

2021 BLOCKCHAIN WEBINAR SERIES

EXPLORING THE LATEST TRENDS AND LEGAL ISSUES IN STABLECOINS & CBDCS

Usman Sheikh, Partner & National Head – Blockchain & Smart Contract Group, Gowling WLG

Michael Garellek, Partner, Gowling WLG

Laura Gheorghiu, Partner, Gowling WLG

Laurent Féral-Pierssens, Chief Operating Officer, Bitt

Simon Chantry – Co-Founder & Chief Information Officer, Bitt

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LEGAL DISCLAIMER

- The presentation today is not intended as legal advice.
- Because this is a high level overview, it is impossible to cover all relevant details, and your available rights and remedies will depend on the unique facts of each situation, your applicable contract or subcontract, or the nature of your project.
- For specific advice, please contact your qualified legal counsel before making any decisions or taking any action. This is of particular importance as every province and territory has its own legal regime.
- As you know, the situation is extremely fluid and is changing on a daily basis. As things evolve, your best course of action could also evolve. Please follow up to date and reliable sources for your information.

SPEAKERS



USMAN SHEIKH

*Partner & National Head –
Blockchain & Smart Contract
Group, Gowling WLG*

usman.sheikh@gowlingwlg.com
+1 416 862 3627



MICHAEL GARELLEK

Partner, Gowling WLG

michael.garellek@gowlingwlg.co
+1 514 392 9421



LAURA GHEORGHIU

Partner, Gowling WLG

laura.gheorghiu@gowlingwlg.com
+1 514 392 9593



**LAURENT FÉRAL-
PIERSENS**

Chief Operating Officer, Bitt



SIMON CHANTRY

Co-Founder & Chief Information Officer, Bitt

STABLECOIN / CBDC

Definitions:

- **Stablecoin:** A type of crypto asset whose value is tied to (or pegged to) an outside asset, such as the U.S. dollar or gold, to stabilize the price (e.g., Libra's Diem, USDT/Tether)
 - Private sector-based. Can be collateralized by different assets (e.g., fiat, short-term government securities / bank deposits, crypto assets)
- **Central Bank Digital Currency (CBDC):** Terms used to refer to various proposals involving digital currency issued by central bank. BIS: "CBDC is not a well-defined term"
 - **Federal Reserve:** "[CBDC] is a generic term for a third version of currency that could use an electronic record or digital token to represent the digital form of a nation's currency. CBDC is issued and managed directly by the central bank and could be used for a variety of purposes by individuals, businesses, and financial institutions.

Purpose:

- Means of payment (stablecoins: reduce/eliminate crypto asset volatility). Said to be faster, cheaper, transparent, borderless and programmable



STABLECOINS – RECENT DEVELOPMENTS

STABLECOINS

Top Stablecoin Tokens by Market Capitalization

This page lists the most valuable stablecoins. They are listed by market capitalization with the largest first and then descending in order.

Market Cap
\$110,548,923,754
▼ 0.23%



Market Cap

- Stablecoin total “marketcap” currently now exceeds \$110 billion (*CoinMarketCap.com*)

EX: Diem (formerly, Libra)

- **Launch** – On June 18, 2019, Libra Association announced plans to launch Libra
- **Mission:** Enable a simple global currency and financial infrastructure that empowers billions of people
- **Key Components:** Libra Coin, Libra Blockchain, Libra Reserve, Libra Association. Related development of Calibra digital wallet
- **Key Studies on Stablecoins Released:** G7 WG on Stablecoins ([Oct 2019](#)), IOSCO ([Mar 2020](#)), FSB ([Oct 2020](#))
- **Recent Developments:** Changes including to marry with reg frameworks (April 2020); renamed to Diem (Dec 2020); partnership with Silvergate (become “exclusive issuer of Diem USD stablecoin”) and move to US

CBDC – RECENT DEVELOPMENTS

CANADA – PROJECT JASPER

- Project Jasper was launched in **March 2016** with the aim of understanding how distributed ledger technology (DLT) could transform the future of payments in Canada
- Collaborative effort between Payments Canada, its member financial institutions, the Bank of Canada and others
- Four phases to date



CANADA – PROJECT JASPER

- **Phase I (2016)** – Investigated the use of DLT for settlement of domestic high-value interbank payments
- **Phase II (2016-2017)** – Involved rebuilding the platform using an alternative form of DLT to further test the efficiency of the technology for the clearing and settlement of high-value interbank payments. Reports on May 25 and Sept 29, 2017.
 - Find that a stand-alone DLT system is unlikely to be as beneficial as a centralized payment system in terms of core operating costs; however, it could increase financial system efficiency as a result of integration with the broader financial market infrastructure.
- **Phase III (2018)** – Considered the feasibility of using DLT to transform payments and securities settlement (for TSX-listed equities). Report (with TMX *et al*) on Oct 22, 2018
- **Phase IV (2019)** – Bank of Canada partnered with the Monetary Authority of Singapore (MAS) and others to work on a cross-border and cross-currency settlement system. Combines Project Jasper and Singapore’s Project Ubin, aimed at using DLT to make cross-border payments faster and less expensive.



CANADA – ROLE IN CBDC

- **January 21, 2020** – Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Sveriges Riksbank and Swiss National Bank, together with the Bank for International Settlements (BIS), created a group to share information as they assess the potential cases for CBDC. Among other things, the group will:
 - assess CBDC use cases, and economic, functional and technical design choices, including cross-border interoperability
 - facilitate the sharing of knowledge on emerging technologies
- **October 9, 2020** – The group issued a report, “*Central bank digital currencies: foundational principles and core features*”
 - highlighted **three key principles** for a CBDC: (i) coexistence with cash and other types of money in a flexible and innovative payment system; (ii) any introduction should support wider policy objectives and do no harm to monetary and financial stability; (iii) features should promote innovation and efficiency.
 - Identified **four core features** for any future CBDC system: (i) resilient and secure to maintain operational integrity; (ii) convenient and available at very low or no cost to end users; (iii) underpinned by appropriate standards and a clear legal framework; (iv) have an appropriate role for the private sector, as well as promoting competition and innovation.

CANADA – POSITION ON CBDC

Bank of Canada: “Contingency Planning for a Central Bank Digital Currency” – Feb 25, 2020

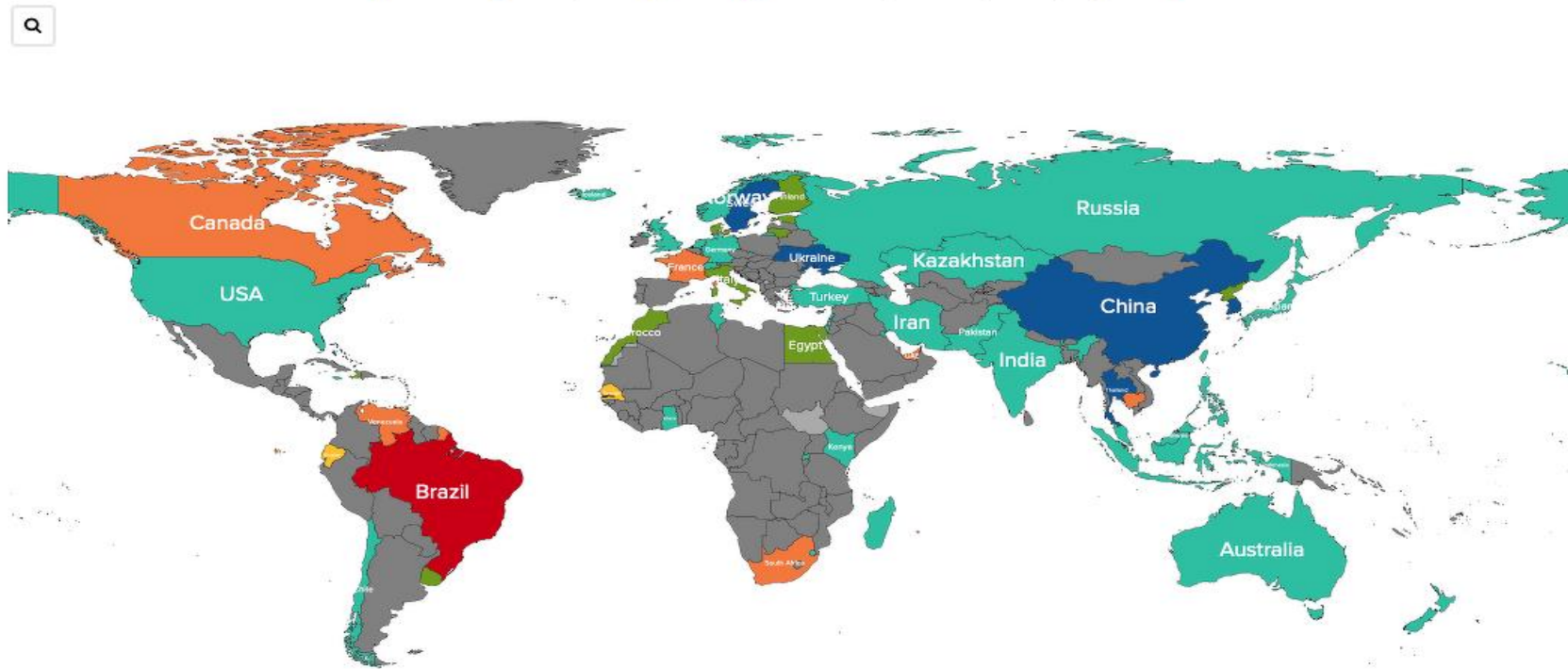
- The Bank currently has no plans to launch a CBDC
- Rather, the Bank will build the capacity to issue a general purpose, cash-like CBDC should the need to implement one arise. Because it will take several years to build this capacity, the Bank cannot wait until the need is evident before launching preparatory work. Preparing in advance is critical.
- The Bank will consider launching a CBDC if certain scenarios materialize or appear as if they are likely to. A CBDC could become beneficial or even necessary, if:
 1. the use of bank notes were to continue to decline to a point where Canadians no longer had the option of using them for a wide range of transactions; or
 2. one or more alternative digital currencies — likely issued by private sector entities — were to become widely used as an alternative to the Canadian dollar as a method of payment, store of value and unit of account.

RECENT ACTIVITY - GLOBAL

Atlantic Council and Belfer Center: CBDC Progress Map

Click on a country to begin our interactive data visualization

Status ■ Cancelled ■ Development ■ Inactive ■ Launched ■ No development yet ■ Pilot ■ Research



Source: Atlantic Council

GLOBAL ACTIVITY – RECENT

CHINA

- Significant efforts through its national digital currency project, initiated in 2014. Official name: Digital Currency Electronic Payment (DCEP), more commonly known as digital yuan.
- Millions of dollars worth of the digital currency in real-world trials in cities such as Shenzhen, Chengdu and Suzhou. Intended use by foreign athletes and visitors at Beijing Winter Olympics in 2022.

VENEZUELA

- Government deployed its own currency called Petro (February 2018)

UK

- Bank of England and HM Treasury jointed announced (April 19, 2021) creation of a Central Bank Digital Currency (CBDC) Taskforce to coordinate the exploration of the UK CBDC.
- Would be used by households and businesses; use it alongside cash and bank deposits, not as a replacement.
- “The Government and the Bank of England have not yet made a decision on whether to introduce a CBDC in the UK, and will engage widely with stakeholders on the benefits, risks and practicalities of doing so.”

UNITED STATES

Legislative Developments – Digital Dollar

- **March 22, 2020:** *Take Responsibility for Workers and Families Act*
 - Contained the term “Digital Dollar”. Introduced as a way to deliver economic stimulus payments to citizens
 - “Digital Dollar” language subsequently removed from the proposed Bill
- **March 24, 2020:** *Banking For All Act*
- **April 16, 2020:** *Automatic BOOST to Communities Act*

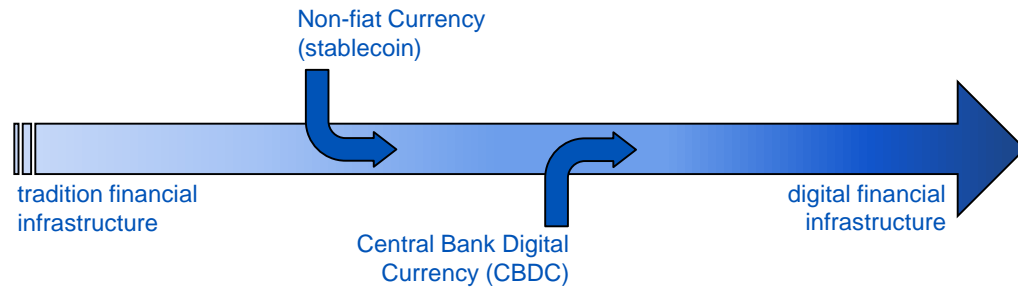
U.S. Federal Reserve

- **May 20, 2021:** Federal Reserve Chair Jerome Powell “announced that the Federal Reserve plans to publish this summer a discussion paper that will explore the implications of fast-evolving technology for digital payments, with a particular focus on the possibility of issuing a U.S. central bank digital currency. The paper will complement Federal Reserve System research that is already underway.”

BITT

DIGITAL CURRENCY TRANSITION

- The industry is transitioning **from traditional to digital currency systems**;
- Each ecosystem participants will **operationalize their use of CBDC and digital currencies** to derive benefits;



THE DIGITAL CURRENCY TRANSITION IS WELL UNDERWAY

86% of regions are exploring CBDC
30% experimenting technically

The vast majority of surveyed central banks – 86% – are now exploring the benefits and drawbacks of CBDCs.
– *The Bank for International Settlements*

US Banks can now use Stablecoin for operations and payments

Banks and federal savings associations may participate in independent node verification networks and use stablecoins for payments.
– *Office of the Comptroller of the Currency (US)*

Transformation timeline is within 5 years

Digital currencies are poised to alter our financial infrastructure in profound ways over the next five years.
– *BCG*

The transition to CBDCs and digital currencies is well underway.

Benefits to the monetary system

- 1 Payments Safety & Robustness
- 2 Operational Efficiency & Competition
- 3 Financial Stability
- 4 Improved Monetary Policy Implementation
- 5 Financial Inclusion

QUESTIONS?

DON'T MISS OUR NEXT WEBINAR IN THE SERIES:

JULY 15 | DECENTRALIZED FINANCE (DEFI) – WHAT IS DEFI AND THE LATEST TRENDS AND LEGAL CONSIDERATIONS

INVITATIONS TO BE SENT SOON!

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