

The Unnecessary War Between Banks and Stablecoins

A Curve-Gated Reserve Partnership Under the GENIUS Act

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EXECUTIVE SUMMARY

The GENIUS Act makes stablecoins safer, but it leaves their business model tied to the shortest interest rates and channels a growing pool of reserve demand into Treasury bills. This paper proposes a way to address both weaknesses without relaxing reserve rules or allowing issuers to reach for duration. Under a curve-gated bank–issuer partnership, the issuer keeps an overnight, collateralized reserve asset while a supervised bank owns the term asset, hedge and associated capital and liquidity risk. The partnership activates only when expected maturity carry clears the bank’s costs, hurdle and conservative stress tests. The bank then shares a capped portion through the overnight repo rate; otherwise, the gate stays closed. This is risk-managed, episodic carry, not guaranteed yield or issuer-owned duration. The mechanism is designed to be especially useful in easing cycles and some low-rate environments, when front-end reserve income is under the greatest pressure and stablecoin issuers need diversification most, but curve steepness can still support shared carry. In eligible historical windows, the following quarter supported capped premiums averaging about 60 basis points. The proposal could make issuer economics more resilient, give banks a compensated channel for holding high-quality liquid assets and broaden Treasury demand beyond bills, while preserving daily redemption liquidity and the holder’s non-yield-bearing claim. Exposure capped pilots under ordinary prudential treatment should test this alignment in practice.

In late May 2026, JPMorgan CEO Jamie Dimon told Fox Business that Coinbase CEO Brian Armstrong was “full of s—” for opposing the yield prohibition in the Digital Asset Market Clarity (CLARITY) Act.¹ Armstrong responded with a meme. The exchange was undignified and revealing in equal measure: Washington’s approach to stablecoin regulation has settled into a zero-sum conflict between two powerful industries, each convinced the other threatens its survival.

The Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, the first comprehensive federal framework for payment stablecoins, has been law since July 2025. A broader market-structure bill, the CLARITY Act, cleared Senate Banking 15–9 on May 14, 2026, entered the Senate calendar on June 1, and received updated merged text on July 22. Figure 1 situates those milestones on the legislative clock and shows how little Senate floor time remains before the August recess. Its stablecoin language would extend the ban on issuer-paid yield to third-party rewards, the provision Armstrong opposed and the banking industry supported.²

FIGURE 1 | THE 2025–26 REGULATORY CLOCK

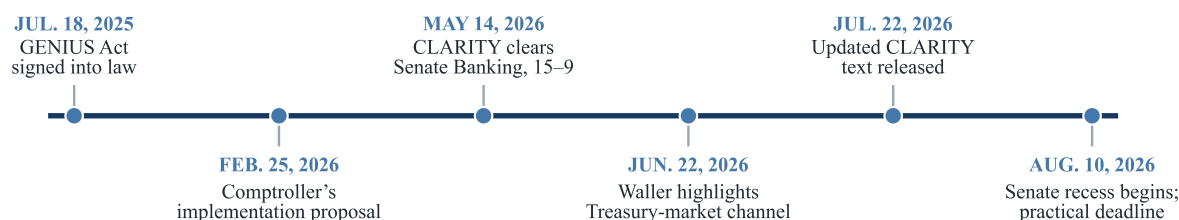


Figure 1. The 2025–26 implementation and legislative timeline. Sources: GENIUS Act; Office of the Comptroller of the Currency Bulletin 2026-3; Senate Banking Committee; Federal Reserve; Office of Senator Cynthia Lummis; U.S. Senate legislative schedule.

But that debate has missed a more fundamental one. The fight over indirect yield is real, and banks’ concerns about their deposit franchises are not unreasonable. What it has crowded out is whether the emerging framework leaves stablecoins commercially sustainable, and what happens systemically if it does not.

On June 22, 2026, Federal Reserve Governor Christopher Waller placed stablecoins squarely in the Treasury-market debate at the Fed’s Fifth Conference on the International Roles of the Dollar.³ Reserve dynamics are no longer a niche crypto issue, and the systemic consequences extend well beyond the yield debate.

“...dollar-backed stablecoins may create a new channel linking global liquidity demand directly to U.S. Treasury markets.”

Christopher Waller, Federal Reserve Governor, Fifth International Roles of the Dollar Conference, June 22, 2026

I. THE FIGHT OVER INDIRECT YIELD

The enacted GENIUS Act protects redemption by limiting reserves to instruments that can be monetized on demand, principally demand deposits, short-dated Treasury securities and qualifying overnight repos. That choice concentrates both reserve demand and issuer earnings at the front end of the curve. Throughout this paper, the Secured Overnight Financing Rate (SOFR) is used only as a transparent benchmark for front-end conditions, not as the yield on every eligible reserve asset.⁴

The next legislative question is whether economically similar payments can reach holders indirectly. The Tillis–Alsobrooks compromise would extend and operationalize the yield prohibition already in GENIUS Act §4(a)(11), covering a broader range of indirect payments, including payments through affiliates. A companion proposal from the Office of the Comptroller of the Currency (OCC) would presume such third-party payments to be prohibited issuer yield in disguise.⁵ The American Bankers Association supported that approach, warning that yield-bearing stablecoins could drain several hundred billion dollars from the banking system.⁶

The Council of Economic Advisers estimates that prohibiting stablecoin yield increases bank lending by only 0.02% under its baseline calibration. Lee and Tou, by contrast, document that banks receiving stablecoin deposits hold more reserves and have lower loan shares. Aronoff et al. add an important accounting qualification: minting and redemption generally reallocate bank deposits rather than reduce their aggregate stock.⁷ That result narrows the disintermediation claim without eliminating the funding question. Which banks receive the balances, how volatile those balances are and what assets those banks support can still change. The compromise nevertheless falls short of what banking groups sought and goes further than digital-asset firms consider necessary.⁸

Whatever the outcome of the yield debate, it will not settle the harder question. The GENIUS Act has cleared the political runway for stablecoin growth, and whether the regime now being built lets that growth be commercially sustainable as well as systemically sound has gone largely unasked. Those are not the same thing, and this paper addresses both.

The commercial pressure sharpened on June 30, 2026, when a 140-company consortium unveiled Open USD, expected to go live later in 2026, with economics designed to distribute reserve income to partners rather than retain it at the issuer. Circle’s shares fell more than 17.0% that day. This competitive pressure is distinct from, but compounds, the rate-cycle exposure this paper addresses.⁹

II. THE ECONOMICS UNDER RATE PRESSURE

Figure 2 varies SOFR while holding Circle’s first-half 2025 reserve base and cost structure fixed. Reserve income in the first two quarters totaled about \$1.2 billion at an average SOFR of 4.3%, implying an average reserve base near \$55 billion. Distribution, transaction and other costs totaled about \$755 million, principally reflecting payments under commercial distribution arrangements with Coinbase and other strategic partners. This left annualized reserve contribution after those costs of about \$875 million. The measure is narrower than company net income and excludes other operating items, taxes and non-reserve revenue. The reduced-form calibration represents observed short-run stickiness as a floor-plus-share cost structure. The inferred floor is not a disclosed contractual term. If more costs vary with reserve income, breakeven moves lower. If contractual floors dominate, it moves higher. Under the central calibration, reserve contribution falls from about \$875 million at 4.3% to \$534 million at a 3.4% SOFR proxy and approaches zero near 2.0%. The result is a sensitivity, not an industry-wide failure threshold.¹⁰

FIGURE 2 | RESERVE CONTRIBUTION IS FRONT-END-RATE SENSITIVE

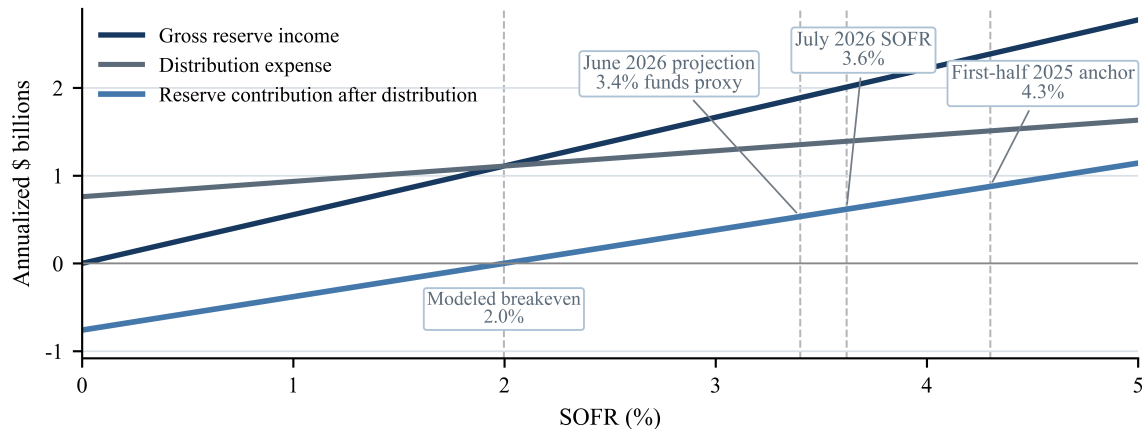


Figure 2. Reduced-form floor-plus-share sensitivity calibrated to Circle’s first-half 2025 reserve income and distribution costs. “Reserve contribution” is gross reserve income less distribution expense, a narrower measure than company net income. The 3.4% marker is the Federal Reserve’s end-2028 federal-funds median, used only as a transparent SOFR proxy. Sources: Circle earnings releases; Federal Reserve H.15 and June 2026 Summary of Economic Projections.

The compression has already begun. SOFR averaged 4.3% in the first half of 2025 and was about 3.6% in July 2026. The Federal Reserve’s June 2026 Summary of Economic Projections reports a 3.4% median federal funds rate at end-2028, not a SOFR forecast. Figure 2 uses it as a transparent proxy on the assumption that overnight secured and policy rates remain closely linked, subject to basis. On that basis, modeled reserve contribution falls from roughly \$875 million to \$534 million.¹¹

The zero-rate era shows the incentive, not a deterministic response. Tether, operating outside an equivalent reserve framework, had built exposure to Celsius Network of more than \$2.0 billion against Bitcoin collateral by late 2021, when the federal funds rate was at its effective lower bound. The GENIUS Act prohibits that conduct, and regulated issuers could instead renegotiate contracts, diversify revenue, consolidate or exit. Money market funds responded during the same era by waiving expense ratios, sometimes entirely. An issuer whose distribution obligations reset more slowly has less immediate control over that margin absorber. The residual policy concern is that sustained rate pressure can increase incentives to place lending, liquidity provision or similar activity outside the regulated reserve perimeter, where the connection to the stablecoin must be supervised rather than assumed.¹²

Margin compression is not reserve impairment. An issuer that cannot cover its distribution costs can fail as a business while every coin remains fully backed, with losses falling first on earnings, equity and partner terms. A separate par risk can arise when a coin trades above \$1: if minting is uneconomic, the issuer may be reluctant to expand supply into demand, weakening the arbitrage that restores the market price to par.⁷ The policy question is what happens when many issuers face those pressures at once.

Scale compounds the problem, but no single market-share line establishes systemic significance. The Treasury Borrowing Advisory Committee (TBAC) uses a \$2.0 trillion stablecoin scenario for 2028, while Citi’s updated 2030 analysis gives a \$1.9 trillion base case and a \$4.0 trillion bull case. Using the May 31, 2026 security-level Monthly Statement of the Public Debt, Treasury bills with 93 days or less remaining maturity totaled \$5.0 trillion. The latest usable reserve disclosures for seven material fiat-backed dollar payment stablecoins identify at least \$127.3 billion of disclosed short Treasury bills, equal to 2.6% of the eligible bill stock. A further \$79.7 billion is reported as Treasury reverse repo, bringing disclosed direct-bill and repo exposure to 4.2%. Repo is financing rather than direct bill ownership. Under GENIUS Act §4(a)(1)(A)(v), an eligible overnight reverse repo may be collateralized by Treasury bills, notes or bonds; the 93-day limit applies to direct Treasury reserves and the separate issuer-as-seller repo pathway, not this reverse-repo clause. Government money-market funds are excluded because they are subject to separate regulatory safeguards. For scale, a 60% bill allocation under the TBAC scenario and Citi’s base and bull cases would equal 24.2%, 23.0% and 48.4% of today’s eligible stock. Those projections hold the eligible bill stock at its May 2026 level rather than growing it. That stock has already roughly doubled from about \$2.6 trillion in May 2022, and bills now stand near 22% of marketable debt, above the 15% to 20% share TBAC has historically treated as a normal range, so further large increases in short bill supply are not assumed. The convention is stated rather than neutral. A fixed denominator holds the projected ratios at their highest, and continued growth in short bill supply would leave the same reserve scenarios representing proportionally less of the eligible stock. These ratios measure concentration rather than price effects; separate International Monetary Fund (IMF) evidence identifies persistent short-rate yield effects from stablecoin demand shocks, although bill supply and reserve composition remain endogenous (Figure 3).¹³

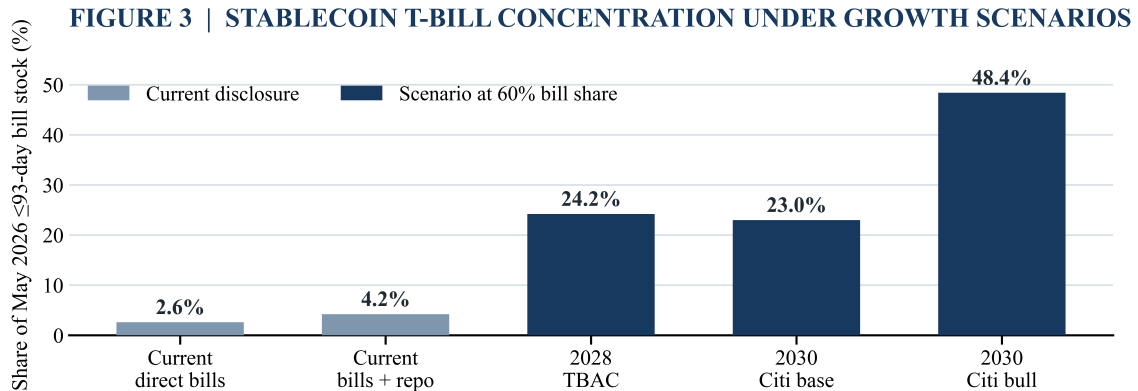


Figure 3. Current direct-bill and Treasury-repo disclosures for seven material fiat-backed dollar stablecoins, divided by the \$5 trillion of Treasury bills with 93 days or less remaining at May 31, 2026. Repo is shown separately from direct ownership. Projection bars assume a 60% bill share.

Sources: issuer reserve disclosures; Treasury Fiscal Data; TBAC; Citi; CoinGecko; DefiLlama.

The GENIUS Act’s reserve rules properly protect par redemption, but they couple issuer unit economics to the front-end rate and a narrow maturity bucket. Low-rate cycles can weaken issuer economics when reserve income is scarce, while large-scale growth can concentrate direct issuer demand in bills. This proposal is a curve-gated partnership that opens only when a supervised bank can quote a material premium after its full balance-sheet hurdle and a separate forecast-error buffer. That design turns the relevant question from whether a small unconditional average replaces all lost overnight income to whether recurring eligible windows can generate material issuer revenue while leaving the bank adequately compensated.

III. A CURVE-GATED BANK-ISSUER RESERVE PARTNERSHIP

Alternative architectures. An April 2026 IMF working paper models central bank reserves as a possible narrow-bank backing asset and pairs that approach with reserve remuneration. It can remove private-bank counterparty risk, but remuneration would still track policy rates and non-bank Federal Reserve access would require legal and policy changes. It therefore addresses reserve-asset safety more directly than the rate-cycle problem examined here.¹⁴

A second approach changes the reserve restriction itself. A 2026 OCC comment by Aronoff and Pagonakis proposed a Dynamic Reserve Maturity Window under which overcollateralized issuers could hold duration beyond 93 days under a haircut schedule modeled on Depository Trust & Clearing Corporation practice. The proposal links maturity authority to loss-absorbing capacity, but it requires reserves above the statutory floor and remains economic only in favorable curve states.¹⁵

A long-run comparator is the tokenized bank deposit, which places the programmable liability directly on a bank balance sheet and avoids the GENIUS reserve constraint. Existing systems move substantial flows across fragmented proprietary platforms, not a fungible stock comparable with stablecoin circulation. This paper therefore treats tokenized deposits as a comparator, not another proposal, and focuses on stablecoins already governed by GENIUS.¹⁶

Proposed response. A curve-gated bank–issuer reserve partnership is available without statutory amendment, subject to the supervisory and interpretive conditions in Section IV. The primary implementation is the GENIUS Act’s expressly permitted overnight Treasury reverse repo, secured by Level 1 Treasuries. A demand-deposit variant is retained only as a secondary legal comparison in the Appendix. Federal Reserve research shows that banks have historically answered disintermediation threats through product adaptation, consortia and selective partnerships.¹⁷ The 2021 President’s Working Group preference for stablecoin activity inside insured depository institutions points in the same supervisory direction, although it did not endorse this structure.¹⁸ Bank of New York Mellon (BNY) illustrates relevant operating capacity through its custody, reserve-fund and consortium roles, not the partnership itself.¹⁹

The business case rests on an observable spread and a hard activation rule. The issuer cannot hold 7-year Treasuries directly under the GENIUS Act’s 93-day maturity limit, but a bank can own approved 3-, 5- or 7-year Treasuries or eligible agency securities within its asset-liability and supervisory limits. The executable gate may therefore span the curve from SOFR to 3-, 5- or 7-year assets, using the chosen asset’s expected yield over the overnight program base before the separately reserved costs. The 7-year tenor is a prudential pilot boundary, not a legal ceiling: it captures liquid intermediate benchmarks while limiting the greater DV01, hedge-margin and same-day monetization risk of 10-year-and-longer assets financed with overnight, callable funding.^{20,21} The historical screen uses the 7-year Treasury yield minus federal funds as a long-run funding proxy and the 7-year minus 3-month Treasury slope as a same-basis robustness check. Neither is an executable bank quote. The bank does not transfer its portfolio to the issuer. Figure 4 shows the allocation: the issuer provides withdrawable reserve funding, the bank owns and manages the assets and risks, and the premium turns on only after every commercial and prudential gate clears.

FIGURE 4 | THE CURVE-GATED PARTNERSHIP KEEPS ASSET RISK INSIDE THE BANK

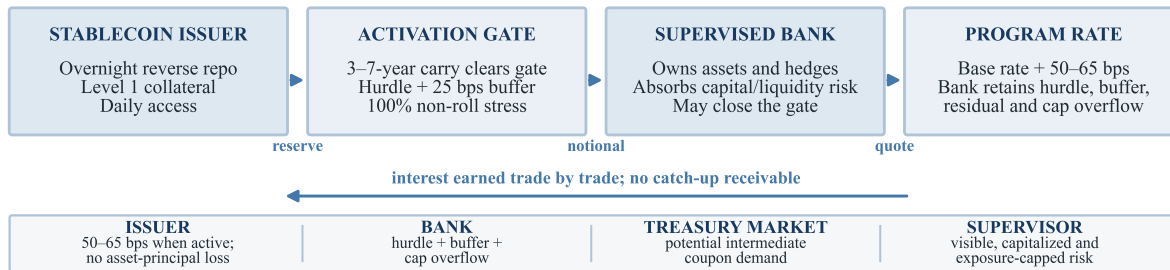


Figure 4. The activation gate separates the issuer’s withdrawable reserve funding from the bank’s asset and risk decisions. The bank retains its hurdle, 25 bps forecast-error buffer, 20% residual share and cap overflow. The issuer receives a quoted premium only while every gate clears. Treasury-market benefit requires incremental or preserved intermediate holdings rather than existing inventory.

Primary legal form. The secured overnight Treasury reverse repo is the pilot baseline. It rests on express statutory permission and reduces unsecured counterparty exposure through Level 1 collateral. Its advantage over a demand deposit is not leverage relief. Both are on-balance-sheet funding and, when used to finance term assets, generally expand total leverage exposure. The secured form instead collateralizes the issuer’s exposure and can receive the narrow 0% Liquidity Coverage Ratio (LCR) outflow, whereas an uninsured demand deposit remains unsecured and is conservatively priced at a 100% outflow. Leverage, global systemically important bank (G-SIB) surcharges, market, operational and same-day monetization constraints remain fully binding. The demand-deposit variant is disclosed only in Appendix Table A1.²⁰ Liang and Dudley argue that issuer exposures to uninsured bank deposits should attract higher risk-sensitive capital; that concern reinforces the secured form rather than the secondary deposit variant.²²

In the secured form, the issuer invests reserve cash in an overnight reverse repo and the bank posts Treasury notes, bills or bonds pursuant to a tri-party eligibility schedule with customary substitution rights rather than as a single specified CUSIP. GENIUS Act §4(a)(1)(A)(v) permits that reserve asset if it is overnight, overcollateralized on standard market terms and tri-party, centrally cleared, or bilateral with a sufficiently creditworthy counterparty. The 93-day limit in clause (iii) applies to Treasuries held directly as reserves. Clause (v) separately permits Treasury notes, bills or bonds as reverse-repo collateral without stating a collateral-maturity cap. That textual distinction supports intermediate Treasury collateral, subject to final implementing rules and bank-specific supervisory limits. The parallel rules of the OCC, Federal Reserve and Federal Deposit Insurance Corporation assign a 0% LCR outflow to secured funding backed by Level 1 assets. Posted Treasuries are encumbered, while haircuts, margin and substitution consume liquidity. Zero LCR outflow is a narrow rule result, not balance-sheet neutrality. The 2025 enhanced Supplementary Leverage Ratio rule did not exclude Treasury or repo exposures from total leverage exposure. For a U.S. G-SIB, Level 1-secured funding with no more than 30 days to maturity receives a 25% weight in the method-2 short-term wholesale funding amount. Each bank must price those constraints or decline the trade.²⁰

Pricing and participation. The 50–65 basis point (bps) external repo premium is not quoted as an anonymous general-collateral desk rate and is not commercially justified as standalone overnight funding. It is a bilateral program rate available when the combined asset, hedge and funding position clears the bank’s central-treasury approval and internal funds-transfer price. The bank must allocate the term-asset carry, issuer non-roll option and every balance-sheet charge to the program, and the quote must remain closed if its all-in economics do not beat relevant alternative funding or if liquidity conditions could make it resemble stressed borrowing. Let expected gross carry on the selected 3-, 5- or 7-year asset over the overnight program base be g , direct and hedge-cost reserve d , the bank-specific composite hurdle k , and a forecast-error and terminal-option buffer z . The prospective premium is 80% of positive expected residual after d , k and z , capped at 65 bps. The facility activates only when that premium reaches 50 bps and the bank’s leverage, liquidity, concentration and 100% non-roll stresses pass. With $d = 11$ bps and $z = 25$ bps, the gross-spread thresholds are 124, 139 and 149 bps for 25, 40 and 50 bps hurdles. At each threshold the issuer earns approximately 50 bps and the bank’s expected net return clears its stated hurdle by approximately 37.5 bps, including the 25 bps risk buffer. If the curve widens enough for the 65 bps cap to bind, the bank retains all additional upside. Appendix A decomposes d , back-tests z and links k to the bank funds-transfer-pricing framework. These parameters are pilot terms, not regulatory entitlements.^{20,23}

The resulting bargain is asymmetric in a deliberate but priced way. The issuer never indemnifies the bank and does not share asset-principal losses. Its commercial downside is that the premium can fall to zero on future trades, balances can be reallocated and operational or counterparty costs may reduce net benefit. The bank receives the full base funding relationship, earns its hurdle before the issuer share, retains the explicit risk buffer and residual share, and captures all economics above the cap. The bank also controls notional, asset selection, hedge ratio and daily continuation. That combination makes the issuer proposition attractive without requiring the bank to offer an underpriced standing option.

No future rate is contractually guaranteed. Each repo rate is fixed only for its overnight term. At a scheduled review, the bank recomputes the curve screen, hurdle, buffer and stress capacity and may make a premium available on newly entered trades. A repo premium is earned one maturity at a time on the balance actually rolled and creates no catch-up payment or non-reserve receivable. The 50 bps floor prevents immaterial programs from being marketed as meaningful diversification, while the 65 bps cap protects the bank's economics in the widest-curve states. The 80% share, floor, cap and review frequency are negotiated pilot parameters.

Risk-managed carry does not assume a costless full hedge; swap carry, futures roll and basis can consume the spread. Silicon Valley Bank is the warning: a bank cannot treat overnight issuer cash as behaviorally stable or alter approved hedges to protect earnings. Yadav and Malone find that Ethereum USDC supply fell about \$2.0 billion between noon and midnight UTC on March 10, 2023.²¹ Bank-specific duration limits, hedge governance and the 100% non-roll stress therefore sit inside the activation gate, which closes when any limit fails. The bank instead manages a bounded carry position inside approved value-at-risk, duration, stress-loss and liquidity limits. The issuer's next-period premium is quoted only after hedge, basis, execution and capital costs, an 11 bps direct and hedge-cost reserve and a separate 25 bps forecast-error and terminal-option buffer. The 11 bps reserve consists of an illustrative 9 bps direct-cost allowance and 2 bps hedge, basis and execution allowance. In the historical forward screen, the separate 25 bps buffer covered roughly four-fifths of eligible quarter-ahead signal errors. A minimum 50 bps premium makes activation commercially material, while a 65 bps cap preserves the bank's upside in the widest-curve states. Figure 5 asks whether the signal survives into the next quarter rather than paying on same-period hindsight.²³

FIGURE 5 | THE COMMERCIAL GATE OPENED REPEATEDLY

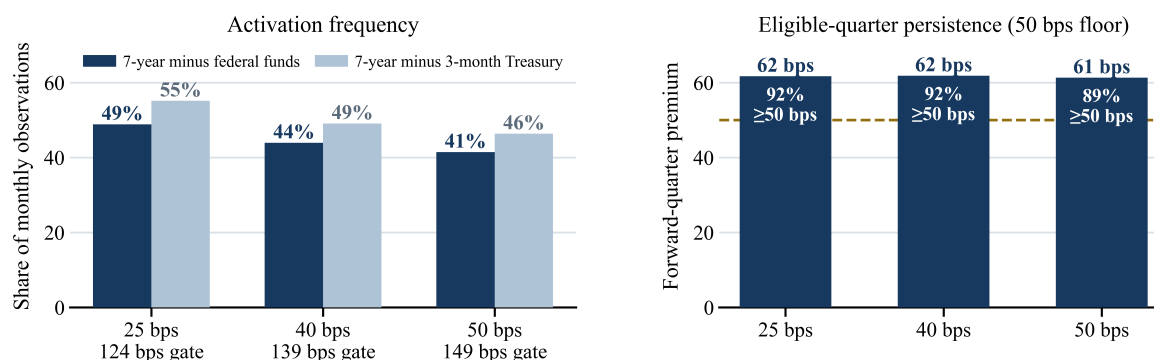


Figure 5. Commercial activation and forward carry persistence. Across the three modeled hurdles and two spread measures, the gate cleared in 41%–55% of all monthly observations. Conditional on federal funds at or below 2%, activation rose to 60%–71%, versus 31%–46% above 2%. In eligible quarters, the following non-overlapping quarter supported average capped premiums of about 60 bps and at least 50 bps in 89%–92% of cases. The forward screen is an opportunity test, not executable hedge P&L or a guaranteed quote. Source: Federal Reserve Economic Data (FRED) and author calculations.²³

The relevant denominator is the balance deployed while the gate is open, and the issuer earns the quoted premium rather than the full carry. In the 40 bps-hurdle forward test, uncapped premiums averaged 117 bps and the 65 bps cap bound in 84% of eligible quarters, leaving the bank an average 55 bps of cap overflow (about \$11 million annualized on a \$2.0 billion pilot). The premium and dollar estimates that follow therefore describe the issuer's capped share. On half of the illustrative \$55 billion reserve base, the approximately 61 bps eligible-window average equals about \$168 million, or roughly 40%–49% of the modeled \$341 million compression from 4.3% to 3.4%. Historical funds-relative availability implies a rough 25–30 bps calendar-time equivalent before execution failures, around \$70–83 million on that balance. The channel is therefore a material diversifier when open, not a full substitute for front-end income. Net issuer benefit remains the earned premium less bank fees, distribution sharing and any decline in balances actually rolled.

The reverse repo reduces unsecured exposure through Treasury collateral but adds haircut, margin, settlement and collateral-management risk. It does not turn overnight funding into term funding. The arrangement requires per-bank limits, several operationally ready counterparties and daily collateral reporting. The gate assumes 100% non-roll at the next maturity together with a Treasury-price and haircut shock, derivatives margin calls and loss of the largest backup funding counterparty. The bank may not assign behavioral maturity to issuer funding and must demonstrate same-day collateral monetization or replacement funding through its central Treasury function. Operationally, non-roll is a cash repayment at contractual maturity, not the legacy blanket morning unwind, which tri-party reforms largely eliminated. Collateral becomes available for reuse through settlement and can then support private repo, transactions cleared through the Fixed Income Clearing Corporation where operationally eligible, or the New York Fed's Standing Repo Facility for an eligible counterparty; Standing Repo Facility cash settles the same day under

BNY tri-party conventions on a best-efforts basis. The gate therefore requires prefunded intraday liquidity until replacement cash is received rather than assuming instant, overdraft-free collateral release.²⁰

The honest tradeoff is interconnection: the arrangement moves redemption and non-roll risk onto regulated balance sheets. Yadav and Malone identify a related dilemma: bill-only reserves can reinforce short-maturity demand, while allowing issuers to hold longer Treasuries or foreign sovereign debt introduces term or currency risk. This structure offers a third path: the issuer remains in an overnight eligible asset while the bank owns intermediate Treasuries and their risks. Treasury borrowing remains driven by fiscal needs, so the partnership neither reduces aggregate issuance nor mechanically lengthens the government's weighted-average maturity. A benefit exists only if banks acquire or preserve intermediate Treasuries rather than pledge existing inventory. Treasury's May–July 2026 schedule announced \$516 billion of gross 3-, 5- and 7-year issuance; a \$20 billion multi-bank pilot would equal 3.9%. That scale is modest and not price-neutral. Pilot reporting should track incremental holdings, auction allocations and tails, secondary-market spreads, tenor and encumbrance.¹³

IV. SUPERVISORY GUARDRAILS AND INTERPRETIVE QUESTIONS

Supervisory posture. The partnership requires no statutory change, but this paper does not ask agencies to endorse its forecast or grant favorable prudential treatment. A supervisory gate should precede narrow legal clarification. Required inputs include unused leverage and G-SIB capacity, full funds-transfer pricing, the 25 bps or larger forecast-error buffer, 100% non-roll liquidity, collateral and margin stress, counterparty diversification, exposure caps and a daily stop-out. Pilot reporting should separate quoted issuer premium, earned premium, bank net return, forecast error and stress usage. The remaining interpretive questions concern reserve eligibility, settlement and the yield prohibition. The secondary demand-deposit variant and its less favorable liquidity and counterparty treatment are disclosed in the Appendix rather than presented as the pilot baseline.

Capital, scale and secured implementation. A GENIUS-eligible overnight reverse repo secured by Level 1 Treasuries receives a 0% secured-funding outflow under the parallel LCR rules. That treatment establishes no neutrality under the Supplementary Leverage Ratio, Net Stable Funding Ratio, G-SIB surcharge, accumulated other comprehensive income or interest-rate-risk rules. For a G-SIB, qualifying overnight Level 1-secured funding enters the current method-2 short-term-wholesale-funding measure at a 25% weight. Pilot exposure must remain within bank-specific leverage, surcharge, concentration and same-day monetization capacity. Funding substitution can justify a lower k than incremental balance-sheet growth, but both cases must retain z and reject a trade that crosses a surcharge bucket or internal limit. Reporting should show haircut, encumbrance, hedge margin, incremental Treasury holdings and the 100% non-roll result.²⁰

Distribution economics. Additional issuer income could enlarge the pool available to distribution partners, so gross premium is not the same as retained issuer benefit. The contract should prohibit pass-through to holders or rewards programs, permit prospective repricing and create no cash claim before repo maturity. Pilot approval should require a board-approved use-of-proceeds policy and quarterly independent attestation that supplemental reserve revenue is not contractually or operationally routed to holder-specific interest, rewards, fee rebates or other consideration tied to holding, use or retention. That control addresses evasion risk without conceding that ordinary retained earnings are holder yield. The OCC's proposed presumption requires a linked arrangement that ultimately pays holders. Reported issuer benefit must be net of incremental bank fees, any applicable distribution share and any decline in the balance rolled. Retained income can support capital, compliance and redemption infrastructure without changing the holder's non-yield-bearing claim.⁵

CONCLUSION

Banks and stablecoin issuers need not be at war. Banks can offer this partnership when the curve is steep enough to clear every commercial and prudential gate, often in easing or low-rate cycles. For issuers, it can strengthen revenue sustainability as a contingent yield diversifier, not guaranteed low-rate insurance. When the gate opens, a supervised bank can quote 50–65 bps while retaining its balance-sheet hurdle, forecast-error buffer, residual upside and daily control. Historical evidence shows recurring windows whose carry usually persisted into the following quarter. Every \$10 billion earning 50 bps adds \$50 million annually, enough to diversify issuer revenue without replacing front-end income.

The public case depends on where risk and demand migrate. The issuer gains no authority to hold longer reserves, holders receive no yield, and the bank must price and survive the maturity exposure under ordinary disciplines. Treasury-market benefit counts only when funding adds or preserves intermediate holdings, not existing collateral. An exposure-capped pilot can test issuer income, bank return, stress use and Treasury-demand maturity. If results fail, the gate stays closed; if they pass, the arrangement offers a more constructive equilibrium than competition over one short-rate revenue pool.

APPENDIX: RULE MECHANICS AND EMPIRICAL METHODS

Table A1. Existing-rule LCR treatments

Implementation	LCR outflow	Rule-based condition
Overnight Treasury reverse repo	0%	Level 1 Treasury collateral under 12 C.F.R. §§50.32(j)(1)(i), 249.32(j)(1)(i), and 329.32(j)(1)(i); GENIUS conditions met.
Demand deposit: paper baseline	100%	Financial-sector or residual wholesale treatment; used for the secondary variant.
Demand deposit: possible classification	40%	Only if the issuer is not a financial-sector entity under the bank's applicable agency rule.
Operational deposit (not proposed)	25% if uninsured	12 C.F.R. §§50.4(b)(4), 249.4(b)(4), and 329.4(b)(4) bar incentives to maintain excess operational funds.

Note. The 0% secured-repo treatment is the pilot baseline. Deposit rows are secondary and do not imply balance-sheet neutrality.

Secondary demand-deposit variant. A demand deposit remains a possible legal form because GENIUS Act permits deposits withdrawable at any time, but it is not the pilot baseline. It leaves the issuer with uninsured bank exposure, can implicate the brokered-deposit perimeter and is priced here at a conservative 100% LCR outflow rather than a possible 40% classification or the rejected 25% operational category. Any rate must be announced prospectively, cannot condition withdrawal and cannot be passed through to holders. These disadvantages are why the main proposal uses the secured overnight reverse repo.^{20,24,25}

Empirical method and settlement result. The supply exercise aligns daily circulating-supply observations for the largest attested issuer from CoinGecko and DefiLlama, removes missing dates, and defines a net supply-contraction day as a 1-day percentage decline, with percentiles calculated over decline days only. Across 2,212 observations, the median decline is 0.3% of supply, the 90th percentile 0.9%, the 99th 2.4%, and the March 2023 maximum 3.6%. The issuer's reported \$71.8 billion of first-quarter 2026 gross redemptions equals about 1.2% of average supply per day. These measures size settlement liquidity but do not isolate redemptions from burns, bridge movements or revisions and are not bank outflow assumptions. Because the repo is overnight, the prudential gate instead assumes 100% non-roll.^{20,21}

Table A2. Illustrative activation economics in annualized basis points

Scenario	Gross carry / bank hurdle	Issuer premium	Bank net return (surplus over hurdle)
Low-constraint activation	124 / 25 bps	50 bps (\$10.0M)	63 bps (+38 bps)
Binding-balance-sheet activation	149 / 50 bps	50 bps (\$10.0M)	88 bps (+38 bps)
Wider curve; cap binds	175 / 50 bps	65 bps (\$13.0M)	99 bps (+49 bps)

Note. Gross carry is the selected 3-, 5- or 7-year asset's expected yield over the overnight program base before d. For transparency, d = 11 bps comprises illustrative allowances of 9 bps for direct operating, custody and settlement costs and 2 bps for hedge, basis and execution; executable costs must replace them. The separate 25 bps z buffer covered approximately 80% of eligible prior-month-signal-to-forward-carry changes. The 25, 40 and 50 bps k cases bracket increasingly constrained balance sheets; actual bank funds-transfer pricing must include capital, liquidity, leverage, G-SIB and alternative-funding economics. Each case applies $\alpha = 80\%$, a 50 bps floor and a 65 bps cap. Dollar values are annualized on a \$2.0 billion pilot. This is a pricing boundary, not a profit forecast or hedge prescription.^{20,23}

Prospective activation and pricing rule. Bank participation is an ex ante precondition. Define expected excess carry, the prospective premium, the activation indicator and expected bank net return in basis points of the eligible average balance as:

$$\begin{aligned}
 e_t &= E_t(g_{t,t+1}) - d_t - k_t - z_t \\
 p_t &= \min[\bar{p}, \alpha \max(0, e_t)] \\
 A_t &= 1\{p_t \geq \underline{p}\} \times 1\{\text{stress gate passes}\} \\
 B_t &= E_t(g_{t,t+1}) - d_t - A_t p_t
 \end{aligned}$$

Here g is the bank's forecast of gross carry on the selected 3-, 5- or 7-year asset over the overnight program base for the next pricing period; d is direct, hedge, basis and execution cost; k is the bank-specific hurdle for capital, liquidity, leverage, G-SIB, balance-sheet and alternative-funding economics; z is a separate forecast-error and terminal-option buffer; p is the prospective issuer premium; A is the activation indicator; and B is expected bank net return after d and the premium. The illustrated terms set $\alpha = 80\%$, $\underline{p} = 50$ bps, $\bar{p} = 65$ bps, $d = 11$ bps and $z = 25$ bps. The gross-carry activation threshold is $d + k + z + \underline{p}/\alpha$. It therefore equals approximately 124, 139 and 149 bps for 25, 40 and 50 bps hurdles. At the threshold, $B = k + z + (1 - \alpha)(\underline{p}/\alpha)$, so the bank clears its hurdle by 37.5 bps before forecast error consumes the buffer. The premium p is available only on new overnight trades and is earned on balances actually rolled. Realized bank profit remains subject to valuation, hedge, accounting and liquidity outcomes; the model prices those risks but does not make them disappear.

Policy-evaluation criterion. The arrangement should be treated as beneficial only when measurable reductions in issuer revenue concentration and direct bill concentration exceed incremental bank capital, liquidity, counterparty and interconnection costs without weakening par redemption. A pilot should report the share of days on which the gate was open, quoted and earned issuer premiums, bank net return after every charge, forecast-error-buffer use, non-roll stress results, changes in intermediate Treasury holdings and encumbrance. Where feasible, participating issuer-bank pairs should be compared with nonparticipants while controlling for policy rates, reserve growth, issuer market share and rate regime. A simple before-after comparison would not establish causality.

Historical activation method. Monthly FRED series GS3M, GS5, GS7 and FEDFUNDS were aligned from September 1982 through June 2026. The activation thresholds are derived from the contract arithmetic before looking at historical frequency. The 7-year minus funds measure is the long-run proxy for carry over an overnight funding base; the same-basis 7-year minus 3-month Treasury slope is a robustness check, and neither is an executable quote. Using the first proxy, the 25, 40 and 50 bps hurdle screens cleared in 48.9%, 43.9% and 41.4% of months. Conditional on federal funds at or below 2%, those rates were 69.1%, 61.9% and 59.8%; the same-basis rates were 71.1%, 63.9% and 60.8%. Median continuous episodes lasted 5, 6 and 6 months. The no-look-ahead forward test observes the signal in the prior month and compares that prior 7-year yield with the following non-overlapping quarter's average federal funds rate. Carry-implied premiums averaged 61.7, 61.8 and 61.3 bps and reached at least 50 bps in 92.0%, 92.4% and 89.2% of eligible quarters. A 25 bps reserve covered approximately 80% of signal-to-forward-carry changes in the eligible samples. The test addresses opportunity persistence; it excludes executable hedge P&L, bid-offer, accounting and bank-specific funds-transfer pricing.²³

FIGURE A1 | EASING AND LOW-RATE REGIMES EXPAND CURVE OPPORTUNITIES

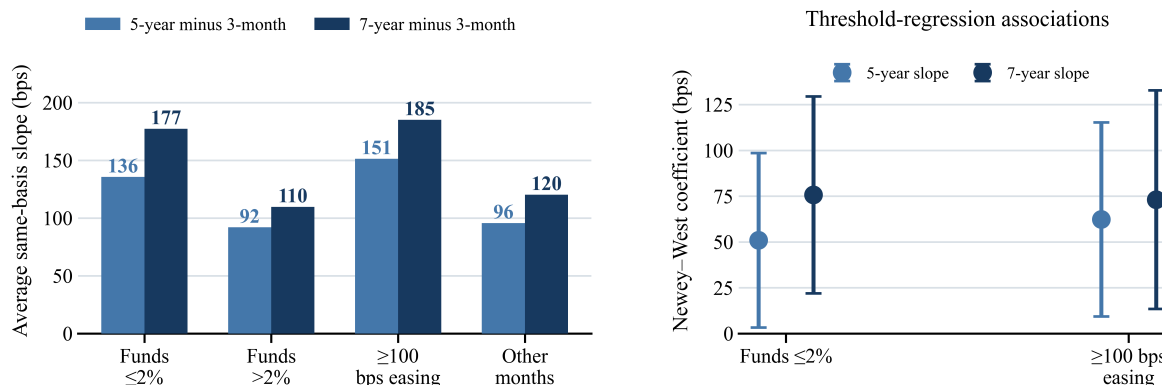


Figure A1. Rate-regime context. Same-basis 5-year minus 3-month and 7-year minus 3-month Treasury slopes were wider in low-rate and easing regimes. In descriptive Newey–West threshold regressions, the easing association is positive for both tenors and the low-rate indicator is also positive. R^2 is 0.12 and 0.17 for the 5- and 7-year slopes. These associations explain why activation windows can cluster, but they are neither causal signals nor substitutes for the model-derived commercial gate. Source: FRED and author calculations.²³

FIGURE A2 | THE PRICING WATERFALL LEAVES MATERIAL VALUE WITH BOTH PARTIES

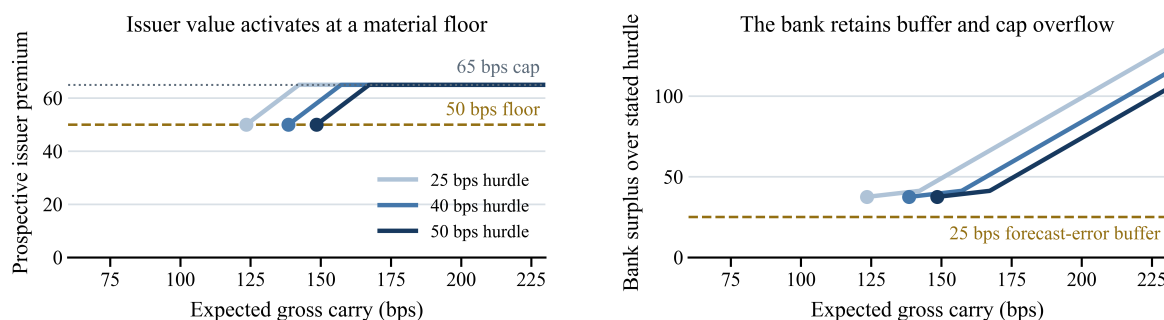


Figure A2. Stakeholder payoff surface. A 50 bps issuer floor requires approximately 124, 139 or 149 bps of expected carry at 25, 40 or 50 bps bank hurdles. The bank retains its hurdle, forecast buffer and residual share; carry above the 65 bps cap also accrues to the bank. Expected pricing, not realized hedge profit.²³

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Disclosures and Limitations

Conflict of interest. The author founded Sesame Vault, a stablecoin reserve analytics platform that would benefit from growth of the institutional stablecoin market.

Limitations. The issuer sensitivity is calibrated to Circle’s public disclosures and may not generalize to every issuer or distribution contract. Historical activation screens use Treasury and federal-funds proxies, not executable repo, swap or futures quotes. The forward test measures carry persistence and excludes hedge roll, basis, bid-offer, valuation, accounting and proprietary funds-transfer-pricing outcomes. An always-on 2018–2026 sensitivity produces only 3–7 bps calendar averages, reinforcing the need for a gated rather than standing facility. The 11 bps cost reserve remains an illustrative pilot allowance; the 25 bps buffer is historically back-tested but is not a substitute for an executable bank forecast-error charge. Binding leverage, G-SIB or liquidity constraints may require a larger hurdle or buffer, or rejection. Net issuer benefit depends on fees, distribution terms and actual rollover. Treasury-market benefit requires incremental or preserved intermediate holdings and is not created by pledging an existing collateral inventory. The bilateral program rate remains an external funding cost even when internal funds-transfer pricing assigns the asset-side benefit; governance does not eliminate market or stigma risk. Legal treatments remain subject to agency interpretation.