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Intelligence MEMOS

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From: Mark Zelmer, Jeremy M. Kronick and Peter MacKenzie
To: Crypto Observers
Re: STABLECOIN ACT IS A GOOD START, NOW LET'S GET THE DETAILS RIGHT

Privately issued stablecoins – digital tokens designed to maintain a fixed value relative to a fiat currency – are often hailed as the next big leap in payments technology. They promise cheaper, instant, cross-border transfers, 24/7 settlement, and the efficiencies of blockchain infrastructure.

But like any critical financial sector infrastructure, they need a regulatory framework that balances innovation and consumer protection and financial stability.

Ottawa's new *Stablecoin Act*, introduced in the budget, lays the groundwork for such a framework. Yet, as with so many other financial modernization promises, the devil will be in the details to follow.

Some of the oft-touted benefits of stablecoins may sound redundant to everyday consumers who can already send money instantly via Interac e-transfer, and flashing their phones. So why do we need stablecoins?

At their best, they can do two things better than today's systems. First, they could make domestic payments cheaper by cutting out multiple intermediaries and layers of fees. For merchants, that could potentially mean lower transaction costs than on today's card networks. For consumers, it might mean faster, cheaper, and more transparent transfers.

Second, they could make cross-border payments dramatically more efficient. Sending money abroad today can take days and incur high fees and exchange-rate spreads that eat into what's received. Stablecoins operate across borders by design: A digital Canadian dollar or US dollar stablecoin can move globally in minutes at near-zero cost. This could be a huge boon for individuals sending remittances or small businesses importing or exporting goods and services.

Canada's regulatory treatment has traditionally taken a securities law lens, lumping stablecoins together with crypto tokens and speculative assets. That might make sense for coins used in trading or investment, but it misses the point for those designed for payments. The new act acknowledges this gap, establishing the Bank of Canada as the primary regulator for payments stablecoins, and treating them as part of the payments ecosystem.

The act provides the high-level requirements for stablecoins. Now the Bank and government need to set up regulatory specifics. The former must be prepared to play its part in ensuring the stablecoins it regulates always maintain their Canadian dollar peg at par by offering them emergency liquidity lines and convertibility into central bank money. That way businesses and the public can confidently use them in good times and bad knowing that a stablecoin dollar will always be worth a dollar.

We note with respect to these high-level requirements that the act prohibits issuers from offering interest or yield to holders – whether directly or indirectly. While the US ***GENIUS Act*** also prohibits issuer interest payments, platforms like Coinbase have already begun offering more than 4 percent on USDC holdings, framing these as rewards rather than interest. Whether this distinction survives regulatory scrutiny remains uncertain, but in the meantime, US dollar stablecoins can offer yield-like returns that Canadian dollar alternatives would not be able to match.

Many regulatory specifics – too many for one Memo – will need to be ironed out, as we will discuss in a forthcoming paper. Most important, however, is continuing to move swiftly.

There are two concerns in not having a fully developed framework as soon as possible. The first is monetary sovereignty. If Canadians gravitate toward US dollar stablecoins – now formalized under the *GENIUS Act* – we could find ourselves conducting more and more domestic commerce in a foreign currency.

Over time, that would weaken the role of the Canadian dollar in everyday transactions and, by extension, in monetary policy. Canada would still control its own interest rate, but that lever would matter less if the medium of exchange circulating most widely in Canada was not our own. The government could mitigate this risk by ensuring taxes and public payments remain strictly in Canadian dollars, but that won't fully solve the problem if private activity increasingly migrates to US dollar tokens.

The second, and perhaps greater, concern is losing control over the payments infrastructure itself. If Canada doesn't move fast, the technology and governance behind stablecoin payment rails will be designed, owned, and operated elsewhere – by foreign firms and under foreign rules. That would leave our economy dependent on external systems for core financial plumbing, from settlement to data security. In today's economic environment, that seems unwise.

We are happy to see the government taking stablecoins seriously, especially since other jurisdictions, beyond the United States, are moving quickly on their own frameworks. The Bank of Canada's detailed implementation phase, establishing specific reserve requirements, operational standards, and supervisory practices, will determine whether Canada achieves true framework comparability with other players.

Let's get to it.

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