Introduction:

Unlike our traditional newsletters that devote several pages to the Fed, interest rates, and inflation trends, we'll keep this quarter's macro commentary to just one page. Instead, we'll shift our focus to our version of FINTECH, which remains ***"anything that utilizes technology to improve an established process."*** In this newsletter, we will discuss the market's latest infatuation – stablecoins. We will highlight the GENIUS Act, Senator Durbin's CCCA, and the potential impact on what we consider the quintessential FINTECH business – the payments industry.

Over the next month or so, we will begin to publish research from our 2025 intern team. As we do every summer, we have surveyed what Gen-Z thinks about four important financial topics: banking, brokerage, crypto and payments. We're excited about the excellent work they are doing, and their research will be available shortly. Finally, we'll wrap up with our lighthearted Cliff Clavin section - because who doesn't love a little 'useless information' to keep things interesting?

Macro Thoughts:

Despite its challenges, the US economy remains the envy of the world. It is driven by resilience, innovation, and ingenuity and we do not see anything that changes that opinion. While concerns linger, recent data points to a strong rebound in 2nd quarter 2025 GDP to +2.4%, a notable improvement from last quarter's contraction. Earlier this year, we expected a healthy market backdrop, along with a resurgence in M&A and IPO activity, but the tariff situation (called "Liberation Day") seemed to pause that momentum. In April, we wrote 5-pages on the market uncertainty stemming from President Trump's tariff announcement, so it isn't necessary to rehash those thoughts again. Simply click here to read our thoughts on tariffs and the potential implications.

The only certainty is uncertainty, and we expect volatility to persist for the foreseeable future. This type of environment tends to be our "sweet spot," where we can generate alpha and outperform. This might be aided by our large position in the exchanges, or because we remain disciplined in our focus on free cash flow and durable business models. Regardless of the environment, we are expecting continued volatility.

Inflation remains a concern, but it is trending in the right direction. Is it at the Fed's 2% target? No, but the last mile of a marathon is always the hardest (so we've been told). Geopolitical risks are certainly elevated right now, with multiple conflicts across the globe. Russia and Ukraine are still at war and Israel has undertaken a massive initiative to remove Iran's nuclear capabilities. These geopolitical conflicts are likely to keep oil and energy markets volatile and difficult to forecast. Last year, the Fed was projecting core inflation (their preferred measure) would be 2.5% this year, falling to 2.2% in 2026 and reaching their 2.0% target by 2027. However, this year, core inflation is running at 3.1%, 60 basis points higher. Has the FOMC median number of rate cuts changed? Not yet.

At his FOMC announcement, Fed Chairman Powell said, "despite elevated uncertainty, the economy is in a solid position, the unemployment rate remains low, and the labor market is at or near maximum employment." Does this sound like somebody that is in a hurry to cut rates? Chairman Powell, the Fed and central bankers are typically a very conservative group. With a dual mandate of maximum employment and stable prices (i.e., low inflation), the Fed will always choose to be prudent and rely on the data.

On June 18th, the Fed kept rates unchanged at 4.25% to 4.50% for the fourth consecutive meeting, with their last cut coming in December. It looks as if the Fed is OK to let core inflation run a bit higher than its 2% target for the near future, without lowering rates. Rather than guessing or playing economist, we rely on market expectations, best captured on the CME's FedTool (click here). As you can see, the market is still expecting two rate cuts by the end of this year and we anticipate the Fed to remain data-dependent and conservative. Despite President Trump's constant insults of Fed Chairman Powell, we envision the FOMC will choose to remain patient. The clear message has been that no immediate policy adjustments are warranted, and a wait-and-see approach remains appropriate amid ongoing uncertainty.

Despite the macro uncertainties, we remain focused on the FINTECH sector and true to our disciplined investment process. We anticipate that the Fed will lower interest rates, preserving some of its policy tools for future economic challenges. Rather than speculating on rate changes, our priority remains delivering value and generating performance for our clients.

Our philosophy is unchanged: focus on long-term growth, free cash flow, and staying prepared for the unexpected - regardless of short-term volatility. We will not chase rallies or deviate from our long-term investment strategy. History has shown that markets thrive despite a "wall of worry," and can often use this uncertainty as fuel for growth. We believe this is the best path forward.

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 A). The infrastructure of the blockchain ensures that every transaction is auditable and immutable, which could potentially 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.

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 faster than retail volumes. As we continue to emphasize in our research, we believe this online, secular growth should continue well into the 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?

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

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 staying 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 fundament threat. Payment companies have "wide moats around their franchises," and stablecoins and even AI are more of an opportunity than a threat.

Conclusion:

We are halfway through the year, and the market has seen a nearly 20% decline followed by a remarkably swift rebound. While equity investors have only posted modest gains year-to-date, optimism is gradually returning. Tensions in the Middle East appear to be easing, and trade uncertainty is giving way to more formalized agreements. Inflation has moderated and now sits just above the Fed's target, while the US economy continues to demonstrate resilience with healthy economic data. Americans remain gainfully employed and continue to spend, and companies have adapted impressively, reporting better-than-expected earnings. We remain optimistic about our ability to generate alpha on your behalf and believe market conditions are favorable for potential outperformance.

Earlier this year, Manole Capital celebrated its 10th anniversary — a milestone we couldn't have achieved without your trust and loyalty. We remain dedicated to our FINTECH-focused vision, providing access to compelling opportunities in this dynamic and fast-evolving sector.

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

Warren Fisher, CFA
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Manole Capital Management
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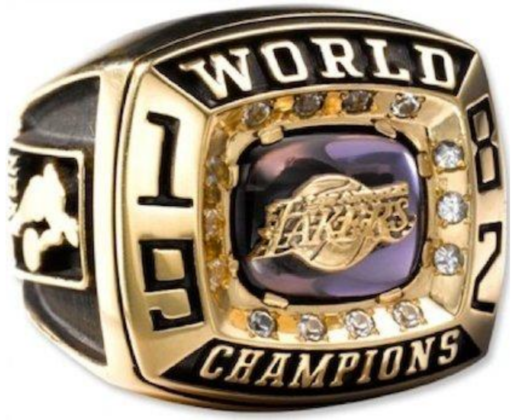
Footnote (A):

The blockchain is secure, decentralized method for recording and verifying information, most commonly financial transactions. It is a digital ledger, not stored in an individual location, but one that is duplicated across thousands of independent computers (or nodes). Once a transaction is recorded, it cannot be altered or erased – a feature that makes blockchain uniquely tamper-resistant. For example, when someone initiates a Bitcoin transaction, the details are broadcast to the network. Participating nodes verify its validity by confirming the sender owns the asset and that it has not been spent elsewhere. Once approved, the transaction is bundled into a block, which is cryptographically linked to the previous block, forming a continuous, secure chain of records. This decentralized architecture enhances transparency, prevents fraud, and eliminates the need for a central intermediary. The blockchain is gaining traction in crypto markets but also has numerous use cases in traditional finance: settlement, clearing, compliance and recordkeeping.

Cliff Clavin's "Useless" Information:

In the 1980s, one of our favorite TV shows was Cheers. The know-it-all postal worker, Cliff Clavin, played by John Ratzenberger, was famous for his random trivia and unsolicited facts. In that spirit, we bring you this recurring segment - featuring some "useless" information that Cliff would be proud of.



After 45 years of ownership, the Buss family is looking to sell the Los Angeles Lakers. Jerry Buss bought the Los Angeles Lakers for $67 million in 1979, and his family has guided the Lakers to 11 NBA championships. Now, after 45 years of ownership, the Buss family is selling the team for $10 billion – the highest ever price for a sports franchise. This is a good return for the Buss family, but they could have done better with a simple S&P 500 index fund. A portfolio started in 1979, with $67 million invested in the S&P 500, would now be worth $13 billion, but you wouldn't have any of these rings.

50-years ago, Jaws premiered and began to scare beachgoers all over the world. The movie takes place in the quaint beach town of Amity Island, but it was really filmed on Martha's Vineyard. Steven Spielberg was only 27 years old when he directed the movie, which was the first film to earn a box office over $100 million. Jaws became the 14th highest-grossing film in history and had three follow-on movies. Spielberg was given a $3.5 million budget, but Jaws cost $9 million and had 100 days production delays – with multiple problems with the mechanical shark.

We were saddened to learn of the recent passing of legendary FedEx Founder and Chairman Fred Smith. He was a pilot in the US Marines, serving twice in Vietnam. Smith founded FedEx in 1971, revolutionizing the express parcel industry. Smith came up with the idea for FedEx, while studying at Yale University. His research paper to start a delivery company received a C, but the company has experienced enormous success as a global logistics juggernaut. There's also a fascinating story of Fred making a last-ditch trip to Las Vegas in April 1973, to avoid a looming bankruptcy. Luckily, for the 400,000 employees of FedEx, Fred turned $5,000 into $27,000 playing blackjack, which allowed him to make payroll.

Unfortunately, Fred Smith wasn't the only legend to pass away recently. As Cheers loyalists know, Cliff Clavin's best friend at the bar (besides beer) was Norm. Hillary Norman "Norm" Peterson was a hysterical character on Cheers, portrayed by George Wendt. George Wendt passed away on June 20th at 76 years old. Norm appeared in all 275 episodes of Cheers between 1982-1993. The famous Cheers theme song was called ***Where Everybody Knows Your Name.*** Well, everybody always greeted George Wendt's character with a loud and unison "NORM" when he walked in. Some of our favorite Norm quotes are highlighted below.

<u>On Life:</u>	"It's a dog-eat-dog world, and I'm wearing Milk Bone underwear."
<u>On gambling:</u>	I'll take a glass of whatever comes out of that tap."
<u>If it's too early for a beer:</u>	"So float a cornflake in it."
<u>On what he was up to:</u>	"My ideal weight if I were 11 feet tall."
<u>On how the world has been treating him:</u>	"Like a baby treats a diaper."

Appendix A:

Key elements of the GENIUS Bill:

- **Federal Framework for "Payment Stablecoins" -** Only issuers approved as permitted payment stablecoin issuers can issue stablecoins for US users and they must be either a subsidiary of an insured bank, a federally regulated non-bank, or a state-regulated issuer (if under $10 billion in issuance).

- **1:1 Liquid Reserves -** Stablecoins must be fully backed on a one-to-one basis with US currency, deposits, Treasuries, or other liquid assets (example: short-term T-bills).

- **Reserve Disclosures -** Issuers must publish monthly breakdowns of reserve composition and outstanding stablecoins on their website.

- **No Re-hypothecation of Reserves -** Reserve assets cannot be pledged or reused, except for liquidity needed to meet redemption requests (example: to collateralize repos).

- **Redemption Requirements -** Issuers must publicly disclose redemption policies and provide timely access to redeem stablecoins for their dollar value.

- **Anti-Money Laundering Compliance -** Permitted issuers are subject to the Bank Secrecy Act, which covers AML/CFT measures, suspicious activity reporting, and record keeping.

- **Regulatory Hierarchy -** Federal oversight by the FDIC and Fed for bank-affiliated issuers. Comptroller of the Currency for federal non-bank issuers (example: Fintech's) and State agencies for state-authorized issuers under $10 billion.

- **Foreign Rules -** Foreign issuers may sell or make stablecoins available in the US only via compliant crypto service providers and if their country's rules meet "comparable" standards as certified by the US Treasury.

- **Stablecoins are NOT Securities -** Payment stablecoins are explicitly ***excluded*** from securities classification but are still subject to banking laws and AML regulations.

- **Issuance Ban for Non-permitted Entities -** Only permitted issuers may create payment stablecoins.

- **Limitation on Scope -** Permitted issuers may only issue/redeem/serve reserves and custody keys and they cannot engage in broader financial operations - outside these functions - unless explicitly authorized by regulators.

- **Consumer Protections -** Monthly audits, transparent operations, and redress mechanisms are highlighted, and regulators will issue formal rules for suspicious activity monitoring.

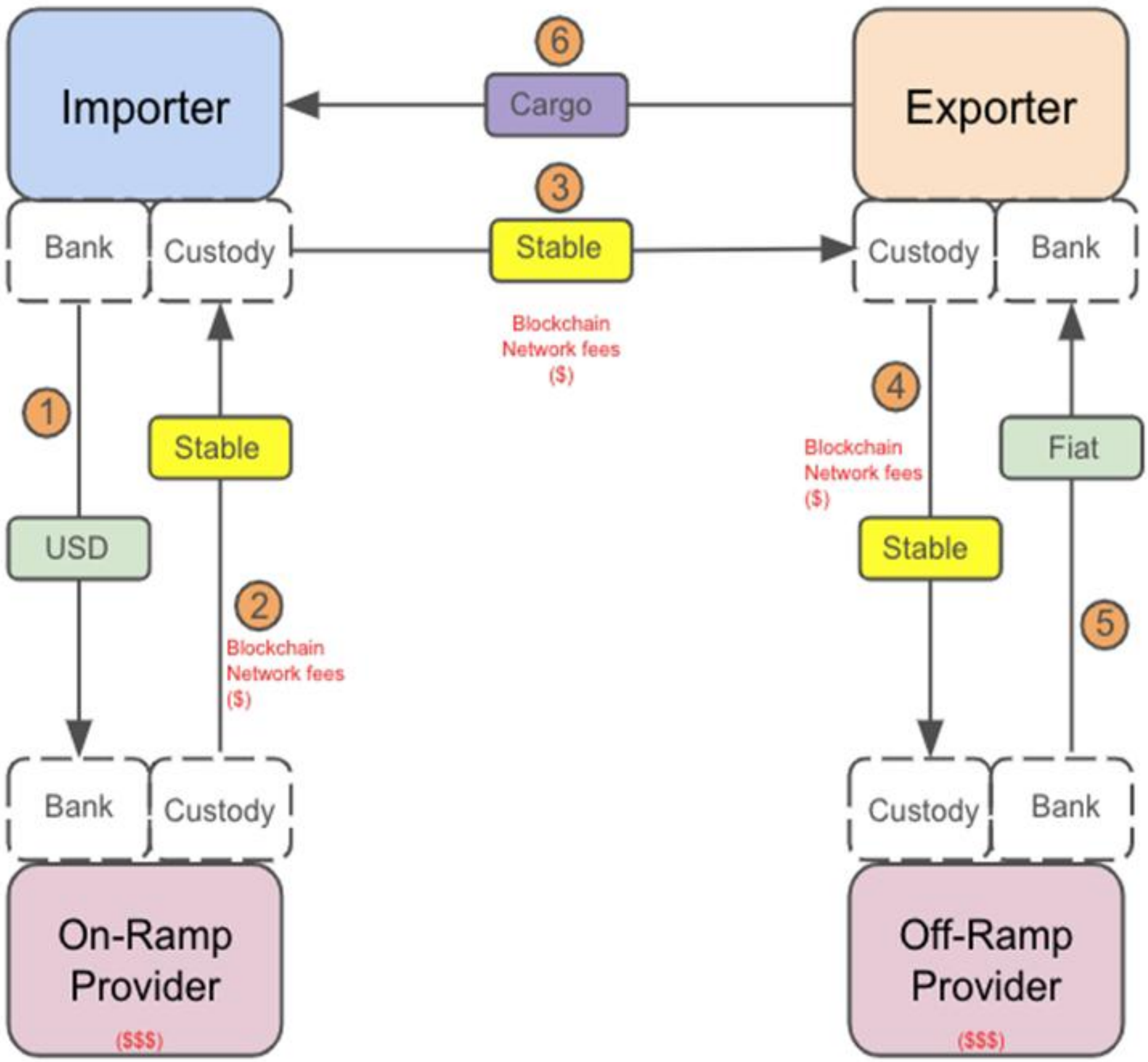
- **Bankruptcy Priority for Users -** In case of issuer bankruptcy, stablecoin holders are first lien creditors.

- **"Big Tech" Prohibitions & Safeguards -** Though not fully blocking major platforms, over 100 amendments were considered imposing limits on tech giants like Amazon and Meta issuing stablecoins.

- **State/Federal Regulatory Choice -** State-regulated issuers (<$10b issuance) can opt into Federal supervision at any time and Federal-level non-banks regulated are exclusively by the OCC.

Appendix B:

Thanks to Dan Dolev at Mizuho Research for this stablecoin chart. It shows a graphical depiction of the stablecoin process.



Appendix C:

Transcript from Mastercard's ASM on June 24, 2025, regarding STABLECOINS:
At Mastercard's annual shareholder meeting, it discussed both the opportunity and risks associated with stablecoins. Instead of summarizing their comments, we have included their exact language on this subject.

So, stablecoins are a really exciting chapter of the digital payment's growth story. Growing use cases and demand among consumers, issuers, and merchants alike. With increasing regulatory clarity across various regions, it is leading to interest from traditional financial institutions as well, and we are ready to serve them.

It's also clear that on their own, stablecoins don't offer the global acceptance, security, reliability, consumer protections, or scale that have made card payments trusted and preferred by billions. To make them scale, we need to deliver convenient, secure, and dependable experiences. We are bringing our expertise, our unparalleled network, state of the art services, leading partnerships to bear to integrate stablecoins into the financial mainstream. All that with a vision to making them as seamless and ubiquitous as fiat.

Almost all the use cases for stablecoin or crypto that emerge require an on ramp and off ramp to move between fiat and crypto, and the need for global use. As a network, we provide both. We already enable millions of people to spend on their stablecoin balances at 150 million Mastercard merchant acceptance locations worldwide.

Consumers can also purchase digital assets with card. Major exchanges like Binance, Bybit, and Coinbase accept Mastercard for crypto purchases. And merchants can choose to be paid or settled in stablecoins no matter which card is issued. We just announced further enhancements. We're adding to the stablecoins we support on our Mastercard network, for example, enabling USDG via Paxos, FIUSD via Fiserv, PYUSD via PayPal.

And on the cross-border side, financial institutions and crypto wallets can use Mastercard Move to send or receive stablecoin flows seamlessly, another option in our near real-time flow. That is very cool and another example is how our capabilities support consumers and businesses in choosing the way in which they want to be paid or paid. Now, we think longer term there may be further applications in B2B, especially in use cases with programmable payments or in cross-border payments using tokenized deposits. We're investing here too. Our multi-token network makes programmable and cross-border B2B payments possible in this context. We work with partners such as Standard Chartered and JPMorgan, and more recently our partnership with Fiserv will make it easier for banks to implement this enabling a simpler path from fiat bank deposits to tokenized assets. We see this as a key asset, pun intended, as we continue to harness the multi trillion-dollar industry.

Remember, trust is key to scaling. I talked about it earlier. Something our network, brand, and services offer. For example, we have services like Crypto Secure, which is now actively monitoring risks around crypto transactions for hundreds of issuers globally. That's a long list. The short story is we're shaping the future of stablecoins, and we're partnering across the space to offer trust and ubiquity. We will continue to innovate and provide optionality based on where customers see value. That's what we've always done and always will do.

DISCLAIMER:

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