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Financial Institutions Division  
Financial Sector Policy Branch  
Department of Finance Canada

## On Strengthening Competition in the Financial Sector

### Introduction

The Canadian Web3 Council (CW3) is pleased to respond to the Department of Finance consultation on strengthening competition in the financial sector. The CW3 represents organizations that have made a critical impact on the development of innovative technologies in over 100 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.

As Canada seeks to strengthen competition in its financial sector, technological innovation and the adoption of emerging financial technologies is vital to fostering a more competitive landscape. This consultation offers an opportunity to leverage the benefits of these technologies to promote competitiveness in Canada's financial services industry and enhance the availability of affordable and innovative financial services to Canadians.

We focus our comments on two key areas:

- **Regulatory clarity is needed for the adoption of emerging financial technologies.**  
Technological innovation in financial services can unlock access to new products and services for consumers and enhance competition in the market, especially from smaller, disruptive competitors.
- **There is an urgent need to improve access to basic banking for some businesses.**  
Cryptocurrency companies in Canada face significant barriers in accessing basic banking services, especially from larger financial institutions, which prevents these firms from investing in the products and services that would provide greater choice to Canadians.

## **Question #1: What existing barriers do Canadian consumers face in accessing banking services?**

### *Lack of innovation and choice in payments*

Canadians suffer from a lack of innovation and choice in payments. Consumers and businesses must grapple with high costs and slower payments than in other jurisdictions as Canada still does not have a Real-Time-Rail payments system.

Meanwhile, other emerging payment instruments lack the sufficient regulatory framework for market adoption. For example, stablecoins are a type of digital asset designed to maintain a stable value over time, most commonly by being pegged or tied to a fiat currency. Stablecoins offer consumers and businesses more ways to conduct transactions and have the potential to become widely used in Canada for daily payments. Businesses can use stablecoins to receive payments from customers, pay suppliers and contractors, process payments for online merchants, provide remittance services, and exchange them with other Canadian businesses and consumers that use them for similar purposes. As a novel means of payment, they also serve as a potential foundation upon which innovators in the financial sector can create new products to meet Canadians' unmet financial needs. If integrated into the digital economy, stablecoins hold the promise of enhancing transaction efficiency and reducing transaction costs.

To ensure that such technologies can contribute to enhancing efficiency, accessibility, and resilience of Canada's financial services ecosystem, it will be necessary to establish clear legislative and regulatory guidelines that grant innovators the forward guidance they need to deploy globally competitive products while ensuring that Canadian consumers can safely adopt new tools and services.

### *Banking access barriers for some businesses*

Cryptocurrency companies in Canada face significant barriers in accessing basic banking services, especially from larger financial institutions. This issue arises from the banking sector's cautious approach towards the emerging digital asset industry and the perceived risks associated with it.

We recommend that the government investigate measures which would allow companies offering products and services related to cryptocurrencies to access the basic banking services they need to maintain daily operations and invest in growth. If consumers are to benefit from the widest array of financial products and services possible, it is crucial that firms seeking to offer new, competitive offerings are not hindered by disproportionately risk-averse banking practices.

**Question #5: What measures would support a stronger tier of smaller, disruptive competitors (e.g., small- and medium-sized banks, credit unions, and fintechs)?**

A measure that could support a stronger tier of smaller, disruptive competitors is to reduce barriers to entry and expansion for non-bank payment service providers, such as fintechs, that use stablecoins. Ultimately, enabling viability for business models that focus on payments-related activities and innovation within payments could create more opportunities for new entrants and innovators to offer payment services, including services using stablecoins.

Providing a clear regulatory framework for emerging financial technologies can unlock opportunities for smaller, disruptive competitors to offer products and services that are not currently broadly available in the market. For the potential benefits of emerging payment instruments like stablecoins to be realized, it is necessary to have clarity about the regulatory framework within which they would need to operate. Regulating stablecoins as payment instruments would provide clarity and certainty for their use as a low-cost, fast, and transparent alternative to traditional payment methods. Safety of payments and confidence in money are fundamental to Canadian financial and economic stability. Having a clear regulatory framework will help to ensure that the stability of the financial system is safeguarded.

**Question #8: What other measures, if any, should the government take to address factors that affect competition such as market concentration, barriers to entry and expansion, regulatory burdens, switching costs, and the conditions facilitating coordinated behaviour in the banking sector?**

There are several well-documented deficiencies in the payments space, including interchange fees, security, reconciliation delays, consumer preference and lack of convenience. We believe these can be improved by accelerating Real-Time-Rail implementation, the development of consumer-driven finance, and by allowing for industry adoption of emerging payment instruments like stablecoins.

Currently, payments are dominated by a few large players, and there are significant barriers to entry and innovation for new entrants. The government could foster a more competitive and innovative payments system by incorporating emerging payment technologies like stablecoins into its overall payments modernization strategy to move toward a future where payments can be secure, immediate, and convenient.

We recommend that the government heed a report from the House of Commons Standing Committee on Industry and Technology which recommends that “*the Government of Canada adopt a distinct regulatory approach to stablecoins that reflects the difference between these*

*products and other cryptocurrencies, and account for the unique regulatory challenges they present.”<sup>1</sup>*

Another barrier to entry that impacts competition in financial services is the lack of access to basic banking services for companies like those in the cryptocurrency space. These challenges include onerous due diligence requirements from financial institutions and some financial institutions only offering a portion of the services these firms need. Companies offering products or services related to cryptocurrencies use government-issued currencies to pay employees’ salaries, expenses, and taxes; denying them the ability to do so hinders both innovation and the prospect of greater consumer choice in financial services.

Taken together, these obstacles amount to capital constraints on companies which see a niche they could improve on in the financial services space, thereby depriving consumers of increased choice in the financial services marketplace. Accordingly, it is our recommendation that the government, OSFI, and industry engage in consultations to establish guidelines for financial institutions’ treatment of companies offering products or services related to cryptocurrencies.

**What is the role of provinces in supporting more competition in the financial sector and are there issues that should be addressed with better coordination and collaboration?**

We urge the government to begin thorough consultations with industry with the intent of creating a national blockchain strategy, including a plan for federal and provincial coordination, that clarifies the government’s policy direction and regulatory approach to digital assets.

Further, it is our recommendation that the Canadian Securities Administrators (CSA) collaborate with federal financial regulators to launch a public consultation involving relevant stakeholders on the governance of stablecoin issuers.

Recently, the CSA determined that all privately issued stablecoins are securities and/or derivatives. If continued, the CSA’s current approach will block stablecoins from being available within Canada, limiting the access of Canadian businesses and consumers to a fast, low-cost form of cross-border payments and preventing innovative businesses from being built. The CSA should not be regulating all stablecoins. The federal government has an essential role to play in the regulation of stablecoins, and consultation with industry will help to determine the best solution for a federal regulatory framework.

Absent such consultation, the effect of the recent regulatory action by the CSA will further deprive Canadians of greater competition and innovation in payments. A rushed regulatory approach undertaken with short deadlines, no public consultation, and unclear jurisdiction will only inflict more costs, red tape and uncertainty on Canadian citizens and businesses.

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<sup>1</sup> See Blockchain Technology: Cryptocurrencies and Beyond, the House of Commons Standing Committee on Industry and Technology. <https://www.ourcommons.ca/DocumentViewer/en/44-1/INDU/report-15>