

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

**By: Canadian Web3 Council**

**Recommendation 1**

That Budget 2024 note that blockchain is an emerging industry in Canada, with significant economic and job creation opportunities; and provide funding for Finance Canada to undertake an econometric analysis of the contribution of web3 to Canada's GDP, as well as the potential negative impacts to Canada's GDP through wrongheaded regulation on the web3 sector.

**Recommendation 2**

That Budget 2024 should launch the process of establishing a national blockchain strategy, including a plan for federal and provincial coordination, that clarifies the government's policy direction and regulatory approach and demonstrates support for the industry.

**Recommendation 3**

That Budget 2024 launch pilot projects for public sector services using distributed ledgers to help strengthen the Canadian web3 ecosystem and improve government efficiency.

**Recommendation 4**

That the government provide clarity via the *Retail Payments Activities Act* to ensure that fiat-backed stablecoins are regulated as a payment instrument.

The 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 represents 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 hackathon organizers to financial products, trading platforms and investors, and open-source blockchain projects.

To understand web3, you need to understand the evolution of the internet in its entirety. We start with Web1 – the infancy of the internet – was simply the ability to read. The ability to create content that was transmitted was solely in the hands of technical experts and ordinary users could only access existing data. Web2 is the ability to read and write – think 1990’s blogs and forums all the way up to today’s social media. Users can read content, but also generate their own. web3 is the ability of users to read, write and own. People create, consume, and own the upside of their work through tokens. web3 is built on peer-to-peer networks of computers that talk to each other without middlemen.

#### *Why does it matter?*

At its core, web3 technology aims to enable direct interactions between users without relying on intermediaries. It emphasizes the use of decentralized applications (dApps) that run on blockchain networks, where data and processes are distributed across a network of nodes, making them resistant to censorship, manipulation, and single points of failure. Overall, web3 technology represents a paradigm shift towards a more decentralized, open, and user-centric internet, empowering individuals and communities with greater control over their digital lives. This is a big change, with significant potential to have a made-in-Canada growth industry.

The 15<sup>th</sup> Report from the Standing Committee on Industry and Technology noted that small and medium business use of blockchain technology grew by 30% from 2019 to 2021. That is significant.

Documents tabled recently in Parliament, in response to Order Paper Question Q-1500 show that the Government has not taken steps to prioritize the continued viability of the web3 sector in Canada. Without a deeper understanding of the sector, it is impossible to measure the impacts, intentional or unintentional, of government decisions. That is why we recommend:

**That Budget 2024 note that blockchain is an emerging industry in Canada, with significant economic and job creation opportunities; and provide funding for Finance Canada to undertake an econometric analysis of the contribution of web3 to Canada’s GDP, as well as the potential negative impacts to Canada’s GDP through wrongheaded regulation on the web3 sector.**

In addition to understanding the sector, it is important to begin the work of addressing regulatory uncertainty. Canada has fallen behind other jurisdictions, like the European Union, the UK and Australia, when it comes to digital asset policies. There is an opportunity to create regulatory clarity and clear standards so that these businesses can flourish in Canada. The current lack of clarity has motivated some Canadians to establish or move their firms to other jurisdictions, which has the dual negative consequence of losing good paying jobs, and leaving consumers less protected.

To address this lack of regulatory clarity, all levels of government and regulators need to engage more with industry. Specifically, the federal government needs to develop a national strategy. That is why we recommend:

**That Budget 2024 should launch the process of establishing a national blockchain strategy, including a plan for federal and provincial coordination, that clarifies the government's policy direction and regulatory approach and demonstrates support for the industry.**

One of the mistakes that is often made about blockchain is the assumption that it is only an investment tool. There is a growing class of companies that leverage blockchain technology for non-financial or non-speculative reasons. The secure, transparent, and decentralized nature of blockchain networks promotes the efficient recording, transmitting, and storing of information across industries. Supply chains are often paper based, given the large discrepancies in digitalization between companies and even countries. Blockchain solutions offer ways to smooth those edges while maintaining trust and security.

These features are equally applicable to the public sector. Blockchain technology can improve transparency and reduce fraud in government programs. Rather than relying on humans to approve or reject applications, smart contracts could be developed for contribution programs or entitlement payments. And of course, the most obvious case where blockchain could be leveraged is in the issuance of identity documents like Passports.

Given the challenges that the Government has had in these areas in recent months and years, we feel the time is right for innovation. That is why we recommend:

**That Budget 2024 launch pilot projects for public sector services using distributed ledgers to help strengthen the Canadian web3 ecosystem and improve government efficiency.**

More fundamentally, however, is the risk posed by regulations that miss the mark and don't understand the web3 sector. This is particularly acute in the case of fiat backed stablecoins.

Broadly speaking, fiat-referenced cryptoassets now have a collective market capitalization of around US \$128 billion and represent about 12 percent of the total crypto currency market.

They also offer many improvements and innovations comparative to existing payment and settlement mechanisms. Stablecoin transactions occur on global blockchain networks, offering faster and more transparent payments than traditional methods, especially for cross-border settlements. They may have lower network fees, and can be initiated anytime, without the constraints of regular business hours. Compared to existing network fees for credit card transactions, stablecoin payments offer small businesses a much more affordable platform for digital payments. Stablecoin payments are irrevocable once confirmed, providing beneficiaries certainty of receipt, and their use of broadly adopted crypto standards promotes competition and interoperability. The transactions are permanently recorded on public networks, enhancing traceability, and their integration into smart contracts allows automation of complex financial functions. Stablecoins can also boost financial inclusion by providing digital services to the unbanked and underbanked.

Accordingly, CW3 believes strongly that fiat-backed stablecoins ought to be regulated as payment instruments by the federal government rather than as investment vehicles under provincial securities laws. The Retail Payments Activities Act (RPAA) is the natural instrument for regulatory oversight of fiat-backed stablecoins in Canada. The RPAA has the flexibility to be able to regulate the activities of stablecoins while helping to protect consumers and provide financial stability to the inherent risks involved. We also believe that the regulation of stablecoins as a payment instrument is a more appropriate mechanism than adopting a fragmented provincial approach and is consistent with the approach being taken in other jurisdictions (e.g. Markets in Crypto-Assets Regulation in the European Union). That is why we recommend:

**That the government provide clarity via the *Retail Payments Activities Act* to ensure that fiat-backed stablecoins are regulated as a payment instrument.**

We believe that these recommendations will form a strong foundation for developing a world class web3 sector in Canada. A sector that will create high paying jobs, innovation and better outcomes for Canadians.

We stand ready to appear before the Finance Committee should we be invited.

Sincerely,



Morva Rohani  
Executive Director  
Canadian Web3 Council