Written Submission for the Budget Consultations in Advance of the 2025 Ontario Budget

By:

Fintechs Canada

List of recommendations

1. The Ontario government, together with the Ontario Securities Commission (OSC) and the Canadian Securities Administrators (CSA), should work closely with the Department of Finance to develop a coordinated regulatory framework for fiat-backed stablecoins in Canada.

2. The Ontario government should play an active role in advocating for the extension of open banking requirements to all investment accounts and securities registrants.

About us

Fintechs Canada is a not-for-profit association that acts as the unified voice for the most innovative financial technology companies in Canada. Our members collectively serve millions of Canadians on a daily basis. Our membership includes Canadian fintech market leaders, global fintech companies, payment networks, financial institutions, and start-ups and scale-ups that are defining the future of financial services in Canada and around the world. Fintechs are companies that use technology to deliver financial services to Canadians, helping them better manage their financial life. Such organizations are fundamental to the vibrancy of the Canadian economy.

Background

Canada's financial sector has a crucial role to play in enhancing affordability for Canadians and boosting the productivity of the Canadian economy. Currently, the financial sector is not working hard enough for Canadians in several ways:

- **Canadians Pay Higher Fees for Financial Services:** Canadians are facing higher costs when accessing financial services compared to consumers in the United Kingdom and Australia. The big five Canadian banks—TD, RBC, BMO, CIBC, and Scotiabank—charge more and higher account fees, overdraft fees, and NSF fees. Fee-related income, as a proportion of overall income, has increased over the past several years.
- **Limited Financing Options for Businesses:** While demand for loans from small businesses in Canada has risen, access to financing is becoming more difficult. According to the Canadian Federation of Independent Business, the percentage of businesses seeking funding grew from 35% to 58% between 2012 and 2022. Meanwhile, the ratio of loans being given to small versus large businesses in Canada's financial sector reached its lowest in years, with a significantly higher interest rate spread between small and large businesses in Canada compared to many OECD countries.
- **Decreasing Productivity in the Financial Sector:** Canada's overall productivity has been declining for the past two decades, lagging behind countries like Australia, the United States, and the United Kingdom. This pattern is also present in Canada's financial sector, where its contribution to overall productivity has fallen behind those of other leading economies.

All levels of government have a significant role to play in improving Canada's financial sector. This is why we believe that the Ontario government and the federal government should collaborate to ensure that the financial sector is more effective for Canadians. Together, they should aim to enhance affordability and productivity while maintaining the stability and security of the financial sector.

Recommendation 1: Work closely with the Department of Finance to develop a coordinated regulatory framework for fiat-backed stablecoins in Canada.

Not all stablecoins are created equally or present the same use cases. There are generally three categories of stablecoins:

- **Fiat-backed stablecoins:** stablecoins backed by fiat-denominated assets, such as cash, treasury bills, or commercial paper.
- **Crypto-backed stablecoins:** stablecoins backed by crypto assets, where the collateral may fluctuate significantly in value.
- **Algorithmic stablecoins:** stablecoins that maintain price stability through preprogrammed algorithms that adjust in response to market conditions.

Fiat-backed stablecoins in particular have emerged as a popular payment option globally. Unlike other cryptocurrencies or crypto-backed and algorithmic stablecoins, which are often used for investment or speculative purposes due to their volatility, fiat-backed stablecoins are designed to maintain a stable value. This stability, combined with their ability to facilitate fast settlement, continuous 24/7 access to funds and instant cross-border processing, makes them a suitable option for Canadians looking for a reliable payment method which eliminates the delays, costs, and risks often associated with traditional bank wires and transfers.

In 2023, stablecoins processed $10.8 trillion in transactions globally, with $2.3 trillion specifically related to payments, such as peer-to-peer (P2P) transfers and cross-border remittances. A study by Georgetown University found that the proportion of stablecoins used for speculative trading has decreased by 90% over the past five years. The report further indicates that payment stablecoins are now more commonly used for real-world applications like cross-border payments, humanitarian relief, and remittances, rather than speculative trading.

Additionally, according to an Ontario Securities Commission, Canadians are increasingly using stablecoins for payments. Among crypto owners, 22% (up from 21% in 2022) have used stablecoins to convert to cash, 18% (up from 15%) have used them to pay for goods and services, 14% (up from 11%) have used them for global payments or transfers, and 11% (up from 10%) have used them for other purposes.

However, for a stablecoin to serve as a reliable means of payment, users must be confident that its value will remain stable. This requires the stablecoin to be reliably and immediately redeemable at par value. It also requires a level of transparency, such as a high standard of disclosure and regular reporting. Failing this could undermine confidence in the stablecoin, which could lead to the materialization of reputational, operational, and financial risk for the issuer of the stablecoin.[1]

Securities oversight alone is insufficient in providing a comprehensive regulatory framework for fiat-backed stablecoins in Canada. Internationally, jurisdictions such as the EU, UK, and Singapore have recognized fiat-backed stablecoins as payment instruments, distinguishing them from securities and derivatives through the use of regulations. Additionally, in the U.S., a recent executive order established a new working group tasked with proposing a federal regulatory framework for the issuance and operation of digital assets, including stablecoins. The order also emphasized the need to support the development and growth of lawful and legitimate dollar-backed stablecoins to protect and promote the sovereignty of the U.S. dollar.

Canada should align with these efforts and ensure that our regulations properly address the unique characteristics of stablecoins. To achieve this, issuers of stablecoins and other service providers must be regulated on the basis of the activity they perform and the risks they pose. We recommend applying the principle of same activity, same risks, same regulation. This means that if the issuance of a stablecoin is akin to the provision of a financial service, it should be regulated as such.

In the case of fiat-backed stablecoins, the service being provided to consumers and businesses is more akin to payment facilitation than banking or the provision of securities. Therefore, the federal government should regulate these fiat-backed stablecoins with federal payments legislation. In particular, the government should:

- Use the Retail Payment Activities Act (RPAA) to supervise non-prominent or non-systemically important issuers of stablecoins, as well as any custodians or digital wallets that give their customers the option to transact with stablecoins. The RPAA should be amended to include such activity in its

[1] Recent events, such as the temporary de-peg of USDC with the US Dollar following the collapse of Silicon Valley Bank, have demonstrated how market confidence for insufficient backing assets can influence a fiat-backed stablecoins ability to achieve stability.

definition of "payment function", as well as to require issuers to hold highly liquid, low risk reserves with prudentially regulated financial institutions and to immediately accept redemption requests. Additionally, as the government works to add market conduct provisions to Canada's retail payments supervision framework, stablecoin issuers should be required to disclose all the necessary terms and conditions with their customers.[2]

- Use the Payments Clearing and Settlement Act (PCSA) to give the Bank of Canada the power to designate prominent and systematically important issuers of stablecoins. This would allow the Bank to require stablecoin arrangements to meet the appropriate interpretation of the Bank for International Settlements' (BIS) principles for financial market infrastructure (PFMIs), with additional guidance from the BIS. The PFMIs would have it so that stablecoin arrangements are meeting the Bank of Canada's expectations to manage a comprehensive range of risks.
- In cases where issuers of stablecoins act more like banks (i.e., intermediation between savers and borrowers, as well as creating money through a fractional reserve system), the government should require such companies to be licensed as banks and supervised by the Office of the Superintendent of Financial Institutions, as well as the Financial Consumer Agency of Canada.

We recommend that the Ontario government, in collaboration with the Ontario Securities Commission (OSC) and the Canadian Securities Administrators (CSA), work closely with the Department of Finance to develop a coordinated regulatory framework for stablecoins in Canada. The Department is currently engaging industry stakeholders to determine the appropriate regulatory approach, and harmonization between federal and provincial frameworks is critical.

Additionally, we recommend that the Ontario government collaborate with the OSC and CSA to assess the potential impact that enforcing securities laws on fiat-backed stablecoins may have on their adoption as a payment technology.

Recommendation 2: Play an active role in advocating for the extension of open banking requirements to all investment accounts and securities registrants.

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[2] In the event the issuer is not in a legal relationship with the end user and relies on partners such as digital wallets to give end-users the ability to make use of stablecoins, the digital wallets should also be required to register under the RPAA and comply with all the relevant requirements.

Canada's consumer-driven banking framework will provide consumers and small businesses with more control over their financial data, enabling greater access to more personalized and cost-effective financial services. This initiative will:

- Allow Canadians to use rent payments to improve their credit scores.
- Provide tools to help individuals budget and save more effectively.
- Help Canadians easily compare financial products and switch institutions.
- Make it easy for Canadians to manage their finances across different accounts all in one place.
- Improve cash flow access and accounting efficiency for businesses.

The introduction of the framework is also expected to help grow Canada's economy by attracting more investment and innovation in the financial sector.

As communicated in the 2024 Fall Economic Statement, the framework for consumer-driven banking will be finalized in 2025 and go live in 2026. As the federal government finalized Canada's consumer-driven banking framework, they should ensure that the benefits of consumer-driven banking extend to all investment accounts, rather than be a regime that applies only to bank accounts.

The first iteration of Canada's Consumer-Driven Banking Act encompasses both registered and non-registered investment accounts. In 2021, the Advisory Committee on Open Banking recommended that the framework include investment accounts visible to consumers through their online banking portal. This classification, however, creates uncertainty as online banking portals can vary by financial institution. To avoid any uncertainty, the government should explicitly state in regulations the investment accounts that are included in the scope of the act:

- Registered Retirement Savings Plan (RRSPs)
- Locked In Retirement Account (LIRA)
- Tax Free Savings Account (TFSA)
- Registered Education Savings Plan (RESP)
- Registered Retirement Income Fund (RRIF)
- Life Income Fund (LIF)
- First Home Savings Account (FHSA)
- Registered Disability Savings Plan (RDPS)
- All non-registered accounts for the purposes of trading any equities, bonds, mutual funds, exchange traded funds, segregated funds, guaranteed

investment certificates, crypto-assets, options, futures and forward contracts, foreign currencies and any other assets as clarified in regulatory guidance.

If any types of investment accounts are not "phased in" when the consumer-driven banking system goes live, the government should provide a timeline as to when these accounts will be phased in. The timing should be no longer than 12 months after the consumer-driven banking framework comes into force.

In 2020, 58.1% of Canadian families contributed to one or more of the three main types of registered savings accounts: RRSPs , TFSAs, and RPPs. With more than half of Canadians holding some form of investment account, many could greatly benefit from the introduction of open banking. Open Banking would allow consumers to securely share their financial data, making it easier to compare investment products, find affordable options, and make informed financial decisions. This would help improve savings, reduce fees, and support better financial outcomes for both individuals and the broader Canadians economy.

The Ontario government, together with the OSC, should actively advocate for the extension of open banking requirements to all securities registrants and investment accounts to ensure that Canadians can fully benefit from open banking.

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Fintechs Canada thanks you for considering our perspective on areas the Ontario government should prioritize in their 2025 Budget. We look forward to working with the province and continue to support its efforts in enhancing the financial sector.

Sincerely,

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