



December 22, 2022

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Ontario Securities Commission

VIA EMAIL: kroyal@osc.gov.on.ca

RE: Request for Comments Regarding Statement of Priorities for Financial Year to End March 31, 2024

The Canadian Web3 Council (CW3) is pleased to respond to the Ontario Securities Commission's consultations on its priorities for the upcoming financial year. The CW3 is a non-profit trade association founded by industry leaders to work constructively with policymakers and establish Canada as a leader in Web3 technology. The CW3 represents organizations that have made a critical impact on the development of Web3 technologies across the globe, and who are committed to responsibly building and innovating in Canada. Our membership is diverse, representing businesses that range from financial products and trading platforms to investors, and open-source blockchain projects.

Renewed Public Consultations

CW3 supports the OSC's determination to better coordinate its approach with other Canadian jurisdictions and regulators, such as the Investment Industry Regulatory Organization of Canada. Nevertheless, given the complexity and rapidly evolving landscape of the industry, we believe the OSC and other regulators should go beyond internal coordination and undertake fulsome public consultation on what is required to inform the appropriate end state of regulatory oversight in Canada. The Canadian ecosystem has matured significantly in the last few years, and we are eager to share expertise, insights and data to inform robust policymaking for the Web3 ecosystem.

Accordingly, CW3 recommends that the OSC, in conjunction with the Canadian Securities Administrators (CSA), should launch renewed consultations on the regulatory framework governing crypto assets in Canada. We submit that transparent consultations are required to inform policy makers on industry developments and shifting risks in order to ensure Canada's regulatory framework strikes the appropriate balance between investor protection and fostering innovation. This open consultation is preferable to the current approach of maintaining closed-

door, one on one discussions with each crypto trading platform, which results in the establishment of policy and standards via individual registration decisions and tailored terms and conditions rather than through a holistic process. Unfortunately, the result of the current process continues to be industry confusion and a pronounced inability to engage in strategic business planning given lack of regulatory certainty.

Regulating Stablecoins Under a Federal Oversight Framework

Continued uncertainty around the regulatory treatment of stablecoins in Canada provides a good example of the above noted concern. Recent statements by the federal government, the recent news release by the CSA, and recent action by the OSC have put into question how stablecoins will be regulated, and by which agency. The Web3 industry requires clarity about how stablecoins will be overseen by regulators, reinforcing the need for more thorough consultation. CW3 submits that fiat backed, fully reserved stablecoins should largely be regulated by the federal government, in light of its jurisdiction over payments and currency. Finance Canada's ongoing consultation on the digitalization of money seeks to address regulatory oversight of stablecoins, and we believe it is the most appropriate forum for addressing regulatory gaps related to stablecoins.

As a policy matter, we do not believe that securities laws are the appropriate mechanism for the regulation of all stablecoins, particularly the most prevalent stablecoin being used today: fiat backed, fully reserved private stablecoins. Fundamentally, securities laws are directed at regulating investments, however most stablecoins are not an investment, but are instead best understood as a payment instrument. Furthermore, oversight under securities laws requires coordination among provincial and territorial regulators - different regulators may have different requirements, undermining the ability of stablecoins to be used as a national means of payment.

As a practical example, under the approach being proposed a stored value card (like a Starbucks card that can be loaded with money or a prepaid Visa card), could also be constituted as a security or derivative. Clearly they are not. Stored value cards are a substitute for money, and we assert that Stablecoins are no different.

Ultimately, CW3 believes that securities law requirements are not an appropriate mechanism for regulating all stablecoins and could undermine the development of Canadian based private stablecoin offerings. This will be crippling for Canada's Web3 sector, and will have the unintended consequence of making it prohibitively complicated for potential domestic regulated issuers to create a safe Canadian stablecoin, pushing Canadians to access stablecoins from unregulated offshore platforms and undermining consumer protection as recent events have demonstrated.

Conclusion

In conclusion, CW3 believes that more public consultation is required on the oversight of cryptoassets and fiat backed, fully reserved stablecoins. We would be grateful for the opportunity to meet with you and your team to provide additional perspective on these issues.

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