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Stablecoins After the GENIUS Act

The economics of a regulated, interest-banned, Treasury-backed dollar

Chain Reaction — Research Desk

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ABSTRACT

Does federal legalization make stablecoins a bigger or merely a more durable business? This report builds a transparent reserve-income model for the US payment-stablecoin market after the GENIUS Act, triangulating issuer disclosures (Circle Q1 2026, Tether Q1 2026 BDO attestation), regulator filings, and on-chain data. The headline finding: at a ~\$320B circulating supply and a ~4% reserve return, the industry's gross float income runs roughly \$11–13B/yr, but the Act's interest-to-holders ban hands that economic rent to whoever controls distribution, not to issuers — Circle already pays out ~62% of reserve income, and Coinbase captures ~50% of USDC's residual. Legalization therefore deepens the moat of the duopoly (USDT+USDC ≈ 82% share) while compressing issuer margins as a distribution land-grab unfolds. Base case to 2028: ~\$700B supply (Chain Reaction estimate). The winners are distribution owners (COIN, V, MA) more than pure issuers; the loser is the bank deposit base.

Keywords: stablecoins, GENIUS Act, USDC, USDT, Circle, Tether, stablecoin regulation, tokenization, RWA, payment stablecoins, reserve income, CRCL, COIN

Executive Summary

The GENIUS Act — signed 18 July 2025 — gave US dollar stablecoins their first federal legal framework. Eleven months on, with the first wave of OCC, FDIC and Treasury implementing rules out for comment and the statute's effective date set for the earlier of 18 January 2027 or 120 days after final rules [1][6], the strategic question is no longer *whether* stablecoins are legal but *who captures the economics* of a regulated dollar token.

The market has voted with capital. Total stablecoin supply reached roughly **\$310–321B in 2026**, an all-time high, up from about \$229B a year earlier [2][3]. The market is a duopoly: **USDT ≈ \$183–187B and USDC ≈ \$75–77B**, together ≈ 82% of supply, with the top two ≈ 95% of all outstanding tokens [2][8]. On-chain volumes are now structurally enormous — USDC alone settled **\$21.5T** on-chain in Q1 2026 (+263% YoY) [4], and 2025 raw stablecoin volume of ~\$33T exceeded the combined Visa+Mastercard ~\$25.5T [11], though *adjusted* payment volume (~\$10.9T in 2025) is the honest comparison [11].

The economic engine is float. Issuers hold reserves overwhelmingly in short-dated US Treasuries and repo, and keep the yield. Circle reported **\$653M of reserve income** in Q1 2026 (94% of total revenue) on \$77.0B average USDC [4]; Tether reported a **\$1.04B Q1 2026 profit** on ~\$141B of Treasury exposure, making it the 17th-largest holder of US Treasuries globally [5]. At ~\$320B supply and a ~4% blended reserve return, industry gross float income runs ~**\$11–13B/yr (Chain Reaction estimate)**.

The decisive policy feature is the **interest-to-holders ban**: GENIUS prohibits issuers — and, under the OCC proposal, affiliates and related third parties — from paying any yield to holders [9][12]. This does not shrink the float income; it relocates it. Whoever owns *distribution* (the exchange, wallet or network that puts the token in front of the user) captures the rent. Circle already pays out ~62% of reserve income in distribution and transaction costs, and shares ~50% of USDC residual reserve income with Coinbase [4][13][16].

BOTTOM LINE:

GENIUS legalizes a ~\$11–13B/yr float-income business (Chain Reaction estimate) but bans paying it to holders — so legalization *deepens* the USDT+USDC duopoly while transferring margin from issuers to distribution owners. The cleaner long exposure is to distribution and network rails (COIN, V, MA) rather than to pure-play issuance (CRCL); the structural loser is the uninsured bank deposit base.

1. Context and Scope

This report covers the US payment-stablecoin market in the wake of the GENIUS Act, sitting squarely at the intersection of two of our coverage domains — **DeFi/stablecoins and tokenization**, and **regulation and enforcement**. The system boundary is fiat-collateralized, USD-pegged "payment stablecoins" as defined by the statute: USDC, USDT (as a foreign issuer subject to the Act's market-access regime), PYUSD, and bank- and fintech-issued entrants. Algorithmic and crypto-collateralized stablecoins (e.g. DAI/USDS) and yield-bearing tokenized money-market funds are treated as *adjacent* — they are explicitly carved out of the payment-stablecoin perimeter and, in the case of tokenized MMFs, are the regulated venue into which yield-seeking balances are being pushed.

The questions: (1) How big is the market and how fast is it growing? (2) What are the unit economics of a regulated, interest-banned, Treasury-backed token, and where does the rent accrue? (3) What is the regulatory structure and timeline? (4) Who wins and who loses among issuers, exchanges, banks

and card networks? (5) What are the tail risks — depeg, concentration, rehypothecation? (6) How large could the market be by 2028?

Out of scope: a token-by-token security audit, non-USD stablecoins (EUR/MiCA only as comparison), and CBDCs (the Act and the prevailing US policy posture are explicitly private-issuance-first).

2. Regulatory Structure and Timeline

The GENIUS Act (S.1582, 119th Congress) creates a category of **permitted payment stablecoin issuer (PPSI)** and a dual federal/state regime [1].

Who may issue. Three lanes: (i) subsidiaries of insured depository institutions; (ii) federally qualified nonbank PPSIs chartered and supervised by the OCC; and (iii) state-qualified issuers — but only while consolidated issuance is **below \$10B**. Above \$10B, a state issuer must transition to the federal regime within 360 days or obtain a waiver [10][7]. This threshold is the single most important structural line in the Act: it forces the largest issuers federal.

Reserve and conduct rules. Reserves must back tokens **at least 1:1** in a narrow set of high-quality liquid assets — US currency, Federal Reserve balances, insured demand deposits, **Treasury bills ≤93 days**, overnight repo collateralized by such bills, and qualifying money-market funds [10]. **Rehypothecation is prohibited** with narrow exceptions; reserves cannot be pledged, lent or reused. New OCC-chartered issuers must hold ≥\$5M capital and an operational backstop of ~12 months of operating expenses, segregated from reserves [10][7].

The interest ban. Section 4 prohibits a PPSI (and a foreign payment stablecoin issuer) from paying holders "any form of interest or yield... solely in connection with the holding, use, or retention" of the token [9][12]. The OCC's February–March 2026 proposal goes further, applying a *rebuttable presumption* that extends the ban to **affiliates and related third parties** [12]. The stated rationale is to keep stablecoins a payments instrument and to disincentivize uninsured balances migrating out of banks [9].

Timeline. Statute signed 18 July 2025; agency rules due within one year (by 18 July 2026); effective date the earlier of 18 January 2027 or 120 days after final rules [1][6].

Milestone	Date	Status (as of June 2026)
GENIUS Act signed	18 Jul 2025	Done [1]
OCC notice of proposed rulemaking	25 Feb 2026	Comment period closed ~1 May 2026 [10][12]
Treasury (FinCEN/OFAC) AML/sanctions proposed rule	Q1 2026	Proposed [6]
FDIC proposed rule (IDI-supervised issuers)	7 Apr 2026	Comments due ~9 Jun 2026 [6]
Agency final rules due	by 18 Jul 2026	Pending [1]
Statutory effective date	earlier of 18 Jan 2027 / final rules + 120 days	Pending [1]

THE TAKE:

The \$10B state-to-federal trip-wire plus the affiliate-level interest ban together function as an incumbency moat dressed as consumer protection. Any challenger large enough to matter is forced into the most demanding federal lane, while the ban removes the one weapon — sharing yield with users — that a challenger could use to buy share from USDT/USDC. The Act's design makes *organic, payments-driven* distribution the only legal growth lever, which advantages firms that already own users.

3. Market Size, Growth, and Composition

Supply. Total stablecoin market cap printed fresh highs in 2026 — figures of **\$310B, \$312B and \$321B** appear across data providers depending on date and methodology, up from ~\$229B a year earlier [2][3]. The composition is a hard duopoly.

Token	Issuer	Supply (2026)	Approx. share	Notes
USDT	Tether	~\$183-187B	~58%	Foreign issuer; BDO attestation, not full audit [5]
USDC	Circle	~\$75-77B	~24%	NYSE: CRCL; Q1'26 EOP \$77.0B [4]
PYUSD	Paxos/Pay Pal	~\$4.1B	~1.3%	+680% YoY; 70-market rollout [18]
Others (DAI/USDS, FDUSD, etc.)	various	balance	~16%	Top-2 ≈ 95% of supply [8]

Volume. Raw on-chain stablecoin volume reached ~\$33T in 2025, exceeding Visa+Mastercard's combined ~\$25.5T [11]; USDC alone moved \$21.5T on-chain in Q1 2026 (+263% YoY) [4]. But raw volume overstates economic payments — much is trading, DeFi looping and internal transfers. The defensible figure is **adjusted volume ≈ \$10.9T in 2025 (+91% YoY)**, against Visa's ~\$14.2T of annual payments volume [11]. Real-world stablecoin *payments* roughly doubled to ~\$400B in 2025, ~60% B2B [11]. Visa's own annualized stablecoin settlement on-network was a still-small ~\$4.6B as of its Q1 2026 call [11].

The RWA / tokenization adjacency. Distinct from stablecoins, on-chain tokenized real-world assets (excluding stablecoins) crossed **~\$32B by mid-2026**, up >200% YoY [17], of which **tokenized US Treasuries ≈ \$12.9B** and BlackRock's BUIDL alone >\$2.4B AUM [17]. This matters because tokenized Treasuries are precisely where interest-seeking balances flow once the stablecoin yield door is bolted shut — the regulated yield complement to the yield-banned payment token.

4. The Economics: Where the Float Income Goes

A fiat stablecoin is, economically, a **narrow bank that keeps the net interest margin and pays the depositor nothing**. The issuer takes in dollars, buys ~93-day T-bills and overnight repo, and pockets the yield. The model below makes the mechanics transparent.

4.1 Reserve-Income Model and Assumptions

Parameter	Value	Unit	Basis / Source
Total stablecoin supply	320	\$B	2026 prints \$310-321B [2][3]
Blended reserve return	4.0	% / yr	Implied by issuer disclosures; T-bill ≤93d + repo [10]

Gross float income	~12.8	\$B / yr	= supply × return (Chain Reaction estimate)
USDC avg. supply (Q1'26)	77.0	\$B	Circle Q1'26 [4]
USDC reserve income (Q1'26)	653	\$M / qtr	Circle Q1'26; ~94% of revenue [4]
USDC distribution + txn cost (Q1'26)	~407	\$M / qtr	≈62% of reserve income [4]
Coinbase share of USDC residual reserve income	~50	%	Distribution agreement [13][16]
Circle Q1'26 net income (continuing)	55	\$M / qtr	-15% YoY despite supply +28% [4]
Tether Q1'26 profit	1,040	\$M / qtr	BDO attestation; ~\$141B Treasuries [5]

4.2 What the Numbers Say

Two issuers, two economic models, one ban.

Circle (USDC) is the pure float-yield business stripped bare by public disclosure. In Q1 2026 it earned \$653M of reserve income (94.0% of \$694M total revenue) on average circulation of \$77.0B, yet net income from continuing operations was only **\$55M — down 15% YoY even as supply grew 28%** [4]. The reason is distribution: total distribution, transaction and other costs were ~\$407M, up 17% YoY, "caused by higher distribution payments tied to reserve income," with Coinbase representing a larger share of circulation [4]. The Coinbase agreement shares ~50% of USDC's *residual* reserve income [13][16]. The interest ban does not let Circle pay users; instead Circle pays *Coinbase* to put USDC in front of users — and that cost scales with success.

Tether (USDT) runs the same float engine at 2.4× the supply but with a thinner, offshore distribution stack and additional reserve risk-taking: ~\$141B of Treasury exposure (T-bills \$117B + repo ~\$24B), plus ~\$20B gold and ~\$7B bitcoin, on ~\$192B assets vs ~\$183.5B liabilities — an \$8.23B equity buffer — generating a \$1.04B quarterly profit [5]. Tether keeps far more of its float because it does not hand half to a public distribution partner; the trade-off is that, as a *foreign* issuer, its continued US market access is the regulatory variable, and its non-HQLA reserves (gold, BTC) sit outside the GENIUS reserve-asset whitelist [10].

4.3 The Cost Stack (per \$100 of USDC reserve income, Q1 2026)

Component	Approx. share of reserve income	Notes
Distribution + transaction + other costs	~62%	Paid largely to Coinbase / partners [4]
Operating + G&A + other	~30%	Compliance, custody, ops (Chain Reaction estimate from \$55M net)
Retained net income	~8%	\$55M on \$653M reserve income [4]

THE TAKE:

The interest ban is the most consequential — and least appreciated — wealth transfer in the Act. The ~\$11–13B/yr of industry float income (Chain Reaction estimate) does not vanish and does not go to token holders; it becomes a *distribution subsidy*. The natural equilibrium is that the issuer's economic profit compresses toward the cost of capital while the marginal dollar of float income migrates to whoever owns the user relationship — the exchange, the wallet, the card network. Circle's 8% retention on reserve income is not a transient margin problem; it is the structural destination of a regulated, yield-banned issuance business. Owning the *issuer* is owning the commodity; owning *distribution* is owning the toll booth.

5. Scenarios to 2028

Three scenarios for US-relevant stablecoin supply and structure by year-end 2028, anchored to the ~\$320B 2026 base [2][3]. Supply figures are **Chain Reaction estimates**; the drivers are stated.

Scenario	2028 supply	CAGR from 2026	Structure	Key drivers
**Bear — "Compliance drag"	~\$420B	~15%	Duopoly holds; few new issuers	Slow final rules, bank lobby narrows reserve rules, rate cuts shrink float economics, deposit-flight fears trigger friction [9]
**Base — "Regulated rails"	~\$700B	~48%	USDT+USDC ≈ 75%; bank/fintech entrants in payments niches	On-time 2027 effective date; B2B and cross-border payments scale; card networks integrate; tokenized Treasuries absorb yield demand [11][17]
**Bull — "Dollar on-chain"	~\$1.1T	~85%	Duopoly < 70% as banks/networks issue at scale	Fast rulemaking, merchant settlement adoption, Mastercard/Visa stablecoin rails go mainstream, EM dollar-demand inflows accelerate [5][11]

Sensitivity. The swing variables, in order of impact: (1) **the policy rate** — float income is ~linear in the reserve return, so a Fed easing cycle cuts industry profit pool roughly in proportion (a move from 4% to 2% halves the ~\$12.8B gross float income to ~\$6.4B at constant supply, Chain Reaction estimate); (2) **distribution-cost share** — if competition for users pushes payout ratios above Circle's current ~62%, issuer equity value erodes regardless of supply growth [4]; (3) **payments adoption** — the difference between base and bull is whether *adjusted* payment volume compounds past the ~\$10.9T 2025 mark toward card-network scale [11]; (4) **reserve-rule strictness** — a final rule that narrows eligible assets or tightens the rehypothecation carve-outs lowers yield and raises cost.

Driver	Bear -> Bull swing	Effect on 2028 issuer profit pool
Reserve return (policy rate)	2% -> 5%	~2.5× (largest single lever)
Supply	\$420B -> \$1.1T	~2.6×
Distribution payout ratio	70% -> 45%	~1.8× to issuers (zero-sum vs distributors)
Adjusted payment volume	flat -> card-scale	structural re-rating

6. Who Wins, Who Loses

Issuers (Circle, Tether, Paxos/PYUSD). Win on volume, lose on margin. Legalization validates the asset class and entrenches the incumbents, but the interest ban caps the value they can retain. Circle's public economics are the proof of concept that issuance is a thin-margin commodity once distribution is priced in [4].

Exchanges and distribution (Coinbase). The clearest winners. Coinbase captures ~50% of USDC residual reserve income, held a record ~\$19B average USDC balance in Q1 2026, and reported **\$305M of stablecoin revenue** — the largest line in its subscription-and-services segment [13][16]. The ban makes Coinbase the *de facto* yield recipient: it earns the float Circle is forbidden to pay users.

Card networks (Visa, Mastercard). Strategic winners by absorbing stablecoins as a settlement rail rather than being disintermediated. Mastercard agreed to acquire stablecoin-infrastructure firm BVNK for up to ~\$1.8B — the largest such deal to date — and partnered with SoFi for SoFiUSD settlement; Visa's "other revenue" runs a ~\$1.2B quarterly run-rate (+33% YoY) and it is building stablecoin settlement into its network [11][14][15]. They convert a disintermediation threat into a new fee surface.

Banks. The structural losers. The interest ban exists precisely because policymakers fear uninsured stablecoin balances draining low-cost deposits [9]. Even with the ban, payment-stablecoin float pulls dollars into Treasuries and away from the fractional-reserve deposit base; the deposit franchise is the casualty.

Fintechs (PayPal/PYUSD). Mixed. PYUSD grew ~680% YoY to ~\$4.1B and is rolling out across 70 markets to 400M+ users [18]; its float yield (~\$176M/yr at current supply, per third-party estimate [18]) is real but small, and it competes against the duopoly's network effects without the ability to bribe users with yield.

7. Risks

The bull case is not the base case for a reason. Three tail risks dominate.

Risk	Likelihood	Impact	Notes / Mitigation
Depeg / run	Medium	High	Precedent: USDC's March 2023 SVB-driven depeg. 1:1 HQLA reserves + ≤93-day maturity reduce but do not eliminate run risk; redemption-at-par mechanics and reserve transparency are the mitigants [10]
Concentration	High (already realized)	High	Top-2 ≈ 95% of supply; a single-issuer failure is now systemic. No regulatory fix in the Act addresses this directly [8]
Rehypothecation / reserve quality	Low-Medium	High	GENIUS bans rehypothecation with narrow carve-outs [10]; residual risk lives in offshore issuers' non-HQLA reserves (Tether's gold/BTC sit outside the whitelist) [5][10]
Rate-cut margin shock	Medium-High	Medium	Float income is ~linear in the policy rate; an easing cycle compresses the entire profit pool (Chain Reaction estimate)
Foreign-issuer market access	Medium	High (USDT-specific)	USDT's US access depends on satisfying the foreign-issuer regime; adverse final rules could fragment its US liquidity [1][9]
Yield-loophole crackdown	Medium	Medium	The OCC affiliate/third-party extension could curb exchange "rewards" programs that route float to users indirectly [12]

8. Market and Equity Implications

The thesis — *legalization deepens the duopoly and moves margin from issuers to distribution* — produces a clear directional ranking. Real tickers only; figures cited or labeled Chain Reaction estimate. This is exposure analysis, not investment advice.

Company (Ticker)	Exposure	Reasoning (tied to the thesis)	Horizon
Coinbase (COIN, Nasdaq)	**Positive**	Captures ~50% of USDC residual reserve income; \$305M Q1'26 stablecoin revenue; the legal recipient of the yield the issuer cannot pay users [13][16]	12–24 mo
Visa (V, NYSE)	**Positive**	Converts disintermediation threat into a settlement-rail fee surface; "other revenue" ~\$1.2B/qtr run-rate (+33% YoY) [11]	12–36 mo

Mastercard (MA, NYSE)	**Positive**	~\$1.8B BVNK acquisition + SoFiUSD settlement build out a stablecoin toll booth [14][15]	12–36 mo
Circle (CRCL, NYSE)	**Neutral**	Validated and entrenched, but interest ban + ~62% distribution payout caps retained margin; net income –15% YoY on +28% supply; ~\$20.6B market cap at ~\$82.73 (11 Jun 2026) [4][13][16]	6–18 mo
PayPal (PYPL, Nasdaq)	**Neutral**	PYUSD growing fast off a small base (~\$4.1B); float income real but immaterial to group earnings; no yield weapon vs duopoly [18]	12–24 mo
Robinhood (HOOD, Nasdaq)	**Neutral-to-Positive**	Distribution/wallet reach and crypto monetization benefit from a legal stablecoin payments rail; exposure is indirect	12–24 mo
MicroStrategy / Strategy (MSTR, Nasdaq)	**Neutral**	Not a stablecoin operator; relevant only as a crypto-beta proxy — a healthier, regulated stablecoin base supports overall digital-asset liquidity, but no direct float exposure	n/a

THE TAKE:

The market is mispricing *where* the regulated-stablecoin rent lands. The instinctive trade is to buy the issuer (CRCL) as the "pure play." But the Act's interest ban makes issuance a commodity whose economics are siphoned to distribution by design — Circle's own filings show ~62% of reserve income leaving as distribution cost and only ~8% retained [4]. The cleaner long expression of stablecoin adoption is the **toll-booth layer** (COIN as the yield recipient; V and MA as settlement rails), not the issuer. The most under-appreciated short-thesis ingredient is rate sensitivity: the entire ~\$11–13B/yr float pool (Chain Reaction estimate) is roughly linear in the policy rate, so the bull narrative on supply can coincide with a *shrinking* profit pool in an easing cycle.

9. Outlook and Strategic Implications

GENIUS does not make stablecoins bigger so much as it makes them *permanent and bankable* — a regulated, Treasury-backed, yield-banned digital dollar that the largest financial institutions can now touch. The base case to 2028 (~\$700B supply, Chain Reaction estimate) is a story of payments adoption and duopoly persistence, not of a fragmented, competitive issuer market. The decisive, non-obvious feature is that the law's central consumer-protection provision — the interest ban — is also the mechanism that concentrates economic value in distribution and starves the issuer.

For an operator or investor, the framing is: **own the rail, rent the token**. The durable franchises are the ones that own users and settlement (exchanges, networks), monetizing the float the issuer is legally barred from paying out. The issuer is the regulated utility in the middle. And the quiet macro story is that every dollar of stablecoin supply is a dollar of T-bill demand and a dollar of potential bank-deposit flight — a ~\$320B-and-growing claim on the front end of the Treasury curve that now has Congress's blessing.

WHAT TO WATCH:

(1) **Final agency rules by 18 Jul 2026** — strictness of reserve-asset and affiliate-yield definitions [1][12]; (2) **the effective date** (earlier of 18 Jan 2027 / final rules + 120 days) and whether any large bank/network launches a federally-chartered issuer [1]; (3) **the policy-rate path** — each 100 bps of cuts removes ~\$3B/yr from the industry float pool at constant supply (Chain Reaction estimate); (4) **Circle's distribution payout ratio** in subsequent quarters — a move above ~62% confirms the margin-compression thesis [4]; (5) **Tether's US market-access posture** under the foreign-issuer regime [1][9].

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Methodology and Assumptions

This report triangulates four source classes: (1) primary issuer disclosures — Circle's Q1 2026 results and Tether's Q1 2026 BDO attestation [4][5]; (2) regulator and statutory documents — the GENIUS Act text and the OCC/FDIC/Treasury implementing proposals [1][6][9][10][12]; (3) on-chain and market-structure data providers for supply, share and volume [2][3][8][11]; and (4) reputable secondary reporting and law-firm analysis for regulatory interpretation [7][13][14][15][16].

The reserve-income model is deliberately simple and transparent: gross float income = circulating supply × blended reserve return. The base inputs are ~\$320B supply [2][3] and a ~4% blended return implied by the eligible reserve-asset set (Treasury bills ≤93 days plus overnight repo and qualifying MMFs) [10] and consistent with the reserve-income/circulation ratios in issuer filings [4][5]. Every derived figure is labeled "Chain Reaction estimate." The model's largest sensitivity is the reserve return (≈ linear in the policy rate), followed by supply and the distribution payout ratio.

What would change the conclusion: a final reserve rule materially narrowing eligible assets; a successful legal or market route for routing yield to holders (defeating the interest ban); a sharp easing cycle compressing the float pool; or a shift in distribution economics that lets issuers retain materially more than the ~8% Circle currently retains [4]. Data vintage is 2025–2026 throughout; supply figures vary by provider and date and are reported as ranges where sources disagree.

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