Reves' Fourth Factor and Stablecoin Routing Across Six Jurisdictions

This analysis is conditional on enactment of the Digital Asset Market Clarity Act of 2025. The Section 404 comparator phrase analyzed below was fixed at the May 14, 2026, Senate Banking Committee markup; what remains contingent is enactment. The doctrinal reading developed here operates within that contingency.

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Two prior posts on this blog have framed how the GENIUS Act's prohibition on issuer payments to stablecoin holders interacts with the intermediary chain that distributes those stablecoins to retail. David Krause has argued that the prohibition's practical reach is undermined by the Circle-to-Coinbase distribution-fee channel, through which Treasury yields pass through to USDC holders at near-parity, and that the RFIA tightening is a *"necessary correction"* needed to *"restore the original policy bargain."*[1] Lee Reiners has made an adjacent argument using UCC Article 8: on a particular construction of the "holder" concept, Coinbase itself is the holder of customer-allocated USDC, such that Circle's distribution payments to Coinbase already constitute the conduct §4(a)(11) of GENIUS prohibits.[2] Both arguments work the intermediary perimeter: Krause by advocating its statutory extension, Reiners by reading the existing prohibition to reach into it through state property law.

This piece accepts Krause's empirical finding and Reiners's doctrinal observation as accurate descriptions of the intermediary chain as it currently operates, and asks a different question at the same perimeter: whether *Reves'* fourth factor directs Section 404 to step back when the routing destination is a product registered under the Investment Company Act of 1940. The arguments do not compete; they answer adjacent questions about how far the prohibition should reach when a comprehensive parallel federal regime is in place. The cross-jurisdictional record, surveyed below across six jurisdictions, indicates that the parallel-track architecture this reading preserves is not a US idiosyncrasy but a structural feature available in regimes that maintain *Reves*-style allocation between the deposit-equivalence prohibition and the registered-fund regime.

I. The Reves Fourth Factor as Allocation Doctrine

The *Reves* family-resemblance test asks four questions when distinguishing securities from non-securities.[3] The first three center on the instrument: the parties' motivations, the plan of distribution, and the reasonable expectations of the investing public. The fourth factor turns outward: whether some other regulatory scheme "significantly reduce[s] the risk" of the instrument, such that application of the securities laws is unnecessary.[4] *Marine Bank v. Weaver*, on which *Reves* rests in this analysis, treated FDIC-insured certificates of deposit as outside the Securities Acts because the federal banking regime — FDIC insurance, reserve and reporting requirements, supervisory oversight — supplied the relevant protections;[5] this is the analysis *Reves* later articulated as the alternative regime *"significantly reduc[ing] the risk"* of the instrument. The fourth factor performs allocation: it tells courts where one comprehensive federal regulatory scheme has already done the work that would otherwise be done by the securities-law overlay.

A sophisticated reader will press: *Marine Bank* rested specifically on FDIC insurance — an affirmative federal guarantee against loss — while the 1940 Act supervises through registration, disclosure, custody, and NAV transparency but does not insure investors against loss. The objection misreads what *Reves* requires. *Reves* itself does not condition the fourth factor on insurance; it asks whether the alternative regime *"significantly reduce[s] the risk"* such that the regulatory regime in question would add nothing material. The ICA framework — daily NAV pass-through, custody segregation, board oversight, and the Section 22(d) and Section 17(d) constraints recently exercised in the *WisdomTree Digital Trust* proceeding — performs this risk-reduction function through different mechanics. Allocating these regimes to different perimeters is not a workaround; it is what *Reves'* fourth-factor logic asks courts to do when a comprehensive parallel federal regime is in place. This piece does not address the panic-prevention or deposit-flight concerns separately raised in these pages; the routing perimeter is logically separable from the run-risk perimeter, and is the only perimeter the doctrinal question above engages.

II. The Parallel Track in the US Framework

Onnig H. Dombalagian has recently argued in these pages that stablecoins themselves may be analyzed as aspirant money-market instruments and that the multiplicity of roles they perform may resist coherent harmonization across regimes.[6] This section addresses an adjacent but distinct question: not whether stablecoins themselves should be regulated as money-market instruments, but how the routing between GENIUS-compliant stablecoin balances and 1940 Act-registered money market fund shares should be allocated between the deposit-equivalence prohibition and the ICA framework. The two questions operate at different layers — categorization at the issuer layer, allocation at the routing layer — and admit distinct doctrinal answers.

WisdomTree's WTGXX (the WisdomTree Treasury Money Market Digital Fund) operates as the proof-of-concept for the parallel-track architecture. The fund is registered under the 1940 Act, holds short-duration Treasury securities, accrues income daily under Rule 2a-7 mechanics and pays it as a monthly dividend, and — critically — has been granted SEC exemptive relief permitting share trading at a stable $1.00 price with instant blockchain settlement throughout the trading day. On February 24, 2026, the SEC issued an exemptive order in the *WisdomTree Digital Trust, et al.* proceeding (File No. 812-15788) granting relief from Sections 22(d) and 17(d) of the ICA and Rule 17d-1, enabling dealer-principal intraday trading of fund shares at $1.00.[7]

The architectural significance of WTGXX is not that it competes with stablecoins for retail wallets; it is that it occupies the regulatory space the *Reves* fourth factor allocates to the ICA. A user who routes from a GENIUS-compliant stablecoin into WTGXX is not receiving "interest" from the stablecoin issuer — the issuer-layer prohibition is unaffected. The user is instead exiting the stablecoin layer and entering a separately regulated 1940 Act product whose risk-reduction work is performed by the ICA framework, not by Section 404. The routing perimeter sits at the boundary between these two regimes.

III. Cross-Jurisdictional Comparison

The doctrinal allocation thesis is testable against jurisdictions that have enacted stablecoin issuer regimes since 2024. The *Multi-Jurisdiction Stablecoin Compliance Matrix* (v0.9.3) provides the underlying sourcing chain for the jurisdictional facts summarized in this section.[8] The comparison reveals that the parallel-track architecture is not a US idiosyncrasy but a structural feature in some regimes, commercially inert in others, and foreclosed in two.

Jurisdiction	**Issuer-Layer Yield**	**Alternative Regulatory Regime**	**Parallel-Track Architecture**
United States	Prohibited (Section 404 "solely" trigger)	Investment Company Act 1940 (ICA)	Structural feature; operationally extant

Jurisdiction	Issuer-Layer Yield	Alternative Regulatory Regime	Parallel-Track Architecture
United Kingdom	Prohibited (UKQS framework)	FCA-authorised collective investment schemes	Structural feature; early activation proposed in April 21, 2026 amendment SI (post-consultation)
European Union	Prohibited (MiCAR Art. 50, 45)	UCITS Directive	Available with operational friction (PSD2–MiCAR dual licensing)
Hong Kong	Prohibited (Stablecoins Ordinance Sched. 2, §15)	None equivalent on retail stablecoin layer	Doctrinally available; commercially inert
Singapore	Restricted (SCS framework)	Limited at issuer layer (lending/staking)	Doctrinally available; commercial demand absent
People's Republic of China	Prohibited (no domestic stablecoin authorization)	N/A	Foreclosed

United Kingdom. The Cryptoasset Regulations 2026 (SI 2026/102), made February 4, 2026 with commencement October 25, 2027, remove UKQS backing assets from the collective investment scheme and alternative investment fund definitions. HM Treasury's April 21, 2026 draft amendment SI proposes to activate this carve-out ahead of full regime commencement, subject to the outcome of the consultation that closed May 22, 2026; whatever HMT's stated purpose, the architectural effect, if the final SI is made, will be to preserve space for routing arrangements connecting UKQS holdings to FCA-authorised collective investment schemes. The parallel-track architecture exists as a structural feature because the UK regime maintains the *Reves*-style allocation: the UKQS framework prohibits issuer-layer yield, while the FCA collective investment scheme regime performs the alternative regulatory work for routing destinations.

European Union. MiCAR Article 50 prohibits e-money token issuers from granting interest, and Article 45 imposes parallel constraints on asset-referenced tokens. The UCITS Directive remains the alternative regulatory regime for collective investment in transferable securities. The architecture is doctrinally available: a holder of an EMT can in principle route into a UCITS-registered short-duration money-market fund, exiting the EMT regime and entering the UCITS regime. The operational friction comes from PSD2-MiCAR dual licensing for the transferring party. The EBA's No-Action Letter on the interplay between PSD2 and MiCAR (June 10, 2025), and its follow-on Opinion of February 12, 2026 on the end of the no-action transition period, preserve the doctrinal availability while raising the operational cost.[9]

Hong Kong. The Stablecoins Ordinance (Cap. 656, in force August 1, 2025) prohibits interest or yield to stablecoin holders at Schedule 2, §15. The first license cohort of April 10, 2026 included Anchorpoint Financial Limited (FRS01) and The Hongkong and Shanghai Banking Corporation Limited (FRS02). No PRC-connected applicant — private (Ant Group, JD.com) or state-affiliated (BOCHK, ICBC Asia, BOCom HK, CCB Asia) — received a first-round license. The architectural feature absent in the Hong Kong regime is a domestic alternative regulatory scheme for retail-facing yield-bearing instruments equivalent to the 1940 Act or UCITS. The Schedule 2, §15 prohibition does the allocation work alone; there is no second federal-equivalent body that picks up the routing destination. The architecture remains doctrinally available but commercially inert: a holder can in principle route out of the HKD-pegged stablecoin into a Hong Kong-listed bond fund, but the MPF and SFC-authorized fund regimes are not engineered for the high-frequency, on-chain settlement that gives routing its commercial purpose.

Singapore. MAS's Stablecoin Regulatory Framework (finalized August 15, 2023) restricts issuer lending and staking and constrains reserve composition. The framework limits but does not categorically prohibit issuer-layer yield; the SCS framework operates closer to a prudential cap than to the categorical bar found in MiCAR, the GENIUS Act, or the Stablecoins Ordinance. The parallel-track architecture remains doctrinally available, but the demand-side condition for routing is diminished by what the framework structurally removes from the issuer layer: without issuer-layer yield generation, there is no spread for routing to capture, and the commercial logic of routing collapses even where the doctrinal pathway exists.

People's Republic of China. Mainland regulators have not authorized any RMB-denominated stablecoin, and the PBOC and CAC reaffirmed the prohibition through verbal guidance reported by the *Financial Times* on October 18, 2025 and corroborating wire reporting of October 18–20, 2025 that prompted Ant Group and JD.com to suspend their Hong Kong applications. The architecture is foreclosed because the prerequisite — a regulated stablecoin layer — does not exist.

IV. The Allocation Stakes

The cross-jurisdictional pattern is doctrinally instructive. In two of six regimes — the US and the UK — the parallel-track architecture exists as a structural feature because the underlying regime preserves the *Reves*-style allocation between the deposit-equivalence prohibition and a comprehensive alternative regulatory regime engineered for the routing destination. In the EU the architecture is available with operational friction, because the alternative regime (UCITS) is in place but the cross-layer transit incurs dual-licensing cost. In Hong Kong the architecture is doctrinally available but commercially inert: the alternative-regime work is not performed by any other body of law on the retail layer, so Schedule 2, §15 does the allocation work alone and the architecture has nothing to allocate to. In Singapore the architecture is available but the demand-side condition is removed. In the PRC the architecture is foreclosed.

The contribution of the cross-jurisdictional record is to make visible what the issuer-layer pass-through literature, focused necessarily on the US, has not been positioned to develop: that the doctrinal architecture this piece reads out of *Reves'* fourth factor is a structural feature of regulatory regimes that maintain *Reves*-style allocation, not a workaround invented to evade Section 404. Krause works the empirical pass-through question; Reiners works the Article 8 "holder" construction; this piece works the routing perimeter. Three positions on the same line, answering adjacent doctrinal questions about where the prohibition's reach should end and where the alternative regime's work should begin. The doctrinal answer differs across jurisdictions because the underlying allocation differs; the cross-jurisdictional record lets us say so with the support of comparative structure, not just doctrinal inference.

About This Post

This post develops the doctrinal foundation and comparative landscape for a routing-anchored reading of Section 404 of the Digital Asset Market Clarity Act of 2025. The author's written input to the SEC's Crypto Task Force on Section 404, *Narrowing the Section 404 Prohibition*, was posted by the Commission on May 7, 2026 and operationalizes the routing question through a six-factor test for the joint OCC–FDIC rulemaking. A companion piece on the Reed-Smith procedural ruling is under review at this blog. The underlying jurisdictional sourcing chain referenced in Part III is drawn from the *Multi-Jurisdiction Stablecoin Compliance Matrix* (v0.9.3 pre-release draft, May 18, 2026; on file with author, available upon request pending v1.0 stable release scheduled September 2026).

Disclosure

I have received no compensation — direct, contingent, or otherwise — for this piece, the underlying research, or any companion work in this portfolio, and am not currently engaged in advisory, consulting, employment, or other compensated relationships with any party having a financial interest in the regulatory outcomes discussed. The framework's alignment with positions held by tokenized-fund operators reflects the underlying legal architecture, not any commercial relationship.

Endnotes

1. David Krause, *Closing the Stablecoin Yield Loophole in the Post-GENIUS Era*, CLS Blue Sky Blog (Jan. 23, 2026); David Krause, *The GENIUS Act's 'Interest' Prohibition: Evidence of Regulatory Arbitrage in Digital Asset Markets* (Jan. 15, 2026) (documenting a pass-through of approximately 95.6% from three-month Treasury yields to USDC rewards reaching Coinbase-distributed holders, with a 21-basis-point spread, no statistically significant decoupling at GENIUS Act enactment, and a 98.7% correlation with the Treasury benchmark).

2. Lee Reiners, *Circle, Coinbase, and the Prohibition on Interest Under the GENIUS Act*, CLS Blue Sky Blog (Dec. 11, 2025) (arguing that under UCC Article 8, Coinbase is the holder of customer-allocated USDC, such that Circle's distribution payments to Coinbase — approximately $907.9 million in 2024 — constitute payment of interest to a holder under §4(a)(11) of GENIUS).

3. Reves v. Ernst & Young, 494 U.S. 56, 64–67 (1990).

4. Id. at 67.

5. Marine Bank v. Weaver, 455 U.S. 551, 557–59 (1982).

6. Onnig H. Dombalagian, *The Paradoxes of Stablecoin Regulation*, CLS Blue Sky Blog (May 22, 2026).

7. SEC, *In the Matter of WisdomTree Digital Trust, et al.*, Order Under Sections 6(c) and 17(d) of the Investment Company Act of 1940 and Rule 17d-1 (Feb. 24, 2026), File No. 812-15788, available at https://www.sec.gov/rules-regulations/2026/01/wisdomtree-digital-trust-et-al; see also Investment Company Act Release No. 35912 (Notice of Application, Jan. 26, 2026), 91 Fed. Reg. 4537 (Jan. 28, 2026). For the fund's current name, see WisdomTree Prime, Treasury Money Market Digital Fund (WTGXX).

8. *Multi-Jurisdiction Stablecoin Compliance Matrix*, v0.9.3 pre-release draft, May 18, 2026 (on file with author; available upon request pending v1.0 stable release scheduled September 2026). Underlying jurisdictional sourcing chain carried in v0.9.3: HKMA press release on the granting of the first stablecoin issuer licences (April 10, 2026); MAS Stablecoin Regulatory Framework (finalized August 15, 2023); EBA No-Action Letter

on the interplay between PSD2 and MiCAR (June 10, 2025) and follow-on Opinion (February 12, 2026); *Financial Times* and corroborating wire reporting of October 18–20, 2025 on Ant Group and JD.com suspension of Hong Kong stablecoin applications.

9. European Banking Authority, No-Action Letter on the interplay between the Payment Services Directive 2 (PSD2) and the Markets in Crypto-Assets Regulation (MiCAR) (June 10, 2025); EBA Opinion on the end of the no-action letter transition period (February 12, 2026).