



Brane.Capital

Info@Brane.Capital
(416) 500-2477
Ottawa / Toronto

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Written Submission for the Pre-Budget Consultations in Advance of the
Upcoming Federal Budget

**Blockchain Custody Is in Need of Regulation, and Canada is the
Country to Lead the Way**

Prepared by Patrick McLaughlin, for Brane Inc.



Key Recommendations:

- Recommendation 1: That the Government of Canada implement financial supervision regulations around digital asset custody.
- Recommendation 2: That the government consult with other countries, including Germany, around recent laws that make digital asset custodians subject to financial supervision.
- Recommendation 3: That the government rapidly follow in the US's footsteps and clearly designate who may provide regulated custody services, and who should be responsible for digital asset custody.
- Recommendation 4: The current mandate of the Office of the Superintendent of Financial Institutions (OSFI) is to monitor and evaluate system-wide or sectorial issues that may impact institutions negatively. We recommend that the Minister of Finance explicitly instruct the OSFI to include crypto/digital asset custody as an area of concern.
- Recommendation 5: That the government establish a working group of key industry stakeholders and government officials to move discussion forward and accelerate clarity/coherence in the industry.



I would like to thank the Finance Committee for issuing this call for pre-budget submissions, and I am grateful for this opportunity to share my perspective as a Canadian citizen and entrepreneur working in the emerging digital asset economy.

Our communities, our country, and our economy have been devastated by COVID-19. But as difficult as this time has been, I also see it as a time to reposition our economy and focus our efforts on areas where Canada can take a global leadership role in emerging sectors. Blockchain and the safe custody of digital assets, present an incredible opportunity for Canada and it is an area I am intimately familiar with through my company, Brane.

Brane exists at the intersection of financial technology and cyber-security. Our mission is to give institutions the confidence to join the blockchain economy. We protect digital assets by ensuring their safe, responsible, and transparent custodianship.

Here's why that matters. Without proper custody, there can be no confidence in the safety of digital assets. We know that thousands of Canadian investors want to participate in the digital asset economy but are reluctant to do so because of the lack of regulation. That is leaving millions of dollars of economic activity, wealth creation, and tax revenue on the sidelines. I believe it is time for the Government of Canada to address this issue.

The digital asset economy is built on blockchain. It is best known as the technology behind Bitcoin, but it's much more than that. Blockchain is a set of computer protocols that enable online transactions that are visible to everyone and strongly secure, and that take third parties out of the equation. The blockchain is a series of digital blocks with information imprinted on them that are linked together. They cannot be changed without everyone knowing about it, which is why they're so secure.

Blockchain is one of the most significant innovations I have seen in my lifetime. It has the potential, literally, to change the world, because it is transforming how we conduct trade and exchange assets. Blockchain is already having a huge impact on finance, trade and markets. Its growth is exponential. Since the cryptocurrency Bitcoin was created in 2008, the sector has expanded to over 5100 different decentralized currencies. 5 years ago, this market was valued at a total of \$7 billion US dollars. As of March 2020, that same market has grown to about \$231 billion US dollars. By some estimates, there is an additional \$20 billion US dollars in value that would rapidly enter the sector if regulated institutional custody was available to investors.



If this investment isn't kept safe and secure – and in a way that is publicly visible and beyond question – that wealth will evaporate. Blockchain is, by definition, extremely secure. But markets only stay viable when they're widely perceived to be secure. That isn't the case with blockchain and cryptocurrencies. Today, blockchain resembles an incredibly strong vault, but one where no one is sure who holds the keys. That uncertainty renders all those tons of cold-rolled armour plating irrelevant, especially to a risk-adverse, post-pandemic market.

That is why this sector is in strong need of regulation. Custody regulation is a concrete, actionable foundation that will support the stability and growth of the entire crypto sector. And the time for that regulation is now, when our economic recovery will be driven by the return of consumer confidence. The country to lead the way is already recognized around the world as home to one of the most stable and secure financial systems. That country is Canada.

And that is key to understanding the opportunity before us, because in financial services the earning and keeping of trust is essential to success. The challenge with blockchain, and its most well-known product, Bitcoin, is that it is seen as the wild west of finance. While this perception is understandable, it is not accurate.

The world trades securities, for example, every day. To do that we use tools like paper and contracts. We can also trade securities with blockchain, and in the process make it more secure and more efficient. We don't need to reinvent anything – not our monetary system, and not our laws. We just need to update them. And that's where regulators must play an essential role.

The US is already moving in this direction. In July, the Office of the Comptroller of the Currency (OCC), a branch of the US Treasury, issued a letter calling for banks to take custody of cryptoassets and provide banking services for crypto-oriented businesses.

As their letter says,

"We conclude a national bank may provide ... cryptocurrency custody services on behalf of customers, including by holding the unique cryptographic keys associated with cryptocurrency. This letter also reaffirms the OCC's position that national banks may provide permissible banking services to any lawful business they choose, including cryptocurrency businesses, so long as they effectively manage the risks and comply with applicable law."

We've also seen Germany, France and England make similar moves toward regulating cryptocurrency custody.



I am the first to acknowledge that I am in the minority amongst my peers in calling for regulation of the crypto space. But I believe the call is urgent. We've already seen what happens when irresponsible players taint the entire sector. The Ontario Securities Commission recently reached a major settlement with Coinsquare after an investigation found issues with the accuracy of their trading reporting. Quadriga collapsed in 2019 under something resembling a Ponzi scheme, leaving 76,000 investors out of pocket for at least \$169 million. Had reputable, certified and transparent custodians had oversight in these situations, they would have transpired very differently. Investors would have been protected. More to the point, events like this will keep happening until we step up with a strong regulatory framework that delivers regulations that ensure the safekeeping of digital assets.

Let me state this clearly: blockchain and cryptocurrencies are here to stay. Like electricity and the Internet, they are transformative innovations that have the potential to make the world we live in a better and more prosperous place. And while they're not without risk, the notion of banning them is wrongheaded. The genie is out of the bottle.

This industry is growing very rapidly, and it is non-linear growth. If our regulatory structures are unprepared to meet that reality, it's just a dangerous situation. The next Quadriga could be Quadriga to a factor of ten. Or a hundred.

Regulating digital asset custody will not only protect the interests of Canadian citizen already invested in this space, it will also level the playing field for future investors. One should not need to be known on Bay Street in order to participate, contribute and reap the benefits of this rapidly growing market.

I know those who disagree with me will cite the logic and efficiency of a laissez-faire market. We need only to recall the economic upheaval of 2008 to know the risks that come with this world view. We should also remember that Canada fared much better in the Great Recession than many other countries did, including the US. Why? In large part because our banks are some of the most strongly regulated in the world.

Today, Canada has the opportunity to build on that history and reputation and lead the world in addressing emergent technologies like blockchain. I'm calling on this committee and this government to rise to that challenge. Specifically, I believe we should consider allowing banks and trusts to take custody of digital assets, as has recently happened in Germany. That would move blockchain into the regulatory framework of our financial system, at once both legitimizing it and demanding from it a standard of practice that would forever remove the perception – and



in too many cases, the reality – that it is operating outside of our oversight. Canada's banks are ideal custodians of digital assets. Let's empower them to take on that role.

I would also suggest that the Minister of Finance consider creating a working group to move this discussion forward. Canada is in a position of great strength, especially as we begin a post-COVID economic recovery. We need to bring key players to a shared table to discuss ideas on how to seize this opportunity in a safe and secure way. I would be happy to join in that discussion.

My career has been defined by understanding and studying complexity and systemic risk. I began my career as an employee of the House of Commons, working as a business analyst serving MPs to ensure their spending was ethical and transparent. That was my first experience with the need to make transactions simpler, more open, and trustworthy.

That, simply put, is what blockchain does. It is a tool to address our most complex challenges, together. Regulating it is something that we must also do, together. And today, as we face a global pandemic and huge economic reset, it the time to rise to this challenge. Imagine the upside. One, Canada will be seen as a world leader in this space and become a hub for its development. Two, the stage will be set for this exciting new economy to flourish, at just the time when we need positive fiscal movement and all that comes with it, including increased GDP and tax revenue.

Together, we have a once-in-a-lifetime opportunity to take global leadership in a new technology that will change the world, and if we rise to the challenge and bring our best selves to the task, one that will change it for the better.

I look to the committee and the government for leadership in this regard. I would happily make myself available to speak with you further on this issue as you continue your pre-budget work.



Patrick McLaughlin

Founder

Brane Inc.