

Stablecoins:

For us, the payment sector is the quintessential FINTECH business, and the biggest issue facing many of our payment companies is whether stablecoins are friend or foe. We believe stablecoins represent the most disruptive force in the payments industry in over a decade. Over the next couple of pages, we will attempt to explain stablecoins, decipher their most logical use case and provide our thoughts on why we believe they are more of an opportunity than a threat.

Stablecoins are digital currencies that are pegged 1:1 to stable assets like the US dollar or other fiat currencies. The primary benefits of stablecoins could be speed, cost efficiency and the stability and transparency of utilizing the blockchain (see Footnote 1). The infrastructure of the blockchain ensures that every transaction is auditable and immutable, which could potentially dramatically lower fraud risk.

By pegging stablecoins to the US dollar, issuers can avoid the volatility and large up-and-down price swings Bitcoin and other cryptocurrencies have. This stability is a major advantage of stablecoins, versus using Bitcoin for payment transactions.

We want to simplify an extraordinarily complex subject by showing how stablecoins operate. First, a user needs to send US dollars to a stablecoin issuer. Right now, the market is dominated by two firms (Tether and Circle) which have roughly 90% market share.

Next, the stablecoin issuer deposits those US dollars at a bank. US dollars are held in cash to meet any short-term liquidity needs, or it can be invested in short-duration, cash equivalent yield bearing government bonds (like Treasuries). Once this is completed, the user is provided with a value of stablecoin equivalents to either hold at a centralized custodian or use at a self-custodial wallet on the blockchain. Appendix B includes a helpful Mizuho chart that visually outlines the stablecoin process. We always try to simplify the complex, and while this sounds complicated, it is no different than depositing money at your local bank. The bank takes your dollars, lets you spend your money (example: debit card), and can even provide a modest yield (example: saving accounts).

Payment Economics:

We have published numerous articles on how a payment transaction occurs and “who makes what” on a typical credit card transaction. Click here or visit our website at <https://www.manolecapital.com/research>. Once again, to simplify a complicated subject, merchants have a roughly \$2.50 cost to accept a \$100 credit card transaction. The vast majority of that \$2.50 in fees, or \$1.75 goes to the card issuing bank (70%), for providing a line of credit to their customer. The entity that handles the authorization, clearing and settlement of a credit card transaction is called a merchant acquirer or payment processor, and it makes \$0.60 or 24% of the transaction fees. Lastly, the payment networks (Visa and Mastercard) earn the smallest piece or \$0.15 or 6% of the economics.

Figure 1: Mobile vs. Desktop Retail eCommerce share and growth forecast with the mobile channel growing at a ~2.5x 2024-2028E CAGR



Source: eMarketer

Ever since the payment networks went public (Mastercard in 2006 and Visa in 2008), merchants have been complaining about the costs they bear to accept payment at the PoS (point-of-sale). Merchants frequently highlight the high fees they incur to accept card payments and cite that they incurred \$172 billion in transaction fees in 2023. It's worth asking: do merchants scrutinize other operating costs – like utilities, labor, or rent – with the same intensity?

Why is this subject so important to merchants, banks, and the payment networks? It is because the size of the TAM (total addressable market) is so enormous. For example, here in the US, mobile and eCommerce share of purchase transactions are growing 2x to 3x larger than retail volumes. As we continue to emphasize in our research, we believe this online, secular growth should continue for the near future.

Just in the US, eCommerce TAM was \$3.2 trillion in 2024, and it should grow at 8% to 10% through 2028 (according to multiple forecasts). With such a large “honey pot” of fees, merchants like Wal-Mart and Amazon are looking to lower their card acceptance costs. However, both already benefit from the ability to leverage their size and negotiate lower interchange rates than other retailers. A fair question remains – would merchants pass savings from lower interchange fees onto consumers, or would they retain the benefit?

The GENIUS Act & the CCCA:

On June 13th, 2025, the stock market fell by over (1%), in part due to Israel's pre-emptive attack on Iran's nuclear infrastructure. However, many of our payment companies fell over (5%) that day, which we attribute to a Wall Street Journal article (more on this in a minute) and the recent cloture vote in the US Senate on the GENIUS Act. GENIUS stands for Guiding and Empowering the Nation for Innovation with the US Stablecoins.

The GENIUS Act received bipartisan support in the Senate (66 to 32) and is the most comprehensive federal framework for regulating US dollar pegged stablecoins. This follows a similar and bipartisan bill from the House of Representatives, and we expect full passage before year-end. The GENIUS Act will serve as the foundation for the legitimization and supervision of stablecoins. By identifying who can issue stablecoins, the required reserves backing them and creating the framework for their supervision, this formalizes stablecoins as a newly regulated category of digital payment instruments. More details will need to emerge on consumer protections, guardrails, and yield structures, but stablecoins are now “officially a thing.”

We were pleased to see this bill pass the Senate and were interested to see if Senator Durbin (Democrat from Illinois) and Senator Marshall (Republican from Kansas) were able to attach their Credit Card Competition Act (CCCA) to this piece of legislation. The CCCA would require that credit card issuers (i.e., banks) offer merchants a choice of networks - beyond Visa and Mastercard – when accepting a credit card transaction. Durbin's theory is that greater network choice would increase competition, which would then lead to lower network pricing. If you recall, Senator Durbin attached his Durbin Amendment to the 2010 Dodd-Frank legislation, which created material problems for the well-functioning debit card industry. Some worried Senator Durbin might do the same thing with the GENIUS Act and his long-standing legislative priority, the CCCA. We were satisfied that the Senate passed the GENIUS Act (by a vote of 68 to 30) and stablecoin legislation - **without** any unnecessary, attached amendments. Now, the bill heads the House, which needs to decide to adopt the Senate's GENIUS Act or their own STABLE Act bill.

So, why did Mastercard and Visa decline by over (5%), or 4x the overall market on June 13th? Well, that WSJ article discussed how Shopify, Wal-Mart and Amazon were beginning to analyze how they could issue stablecoins and pose a potential threat to our dominant payment networks. The stock market likes to “shoot first and ask questions later,” so our payment stocks fell, but this mindset underappreciates the line of credit aspect of cards, as well as fails to appreciate how payment economics work.

Are these retailers genuinely interested in having consumers transact with stablecoins? We would assume they are “interested” in stablecoins if it adds leverage to their negotiations to potentially lower interchange rates. Plus, the GENIUS Act specifically blocks non-financial tech giants, like Meta and Amazon, from issuing stablecoins unless they meet strict risk and privacy standards.

For the crypto industry, the passage of the GENIUS Act is important, but so too is the regulatory support the industry is receiving from Washington. President Trump has publicly endorsed this bill, wants to keep innovation onshore, and has reaffirmed his administration’s commitment to working with Congress to accelerate stablecoin development. Recently, Secretary of the Treasury Scott Bessent said, “Crypto is about freedom, and the crypto economy is here to stay.” Secretary Bessent has replaced Janet Yellen, and his stance of crypto is a stark shift in tone from anti-crypto skepticism to a strategic embrace. As the nation’s top economic policymaker, Secretary Bessent’s strong support for a rules-based framework that integrates digital assets into the broader financial system, is noticeable.

Paul Atkins’ appointment as SEC Chairman marked a dramatic shift. Unlike his predecessor Gary Gensler’s enforcement-heavy approach, Atkins has quickly embraced regulatory clarity and market innovation. He recently said, “It would be better to have these innovations happen here in the US rather than outside.” Bitcoin broke through \$100,000 following Atkins nomination and he is quickly reversing the enforcement-first approach of the Gary Gensler era. For the first time in crypto’s history, most key policy architects are openly supportive of the asset class. This marks a dramatic shift from the recent regulatory hostility and opens the door for clearer rules, expanded access, and growing legitimacy.

Following years of fighting with the SEC, the CFTC and certain politicians, the crypto industry is finally getting some “rules of the road,” and a clear picture of the regulatory landscape. With this piece of legislation, the entire industry can comfortably launch new products, understand the compliance rules, and expand the US dollar ecosystem. How has the market responded? Coinbase climbed over 40% in June 2025 and Circle, which conducted its IPO on June 5th at \$31 per share, has increased by 550%.

In conclusion, the GENIUS Act establishes a formal regulatory framework for dollar-backed stablecoins, and it is a major step toward institutional adoption and digital finance innovation. The legislation outlines clear standards for issuance, reserve backing, oversight, offering long-awaited clarity for banks, fintech firms, and asset managers studying stablecoins. In the back of this newsletter, under Appendix A, we have created a 1-page summary of the main components of the GENIUS Act. We don’t want to bore you with the details but know that some of you want further information. The conclusion is clear. The industry is getting much needed clarity.

Why Credit Cards Still Matter:

We believe that stablecoins have a solid use case in account-to-account or business-to-business cross-border payment transactions. Helping businesses with currency risk management, as they make large-ticket foreign payments, seems like the best application of this innovative technology. We see limited added value from stablecoins in day-today consumer-to-business payments. Let’s explain our rationale and thought process.

The US currently has over \$2 trillion in credit card receivables outstanding, which is an all-time high. The US consumer loves using their credit card and we do not see that stopping anytime soon. We like to divide credit card consumers into two categories. The first group – like us – pays off balances monthly and benefits from free float, rewards, and convenience. The second group relies on cards as a line of credit, often carrying balances and paying interest. Big banks and large card issuers like JP Morgan Chase, Bank of America, Wells Fargo, Citi, and Capital One like the first group and us, but really love that second group of US consumers. These customers need to tap this line of credit to transact, as they

don't necessarily have the funds in their bank to pay for their spending. Not only do the banks earn interchange fees on this spending, but they get to charge over 20% APRs (annual percentage rates).

If the CCCA were to pass, and banks viewed the economics of credit as less attractive, they could respond by reducing or eliminating popular rewards programs. This would not be well received by too many Americans, but maybe we are underestimating just how much people love their reward programs.

Credit cards provide numerous benefits like:

- Reward programs (miles, points, etc.)
- Consumer charge-back protections
- Dispute resolution and
- Ease of use with ubiquitous acceptance in over 200 countries
- Foreign currency stable

We can understand why major retailers want to lower their cost of card acceptance, but this misses another important benefit of card usage – it isn't cash. Cash can lead to shrinkage and creates security concerns for merchants. Card payments get settled seamlessly and are deposited into a merchant's bank account each evening.

Lastly, another key reason stablecoins won't replace credit cards is that consumers don't want to be told by their merchants how to pay. If a consumer wants to use pennies, nickels, dimes, or paper cash to transact, they should be allowed. If a grandmother wants to use a paper check to pay for her groceries at Publix, it should be permitted – even if it slows the line down. Many consumers like to use their debit cards and that is an extremely affordable method of payment for merchants at just 20 basis points. Or consumers should be allowed to use their reward-driven, branded credit cards. Consumers are comfortable with cards and their iPhone as payment mechanisms and are unlikely to adopt a new tender simply because their merchant says so. Large retailers have attempted to do this before (examples: MCX, closed-loop networks, pay-by-bank), and none has succeeded.

We just do not see how stablecoins would improve the payment process. Merchants have always been allowed to provide discounts for steering consumers to their lowest cost payment alternative. Gas stations offer consumers a discount for cash usage. Target offers 5% back for using their Red Card. Costco provides cash back for using its Citi Visa card and American Express and Coinbase just launched a card that gives consumers 4% of Bitcoin for purchases. If merchants issued their own stablecoins and incentivized usage, it would resemble today's private-label card programs – just on a different rail. The increased costs and incentives for consumers to use stablecoins would be significantly higher than any reduction in interchange or network fees. The user experience would also likely suffer, adding friction compared to today's seamless card payment process.

In conclusion, Visa and Mastercard already have numerous capabilities in the stablecoin space. Consumers already can buy and spend stablecoins through their cards, enabling issuers to settle directly in USDC. In the case of cross-border money transfers, consumers can utilize Visa Direct to payout funds directly into stablecoin wallets. The payment networks have built a stablecoin offering that can get integrated into the traditional commerce rails and keep the process simple. Banks will still need to provide credit to consumers and Visa and Mastercard (and acquirers and processors) will handle the authorization, clearing and settlement of that payment transaction.

In our view, consumers are comfortable with cards and are unlikely to adopt a new tender simply because merchants want them to. Past efforts to disintermediate the payment networks have failed and we do not believe stablecoins are going to materially impact the secular growth of the digital payment industry.

If you are willing to “dive into the weeds” with us, our biggest concern initially was threatening the highly profitable cross-border transactions. The payment networks earn excellent margins when consumers make payments in a different country than the card issuer. For example, this could be a US tourist, making a credit card transaction in London while on vacation. Could on-chain settlement eat into the juicy foreign currency fees tied to cross-border transactions? Well, stablecoin settlement and the flow of funds from the card issuer through the payment network to the merchant acquirer is already enabled by both Visa and Mastercard crypto-native issuers. However, there has been minimal volume. While foreign currency fees could be at risk on cross-border transactions for certain stablecoin transactions (example: when the issuer sends USDC converted on-chain to EURC), we see limited risk of non-crypto-native issuers. Why? We see little incentive for traditional banks to disrupt the profitable status quo.

We can appreciate a generalist PM (portfolio manager) questioning the competitive moat around the payments business that Visa and Mastercard truly possess. However, as an analyst that has spent over 25 years analyzing the payment industry, we simply do not view this as a threat. It will be an overhang for both stocks, but not something they can't overcome with excellent financial results. Fifteen years ago, the threat to the payment networks was from Washington and legislation. This led to significant litigation, with court cases that are still pending. Going back a decade, the worry was that closed-loop networks would make Visa and Mastercard irrelevant. Then, crypto was a worry, which was going to eliminate the need for payment cards. Back in 2021, the threat was BNPL and disintermediation from real-time Fed payments. Now, today's worry is stablecoins. This isn't the first issue the payment networks have faced, and it won't be the last. We prefer to analyze the situation and carefully examine the landscape - and not panic.

Stablecoins: Opportunity, Not Existential Risk

Stablecoin adoption will likely take years to play out. We believe that consumers will need to be incentivized to transact, versus their rewards-based credit cards. Large banks are examining stablecoins, to protect their strong credit portfolios. Smaller financial institutions, credit unions and community banks are worried about how it might impact their sticky deposits, so they will lean on their core processors and bank technology providers to “protect their moat.” Over the last few days, Fiserv (a leading core processor) launched FIUSD, which is a new digital asset / stablecoin platform for its thousands of financial institutions to utilize.

In our opinion, the best, near-term use case for stablecoins involves large-ticket cross-border payments, and traditional money transfers and remittances (i.e., Western Union, Moneygram, and Euronet). These areas seem to be the most at risk for stablecoin disruption. Stablecoins can remove friction, lower costs and potentially help lessen volatile currency fluctuations, but it will not solve all problems with the movement of money. In addition to money remittances, we see sizeable opportunities for stablecoins to assist businesses streamline their cross-border payments. If you want additional insight into what the payment networks are saying about stablecoins and you want “a 2nd opinion”, we have copied 1-page of Mastercard's Annual Shareholders Meeting transcript on stablecoins (see last page). This will give you further evidence that stablecoins are more of an opportunity than a threat.

Card-based payments continue to offer unmatched benefits: build-in credit, rewards, global acceptance, and consumer protections. There are core advantages that stablecoins, at least for now, cannot replicate. Card networks are well-positioned to support dispute resolution and provide multiple value-added services. That said, we understand why the economics of this industry attract attention. Stablecoin use cases like micropayments, B2B cross-border transfers, and remittances are sizeable, but they do not necessarily overlap with Visa and Mastercard. We strongly believe that the current payment ecosystem and infrastructure could use a one-word defense when challenged by stablecoins - CREDIT. Stablecoins, for all their promises, do not address the central need for consumer credit.

The payment networks view stablecoins as an opportunity, not a threat to their business models. Payment providers will wrap numerous services into their stablecoin offerings, like data, reporting, analytics, and security. The payment industry may have temporarily declined from the market's obsession with stablecoins, but we do not share this view that stablecoins pose a fundamental threat. Payment companies have "wide moats around their franchises," and stablecoins and even AI are more of an opportunity than a threat.

As always, please don't hesitate to reach out. We value our relationship and are always here to connect.



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