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THE THRESHOLD QUESTION: RESERVE ARCHITECTURE, RIBA, AND THE GENIUS ACT'S JURISPRUDENTIAL PROBLEM

Abstract

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), signed into law on 18 July 2025, mandates that payment stablecoin issuers maintain 1:1 reserves in US dollars, short-dated Treasury bills, repurchase agreements backed by government securities, and government money market funds. The Act simultaneously prohibits issuers from paying any form of interest or yield to stablecoin holders. This structure produces an instrument whose reserve assets generate continuous interest income to which the holder has no claim. Whether this architecture constitutes participation in riba under classical and contemporary Islamic jurisprudence is a live and unresolved question. The GENIUS Act's drafters did not address it. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has not issued a governing standard on payment stablecoins of this architecture. The global Islamic finance industry, which reached US\$3.88 trillion in total assets in 2024 according to the Islamic Financial Services Board, is waiting for a resolution that the legislation does not provide. Gulf sovereign wealth funds managing collectively approximately US\$5 trillion in assets

operate under Sharia mandates that create an adoption threshold the jurisprudential record does not yet permit them to cross. This paper maps the structural features of the GENIUS Act's reserve architecture against the classical riba prohibition, identifies five points of jurisprudential contestation, and examines the conditions under which Gulf institutional capital will or will not engage with the stablecoin payment layer the Act creates. The paper does not resolve the jurisprudential question. It establishes precisely what must be resolved before capital governed by those principles can move.

I. The Question the Act Did Not Ask

The GENIUS Act did not ask whether a payment stablecoin backed by interest-bearing instruments constitutes a ribawi instrument in the hands of the holder. The question was not in scope because the relevant legal traditions were not represented when the legislation was drafted. This is a description of a structural gap with measurable consequences, not a complaint about legislative process.

The Islamic finance market reached US\$3.88 trillion in total assets in 2024, reflecting 14.9 percent year-on-year growth, according to the Islamic Financial Services Board's Stability Report published in May 2025 (IFSB, 2025). Standard Chartered projects that figure will exceed US\$7.5 trillion by 2028, representing a 36 percent expansion over four years (Standard Chartered, 2025). The Gulf Cooperation Council region accounts for 53.1 percent of current global Islamic finance assets. The five principal Gulf sovereign wealth funds, the Public Investment Fund of Saudi Arabia, the Abu Dhabi Investment Authority, the Kuwait Investment Authority, Mubadala, and the Qatar Investment Authority, collectively manage approximately US\$5 trillion in assets as of early 2025 (Diplo, 2025). In 2024, the assets under management of sovereign wealth funds in the Middle East reached a historic peak of US\$4.9 trillion, according to PwC Middle East (PwC Middle East, 2024). A material portion of that capital is managed under mandates that require Sharia compliance; the institutional Islamic finance sector in the GCC is not a parallel system but the dominant one, with Islamic banking accounting for 74.9 percent of total banking sector assets in Saudi Arabia as of 2024 (Market Data Forecast, 2025).

The payment stablecoin layer the GENIUS Act creates is denominated in US dollars, backed by US government securities, and structured for global adoption. The stablecoin

market reached US\$316 billion in market capitalisation in October 2025, with 97 percent of fiat-backed stablecoins pegged to the US dollar (Financial Action Task Force, as cited in Wikipedia, 2025). Gulf institutional capital is not peripheral to this architecture. It is among the architecture's intended constituencies. The jurisprudential question is therefore not abstract. It is a precondition for the participation of a capital pool that represents, by multiple estimates, one-quarter of total global sovereign wealth fund assets. Before that participation becomes possible, the question must be mapped. This paper maps it.

II. The Reserve Architecture and Its Interest Mechanics

Section 4(a)(1) of the GENIUS Act limits permitted reserves to: US dollars and demand deposits at insured institutions; Treasury bills with maturities under 93 days; repurchase agreements backed by government securities; government money market funds; central bank reserves; and other similar government-issued assets approved by regulators. Section 4(a)(11) prohibits any permitted payment stablecoin issuer from paying the holder of a payment stablecoin any form of interest or yield, whether in cash, tokens, or other consideration, solely in connection with the holding, use, or retention of the stablecoin (Federal Register, 2025).

The mechanics are precise. The issuer receives dollars from the holder in exchange for tokens. The issuer deploys those dollars into interest-bearing instruments. The interest accrues to the issuer. The holder retains a dollar-denominated token redeemable at par, from which all interest income has been contractually removed by statute. The holder bears counterparty risk; the issuer captures the income generated by the assets backing the holder's claim.

The scale of that income is not incidental to the analysis. Circle's USDC reserve portfolio generated US\$1.7 billion in revenue and reserve income in 2024 from a reserve base of approximately US\$60 billion (Journal of International Economic Law, 2026). From 2022 to 2024, interest earned on reserve assets accounted for 95 to 99 percent of Circle's total revenue (Visa Economic Empowerment Institute, 2025). Circle's reserve fund reported an average yield of 5.02 percent in the fourth quarter of 2024 (Stablecoin Insider, 2025). Tether held US\$94.5 billion of its reserves in Treasury bills as of December 2024,

representing 65.7 percent of total reserves (Treasury Borrowing Advisory Committee, 2025). As of June 2025, USDC and USDT together held approximately US\$130 billion in Treasury bill positions, equivalent to 2.25 percent of the total Treasury bill market (TD Securities, 2025).

The GENIUS Act's reserve mandate, once fully implemented, will formalise and expand this structure across a broader universe of issuers. The holder's structural position is as follows: deposit dollars, receive a dollar-denominated token, surrender any claim to the return generated on those dollars for the duration of the holding period, recover the par value of the deposit upon redemption. This is the structure the jurisprudential analysis must characterise.

The three-party distribution structure introduces a further complication. Most retail stablecoin usage occurs through an exchange intermediary that holds tokens in custody on behalf of the retail participant. The GENIUS Act's Section 4(a)(11) prohibition applies to the issuer paying the holder; it does not unambiguously prohibit an exchange from redistributing reserve interest to customers through fee-sharing or reward arrangements (Congressional Research Service, 2026). Circle, for example, pays approximately 60 percent of its reserve interest income to Coinbase and other platform partners proportionate to USDC volume held on each platform (ABA Banking Journal, 2025). The precise legal scope of the prohibition, including the definition of "holder," remained unresolved in Treasury's September 2025 advance notice of proposed rulemaking (Federal Register, 2025). Whether this three-party passthrough constitutes yield-bearing in the jurisprudential sense is a distinct analytical question from the structural reserve question; both must be addressed.

III. The Riba Prohibition: Classical Framework and Contemporary Application

The Quranic prohibition of riba is established in Surah Al-Baqarah, verses 275 through 279: "Allah has permitted trade and forbidden riba." The prohibition is unanimous across all four Sunni schools of jurisprudence, the Hanafi, Maliki, Shafi'i, and Hanbali, and is

maintained in Shia scholarship without material distinction on the core prohibition (Riba, Wikipedia, 2025).

Classical jurisprudence identifies two primary categories. Riba al-nasiah, the riba of deferment, refers to any predetermined increase charged on a loan in exchange for deferred repayment; this is the form most directly relevant to modern financial analysis. Riba al-fadl, the riba of excess, refers to the simultaneous exchange of unequal quantities of the same ribawi commodity (Zakat.org, 2022). The six ribawi commodities identified in the hadith of the Prophet are gold, silver, wheat, barley, dates, and salt. Scholarly consensus extends the ruling by analogy (qiyas) to other commodities sharing the relevant characteristics; the majority contemporary position treats fiat currencies as money subject to riba restrictions, such that exchange of the same currency in unequal quantities, or with deferment and predetermined increase, triggers the prohibition (Muhammad et al., 2024).

The contemporary Islamic finance industry has built a US\$3.88 trillion institutional architecture on the operationalisation of the riba prohibition through instruments that substitute trade, ownership, and genuine risk-sharing for interest income. The instruments are well established: murabaha (cost-plus sale), ijara (leasing), musharaka (partnership), mudaraba (profit-sharing), and the sukuk market, which reached US\$971 billion in outstanding issuance by 2024 with projected growth to US\$1.5 trillion by 2028 (Standard Chartered, 2025). Every one of these instruments requires a structural connection between the return received by the capital provider and an underlying economic activity involving real ownership, risk, or exchange. The return is not predetermined in isolation from underlying performance; it derives from the economic activity the instrument finances.

The payment stablecoin as defined by the GENIUS Act is not any of these instruments. It is a redeemable claim on a dollar, backed by interest-generating assets, from which the interest income has been severed at the statutory level. The jurisprudential characterisation of this severed structure requires precision across five points that the existing scholarly record does not resolve.

IV. Five Points of Jurisprudential Contestation

The structural analysis identifies five points at which the GENIUS Act's payment stablecoin architecture creates a live question under the riba prohibition. These are not resolved by existing AAOIFI standards, fatwa records, or regulatory frameworks. AAOIFI addressed digital assets at its 21st Sharia Council Conference in Manama in May 2023, establishing the principle that digital assets may qualify as maal (wealth) and are subject to Sharia analysis based on structure, governance, and utilisation rather than form alone (International Islamic Fiqh Academy, 2023). AAOIFI has not issued a governing standard specific to payment stablecoins operating under the GENIUS Act's reserve architecture. The Bahrain Central Bank's Stablecoin Issuance and Offering Module, which incorporates AAOIFI standards for Sharia-labelled products and requires independent Sharia advisement, represents the most advanced jurisdictional framework currently in force in the GCC (Fitch Ratings, as cited in Daily Tribune Bahrain, 2025). It addresses domestically issued Sharia-compliant stablecoins; it does not resolve the question for US-issued dollar stablecoins operating under the GENIUS Act's reserve categories.

The first point concerns the nature of the instrument in the holder's hand. When a holder acquires a USDC or GENIUS Act-compliant token, the issuer simultaneously deploys the corresponding dollar into Treasury bills or repurchase agreements bearing interest. The holder holds a claim denominated in dollars, backed by interest-generating assets, with a super-priority insolvency claim over those reserve assets under the Act's bankruptcy provisions. The jurisprudential question is whether this constitutes a constructive fractional ownership interest in interest-bearing instruments, which would characterise the instrument as ribawi in the holder's hand regardless of the absence of direct interest receipt, or whether the stablecoin is properly characterised as a medium of exchange with no ownership stake in the underlying reserves. The Act's insolvency provisions are not neutral on this question: the super-priority claim granted to stablecoin holders over reserve assets implies a legal relationship between the holder and the reserve pool that a pure-medium-of-exchange characterisation does not easily accommodate.

The second point concerns the principle of al-kharaj bil-daman: return follows liability. This maxim, derived from a hadith of the Prophet, holds that entitlement to financial return is justified by the simultaneous bearing of corresponding risk. In the GENIUS Act structure, the stablecoin holder bears the risk of issuer insolvency (the instruments are explicitly not FDIC-insured under the Act's classification provisions (Pub. L. No. 119-27,

sec. 3, 2025)) and bears the counterparty risk of a reserve pool generating continuous interest income. The holder receives no return in exchange for bearing those risks. The issuer captures the income generated by assets the holder's deposit funds. Whether a contractual structure in which risk and return have been systematically decoupled in favour of the issuer is consistent with the al-kharaj bil-daman principle is a substantive jurisprudential question. No published fatwa applies this principle to a GENIUS Act-type reserve structure.

The third point concerns the use-versus-holding distinction. There is a defensible scholarly position that the use of a stablecoin as a pure payment medium for instantaneous settlement, purchasing goods, transferring remittances, settling cross-border obligations without any holding period, involves no loan relationship and therefore generates no riba exposure. This position draws on the distinction between bai' (sale) and qard (loan). If the stablecoin functions as money in an instantaneous exchange, the riba analysis may not engage, because the prohibition attaches to deferment and predetermined increase on a loan, not to the use of money as such in spot transactions. The difficulty is that the GENIUS Act's reserve architecture is continuous: from the moment a dollar enters the reserve pool to the moment the holder redeems, the underlying assets generate interest for the issuer. Any holding period, however brief, involves the holder's indirect participation in a structure from which the issuer draws interest income funded by the holder's principal. The use distinction is coherent for truly instantaneous settlement in a technical sense; it becomes analytically strained for any holding period of substance. At what duration the strain becomes jurisprudentially operative is precisely the question that requires a scholarly ruling.

The fourth point is the three-party yield passthrough and its contamination question. Where an exchange platform receives a portion of the issuer's reserve interest income and redistributes a portion to its customers, two independent questions arise. The first is whether the exchange customer who receives redistributed reserve interest has received riba, regardless of the degree of structural separation from the issuer's reserve pool. If the originating income is ribawi, its redistribution through an intermediary does not alter its character under classical principles. The second question is whether a Muslim participant who receives none of the redistributed interest but uses a payment platform whose revenue model, and whose exchange partners' revenue model, depends materially on the interest income generated by reserve assets participates in something jurisprudentially

questionable by proximity. This second question is the most contested in the existing literature on financial infrastructure use and has not been authoritatively resolved for the stablecoin context.

The fifth point concerns the principle of *tawriya* and constructive participation in a *ribawi* structure. Classical jurisprudence in various schools has grappled with the question of participation in transactions that involve *riba* at stages upstream or downstream from the participant's own position. The degree to which this principle engages payment infrastructure users is an area of active scholarly debate. The Visa and Mastercard networks are operated by entities whose commercial activities include interest-bearing financial products; no authoritative jurisprudential prohibition on their use by Muslim individuals and institutions has been established on this basis. Whether a GENIUS Act-compliant stablecoin, whose reserve architecture is specifically and intentionally designed to generate interest income for the issuer at scale, is structurally analogous to existing general-purpose payment networks or represents a more proximate and legally transparent connection to *ribawi* income is a question the existing fatwa record does not resolve. The structural transparency of the GENIUS Act's reserve mechanics, which the Act itself mandates be disclosed through monthly attestations, may make the constructive participation question more salient than it is in conventional payment networks whose interest revenue is less explicitly tied to the payment instrument.

V. The Market at the Threshold: Gulf Capital and the Adoption Decision

The Gulf institutional adoption decision is not hypothetical. The UAE Central Bank's Payment Token Services Regulation, effective August 2025, established the first comprehensive stablecoin framework in the GCC and produced the AE Coin, the first regulated dirham-backed stablecoin (Rebelfi, 2026). The UAE received US\$30 billion in digital assets in 2024, with stablecoins accounting for 51.3 percent of transactions (PwC analysis, as cited in Rebelfi, 2026). Saudi Arabia has announced plans to develop stablecoins aligned with national regulatory frameworks and Vision 2030 goals. The Bahrain CBB's Stablecoin Issuance and Offering Module, which the Fitch Ratings global head of Islamic finance has called a landmark model for the region, requires AAOIFI

compliance and independent Sharia advisement for Sharia-labelled products (Fitch Ratings, 2025). HAQQ blockchain is developing gold-backed stablecoins and tokenised sukuk for Islamic finance applications (Rebelfi, 2026).

These developments establish an active institutional appetite for stablecoin infrastructure. They do not resolve the question of whether US-issued, GENIUS Act-compliant payment stablecoins backed by Treasury bills are accessible to Gulf institutional capital under Sharia mandates. The GCC frameworks address domestically issued instruments over which local regulators and Sharia governance bodies have jurisdiction. A GENIUS Act-compliant USDC or USDT operates under a reserve architecture mandated by US federal law, with no accommodation for alternative reserve structures and no provision for Sharia governance.

The structural position of Gulf Islamic institutions is as follows. A Sharia-compliant bank in Saudi Arabia, Bahrain, or the UAE that processes US dollar transactions currently does so through correspondent banking relationships with non-Islamic counterparties; the correspondent bank's own interest-bearing activities are external to the Islamic bank's transaction and do not ordinarily create a direct jurisprudential exposure for the Islamic bank's customers. The stablecoin payment layer, if adopted, would substitute a correspondent banking structure for a reserve-interest revenue model in which the interest-generating relationship is legally internal to the instrument the customer holds. Whether that substitution is jurisprudentially superior, equivalent, or worse depends directly on how the five points of contestation in Section IV are resolved.

The practical implication of the current unresolved state is this: a GENIUS Act-compliant payment stablecoin cannot simultaneously be Sharia-compliant under any interpretation of the riba prohibition that attaches to the reserve structure, because the Act's permitted reserve categories are exhaustive, and none of them generates returns through non-interest mechanisms recognisable under Islamic jurisprudence. An issuer wishing to serve the Gulf institutional market under a Sharia compliance framework would require either a regulatory accommodation in the US framework permitting alternative reserve structures, such as commodity-backed instruments, trade-finance receivables, or ijara-based instruments, or a scholarly ruling establishing that the payment-medium use of the stablecoin, in the absence of any holding period of substance and without receipt of redistributed reserve income, is categorically exempt from the riba analysis. The former

requires US legislative or regulatory action. The latter requires a fatwa of sufficient authority from AAOIFI or a body of comparable scholarly standing.

The Gulf sovereign wealth funds' exposure to the stablecoin question is not limited to direct adoption of US-issued instruments. PIF, ADIA, QIA, KIA, and Mubadala together invested a record US\$82 billion in 2024, with Gulf funds accounting for more than 54 percent of total global sovereign wealth fund deployment in the first half of that year (Skadden, 2025). Any portfolio company operating payment infrastructure, any cross-border investment denominated in dollar stablecoins, or any settlement structure using GENIUS Act-compliant instruments raises the same structural question for the portion of Gulf sovereign assets managed under Sharia mandates. The question does not require direct stablecoin issuance or direct stablecoin holding to become operative; it becomes operative whenever the Gulf institutional capital stack encounters the stablecoin payment layer as a counterparty or settlement mechanism.

Conclusion: A Standard the Market Requires

The GENIUS Act established a payment infrastructure. It did not establish whether that infrastructure is accessible to capital pools that represent, on the most conservative measure, US\$3.88 trillion in global Islamic finance assets and approximately US\$5 trillion in GCC sovereign wealth fund assets under management. The question is structural, not ideological. The reserve architecture the Act mandates produces interest income at scale; Circle alone generated US\$1.7 billion in reserve income from US\$60 billion in reserves in 2024. The riba prohibition has been maintained across fourteen centuries of jurisprudence precisely because the prohibition does not yield to the economic convenience of the instrument that bears it. The absence of direct receipt does not resolve the question of indirect participation; it refines it.

AAOIFI's standard on payment stablecoins, which as of this writing has not been issued, is the document this market requires. The standard must address, at minimum, the five points identified in Section IV: the nature of the instrument in the holder's hand and the constructive ownership question; the al-kharaj bil-daman principle and the systematic decoupling of risk and return; the use-versus-holding distinction and the duration threshold at which riba exposure engages; the three-party yield passthrough and its

contamination implications; and the constructive participation question as applied to payment infrastructure whose revenue model is transparently interest-based at the reserve level.

Absent that standard, Gulf institutional capital will remain at the threshold: not opposed to engagement, but structurally unable to engage without a scholarly foundation that the record does not supply. The Bahrain and UAE frameworks have identified the technical path; Sharia-compliant reserve structures using instruments that generate returns through trade, ownership, or genuine risk-sharing rather than interest accrual are operationally feasible and exist within the established Islamic capital markets toolkit. Whether the United States regulatory framework will accommodate a Sharia-compliant reserve variant within the GENIUS Act's architecture is a question that Washington has not asked. The depth and growth trajectory of the capital pool waiting at the threshold make the question worth asking now, before the payment layer's adoption curve forecloses the structural accommodation that would make the question answerable.

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