

A Stablecoin Yield Rule Goes to Three Agencies

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This analysis is conditional on enactment of the Digital Asset Market Clarity Act, which still requires Senate floor passage, House reconciliation, and signature. The comparator phrase analyzed below was fixed at the May 14, 2026, markup; what remains contingent is enactment.

A single statutory phrase will soon decide whether a category of SEC-registered money market funds sits inside or outside a new federal prohibition on stablecoin yield. The Senate Banking Committee fixed that phrase on May 14, 2026, when it advanced the [Digital Asset Market Clarity Act](#) by 15–9, ending the substantive negotiation on Section 404, the bill’s most-contested clause.

The [Tillis–Alsobrooks compromise](#) bans passive yield on stablecoin holdings, preserves “activity-based” rewards, and delegates the line between the two to a joint rulemaking. The committee declined to reach the [Reed–Smith amendment](#), which would have replaced the operative comparator phrase “economically or functionally equivalent” to deposit interest with one tied to the “manner” of bank-paid interest. Chairman Tim Scott ruled it out of order; [Senator Cortez Masto’s attempt to revive it](#) did not override the ruling.

With the text locked in, the action moves to the joint rulemaking that Section 404 directs the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Treasury Secretary to complete within twelve months of enactment, against civil penalties of up to \$5 million per violation. The Senate Banking Committee report on the reported substitute, drafted in the weeks after markup, is the principal upstream input; that window is measured in weeks, not years.

What Section 404 hands the agencies is harder than the public debate suggests. The two prongs of the prohibition — yield “solely in connection with the holding” of a stablecoin and yield “economically or functionally equivalent” to deposit interest — ask three agencies whose product knowledge is sharply asymmetric to draw a single coherent line between disguised yield and the activity-based rewards the statute’s carve-out preserves. The SEC operates the [Investment Company Act of 1940](#) framework directly and has issued [exemptive relief](#) for tokenized money market funds within the past year. Treasury holds the penalty authority but has no prior involvement with the products. The CFTC has neither. The SEC and CFTC spent the past year building coordination capacity through [Project Crypto](#) and a [March 11 Memorandum of Understanding](#), with a joint interpretation six days later. Treasury was not a party to either.

Two SEC-registered products show where the rule will land. The WisdomTree Treasury Money Market Digital Fund (WTGXX) holds SEC exemptive relief permitting affiliated broker-dealer principal trading at a fixed \$1 intraday price with NAV-based redemption mechanics underneath. Franklin Templeton's OnChain U.S. Government Money Fund (FOBXX) records share ownership directly on a public blockchain through its transfer agent. Both are registered open-end mutual funds subject to Rule 2a-7. A user-authorized routing transaction into shares of either fund delivers a NAV-based return that arrives, in stablecoin form, through a regulated intermediary. The SEC has authorized one end of that transaction chain: the registered fund and its on-chain mechanics. Treasury's \$5 million-per-violation enforcement perimeter reaches the other end: the intermediary's routing.

This is not the case the principal banking trades' [May 8 letter](#) is aimed at. That letter targets graduated rewards calibrated to balance, tenure, or duration on continuing stablecoin holdings, and the deposit-flight concern that animates them. Deposit flight, when it occurs, arises at the conversion of a bank deposit into a payment stablecoin, not at the subsequent routing of that stablecoin into a registered fund share. The routing case is doctrinally distinct. The user's holding has changed legal character, from a 1:1 par claim against issuer reserves to NAV-exposed fund shares with downside risk; the federal tax form changes from 1099-INT to [1099-DIV](#).

[Reves v. Ernst & Young](#) supplies the analytic vocabulary for that distinction: a family-resemblance inquiry into who bears principal risk and which federal regulatory regime governs the relationship. I develop the doctrinal argument [elsewhere](#). The point is one of administrative law. After [Loper Bright](#), the joint rulemaking will be reviewed without the Chevron deference that previously cushioned agency readings of textually ambiguous statutes. The "permissible reading" tolerance is gone. Courts have begun applying that posture to the SEC: in [SEC v. Amah](#), the Second Circuit vacated an Advisers Act enforcement, declining to defer to the SEC's longstanding interpretation, including one drawn from a rulemaking preamble. A maximalist reading of "economically or functionally equivalent," displacing the 1940 Act framework one of the three agencies has just operated on, is more vulnerable on review than it would have been before *Loper Bright*.

The cleanest place to draw the line is in the Committee Report — the better reading of the statute — before the rulemaking begins. Committee-report legislative history has limited canonical effect on reviewing courts, especially after *Loper Bright*. The Report's force here is on the rulemaking record itself: agencies drafting joint rules under a twelve-month statutory clock weigh report language as they triage interpretive choices, and the report frames what the NPRM preamble must address. Were the Report to identify user-authorized routing into shares of an Investment Company Act-registered fund as outside the prohibition, it would foreclose the maximal reading at the legislative-

history layer, before a full notice-and-comment cycle and the enforcement that follows. Such a confirmation would be narrow by design. It would not cover programs in which an operator commits to a particular rate regardless of fund performance, pools user balances into operator-controlled positions, or obscures who the issuer is. Those are the disguised-yield cases the May 8 letter targets, and the ones the prohibition should reach.

The Committee Report window is short; the rulemaking timeline is long. Final joint rules are unlikely before mid-2027 under any plausible enactment scenario. The Report, or failing that the agencies' own NPRM preamble, is where the inter-agency coherence problem has to be addressed. Until rules issue, registered open-end fund products the SEC has authorized (a sliver of the [\\$15 billion tokenized-Treasuries category](#)) sit against a \$5 million-per-violation standard with no clear pre-rulemaking answer.

Yunjie Fan is an independent researcher working on cross-jurisdictional digital-asset regulation. Her 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.

Disclosure. The author has received no compensation — direct, contingent, or otherwise — for this piece, the underlying research, or any companion work in this portfolio, and is 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.