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From: Peter MacKenzie and Mark Zelmer
To: Digital Finance Watchers
Re: HOW TO ESCAPE US DOLLAR DOMINATION IN CANADA'S DIGITAL FINANCE FUTURE

In the span of three weeks this March, Canada crossed two milestones in digital finance.

First, the Bank of Canada, RBC, TD, and Export Development Canada completed Project Samara, issuing Canada's first tokenized bond.

Today, when a bond is sold, an investment dealer manages the sale, the Canadian Depository for Securities records ownership and handles clearing, and the cash leg settles through Lynx, Payments Canada's high-value payment system, the following business day.

Project Samara replaced that chain with a single platform. The bond and the cash lived in the same place, so when a trade happened, both changed hands at the same instant.

The second milestone was the BMO announcement of its partnership with CME Group and Google Cloud to let institutional clients convert US-dollar deposits into digital tokens that can be used to meet derivatives margin and settlement obligations at any hour, without waiting for traditional banking systems to open.

Firms trading derivatives at Chicago's CME exchange need to post collateral to cover potential losses. CME calculates these requirements twice daily and firms have until a set deadline to meet them. The challenge is that the payment systems used to move that cash only operate during banking hours. Firms compensate by holding more collateral than they need as a buffer against the timing gap. BMO's new platform lets clients convert US-dollar deposits into digital tokens that can move to CME at any hour, reducing the need for that excess buffer.

Both are real achievements. They show that Canadian banks and regulators are taking the digitization of money seriously. But put the two projects side-by-side and a worrying pattern appears. Canada's digital money efforts are developing along two tracks that do not connect. The domestic track works in Canadian dollars but inside closed systems. The global track plugs into international markets but works only in US dollars. A common digital Canadian dollar issued by the Bank of Canada could connect them. But that does not yet exist.

Project Samara worked. But the bond exists only on that platform, not at the Canadian Depository for Securities where bonds normally reside. A holder who wanted to sell could only do so to other participants on the same system. If another bank built its own platform, the two, currently, would have no way to interact.

Here is the tension. When Canadian institutions build in Canadian dollars, the projects are siloed. When they build for interoperability with global markets, the projects are in US dollars. If this pattern continues, Canada risks building a digital financial system where the only common language is American.

This is not a criticism of either initiative. BMO cannot digitize Canadian dollars for a US exchange that clears in US dollars. RBC and TD cannot open an experimental platform to every participant in the country. Both did what they set out to do. The problem is that nobody is building the bridge between them.

That bridge would be a digital form of the Canadian dollar issued by the Bank of Canada. In a C.D. Howe Institute [paper](#) earlier this year, we argued that a wholesale digital currency, available to banks and regulated payment providers, could serve as a common settlement layer linking private platforms.

Project Samara actually tested a version of this idea. But the digital dollars the Bank of Canada created for that experiment lived and died on a single platform. They cannot move to BMO's system or settle a transaction between clients on competing networks.

A permanent digital Canadian dollar would change the equation. It would give every regulated institution a common unit to settle against, regardless of which private platform they use. It would let value move between systems without requiring everyone to adopt the same technology.

The United States has made its choice. It passed legislation to regulate digital payment tokens and is actively promoting US-dollar digital infrastructure. It is not pursuing a central bank digital currency. That leaves an opening for Canada. The Bank of Canada has years of research in this area and has now tested wholesale settlement in a live market environment. No other G7 central bank has gone this far.

But research without implementation is a depreciating asset. Every month without a common Canadian-dollar settlement layer is a month in which banks build more closed domestic systems and more open US-dollar ones. Once infrastructure locks in around a particular design, switching becomes prohibitively expensive.

Canada has the research, the regulatory foundation, and the institutional credibility to build the connective tissue its digital financial system needs. The longer Canada waits, the more likely it becomes that system will be built by others, in someone else's currency.

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