



Joseph J. Barry

Senior Vice President and
Global Head of Public Policy

T +617-664-1254

jjbarry@statestreet.com

State Street Corporation
One Congress Street
Boston, MA 02114-2016

statestreet.com

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US Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
ATTN: Office of General Counsel

Via: <https://www.regulations.gov>

GENIUS Act Implementation Comments – Advance Notice of Proposed Rulemaking

Dear Sir/ Madam:

State Street Corporation ("State Street") welcomes the opportunity to comment on the Advance Notice of Proposed Rulemaking ("ANPR") issued by the United States ("US") Department of the Treasury ("Treasury") on the implementation of the regulations prescribed in the Guiding and Establishing National Innovation for US Stablecoins Act ("GENIUS Act"). This includes additional clarification regarding control requirements for the reserve assets of permitted payment stablecoin issuers, which we strongly support.

Headquartered in Boston, Massachusetts, State Street is a global custody bank which specializes in the provision of financial services to institutional investor clients, such as asset owners, asset managers and official sector institutions. This includes investment servicing, investment management, data and analytics, and investment research and trading. With \$51.7 trillion in assets under custody and administration and \$5.4 trillion in assets under management, State Street offers

its clients the ability to hold assets and transact in more than 100 geographic markets globally.¹ State Street is organized as a US bank holding company (“BHC”), with operations conducted through several entities, primarily its wholly-owned Massachusetts state-chartered insured depository institution subsidiary, State Street Bank and Trust Company. As a US BHC, we are subject to consolidated supervision by the Federal Reserve System.

In the second sentence of question 12 of the ANPR, which addresses the requirements of Section 4(a)(1)(A) of the GENIUS Act, Treasury asks: *“Is additional clarity necessary regarding the extent to which reserve assets are required to, or should, be held in custody?”* In order to promote the long-term stability of the stablecoin market and ensure sufficiently high levels of investor protection, we strongly believe that Treasury should clarify through regulation that the reserve assets of stablecoins issued pursuant to the GENIUS Act must be held in custody and be separated from the trading, market making, lending and other risk-taking activities of a permitted payment stablecoin issuer.

Custodial services offered by banks and other qualified financial institutions have been critical to the success of the modern US capital markets since the end of World War II.² This reflects the crucial role that custody providers play in managing conflicts of interest, ensuring high-levels of investor protection and promoting the efficiency and stability of the financial markets. There are three principles that define the organization of the custody function:

- Segregation of client assets: client assets must be segregated from the custodian’s proprietary assets and be distinguishable from the assets of other clients at all times;
- Separation of financial activities: the safekeeping function must be separately maintained and operated from trading, market making, lending and other similar risk-taking activities; and
- Proper control: the custodian must have control over the assets of its clients and the ability to transfer assets held for its clients based on the receipt of proper instructions.

¹ As of September 30, 2025

² The modern custody framework was established by the Investment Advisers Act of 1940 and the Investment Company Act of 1940, landmark legislation designed to address widespread financial abuses, including the misuse of client funds, self-dealing and the lack of transparency, exposed during the Great Depression.

By adhering to these principles, custody banks and other qualified financial institutions have developed and employ sophisticated processes, systems and controls to protect client assets from misuse, misappropriation or loss. This is supported by robust risk management frameworks, detailed prudential requirements designed to ensure that they operate in a safe and sound manner, comprehensive recordkeeping and disclosure mandates, and stringent supervisory oversight. Moreover, these principles help support the fundamental legal precept that assets held in custody are not the property of the custodian and are therefore not subject to third-party claims in insolvency (i.e. assets held in custody are bankruptcy remote).

Banks and other qualified financial institutions have a long and successful track record of safeguarding clients' assets, and there are no documented instances of the loss of client assets by a bank custodian. This success has, in turn, instilled confidence in investors that their assets will be protected, a key ingredient in the long-term development of mutual funds, exchange-traded funds, pension funds and other regulated investment funds that today stand at the center of retirement planning and wealth accumulation for millions of Americans.

This stands in sharp contrast to the crypto asset market where there have been several high-profile instances involving the loss of client assets (e.g. FTX, Celsius Network) due to deficiencies in the organization of their business models. This includes, in particular, the vertical integration of the custody function with risk-taking activities, such as trading, market making or lending, that do not enable the proper management of conflicts of interest and the protection of client assets from misappropriation, misuse or loss.

History offers some painful examples of what can happen to investors when the custody function is not properly organized based on the three principles noted above, lessons which are very much relevant today as Treasury looks to ensure the long-term stability of the US payment stablecoin market. Since reserve assets are what gives value to the stablecoin issuance, the adoption of high levels of investor protection for their safeguarding is key. Indeed, the loss of reserve assets at scale would not only cause material harm to the underlying investors, but would also risk undermining the stability of the broader financial markets with potential systemic outcomes.

We therefore strongly urge Treasury to clarify through regulation that the reserve assets of permitted payment stablecoin issuers must be held by an independent custodian bank or other qualified financial institution operating under heightened regulatory frameworks and rigorous

investor-protection standards. To the extent that Treasury disagrees with this approach, it should at a minimum adopt a requirement that permitted payment stablecoin issuers must separate the safekeeping function for reserve assets from any trading, market making, lending or other similar risk-taking activities, using appropriate internal systems, processes and controls subject to appropriate regulation and ongoing supervisory review. Recognizing their extensive expertise in managing custody risk, Treasury may, to the extent necessary, wish to delegate responsibility for oversight of reserve assets held by permitted payment stablecoin issuers to either the Office of the Comptroller of the Currency or the Board of Governors of the Federal Reserve.

Conclusion

Thank you once again for the opportunity to offer our views on the implementation of the requirements of the GENIUS Act. To summarize, in order to promote the long-term stability of the market and the appropriate protection of clients' assets, we strongly urge Treasury to clarify through regulation that the reserve assets of permitted payment stablecoin issuers must be held by an independent custodian bank or other qualified financial institution subject to appropriate regulatory and supervisory oversight and rigorous investor-protection standards. In the absence of such a mandate, Treasury should at a minimum require payment stablecoin issuers to implement internal systems, processes and controls that ensure the separation of the custody function for reserve assets from any trading, market making, lending or other risk-taking activity of the issuer, subject to appropriate and ongoing regulatory review and oversight.

Please feel free to contact me at jjbarry@statestreet.com or 617-664-1254 should you wish to discuss our submission in greater detail. We welcome the opportunity to further engage with Treasury on this matter and we stand ready to provide whatever assistance may be appropriate.

Sincerely,

A handwritten signature in black ink, appearing to read 'JJ Barry', with a stylized, flowing script.

Joseph J. Barry
Senior Vice President and Global Head of Public Policy