

# Stablecoins: Canada needs clear regulation to thrive

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## Introduction

Stablecoins are blockchain-based crypto tokens whose value is pegged to traditional assets such as the U.S. dollar, Canadian dollar, gold or other high-quality collateral. They can deliver speedy, publicly transparent transactions around the globe 24/7. Yet without clear regulation that harnesses and controls this technology, Canadians will miss new opportunities and face predatorial actions from U.S. and other foreign companies, potentially threatening the use and stability of the Canadian dollar. U.S. dollar-backed stablecoins currently comprise more than 97 percent of the international market. If Canada delays putting in place a transparent regulatory regime, exponential adoption of privately managed U.S. dollar-backed stablecoins will likely dominate in Canada. This note outlines why Canada needs framework regulations now, lessons from other jurisdictions, and how to balance innovation, investor protection and ensure monetary sovereignty.

## 1. Why Stablecoin Regulation Cannot Wait

It's been postulated that between **10 and 40 percent of Canadians** own or have traded stable cryptocurrencies in the past five years, yet without clear regulation or widespread mechanisms for monitoring these activities, it's difficult to properly trace where currency flows—or how large-scale redemptions might impact our financial system. As of early 2025, major players—both private issuers and on-chain protocols—are vying to offer Canadian users cheaper, faster, and more programmable payment rails than traditional banks. Meanwhile, decentralized finance (DeFi) applications on blockchains like Ethereum, Solana, and Avalanche are highly integrated with stablecoins to facilitate lending, trading, and yield strategies. By pegging crypto tokens to the U.S. dollar, many Canadian users already transact with U.S.-denominated stablecoins, effectively bypassing domestic payment rails. In this environment, Canada risks ceding financial innovation—and associated economic benefits—to foreign stablecoin issuers unless we define clear rules of the road.

A lack of regulatory clarity creates four immediate dangers:

- **Consumer, Investor and Innovation Risk:** Lack of clear regulation exposes Canadians to direct financial losses when stablecoin issuers fail or their pegs collapse. More broadly, it erodes consumer and investor confidence in blockchain technologies—critical foundations for the future of monetary services—diminishing R&D efforts and slowing technological progress.
- **Illicit Finance Concerns:** The emergence of new rails, digital identities, and DeFi protocols demands substantial R&D to develop effective AML/CFT and KYC solutions tailored to stablecoin ecosystems. While blockchain's transparency generates rich, on-chain data that—if properly harnessed—can uncover illicit flows invisible to traditional

techniques, delayed regulation and underinvestment in analytic tooling postpone our ability to detect and deter criminal activity, leaving illicit finance unchecked until it becomes an after-the-fact problem.

- **Monetary Sovereignty Erosion:** Widespread use of U.S.-pegged stablecoins, or other foreign controlled assets, could weaken the Canadian dollar's role in everyday transactions, reducing the Bank of Canada's ability to monitor and influence money supply effectively.
- **Predatory Mergers & Acquisitions:** In the absence of defined rules, domestic blockchain firms and startups become vulnerable targets for hostile takeovers by larger, well-funded foreign entities, threatening Canada's technological sovereignty and economic independence. The recent acquisition of WonderFi by Robinhood is an excellent example.

By contrast, a carefully calibrated regulatory framework would directly address these four immediate dangers—restoring consumer and investor confidence and fostering innovation, enabling next-generation AML, CFT, and illicit flow detection, safeguarding monetary sovereignty, and defending domestic firms against predatory acquisitions—while also creating a secure environment for third-party issuers (startups, credit unions, or even the central bank) to develop dollar-pegged tokens that meet strict reserve, transparency, and governance standards.

## 2. Lessons from Abroad: MiCA, the GENIUS Act, and Beyond

**Europe — MiCA's Guardrails:** In June 2025, the Markets in Crypto-Assets regulation (MiCA) came into effect, mandating that stablecoin issuers hold full 1:1 reserves in high-quality assets (cash or short-term government debt), publish quarterly third-party attestations, and comply with strict operational standards. The European Central Bank (ECB) has warned that the unchecked proliferation of U.S.-pegged stablecoins poses systemic risks—potentially enabling rapid dollar-denominated outflows and contagion in a crisis—prompting calls for a MiCA revision to incorporate contagion safeguards. In response, the European Commission reaffirmed its commitment to MiCA's robust framework while opening a formal review on enhanced liquidity and cross-border oversight measures, ensuring that stablecoins serve EU objectives without undermining financial stability .

**United States — The GENIUS Act:** Passed in summer 2025, with House legislation expected to follow, the GENIUS Act imposes bank-like requirements on U.S. dollar-pegged stablecoin issuers, cementing stablecoins as a new form of digital money, with significant cross-border and competitive implications:

- **Reserve Centralization:** Mandates 100% reserves held at Federal Reserve banks or FDIC-insured institutions, raising entry barriers for non-U.S. issuers and consolidating market power among a few large players.
- **Mandatory U.S. Person Exclusion:** Requires FINRA/CFTC registration to service U.S. persons, forcing foreign issuers to choose between onerous U.S. compliance or market

exclusion, disadvantaging smaller entrants.

- **Redemption Corridor Dominance:** Legal obligation for on-demand USD redemptions ensures issuers maintain deep global fiat corridors, favoring well-capitalized firms that can absorb cross-border liquidity shocks.
- **Know your customer & Anti-money laundering (KYC/AML) Harmonization:** Imposes federal-level standards regardless of user location, compelling Canadian platforms to adopt U.S. compliance protocols or negotiate equivalency, and raising compliance costs.
- **Supervisory Scope Limits:** Relies on memoranda-of-understanding for foreign oversight, potentially creating supervisory gaps that large issuers can exploit through offshore affiliates, enabling aggressive market consolidation.

### Asia — Singapore & China's Pilots:

Drawing on Asia's most advanced initiatives provides Canada with tangible examples of how state-backed digital currency programs and progressive regulatory sandboxes can work in tandem to drive adoption safely and efficiently.

- **Cross-Border Integration (China):** The digital yuan pilot enabled direct cross-border settlement between participating Belt and Road countries, leveraging blockchain-based rails to process transactions instantly, reducing remittance fees by up to **90%**, and streamlining complex multi-currency settlement processes and streamlined settlement processes.
- **Programmable Compliance (China):** Built-in on-chain controls enabled authorities to monitor transactions in real time, enforce spending constraints, and swiftly apply sanctions measures when needed.
- **Operational Resilience (China):** Pilot regions showcased robust disaster-recovery protocols and high system uptime, ensuring continuity of digital payments during network stress or outages.
- **Regulatory Sandbox (Singapore):** Under its Payment Services Act, Singapore categorizes stablecoins as payment tokens, requiring issuers to meet capital, custody, and AML/KYC standards while providing a streamlined licensing process and sandbox environment for innovation.
- **Tiered Licensing & Supervision (Singapore):** Differentiates between major payment service providers and smaller digital payment token firms, applying lighter capital and conduct requirements to foster entry by fintechs and community institutions.

- **Technology-Driven Reporting (Singapore):** Mandates API-based, RegTech-enabled reporting pipelines for near-real-time submission of transaction and reserve data to MAS, reducing manual compliance burdens and enhancing supervisory visibility.

### 3. The State of Play in Canada Today

As of June 2025, Canada lacks a unified stablecoin framework. The Department of Finance's consultations (2023–2024) broadly addressed crypto assets but did not propose detailed rules for reserves, audits, or licensing specific to stablecoins. The Bank of Canada has studied a potential CBDC but has not explored privately issued stablecoins in depth. As it stands, Canada has:

- **Regulatory Fragmentation:** Overlapping federal and provincial authorities—securities commissions, MSB regulations, and trust-company statutes—create legal uncertainty for issuers and platforms.
- **Issuer Licensing Gap:** No dedicated regime for stablecoin “minters” means entities issuing tokens aren't explicitly licensed unless they also handle traditional fiat payments.
- **Data Visibility Shortfall:** Permissionless chains and foreign bridges obscure transaction flows, leaving FINTRAC and the Bank of Canada without a consolidated view of volume or counterparty risk.
- **DeFi Protocol Risk:** Decentralized exchanges and lending platforms remain outside MSB and securities regulations, allowing peer-to-peer stablecoin lending/trading largely unchecked.
- **Innovation Drain:** Unclear policy is prompting Canadian fintechs to relocate R&D offshore to jurisdictions with established sandbox programs (e.g., UK, Singapore).
- **USD-Peg Dominance:** Canadian users primarily transact in U.S.-pegged stablecoins (USDC, USDT), sending significant fee revenue and economic activity offshore.

### 4. Monetary Sovereignty Erosion

Widespread use of U.S.-pegged stablecoins doesn't just marginalize the Canadian dollar—it risks undermining our monetary sovereignty in several distinct ways:

- **Seigniorage Leakage:** As U.S.-pegged tokens circulate domestically, interest and yields on the underlying reserves accrue to foreign issuers rather than Canada, exporting seigniorage revenue offshore.
- **Hidden FX Risk:** Even “stable” USD tokens carry foreign-exchange exposure; fluctuations in the dollar's value can ripple unpredictably through Canadian prices and

affect import/export dynamics without direct policy controls.

- **Data Blind Spots:** A significant share of stablecoin redemptions occur off-chain via foreign exchanges and bridges, creating gaps in aggregate on-chain metrics. Without real-time, consolidated data feeds across permissionless blockchains, centralized platforms, and cross-border rails, regulators cannot detect coordinated reserve runs until large depletions trigger liquidity crises—echoing the ECB’s warning of contagion risk.
- **Policy Transmission Friction:** A BoC rate cut may not immediately translate into lower yields or borrowing costs in USD-pegged stablecoins, weakening the central bank’s ability to influence economic activity.
- **Network Effects & Dollar Dominance:** Growing adoption of U.S. stablecoins reinforces network effects around the dollar, making it harder for a future Canadian CBDC or CAD-pegged token to gain traction and cementing foreign currency dominance.

## 5. Key Principles for a Canadian Stablecoin Framework

Effective stablecoin regulation must achieve two parallel goals: safeguarding Canadians from financial and operational risks, and catalyzing innovation to modernize our payment infrastructure for a rapidly evolving digital landscape. We are at the precipice of frictionless global transactions; however, for it to be meaningfully implemented we must first get our house in order. The following core principles provide a framework for accomplishing these objectives:

- **Onshore Conversion Requirement:** Enforce that any CAD-denominated transaction routed through a foreign or non-Canadian-backed stablecoin must undergo redemption through a regulated Canadian forex exchange, with resulting CAD credited to a Canadian bank account, preserving full visibility into FX flows and reinforcing monetary policy transmission.
- **Final CAD Redemption Mandate:** Require that any Canadian user transacting in a stablecoin pegged to any currency other than the Canadian dollar must ensure final redemption of those tokens into CAD within Canadian jurisdiction, guaranteeing all economic value ultimately returns in Canadian dollars.
- **Reserve Transparency & Custody:** Require 100% collateralization with high-quality, liquid assets—such as segregated Canadian sovereign debt instruments and cash held in trust accounts—combined with quarterly third-party attestations and public disclosure of reserve levels and asset composition to ensure ongoing transparency and trust.
- **Licensing & Supervision:** We need a designated authority—either OSFI or a new “Stablecoin Issuer Office” within Finance or the Bank of Canada—to issue and enforce licenses for any organization minting or redeeming CAD-pegged tokens, ensuring issuers are formally authorized rather than falling through gaps in existing MSB or

securities rules. Licensed issuers must also maintain minimum equity or capital buffers as solvency cushions and implement robust operational controls—including cybersecurity standards, segregated custodial accounts, disaster-recovery plans, and periodic audits or on-site examinations—under ongoing supervisory review.

- **AML/CFT & Consumer Protection:** Extend MSB regulations to cover every stage of stablecoin issuance and redemption, requiring digital ID-based KYC at all on- and off-ramps, continuous transaction monitoring for suspicious patterns, and robust sanctions screening. Mandate automated alert systems and investigation workflows for anomalous or large transfers with defined thresholds. Enforce transparent disclosures on redemption timing, fees, limits, and dispute-resolution mechanisms, alongside liability protections if issuers fail. Regular independent audits and public reporting on AML/CFT compliance will promote accountability and user trust.
- **Interoperability & Payment Efficiency:** Require CAD settlement accounts with Canadian banks; integrate with Payments Canada's FAST/RTR for instant on-chain/off-chain conversions.
- **International Coordination:** Harmonize reserve, audit, and AML standards with MiCA and the GENIUS Act; pursue mutual recognition agreements for cross-border transfers. Any regulation today should be designed to facilitate future integration with jurisdictions where Canada expects people, goods and services movement.
- **Innovation & Level Playing Field:** Potential launch of a regulatory sandbox for credit unions and fintech startups with tiered capital/audit requirements to foster competition could also be considered.

## 6. Quantifying the Impact

**Yield Curve Dynamics Under Redemption Stress:** Stablecoin issuers hold short-term government securities. Large-scale, rapid redemptions force early liquidations, increasing supply of short-maturity bills and pushing short-end yields up by 20–30 basis points, potentially flattening or inverting the yield curve.

**Digital Yuan Adoption & Remittance Efficiency:** China's digital yuan grew from 0.5 million transactions in 2020 to 40 million by 2025, lowering remittance costs by 90% compared to SWIFT and supported monetary sovereignty in Belt and Road partner countries.

## 7. The Robinhood–WonderFi Case: A Lesson for Canada in Weaponized M&A

In May 2025, Robinhood's CAD \$250 million acquisition of WonderFi (Bitbuy, Coinsquare) sent shockwaves through Canada's crypto ecosystem. With over \$2.1 billion CAD in custody, WonderFi's platforms now feed transactions directly into Robinhood's U.S.-centric

rails—highlighting the risks of a regulatory vacuum. Given WonderFi’s breadth of offering, this acquisition was very disappointing as the WonderFi team should have been able to obtain a \$1 billion valuation or higher. While it’s not definitive, one could argue that the leadership team’s uncertainty over the future of regulation in Canada as well as the general difficulty of operating in the country caused them to accept a subpar deal. In turn, Canada’s market has now welcomed a very aggressive American player that has opted to break many rules in the US and pay the fines at every step; something that is both foreign and will be negatively disruptive in Canadian markets.

## **Conclusion**

Canada stands at a crossroads: do we passively watch stablecoin innovation move offshore, or shape a Canadian-centric digital payment landscape? By establishing clear, transparent, and innovation-friendly regulation—grounded in robust reserves, strong consumer protections, and real-time settlement rails—we can safeguard consumer confidence, uphold monetary and innovation sovereignty, and unlock the next generation of Canadian financial services. The time to act is now.