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The Window Is Closing: How Canada Can Shape the Future of Stablecoins and Digital Payments

The window is closing on Canada's ability to shape the future of digital payments as foreign stablecoins gain ground. This report sets out how a two-track regulatory framework – anchored by Bank of Canada oversight and a central bank digital currency – can capture innovation benefits while preserving monetary sovereignty and financial stability.

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THE WINDOW IS CLOSING: HOW CANADA CAN SHAPE THE FUTURE OF STABLECOINS AND DIGITAL PAYMENTS

by Peter MacKenzie and Mark Zelmer

- The rise of US dollar-linked stablecoins – digital tokens designed to maintain a constant one-for-one value with the US dollar – following the 2025 *GENIUS Act* poses potential risks to Canada’s monetary sovereignty and payment-system oversight. Without a clear domestic framework, Canadian payments could increasingly migrate to foreign-issued stablecoins and exchange platforms, weakening regulatory control and complicating monetary policy transmission.
- Canada’s *Stablecoin Act* is a necessary first step but leaves critical design choices to the implementation phase. While the Act designates the Bank of Canada as the primary regulator and establishes baseline requirements for reserves and redemption, detailed rules on eligible assets, operational standards, insolvency treatment, and coordination with securities regulators remain unresolved.
- This *Commentary* recommends a two-track regulatory model that aligns regulation with economic function rather than technology, giving Canada a viable path to shape its payments future rather than default to foreign stablecoin standards. Pure payment stablecoins should operate under Bank of Canada oversight as fully backed payment instruments, while tokenized bank deposits should remain within existing prudential banking regulatory frameworks. This approach promotes innovation while preserving financial stability and consumer protection.
- Integrating stablecoins with a central bank digital currency (CBDC) could strengthen competition, resilience, and interoperability, and position Canada to compete effectively in the digital payments revolution. A CBDC, at minimum in wholesale form, would provide a neutral settlement layer, support orderly redemptions through central bank liquidity access, and enhance Canada’s ability to pursue international equivalency agreements while maintaining control over domestic payment infrastructure.

INTRODUCTION

The enactment of the *GENIUS Act* (*Guiding and Establishing National Innovation for U.S. Stablecoins Act*) in July 2025 represents an important moment for global stablecoin regulation.¹ This legislation provides

1 See Box 2 for a summary of the *GENIUS Act*’s key provisions.

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legal clarity and frameworks for the United States that make stablecoins – a type of cryptocurrency linked to the US dollar – significantly more attractive for widespread adoption as a means of payment. If Canadians begin using those US stablecoins to pay for goods and services, the country faces two fundamental risks: erosion of monetary sovereignty if US dollar-linked stablecoins become the preferred means of payment; and the loss of control over domestic payment rails if foreign-owned exchange platforms and stablecoin issuers become the main suppliers of stablecoins in Canada for payment purposes.

Canada's Budget 2025 responded to this challenge by announcing legislation to regulate fiat-currency-backed stablecoins, an important acknowledgment that stablecoin regulation has become a policy priority. The *Stablecoin Act* (introduced through the *Budget Implementation Act, 2025*) proposes to designate the Bank of Canada as administrator and regulator of stablecoin issuers, commits \$10 million for that purpose over two years starting in 2026/27 (followed by \$5 million annually from issuer fees), and announces amendments to the *Retail Payment Activities Act* to regulate payment-service providers using stablecoins.

The *Stablecoin Act* specifies the need for reserve requirements (to be specified in future regulations), explicitly prohibits interest payments to stablecoin holders, and requires the Bank of Canada to establish a comprehensive registry and supervisory framework. However, the government has yet to develop regulations governing several details, including specific asset-eligibility criteria for reserves and operational standards.

The analysis in this *Commentary* builds on previous C.D. Howe Institute research (Kronick and Zelmer 2023), making the case for stablecoin regulation as both (i) an offensive strategy to capture innovation benefits and promote competition in banking services and (ii) a defensive measure to protect monetary sovereignty and

Canada's ability to fully exert regulatory control over what could eventually become systemically important payment infrastructure. The Budget 2025 announcement is a necessary first step, but the subsequent implementation phase – where the Bank of Canada develops supporting regulations (statutory instruments that are approved and issued by the government through the Governor in Council) plus its own detailed regulatory and supervisory guidelines – will determine whether Canada achieves true framework comparability. Such frameworks offer the promise of introducing seamless cross-border payments via stablecoins and other financial system advantages.

The regulatory proposals presented here have drawn inspiration from various foreign initiatives focused on stablecoin regulation, including the US *GENIUS Act*, the EU's Markets in Crypto-Assets Regulation (MiCA), and regulatory frameworks recently established in Hong Kong, Singapore, and Japan. Given the close economic and financial ties between Canada and the United States, this *Commentary* focuses primarily on the US approach while still recognizing the valuable insights from other jurisdictions in order to inform Canadian policy and regulatory design.

If Canada wishes to capture the benefits of stablecoin innovation while preserving the effectiveness of monetary policy and payment-system oversight, it requires its own comprehensive set of stablecoin regulatory expectations. We recommend the development of a two-track model for stablecoin and future deposit-token oversight. Track 1 would apply to pure payment stablecoins, which would operate under Bank of Canada oversight as strict payment instruments. Track 2 would be reserved for future tokenized bank deposits that may someday be offered by Canadian deposit-taking institutions. It would make sense for the latter to remain within the current banking regulatory framework, given they would simply be akin to today's deposits but in tokenized form.

The *Stablecoin Act* provides the necessary legislative foundation, but many implementation details remain to be developed through regulation. This *Commentary* offers guidance on several areas where the Act is silent or where we believe the framework should be strengthened. We recommend integrating stablecoins with a central bank digital currency (CBDC) to facilitate cross-platform settlement and preserve the singleness of money.

We also propose extending Bank of Canada liquidity facilities to regulated stablecoin issuers and establishing a resolution framework that ensures users can always access their funds on demand even if an issuer fails. The paper addresses the need for coordinated regulatory treatment between securities and payment regulators, particularly for stablecoins held in the custody of a cryptocurrency exchange on behalf of their owners. Finally, we discuss pursuing bilateral agreements with key jurisdictions to enable cross-border interoperability and recommend that policymakers reconsider the Act's prohibition on interest payments.

To anchor this framework, we believe the Bank of Canada should consider revisiting the development of a CBDC. Just as paper money currently serves as the foundation for private money in the form of bank deposits, a CBDC could serve as the foundation for Canada's future digital monetary system including stablecoins and tokenized deposits. A CBDC model could provide potential advantages such as enabling seamless convertibility between privately issued Canadian dollar-linked stablecoins and central bank money without needing a deposit-taking institution to be involved in the process. Plus, it could help to facilitate payments between users of different stablecoins. The Bank of Canada has already conducted extensive research on CBDC implementation, representing a potential strategic advantage – especially since the United States is not currently pursuing this option.

BENEFITS AND RISKS OF STABLECOINS

We begin by directing readers to Box 1 for a detailed description of the terminology used in this *Commentary*. It is critical to lay out these definitions, given the technical nature of this subject.

Given that Canadians can already send money via e-transfer at any hour or tap a debit card almost anywhere in the country, stablecoins may initially appear abstract or redundant. The Real-Time Rail (RTR), scheduled to launch later this year, will further enhance domestic payments by providing 24/7 instant settlement. Payments Canada announced in 2024 that the RTR system will modernize Canada's payment infrastructure by enabling immediate, irrevocable transfers of funds at any time.

Stablecoins, however, offer advantages that extend beyond even advanced domestic payment systems. Unlike the RTR, which will continue to rely on traditional deposit-taking intermediaries and remain limited to national borders, stablecoins settle directly between users on distributed ledgers. This structure enables a wide range of firms to offer payment services.

The stablecoin architecture offers several advantages over traditional payment systems. Like today's paper money, stablecoins enable truly peer-to-peer cross-border transactions, meaning no financial institution need be involved in the payment process. Using stablecoins, money can move directly from a sender in Canada to a recipient in Brazil or South Korea without the need for correspondent banks, currency conversion delays, or the multiple intermediaries that are often involved in international money transfers. By contrast, the process of sending money internationally can involve several banks, take days or even weeks to clear, and incur fees at each step.

For example, a Canadian small business owner paying a supplier in Vietnam might wait at least

Box 1: Key Terms Explained

We distinguish between several types of entities in the stablecoin ecosystem. **Issuers**, such as Circle for USDC (coins) and Tether for USDT (tokens), create and redeem stablecoins, maintaining reserve assets to ensure one-to-one backing with the currency the stablecoin is pegged to. **Exchange platforms** (e.g., Coinbase, Kraken, Shakepay) are intermediaries where users acquire, trade, and hold stablecoins. Most retail users currently access their stablecoins through custodial wallets offered by these exchange platforms. **Ledgers** or **blockchains** refer to the underlying distributed networks on which stablecoins operate (such as Ethereum or Solana). A single stablecoin may operate across multiple ledgers. Interoperability in this context has two dimensions: transfers between different exchange platforms (service provider interoperability) and transfers of the same stablecoin across different underlying ledgers (ledger interoperability).

This *Commentary* focuses on **fiat-backed stablecoins** – those stablecoins that are linked to sovereign currencies like the Canadian or US dollar and are fully backed by reserves of cash or high-quality liquid assets, and on tokenized bank deposits, which would replicate today's deposits on blockchain-based systems rather than on today's computer systems. We do not address algorithmic or decentralized stablecoins because those instruments are not backed by high-quality liquid assets and have proven unstable in practice, most notably the 2022 Terra/Luna collapse. Therefore, they are unsuitable instruments for payment purposes.

three-to-five business days and pay at least \$25-\$50 in fees for a traditional wire transfer. Using stablecoins, that same payment could potentially settle in minutes for pennies in transaction costs. Stablecoin payment rails may make many smaller international transactions economically viable for the first time.

Stablecoin payment rails also support programmable payments, such as escrow, conditional transfers, or automated fund splitting. These are transactions that would normally need human intervention to complete. However, such transactions could be automatically executed through stablecoins with specific complex instructions, improving efficiencies and reducing costs. For example, escrow arrangements – where parties hold funds in a neutral account until specified conditions are met, such as delivery confirmation or contract completion – can be completed through programming a stablecoin to

automatically release funds when predetermined criteria are satisfied, rather than hiring a third-party escrow service.

Conditional transfers are another example, where a Canadian company could send payment for consulting services that releases only when the consulting company submits its final report. Automated fund splitting allows a single incoming payment to be instantly divided among multiple recipients according to preset rules. For instance, a freelance graphic designer could receive a project payment that automatically allocates 30 percent to a business savings account, 25 percent to tax obligations, and 45 percent to personal spending.

Stablecoins also provide finality and transparency in a way that traditional payments often do not. A typical bank transfer might appear in the user's balance immediately, but it does not actually settle until interbank reconciliation happens hours or even days later, especially over weekends and holidays.

This processing time can sometimes lead to reversals or fraud disputes.

Instead, the RTR system will deliver true settlement finality by operating as a real-time gross settlement system where payments are final and irrevocable once settled. With the Bank of Canada serving as the settlement agent, users will receive the same settlement guarantees as the current Lynx payment system.² However, as Kronick and Koepl (2023) argue, faster domestic payment rails alone do not guarantee broad competitive benefits if access remains constrained to incumbent institutions.

Stablecoins retain additional advantages because payments made through the RTR system will continue to flow through traditional banking infrastructure and require users to maintain relationships with financial institutions. By contrast, a stablecoin token is a single, final digital object, akin to physical cash, that changes hands immediately and irreversibly at the user level. If domestically issued Canadian-dollar stablecoins were anchored by a CBDC, users could also switch to central-bank money without involving deposit-taking institutions at any stage, a feature that could help foster much-needed competition in the Canadian payments arena.

Even with RTR improvements, other structural limitations remain. Since the RTR system requires bank intermediation, underbanked individuals remain excluded. Plus, the system is expected to operate within Canadian borders and, therefore, will still require traditional bank correspondence channels for international money transfers.³ Payments Canada and participating financial institutions will control RTR's governance and set technical standards, while stablecoin protocols

can offer open, permissionless innovation at the application layer. This means that, even with RTR in place, stablecoins still offer features – direct access, cross-border reach, and open programmability – that are difficult to replicate on traditional payment rails.

That said, as we mentioned, stablecoins are not revolutionary for everyone. For most domestic transactions, the improvements would most likely be incremental rather than transformative. Interac already works well for many payments, and the upcoming RTR system will address most remaining gaps in payment speed. There are also consumer protections that come with traditional payment systems such as fraud monitoring, chargeback rights for disputed transactions, and established customer service channels.

Stablecoin exchange platforms are still developing these consumer protections that traditional payment systems already possess, having been part of the Canadian financial economy for years. Stablecoin systems may also introduce new fees (such as wallet fees or merchant fees), require new apps, or depend on new intermediaries. While programmable payments and interoperability with blockchains offer exciting new tools, many users may not need these extra features.

In this sense, stablecoins should not be viewed as a wholesale replacement for traditional finance. Instead, they will likely function as a complementary layer, especially valuable for cross-border payments, decentralized finance applications, digital-native businesses, or as a contingency when traditional payment rails are unavailable. Whether stablecoins achieve widespread adoption will depend on design, regulation, and user preferences.

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- 2 Lynx is Canada's high-value payment system, an electronic wire system used by participating financial institutions (FIs) to safely send wire payments (Payments Canada).
 - 3 That said, work is underway at the Bank for International Settlements (BIS) to eventually connect domestic real-time payment systems globally through its Project Nexus. It is unclear when this project will be implemented and at what stage it might include Canada's RTR system. Further details can be found at BIS (2025), available at <https://www.bis.org/about/bisih/topics/fmis/nexus.htm>.

Regardless of the market scale, establishing a regulatory framework is a useful measure to ensure that Canadians are well-served by all payment providers while reducing scope for regulatory arbitrage in the payments arena.

Risks of Stablecoins

The Bank of Canada's 2024 decision to pause work on a retail CBDC, citing privacy and security concerns raised from a public consultation (Bank of Canada 2024), has left a policy gap just as the *GENIUS Act* accelerates the global rollout of payment-oriented stablecoins. While a retail CBDC would not eliminate threats from foreign issuers of stablecoins and exchange platforms, its absence removes a potential strategic advantage for Canada.

Canada faces two distinct but closely linked threats. The first stems from rising adoption of US dollar-linked stablecoins, which could undermine monetary sovereignty by shifting transactional and savings behaviour away from the Canadian dollar. Even modest substitution could potentially weaken the dollar's role as the unit of account and medium of exchange, thereby reducing the Bank of Canada's ability to influence economic conditions through its interest-rate decisions. By contrast, the US government is actively promoting US dollar-backed stablecoins in the hope that they will extend its dollar's dominance in global payments (Baig and Stone 2025).

That said, concerns about monetary sovereignty may be overstated. Since taxes on income and capital gains, plus other statutory obligations, must ultimately be settled in Canadian dollars, demand for US dollar stablecoins is likely to encounter a natural ceiling. Mandatory conversion into Canadian dollars for tax and wage payments anchors baseline demand for the domestic currency and provides a stabilizing force. Moreover, increased competition in payment services could reduce fees, speed up settlement times, and encourage innovation, offering net benefits to Canadian households and firms.

While the government could mitigate this risk by ensuring taxes and public payments remain strictly in Canadian dollars, this measure alone may not fully solve the problem if private activity increasingly migrates to US dollar tokens. If users can easily convert foreign-currency-linked stablecoins into Canadian dollars, they may delay conversion until statutory obligations come due. This spike of demand for Canadian dollars around tax season may complicate monetary policy transmission. As an example of this risk playing out in practice, Shopify has announced that merchants using Shopify Payments can accept cryptocurrency (USDC), with customers receiving 1 percent cash back on these purchases (Shopify 2025). The rollout aims to cut costs relative to card payment rails and enables 24/7 on-chain settlement, with no foreign exchange or cross-border fees for merchants that choose fiat payouts.

Coinbase has begun offering more than 4 percent yield on USDCs held on its exchange. In announcing these USDC yield accounts, Coinbase explicitly positioned itself as a direct challenger to Canadian banks for deposits (Matheson 2025). This arrangement is possible under the *GENIUS Act* because while the Act prohibits the issuer from paying interest directly, it does not prohibit exchange platforms like Coinbase from sharing the interest earned on reserve assets with holders. In what is likely an attempt at a stricter approach, the Canadian *Stablecoin Act* prohibits issuers from granting interest "directly or indirectly" (section 32). This means Canadian stablecoin issuers and exchange platforms would be unable to offer comparable yield products.

The main concern in allowing interest payments to stablecoin holders is that stablecoins could drain deposits away from Canadian banks. If this scenario comes to fruition, it could impair banks' ability to fund business and household lending and weaken the Bank of Canada's monetary policy transmission mechanism. That said, we agree with Awrey (2024) that the more likely scenario would be that banks would increase interest rates on their deposits and

that more competition might actually help foster a more efficient and innovative financial services sector.

At the same time, the prohibition on interest payments may limit the competitive appeal of Canadian-dollar stablecoins relative to US dollar alternatives that can earn interest when held on participating exchange platforms. With millions of Shopify storefronts and Coinbase customers, moves like this can create strong network effects that could potentially pull commerce toward US dollar stablecoins.

The likely proliferation of different stablecoins also poses risks to the singleness of money⁴ and could potentially lead to monetary fragmentation. In order to facilitate payments, it is essential to have convertibility at par, at all times, among stablecoins and between each stablecoin and the backing currency. Issuers should be required to fulfill redemption requests on demand and certainly well within one business day, to ensure users can quickly convert stablecoins to central bank money or bank deposits. Without such a guarantee, firms and individuals may face uncertainty about the relative value of any one stablecoin in relation to another, or relative to the Canadian dollar. This would be especially true in times of stress where such certainty is most needed. The *Stablecoin Act* addresses this concern by requiring issuers to establish and publicly disclose redemption policies and mandating redemption at par value in the reference currency. However, future regulations will need to specify the operational standards that ensure timely redemptions take place in practice.

Historically, stablecoins have entailed some credit risk associated with the potential insufficiency of reserves to meet redemption

requests. Bank deposits are normally considered immune from such risks due to robust supervision and deposit insurance.⁵ Ensuring the singleness of money for stablecoins requires robust regulation as well as central bank liquidity lines to promote public confidence and facilitate orderly dispositions of reserve assets should the need arise to meet any sizable redemption requests. Another requirement: having high-quality liquid assets backing them.

One way to minimize inherent asset risk would be to require stablecoins to be backed by more assets than the amount of stablecoins issued at all times, with margins adjusted promptly to reflect changes in asset values. And it requires that payment-oriented stablecoins be supported by robust operating systems along with a solid resolution framework. Such safeguards would ensure users can be confident that they can continue making payments and access their money even if the stablecoin issuer and supporting payment platforms fail.

A third and perhaps more urgent concern is the possible loss of Canadian oversight over some of our own payment infrastructure. Foreign companies are already moving into this space. Circle has become the first international stablecoin issuer to meet Canadian listing rules for its USDC token (Circle 2024). Meanwhile, the Canadian firm Stablecorp, supported by Coinbase, is developing a Canadian-dollar stablecoin called QCAD (BetaKit 2025). This loss of Canadian regulatory oversight is similar to handing control of key payment functions to a foreign bank, but without the formal regulatory agreements and supervisory cooperation that normally exist in cross-border banking.

4 By “singleness of money” we mean that all forms of money (cash, bank deposits, stablecoins linked to the Canadian dollar) within the Canadian economy should be interchangeable and transact at par with the Canadian dollar at all times, ensuring a stable, unified monetary system where a dollar is always a dollar, preventing fragmentation and facilitating efficient payments.

5 That said, even fully insured bank deposits are not immune from such risks in practice, as evidenced by the deposit run on Home Trust in 2017.

If this trend continues, Canada could find that its main payment systems are increasingly run by foreign-owned exchange platforms, placing important parts of its financial system outside domestic regulatory reach. That would weaken consumer protection, reduce the ability of Canadian authorities to manage operational and financial risks in line with our own national standards – and risk appetites. It could also limit access to transaction data needed for financial crime monitoring, monetary policy, and overall financial stability. Unlike the current system, where most payments settle on the central bank's balance sheet, stablecoin transactions may settle through private mechanisms outside the Bank of Canada's direct view (though it should be noted that same-bank transactions today also settle internally without passing through the central bank). It could also leave Canadians exposed to foreign decisions, such as service suspensions or sanctions, made by jurisdictions whose priorities do not necessarily reflect Canada's own.

These risks are especially troubling in light of today's geopolitical tensions and the increasingly divided global financial system. For decades, countries have coordinated effectively through arrangements such as the Continuous Linked Settlement (CLS) Bank (see Box 3) that settles foreign exchange transactions. But growing trade disputes, competing digital currency initiatives, and differing regulatory priorities raise questions about the durability of such cooperative frameworks. If a stablecoin issuer or exchange platform operates under US law, it could easily become an instrument of US economic or foreign policy, subjecting Canadian users to decisions made in Washington rather than Ottawa. Keeping payment systems regulated and managed within Canada would help to protect against that risk.

The Bank for International Settlements (BIS) has modelled how large-scale stablecoin redemptions could force fire sales of government securities, amplifying bond market volatility (BIS 2024). This concern is not just theoretical:

stablecoin issuers have become one of the largest holders of short-term government securities globally (see Figure 1). While Canadian-dollar stablecoins currently have small market caps (CoinGecko 2025), their broader adoption through major exchange platforms such as Coinbase or Shakepay could magnify these effects in Canada (CoinDesk 2024). If Canadian-dollar stablecoins were to reach a comparable scale relative to Canadian government debt as US-dollar stablecoins have relative to US Treasuries (Figure 1), sudden redemptions could materially impact Canadian fixed-income markets.

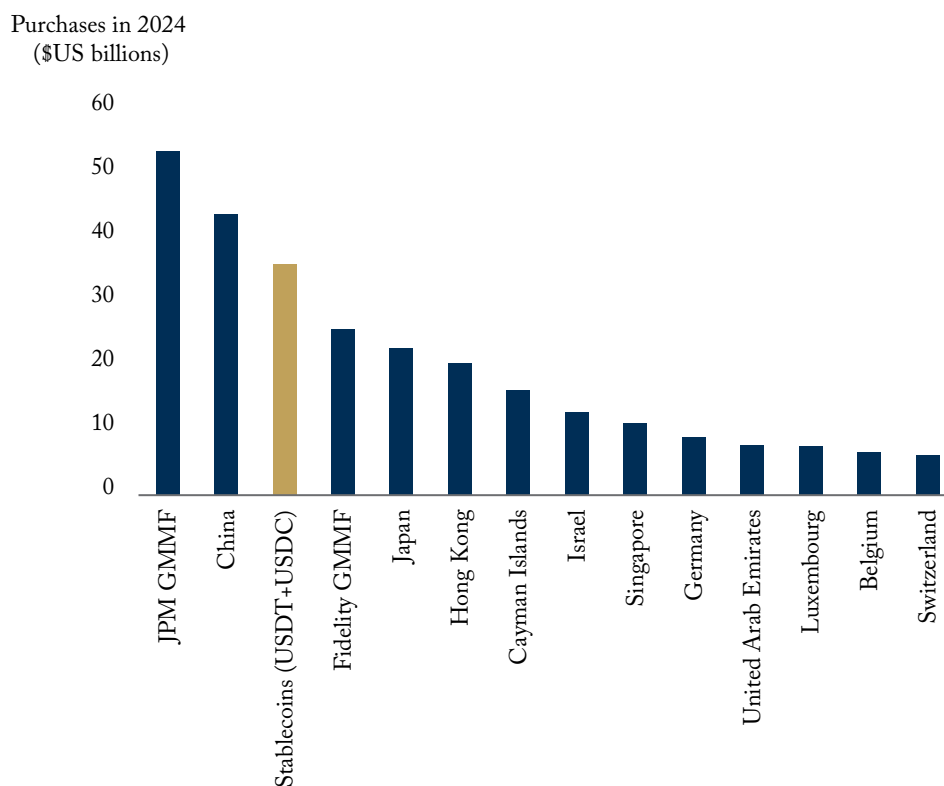
An additional consideration is the rollover risk from an increase in short-term government securities. If stablecoin reserves are concentrated in short-term government debt, significant growth in stablecoin adoption would shorten the average duration of the government's consolidated liabilities and increase exposure to rollover risk during periods of rising interest rates. For the foreseeable future, this effect should be negligible given the modest size of Canadian dollar-denominated stablecoin markets, but policymakers should remain mindful of these implications for the structure of government debt in Canada as the stablecoin market develops.

THE *GENIUS ACT* FRAMEWORK

The *GENIUS Act* establishes a federal framework for payment stablecoins that highlights the fragmentation in Canada's current approach (see Box 2). While the United States now offers clear pathways for stablecoin issuance and operation, Canada has only just passed the *Stablecoin Act*, and many details have been left to the Bank of Canada to develop and implement.

Amendments to the *Retail Payment Activities Act* will bring payment service providers handling stablecoins within its scope, while the *Stablecoin Act* establishes a framework for regulating stablecoin issuers directly. Designating the Bank of Canada as the primary regulator helps resolve the fragmented

Figure 1: Largest Purchasers of Treasury Bills (2024)



Sources: BIS WP1270 (Ahmed and Aldasoro 2025); TIC, OFR, USDT/USDC reports.

authority that previously characterized Canada’s approach. However, the Act’s strict prohibition on interest payments, which covers any direct or indirect yield “whether in cash, digital assets or other consideration,” may limit the range of stablecoin products available in Canada. In the United States, although the *GENIUS Act* also prohibits stablecoin issuers from paying interest, some exchange platforms have offered reward programs on stablecoin holdings that resemble yield, and US regulators are still determining how such practices should be treated under the new framework.

Drawing from Canada’s experience with the oversight of the Canadian Depository for Securities – where the Bank of Canada, the Ontario Securities Commission, the Autorité des marchés financiers, and the BC Securities Commission work together to oversee the clearing and settlement of securities transactions – stablecoins with dual payment and investment characteristics will likely require coordinated oversight between the Bank of Canada and provincial securities regulators. Section 7 of the *Stablecoin Act* authorizes the Bank of Canada to make arrangements with any government or regulatory body, providing a basis for such coordination where needed.

Box 2: The *GENIUS Act* Key Provisions

The *Guiding and Establishing National Innovation for U.S. Stablecoins Act* became law on July 18, 2025. It establishes a federal framework for payment stablecoins.

Permitted Issuers: A permitted payment stablecoin issuer is either (1) a subsidiary of an insured depository institution approved under the Act, (2) a federal qualified payment stablecoin issuer licensed, regulated, examined, and supervised by the Office of the Comptroller of the Currency, or (3) a state qualified payment stablecoin issuer. State issuers with consolidated outstanding issuance of not more than \$10 billion may opt to operate under a state-level regime that is certified as substantially similar to the federal framework.

Reserve Requirements: Issuers must maintain identifiable reserves backing outstanding payment stablecoins on at least a one-to-one basis. Permitted reserves include US currency or balances at a Federal Reserve Bank; demand deposits or insured shares at insured depository institutions (subject to limitations); specified Treasury securities with remaining maturity of 93 days or fewer; certain overnight repos and reverse repos backed or collateralized by Treasuries; shares of registered government money market funds invested solely in permitted instruments; other similarly liquid federal government issued assets approved by the primary regulator; and tokenized forms of permitted reserves that comply with the law. Issuers must publish monthly reserve composition, and a registered public accounting firm must examine the required monthly disclosure. Reserves may not be pledged, rehypothecated, or reused except as expressly permitted for liquidity and margin purposes in the Act.

Redemption Requirements: Issuers must disclose a clear redemption policy that provides timely redemption of outstanding payment stablecoins and plainly discloses all fees. Discretionary limitations on timely redemptions may be imposed only by the applicable regulator consistent with the Act. In insolvency, payment stablecoin holders receive priority with respect to required reserves.

Custody and Segregation: Only entities subject to federal or state financial supervision may provide custody or safekeeping for payment stablecoin reserves, payment stablecoins used as collateral, or related private keys. Customer property must be treated as customer property and protected from custodian creditors. Commingling with the custodian's own assets is prohibited, subject to limited omnibus and settlement exceptions set by regulators.

Prohibited and Required Disclosures: Payment stablecoin issuers cannot offer interest or rewards to token holders, engage in lending activities using reserve assets, commingle reserves with operating funds, or issue algorithmic or fractionally backed stablecoins. Issuers may not misrepresent US government backing or deposit/share insurance and may not use names that imply such backing.

Oversight Structure: The primary federal regulator depends on the issuer type. The Office of the Comptroller of the Currency supervises federal qualified issuers. Federal banking agencies or the National Credit Union Administration oversee subsidiaries of insured depository institutions. State-qualified issuers may operate under certified state regimes. A Stablecoin Certification Review Committee chaired by the Treasury sets principles for substantial similarity and reviews state certifications. The Federal Reserve, Federal Deposit Insurance Corporation, and other banking agencies coordinate as provided, and the Financial Stability Oversight Council incorporates stablecoin findings in its annual report.

International and Interoperability Provisions: The Act directs work on standards for cross-ledger and cross-border use of payment stablecoins. Treasury may establish reciprocal arrangements or bilateral agreements with foreign jurisdictions that maintain comparable regimes, with a target to complete such arrangements within two years.

Nevertheless, the Act leaves several important design questions to future regulations, including the specific assets that would qualify as adequate reserves, the operational standards issuers must meet, and how foreign issuers and exchanges would be regulated.

Stablecoins have up to now been regulated through securities frameworks by the Canadian Securities Administrators (CSA), even when the stablecoins themselves were intended to function as payment instruments. While this approach may be suitable for stablecoins designed to mirror investment-like financial instruments or commodities, it is poorly aligned with stablecoins intended to be used primarily for everyday payments. The CSA requires crypto trading platforms to comply with procedures designed for investment products, not payment instruments (CSA 2023). The CSA has also developed interim terms and conditions for crypto trading platforms to continue trading stablecoins, including requirements for reserve composition and monthly attestations. While these conditions reflect industry standards, they still operate within a securities framework designed primarily for investment products. This includes prospectus requirements, dealer registration and investment suitability assessments – requirements that do not match the economics of digital cash.

The recent approval of the Canadian-dollar stablecoin QCAD illustrates this mismatch. Despite being designed as a pure payment stablecoin with one-to-one high-quality liquid asset reserves and offering no interest, QCAD was required to complete a multi-year approval process with provincial securities regulators. The CSA issued a receipt for a prospectus from QCAD Digital Trust, granting relief from various requirements to create a tailored framework. Despite this accommodation, the multi-year process illustrates the mismatch between securities-based regulation and payment-focused stablecoins.

The fragmentation extends across federal and provincial authorities. The Office of the

Superintendent of Financial Institutions' (OSFI) crypto-asset exposure guidelines apply only to how federally regulated financial institutions handle their own exposure to stablecoins and not to stablecoin issuers themselves (OSFI 2022). The *Retail Payment Activities Act* previously excluded digital currencies from its scope prior to the change in Budget 2025. Provincial regulators maintain separate requirements for crypto trading platforms, creating a patchwork of rules that vary by jurisdiction. Canada's overlapping mandates among OSFI and provincial regulators have slowed innovation and left the country lagging behind peers with clearer frameworks such as the US *GENIUS Act* and the EU's MiCA (Baig and Stone 2025).

This regulatory gap creates three critical problems. First, legitimate stablecoin issuers face unclear compliance obligations that increase costs and delay market entry. Second, consumers lack consistent protections across provinces and exchange platforms. Third, although the *Stablecoin Act* provides the necessary legislative foundation, detailed implementation through regulation will be required before Canada can negotiate bilateral agreements under the *GENIUS Act's* section 18 comparability provisions.

Framework comparability requires detailed implementation, including setting standards for which assets can be used to back stablecoins, operational standards, consumer protection mechanisms, and supervisory practices. While the formal regulation-making authority rests with the government (through the Cabinet and Governor in Council), the Bank of Canada will be responsible for developing the operational guidance and supervisory expectations that will give effect to the framework. These implementation standards will determine whether Canadian issuers and exchange platforms can meet the requirements for interoperability with foreign stablecoin infrastructures, including those in the United States and Europe. The implementation phase will therefore be essential for establishing the detailed

regulatory structure needed for any international agreements, a challenge shared by all jurisdictions operating under new stablecoin frameworks.

In the following sections, we outline key considerations for designing the regulations that will operationalize the *Stablecoin Act*.

THE CBDC ADVANTAGE

This section explores how a CBDC foundation could support the development of a robust Canadian stablecoin ecosystem, while the following section offers some thoughts on the regulatory framework needed to govern stablecoins effectively.

A Canadian CBDC issued by the Bank of Canada could take two forms: (i) a retail (or general) CBDC accessible directly to the public as well as being usable for wholesale transactions, or (ii) simply a wholesale CBDC accessible only to financial institutions and payment-service providers. A retail CBDC would offer the broadest benefits, including direct public access to central bank money and maximum competition in payments. However, even a wholesale-only CBDC would provide critical advantages for anchoring a stablecoin ecosystem.

A wholesale CBDC would make it easier for stablecoin issuers to hold reserves in central bank money, access Bank of Canada liquidity facilities, and settle cross-exchange platform transfers without requiring commercial bank intermediation. A retail CBDC would provide an additional advantage – enabling the public to convert directly from stablecoins to central bank money without involving a deposit-taking institution. We therefore advocate for the Bank of Canada to introduce a retail CBDC to maximize the framework’s effectiveness but emphasize that, at a minimum, a wholesale CBDC would be desirable for the regulatory architecture proposed here to function optimally.

The discussion that follows applies to either form, though we note where the distinction matters.

Some jurisdictions considering retail CBDCs have introduced caps on individual holdings to minimize the risk of taking deposits away from deposit-taking institutions. Where such caps apply, a retail CBDC could not be used for large-value wholesale transactions. For larger transactions, there would be a need for a wholesale CBDC or direct access to Bank of Canada accounts.

Canada has a unique opportunity to learn from and improve upon the gaps left in the *GENIUS Act*. Canada can do this by integrating stablecoins with a token-based CBDC system serving as its anchor. The United States has chosen advanced stablecoin legislation without CBDC plans. That choice creates an opportunity for Canada to use its extensive research on digital currency design to offer superior stability and functionality.

We acknowledge the privacy and security concerns raised during the Bank of Canada’s 2023 public consultation on a potential digital currency. However, the consultation itself noted that participation was not representative of the Canadian population, and the self-selected nature of online surveys tends to attract those with strong pre-existing opinions.⁶

Other jurisdictions exploring CBDCs have proposed approaches such as tiered privacy models and technical architectures that limit central bank visibility of individual transactions. The Bank of Canada’s extensive research positions it well to develop solutions tailored to Canadian expectations. The policy advantages outlined here – interoperability, resilience, and preserving the singleness of money – support continued exploration of a CBDC.

A CBDC framework would offer two distinct advantages. First, enabling direct conversion between stablecoin and CBDC tokens would facilitate competition between stablecoin issuers and traditional banks in the payment space. Users would be able to move seamlessly between

6 On the latter point, see Groves et al. (2009).

different payment systems. Second, a CBDC would operate on a completely separate technological platform from both banking systems and stablecoin networks, thus providing users with a refuge option during major operational outages affecting either or both systems. This technological separation in payment infrastructure would ensure that payment systems are at least partially operational when individual networks experience disruptions or outages. This separation in payment infrastructure is likely to become increasingly important as digital forms of payment continue to overtake the use of cash at the point of sale. Figure 2 illustrates how a CBDC-integrated system would differ from both current banking infrastructure and the forthcoming RTR system, offering peer-to-peer settlement with central bank backing.

Regardless of the CBDC model adopted, we recommend that Canada establish Bank of Canada liquidity support to payment-oriented stablecoin issuers, similar to the access currently available to many Canadian deposit-taking institutions. Giving stablecoin issuers access to these facilities would make it easier for them to liquidate the assets backing stablecoins in an orderly fashion (rather than conduct fire sales) in the event of stablecoin redemption surges. Stablecoin issuers having the liquidity backing of the Bank of Canada would increase public confidence and offer a comparative advantage to the United States, where the Federal Reserve does not extend such facilities. Global users could also be attracted to Canadian stablecoins due to the superior stability guarantees that having access to these facilities would offer.

Beyond crisis resilience, a CBDC-anchored model would democratize the stablecoin market by enabling non-bank issuers to access central bank facilities independently of a commercial bank. In the current regulatory system, non-bank stablecoin issuers must partner with banks and other direct clearers to access payment systems and hold reserves. The current interconnectedness between banks and stablecoin issuers is likely increasing costs and limiting innovation. In the future, it

might even give rise to more systemic risk in the financial system. Direct access to central bank liquidity lines – with the appropriate regulatory backing – would help to contain interconnections between the banking and stablecoin worlds. It would also allow qualified issuers to operate without a bank intermediary, fostering competition that could reduce fees and improve services.

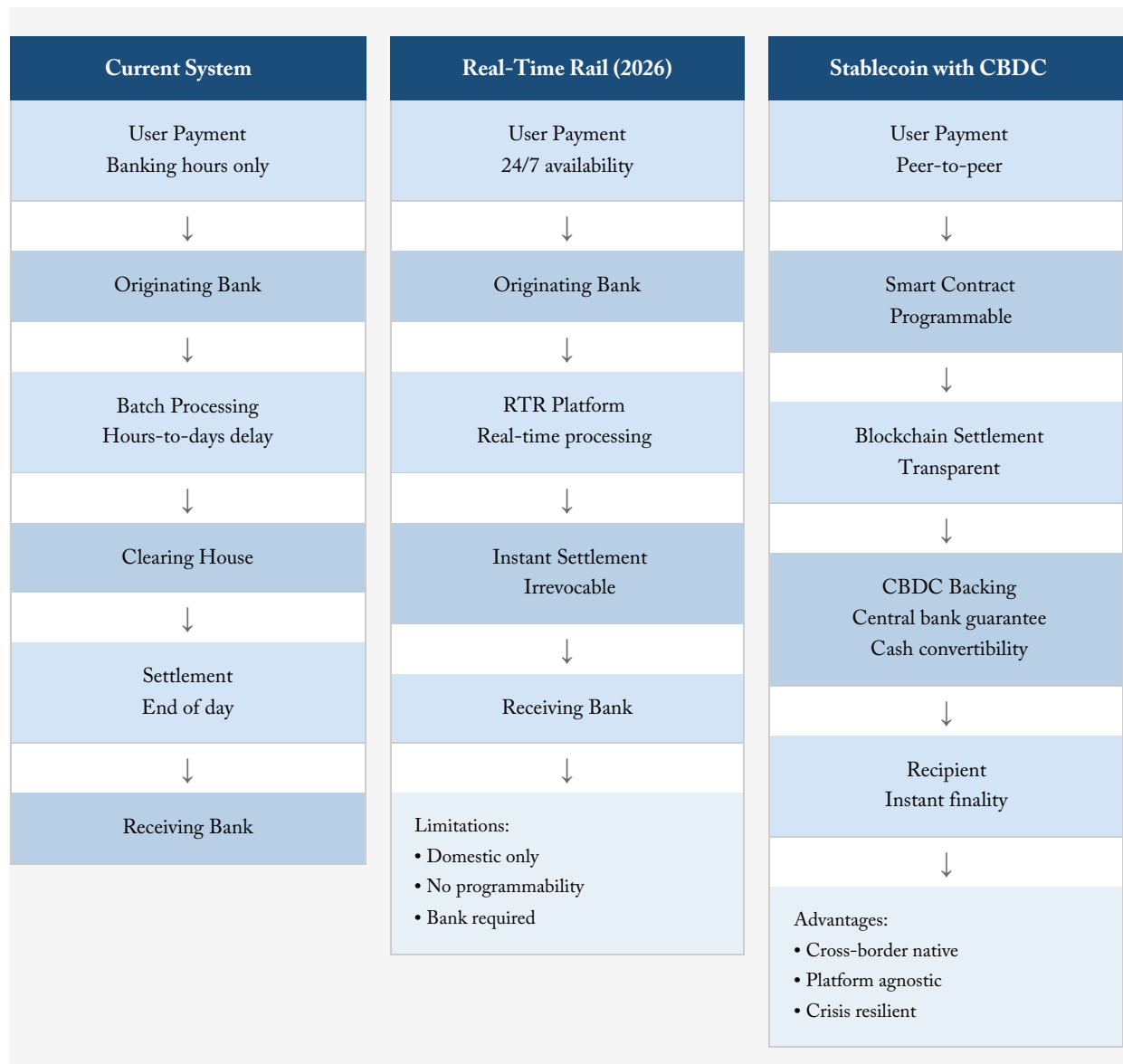
A key design feature for stablecoin payment rails involves handling payments between clients using different stablecoin issuers and exchange platforms. Just as Canada has multiple banks today, a mature stablecoin ecosystem will likely include multiple stablecoin issuers and exchange platforms for sending and receiving payments. Each separate Canadian-dollar stablecoin could potentially operate on a distinct exchange platform.

How should payments work when the sender and the receiver hold stablecoins from different issuers operating on different exchanges? Two main approaches could address this interoperability challenge. The first would use a public or private utility to connect different stablecoin exchange platforms. This could involve Payments Canada expanding its role to operate infrastructure that enables transfers between competing stablecoin issuers and/or exchanges, similar to how it currently facilitates interbank transfers.

The second approach would rely on private solutions. Stablecoin issuers could establish direct interoperability arrangements with one another, or users could exchange stablecoins through cryptocurrency exchange platforms. However, such private mechanisms may struggle to guarantee final settlement during periods of financial stress when reliable settlement is most needed. Having a CBDC layer ensures that digital Canadian-dollar payments remain operational even if major stablecoin issuers or exchange platforms experience simultaneous outages and provides a neutral settlement asset that maintains the singleness of money across competing private issuers.

Currently, users looking to transfer stablecoins, even if using the same exchange and the same

Figure 2: Payment-System Architecture Comparison Rails



Source: Authors' compilation.

stablecoin issued by the same company, need to use cross-chain bridges. Since stablecoins such as USDC can be transferred on multiple ledgers (including Ethereum and Solana), even having the same stablecoin and using the same exchange platform does not guarantee easy interoperability.

Cross-chain bridges have also been a significant security vulnerability. According to blockchain data platform Chainalysis, attacks on cross-chain bridges accounted for more than two-thirds (69 percent) of the funds stolen in cryptocurrency hacks in 2022, with roughly US\$2 billion lost in

bridge exploits during that year.⁷ Notable incidents included the Ronin Bridge hack (~US\$600 million in March 2022), the Wormhole exploit (~US\$320 million in February 2022), and the Nomad Bridge attack (~US\$190 million in August 2022). These vulnerabilities stem from compromised validator keys, smart contract flaws, and weak verification mechanisms.

A CBDC serving as the neutral settlement layer between approved issuers would reduce reliance on these bridge pathways, allowing the Bank of Canada to establish security standards for approved ledgers without needing to certify every cross-ledger bridge protocol. A second option is to position the central bank and CBDC tokens as the bridge between stablecoin exchange platforms. The idea is similar to using cash to move money between two banks that are not directly connected. With a CBDC acting as the digital form of cash, users could convert stablecoins from exchange platform A into CBDC tokens, then exchange those tokens for stablecoins on exchange platform B.

At present, shifting between stablecoin exchange platforms means relying on the traditional banking system or using complicated bridging mechanisms. A CBDC foundation could provide a shared settlement layer trusted by both issuers and users. This layer would make it possible to transfer value across competing issuers and exchange platforms. Users could switch providers without friction in the same way people keep a phone number when changing carriers.

Retail CBDC users would still require a regulated intermediary to maintain their digital wallet, though this intermediary need not be a deposit-taking bank. However, this does not eliminate the advantages over systems like the RTR, which operates only within Canada and requires bank intermediation. In contrast, stablecoins enable cross-border payments and allow

non-bank payment service providers to serve as intermediaries.

Users who prefer self-custody could also transact without any intermediary at all. The ability to move easily between issuers and exchange platforms would reduce vendor lock-in and promote healthy competition. Without a link, there is a risk that the stablecoin system becomes a patchwork of isolated issuers and exchange platforms that cannot interact efficiently, weakening the promise of blockchain-based payments.

Cross-border payments present another challenge that can be addressed through either private or public infrastructure. A private network approach could leverage existing systems like SWIFT, which facilitates international banking transfers, or emerging public distributed-ledger networks such as Ethereum, which host major stablecoins and enable borderless on-ledger transactions. These private solutions could establish protocols for Canadian-dollar stablecoins to interact with foreign stablecoins or digital currencies without requiring government-to-government negotiations.

Alternatively, a public approach could use central bank networks to facilitate cross-border stablecoin transactions. Rather than complex bilateral negotiations between private issuers, central banks could establish mutual recognition agreements. The CLS system for foreign exchange settlement offers one conceptual precedent, though newer initiatives are exploring more transformative approaches using tokenization and distributed ledger technology.⁸ Under this model, CBDCs would serve as the bridge between different national stablecoin systems.

The BIS Innovation Hub's Project Agorá brings together seven central banks and more than 40 private financial institutions to test how tokenized wholesale central bank money can integrate with tokenized commercial bank deposits on a unified

7 For details, see <https://www.chainalysis.com/blog/cross-chain-bridge-hacks-2022>.

8 See CLS box (Box 3) for more information.

Box 3: Continuous Linked Settlement (CLS)

Continuous Linked Settlement (CLS) is the world's largest multi-currency cash settlement system, processing more than US\$2 trillion daily in foreign exchange transactions across 18 currencies. CLS was established in 2002 in response to foreign exchange settlement risk concerns.

CLS eliminates settlement risk – the risk that one party delivers currency without receiving the corresponding payment – by using a payment-versus-payment (PvP) mechanism. Both sides of a foreign exchange transaction are settled simultaneously: either both complete or neither does. This occurs through the CLS Bank, which is a special-purpose institution that acts as the central counterparty. Member banks maintain funded accounts at CLS Bank, and CLS Bank nets and settles transactions during a five-hour window when all participating central banks' real-time gross settlement systems are simultaneously operational.

CLS operates under a unique multilateral governance structure that has become a model for international financial cooperation. The system is owned by more than 70 of the world's largest financial institutions, with the US Federal Reserve serving as lead supervisor. Cooperative oversight involves all 18 central banks whose currencies are settled through the system, including the Bank of Canada for Canadian-dollar transactions. This structure requires coordination across jurisdictions, with each central bank maintaining regulatory authority over its currency's settlements while accepting common operational standards.

ledger. In 2023, Finality, a private consortium backed by major global banks, launched the first fully regulated distributed ledger technology-based wholesale payment system in the UK. Under these models, tokenized central bank money – whether wholesale CBDCs or Finality-style constructs – would serve as the bridge between different national stablecoin systems. A CBDC foundation could also support broader policy objectives, including greater financial inclusion for underbanked individuals who could access digital payments without traditional banking relationships and technological resilience through separate infrastructure that would remain operational if private stablecoin issuers experience outages.

REGULATORY FRAMEWORK DESIGN

With the *Stablecoin Act* in place, Canada has established the high-level regulatory architecture for payment-oriented stablecoins and designated the Bank of Canada as the primary regulator. However, the Act is deliberately high-level. During the implementation phase, the Bank of Canada – working in coordination with the government – will need to develop the detailed regulatory structure, including specific reserve requirements, operational standards, and supervisory practices.

This section provides guidance on the principles and framework that should inform the Bank of Canada's regulatory development. The regulatory approach should address all forms of digital payment instruments while maintaining clear

boundaries between pure payment and investment functions. Among other questions, since foreign-owned stablecoin issuers and exchange platforms are already operating large US networks, the Canadian regulatory framework must also address the critical question of how to regulate foreign-owned stablecoin issuers and exchange platforms that wish to supply payment services in Canada.

A Canadian payment stablecoin issuer and exchange platform could adopt one of three distinct ownership models. First, fully Canadian-owned and operated entities would maximize domestic control but might lack the global reach and technological capabilities of international players. Second, Canadian-operated subsidiaries of global issuers and exchange platforms could provide international connectivity while maintaining local oversight, in the same way foreign banks like Citibank operate Canadian subsidiaries under OSFI supervision. Third, purely foreign issuers and exchange platforms serving Canadian users would offer maximum efficiency and global interoperability. While Canadian regulation would technically apply to any entity serving Canadian residents, practical oversight and enforcement become more difficult when operations are located outside Canadian jurisdiction.

The Canadian regulatory framework we propose allows for the development of the first and second models and, admittedly, gives domestically owned entities the best chance to succeed. Just as Canada's banking sector is anchored by domestically owned institutions like the "Big Six" Canadian banks, while also permitting well-regulated foreign bank subsidiaries, the stablecoin ecosystem should encourage Canadian-owned issuers and exchange platforms while remaining open to foreign-owned operators that meet Canadian standards. Both of these models would require any stablecoin issuer or exchange platform serving Canadian users to establish local operations subject to full Canadian regulatory oversight, regardless of ultimate ownership.

Canada has relied on this approach in banking regulation for decades to enable foreign banks to supply financial services to the general public. Such a system would ensure regulatory authority while maintaining global connectivity. Stablecoin issuers and exchange platforms would need Canadian incorporation, local data storage requirements for Canadian customer data, domestic compliance officers accountable to Canadian regulators, and submission to Canadian courts for dispute resolution.

Rather than prohibiting Canadians from using foreign-issued stablecoins, which would amount to a form of currency capital control, foreign issuers wishing to serve Canadian users should be required to ring-fence assets backing Canadian-dollar obligations within Canada. In the event of issuer distress, Canadian holders should have first claim on those assets. Canadians should then be able to move their stablecoins seamlessly, even if the holder is operating with a non-Canadian stablecoin.

To avoid regulatory overlap and unnecessary regulatory burden, the jurisdictional boundaries required are straightforward. At the outset, we recommend that pure payment stablecoins fall within federal jurisdiction, where the Bank of Canada serves as the primary regulator for payment-system oversight. If federally regulated financial institutions want to offer tokenized deposits, those instruments would remain under existing banking oversight – federal regulation under OSFI for federally regulated institutions and provincial oversight for credit unions and other provincially regulated deposit institutions. Exchange platforms, where users acquire and trade stablecoins, should continue to be regulated by provincial securities regulators.

Currently, most retail users hold stablecoins through custodial wallets offered by exchange platforms that operate as financial-market exchanges subject to securities law. By contrast, users who access stablecoins through payment service providers that are not financial market exchanges or personal crypto wallets would fall

under Bank of Canada oversight. This distinction creates a need for coordinated regulatory treatment between securities and payment regulators to ensure consistent consumer protections regardless of how users access stablecoins. Clear and timely guidance from regulators during the implementation period will be essential for issuers and service providers navigating this framework.

Regulatory System Design

Canada should establish two distinct regulatory tracks for tokenized payment instruments, building on existing regulatory approaches while extending them to cover payment stablecoins (Figure 3). Under this structure, pure payment stablecoins would form a dedicated track under Bank of Canada oversight, while tokenized bank deposits and other deposit-like instruments would remain within the existing prudential banking frameworks for deposit-taking institutions. Regulation would therefore follow the economic function of the instrument rather than its technological form.⁹

The *Stablecoin Act* establishes the baseline for the first track by setting requirements for asset reserves, redemption policies, and risk management for payment stablecoins. The Act's prohibition on interest payments effectively narrows this track to non-interest-bearing payment instruments, although we encourage future legislative amendments to permit interest-bearing variants. The framework developed in this section takes the Act as a starting point, identifies where future amendments might be warranted, and indicates how a parallel track for tokenized deposits can be accommodated within the existing banking regime.

Two aspects of the *Stablecoin Act* warrant reconsideration. First, as just mentioned, the prohibition on direct or indirect interest payments (section 32) may limit the competitive appeal of Canadian-dollar stablecoins and is difficult to justify for instruments backed one-to-one by high-quality liquid assets with no lending function. Second, unlike the *GENIUS Act*, the *Stablecoin Act* does not include consequential amendments to bankruptcy legislation to clarify stablecoin holders' priority claims on reserve assets, leaving unnecessary uncertainty for users.

Consistent with the views of Awrey (2024) on the importance of payments being able to proceed in all states of the world, we recommend Canadian authorities go even further in this area and provide a proper resolution legislative framework for payment-oriented stablecoins that will enable stablecoin users to have unfettered access to their funds and be able to conduct payments at all times even when their stablecoin issuer and the operators of their payment platforms fail and need to be wound down and removed from the financial system.

We identify three main arguments for allowing stablecoin issuers to pay interest to stablecoin holders. First, even with the interest prohibition, issuers will find ways to pass value to holders. This could take any number of forms (think of the proverbial free toasters in years gone by) but would likely be in the form of reward programs, fee waivers, and exchange platform partnerships. Interest prohibition simply adds complexity without preventing the underlying economic reality.

Second, as long as stablecoins are backed more than one-to-one by high-quality liquid assets, with the requisite regulatory and supervisory regimes,

9 We considered the possibility of allowing a third track for tokenized money-market investment funds or special-purpose investment vehicles offering payment functionality. However, we ruled it out because such vehicles, by investing in a broader range of assets, would likely carry a greater risk of violating the singleness of money principle, which could trigger runs in times of stress and possibly even their failure, as was seen during the 2008 global financial crisis. The measures that would be needed to address this vulnerability would effectively cause them to closely resemble our proposed Track 1 stablecoins, thereby rendering this track moot.

Figure 3: Two-Track Regulatory System

Track 1: Pure Payment Stablecoins	Track 2: Tokenized Deposits
Classification: Payment Instrument	Classification: Digital Bank Deposits
Requirements: • 1:1 reserve backing • CBDC or T-bills (<90 days) • No lending of reserves • Real-time attestation • Monthly public disclosure • ISO 20022 standards	Existing Framework: • Full banking regulations • Basel III capital requirements • Fractional reserve system • CDIC insurance coverage • Interest bearing • Credit creation capabilities
Authority: Bank of Canada	Authority: OSFI & CDIC
<i>Example:</i> USDC	<i>Example:</i> JPM Coin

Notes: OSFI is the Office of the Superintendent of Financial Institutions; CDIC is the Canada Deposit Insurance Corporation.

Source: Authors' compilation.

and the holders of the stablecoins have first claim on those assets in the event of failure, they should (in theory) be as safe or safer than bank deposits, which involve fractional reserve lending. Prohibiting interest on such an instrument while permitting it on the other is difficult to justify. Third, competition for deposits would benefit Canadian consumers, pushing incumbents to offer better rates – an outcome consistent with broader policy goals of improving competition in financial services.

If the interest prohibition in section 32 of the *Stablecoin Act* is reconsidered, there are some legitimate concerns that broad stablecoin adoption could disintermediate banks. This reflects a fundamental challenge in financial regulation known as the “boundary problem” – when regulators impose requirements on institutions within a defined perimeter (such as banks), activities tend to migrate outside that boundary to less-regulated entities (Goodhart 2008). In the stablecoin context,

if deposits shift from regulated banks to stablecoin issuers, banks would have less funding available for lending. Credit provision could then migrate to non-bank financial institutions operating with lighter prudential oversight.

However, we believe these concerns are overstated, given the regulatory framework suggested here and the nature of the Canadian banking system. As long as stablecoins are regulated and used as pure payment instruments, we believe the more likely outcome of allowing interest payments is Canadian banks offering more attractive deposit rates and improved efficiency for the financial services industry in general.

Track 1: Pure Payment Stablecoins

Pure payment stablecoin issuers would be regulated as payment instruments under Bank of Canada oversight. To do this, the Bank of Canada should

leverage and extend existing retail payments regulation. To ensure stability and payment-system integrity, stablecoins regulated under our Track 1 must meet stringent requirements. We recommend that the specific requirements include the following:

- at least one-to-one reserve backing, consisting of claims on the central bank or government securities with maturities of fewer than 90 days;
- at least daily mark-to-market valuation of the assets in the reserves to ensure there are more than enough assets at all times to meet any redemption requests, regardless of changes in the market value of the supporting assets;
- the assets backing the stablecoins should be ring-fenced from the stablecoin issuer and exchange platforms so as to be bankruptcy-remote from the issuer and exchange platform, with stablecoin holders having first claim on those assets;
- a prohibition on lending or use in the repo market of the supporting assets to minimize credit risk and maintain full liquidity;
- real-time attestation capabilities that enable continuous verification of the underlying assets;
- integration with national payment infrastructure so that stablecoin holders can quickly and seamlessly switch their money from stablecoins to their bank accounts or possibly even CBDC tokens in the future;
- monthly public disclosure of reserves;
- publicly available audited annual financial statements of the issuer; and
- adherence to ISO 20022 messaging standards for seamless payment-system integration.

To maintain the singleness of money, Canadian-dollar payment stablecoins must be redeemable at par with Canadian-dollar deposits at all times. That would include even when the stablecoin issuer and trading platform fail. Achieving this outcome will likely require a dedicated resolution framework that ensures users can continue to make payments, redeem tokens, and access funds without interruption if an issuer or platform undergoes bankruptcy proceedings.

Secondary market trading of stablecoins could continue to occur, much like secondary markets for money market instruments, but these prices should not govern user redemption. The regulatory framework must ensure that redemption at par is always available.

The eligible reserves for backing a stablecoin do not necessarily need to be limited to Government of Canada Treasury bills. Short-term provincial government instruments that are actively traded and qualify as collateral with the Bank of Canada could also be included. This would distribute demand across a wider range of high-quality liquid assets and mitigate potential impacts on government debt duration discussed earlier.

The Bank of Canada should open its liquidity facilities to become the lender of last resort in the same way it does for major Canadian deposit-taking institutions. The government securities held by stablecoin issuers can be used as collateral for Bank of Canada liquidity facilities. During periods of market stress when large-scale redemptions occur, issuers could then pledge their investment holdings to access central bank liquidity rather than selling assets into distressed markets. This arrangement – combining high-quality reserves with access to emergency liquidity – prevents possible fire sales that could amplify market volatility during redemption surges.

Access to Bank of Canada liquidity lines has traditionally been limited to a select number of deposit-taking institutions, and one might expect the Bank of Canada to be, at least somewhat, resistant to opening up these facilities to stablecoin issuers. There would need to be strict collateralization requirements, with stablecoin issuers required to hold reserves exceeding the value of the stablecoins in circulation. Being overcollateralized would provide a buffer against market fluctuations. Combining strict collateralization requirements with the narrow range of eligible reserve assets would contain the Bank of Canada's exposure to negligible levels,

staying consistent with its existing approach to emergency lending facilities. It is important to be clear here that this liquidity backstop does not constitute a direct guarantee of stablecoin redemption. A stablecoin holder's claims remain against the issuer, not the central bank.

Since these stablecoins would operate as payment utilities and not as investments, their issuers would not fall under provincial securities regulation. This classification reflects their role as payment instruments and not investments. Since these payment-oriented stablecoins would either not pay interest or, if they do, they would need to have conservative limits on the size or duration of customer holdings of these coins, which should help ensure that they operate primarily as a vehicle to conduct payments and not for any investment purpose in disguise.

Track 2: Tokenized Bank Deposits

If deposit-taking institutions begin to offer tokenized bank deposits, then we recommend that those instruments operate under the existing banking regulatory framework with OSFI oversight (or provincial prudential oversight in the case of those offered by provincially regulated deposit-taking institutions). Tokenized deposits would essentially be traditional bank deposits but on a blockchain infrastructure, while maintaining all of the characteristics of current deposits. These characteristics include compliance with full banking regulations (such as Basel III capital requirements), operation within the fractional reserve system that allows banks to lend against deposits, Canada Deposit Insurance Corporation (or provincial) coverage, interest bearing at rates determined by the issuing bank, and credit creation capabilities. Unlike our Track 1 stablecoin, these instruments would be classified as deposits on a bank balance sheet just like traditional bank deposits and, while part of the fractional banking system, i.e., not backed one-to-one, they would benefit from the full banking safety net.

Consumer Protections

This two-track approach recognizes that digital payment instruments can serve distinct economic functions. First, payment stablecoins provide a public utility function by facilitating transactions without credit risk or interest-rate exposure, so their regulation prioritizes absolute stability and universal acceptance. Second, tokenized deposits preserve the banking system's credit creation function while enabling programmability and efficiency gains, and they remain within the existing prudential framework that has proven effective for decades.

The *Stablecoin Act* provides further consumer protection measures. It prohibits issuers from communicating false or misleading information to the public, prohibits representing stablecoins as legal tender, deposits, or insured instruments, requires issuers to establish and publicly disclose redemption policies, and mandates redemption at par value in the reference currency. These protections provide a baseline that the two-track regulatory approach can build upon.

The Canadian framework should also clarify how stablecoin holders would be treated in the case of issuer insolvency. Both the *GENIUS Act* and MiCA provide that stablecoin holders have priority claims to reserve assets ahead of other creditors. Under the *GENIUS Act*, reserves are excluded from the bankruptcy estate entirely, and holders receive "super priority" over even administrative expenses if reserves prove insufficient. Canada should have a similar approach to ensure stablecoin holders have first claim on reserve assets in the event of issuer financial distress. But, consistent with the arguments set out in Awrey (2024), it should also go further and ensure that any bankruptcy proceedings for the stablecoin issuer or trading platform do not in any way impede stablecoin holders from being able to access their funds or conduct payments during the bankruptcy process. As mentioned above, this suggests that Canadian authorities should give some thought to introducing a special resolution process for payment-oriented

stablecoins that could broadly resemble the processes used for regulated financial institutions.

Canada's framework should balance strong consumer protection with efficiency to build trust and encourage use. A dispute resolution model based on the UK's open banking system could include a single complaints desk run by the Financial Consumer Agency of Canada. A complaints desk would give consumers one place to resolve any digital payment disputes. The Ombudsman for Banking Services and Investments, which already handles complaints related to banking and investment services, could serve as a model or partner for stablecoin-related dispute resolution.

An independent resolution panel with binding arbitration would provide oversight for disputes involving amounts more than \$10,000 – the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) threshold for “large transactions” requiring enhanced oversight. For smaller disputes less than \$1,000 – FINTRAC's threshold for basic identity verification in electronic transfers – streamlined resolution procedures would protect consumers while keeping administrative costs proportionate to transaction size. We recommend that the system publish anonymized decisions to create consistency and encourage best practices. Privacy protection must remain a priority and meet standards under the *Personal Information Protection and Electronic Documents Act*, Canada's federal privacy law that governs how private sector organizations collect, use, and disclose personal information.¹⁰

Stablecoin exchange platforms, where retail users will likely hold their stablecoins, should be required to implement risk-based “Know Your Customer” (KYC) procedures using FINTRAC's established transaction thresholds. Stablecoin issuers do not usually deal with retail users directly, but rather with institutional counterparties such as authorized

participants and liquidity providers who mint and redeem at scale. Issuers would perform KYC on these counterparties.

The tiered system would meet FINTRAC requirements for anti-money laundering and counterterrorism while also being accessible to everyday users. Most retail users will likely access stablecoins through custodial wallets offered by exchange platforms or other intermediaries rather than through self-custody. Provincial regulators have developed frameworks for these intermediaries that would continue to apply.

International Coordination

To ensure global usability, we recommend that Canada pursue bilateral equivalency agreements with key jurisdictions such as the United States, the European Union, and the United Kingdom. International bodies are actively developing coordination frameworks for stablecoins. The BIS Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (IOSCO) have issued guidance on applying financial market infrastructure principles to stablecoin arrangements (CPMI-IOSCO 2022), while the international Financial Stability Board's high-level recommendations emphasize cross-border cooperation and information sharing among authorities (FSB 2023).

These agreements must clearly distinguish between mutually beneficial cross-border interoperability and problematic domestic currency substitution. Canadian stablecoins that meet enhanced standards could operate internationally, while foreign stablecoins could be used in Canada if they meet reciprocal protections for Canadian users. The EU's ongoing work toward a digital euro is also noteworthy, as CBDC interoperability between jurisdictions could further strengthen cross-border

10 See *Personal Information Protection and Electronic Documents Act*, available at <https://laws-lois.justice.gc.ca/eng/acts/P-8.6>.

payment capabilities within a stablecoin framework. Through CBDC integration, a Canadian stablecoin ecosystem could exceed *GENIUS Act* standards, including interoperability and enhanced consumer protections, and still likely qualify for recognition under section 18 of the Act. Such a system, with a bilateral agreement, would preserve market access for Canadian issuers while still maintaining regulatory sovereignty over domestic payment systems.

Stablecoin infrastructure is likely to concentrate in major financial hubs. The over-the-counter derivatives market offers a useful comparison, where most trading is concentrated in New York City and London. This concentration may generate efficiency gains through liquidity pooling, standardized processes, and economies of scale. However, unlike over-the-counter derivatives, which primarily serve sophisticated institutional investors, stablecoins will process retail payments potentially affecting millions of Canadian consumers and businesses. This distinction highlights why Canada should insist on domestic infrastructure for retail payment functions.

At the same time, Canada should make use of global infrastructure for wholesale and cross-border payments. Consumer protection rules such as customer onboarding, KYC checks, dispute handling, and regulatory reporting need to remain in Canada and under the jurisdiction of Canadian regulators. The technical side of stablecoin systems, such as blockchain nodes and smart contract execution, could continue to use international issuers, ledgers, and exchange platforms, allowing Canada to benefit from the advanced technology found in major financial centres. What matters is that Canadian regulators retain full access for audits and can intervene if problems arise. This kind of hybrid setup can deliver efficiency gains while still protecting Canada's control over its critical payment infrastructure.

International coordination should also limit the cross-border use of foreign exchange platforms that operate without proper KYC requirements. These exchange platforms sit entirely outside the traditional regulatory system, allowing users to

buy and trade stablecoins without any identity verification (Zilber 2025). Similar cooperation has worked in the past to address offshore banking, and a comparable effort is needed to discourage activity on these unregulated exchange platforms. While geopolitical tensions may complicate cooperation today, Canada should work with like-minded jurisdictions that share its goals to stop these no-KYC exchange platforms from eroding domestic regulations. Without cooperation, even the best national regulation could end up as ineffective.

CONCLUSION

An integrated approach combining the *Stablecoin Act's* legislative foundation, strategic CBDC development, and calibrated international coordination offers Canada the opportunity to capture the benefits of stablecoin innovation while maintaining monetary sovereignty and financial stability. The alternative is a gradual but potentially irreversible erosion of Canada's ability to oversee issuers and exchange platforms used for Canadian-dollar payments, and even of monetary-policy effectiveness, as digital payments migrate toward foreign-currency stablecoin issuers and exchange platforms.

The *Stablecoin Act* marks an important first step. The government's commitment to Bank of Canada oversight and amendments to the *Retail Payment Activities Act* establishes the framework needed to regulate payment-oriented stablecoins. However, the legislation is high-level in nature. The critical implementation phase, where the Bank of Canada develops specific asset-backing requirements, operational standards, supervisory practices, a supporting resolution framework, and coordination mechanisms with provincial regulators, will determine how the framework functions in practice.

This *Commentary* provides guidance on the first steps and general principles that should inform both the legislation and the Bank of Canada's subsequent regulatory development. The two-track regulatory model, CBDC foundation, and structured

international coordination will determine whether Canada's framework captures innovation benefits or merely prevents worst-case risks.

Major US stablecoin issuers are already exploring entry into the Canadian market. Network effects can entrench foreign stablecoins in Canadian commerce. Once these network effects take hold, it can make it increasingly difficult to create and market domestic alternatives. The network dynamics of payment systems create winner-take-all tendencies that reward first movers disproportionately. Each merchant that accepts USDC, each wallet that integrates Tether, and each exchange platform that standardizes on foreign-issued stablecoins increases switching costs across the entire ecosystem.

There are historical precedents to look to as case studies. Credit card companies, such as Visa and Mastercard, and social media platforms demonstrate how quickly network effects can take hold and how hard it can be to create domestic alternatives when they do. Canada's window to

establish domestic alternatives narrows as foreign stablecoins accumulate users, build infrastructure, and lock in partnerships.

Despite this head start by foreign players, Canada has unique advantages that make leadership possible: extensive research on CBDC by the Bank of Canada, a stable banking system with already strong regulatory credibility, established international relationships through the Financial Stability Board and the G7, and a sophisticated domestic technology sector. These strengths position Canada well for the transition to digital payments. However, they will not persist indefinitely. The research foundation exists, institutional capacity remains available, and the competitive window is still open. What Canada needs now is timely implementation of a comprehensive regulatory framework before market dynamics make domestic alternatives economically unviable.

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