Email submission at comments@osc.gov.on.ca and Consultation-en-cours@lautorite.gc.ca

*British Columbia Securities Commission*
*Alberta Securities Commission*
*Financial and Consumer Affairs Authority of Saskatchewan*
*Manitoba Securities Commission*
*Ontario Securities Commission*
*Autorité des marchés financiers*
*Financial and Consumer Services Commission (New Brunswick)*
*Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island Nova Scotia Securities Commission*
*Securities Commission of Newfoundland and Labrador*
*Superintendent of Securities, Northwest Territories*
*Superintendent of Securities, Yukon*
*Superintendent of Securities, Nunavut*

**Re: Request for Input on Joint CSA/IIROC Consultation Paper 21-402 Proposed Framework for Crypto- Asset Trading Platforms**

Dear Ms. Beaudoin and Ms. Pinnington:

The Wall Street Blockchain Alliance (the "WSBA," "we," "us" or "our") welcomes the opportunity to submit to the Canada Securities Administrators (the "CSA," "you" or "yours") and the Investment Industry Regulatory Organization of Canada (the "IIROC," "you" or "yours") our comments in response to the Consultation Paper, with a goal of supporting and advancing the CSA/IIROC's understanding of the risks and opportunities presented by platforms and relevant ecosystem participants that facilitate the buying and selling of crypto assets.

The WSBA is a 501c(6) non-profit trade association that is dedicated to the responsible advancement and adoption across global markets of cryptoassets and blockchain technology. Our goal is to stand as a neutral and unbiased steward of education and cooperation between and among our members and key market participants worldwide. We regularly engage with industry leaders, policymakers, technology innovators and others through direct communications, comment letters, best practice recommendations and more, with the aim of guiding blockchain and cryptoasset industry dialogue during this time of tremendous technological evolution.

We believe that the integration of cryptoassets and blockchain technology will result in improved consumer choices; safer and more efficient markets; cost-effective solutions for equity ownership, investment and trading; lending and, ultimately, greater value and wealth. Given the infancy of the industry as a whole, and information asymmetries that exist between and among various participants, however, we believe that achieving such results will require thoughtful consideration, dedicated collaboration and coordinated effort by a variety of market participants, gatekeepers and others. For these and other reasons, we are pleased to provide our responses to the questions posed in the Consultation Paper.

Please do not hesitate to reach out to us by email at info@wsba.co if you would like to discuss any of our responses, or for any other reason. We hope that this will mark the beginning of a long and fruitful working relationship.

*Disclaimer: Please note that nothing in this document is legal or investment advice, and that we are not admitted to practice law in Canada or in any other jurisdiction. The responses contained in this submission are intended for informational-purposes only and should not be relied upon for any purposes. Such responses are based on our understanding of the plain meaning of the CSA Staff Notice 46-307 Cryptocurrency Offerings and CSA Staff Notice 46-308 Securities Law Implications for Offerings of Tokens Consultation Paper, NI 23-103, NI 31-103, and certain other documentation referred to in the Consultation Paper that we reviewed. We have not, however, completed an exhaustive review of all potentially relevant materials or applicable law.*

**General Comments**

Our first takeaway is that it is clear you and your respective staffs took great care to educate yourselves about the industry. The breadth and depth of the questions posed throughout the document indicate substantial knowledge of the potential of these disruptive innovations, but also reflect an understanding of the risks that they present at this time. Although the WSBA believes in the technology, and strongly advocates on its behalf, we are well aware that it is not a finished product.

With that mindset, we recommend very carefully consideration before implementing a bespoke regulatory framework for crypto-asset trading platforms. As a general principle, we have found that it is more successful over the long term to regulate a particular function rather than a specific technology. Our belief is rooted in the fact that it is often difficult to predict how a given technology or industry is going to evolve over time, which could force legislators and regulators to frequently update and edit these proposed rules to account for new uses cases or to broaden/narrow their scope. This becomes even more challenging when we consider the transnational nature of blockchain technology. An additional complicating factor with these types of frameworks or proposals is that there is often a delay or information lag between the time that industry participants are aware of material changes that require regulatory amendments, and when the relevant guidelines are updated. This level of uncertainty can create an unequal field between yourselves and other jurisdictions, such as the ones that you point out in Part 4 of the Consultation Paper that for the time being are relying on guidance explaining when certain assets and operators are subject to relevant legislation.

Additionally, having a separate or additional regulatory burden can be frustrating for key members of an industry that many feel is currently in a nascent stage and can often be singled out for criticism. On this note, we speak from experience. As a New York-based institution, we are intimately familiar with the BitLicense that was introduced in 2014 by the New York Department of Financial Services (NYDFS).[1] Like your respective organizations, we understood that the NYDFS was in a difficult position and tried to marry the opposing goals of fostering innovation without unduly risking consumer welfare. However, the impact of this legislation resulted in dozens of blockchain and crypto companies leaving New York state and the "blacklisting" of the state's residents for purposes of crypto asset engagement .[2] To date, only 18 companies have received a BitLicense, many of which have been forced to delay their entry into the U.S. for several years.

Second, we would also recommend caution because it is important to keep in mind how frequently the ground is shifting beneath the blockchain and crypto industry, and how the lines and delineations between participants will move. Depending on the future trajectory of the industry, it could significantly impact the relevancy of an industry specific framework. For instance, many established broker-dealers in the financial services space are making strides to offer exposure to crypto assets to their clients in the near term. For instance, leading fintechs such as Square[3] and Robinhood[4] offer brokerage services to their retail customers. Furthermore, established industry players such as TD Ameritrade[5] and Fidelity[6] are doing the same for institutional investors. Moreover, while there are a number of exchanges being created that may offer direct access to their respective trading platforms, as noted in the Consultation Paper, it is still likely that broker dealers will be key points of ingress and egress from exchanges, ATSs, and other industry participants. This assessment is rooted in some key assumptions.

1. As institutional investors increasingly enter this space, they will seek to facilitate these investments via procedures that they are already familiar and comfortable with. As evidence of

[1] https://www.dfs.ny.gov/legal/regulations/bitlicense_reg_framework.htm
[2] http://fortune.com/2015/08/14/bitcoin-startups-leave-new-york-bitlicense/
[3] https://cash.app/help/us/en-us/1016-bitcoin
[4] https://techcrunch.com/2018/07/12/you-can-now-trade-litecoin-and-bitcoin-cash-on-robinhood-crypto/
[5] https://www.tdameritrade.com/investment-products/cryptocurrency-trading.page
[6] https://www.fidelitydigitalassets.com

this trend already happening, new crypto-specific exchanges such as tZero have integrated with broker dealers such as Dinosaur Financial.[7]

2. Traditional exchanges and trading systems are going to increasingly offer access to tokenized securities. Nasdaq is leveraging its technology to facilitate this service for digitized securities, among others. Furthermore, legislative efforts in various states around the US such as Wyoming and Delaware are increasingly allowing for the issuance of digital shares and equities.
3. One of the larger trends taking place around the world is that exchanges and other key industry providers are increasingly looking to blockchain technology as a way to streamline the clearance and settlement of transactions. Two of the larger projects being undertaken, as you are likely already aware, include how the Australian Stock Exchange is utilizing a bespoke system built by Digital Asset Holdings to overhaul its incumbent CHESS system[8]. Additionally, here in the U.S. the Depository Trust & Clearing Corporation (DTCC) is using blockchain technology to update its Trade Information Warehouse.[9] As they get more comfortable and knowledgeable with operational aspects of the technology, it will transfer forward to the front-end user systems.

Third, the timing may not be ideal for such an endeavor because the industry is just now entering what we consider to be an adolescent stage of transition and maturation, which could limit the need for a bespoke framework. As you mention throughout the Consultation Paper, industry participants are designing and implementing solutions and best practices for challenges such as the secure issuance, clearance, and custody of assets. Furthermore, most of this important work is not only undertaken due to regulatory concerns, but also due to market/competition considerations and a general belief that key infrastructure providers such as custodians have a duty or responsibility to provide a safe and secure environment for participants.

Some examples of these initiatives include:

- Rapid advances in the field of cold storage to safeguard assets. While undoubtedly there are still security issues with certain crypto exchanges, this week's USD$40.7 million hack of Binance's hot wallet being the most recent example, reputable exchanges and custodians are utilizing geographically-dispersed multi-signature HSMs and white-labeled addresses combined with deeply fortified and redundant physical locations, to protect customer assets. Companies leading the charge include Coinbase, BitGo, and Gemini, among others, which are certified as qualified custodians. Additionally, while details of these security arrangements are understandably kept

[7] https://www.prnewswire.com/news-releases/tzero-partners-with-dinosaur-for-launch-of-digital-securities-trading-300788223.html
[8] https://www.asx.com.au/services/chess-replacement.htm
[9] http://www.dtcc.com/news/2017/january/09/dtcc-selects-ibm-axoni-and-r3-to-develop-dtccs-distributed-ledger-solution

secret, in the spirit of supporting the ecosystem as a whole Square open-sourced its crypto-native security solution, Subzero.[10] We expect to see continued progress in this field and the dispersion of these technologies, policies, and procedures across the ecosystem.

- Crypto companies are becoming increasingly able to obtain insurance coverage for assets they custody, especially for those held offline in cold storage. The mere fact that industry participants are able to secure coverage for themselves is a reflection of the industry's maturation because obtaining these policies requires a significant amount of due-diligence on behalf of the insurer. Some recently publicized policies include:
    - Bakkt obtaining $100 million in coverage for assets held in cold storage through an undisclosed set of insurers[11]
    - BitGo received a $100 million policy from a Lloyd's syndicate for assets held in cold storage[12]
    - Additionally, Coinbase recently revealed that it has a $255 million policy from Lloyd's registered broker Aon and sourced from a global group of US and UK insurance companies that covers assets held online in hot wallets.[13]

These policies are significant developments because the underwriters are putting their firms, and their own livelihoods at risk when they offer them. As more becomes known about the security threats associated with crypto assets and policies become more mature, we expect this trend to grow.

Finally, it is worth noting that significant progress is being made in the field of information sharing and market surveillance. Again, much of this work is being undertaken due to market opportunity and a feeling of responsibility to the community at large, as issues such as venue arbitrage threaten the industry's reputation. Recent examples include:

- More than seven crypto exchanges are utilizing Nasdaq's SMARTS Market Surveillance technology to monitor illicit trading on their platforms.[14] Two mentioned by name in recent reporting include Gemini and SBI Virtual Currency. This is a noteworthy fact, because it is a significant endeavor for an exchange to become an authorized user of the software suite. Typically, the due-diligence involves a team of many individuals looking at three separate categories: Business Model, KYC/AML, and Exchange Governance &

[10] https://medium.com/square-corner-blog/open-sourcing-subzero-ee9e3e071827
[11] https://www.coindesk.com/bakkt-acquires-crypto-custodian-partners-with-bny-mellon-on-key-storage
[12] https://www.coindesk.com/bitgo-offering-100-million-in-crypto-insurance-through-lloyds-of-london
[13] https://www.coindesk.com/coinbase-insurance-coverage
[14] https://www.forbes.com/sites/michaeldelcastillo/2019/01/30/nasdaq-is-now-working-with-7-cryptocurrency-exchanges/

Controls. It was also made clear from recent reporting in *Forbes* that Nasdaq also takes care to ask questions about the reputation of the founders and key personnel, the history and use cases for assets traded on the platform, as well as the listing criteria for future assets. These are all key points of discussion listed throughout the Consultation Paper.

- In addition, leading European crypto exchange Bitstamp recently implemented the Irisium Surveillance platform from Cinnober, a technology provider for mainstream financial markets, to monitor for suspicious activity.[15] This is the same tool that entities such as Asia Pacific Exchange Pte Ltd (APEX) use to detect illicit behavior.

**Conclusion**

From our comments we hope to have demonstrated that significant progress is being made at the industry level around the world to address many of the key questions and risks identified throughout the Consultation Paper. **However, with all of that said, we do appreciate that much work still needs to be done, best practices must assimilate downstream to smaller players, and a significant gap remains between the best of breed venture-backed companies and other less-established companies.**

Furthermore, we also understand that even some of the biggest and most reputable companies are not above reproach. For instance, in recent weeks the NYDFS rejected Bittrex's BitLicense application due to numerous shortcomings with their procedures and controls, which was best exemplified by their identification of numerous pseudonyms operating on the platform along with addresses allegedly from North Korea.[16] Additionally, in recent months the New York Office for the Attorney General released the results of a survey of thirteen of the world's most notable trading sites, including Coinbase, Kraken, Bitfinex, Bittrex, and Binance that demonstrated how many exchanges are still prone to market manipulation.[17] Some of the key findings included:

- "Though some virtual currency platforms have taken steps to police the fairness of their platforms and safeguard the integrity of their exchange, others have not. Platforms lack robust real-time and historical market surveillance capabilities, like those found in traditional trading venues, to identify and stop suspicious trading patterns. There is no mechanism for analyzing suspicious trading strategies across multiple platforms. Few platforms seriously restrict or even monitor the operation of "bots" or automated algorithmic trading on their venues. Indeed, certain trading platforms deny any responsibility for stopping traders from artificially affecting prices."

[15] https://www.coindesk.com/crypto-exchange-bitstamp-rolls-out-tech-to-spot-market-manipulation
[16] https://www.coindesk.com/nydfs-why-we-rejected-bittrexs-application-for-a-bitlicense
[17] https://ag.ny.gov/sites/default/files/vmii_report.pdf

- "Protections for customer funds are often limited or illusory. Generally accepted methods for auditing virtual assets do not exist, and trading platforms lack a consistent and transparent approach to independently auditing the virtual currency purportedly in their possession; several do not claim to do any independent auditing of their virtual currency holdings at all. That makes it difficult or impossible to confirm whether platforms are responsibly holding their customers' virtual assets as claimed."

Nevertheless, keeping all of this in mind, and as demonstrated throughout our comments, leading exchanges, ecosystem players, and members of the WSBA are actively working on solutions to these challenges. This is being done in large part irrespective of regulation because we feel a sense of ownership over the space and it is the best way to provide a competitive service and to aid in the development of the global crypto asset ecosystem.

Therefore, while we would not be so bold as to recommend that you avoid issuing a separate framework for crypto platforms, we suggest delaying or relying on existing legislation and regulatory statutes to give the industry more time to mature. Another option we would recommend is to evaluate the possibility of having the platforms that would be subject to the Framework Guidance create a Self-Regulatory Organization (SRO). As you are aware, SROs can be a valuable tool – especially in conjunction with companies that are graduating from sandboxes – to operate in a regulated manner with the speed and agility to react to changes in the technology or marketplace.

This is an approach that is being pursued here in the United States. For instance, a number of leading exchanges created the Virtual Commodity Association (VCA) with the goal of forming an SRO specifically for virtual commodity exchanges and custodians to work with the U.S.-based Commodity Futures Trading Commission (CFTC).[18] More globally, a group of 50 traders named "CORA" is seeking to create a set of standards for OTC trading in cryptocurrency. Some of the leading members of this group include Galaxy Digital and Cumberland.[19]

Additionally, we would suggest you also consider certification programs that could facilitate the creation of a set of credentialed advisors that could serve as a second vetting layer for industry participants. This is a policy that Malta is currently implementing, and they are seeing significant

[18] https://medium.com/gemini/joining-the-virtual-commodity-association-8bdf3b2f803e

[19] https://www.theblockcrypto.com/2019/05/13/jump-trading-galaxy-digital-and-many-other-traders-mull-instituting-crypto-market-white-list/

interest from companies and individuals who seek to benefit financially from participating in the crypto economy while ensuring responsible stewardship of this developing industry.

Thank you for the opportunity to submit this response to the Consultation Paper. We look forward to speaking with you and welcome any questions or comments that you may have.

Respectfully Submitted,

Ron Quaranta

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New York, New York