



The GENIUS Act Risks U.S. National Security

“Stablecoins are the new kingpin of illicit crypto activity. . . . Criminals are abandoning Bitcoin in favor of stablecoins because they offer speed, liquidity and regulatory blind spots that make illicit transactions easier to execute and harder to trace. . . . This makes stablecoins ideal for laundering large sums of money” —Cointelegraph, [Crypto Crime in 2024 Likely Exceeded \\$51B, Far Higher Than Reported: Chainalysis](#), February 27, 2025

The Financial Action Task Force (FATF) has [warned](#) countries to ensure that counter-illicit finance standards for virtual assets are “effectively implemented before the mass adoption of stablecoins.” While countries struggle to implement those safeguards, fentanyl traffickers, ransomware actors, terrorists, and North Korean hackers can easily find crypto exchanges and other services to move, mix, and cash out illicit funds. The FATF warns risks will grow once stablecoins are commonly used to make payments.

But the Trump Administration has run in the opposite direction, even as stablecoins have become “the new kingpin of illicit crypto activity.” At President Trump’s direction, the Department of Justice has [disbanded](#) its crypto enforcement team and [dismissed](#) more than a dozen investigations or enforcement cases against crypto entities. **If Congress is going to supercharge the use of stablecoins and other cryptocurrencies, it must include safeguards that make it harder for criminals, terrorists, and foreign adversaries to exploit the financial system and put our national security at risk.**

As drafted, the GENIUS Act fails to do so. For example, it:

- **Fails to impose controls against money laundering and terrorist financing on the range of service providers like exchanges that will move the stablecoins.**
 - Controls on stablecoin issuers alone do nothing to address the national security vulnerabilities that arise as the stablecoins are traded widely through digital asset service providers, like exchanges, that move or custody cryptocurrencies.
 - Because these entities too often neglect or deny their responsibilities, Treasury has specifically asked Congress to make clear that these service providers are “financial institutions” that must have anti-money laundering (AML) and countering the financing of terrorism (CFT) programs.
 - The New York Attorney General [wrote](#) to Congress in April and said, “Effective legislation must require cryptocurrency platforms to expressly comply with anti-money laundering laws [and] know your customer (‘KYC’) regulations.”
 - Instead, the GENIUS Act compounds the problem. By applying AML/CFT rules only to the issuers themselves, the bill sends a signal to terrorists and criminals that it is open season for them to exploit all the other entities and services through which stablecoins will move.

- The latest version of the bill undercuts even this narrow application to issuers, allowing them to implement AML/CFT requirements “as applicable.”
- **Allows foreign actors to circumvent enforcement by paying sanctioned actors in stablecoins instead of U.S. dollars.**
 - Treasury has [warned](#) that decades-old statutes [have to be updated](#) to ensure companies and individuals cannot escape the jurisdictional reach of U.S. sanctions enforcement by switching from U.S. dollar payments to payments in stablecoins backed by U.S. dollars.
 - This bill fails to extend U.S. sanctions laws extraterritorially to close this loophole, letting foreign persons off the hook while threatening enforcement on Americans who are always subject to sanctions enforcement. It instead simply requires Treasury to “coordinate” with issuers before taking action to block transactions, giving Treasury no new enforcement tools.
- **Fails to require issuers to monitor blockchains and report criminal activity.**
 - The bill doesn’t require issuers to monitor blockchains on which their stablecoins are traded and report suspicious activity they see. If the blockchain makes it easier to identify criminal conduct, that information should be shared with law enforcement. Requiring this monitoring and reporting by all issuers would level the playing field and avoid rewarding issuers that would do less to detect crime.
 - Instead, the bill simply requires Treasury to solicit public feedback and to issue rules or guidance in the future on “best practices.”
- **Fails to fix a loophole allowing crypto mixers to escape sanctions for letting terrorists and criminals launder money.**
 - Because of a court decision, Treasury can no longer sanction cryptocurrency mixers like Tornado Cash that have helped North Korean state-sponsored hackers launder hundreds of millions of dollars to fund weapons programs.
 - The court found that only Congress could address the issue through legislation. But the bill fails to include the fix, which was supported by every Democrat on the Committee.
- **Allows decentralized finance exchanges and platforms like the Trump family’s World Liberty Financial to continue doing business with issuers that violate the law.**
 - The GENIUS Act prohibits a narrow set of “digital asset service providers” from engaging with noncompliant issuers, but imposes no AML/CFT program obligations on them and carves out a number of activities that happen to be found in World Liberty Financial’s “[gold paper](#),” like “developing” a protocol. The new version of the bill goes further and also carves out “operators” of services like mixers; World Liberty Financial says it will “operate” the WLF Protocol.

- Embedding this narrow definition of service providers in law would cast doubt on the obligations of excluded services that Treasury [warns](#) can be “more appealing” to criminals like drug traffickers and scammers.
 - This is especially concerning on the heels of the largest crypto theft ever, in which hackers laundered funds through a [platform](#) based on smart contracts, generating millions in fees for its validators, liquidity providers, and wallet services. The platform kept going despite FBI requests, and its founder assessed that his service is “doing great, actually.”
 - Yet the GENIUS Act definition carves out such persons who develop distributed ledger protocols, including smart contracts. It does the opposite of what an expert witness [testified](#) is needed: to “expand the regulatory perimeter to include other actors and services in the [decentralized finance] world.”
- **Includes insufficient measures to help law enforcement disrupt illicit activities.**
 - Although the bill requires issuers to have the ability to seize, freeze, burn, or prevent the transfer of payment stablecoins they have issued, this doubles down on an after-the-fact approach to illicit finance. The core issue is that too few crypto entities proactively find and report suspicious activity to law enforcement because they don’t see the need to implement AML/CFT programs.
 - The bill gives issuers 30 days to act on a lawful order, even though it has been widely reported that groups can move their money far faster. For example, in the two days it [reportedly](#) took Tether to act on an FBI request to freeze \$90,000 bound for Hamas, the amount dwindled to less than \$3,000.
- **Would help export this weak regime to other countries, leaving loopholes for criminals and adversaries globally.**
 - The bill grants exceptions to jurisdictions with payment stablecoin regulatory regimes that are “comparable” (not even substantially similar) to the requirements established by the GENIUS Act, incentivizing foreign countries to take approaches that also have known weaknesses.