. L. 897 (2022).

277. Wilmarth, *supra* note 106, at 15.

B. Sovereignty-Informed Stablecoin Policies

Part I of this Article demonstrated the value of monetary sovereignty as well as the United States' unmatched level thereof. Three key components of monetary sovereignty are the authority of a country to control the creation of its sovereign currency, the ability to control the value thereof, and the authority to regulate the use of money within its borders.[278] As detailed in Part II, stablecoins have threatened this monetary sovereignty by creating private money and allowing evasion of monetary controls. The previous Section explored the range of potential responses to the stablecoin threat, and this Section offers specific policy responses to the proliferation of stablecoins that are informed by risks discussed in Part II.

1. Money Creation.

Looking first at dollar creation, the Fed circulates cash and creates new dollars through open market operations.[279] Banks also create dollars through the fractional reserve system, and the United States and the states exercise monetary sovereignty over this private money creation through chartering.[280] Stablecoin issuers, on the other hand, do not create new dollars per se, but stablecoins are a form of private money themselves and amplify liquidity in crypto-ecosystems, as they are rehypothecated (i.e., used as collateral again and again). Stablecoins also compete with sovereign money, as individuals or institutions may swap bank deposits for stablecoins and use them to trade, lend, or speculate.

While an outright ban—such as that proposed by Gorton and Zhang—represents the most direct means to bolster U.S. monetary sovereignty by preventing stablecoins from circulating as a parallel form of currency, a less absolute approach can achieve similar ends. Specifically, a regulatory framework that governs stablecoin issuers could bring issuance within the scope of U.S. sovereign monetary authority. This mirrors the manner in which the United States has historically exercised sovereignty over bank-created money.

Congress ultimately adopted this strategy in the GENIUS Act, establishing a new category of entities—"permitted payment stablecoin issuers"—and requiring formal approval for any entity seeking to issue stablecoins under that designation.[281] By channeling private money

278. Gianviti, *supra* note 3, at 2.
279. *See supra* notes 6-7 and accompanying text.
280. *See supra* notes 8–13, 94–96 and accompanying text.
281. GENIUS Act § 2(23).

creation through a licensing regime, the Act imposes some sovereign controls over the creation of stablecoins. The Act does not entirely address the role of rehypothecation in amplifying liquidity in crypto ecosystems, however. While it does prohibit issuers from rehypothecating the reserves backing their stablecoins,[282] the framework continues to allow stablecoins themselves to be used repeatedly as collateral.

Further, the GENIUS Act ultimately declines to regulate stablecoin issuance with the same rigor applied to traditional private money creation through banks. While it imposes certain prudential requirements—such as one-to-one reserve backing and registration—the Act does not require stablecoin issuers to obtain a traditional bank charter or submit to the comprehensive supervisory regime that governs depository institutions. Requiring a bank charter would have placed the issuance of stablecoins squarely within the established system through which the state oversees and legitimizes private money creation. By contrast, the Act permits a separate class of entities to issue dollar-pegged instruments that function as money without being fully brought under the legal and institutional framework designed to manage money creation and its attendant risks. As a result, the issuance of stablecoins remains structurally distinct from the sovereign-monitored creation of bank deposits, potentially undermining the coherence of U.S. monetary sovereignty.[283]

2. Controlling the Value of Money.

The second key component of monetary sovereignty is the ability to control the value of the sovereign currency. The United States, through the Fed, influences the value of the dollar through open market operations, interest rate policy, and reserve requirements.[284] All of these tools are exercised through banks.[285] In turn, banks influence inflation through their role in money creation and reserve choices, which are subject to applicable regulations. Stablecoin issuers, on the other hand, amplify liquidity without the same restrictions that are placed on banks. As long as they are not committing fraud, they have been free

282. *Id.* § 4(a)(2).

283. As discussed in Part II, cryptocurrency exchanges initially established stablecoin providers to "accept deposits" and convert the deposits to on-chain representations of "deposits." Dionysopoulos & Urquhart, *supra* note 1, at 2.

284. *See supra* Section II.B.2.

285. Banks influence the money supply through the fractional reserve system and reserve choices, but the United States and the states exercise monetary sovereignty over this impact through chartering. In order to accept deposits and thus participate in private money creation, banks must be issued a charter. The charter is conditioned on safety and soundness supervision. *See supra* Section II.B.2.

to use customers' dollars as they wish.[286] These choices may have a contractionary or inflationary impact on liquidity, entirely independent of any of the Fed's policies. With unfettered use of customer funds, stablecoin issuers have impeded the ability of the Fed to control the value of the dollar.

Ultimately, to prevent stablecoin issuers from undermining the monetary sovereignty of the United States, they must be subject to reserve requirements. An extreme version of this policy would be to classify stablecoin issuers as narrow banks, restricting them to holding only deposits at the Fed.[287] Gorton and Zhang have considered this possibility, concluding that such a policy would "attract a large quantity of deposits away from the banking sector and cause significant growth of the Federal Reserve's balance sheet."[288] The GENIUS Act imposes more permissive reserve restrictions but does mandate that stablecoin issuers maintain one-to-one reserves.[289] Evaluating this option from a monetary sovereignty perspective, the inevitable impact of stablecoins on the money supply would be under the control of the federal government, allowing the Fed to better use its monetary policy tools.

If the concern is that stablecoin issuers have *more* independent influence over liquidity than banks, though, imposing stricter reserve requirements on them than banks are subjected to may be excessive. Thus, a more measured approach would be to simply subject issuers to the same reserve requirements that banks are held to. Depending on the type and size, banks are subject to various reserve requirements including liquidity coverage ratios,[290] net stable funding ratios,[291] and restrictions on reserve composition.[292] Again, this approach would ensure that stablecoin issuers operate under a comparable regulatory framework to traditional banks, maintaining effective monetary sovereignty without imposing unnecessarily restrictive measures.

---

286. Skinner, *supra* note 7, at 163.
287. Gorton & Zhang, *supra* note 20, at 953–55.
288. *Id.*
289. GENIUS Act § 4(a)(1)(A).
290. *Liquidity Coverage Ratio – Final Rule*, Off. of the Comptroller of the Currency, https://www.occ.treas.gov/topics/supervision-and-examination/capital-markets/balance-sheet-management/liquidity/liquidity-coverage-ratio-final-rule.html [https://perma.cc/G8FM-J7RN].
291. *Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements*, Fed. Deposit Ins. Corp. (Oct. 20, 2020), https://www.fdic.gov/news/financial-institution-letters/2020/fil20098.html [https://perma.cc/PA3C-V2VZ].
292. 12 U.S.C. § 461; *see also Section 19. Bank Reserves*, Fed. Rsrv. (Feb. 14, 2017), https://www.federalreserve.gov/aboutthefed/section19.htm [https://perma.cc/7T3Z-3VSK]. The Fed reduced the reserve ratio to zero on March 26, 2020. *Reserve Requirements*, Fed. Rsrv. (Nov. 26, 2024), https://www.federalreserve.gov/monetarypolicy/reservereq.htm [https://perma.cc/AQH2-UX8J].

3. Regulating the Use of Money.

The third component of monetary sovereignty is the ability to "regulate the use of any currency . . . within its borders."[293] This authority encompasses the enforcement of AML and KYC laws, which are central to controlling how currency is used within national borders. As discussed in Part II, by enabling sanctioned countries and criminal entities to circumvent financial controls, stablecoins have undermined the ability of the United States to regulate the use of currencies within its borders.[294]

The GENIUS Act attempts to restore this regulatory authority by expressly requiring stablecoin issuers to comply with existing AML laws and regulations.[295] Although stablecoin issuers are already required to register as MSBs per FinCEN guidance,[296] the Act's clear mandate should help to address the issue of unregistered stablecoin issuers, as well as the issue of undercompliance by registered issuers, as the approving entity would conduct regular examinations to ensure compliance.[297] Under the final legislation, issuers must obtain approval from either the OCC or a state regulatory agency before issuing stablecoins,[298] and the approving agency is required to issue AML standards for these entities.[299]

From a monetary sovereignty perspective, subjecting stablecoin issuers to the same AML requirements that banks are subjected to does address stablecoins' threat to the ability of the United States to regulate the use of currency within its borders. In fact, the Act goes a bit further to impose additional requirements on stablecoin issuers, by requiring annual certification of compliance with the bill's AML provisions.[300] The Act does not address the risks of secondary transfers, which

293. Gianviti, *supra* note 3, at 2.
294. *See generally* FIN. ACTION TASK FORCE, *supra* note 187 (stating concerns about money laundering and counter-terrorism).
295. *See* Press Release, U.S. S. Comm. on Banking, Hous., & Urb. Aff., Myth vs. Fact: The GENIUS Act (May 8, 2025), https://www.banking.senate.gov/newsroom/majority/myth-vs-fact-the-genius-act [https://perma.cc/475S-5JG2] (explaining that the act "requires all permitted payment stablecoin issuers to comply with U.S. anti-money laundering (AML) and sanctions requirements, including implementing AML and sanctions programs and annually certify compliance with the bill's AML provisions"); *see also* GENIUS Act § 5(a) ("A permitted payment stablecoin issuer shall be treated as a financial institution for purposes of the Bank Secrecy Act.").
296. FinCEN Virtual Currencies Guidance, *supra* note 184.
297. *Bank Secrecy Act (BSA) & Anti-Money Laundering (AML) Examinations*, *supra* note 114 (describing the general regulation procedures).
298. GENIUS Act § 2(11).
299. GENIUS Act § 4(a).
300. *See* Press Release, U.S. S. Comm. on Banking, Hous., & Urb. Aff., *supra* note 295.

is where most illicit activity takes place, however. To address risks with secondary transfers, issuers could be required to use blockchain analytics tools (e.g., Chainalysis) to monitor downstream activity and file Suspicious Activity Reports ("SARs") even for indirect behavior linked to their tokens.

An argument can be made that "regulating the currency within the borders" also encompasses the ability of the United States to achieve key policy objectives, such as financial stability. As discussed above, Arthur Wilmarth has proposed mandating FDIC insurance for stablecoin issuers.[301] One way to operationalize this regulatory authority is through the imposition of federal deposit insurance requirements on stablecoin issuers as part of the approval process. To obtain a traditional banking charter, issuers must obtain FDIC approval.[302] As described above, however, the decision to require state-charted banks to obtain FDIC insurance remains at the discretion of the issuing state.[303] Wyoming and Nebraska have authorized new forms of charters that do not require deposit insurance.[304]

If the primary concern with stablecoin issuers operating as unregulated banks is that they are subject to bank-like runs, treating them the same as banks with respect to FDIC approval and insuring would be sufficient. On the other hand, if states are contorting banking regulation to attract and appease the crypto industry, then this would not solve the problem. Wyoming has stated that its "special purpose depository institution" ("SPDI") charters are "tailored for digital assets."[305] Since 2019, Wyoming has issued SPDI charters to Kraken, Avanti, Wyoming Deposit and Transfer, and Commercium Financial.[306]

---

301. Wilmarth, *supra* note 106, at 9, 11. The Biden Administration put together a working group on financial markets. The group shared the view that stablecoin issuers are essentially unregulated banks. To that end, the group proposed legislation that would require stablecoin issuers to be insured depository institutions. *See* PRESIDENT'S WORKING GRP. ON FIN. MKTS., THE FED. DEPOSIT INS. CORP. & THE OFF. OF THE COMPTROLLER OF THE CURRENCY, REPORT ON STABLECOINS 2 (2021) ("To address risks to stablecoin users and guard against stablecoin runs, legislation should require stablecoin issuers to be insured depository institutions.").

302. *See* David Zaring, *Modernizing the Bank Charter*, 61 WM. & MARY L. REV. 1397, 1410 (2020); Applications for Deposit Insurance, 63 Fed. Reg. 161 (Aug. 20, 1998) (describing requirements for deposit insurance approval from the FDIC).

303. Wilmarth, *supra* note 106, at 10.

304. *Id.*

305. ERIC PETERSON, PROMOTING STATE FINANCIAL INNOVATION (2024) (describing Wyoming's SDPI laws).

306. *Special Purpose Depository Institutions*, WYO. DIV. OF BANKING, https://wyomingbankingdivision.wyo.gov/banks-and-trust-companies/special-purpose-depository-institutions [https://perma.cc/Y3TW-62DF]; Marysia Laskowski, *Wyoming Issues Second Crypto Bank Charter*, HUNTON ANDREWS KURTH LLP (Nov. 10,

This suggests that a more unified approach may be necessary to prevent regulatory arbitrage and ensure that stablecoin issuers are subject to consistent prudential standards, regardless of the state in which they are chartered.

Hilary Allen has argued that requiring stablecoin issuers to be insured depository institutions would create a moral hazard by extending "the public safety net of deposit insurance to the DeFi ecosystem."[307] Although a valid concern, this risk could be addressed by placing stablecoin issuers in a separate insurance pool with risk-based premiums, so they bear the cost of their own risks. Such a structure would mitigate moral hazard risks[308] and limit spillover to the broader system while still lessening the risk of runs and protecting consumers.

Allen has also argued that mandating deposit insurance for stablecoin issuers would "legitimize stablecoins in a way that would likely fuel, rather than limit, the growth of DeFi."[309] The trouble is that evidence suggests that DeFi has already been legitimized. Major financial institutions are increasingly engaging with DeFi platforms. For instance, Visa partnered with Bridge, a stablecoin infrastructure startup acquired by Stripe, to launch a stablecoin-linked Visa card.[310] Further, pro-crypto moves by the Trump Administration continue to bolster and entrench stablecoins as a permanent part of the financial system.[311] In other words, the stablecoin ecosystem is already woven into the fabric of mainstream finance. Hoping that they will implode or disappear is no longer a viable option. Now is the time to regulate stablecoin issuers,

---

2020), https://www.hunton.com/blockchain-legal-resource/wyoming-issues-second-crypto-bank-charter [https://perma.cc/PH2Y-FGL2]; Nate DiCamillo, *Commercium Financial Becomes Fourth Wyoming-Chartered Crypto Bank*, NASDAQ (Aug. 11, 2021, 10:08 AM), https://www.nasdaq.com/articles/commercium-financial-becomes-fourth-wyoming-chartered-crypto-bank-2021-08-11 [https://perma.cc/7RBJ-M6WP].

307. Allen, *supra* note 155, at 964.

308. Scholars and policymakers have long considered the merits of risk-based insurance deposit premiums as a means to address moral hazard risks for banks. *See, e.g.*, JAMES B. THOMSON, FED. RSRV. BANK OF CLEVELAND, ALTERNATIVE METHODS FOR ASSESSING RISK-BASED DEPOSIT INSURANCE PREMIUMS 1 (1986); Edward S. Prescott, *Can Risk-Based Deposit Insurance Premiums Control Moral Hazard?*, 88 FED. RSRV. BANK OF RICHMOND ECON. Q. 87 (2002); Edward T. Kim & Marcelo Rezende, *Deposit Insurance Premiums and Bank Risk*, 12 REV. CORP. FIN. STUD. 291 (2023).

309. Allen, *supra* note 155, at 964.

310. Hannah Lang, *Visa, Bridge Partner to Launch Stablecoin-Linked Cards*, REUTERS (Apr. 30, 2025), https://www.reuters.com/business/visa-bridge-partner-launch-stablecoin-linked-cards-2025-04-30 [https://perma.cc/2963-8J8C].

311. For example, Trump announced that the United States would create a strategy crypto reserve. Durkee, *supra* note 125.

bringing them under the monetary sovereignty of the United States and addressing the systemic risks they pose.

Conclusion

The GENIUS Act represents a meaningful assertion of U.S. monetary sovereignty in the face of rapidly expanding stablecoin markets. By creating a federal framework for licensing and supervising permitted payment stablecoin issuers, mandating one-to-one reserve backing, and requiring compliance with AML standards, the Act addresses many of the most immediate threats stablecoins pose to the U.S. government's ability to control the creation and use of money within its borders. These measures bring stablecoin issuers closer to the regulatory perimeter of traditional finance.

Yet, from a sovereignty perspective, the Act ultimately falls short of fully integrating stablecoin issuance into the longstanding legal and institutional mechanisms through which the United States has effectively overseen private money creation. Requiring stablecoin issuers to obtain a traditional bank charter would ensure regulatory parity with deposit-taking institutions; subject issuers to consistent reserve, risk, and supervisory standards; and align their operations with the monetary policy tools that anchor the value of the dollar. As Part I demonstrated, the strength of U.S. monetary sovereignty lies not just in its formal legal powers but also in the coherence and consistency of the institutional framework through which those powers are exercised. The GENIUS Act moves in the right direction, but if the goal is to preserve that sovereignty in a digital financial era, regulatory consistency should be a guiding principle.