



December 20, 2024

The Secretary  
Ontario Securities Commission (OSC)  
20 Queen Street West  
22nd Floor  
Toronto, ON M5H 3S8

VIA EMAIL: [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

**RE: Request for Comments Regarding Statement of Priorities for Fiscal Year 2025-2026**

The Canadian Web3 Council (CW3) is pleased to respond to the Ontario Securities Commission's consultations on its priorities for the fiscal year 2025-2026.

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 in over 190 countries 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. Our trading platform members are entrusted with client assets valued in excess of CAD \$430B globally.

**Statement of Priorities for the Web3 and Payments Sectors**

CW3 supports the OSC's goals to i) deliver effective regulatory actions in anticipation of emerging trends, and ii) enhance the experience of individual investors. Specifically,

- Goal 1, Priority #4 focusing on crypto asset trading platforms, regulation of value referenced crypto assets (i.e., VRCAs) and decentralized finance. In light of these priorities, we encourage the OSC to also review the requirements for digital asset custodians and qualified custodian requirements, and to continue work on the tokenization of off-chain assets (i.e., real world assets). We also encourage initiatives that consider the possibility of expanding the offering of regulated investment products that invest in crypto assets other than BTC and ETH.
- Goal 2, Priority #6. We encourage the OSC, to expand the priority to reduce the friction of using stablecoins for users of crypto asset trading platforms.

With respect to the OSC's goals we offer the following comments:

***Value Referenced Crypto Assets (“VRCAs”) and its impact on the tokenization of off-chain assets and the payments ecosystem***

We are strong advocates for establishing a federal framework for VRCAs that is consistent with other global jurisdictions given the important role of stablecoins in global payments and finance.

For 2025, we urge the CSA to revisit its interim guidance to regulate VRCA issuers (and VRCAs) under securities laws. We ask the OSC to reconsider its position given the global developments on VRCAs, and the impact of the CSA's interim guidance on Canadian businesses, consumers<sup>1</sup>.

This approach also creates significant friction:

- **Businesses** using stablecoins to pay employees or vendors face uncertainty over whether their transactions involve securities and the implications from both a tax and regulatory perspective.
- **Consumers** must worry about tax implications when using stablecoins for everyday payments.
- **Payment service providers** accepting stablecoins must consider whether they are effectively dealing in securities and need to register as securities dealers.
- **New VRCA issuers** face hurdles to list their stablecoins given the restrictions imposed by CSA SN 21-333<sup>2</sup>. The restriction discourages new product innovation particularly for a CAD denominated stablecoin, and undermines the development and adoption of new payment networks, applications and products in Canada.

*Emerging Global Trends for VRCAs and Developments in Canada*

- The tokenization of off-chain assets (i.e., real world assets) requires a digital money equivalent for on-chain settlement. To realize the full benefits of tokenization (e.g., to unlock liquidity for tokenized assets through marketplaces that facilitate trading and settlement on-chain, back-office efficiencies etc), it's critical to address the function and status of VRCAs as digital money equivalent. Tokenized real world assets valued in CAD requires a CAD denominated digital money equivalent.
- We believe that regulating VRCAs as securities and/or derivatives simply does not work - for fintechs, for users, or for Canada. **The emerging global trend is that VRCAs are**

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<sup>1</sup> We refer you to CW3 Response to CSA SN 21-333, CTPs Terms and Conditions For Trading VRCAs With Clients February 5, 2024. [Link Here](#)

<sup>2</sup> CSA SN 21-333 states: “We would not expect to accept an undertaking from an issuer that commenced distributions of a VRCA after February 22, 2023 (i.e., after the issuance of CSA SN 21-332). Issuers in this situation, or that propose to distribute a VRCA, should contact their Principal Regulator to discuss compliance with Canadian securities laws”.

**increasingly used in payments<sup>3</sup>, and this calls for VRCAs (and VRCA issuers) to be regulated as payment instruments or as digital money equivalent under a licensing and prudential framework.** The CSA established its position in February 2023 that VRCAs could be securities and/or derivatives in several jurisdictions<sup>4</sup>. Since that time, legislation introduced in other global jurisdictions<sup>5</sup> shows that Canada stands alone with that view. We urge the CSA to reconsider its position.

- The undertaking provided by the global issuer of USDC and accepted by the CSA allows crypto trading platforms (“CTPs”) to continue to offer USDC. However, it creates challenges for Canadian stablecoin issuers particularly if they are providing cross-border payment and/or global on-chain foreign exchange solutions. Canadian non-bank VRCA issuers have no current path to obtain an e-money license to operate in Canada. So, they are required to submit to CSA jurisdiction and to comply with securities legislation. In doing so, the distribution of VRCAs (e.g. on CTPs) in Canada is regulated under a disclosure/account appropriateness regime. However, as specified in the Circle undertaking, USDC is not a security in other global jurisdictions. The misalignment with other global jurisdictions creates conditions that are unworkable for fintechs who develop and/or offer payment solutions in Canada and globally. While VRCA issuers can apply for an exemption from securities laws, the process can be time consuming and costly. Such requirements present another hurdle for fintechs in Canada.
- Fintechs are engaging with Federal policymakers to bring VRCAs under a federal framework. From the industry’s perspective, VRCAs function as digital money equivalent for trading and settlement on-chain, as well as for payments and remittances. We believe that the use of VRCAs should be brought under the Retail Payment and Activities Act, and that non-bank issuers of VRCAs should be brought under an existing, or a new, federal licensing and prudential supervisory framework.

Given these developments, we believe that there is sufficient basis for the CSA to either rescind CSA SN 21-333, or at least to issue interim staff guidance clarifying that fintechs offering payment solutions using VRCAs do not need to seek an exemption from securities law.

### ***Develop a digital asset taxonomy***

We encourage provincial and federal policymakers and regulators to clearly define what is—and isn’t—a security, a derivative, a payment instrument, or a digital money equivalent.

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<sup>3</sup> Global examples include: Stripe’s acquisition of [Bridge](#), a startup specializing in stablecoin payment infrastructure, for approximately \$1.1 billion (Nov 2024). PayPal’s decision to issue PYUSD, a stablecoin backed by secure and highly liquid assets. Ripple’s announcement regarding various partnerships with global exchanges, market makers, and payment providers to position its USD backed stablecoin for widespread adoption in the Americas, Asia-Pacific, the UK, and the Middle East. It will be used for cross border payments, DeFi and tokenized asset trading.

<sup>4</sup> See CSA SN 21-332 Crypto Asset Trading Platforms.

<sup>5</sup> Other global jurisdictions (including many of Canada’s major trading partners) have recognized the function of VRCAs in payments, and they have either implemented or proposed legislation to regulate VRCAs as e-money, as payment instruments, or in the case of closed loop stored value instruments solely under a consumer protection framework.

Definitions should also be harmonised across federal and provincial legislation. This would provide much-needed clarity for VRCA issuers, crypto asset service providers and users, and help determine who should regulate what. Without a formal definition of crypto asset, there is a possibility, for example, that a tokenized money market fund could be classified as an alternative mutual fund, which would make such funds unsuitable for all retail investors. See CW3 comments to CSA Notice and Request for Comment – Proposed Amendments to National Instrument 81-102 Investment Funds Pertaining to Crypto Assets<sup>6</sup> (April 17, 2024).

### ***Decentralized Finance (“DeFi”)***

DeFi protocols will facilitate the transition to an open, digital economy. We are supportive of efforts to understand how Canadian and global businesses use DeFi protocols before introducing guidance or regulations.

There are ample global use cases and projects currently underway that seek to connect participants in traditional financial markets with each other, and to use DeFi protocols to transact over existing/new payment rails/ledgers. The technology and use cases continue to evolve rapidly. We stress the importance of gaining an in-depth understanding of the use cases before deciding on the appropriate extent and manner of regulation in order to develop DeFi’s potential.

### ***Conclusion***

We thank the OSC for the opportunity to provide comments.

This is a pivotal moment not only for the web3 industry, but also for Canada and Canadians. Canada risks being left behind without a CAD denominated stablecoin for use in global payments and finance.

We urge policymakers to commit to action for digital assets on a national and provincial level that will help drive Canada’s transition to a digital economy.

Yours truly,

The Canadian Web3 Council

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<sup>6</sup> CW3: Crypto needs regulatory clarity and alignment: Our submission to CSA’s consultation concerning crypto asset funds. April 17, 2024. [Link to blog post](#); [link to full submission](#).

Our Members

