

### Bank Equity Price Reactions to Stablecoin Legislation

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#### Highlights

- The growth of stablecoins could reshape competitive dynamics in banking, but whether this benefits or challenges individual institutions depends on their size and jurisdiction.
- U.S. bank equity prices rose following U.S. stablecoin legislative milestones, while bank equities in other jurisdictions were flat or declined.
- Equity gains were concentrated among large U.S. banks, while mid-size and community banks saw little or no abnormal returns, pointing to expectations of uneven competitive effects.

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## Executive Summary

The rapid growth of the stablecoin market has sparked debate over its impact on the banking sector (Coste (2024), Wang (2025)). If a multi-trillion-dollar market were to materialise, stablecoins could compete for payment services and undermine banks' funding cost advantage by pressuring them to reprice deposit rates to retain customers – dynamics that may vary by bank size. Industry groups have expressed concern that deposit flight could be concentrated among smaller institutions, with some estimates suggesting trillions of dollars in deposits could be at risk. Yet by the same score, banks could benefit from issuing stablecoins, providing services to stablecoin issuers such as reserve management and custody, or attracting deposits from issuers themselves – flows likely to concentrate in the largest banks.

This note assesses how these questions are viewed by equity market investors through the lens of short-term market reactions to U.S. stablecoin legislative milestones. Given the overwhelming dominance of the dollar in stablecoin markets, the passage of the “Guiding and Establishing National Innovation for U.S. Stablecoins” (GENIUS) act in July 2025 was a watershed moment for banks in the United States.<sup>2</sup> We examine bank stock returns around four GENIUS act legislative milestones. On average, markets priced these developments as positive for U.S. banks but with highly uneven effects across bank size categories. Large banks saw positive abnormal returns while community banks experienced flat or negative performance. This could suggest that investors anticipate heterogeneous banking sector effects from stablecoin growth.

### Stablecoin growth and its impact on the banking sector

The stablecoin market has grown significantly since 2021. Market capitalization sits at close to record levels at almost \$300 billion (Graph 1.A). Despite the growth in the number of stablecoins in circulation, the market remains highly concentrated, with around 90 percent of market capitalization accounted for by just two USD-pegged coins, Tether's USDT and Circle's USDC.

The growth in stablecoin market capitalization accelerated with the passage of the GENIUS act, signed into law on July 18, 2025. The focus of this note is on the period immediately following the GENIUS act. Relative to a pre-GENIUS trend, the legislation appears to have provided a strong boost both to stablecoins that would be operating within the GENIUS act mandate today ('compliant' for short, Graph 1.B) as well as those that are not ('non-compliant', Graph 1.C). In terms of percentage growth, 'compliant' stablecoin expansion was somewhat stronger, although non-compliant stablecoins – driven by Tether – grew more in dollar terms. Growth tapered around October, coinciding with a crypto bear market that saw bitcoin prices roughly halve.

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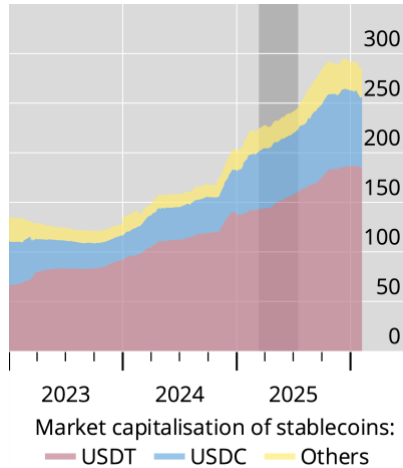
<sup>2</sup> The act established the first comprehensive regulatory framework for payment stablecoins in the United States, requiring full reserve backing, enforceable redemption rights and standardized disclosures. For details see [US Library of Congress](#).

Stablecoin market growth boosted by GENIUS act

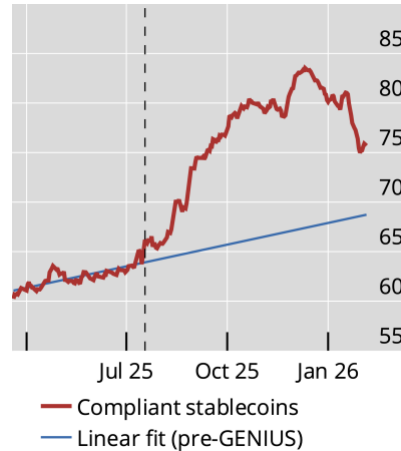
In billions of USD

Graph 1

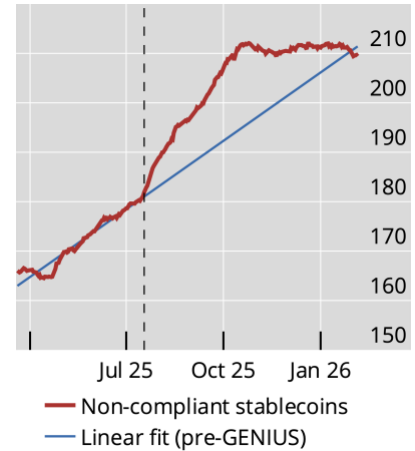
A. Stablecoin market capitalization is concentrated in two coins<sup>1</sup>



B. Passage of GENIUS act gave a boost to compliant stablecoins...<sup>2</sup>



C. ... as well as, temporarily, non-compliant ones<sup>3</sup>



<sup>1</sup> The shaded region marks the period between the U.S. Senate Committee vote on the GENIUS act and the final legislative approval (see Table 1). <sup>2</sup> Predicted counterfactual computed as a linear time trend based on the pre-event sample period. The vertical line is at July 18, 2025, when the GENIUS act was signed into law. See Online Annex for the list of coins used. <sup>3</sup> Predicted counterfactual computed as a linear time trend based on the pre-event sample period. The vertical line is at July 18, 2025, when the GENIUS Act was signed into law. See Online Annex for the list of coins used. The terms compliant and non-compliant are not meant to be a legal assessment; they are used in relation to the requirements put forth by the GENIUS act when it was signed into law.

Sources: CoinMarketCap; authors' calculations.

The potential effects of stablecoin growth on the banking sector could be both substantial and highly uneven (Liao and Caramichael (2022)). On the one hand, stablecoins could disintermediate some banks by competing for deposits and the provision of payments. Deposit flight at some banks could hamper their ability to provide credit. Indeed, banking industry trade groups have voiced concerns over rising disintermediation risks from stablecoins, suggesting impending deposit flight concentrated among smaller community banks.<sup>3</sup> At the same time, deposit competition could erode banks' funding cost advantage by pressuring them to competitively reprice deposit rates to retain customers. Stablecoin issuers themselves may hold reserves partially as bank deposits (as for example mandated by Europe's Markets in Crypto-

<sup>3</sup> See for example ICBA (2025) and ABA (2026). Moreover generally, the Treasury Borrowing Advisory Committee has projected \$5.7 trillion in deposits potentially at risk of substitution to stablecoins (TBAC (2025)).

Assets (MiCA) Regulation), but these deposit flows would likely concentrate in the largest banks with established custody and treasury management infrastructure.

It is however not a foregone conclusion that banks will suffer from the rise of stablecoins. Recent analysis suggests that stablecoin substitution effects may be minimal so long as yields on stablecoins remain low relative to deposit rates (Cong (2025))<sup>4</sup>. Survey-based evidence among stablecoin experts points to, on average, neutral views on substitutability between stablecoins and bank deposits (Ahmed et al (2025)). Disintermediation risks could be mitigated if stablecoin demand originates outside the U.S. while stablecoin issuers maintain reserves within the U.S. financial system (Wang (2025)). Moreover, banks could issue their own compliant stablecoins, providing depositors who might otherwise switch to nonbank-issued stablecoins with an in-house alternative while also attracting new customers. Banks could also expand their business to provide services to stablecoin issuers in areas of traditional expertise, such as reserve management and asset custody.

Thus far, arguments about stablecoins' impact on banks have largely been made on theoretical grounds given limited empirical data. We contribute to this debate by examining how equity markets have assessed the GENIUS act's implications for banks. Equity returns are inherently forward-looking, reflecting investors' expectations about future profitability and risk. Therefore, bank stock performance around stablecoin legislative milestones can help gauge how market participants expect stablecoin growth to affect different segments of the banking sector. We focus specifically on the GENIUS act as it represents the first comprehensive federal regulatory framework for stablecoins in the jurisdiction that dominates global stablecoin markets. Conveniently, its legislative progression generated clearly identifiable milestones that reduced regulatory uncertainty in measurable steps.

We identify four key legislative milestones (Table 1). The first one was March 13, 2025, when the Senate Committee on Banking, Housing and Urban Affairs, which originated the bill, voted to advance it to the full Senate (18 votes to 6). The second was May 19, 2025, when the Senate voted 66-32 in favor of cloture, exceeding the 60-vote threshold necessary to invoke a procedure that imposes strict limits on further debate and discussion in order to allow the bill to proceed to a final vote. The third milestone, June 17, 2025, saw the GENIUS act pass the Senate with a vote of (68-30); and on the fourth milestone, July 17, 2025, the GENIUS act passed the House (308-122). The bill was signed into law the following day. Each milestone represented a significant reduction in legislative uncertainty, making them natural events for studying market expectations about stablecoins' impact on the financial sector.

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GENIUS legislative milestones

Table 1

Event	Legislative step	Date	Description
1	Senate committee vote	March 13, 2025	Bill clears originating committee (18-6))
2	Senate cloture motion	May 19, 2025	Senate invokes cloture (66-32)
3	Senate floor vote	June 17, 2025	Senate approval (68-30)

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<sup>4</sup> While direct stablecoin remuneration is prohibited under GENIUS, legislation (e.g., the 'Clarity' act) is not yet settled on whether stablecoins can earn interest indirectly by holding balances on their party platforms.

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4	House floor vote	July 17, 2025	Final legislative approval (308-122)
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Sources: Congress.gov.

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### Stablecoins and banks: the market's assessment around legislative milestones

We measure equity market reactions around these milestones using daily bank stock index data. Graph 2.A shows unconditional returns (simple logarithmic price changes) averaged across the four events within a 10-day window. U.S. banks saw the strongest change in trend around the milestone dates. They returned 4 percent on average, outperforming European, Asian and global systemically important bank (G-SIB) indices, which also posted positive returns.

However, unconditional returns may reflect broader market movements unrelated to stablecoin regulation. To isolate the effect of GENIUS milestones, we estimate abnormal returns by controlling for key market factors: changes in 3-month and 10-year government bond yields (for the United States, Germany and China), the S&P 500, VIX, high-yield credit spreads and the dollar exchange rate. Graph 2.B plots these abnormal returns, without standard errors due to the limited number of events that we average over. Our results are thus descriptive rather than inferential; the online annex presents methodological details and compares these abnormal returns to their expected ranges based on historical data. That said, averaging across four events helps reduce idiosyncratic noise in the estimates.

Abnormal stock returns point to some heterogeneity. U.S. banks remain the group that saw the strongest change and are the only group retaining a clear positive performance (roughly 2 percent). For the others, U.S. legislative milestones were not associated with significant changes in abnormal returns. The G-SIB index, which includes major banks from multiple jurisdictions, shows mildly positive abnormal returns, likely driven by the U.S. banks within the index. European banks in turn show essentially flat abnormal returns. Banks in Hong Kong SAR and China exhibit slightly negative abnormal returns. Officials from various jurisdictions have expressed concerns about the effect of widespread adoption of USD-denominated stablecoins on their own implementation and transmission of domestic monetary policy. Such concerns are consistent with investors pricing an expansion of the dollar's financial footprint in the wake of the GENIUS act. While several jurisdictions (e.g., Japan and Singapore) have had stablecoin regulatory frameworks in place for years, and Europe's MiCA Regulation preceded the GENIUS act, the adoption of non-USD denominated stablecoins remains very small.<sup>5</sup>

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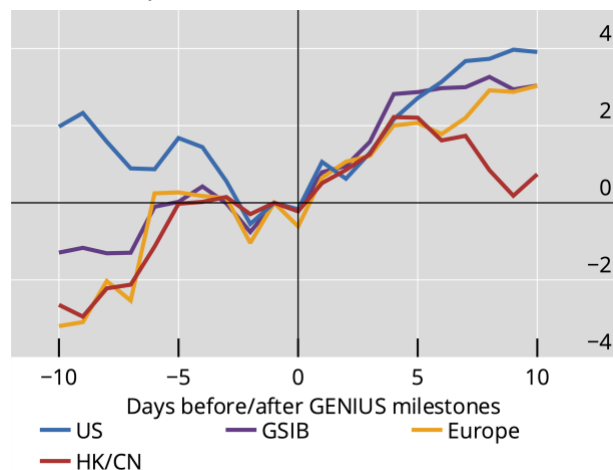
<sup>5</sup> The Financial Stability Board (FSB) issued high-level recommendations for global stablecoin regulation in 2023 (FSB, 2023). It found that the implementation of its recommendations was uneven across jurisdictions (FSB, 2025).

GENIUS milestones generated high equity index returns for (especially U.S.) banks<sup>1</sup>

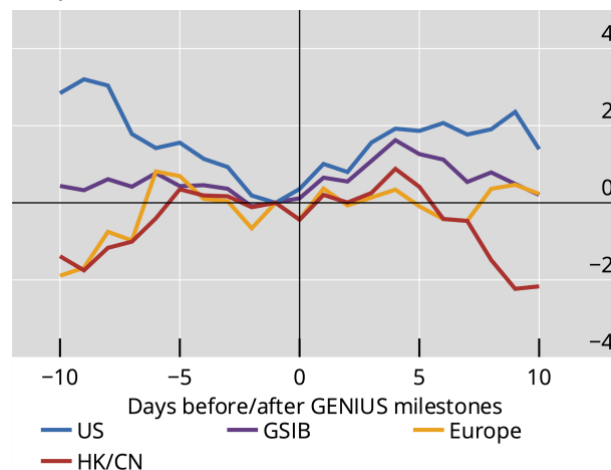
In percent

Graph 2

A. Unconditional bank equity returns around the world were positive after GENIUS milestones<sup>2</sup>



B. But abnormal returns suggest only U.S. banks are poised to benefit<sup>3</sup>



<sup>1</sup> The data are daily NASDAQ stock price indices (Eurozone banks, Hong Kong SAR and Chinese banks, U.S. banks). The Themes Globally Systemically Important Banks ETF is used to measure G-SIB equity returns. Each panel plots returns averaged over the four GENIUS events (see Table 1), +/- 10 days. Day t-1 is indexed to 0. <sup>2</sup> Model-free log returns. <sup>3</sup> Abnormal log returns are estimated as described in the Online Annex.

Sources: NASDAQ, FRED, Yahoo; authors' calculations.

Overall, the results indicate that investors view the initial impact of GENIUS act as beneficial for U.S. banks, with limited positive spillovers to other regions and sectors, and some seeing negative effects. The short-term investor reactions to the GENIUS act that equity prices help quantify, however, could differ from the long-term enduring effects of the legislation. Being still in early stages, enduring effects remain hard to assess, not least as the implementation details are yet to be developed.<sup>6</sup>

The performance of the aggregate U.S. bank sector masks substantial heterogeneity by institution size. Graph 3.A shows that unconditional returns display a clear size gradient: large-cap banks returned over 4 percent, mid-cap banks around 2.5 percent, and small/community banks roughly 1 percent. Graph 3.B confirms this heterogeneity persists after controlling for market factors. Large banks exhibit abnormal returns of approximately 3 percent, while mid-cap banks show modest gains and community banks see essentially flat abnormal returns. The divergence is economically meaningful and statistically robust across all four events.

<sup>6</sup> In addition, the type of analysis of abnormal returns we perform becomes considerably more noisy as the horizon lengthens, given the multitude of potential confounders that may come into play.

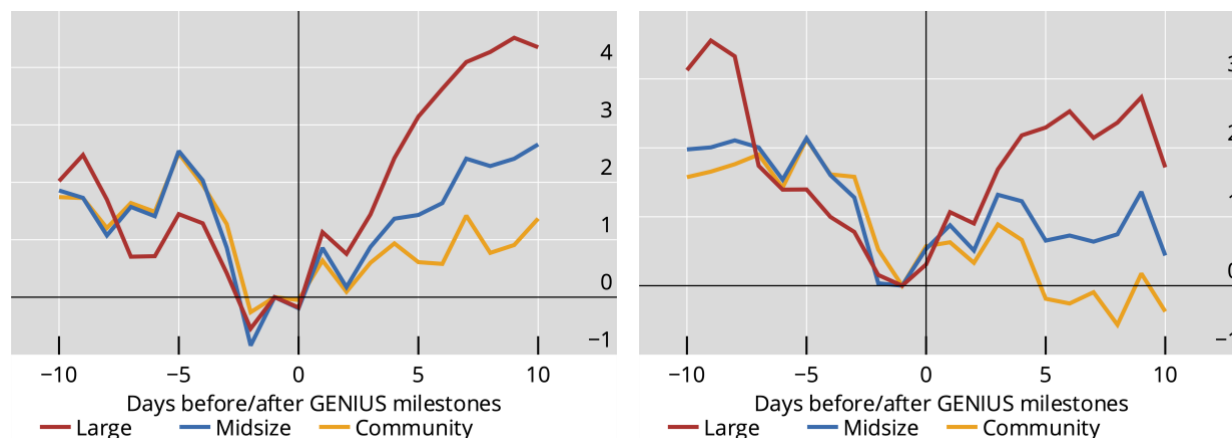
Bank size matters: the effect of GENIUS milestones on U.S. bank equity index returns<sup>1</sup>

In percent

Graph 3

A. Unconditional U.S. bank returns point to a clear pecking order in terms of bank size<sup>2</sup>

B. Abnormal returns indicate that large banks are expected to benefit, whereas community banks are not<sup>3</sup>



<sup>1</sup> The data are daily NASDAQ bank stock price indices (large cap banks, mid cap banks and small/community banks). Each panel plots returns averaged over the 4 GENIUS events (see Table 1), +/- 10 days. Day t-1 is indexed to 0. <sup>2</sup> Model-free log returns. <sup>3</sup> Abnormal log returns are estimated as described in the Online Annex.

Sources: NASDAQ, FRED; authors' calculations.

A natural question is whether the legislative milestones represented genuinely informative shocks to market participants, or merely confirmed prior expectations. Two pieces of evidence suggest the former. First, stablecoin market capitalization grew above pre-GENIUS trend in the aftermath of the act's passage, and the boost was relatively stronger for 'compliant' stablecoins (Graph 1.B). A fully anticipated or neutral legislative outcome would not be expected to shift stablecoin growth off trend in this way. Second, the pre-event window shows broadly similar equity return patterns across U.S. bank size categories, whereas a clear size gradient emerges following the milestones (Graph 3). The absence of pre-trends in size-based heterogeneity, combined with their emergence around the milestones, is consistent with the milestones conveying information about the distributional consequences of stablecoin growth across bank types.<sup>7</sup>

<sup>7</sup> The absence of differential pre-trends across bank size categories also argues against the view that large bank returns simply reflect a correction of prior mispricing specific to that group.

We offer three hypotheses that could potentially be behind such size-based heterogeneity, while acknowledging they are neither definitive nor mutually exclusive. First, stablecoin issuance and market liquidity are highly concentrated. The two largest stablecoins account for roughly 90 percent of market capitalization. If stablecoin issuers hold reserves as bank deposits, these flows are likely to concentrate in systemically important institutions with established custody and treasury management capabilities. Second, large banks possess more diversified business models and greater operational readiness (eg, technological infrastructure, legal expertise, regulatory capacity) to issue their own stablecoins, partner with issuers or deploy tokenised deposits as an alternative to stablecoins. Third, smaller institutions may face greater competitive pressure from stablecoin-related deposit outflows and the consequent increase in funding costs. This is consistent with concerns raised by community banking trade groups (ICBA (2025)).

### Implications and discussion

It is too early to assess whether the stablecoin market will grow to a scale that materially affects the banking system. Stablecoin market capitalization currently stands around \$300 billion, compared with roughly \$18.6 trillion in U.S. commercial bank deposits alone. Even so, the equity market evidence we present points to potentially different outcomes across bank sizes and jurisdictions.

Large U.S. banks appear positioned to benefit from stablecoin growth, while smaller institutions may face intensified competitive pressures. If stablecoin adoption accelerates deposit concentration, it could raise questions about credit availability in markets served primarily by smaller banks. Supervisors may need to monitor liquidity and operational risks at banks most exposed to stablecoin activity, while also considering whether regulatory adjustments or shared infrastructure could help level the playing field.

The muted or negative market reactions for non-U.S. banks underscore the well-documented dominance of dollar-denominated stablecoins (Aldasoro et al (2025)). Several jurisdictions implemented stablecoin regulatory frameworks before the United States, yet market adoption of stablecoins pegged to currencies other than the dollar remains negligible. This pattern suggests that regulatory infrastructure alone is insufficient to drive stablecoin adoption; network effects, liquidity and the underlying currency's role in international finance appear to play a stronger role.

## Online Annex

This annex provides further information on the analysis in this note. It provides details on the data behind Graphs 1.B and 1.C, on the empirical exercise underpinning Graphs 2.B and 3.B, and presents further results to put the findings in Graph 3.B into perspective (Graph A1).

*Graph 1.* The full list of stablecoins considered in Graph 1.B is USDC issued by Circle, PYUSD issued by Paypal and RLUSD issued by Ripple. We consider these stablecoins compliant as they operate within the mandate of the GENIUS act even though it has not yet gone into effect. The full list of stablecoins considered in Graph 1.C is USDT issued by Tether, BUSD issued by Paxos and Binance, FDUSD issued by First Digital Limited, TUSD issued by Techteryx, along with the following crypto-backed or algorithmic stablecoins: DAI, FRAX, UST, USDe, USDS, and USDf. We consider these stablecoins non-compliant because at least one aspect of their operations falls outside the GENIUS act regulations (eg, domiciled outside the U.S., reserve assets held outside the U.S., reserve assets other than what is permitted under the GENIUS act, reserves disclosure at a frequency or granularity lower than mandated, cryptocurrency-collateralized or algorithmic pegging mechanisms).

*Graphs 2 and 3.* The abnormal log returns presented in Graphs 2.B and 3.B are estimated using an event study regression of bank index returns conditioned on several market factors. The regression specification is given by:

$$\Delta \ln P_t = \alpha + \sum_{h=[-10,10]} \phi_h \mathbf{1}_{d+h} + \sum_k \beta_{0k} \Delta F_{k,t} + \sum_k \beta_{1k} \Delta F_{k,t-1} + e_t,$$

where  $\Delta \ln P_t$  captures daily changes in the logarithm of the respective bank index, the dummies  $\mathbf{1}_{d+h}$  are indicators for the four GENIUS events discussed in Table 1, and  $\Delta F_{k,t}$  and  $\Delta F_{k,t-1}$  are daily contemporaneous and one-day lagged changes in the following  $k$  market factors: 3-month and 10-year government bond yields (U.S. Treasuries, German Bunds and Chinese government bonds), the logarithm of the S&P500 index, the CBOE VIX index, the CCC high-yield credit spread and the logarithm of the advanced economy nominal dollar exchange rate. Regressions are estimated on daily data from January 4, 2024 to January 5, 2026. The figures plot the cumulative sum of the estimates  $\phi_h$  as the cumulative abnormal log return around GENIUS milestones.

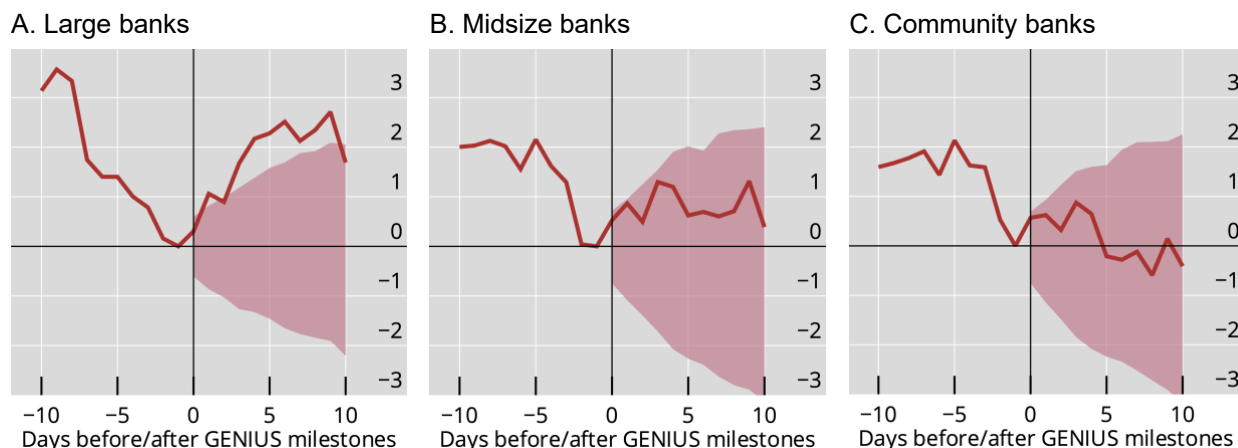
*Graph A1.* Each panel of Graph A1 plots the estimated abnormal returns shown in Graph 3.B for large, midsize and community U.S. bank indices, respectively. The shaded region covers the interquartile range (IQR) of cumulated residuals over horizons from 0 to 10 days. Specifically, for each return horizon from  $h = 0, \dots, 10$  days, we first cumulate the event study regression residuals ( $e_t$ ) over  $h$  days, and then we compute the 25<sup>th</sup> and 75<sup>th</sup> percentiles of each cumulated series. This approach yields an IQR for each return horizon  $h$  estimated from regression residuals beginning January 4, 2024 and ending January 5, 2026.

We interpret the IQR as a non-parametric estimate of the dispersion of abnormal returns, which we then compare to the estimated abnormal returns following GENIUS milestones. Panel A shows that the positive abnormal returns of large U.S. banks up to 10 days following the GENIUS milestones exceeded the typical range of abnormal returns over a similar horizon. The post-GENIUS abnormal returns for midsize and community banks, however, fall well within their respective IQRs.<sup>8</sup>

Abnormal returns for U.S. banks in perspective<sup>1</sup>

By bank size, in percent

Graph A1



<sup>1</sup> Abnormal returns shown across panels A, B, and C are the abnormal returns reported in Graph 3B. The shaded region represents the interquartile range of abnormal returns over the estimation sample (January 4, 2024 to January 5, 2026). Specifically, for each return horizon from  $h = 0, \dots, 10$  days, we first cumulate the event study regression residuals ( $e_t$ ) over  $h$  days, and then we compute the 25<sup>th</sup> and 75<sup>th</sup> percentiles of each cumulated series. The interquartile range for each horizon is then plotted, creating the shaded regions.

Sources: NASDAQ, FRED, Yahoo; authors' calculations.

<sup>8</sup> We also find that the difference in post-GENIUS abnormal returns between large and community banks exceeds its IQR for most return horizons.

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