

Digital Cash Is Here: How the OCC and CLARITY Act May Transform Institutional Liquidity

Introduction: How Stablecoins Are Changing Corporate Cash Management

For decades, the fundamental mechanics of corporate cash management in marketable securities have been defined by banking hours, batch processing, and the friction of settlement cycles. Historically, transactions operated under T+3 settlement cycles, before transitioning to T+1 in May 2024.

For institutional liquidity investors, the recent volatility of cryptocurrency prices should be background noise. The real story unfolding in early 2026 is the utility pivot to stablecoins: a transformation of digital assets from speculative vehicles into efficient, regulated back-office tools for financial operations.

It is not hard to argue that we are witnessing a structural crossroads in the U.S. financial system.

At the same time, the regulatory landscape is evolving to accommodate this technological shift. Policymakers are attempting to balance innovation and capital efficiency with potential new risks to bank deposit stability and capital market liquidity.

For treasury professionals, understanding this interplay between the Office of the Comptroller of the Currency's (OCC) proposed stablecoin regulations and the embattled CLARITY Act should not be a speculator's sport, but a strategic imperative.

The OCC Proposal: Upgrading the Plumbing of the Dollar

On February 25, 2026, the OCC released a notice of proposed rulemaking¹ to implement the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act,² which became law on July 18, 2025.

The 376-page OCC proposal provides the "hard floor" corporate treasury departments have been waiting for, effectively reclassifying payment stablecoins as a digital form of cash.

¹ Office of the Comptroller of the Currency, *Genius Act Regulations: Notice of Proposed Rulemaking*, February 25, 2026, <https://www.occ.gov/news-issuances/bulletins/2026/bulletin-2026-3.html>.

² The White House, *Fact Sheet: President Donald J. Trump Signs GENIUS Act into Law*, July 18, 2025, <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/>.

The proposal establishes strict operational and financial requirements for "Permitted Payment Stablecoin Issuers" (PPSIs), including:

- **1:1 Liquid Reserves:** Issuers must maintain a 1:1 backing of stablecoins with high-quality, highly liquid reserve assets, such as U.S. dollars or Treasury bills.
- **Capital Minimums:** A \$5 million minimum capital floor applies to de novo issuers to help ensure financial resilience.
- **Yield Prohibition:** Issues are strictly prohibited from paying interest or yield on stablecoins.

Put simply, the OCC proposal translates the GENIUS Act's statutory requirements into detailed regulatory language, setting expectations for compliance. While this is not yet binding law, it represents the first draft.

Following a 60-day comment period, the OCC will review the feedback and may revise the proposal before issuing a final rule. This is only one piece of the broader GENIUS Act regulatory puzzle, which also includes rulemaking by the Federal Reserve and the FIDC. The effective statutory deadline for agencies to comply with the Act is January 18, 2027, less than a year away.

The OCC proposal creates a pathway for large "on shore" banks such as J.P. Morgan and Citi to issue digital assets. Corporate treasurers will not need to open digital wallets with offshore startups. Instead, they can open tokenized deposit accounts within the existing, trusted federal banking umbrella.

Potential benefits include:

- 24/7/365 fund mobility
- Reduced idle "buffer" cash
- Faster cross-border payments by bypassing traditional correspondent fees and delays

The CLARITY Act Explained: What's Holding Back Digital Asset Rules

While the OCC's rulemaking addresses the "banking" half of the regulatory puzzle, the broader Digital Asset Market Clarity Act (CLARITY Act) remains gridlocked in the U.S. Senate. The CLARITY Act aims to resolve long-standing jurisdictional conflicts between the SEC and CFTC, providing clear rules of the road for the secondary digital asset market.

Despite strong bipartisan support in the House of Representatives (294-134) in July 2025, the Senate version of the bill hit a wall in early 2026. The primary disagreement centers on Section 404, often referred to as the "Affiliate Loophole."

- The GENIUS Act prevents stablecoin issuers from paying interest, but does not expressly bar third-party exchanges or custodians from offering rewards that look like interest from a party affiliated with a stablecoin issuer.

- The Senate's revised Section 404 extends the interest ban to all secondary market intermediaries, responding to banking lobby pressures³
- Major crypto firms, notably Coinbase, withdrew their support, arguing the revision stymies innovation and cements an anti-competitive advantage for traditional banks.

As a result, the White House's March 1 deadline for finalizing stablecoin rewards language passed without a final compromise.

Still, industry leaders remain optimistic about its eventual passing, with Ripple's CEO citing 90% odds of passage by April.⁴

Banks vs. Non-Bank Entities: Implications for Institutional Deposits

The banking industry views yield-bearing stablecoins as a potential systemic threat: essentially "shadow banks" operating without traditional community lending obligations. The American Bankers Association (ABA), along with other banking groups, urged Congress to close this loophole based on the Treasury Department's estimate of \$6.6 trillion in deposits potentially affected by these incentives.⁵

If fully enacted, the CLARITY Act and GENIUS Act may create a structural "K-shaped" crisis for the banking system:

- **Regional and Community Banks:** These banks are susceptible to deposit flight due to their reliance on net interest income (NII) and localized deposit bases. A substantial reduction in deposits may directly translate to severe cuts in lending to small businesses and rural communities.
- **Large National Banks (G-SIBs):** Major money center banks vie to "trailblaze" digital banking. By launching proprietary, OCC-regulated stablecoins and tokenized deposits (like the JPM Coin), they can defend their deposit bases, monetize blockchain infrastructure, and provide institutional clients with digital representations of bank accounts that settle in real-time.

³ Conference of State Bank Supervisors, *Comment Letter: Digital Asset Market Structure Legislation*, January 14, 2026, <https://www.csbs.org/node/557266>.

⁴ Milos Djukanovic, *White House March 1. Deadline for CLARITY Act Stablecoin Rewards*, Stablecoin Insider, March 1, 2026, <https://stablecoininsider.org/white-house-march-1-deadline-for-clarity-act-stablecoin-rewards>.

⁵ American Bankers Association, *Joint Trades CEO Letters Urges Congress to Close Stablecoin Loophole*, January 12, 2026, <https://www.aba.com/advocacy/policy-analysis/joint-trade-association-letter-on-stablecoin-loophole>.

Stablecoin Regulatory Update: What Treasury Teams Should Expect

With the self-imposed March 1, 2026, deadline in the rear-view mirror, the so-called "Alsobrooks Compromise" has emerged as a viable path forward. This framework seeks to differentiate between passive interest and activity-based incentives.

- **Passive Yield Ban:** Section 404 would ban interest for just holding a stablecoin balance.
- **Activity-Based Rewards Allowed:** Incentives tied to transactions, routing payments, or merchant activity—similar to credit card loyalty points or rebates—would still be permitted.⁶

Once the CLARITY Act becomes law, it will work in tandem with the OCC's proposal:

- The OCC will govern the issuance and banking infrastructure of non-yielding payment stablecoins.
- The CLARITY Act will provide the broader market structure for how tokenized assets, commodities, and smart-contract rewards operate in the secondary market.

Strategic Recommendations for Institutional Investors in a Digital Cash World

The arrival of 24/7, programmable cash is a matter of time. Institutional liquidity investors should proactively adjust strategies to capitalize on this transformation while managing emerging counterparty and market risks.

Key Recommendations:

1. **Evaluate Tokenized Money Market Funds (MMFs) as Liquidity Rails.** Tokenized MMFs appear to be the most understood and successful application of real-world assets (RWA). They function as a "tokenized cash" layer, allowing institutions to earn yield while maintaining the instant settlement capabilities of blockchain technology.
2. **Monitor Regional Bank Exposure and Deposit Quality.** High-yield digital alternatives may threaten to convert stable retail deposits into volatile wholesale deposits. Treasury management teams should assess their deposit and credit exposure to regional banks.
3. **Evaluate Opportunities to Initiate Pilot Programs with Large Banking Partners.** The OCC's proposed framework provides regulatory guardrails for pilot programs with digital asset pioneers in the traditional banking space. This may include transitioning a portion of intra-company global settlements into tokenized USD or bank-issued tokenized deposits.
4. **Prepare for Post-CLARITY Digital Cash Reality.** Once the CLARITY Act becomes law, analysts anticipate that institutional allocations to digital assets could jump from 1%-3% to as high as 10%-30%. This may create an opportunity for an organization's treasury infrastructure to more safely interact with regulated digital commodity markets.

⁶ Jasper Goodman, *Key Democrat Floating Stablecoin Yield Compromise in Crypto Bill*, Politico Pro, January 7, 2026, <https://subscriber.politicopro.com/article/2026/01/key-democrat-floating-stablecoin-yield-compromise-in-crypto-bill-00714574>.

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