

The Honourable Victor Fedeli
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, Ontario M7A 1Z1

Sent by email: submissions@ontario.ca

February 8, 2019

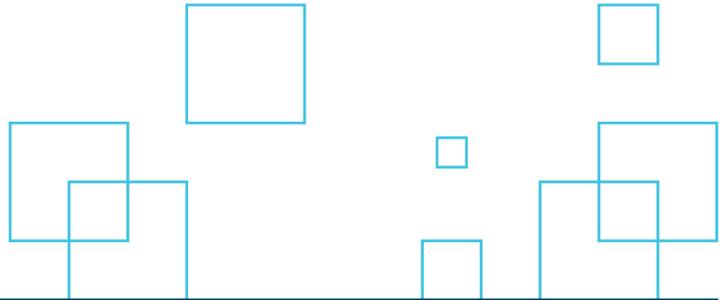
Re: Ontario Spring Budget Consultation 2019

Dear Minister Fedeli:

Thank you for the invitation to provide comments as part of the Ontario Spring Budget Consultation.

The Chamber of Digital Commerce Canada (the “Chamber”) provides dedicated support for Canada’s emerging and rapidly growing blockchain ecosystem. Today, the Chamber represents some of the most significant companies operating in the blockchain and digital asset industry in Ontario. Our mission is to promote the acceptance and use of digital assets and blockchain-based technologies. As an initiative of the Chamber of Digital Commerce, the world’s first and largest global trade association representing the digital asset and blockchain industry, we are able to provide unprecedented global access to support the growth of Canada’s blockchain community. Through education, advocacy, and working closely with policy makers, regulatory agencies, and industry, our goal is to develop an environment that fosters innovation, jobs, and investment in Ontario and across Canada. Consequently, the Chamber and its members have a significant interest in ensuring that the Province can support the blockchain ecosystem so that it continues to grow and thrive.

The transformative possibilities of blockchain technology offer tremendous positive impact for economic advancement and have been recognized by policymakers on federal, provincial, and multinational levels. Blockchain technology offers an unprecedented opportunity to improve business processes, increase efficiency, and promote transparency in numerous industries. It also can fundamentally reshape ownership of assets, how we interact with each other digitally, and how we transfer value. As a result, its use is reforming the ways in which companies in all sectors conduct business - from financial services, digital identity and privacy, healthcare, insurance, intellectual property, real estate, commerce, and supply chain



management. It is clear that blockchain is a revolutionary breakthrough, allowing us to create infrastructure towards an “Internet of Value”.¹

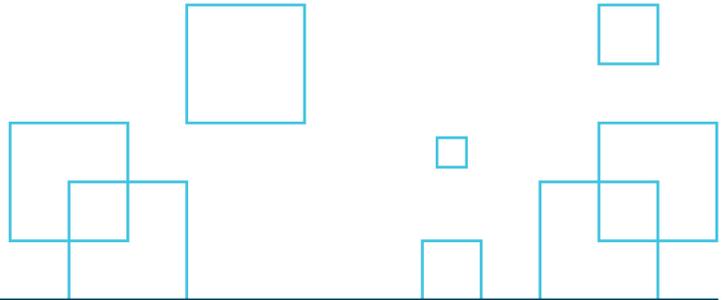
Ontario has carved out an enviable position as a preeminent place for innovation in blockchain technology. But it does not automatically follow that Ontario will maintain its preeminence. In 2017, blockchain ventures raised approximately \$8 billion through token generation events; and in 2018, that number jumped to approximately \$27 billion. Two years ago, the entire token market had a value of \$11.7 billion. Today, the token market cap is approximately \$162.5 billion in size.² Despite rapid cross-sectoral innovation, the blockchain industry continues to confront core implementation and growth challenges with the emergence of an entirely new digital asset class and technology architecture - regulatory risk being a substantial component. We submit that for Ontario to be a Government that is truly “open for business”, it must keep pace with the digital innovation ecosystem and demonstrate that they want to harness and attract economic growth from this leading technology and innovation sector.

As a home to thousands of technology businesses, innovators, institutes, and investors, the Province is well-positioned to become a leading global blockchain hub that attracts economic growth and prosperity. To achieve success, we need the Ontario Government to simplify, modernize, and harmonize the regulatory requirements applicable to participants in the digital economy, publicly support blockchain implementation across all sectors, and to develop a plan to promote coordination across Government.

Ontario digital asset and blockchain technology innovators have proven to be some of the best in the world. Despite their efforts to rapidly build their businesses and compete globally, they remain challenged by Ontario’s regulatory environment and experience a constant pull to relocate to jurisdictions with innovation friendly policies and practices. Ontario has already seen a number of successful innovators with monumental global achievements move their headquarters, workforces, or both out of the Province. These departures are significant, in some cases representing billions of dollars of lost economic opportunity. The most significant case study is Ethereum, one of the world’s largest blockchain application platforms, that was initially developed by innovators in Toronto and effectively moved to Switzerland to establish its headquarters, where they were able to raise their initial funding of \$23.5 million in 2014. As of January, 2019, ETH, Ethereum’s native token, has a market cap of \$16.6 billion, with a

¹ Deloitte, Blockchain: Internet of Value: <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/Innovation/deloitte-uk-internet-of-value-exchange.pdf>.

² All dollar values in this submission have been converted to reflect Canadian dollars at an exchange rate of 1.3 CAD : 1 USD. Dollar values have been reported by Coin Market Cap: <https://coinmarketcap.com/historical/> ; <https://coinmarketcap.com/tokens/>.



large user base and developer community -- all with core operations outside Ontario.³ Further, Aion, a multi-tier blockchain network, and Polymath, a platform that bridges financial securities and blockchain, were both founded by Toronto natives and chose Barbados as their headquarters to raise their initial funding of \$28.6 million and \$76.3 million respectively in the Fall of 2017. As of January 2019, Aion's token has a market cap of \$46 million⁴ and the POLY token, used to access the decentralized Polymath platform, has a market cap of \$45.5 million.⁵ These three organizations share one striking commonality - they all left Ontario at critical moments in their early innovation process in order to secure the confidence they needed to innovate.

The Chamber welcomes the opportunity to work with the Ontario Government and provincial regulators in a constructive and collaborative way to enhance the blockchain innovation ecosystem. Our goal is to ensure that the various aspects of this industry are appropriately understood, and that the regulatory approach in Ontario supports economic growth, job creation, consumer protection, and the reduction of red tape so that blockchain businesses can operate in Ontario knowing that they are well-supported to succeed in a highly competitive global marketplace.

The following comments are respectfully submitted to support the improvement of Ontario's current regulatory and policy frameworks so that, in turn, all blockchain business models are better supported.

1. Red Tape Reduction

A. Are there rules or regulations that hurt businesses by being outdated, inefficient, inflexible, or duplicative of federal rules? How do we fix them?

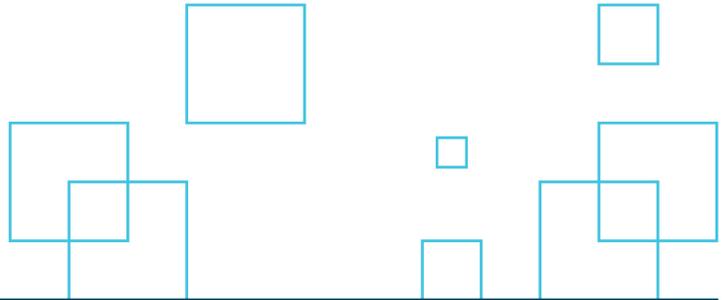
Review Key Market Studies and Recommendations to Update Ontario's Regulatory Frameworks and Support a Competitive Digital Economy

Financial regulatory regimes have been under review at both the federal and provincial levels for the last few years. These reviews have repetitively recommended, and highlighted the importance of, regular reviews to ensure that innovation is supported in an increasingly dynamic environment. Reports, including "Ontario's Red Tape Challenge: Financial Services

³ For context see: "Ethereum by the Numbers", published by Consensus: <https://media.consensus.net/ethereum-by-the-numbers-3520f44565a9>; and, <https://coinmarketcap.com/currencies/ethereum/>.

⁴ <http://coinmarketcap.com/currencies/aion>.

⁵ Information provided by the company.



Report”⁶ and the Competition Bureau of Canada’s market study into technology-led innovation in the Canadian financial services sector,⁷ have highlighted multiple opportunities and best practices to modernize regulations in the financial services sector and more broadly across Government. More recently, the Chamber of Digital Commerce published its report *Understanding Digital Tokens: Market Overviews and Proposed Guidelines for Policy Makers and Practitioners* to provide guidelines for token sponsors and trading platforms when engaging in the token economy.⁸

As a start, we encourage the Province to engage its full policy and regulatory teams to review these reports, while also scanning the global policy and regulatory horizon, to ensure that oversight and responsibility for blockchain technology is not placed entirely in the hands of securities regulators. We ask that the Government work with stakeholders to prioritize and integrate recommended improvements to ensure that Ontario is truly open for business and ready to participate in the fast-paced global digital economy.

Harmonize Regulatory Regimes Across Canada, Observing Global Best Practices

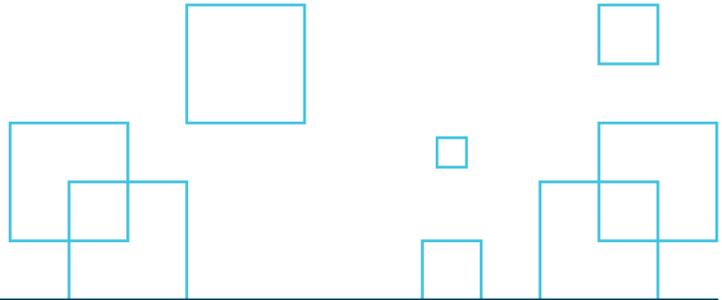
Digital technology necessarily crosses borders, thus implicating multiple regulatory regimes. Ontario blockchain companies must have the clarity and confidence they need to operate in the Province of Ontario and successfully compete globally. Differences in regulatory regimes, globally and across Provinces, increase compliance burdens and can result in lost economic benefits to jurisdictions that can’t keep up - including jobs, investment, and revenue. It is important for Ontario to keep regulations and policies consistent and in line with global and national jurisdictions to attract global innovators, investment and to facilitate entry and expansion of blockchain companies.

Further, we encourage Ontario regulators to continue participating as members of the Global Financial Innovation Network (GFIN). The Ontario Securities Commission’s participation in GFIN is important as financial regulators, policy makers, and legislators around the world are seeking to implement effective and competitive regulatory frameworks to enable digital currency and tokenized environments to thrive. Ultimately, we must ensure that a global financial services system is in place to provide an overall improved level of service, user experience, and integrity.

⁶ <https://www.ontario.ca/document/red-tape-challenge-financial-services-report>.

⁷ <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04188.html>.

⁸ Chamber of Digital Commerce, “Understanding Digital Tokens: Market Overviews and Proposed Guidelines for Policymakers and Practitioners”, <https://digitalchamber.org/token-alliance-paper/>.



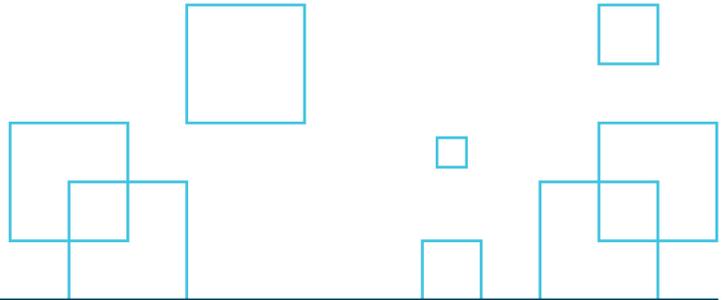
Today, however, blockchain innovators launching token and digital asset projects in Ontario are generally advised to retain legal counsel and seek permission from the Ontario Securities Commission (OSC) to advance their innovation. The community's view is that the OSC does not typically provide permission or clear signals to blockchain innovators in a manner that allows them to confidently move forward or de-risk their innovation. In fact, the unintended consequence is that companies fear that using the Launch Pad will land them on an investigations list. This perception not only deters innovators, but also creates a significant cost and chill that other innovative technology sectors do not experience or have to address.

In our view, securities regulators in Ontario would be better tasked with taking a proactive role in reducing unnecessary inconsistencies between provincial variations of national instruments and multilateral policies that affect blockchain technology deployment in Ontario. For example, regulations related to the exempt market (*i.e.*, the circumstances in which dealer registration and prospectus disclosure is not required) could be further clarified and streamlined. In every instance, national and international best practice should be examined and, where possible, adopted, rather than attempting to create or insist upon unique Ontario specific rules.⁹

A Suggested Improvement: Establish a National Passport System

Allowing businesses that meet provincial or territorial requirements to carry on business in one Canadian jurisdiction should be allowed to operate in others. Such a national passport system would be a considerable help to companies carrying on business in multiple Canadian jurisdictions. This would require inter-jurisdictional cooperation and would align with Article 403 of the Canadian Free Trade Agreement which provides, in its first paragraph, that Provinces and territories negotiate to reconcile regulatory measures that are barriers to trade, investment, or labour mobility within Canada. In our view, having to navigate multiple securities regulatory requirements in respect of exempt status in multiple Canadian jurisdictions is such a barrier, and Ontario is well-placed to take the lead in creating a financial services passporting system. An initial such agreement could identify particular categories of businesses permitted to passport across provincial and territorial jurisdictions, such as FINTRAC-regulated businesses, or those subject to provincial cost of credit disclosure requirements. The work required to develop a Fintech Regulatory Passporting Regime could be assigned initially to the Joint Forum of Financial Market Regulators (Joint Forum). The Joint Forum could call upon the Uniform Law Conference of Canada (ULCC) for drafting assistance, which is consistent with the ULCC's mandate.

⁹ Additional examples can be provided on request.



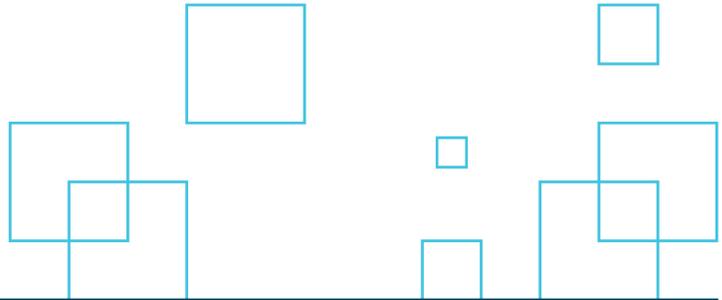
B. How can we streamline approvals processes for start-ups & businesses? How do we make it easier and faster for companies to do business with the Government?

Task an Office or Agency

Blockchain innovators require clear information from the Government to allow them to assess their innovation against policy and regulatory requirements so they can confidently do business in Ontario. Today, no such information resource clearly lays out the regulatory and policy considerations blockchain innovators and investors need to be aware of. A dedicated information resource portal would encourage greater investment in innovative blockchain businesses.

The lack of clarity and, by default compliance confidence, has meant that determined innovators have left Ontario to innovate elsewhere. Compliance expectations remain difficult to forecast or assess, directly undercutting innovator confidence to expand operations in Ontario, and indirectly undercutting investor confidence to help scale this innovation. In our view, policy makers should develop an office dedicated to promoting the development of blockchain technology within the Province. A clear champion of blockchain development would draw companies and innovators to Ontario, as well as coordinate and assist policy makers, Government staff, and the general public to access basic information and resources.

As noted above, a cornerstone of any blockchain initiative requires the exploration and understanding of blockchain and distributed ledger technology (DLT). These technologies are often complex and must be properly understood and tested before implementation. To further this effort, Governments should ensure that they are testing the technology internally, such as through a cooperation agreement with the Ontario Digital Service which, we understand, has already engaged in preliminary blockchain trials. Not only would this type of work help determine applications of blockchain that could cut costs for taxpayers and may also provide a gateway for entrepreneurs to best understand laws and rules applicable in Ontario relating to blockchain and virtual currencies.



2. Building More Efficient Regulation

a. Is there anything Ontario could be doing to provide regulatory clarity to help attract investment and encourage business growth?

Recognize That Not All Tokens Are Securities

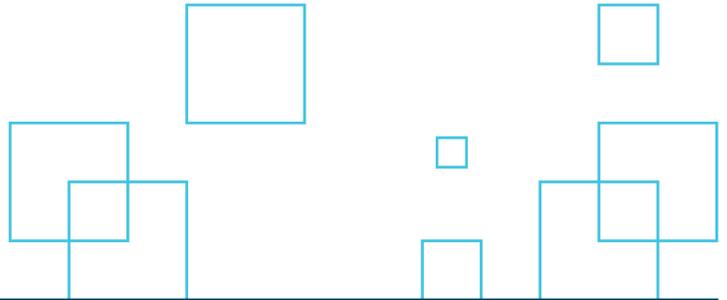
Ontario's securities regulators play an important role in protecting the integrity of Ontario's capital markets and ensuring a high level of investor protection. However, the OSC should not be the primary authority making policies for blockchain based technologies, including the issuance and distribution of digital tokens that are not securities. Tokens serve many important functions, such as a means to access and utilize the services of a platform. Other examples include: platform tokens, cryptocurrencies, utility tokens security tokens, natural asset tokens, crypto-collectibles, and crypto-fiat tokens.¹⁰ The variety of possible token applications mean that not all token generation events warrant review from securities regulators.¹¹ It is important that the Province recognize the multitude of token uses on blockchains and restrict its regulatory reach where appropriate.

We ask that the Minister of Finance take a leadership role to bring together other policymakers within the Government of Ontario to work with the Chamber to develop supportive policies for digital assets, like tokens, across agencies. The policies, once developed by the Government of Ontario, should then be implemented by regulators including the Ontario Securities Commission (OSC), Financial Services Commission of Ontario (FSCO)/Financial Services Regulatory Authority of Ontario (FSRA), and other bodies that have regulatory responsibilities in the Province. A coordinated approach would create a more holistic approach to regulation, rather than a fragmented agency-by-agency approach.

Further, regulators should clarify the regulatory requirements applicable to digital asset trading platforms in Ontario. Additional clarity will help attract investment and encourage business growth. Ontario policymakers should learn from policymakers/legislators in other jurisdictions and from the policy proposals of stakeholder organizations, including the Chamber of Digital Commerce's aforementioned "*Understanding Digital Tokens: Market Overviews and*

¹⁰ Alex Tapscott "Cryptocurrency is just one of seven types of cryptoassets you should know" (July 25, 2018): <https://qz.com/1335481/cryptocurrency-is-just-one-of-seven-types-of-cryptoassets-you-should-know/>

¹¹ At the end of 2018, at least seven different types of tokens were identified. Only one was a securities token: "Cryptocurrency is just one of seven types of cryptoassets you should know" (July 2018) see: <https://qz.com/1335481/cryptocurrency-is-just-one-of-seven-types-of-cryptoassets-you-should-know/>.



Proposed Guidelines for Policymakers and Practitioners” to recognize that different types of digital assets should be regulated, or not, according to how they are used.¹²

Adopt a Principles-Based Approach to Government Oversight

Generally, it is important for policy makers and regulators in the Province to resist the temptation to generalize blockchain technology or oversimplify its applications merely to facilitate quick regulation and policy making. The Chamber believes that a principles-based, technology-neutral policy framework to assess blockchain innovation, and token use cases, is critical to empower policy makers and regulators to be more flexible and adapt their approach where applicable and as the technology’s applications emerge and evolve.

Further, we urge the Government to develop cross-department expertise and promote “function-based regulation”. Any regulation, and any new rule or statute, should regulate the function performed, not the technology used to do so. We support coordination between provincial and federal Government entities in their policy-making efforts to prevent a duplicative patchwork of regulations and statutes related to similar functions.

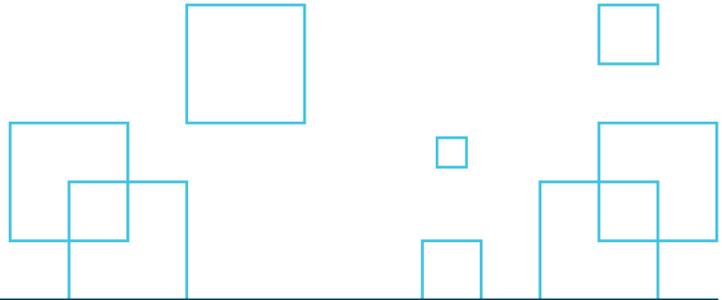
To date, blockchain innovators in the Province have not felt well-supported and, in many instances, have been stigmatized and treated as suspicious innovators that regulators and policy makers are all too ready to dismiss, investigate, or penalize. The result, intended or unintended, has created a chill on the industry in Ontario that is resulting in an exodus of companies leaving the Province and heading to more welcoming jurisdictions that want to attract this valuable technology sector.

Further, if well-designed, an overall Government strategy for blockchain innovation could also ensure regulators do not over-burden their resources, over extend their reach, or contribute to an unintended chill on innovation going forward. Moreover, it can bring efficiencies to Government processes if the technology is adopted and implemented.

b. How can our regulators create an environment that fosters fair, efficient and innovative capital markets, while upholding investor protections?

Innovation is not generally measured in terms of fairness or efficiency, although those can be outcomes. For innovation to thrive, there needs to be ongoing dialogue between all

¹² Chamber of Digital Commerce, Understanding Digital Tokens: Market Overviews and Proposed Guidelines for Policymakers and Practitioners”, <https://digitalchamber.org/token-alliance-paper/>.



stakeholder groups and a level of environmental risk tolerance in place that is clearly communicated to Government staff, innovators, investors, and consumers.

Certainly, investor protection is one of the important considerations that should be considered when establishing parameters for innovation and the Ontario Securities Commission is well placed to assess risk and offer regulatory guidance, but they should not be the only voice or view. Establishing innovative capital markets is a much larger objective that, if done well, will include the views of all stakeholders, not least the innovators, in order to achieve the right balance and mix of considerations required to conduct an overall assessment that will support a strategic path forward. Today we have an opportunity, and frankly a need, to include and engage a mix of Government resources and leadership to oversee and reform the approach and policy that will truly position Ontario to offer innovative capital markets.

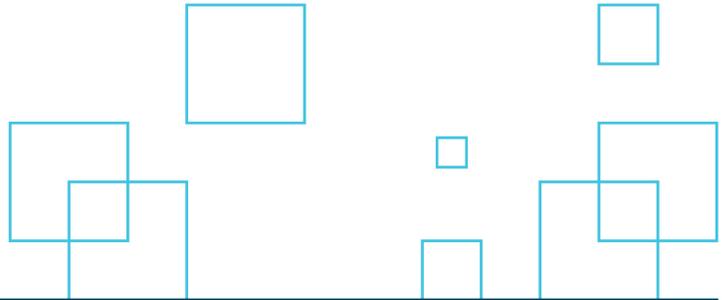
As requested above, we ask that the Minister of Finance publicly support blockchain innovation and work to clarify that token innovation is not by default a security, and that digital currency is also not by default a security. These use cases need to be flushed out carefully with all stakeholders present to consult. As a start, we suggest convening all Government departments and policy makers that should or may be engaged on these matters, to begin a dialogue with the innovation community that will result in a the creation of a principles-based, functional framework to better support blockchain innovation in Ontario. We believe that such an initiative will be a helpful and important contribution.

c. How can we work with regulators to ensure they can better respond to stakeholder concerns and remove barriers to innovation?

Build and Champion Regular and Collaborative Stakeholder Dialogue

We recommend continued engagement between Government and innovation stakeholders that focuses on education on the functionality and benefits blockchain technology brings to government, business, and consumers. The potential benefit blockchain technology offers Ontario, directly and indirectly, underscores the importance of having an engaging a diverse group of stakeholders in coordinated industry dialogue to deepen Government knowledge on new and emerging applications across sectors and that relate to Government interests and needs.

Today, the primary set of conversations between industry and the Government appears to be happening at the Ontario Securities Commission or in passive and less formal contexts such as at conferences. While the OSC is one venue where dialogue for securities innovation is



important, it should not be the only venue, and quite likely not the leading venue for this discussion given the OSC’s narrower focus on securities. Similarly, conferences and innovation hubs are helpful for high-level learning, but often reflect then-current trends and non-binding statements. They do not represent the industry at large or its innovators more broadly speaking, nor do they offer binding statements of regulatory interpretation.

For these reasons, and those listed throughout this submission, we ask that the Government establish a regular, multi-stakeholder, multi-sector blockchain advisory roundtable or caucus so that blockchain stakeholders in Ontario can work with the Government to improve the ecosystem in Ontario as a whole. We believe this will serve the Government well and result in greater collaboration to enable a clear and unified approach to risk, innovation and competition beyond regulatory sandboxes, innovation hubs, and litigation.

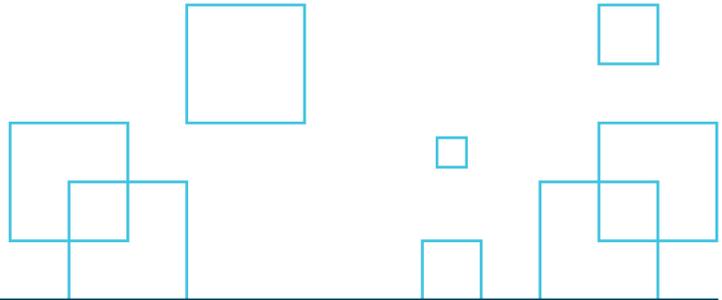
3. Making Government More Efficient (Working with Treasury Board Secretariat & Ministry of Government and Consumer Services)

- a. How can Government adopt fintech technologies to make Government operations more efficient or make Government programs/services more cost-effective?**
- b. How can Government adopt cost-effective regulatory technologies (“regtech”) to help make approvals or compliance easier for businesses?**

Use the Technology to Better Educate Staff and the Public

Regulators should find ways to use blockchain technology so that they understand how to apply regulatory requirements, where appropriate, in a new and more creative way. A large educational gap exists amongst Government staff and the public regarding blockchain technology, for example, often equating blockchain with bitcoin or cryptocurrency.

Working more closely with innovators and adopting the technology will ensure that the Government is well placed to build out an objective educational resource and reframe the conversation to better understand the various important uses of blockchain technology. Further, this will also help make clear which applications of blockchain technology or DLT could be applied and tested by the Government to improve its services for the benefit of the public.



Enable and Promote Data Driven Decision Making for Public Policy and Innovation Programs

We understand that there was recently a system-wide review of the ways in which data acquired or gathered by the Government could be better deployed for public good. Given the vibrant and talented technologists within the Province, the Government should be sharing some of the issues and challenges that it faces with respect to service delivery and seeking input from blockchain innovators.¹³ Additionally, the Government may consider leveraging readily-available data and data analytics tools to predict where regulatory efforts should be concentrated.

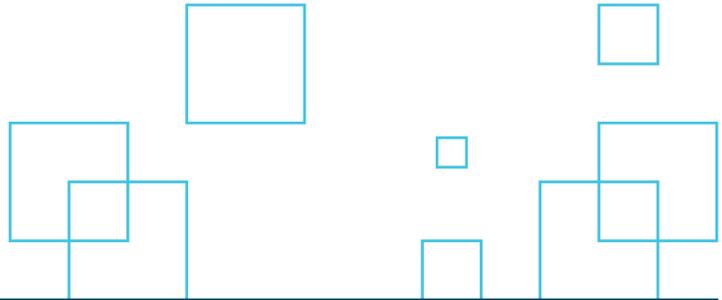
Many private-sector financial institutions have established experimental labs at technology accelerators. The Government should consider establishing similar environments within their departments and agencies that explore how technology, including decentralized ledger technology, can be deployed to automate and increase efficient delivery of government services in Ontario.¹⁴ It is likely that a program of this nature will reveal valuable new insights and options that could be adopted and implemented within government. Further, engaging Ontario innovators broadly offers the opportunity to procure from within the Province and develop provincial businesses and local talent so that they can attract domestic and foreign investment.

Permit the Use of Blockchain-Based Digital Identification Solutions

The Province should explore blockchain technology as a solution to the provision of identity services. One of the principal roles of the Government is the establishment of identity through driver's licenses, birth certificates, social security numbers, passports, and others, in the form of paper certificates, plastic ID cards, and digital records. One of blockchain's most innovative, and potentially impactful, use cases is directly tied to the establishment of digital identity. Lawmakers and agencies should begin exploring, and potentially implementing, blockchain-based identification systems to issue verifiable credentials that can be used universally. A

¹³ The global consulting firm Deloitte has been particularly active both domestically and internationally on the topic of technology and Government efficiencies that can be realized through better deployment. (<https://www2.deloitte.com/insights/us/en/industry/public-sector/reducing-compliance-costs-with-regtech.html>). See also this study published by the CFA Institute: (<https://www.cfainstitute.org/research/foundation/2017/fintech-and-regtech-in-a-nutshell-and-the-future-in-a-sandbox>).

¹⁴ For example, in the United States, the Commodity Futures Trading Commission (CFTC) established LabCFTC as the focal point for the CFTC's efforts to promote responsible financial technology innovation fair competition for the benefit of the American public, and to serve as the hub for the agency's engagement with the FinTech innovation community.

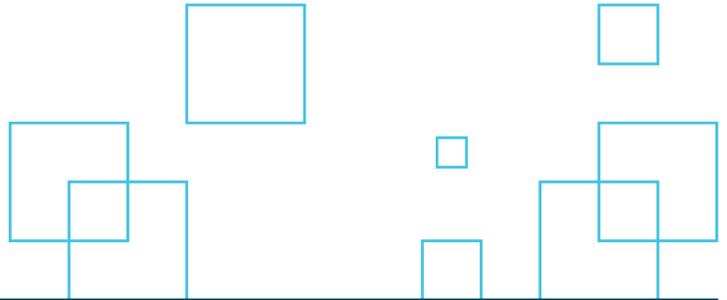


focus on interoperable solutions that leverage independently verifiable attestations is key (rather than using private chains and isolated systems) and compliance with identity standards like Verifiable Credentials and Decentralized IDs (DIDs) and both are identified standards by the World Wide Web Consortium. These systems can streamline Government services and reduce the costs to taxpayers.

Create Digital Efficiencies and Enhanced Transparency Using the Blockchain

We encourage the Government of Ontario to update its digital business services to ensure corporate, including due diligence, activities are easy and quick to complete for all interested parties. Today the lack of full-scale digital service offerings makes simple business tasks, like a basic public records search, more difficult and expensive than necessary. We support all efforts to continue to update and offer digital business services to those interested in starting, investing and doing business with Ontario Corporations. For example, Ontario should amend the *Business Corporations Act* (Ontario) to permit the use of distributed ledger or “blockchain” technology to maintain corporate ledgers. In 2017, the Delaware state legislature amended various provisions of the Delaware General Corporation Law to allow corporations to opt to use blockchain technology to maintain stock records instead of the traditional method of maintaining a centrally located stock registry. Other applications, such as professional registries land records, birth and death certificate records, health cards and so on that could be tested. We encourage the Government to assess the opportunities and engage with our innovators and also to share the results of their pilots more publicly so that improvements can be made and further solutions developed.

Other governments are looking at blockchain as a way to track, trace, and confirm provenance, such as to land title, and applications in health care and government services generally. Further, these basic service offerings present a multitude of opportunities for the Government to engage blockchain innovators to facilitate and modernize Governments services. Governments around the world are deploying blockchain innovation to improve simple services like birth and death registrations, driver licenses, and to generally improve the transparency of public records. We support the Government’s interest in creating blockchain use cases that will create efficiency and ensure that the Province of Ontario is in step with the future of digital Government transformation provincially, federally and globally.



In conclusion, blockchain innovation can greatly benefit government, business, and consumer access and utilization of each. Adoption and support of blockchain technologies is important if the Government wants Ontario to stay competitive globally, and perhaps even more important, to enhance competition and promote the improvement of products and services for consumers in the Ontario marketplace. The current level of regulatory red-tape interference on digital assets and blockchain technologies has impeded the ability of innovators to bring solutions to market that would allow the Ontario Government and consumers to benefit from lower prices, greater choice, higher quality products, and innovation in core sectors of the market.

We respectfully submit the above recommendations to support the Government's interest in signaling to the domestic and global blockchain community that Ontario is open and ready for business.

We remain at your service to support improvement efforts so that the blockchain community can thrive and grow in Ontario.

Sincerely,

T. Woods

Tanya Woods
Managing Director
Chamber of Digital Commerce Canada

cc. Kailey Vokes
kailey.vokes@ontario.ca

Clare Schulte-Albert
Clare.Schulte-Albert@Ontario.ca