

May 14, 2019

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorite des marches financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut

To Whom it May Concern:

**Re: Consultation Paper 21-402 Proposed Framework for Crypto-Asset Trading Platforms  
Feedback**

As you may be aware, 4C is planning to establish a clearing agency, which would operate as a central counterparty and depository, for certain digital assets (including but not limited to crypto-currencies) and approved blockchain-based security tokens for Ontario-based participants. Omega Securities Inc., an existing alternative trading system, is working with 4C and intends to offer a regulated marketplace on which Ontario-based investment dealers and approved institutions could trade such investments.

With this background, the following are our comments on the above consultation paper.

1. We are very supporting of the regulators' initiative with this consultation paper in order to obtain marketplace feedback on a regulatory framework for crypto-asset trading platforms.
2. We are also encouraged to see the CSA and IIROC working together, as we think that the solution for the marketplace needs to include all of the regulators.
3. A regulatory framework is welcomed but it may take some time to formalize. In the meantime, in order to foster innovation in the digital asset space, we encourage the CSA and IIROC to engage in active dialogue with market participants and be willing to grant exemptions where appropriate in the meantime.
4. We think the regulatory frameworks for trading platforms that custody client assets and those that simply match orders should be different. Capital adequacy requirements for trading platforms should also be considered with care, and should be modest where client assets are not being custodied.
5. The CSA paper talks about creating "tailored regulatory requirements" for platforms that are determined to be marketplaces – but fails to provide details on how this tailoring will apply. We would encourage the CSA to release further information with respect to, for example, which parts of NI 21-101 should apply and which should not.
6. We would like the regulators to provide guidance with respect to expected timelines regarding when the framework is expected to be established, in order to provide clarity to the marketplace.

7. Regarding your consultation Question 1 – We suggest you consider who is the counterparty to the transaction. Responses could be, among others, the platform, another client and/or a central counterparty. The reply may well drive the appropriate regulatory model.
8. Consultation Question 2 – Consider the concept of a central information processor similar to ATS rules for order and trade transparency. Best practices for dealers and marketplaces are different. So this will depend on whether or not the platform is holding client assets or simply matching trades.
9. With respect to SOC reports, we think SOC II Type I reports would be appropriate for initial operation and SOC II Type II reports for ongoing operations after an initial period of say, one year. Exemptive relief may also be appropriate in the early days. It should also be clarified that the requirements for a SOC report and an ISR under the marketplace rules are the same. Having to do 2 separate reports makes little sense.
10. Pricing – Pricing will be market and liquidity driven. Pricing sources will also depend on the type of trading platform being operated and the business model. For example, we do not intend on using a third party pricing source. We intend to have subscribers who will have their own pricing sources and be able to establish quality prices in our systems. However, a platform going direct to retail may need to have a feed to determine appropriate levels of pricing. What is a reliable source? This is an open question in the markets. This area certainly requires more thought and consideration from market participants. We are hopeful that Omega's digital asset marketplace will become a source of quality pricing information.
11. We are supportive of leveraging IIROC's market surveillance infrastructure, but market participants such as Omega and/or 4C may wish to also perform this role and, in furtherance thereof, establish requirements to seek to prevent manipulation.
12. Insurance – Platforms holding client crypto assets should have crime and theft insurance, especially if they are holding material amounts of crypto-assets in "hot" wallets. Verified "cold" wallet holdings should require lesser insurance amounts. Further, we think that if investment dealers are able to offer crypto trading in their clients' accounts, that CIPF insurance may well be available.
13. Clearing and settlement – We believe that a central counterparty clearing system with net settlement similar to that offered by CDS or CDCC should be encouraged, as we believe that it is much safer than the direct settlement methods used to date.

We thank you for the opportunity to comment.

Yours truly,

*Laurence Rose*

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