SEC. 404. PROHIBITING INTEREST AND YIELD ON PAYMENT STABLECOINS.

(a) Definitions.—In this section:

(1) AFFILIATE.—The term "affiliate" means any entity that controls, is controlled by, or is under common control with another entity.

(2) COMMISSIONS.—The term "Commissions" means the Commission and the Commodity Futures Trading Commission.

(3) COVERED PARTY.—The term "covered party" means any digital asset service provider, together with all of its affiliates, but in each case excluding any permitted payment stablecoin issuer or foreign payment stablecoin issuer registered with the Comptroller.

(4) DEPOSIT.—The term "deposit" has the meaning given the term in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(5) RESTRICTED RECIPIENT.—The term "restricted recipient" means a United States person that is a customer or user of a covered party.

(6) UNITED STATES PERSON.—The term "United States person" means a person that is resident in the United States or is organized or incorporated under the laws of the United States.

(7) OTHER DEFINITIONS.—The terms "Comptroller", "digital asset service provider", "foreign payment stablecoin issuer", "payment stablecoin", and "permitted payment stablecoin issuer" have the meanings given those terms in section 2 of the GENIUS Act (12 U.S.C. 5901).

(b) Sense of Congress.—It is the sense of Congress that:

(1) Depository institutions provide financial services that are integral to the strength of the American economy and that the payment of consideration by digital asset service providers to United States customers or users based on their payment stablecoin balances in a manner that is economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit may inhibit depository institutions' key functions in the American economy.

(2) Payment stablecoins represent a significant innovation in financial infrastructure that can strengthen the United States payments system and the primacy of the United States dollar, and that activity-based rewards and incentives tied to the use of payment stablecoins and participation in distributed ledger systems are critical to enabling innovation, competition, and consumer adoption.

(c) Prohibition on Interest and Yield.—

(1) IN GENERAL.—No covered party shall, directly or indirectly, pay any form of interest or yield (whether in cash, tokens, or other consideration) to a restricted recipient—

(A) solely in connection with the holding of such restricted recipient's payment stablecoins; or

(B) on a payment stablecoin balance in a manner that is economically or

functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit.

(2) ACTIVITY-BASED OR TRANSACTION-BASED REWARDS AND INCENTIVES PERMITTED.—

(A) The prohibition under paragraph (1) shall not apply with respect to rewards or incentives based on bona fide activities or bona fide transactions that are not economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit pursuant to the regulations adopted under paragraph (3).

(B) Except as permitted under paragraph (A), the prohibition under paragraph (1) shall apply to the payment of interest or yield (whether in cash, tokens, or other consideration) by a covered party to a restricted recipient in connection with a loyalty, promotional, subscription, or incentive program, that is economically or functionally equivalent the payment of interest or yield on an interest-bearing bank deposit.

(3) RULEMAKING.—

(A) No later than 1 year after the date of enactment of this Act, the Commissions and the Secretary of the Treasury shall jointly promulgate regulations through notice and comment rulemaking to clarify the circumstances under which the prohibition and permissible rewards and incentives in paragraphs (1) and (2) shall apply. Such rulemaking shall include a non-exhaustive list of permissible activity-based or transaction-based rewards or incentives, including payments to restricted recipients in connection with or in compensation for any of the following, provided such payments are not economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit:

(i) A transaction, payment, transfer, conversion, remittance, or settlement activity, including a rebate or incentive provided in connection with the acceptance or use of a payment stablecoin.

(ii) Providing liquidity for market-marking activity, posting of collateral in connection with trading, or otherwise putting assets at credit or investment risk.

(iii) The use of any product or service, including participation in governance, validation, staking, or a loyalty, promotional, subscription, or incentive program.

(B) For the avoidance of doubt, payments to restricted recipients of consideration, rewards, or benefits that are permissible pursuant to paragraph (2) and subparagraph (A) may be calculated by reference to a balance, duration, tenure, or any combination of the foregoing.

(4) EVASION.—It shall be unlawful for a covered party to violate the prohibition under paragraph (1) or rules promulgated pursuant to paragraph (3). A covered party may not circumvent or evade such prohibition or rules. The Commissions and the Secretary may jointly issue such rules as may be necessary or appropriate to prevent circumvention or evasion of the prohibition under paragraph (1) or the rules promulgated pursuant to paragraph (3).

(5) GOOD FAITH RELIANCE.—A covered party that structures a program in good faith reliance on paragraphs (2) and (3) shall not be subject to penalties if subsequent rulemaking or adjudication determines the program falls outside paragraphs (2) and (3), provided—

(A) the covered party comes into compliance within 90 days of such determination; and

(B) the violation is not substantially similar to a past violation by the covered party.

(d) Prohibition on Specified Representations.—

(1) No covered party shall represent that—

(A) payment stablecoins are investment products, deposits, backed by the full faith and credit of the United States, guaranteed by the United States Government, subject to deposit insurance by the Federal Deposit Insurance Corporation, or subject to share insurance by the National Credit Union Administration; or

(B) any compensation (whether in cash, tokens, or other consideration) paid to a restricted recipient in connection with the holding, use, or retention of such restricted recipient's payment stablecoins is—

(i) paid or generated by the payment stablecoin itself, a permitted payment stablecoin issuer, or a foreign payment stablecoin issuer registered with the Comptroller;

(ii) risk-free or comparable to interest paid on a deposit; or

(iii) offered, administered, or paid by a person other than the covered party.

(2) No covered party shall omit material information necessary to prevent that marketing, promotion, or description from being misleading.

(e) Disclosures.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Commissions and the Secretary of the Treasury shall jointly promulgate rules requiring clear and conspicuous disclosure, in plain English, of any compensation (whether in cash, tokens, or other consideration) paid by a covered party in connection with the holding, use, or retention of a restricted recipient's payment stablecoins in a manner that is consistent with subsection (d).

(2) REQUIREMENTS.—In promulgating rules under paragraph (1), the Commissions and the Secretary of the Treasury shall require that any required disclosure of compensation described in that paragraph, and any related term, representation, or description—

(A) is presented in a clear, factual, nonpromotional, and non-misleading manner;

(B) clearly identifies the circumstances under which such compensation can be paid;

(C) clearly identifies the person or persons responsible for offering, administering, and paying such compensation, including whether such persons are affiliated with the issuer of associated payment stablecoins;

(D) outlines all material terms with respect to such compensation; and

(E) includes a statement that payment stablecoins are not investment products, deposits, backed by the full faith and credit of the United States, guaranteed by the United States Government, subject to deposit insurance by the Federal Deposit Insurance Corporation, or subject to share insurance by the National Credit Union

Administration.

(3) PROHIBITION.—After the time which the rules promulgated under paragraph (1) become effective, no covered party shall market the offering of compensation (whether in cash, tokens, or other consideration) paid by such covered party in connection with the holding, use, or retention of a restricted recipient's payment stablecoins unless the covered party has provided the disclosures required under this subsection.

(4) SATISFACTION OF REQUIREMENT.—A covered party that provides the disclosures required under this subsection shall be deemed not to have made a representation that is prohibited under subsection (d), provided that—

(A) any marketing, promotion, or description with respect to the applicable compensation does not contradict those disclosures; and

(B) those disclosures are presented in plain English and in a clear and conspicuous manner.

(f) Penalty.—

(1) Whoever knowingly and willfully participates in a violation of paragraphs (c)(1), (d)(1), (d)(2), or (e)(3), or rules issued under (c)(4), shall be subject to a civil monetary penalty by the Department of the Treasury of not more than $5,000,000 for each such violation.

(2) DETERMINATION OF THE NUMBER OF VIOLATIONS.—For purposes of determining the number of violations for this subsection, separate acts of noncompliance are a single violation when the acts are a result of—

(A) a common or substantially overlapping originating cause; or

(B) the same statement or publication.

(g) Referral to Secretary of the Treasury.—If the Commission or the Commodity Futures Trading Commission has reason to believe that any covered party has knowingly and willfully violated paragraphs (c)(1), (d)(1), (d)(2), (e)(3), or rules issued under (c)(4), it shall refer the matter to the Secretary of the Treasury.

(h) Report to Congress.—Not later than 2 years after the date of enactment of this Act, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Secretary of the Treasury shall jointly submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives a report on payment stablecoin activity that—

(1) analyzes and quantifies—

(A) the adoption of United States dollar-denominated payment stablecoins and of other payment stablecoins issued by permitted payment stablecoin issuers, foreign payment stablecoin issuers registered with the Comptroller;

(B) the effect of United States dollar-denominated payment stablecoins on the average yields of, and demand for, United States Treasury securities of various durations;

(C) the effect of United States dollar-denominated payment stablecoins on the dollar's use in global foreign exchange transactions, global foreign exchange reserves, and global trade;

(D) the effect of United States dollar-denominated payment stablecoins on increasing access to financial services for unbanked and underbanked persons, both domestically and globally;

(E) the effect of United States dollar-denominated payment stablecoins on payment costs of consumers and merchants; and

(F) the adoption of non-United States dollar-denominated stablecoins, including foreign central bank digital currencies, and their effect on the dollar's use in global foreign exchange transactions, global foreign exchange reserves, and global trade;

(2) describes how compensation, if any, is paid by covered parties to restricted recipients with respect to restricted recipients' payment stablecoins, including through rewards, incentives, or similar programs; and

(3) analyzes and quantifies the effect of any compensation described in paragraph (2) and the effect of prohibitions on the payment of interest or yield by covered parties under this Act and by issuers of payment stablecoins under section 4(a)(11) of the GENIUS Act (12 U.S.C. 5903(a)(11)) on—

(A) volume, stickiness, composition, and concentration of deposits at depository institutions, including any deposit outflows from depository institutions and the extent to which community banks and credit unions are disproportionately affected thereby;

(B) net interest margin accrued to depository institutions;

(C) average rate of interest paid to depositors at depository institutions;

(D) consumer and business access to credit;

(E) financial arrangements between depository institutions and digital asset service providers and issuers of payment stablecoins; and

(F) the items listed in paragraph (1).

(i) No Deeming of Payment of Interest or Yield.—For purposes of this section, a covered party shall not be deemed to violate the prohibition in subsection (c) solely because an unaffiliated third party independently makes a payment with respect to a payment stablecoin, unless the covered party directs or maintains significant influence over the offering of such consideration and the offering of such consideration would otherwise violate the prohibition in subsection (c).

(j) Clarification of Scope and Regulatory Authority.—

(1) The prohibitions under paragraphs (c), (d), and (e) shall only apply to compensation paid in connection with a payment stablecoin or payment stablecoin balance.

(2) Nothing in this section shall be construed to authorize the Commissions or the Secretary of the Treasury to regulate, restrict, or prohibit the payment of any compensation paid in connection with any asset other than a payment stablecoin.

(k) Non-applicability.—Nothing in this section shall—

(1) modify, alter, or extend prohibitions on the payment of yield, interest, or consideration applicable to permitted payment stablecoin issuers or foreign payment stablecoin issuers, including under section 4(a)(11) of the GENIUS Act (12 U.S.C. 5903(a)(11)); or

(2) prohibit the disclosure by covered parties of truthful, non-misleading factual information or any information otherwise required by Federal law or regulation.