Written Submission to the Standing Committee on Finance in Advance of the 2023 Budget

Submitted by: Canadian Web3 Council

Recommendations:

- Recommendation 1: Begin thorough consultations with industry with an eye to a national Web3 regulatory framework.

- Recommendation 2: Begin consultations with industry on an approach to taxation and regulation in the Web3 space that treats things alike, and removes confusion from the regulation and taxation of cryptoassets.

- Recommendation 3: Establish a Single Window Initiative for the Web3 Space that will streamline compliance efforts and eliminate government duplication in regulating cryptoassets.

Canadian Web3 Council

What is Web3?

Web3, which includes blockchain and cryptocurrencies, has quickly evolved from a technology used by hobbyists to a global industry currently valued in the trillions of dollars. But beyond its incredible economic potential, it offers new standards of efficiency, transparency, and coordination, which are critical to helping solve some of the greatest challenges facing the digital economy.

But despite this potential, there are hurdles, and *Canada could miss the boat on Web3*. Among innovators, the lack of legal clarity stifles their ability to run a business. Among policymakers, the novelty of Web3 poses a unique challenge to establish policy that balances innovation, consumer protection, and stability. Among the general public and media, many people are still beginning to understand what Web3 is – and isn't.

We need to work together to build a robust, equitable and sustainable Web3 economy. The stakes are too high to do otherwise. If we fail, Canadians could miss out on participating in the most important innovation in decades, and Canada could fall behind other jurisdictions that have taken steps to harness this innovation.

What Government Can Do Today

As with any relatively novel and rapidly evolving sector, there are many new regulatory challenges to contemplate for governments. Currently, there are both significant regulatory and legal gaps and barriers that create a high risk environment for running a Web3 business in Canada. In areas where there has been regulatory oversight, such as securities regulations, there are measures that, while well-intentioned, do not actually protect investors and only serve as a competitive disadvantage for Canadian companies. Further, foreign crypto platforms serving Canadians continue to operate outside of Canadian securities laws without meaningful oversight.

Web3 faces issues involving, among other areas, securities regulation, consumer protection, payments and money, sanctions and anti money laundering compliance, intellectual property, bankruptcy, and taxation. It cuts across multiple areas of provincial and federal jurisdiction, making it critical for the federal government to show leadership and work productively with provincial governments to effectively regulate this area

A regulatory framework that provides certainty, without stifling innovation would serve to significantly strengthen the Web3 ecosystem in Canada. Ensuring user adoption of compliant products is the best way to combat bad actors. However, it must be done with all players at the table. Given the complexity and ever evolving nature, the government simply cannot go it alone without industry expertise. The Canadian ecosystem has matured significantly in the last few years, and is eager to share expertise, insights and data with the government to inform robust policymaking for Web3.

<u>Recommendation 1: Begin thorough consultations with industry with an eye to a national Web3 regulatory framework.</u>

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Additionally, the taxation framework for crypto assets is unclear. The treatment of different crypto assets is quite ad hoc, and hasn't kept up with advances in technology. For example, donations of traditional assets such as stocks are exempted from capital gains taxation when given to charities, which incentivizes the direct donation of securities to charities. Charitable cryptocurrency donations are not treated equitably and are instead taxed for those gains. Crypto commodities are often taxed and regulated differently than physical commodities like gold. Cryptocurrencies are often taxed and regulated differently than non-legal tender money. Crypto securities are often taxed and regulated differently than stocks and bonds. Additionally, tax governance of crypto assets held by Canadian platforms with foreign custodians is unclear, and unclear HST/GST rules may have unintended tax impacts that disadvantage Canadian companies. This creates massive confusion and drives Canadians away from the sector.

Recommendation 2: Begin consultations with industry on an approach to taxation and regulation in the Web3 space that treats things alike, and removes confusion from the regulation and taxation of cryptoassets.

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Finally, the Web3 space suffers from a piecemeal regulatory approach with unclear boundaries between different agencies. This creates a system where operators are confused about compliance requirements.

By way of illustration, currently provincial securities regulators and FINTRAC are the primary compliance bodies for Web3. However, now OSFI has issued guidance impacting any federally regulated trust company, bank or insurance company. And the Bank of Canada has been exploring its own suite of regulatory approaches for areas within its purview.

Particularly as it relates to operators based in other jurisdictions, this level of duplication and complexity can be a huge detriment to investment in Canada. This is even more the case when one considers the Markets in Crypto Assets (MiCA) legislation recently adopted by the European Union, which addresses regulation of token issuances, crypto asset trading platforms and custodians, and stablecoins. The equivalent in Canada would be split between numerous jurisdictions, departments and agencies. This level of complexity harms the success of the Web3 sector..

Recommendation 3: Establish a Single Window Initiative for the Web3 Space that will streamline compliance efforts and eliminate government duplication in regulating cryptoassets.

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While there are certainly more measures that could be taken to ensure that Canada does not miss out on the global boom in the Web3 space, these three measures are things that can be done immediately at low or no cost to the taxpayer.

Canadian Web3 Council

We hope to see important steps forward in Budget 2023 with regard to the Web3 space, and we look forward to continuing a productive dialogue with the Government of Canada moving forward.

The Canadian Web3 Council (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 represent organizations that have made a critical impact on the development of Web3 technologies across the globe, and who are committed to responsibly building and innovating in Canada. Our membership is diverse, ranging from financial products and exchange platforms to investors, and open-source blockchain projects.