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New U.S. Stablecoin Rules Could Fuel Financial Crimes in Canada, Officials Say

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America's recent push to bring digital assets into the financial mainstream is raising red flags for Canada, as gaps in U.S. regulation could allow criminals to exploit the crypto sector. While the new laws aim to boost economic innovation, critics argue they may also enable illicit financial activity due to insufficient oversight and vague compliance language.

The Guiding and Establishing National Innovation for U.S. Stablecoins Act, known as the GENIUS Act, was signed into law last week, establishing a legal framework for stablecoins,

which are cryptocurrencies pegged to traditional fiat currencies such as the U.S. dollar. Alongside it, the Digital Asset Market Clarity Act (Clarity Act) advanced through the U.S. Senate, aiming to clarify which agencies oversee digital assets, dividing responsibilities between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

While initially praised for bringing clarity to the cryptocurrency landscape, both acts have drawn criticism from anti-corruption groups. Transparency International U.S., in coordination with organizations like the Free Russia Foundation and the Hudson Institute's Kleptocracy Initiative, has raised concerns that the legislation leaves wide loopholes for money laundering, terrorist financing, and sanctions evasion.

“The risks are real and urgent,” the groups warned in a joint letter to U.S. congressional leaders. They cited rogue states like Iran, North Korea, and Russia as active users of cryptocurrencies to bypass international sanctions and transfer illicit funds. Gary Kalman, executive director of Transparency International U.S., emphasized the global implications, urging lawmakers in other countries to consider the high-risk nature of crypto when drafting their regulations.

Key weaknesses identified in the GENIUS Act include its differential treatment of foreign stablecoin issuers, who may participate in U.S. markets without registering domestically. Additionally, secondary market participants such as digital asset exchanges and brokers are not required to comply with anti-money-laundering (AML) or counter-terrorist-financing obligations.

Further complicating enforcement, the GENIUS Act lacks effective measures for monitoring technologies designed to hide financial transactions, such as mixers. The Clarity Act, while addressing agency jurisdiction, fails to impose sanctions enforcement or require ownership transparency in decentralized finance.

These flaws offer a sobering lesson for Canada, which has yet to implement a unified strategy for regulating its digital asset sector. A report from Western University's Ivey Business School warns that Canada is falling behind as other nations embrace stablecoin technology to modernize their financial systems and attract investment. While oversight in Canada is currently spread across agencies like the Canada Revenue Agency (CRA) and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the report stresses the need for coordinated national policy.

As Ottawa considers its next steps, it would do well to learn from the shortcomings of the U.S. approach. Innovation is vital, but without rigorous enforcement, it can come at the cost of national and global financial security.